



BNP Paribas Bank Polska S.A.
GROUP

Management Board report on the activities
in the first half of 2019

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



The bank for a changing world

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1. BNP PARIBAS BANK POLSKA S.A. GROUP

1.1. A brief overview of the Group

The Bank BNP Paribas Bank Polska S.A. (hereinafter referred to as the “Bank”) is a universal bank with a comprehensive product offer, addressed to Polish and international corporations, the SME segment, farmers and retail clients. It is present in local communities but has global reach. The Bank has a leading position in the agri-food, consumer, large enterprise and international corporation segments.

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.

The Bank and its subsidiaries form the BNP Paribas Bank Polska S.A. Group (hereinafter referred to as the “Group”). In terms of the balance sheet total, the Group is sixth in the Polish banking sector.

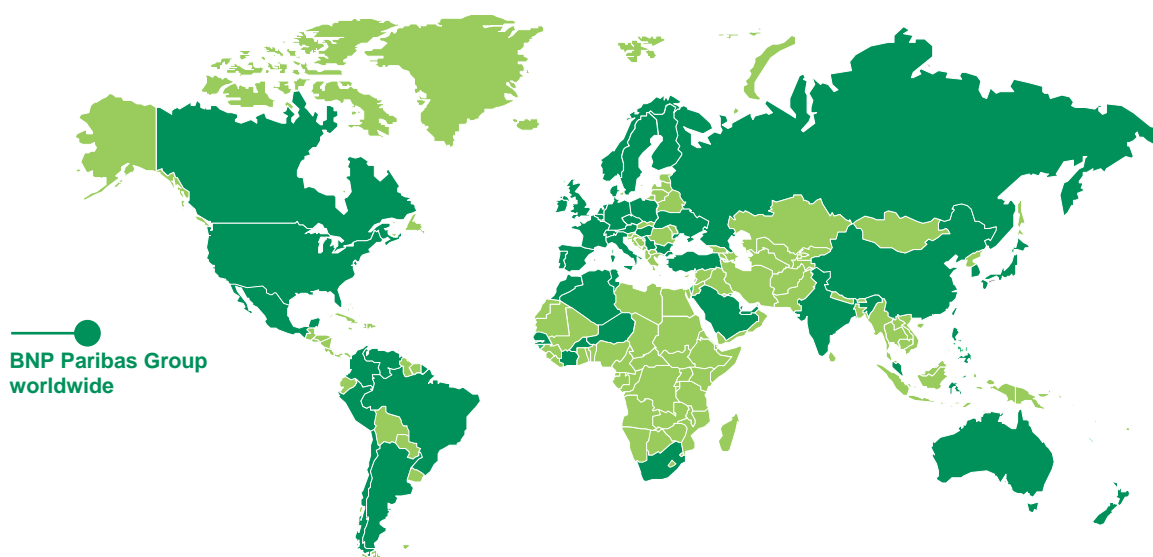
The Group provides services through a nationwide branch network and alternative distribution channels, including online and mobile banking for individual and corporate clients.

The Bank's shares are marked on the Main Market of the Warsaw Stock Exchange.

The BNP Paribas Group

The Bank operates within BNP Paribas, a leading international financial group, operating in 72 countries, with over 200 thousand employees, of which ca. 155 thousand in Europe. The BNP Paribas Group operates in two key areas:

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



The BNP Paribas Group supports its clients (retail customers, local authorities, entrepreneurs, SMEs, 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, and 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.

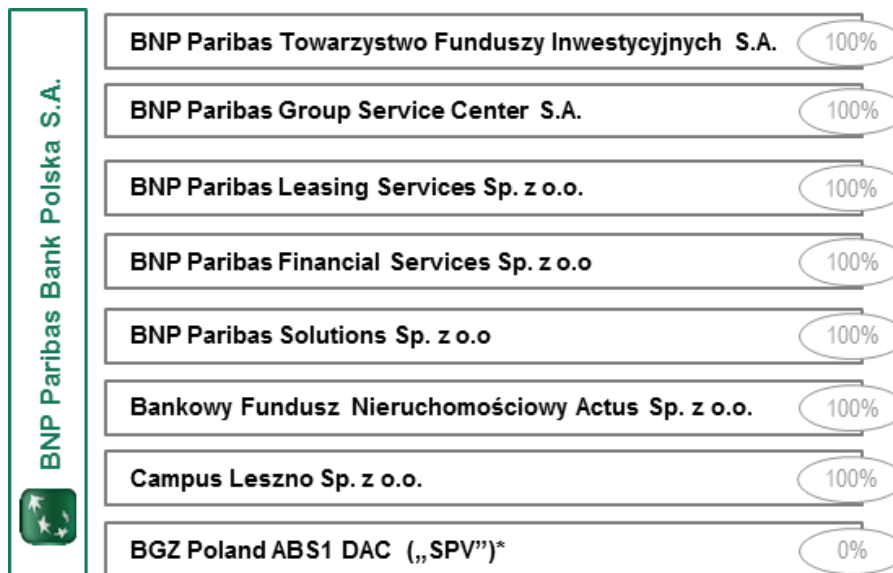
In Poland, the BNP Paribas Group operates in many areas of financial services, such as: banking, investment funds, custody services, factoring, leasing, insurance, real estate and car fleet management.

1.2. Structure of the Group and consolidated entities

Composition of the Group as of 30 June 2019:

- BNP Paribas Bank Polska S.A. – as the parent company; and
- fully consolidated subsidiaries listed below:

Structure of the Bank's Group



* 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 the Bank due to the fulfilment of the control conditions only within the understanding of IFRS 10.

1.3. Strategy of BNP Paribas Bank Polska 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 on the 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 i.a. by acquiring the core business of Raiffeisen Bank Polska (“exRBPL”) – the first stage of the process (concluding the transaction) was realized on 31 October 2018. In 2019, the Bank focuses on the efficient operational merger of both institutions in order to take full advantage of the benefits of the acquisition. In accordance with the integration schedule, on 1 April 2019, rebranding was carried out combined with the brand change from Bank BGŻ BNP Paribas S.A. to BNP Paribas Bank Polska S.A. An operational merger is planned for the fourth quarter of 2019.

The Bank's strategic goals are to achieve:

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

Steps taken with the "Fast Forward" strategy in mind are based on five key pillars. The goals and achievements within the five areas in the first half of 2019 are described below.

Pillar	Strategic assumptions	Achievements in the 1st half of 2019
growth	concentration of resources (people, IT and capital) on the most profitable products and segments in order to increase acquisition, sales and, therefore, to increase financial results	<ul style="list-style-type: none"> Well received new choice of accounts and cards for retail customers. 1st place in two categories in the Money.pl ranking (Ranking of Personal Accounts - May 2019, Travel Account - June 2019). Implementation of a new offer for micro-entrepreneurs with a package of additional services (e.g. GOKsięgowość, eMikrofaktoring, debt recovery). Further development of the GOMobile mobile application, e.g. travel insurance, cash deposits in cash deposit machines with a BLIK code. Increased loan sales, primarily the sale of mortgage loans, cash loans and short-term corporate loans. Development of financing for online purchases on the Allegro platform (over 150,000 extended credit limits since the service was launched in November 2018).
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	<ul style="list-style-type: none"> Optimization of the distribution network after the merger with exRBPL (150 franchise branches and facilities closed between the moment of merger and the 30 June 2019). Increased automation of issuing credit decisions for micro-entrepreneurs and customers from the agri-food segment, which translated into a significant reduction in the time of issuing the decisions. Improvement of onboarding processes for retail clients and micro-entrepreneurs due to limited paper documentation. The estimated savings are over 10 million pages of paper per year. Improved sales of consumer loans, i.a. due to the simplification of loan applications and a faster granting process. Shortening the time necessary to withdraw funds by a quarter. Introduction of a chatbot as a support in recruitment processes at the Bank.
quality	significant improvement in the quality of customer service and customer satisfaction by changing the organization and streamlining service processes as well as focusing on the relationship with the client, recognition and appreciation of the loyalty of current customers and changed approach to measuring customer satisfaction	<ul style="list-style-type: none"> Maintaining a high level of customer satisfaction despite the ongoing transformation and optimization of the sales network. Consistent improvement of customer service quality standards, e.g. the use of robots to automate the complaint process. Service Quality Star 2019 in the 12th edition of the Polish Service Quality Program. The "Golden Banker" award for the best mortgage. Accessibility Leader 2019 award in the branch network category. The jury appreciated both the architectural solutions used in the 5 facilities which were submitted for the Competition and the gradual modernization of other branches, as well as standards implemented by the Bank to improve service for people with disabilities.
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	<ul style="list-style-type: none"> Successful rebranding process initiated at the end of March. Supported awareness of the BNP Paribas brand at the end of June 2019 increased by 4 p.p. q/q. Workshops and training focused on building a common organizational culture of the new merged bank. "Appreciate rather than judge" and "You are the change" marketing campaigns, combined with internal activities for employees. Leader of the 13th Ranking of Responsible Companies. First place

Pillar	Strategic assumptions	Achievements in the 1st half of 2019
		<p>in the general classification and first place in the banking, financial and insurance sectors.</p> <ul style="list-style-type: none"> • CSR Days at the Bank - events for employees focused on health and environmental issues, as well as events related to safety. • Further expansion of the non-wage benefits offer for employees, e.g. life insurance, free access to an online language platform.
<p>digitalization</p>	<p>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, digitalization supporting the identification of customer needs through the use of CRM and data analytics to improve the offer matching, as well as personalization of communication with the client via coherent online and mobile platforms</p>	<ul style="list-style-type: none"> • Testing phase of a new online platform for individual customers GOonline "Friends&Family" in the first half of 2019. Launched for the first customers in July 2019. • Online platform for business clients: modernization of the graphic design and expansion of the system's functionality, including an added feature for the remote management of existing users as well as a feature for signing contracts and completing applications without the need to visit a branch. Over 1,000 submitted e-applications. • GOMobile: further development of the application and an increase in active users in the first half of 2019 by 92% YoY. • Readiness for PSD2 with access to the production API as the first bank on the market. A number of entities have already gained access to the test environment. • Successful launch of the Agronomist.pl portal - an innovative platform connecting farmers, processors and the financial sector. 1.6 thousand registered users and over 30 thousand visitors. • Office Hours: 15th edition of meetings with promising start-ups, this time focused on finding digital tools to support operations in the area of consumer banking. In the first half of 2019, five such meetings were held. • Honourable mention in the "Golden Banker" competition for the implementation of an electronic signature in the process of signing loan agreements • Continued transformation of branches into a new, technologically advanced format: 76 branches in the new format at the end of the first half of 2019.

1.4. Governing bodies of BNP Paribas Bank Polska S.A.

The composition of the Supervisory Board as of 30 June 2019 was as follows:

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
Magdalena Dziewguć	Member of the Supervisory Board, Independent Member
Jacques d'Estais	Member of the Supervisory Board
Michel Falvert	Member of the Supervisory Board
Piotr Mietkowski	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Stéphane Vermeire	Member of the Supervisory Board
Mariusz Warych	Member of the Supervisory Board, Independent Member

Changes in the Supervisory Board of the Bank in the period between 1 January and 30 June 2019:

- On 27 June 2019, the Ordinary General Meeting of the Bank appointed Ms Magdalena Dziewguć as a Member of the Supervisory Board until the end of the current five-year joint term of office of the Supervisory Board members.

The composition of the Management Board as of 30 June 2019 was as follows:

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
André Boulanger	Vice-President of the Management Board
Przemysław Furlepa	Vice-President of the Management Board
Wojciech Kembłowski	Vice-President of the Management Board
Kazimierz Łabno	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 Bank's Management Board in the period between 1 January and 30 June 2019:

- On 15 May 2019, Mr. Philippe Paul Béziau submitted a resignation from the position of the Member of the Management Board of the Bank, with the effect from 30 September 2019.
- On 15 May 2019, the Supervisory Board appointed Mr Volodymyr Radin as the Vice-President of the Bank's Management Board, with the effect from 1 October 2019 until the end of the current three-year joint term of office of the Bank's Management Board members.

1.5. Shareholder structure of BNP Paribas Bank Polska S.A.

As at 30 June 2019, the structure of the shareholders of BNP Paribas Bank Polska S.A., specifying those holding at least 5% of the total number of votes at the General Shareholders' Meeting, was as follows:

Table 1. Shareholder structure as of 30.06.2019

Shareholder	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:	130,850,464	88.76%	130,850,464	88.76%
<i>BNP Paribas directly</i>	95,360,238	64.69%	95,360,238	64.69%
<i>BNP Paribas Fortis SA/NV directly</i>	35,490,226	24.07%	35,490,226	24.07%
Other shareholders	16,568,454	11.24%	16,568,454	11.24%
Total	147,418,918	100.00%	147,418,918	100.00%

In the first half of 2019, there were no changes in the Bank's shareholding structure.

As of 30 June 2019, the Bank's share capital amounted to PLN 147,419 thousand.

The share capital is divided into 147,418,918 shares with the par value of PLN 1.00, 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, 28,099,554 I series shares, 2,500,000 series J shares, 10,800,000 K series shares, and 49,880,600 series L shares.

The Bank's shares are ordinary bearer and registered shares (as at 30 June 2019, there were 67,005,515 registered shares, including 4 shares from B series).

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 par value per share in the event of the Bank's liquidation, once the creditors' claims have been satisfied, with priority over payments per ordinary shares, which, after the rights attached to the preference shares have been exercised, may be insufficient to cover the total par value of those shares.

The Bank's Statute does not impose any limitations as to exercising the voting rights or set forth any provisions whereby the equity rights attached to securities would be separated from the holding itself. One right to vote at the General Shareholders' Meeting of the Bank is attached to each share. The Bank's Statute does not impose any limitations as to transferring the title to the securities issued by the Bank.

As at 30 June 2019, none of the members of the Management Board or Supervisory Board of the Bank declared holding any shares of BNP Paribas Bank Polska S.A., and there were no changes in this respect from the date of presenting the Consolidated interim report for the first quarter of 2019, i.e. 16 May 2019.

Investor obligations of BNP Paribas concerning the liquidity of the Bank's shares

As declared by BNP Paribas SA to the Polish Financial Supervision Authority (PFSA) in September 2014, the number of the Bank's shares that are in free float was to be 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, with the provision that if reaching the assumed percentage of free float shares within the declared deadline were unreasonable due to unforeseen or exceptional market conditions, or if it were to expose the BNP Paribas Group to unjustified financial losses, BNP Paribas was to immediately commence negotiations with PFSA to agree on a modified schedule of reaching the assumed percentage of free float shares.

On 31 May 2016 the Management Board of Bank BGŻ BNP Paribas S.A. (currently: BNP Paribas Bank Polska 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 regarding increase of the Bank's shares liquidity at Warsaw Stock Exchange. The change in the deadline to fulfil the investor obligations of BNP Paribas SA, justified with an unforeseen adverse change in market conditions compared to the date of accepting the above mentioned obligation, consists in

PFSA considering the obligations fulfilled if liquidity of shares of the Bank reaches at least 12.5% shares by the end of 2018 and 25% plus one share by the end of 2020.

On 14 September 2018, PFSA has received commitments from BNP Paribas SA regarding prudent and stable management of the Bank. As part of the obligation, BNP Paribas SA committed to increase the liquidity of the Bank's shares on the Warsaw Stock Exchange up to at least 25% plus 1 share by the end of 2023 at the latest.

Share price of BNP Paribas Bank Polska S.A.

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

The Bank's shares are traded under the abbreviated name of BNPPPL, marked "BNP". As of 24 December 2018, the shares are included in the sWIG80 and sWIG80TR indices.

During the session on 29 June 2019, the closing share price amounted to PLN 65.00 and was higher by 9.06% as compared to 29 June 2018. In the same period, the WIG Banks index increased by 9.54%. The exchange rate reached its maximum on 28 June 2019 (PLN 65.00).

The average price of the Bank's shares in the 12 months period ended 29 June 2019 amounted to PLN 50.15 (PLN 57.04 in 2018). The average volume of trading in the Bank's shares was 5,080.33 shares per session, and the average trading value in Bank shares for the session was PLN 208.55 thousand and were significantly higher than in 2018 (respectively 4,964.31 shares and PLN 205.40 thousand).

The decrease in the average share price was caused by a significant drop in the price, which occurred in July and August 2018. The price recorded its annual minimum at the session on 5 September 2018 (PLN 38.00), which coincided with the problems on the capital market caused by declining trust and problems of some investment fund companies. Higher than usual supply of shares in combination with low free float led to decrease in the prices of shares of some small companies, including a lowering in the Bank's share price (despite positive events of fundamental nature, such as reporting results for the first half of 2018 above market consensus and the finalization of J and K series shares, which allowed an increase in the Bank's capital adequacy ratios and their stabilization at levels above regulatory requirements).

The aforementioned lowering of the price led to a significant increase in the scale of trade in the Bank's assets. The average daily trading volume in the third quarter of 2018 amounted to 17,608.08 shares, while the average trading value per session was PLN 705.50 thousand. The last quarter of 2018 brought a stabilization of the share price, which allowed to slow down the average price drop (PLN 47.27 in the fourth quarter of 2018 as compared to PLN 50.21 in the third quarter) and stabilize the average daily trading volume and average turnover on levels comparable to the first and second quarter of 2018 (591.84 shares and PLN 28.21 thousand).

In the first quarter of 2019, the share price remained stable (the daily average amounted to PLN 50.01) with a reduced average daily trading volume and average trading value per session (399.50 shares and PLN 20.01 thousand, respectively).

The second quarter of 2019 (June) brought a significant increase in the Bank's share price. The average share price increased to PLN 53.03, with a noticeable increase in the average daily trading volume and average trading value per session (to 940.95 shares and PLN 49.91 thousand, respectively).

Chart 1. The Bank's share price from 29 June 2018 to 28 June 2019

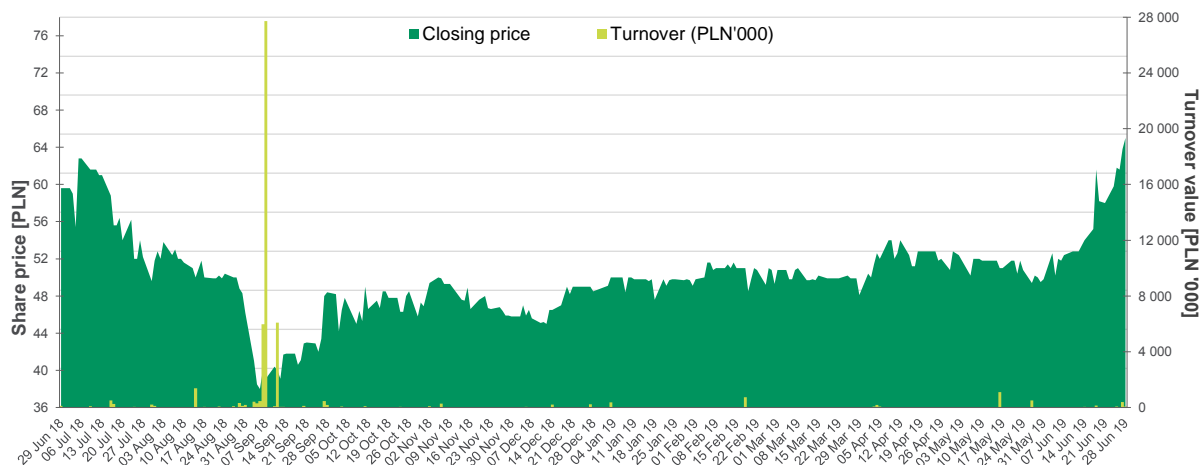
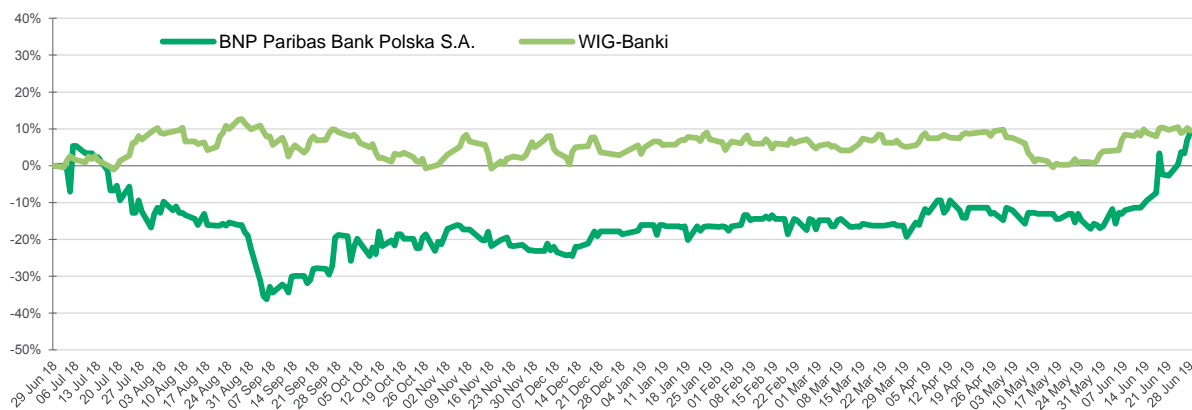


Chart 2. Change in Bank's share price vs. WIG-Banks from 29 June 2018 to 28 June 2019 (29 June 2018 = 100%)

1.6. Ratings of BNP Paribas Bank Polska S.A.

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

On 19 December 2017, the Agency upgraded the ratings for the Bank's long-term deposits to level Baa1 from Baa2, with a stable perspective; the rating for the short-term deposits was maintained at Prime-2 level.

At the same time, the following have been confirmed: the basic BCA (Baseline Credit Assessment) credit score at ba2 level and Adjusted Baseline Credit Assessment at baa3 level. Also, the Counterparty Risk Assessment has been maintained at level A3 (cr) / Prime-2 (cr).

In 2018, the Agency maintained the aforementioned levels.

The main factors supporting the maintenance of the ratings are:

- good macroeconomic situation in Poland,
- financing of the assets with the use of funds from the outside of the interbank market,
- adequate level of liquid assets.

In the first half of 2019 the Bank's ratings were not changed.

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 in long-term / short-term (<i>Counterparty Risk assessments, CRa</i>)	A3(cr)/Prime-2(cr)
Perspective	stable

1.7. Awards and distinctions

In the first half of 2019 the Bank received the following awards and distinctions:

January	The Bank (once again) received the title of Top Employer Polska for an HR policy developed in line with best market practices
February	Distinction for BNP Paribas Wealth Management in Poland for the best quality of private banking services in Poland, in the prestigious annual competition of the Euromoney global financial magazine
March	In the 4th edition of the Institution of the Year ranking conducted by Mojebankowanie.pl, the Bank received trophies in two categories: Best service quality in a branch - retail client, Best helpline for companies . The Bank also received a distinction in the Socially Responsible Bank category for its strategic partnership with the Noble Gift charity. Institution of the Year 2018 distinction awarded by Mojebankowanie.pl The Bank once again received the Gwiazda Jakości Obsługi 2019 (Service Quality Star) distinction based on a consumer survey of the Polish Service Quality Program; The Star confirms that the Bank represents the highest standards of service and puts customer needs first.
April	Golden Banker trophy in the Mortgage Loan category and a distinction in the Fin-Tech Innovation category for the implementation of an electronic signature improving the loan issuing processes Srebrny Listek CSR POLITYKI (award received for the fifth time) and an award for supporting the implementation of Sustainable Development Goals and increasing the availability of financial products which support a low-carbon economy
May	Accessibility Leader 2019 - award in the "branch network" category, in the 4th edition of the competition; BNP Paribas Bank Polska is the only bank to have received this distinction The Bank was the first financial institution on the Polish market to receive the OK SENIOR® quality certificate for implementing the process of adapting branches to the needs of people over 60 in Bank branches Konto Otwarte na Ciebie (Account Open to Your Needs) You – recognized as the best personal account in the Money.pl ranking for its simplicity and personalization of banking services. It was also appreciated that the account is unconditionally free, which makes it stand out amongst the competition
June	1st place in the Star of Growth category in the 5th edition of the "Banking Stars" competition, organized jointly by "Dziennik Gazeta Prawna" and PwC 1st place in the general classification and 1st place in the banking, financial and insurance sector in the 13th edition of the Ranking of Responsible Companies 1st place in the ranking of accounts for travellers organized by Money.pl

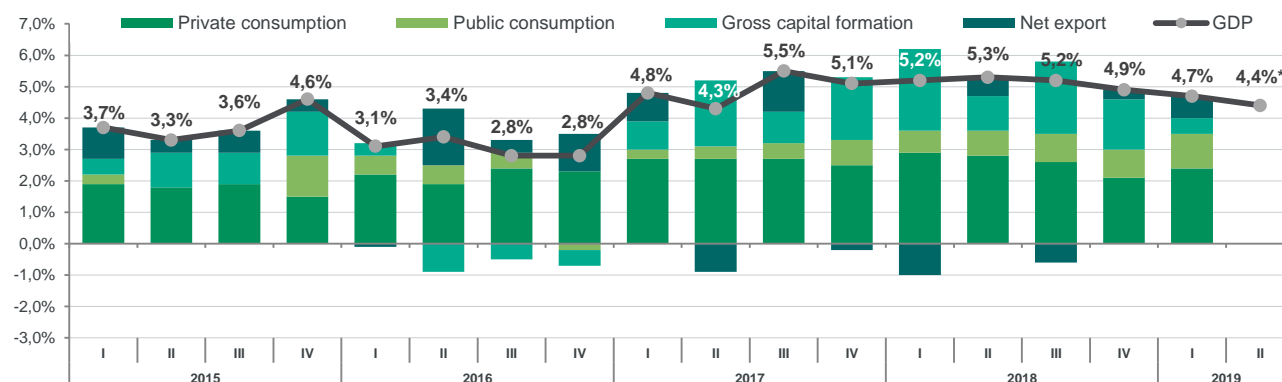
2. EXTERNAL FACTORS AFFECTING THE BANK'S OPERATIONS IN THE FIRST HALF OF 2019

2.1. Macroeconomic conditions

PKB

Since the beginning of 2018, GDP growth in Poland has remained at around 5% YoY. In the first quarter of 2019, it amounted to 4.7% YoY. According to the GUS (Polish Central Statistical Office) data, the main driver of recent economic growth is still domestic demand which increased by 4.2% YoY, adding 4.0% to GDP growth. The continued rapid increase in consumption results mainly from a very good situation on the labour market, including high wage growth. The rate of investment growth accelerated to 12.6% YoY in the first quarter of 2019, which was the best result since the first quarter of 2015. The progressive improvement in the absorption of EU funds contributed to this result. Investments, however, have increased much more in the government and local government sectors than in the corporate sector. In the first quarter of 2019, the contribution of change in inventories was negative (-1.0 p.p.), while net exports added 0.7 p.p. to GDP growth.

Chart 3. GDP growth (YoY)



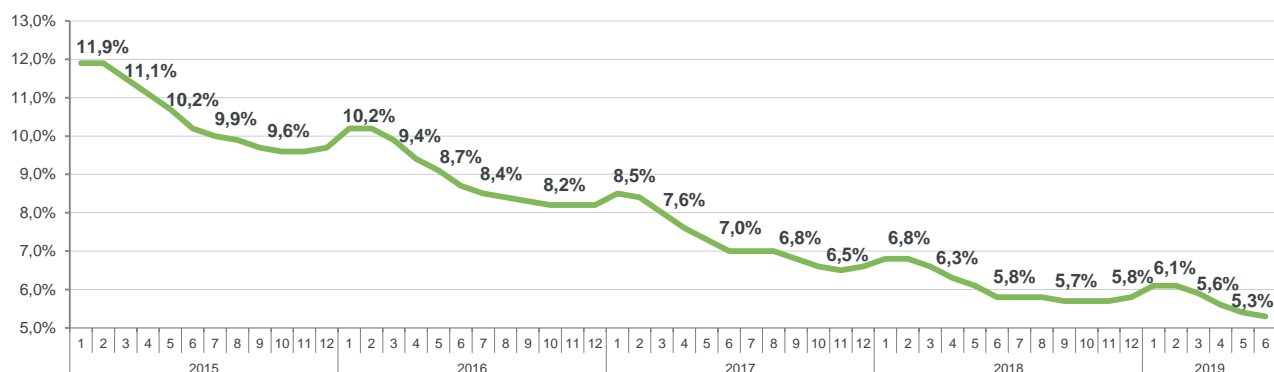
Source: Polish Central Statistical Office (GUS); * flash prognosis

Business activity

In the first half of 2019, the growth rate of industrial output remained at a high level, on average close to 6.0% YoY, as compared to 5% YoY on average over the previous 6 months. The dynamics of industrial production were supported by the boom in the domestic economy, which compensated for the weakening demand of Poland's main foreign partners. At the same time, the growth rate of construction and assembly production slowed down from 24.0% YoY in the previous year, but remained at a high level, at ca. 9.3% YoY. The good situation in construction was supported by the rebound in investments (mainly infrastructure) of the public sector, co-financed from the EU funds. A reflection of strong consumer demand was the maintenance of the growth rate of real retail sales at the level of approx. 6.5% YoY. The registered unemployment rate remained close to the lowest levels since 1990 and amounted to 5.3% as at the end of June 2019.

Inflation

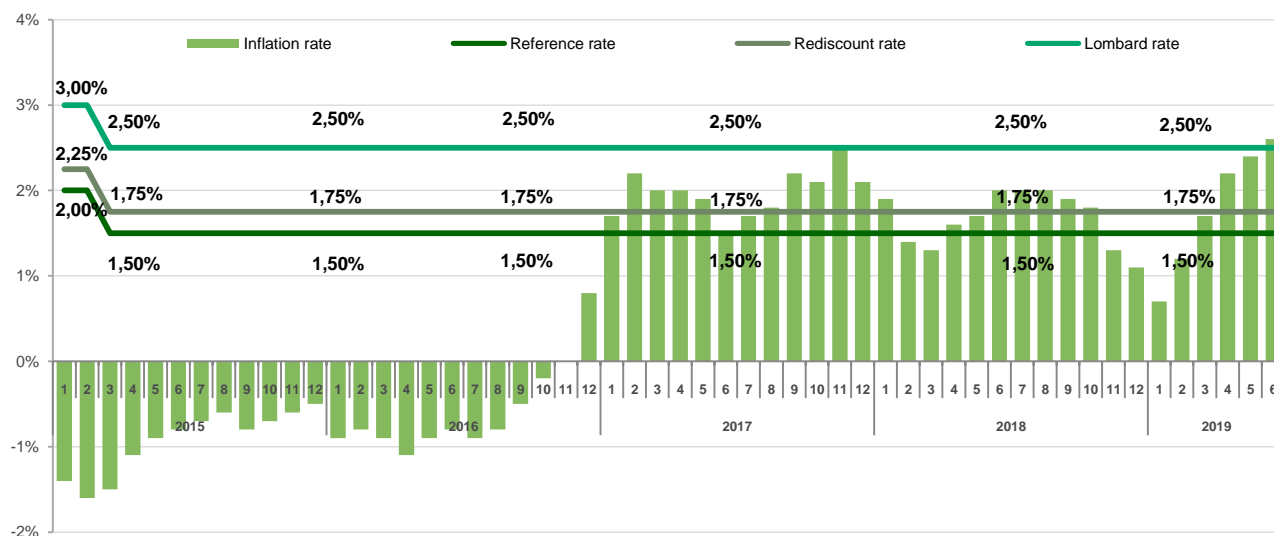
In recent months inflation in Poland gradually increased to the level of 2.5% of the NBP (National Bank of Poland) inflation target, exceeding it in June, when CPI inflation amounted to 2.6% YoY. The acceleration of inflation is mainly driven by rising fuel, food and core inflation prices. On the other hand, high wage growth coupled with high demand pressure drives core inflation, which is likely to rise above 2% by the end of 2019. We also expect that in the second half of the year CPI inflation will be close to the upper inflation target, i.e. 2.5-3.5%.

Chart 4. Registered unemployment rate


Source: Polish Central Statistical Office (GUS)

Monetary policy

In the first half of 2019, the Monetary Policy Council (MPC) continued to maintain interest rates at unchanged levels. The stabilization of interest rates in Poland was favoured mainly by inflation remaining close to the target, but also by the mild monetary policy of the ECB. After the last MPC meeting in June 2019, the President of the NBP Adam Glapiński pointed out that in his opinion interest rates may remain unchanged even until the end of the Council's term in 2021. Considering the MPC rhetoric, as well as the increasingly weak data from the rest of Europe, changing interest rates in the coming quarters seems unlikely.

Chart 5. Inflation and interest rates


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

Bonds market

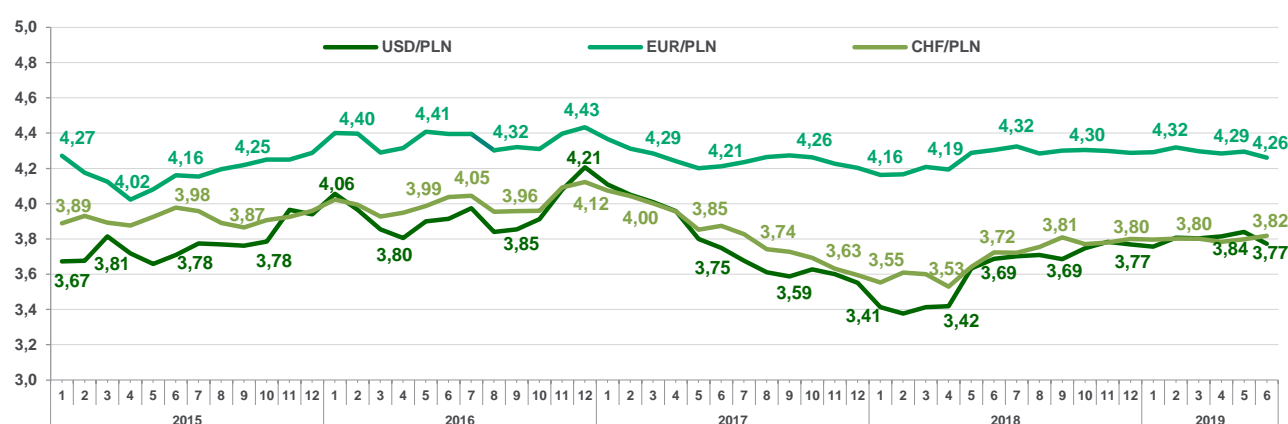
In first half of 2019 yields of government bonds in Poland remained under the influence of the situation on the core markets (US and Euro zone) and domestic data on inflation, public debt, as well as investors' expectations regarding the future monetary policy of the Monetary Policy Council. After a period of relative stability of yields in the first quarter of 2019, in the middle of the second quarter the yield on 10-year bonds decreased significantly as a result of a decline in yields in the euro zone. The yield on 2-year bonds has remained stable since January. At the end of the second quarter of 2019, the yield on 2-year government bonds was 1.58% and 10-year government bonds 2.28%.

The risk premium for long-term Polish bonds (measured by the *spread* against 10-year German bonds) in the second quarter of 2019 remained in the range of 290-266 bp, as compared to around 260-280 bps in the first quarter. This was favoured by a good budget situation, reflected in, amongst others, a fall in the public debt ratio, probably to around 50% at the end of 2019.

Currency market

For most of 2019, the EUR/PLN exchange rate fluctuated around 4.30. The Polish zloty was largely influenced by external factors. The second quarter of 2019, however, was relatively good for the Polish zloty. At the end of the second quarter of 2019, the EUR/PLN exchange rate decreased from 4.30 at the beginning of April to 4.25 at the end of June. At the same time, the USD/PLN exchange rate fell from 3.83 to 3.76 and the CHF/PLN exchange rate from 3.85 to 3.81. The strengthening of the zloty in mid-2019 was caused by global factors, such as the announced easing of the monetary policy of major central banks and the weakening of global risk aversion, related to the conclusion of a provisional agreement between the United States and China.

Chart 6. PLN exchange rate (monthly average)



Source: Macrobond

2.2. Performance of the banking sector

According to the data of the National Bank of Poland (NBP), the net financial result of the banking sector in Poland in the first half of 2019 was at the level of PLN 7.6 billion, similar to the level achieved in the corresponding period of the previous year. The gross profit of the sector from continued operations amounted to PLN 10.2 billion and was by PLN 251 million, i.e. 2.5% higher YoY.

The slight increase in the gross result of the banking sector was caused by an increase in total net operating income by PLN 2.8 billion, i.e. 8.5% YoY. This increase was influenced by an improvement in net interest income (by PLN 1.8 billion, i.e. 8.0% YoY), which was accompanied by a dynamic but less significant volume increase regarding other operating income items (by PLN 0.9 billion, i.e. 21.8% YoY). The growth rate of total net revenues from operating activities of the sector YoY was limited by a slight increase in the fee and commission result.

Factors which constituted a significant negative contribution as regards the gross result of the sector YoY included abrupt increases of depreciation (by PLN 0.7 billion, i.e. by 49.2% YoY, related to the implementation of IFRS 16 "Leases"), and other administrative costs (by PLN 0.5 billion, i.e. 6.1% YoY, associated mainly with a twofold increase in obligatory contributions to the Bank Guarantee Fund). An increase, related to wage pressure and rising salaries in the banking sector, was also recorded in employee costs (by PLN 0.2 billion, i.e. 2.6% YoY). In addition, the increase in the sector's cost base was accompanied by a major deterioration in the result on impairment of financial assets (an increase of PLN 0.7 billion, i.e. 18.8% YoY) and a significant deterioration in the result of other provisions, not significant in volume.

Table 2. Selected profit or loss items of the banking sector

in PLN million	6 months	6 months	change YoY	
	ended 30.06.2019	ended 30.06.2018	PLN million	%
Net interest income	24,226	22,426	1,800	8.0%
Net fee and commission income	6,552	6,471	81	1.3%
Other	5,232	4,296	936	21.8%
Total net operating income	36,010	33,193	2,817	8.5%
Operating expenses, personnel expenses	(8,908)	(8,686)	(222)	2.6%
General administrative expenses	(9,430)	(8,891)	(539)	6.1%
Depreciation and amortization	(2,171)	(1,455)	(716)	49.2%
Total expenses	(20,509)	(19,032)	(1,477)	7.8%
Provisions	(366)	(217)	(149)	68.7%
Impairment or its reversal	(4,679)	(3,938)	(741)	18.8%
Gross profit from continuing operations	10,214	9,963	251	2.5%
Net profit for the period	7,568	7,542	26	0.3%

Source: National Bank of Poland (NBP)

According to NBP data, the first half of 2019 brought a slight decrease in the banks' receivables from loans to non-banking customers. At the end of June 2019, it amounted to 6.0% YoY, while at the end of December 2018 it was 7.2% YoY. The decisive factor was the strengthening of the zloty (YoY) against EUR and USD at the end of June 2019 (as opposed to a weakening at the end of December 2018), and its smaller depreciation against CHF. At the same time, the annual growth rate of total non-banking customer deposits decreased slightly, reaching 8.1% at the end of June 2019 (compared to 9.1% at the end of December 2018).

Debt due to loans for retail customers increased at the end of June 2019 by 6.5% YoY, while at the end of December 2018 it increased by 7.5% YoY. The change was caused by a deepening of the downward trend in private debt due to foreign currency mortgage loans in the first half of 2019 (a decline in dynamics to -7.1% YoY, from -2.4% at the end of 2018). It was associated with the aforementioned changes in the zloty exchange rate, which was accompanied by: a very small scale of new foreign currency mortgage loans and a gradual repayment of previously incurred loan instalments.

Mortgage loans in PLN remained the driving force of private loans. Their dynamics remained moderately high and close to the 2018 level, amounting to 11.6%. In the first six months of 2019 the above, along with the growing base effect, translated into an increase of PLN 16.1 billion in the indebtedness of the population in this respect, which amounted to PLN 1.6 billion more than in the corresponding period of 2018.

The good situation on the mortgage loan market is confirmed by data from the Credit Information Bureau, according to which in the first half of 2019, banks granted 116.5 thousand housing loans for a total amount of PLN 31.1 billion, which means an increase by 10.9% YoY in value terms, but a decrease by 1.3% YoY in terms of volume. Demand for mortgage loans was strengthened by: a very good situation on the labour market and NBP interest rates which were stable and at a historical low. A factor translating into an increase in the value of newly sold loans was, in addition, a gradual increase in housing prices. On the other hand, stronger growth on the mortgage loan market was hampered by financing or co-financing the purchase of apartments for cash by a significant number of investors (related to the unattractive interest rate on savings products resulting from the aforementioned lowest interest rates).

Consumer loans, whose balance increased by PLN 15.8 billion YoY, and whose dynamics were at 9.0%, remained a major contribution to the growth of lending in the private segment in the first half of 2019. The increase in lending in this area was supported by the very good situation on the labour market and the high level of consumer optimism, supported by the strategy of some banks to increase the share of cash loans as high profitability products. According to Credit

Information Bureau analyses, in the first half of this year banks and SKOK institutions granted 3.5 million consumer loans for a total amount of PLN 44.6 billion, which means an increase by 6.8% YoY in value terms.

In the first half of 2019, the growth rate of loans in the enterprise segment was lower. The nominal dynamics of corporate debt in banks decreased from 7.6% YoY at the end of December 2018 to 4.0% YoY at the end of June 2019, a major factor in this was the exchange rate effect. Current loans had a much stronger contribution to the increase in the volume of loans to enterprises. On the other hand, investment loans, which were growing at a fairly slow pace in the first half of 2019, had a smaller impact (despite clear signs of a revival in the area of private sector investment which was visible in the Central Statistical Office data for the first quarter of 2019).

Table 3. Banking sector loans by value

in PLN billion	30.06.2019	31.12.2018	30.06.2018	change YoY	
				1H/2019 vs.1H/2018	2018 vs.2017
Loans to private customers	623.7	604.2	585.9	6.5%	7.5%
- mortgage loans	429.6	418.6	407.2	5.5%	6.9%
in PLN	306.3	290.2	274.4	11.6%	11.6%
In foreign currencies	123.3	128.4	132.8	(7.1%)	(2.4%)
- consumer loans	191.9	183.3	176.1	9.0%	9.3%
- other loans	2.3	2.3	2.6	(12.8%)	(19.6%)
Loans to institutional customers	657.5	638.1	622.9	5.6%	6.8%
- non-bank financial institutions	83.9	72.1	66.5	26.3%	12.8%
- business entities	488.4	478.4	469.2	4.1%	6.9%
corporate	364.2	358.6	350.3	4.0%	7.6%
individual entrepreneurs	81.7	78.4	77.4	5.6%	6.5%
farmers	35.1	34.1	34.5	1.7%	0.7%
non-commercial institutions	7.5	7.3	6.9	7.3%	5.0%
- public sector	85.2	87.6	87.3	(2.4%)	2.2%
Total loans to non-bank customers	1,281.2	1,242.4	1,208.8	6.0%	7.2%

Source: National Bank of Poland (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 annual growth rate of deposits of non-banking customers at the end of June 2019 amounted to 8.1% and slightly decreased compared to the end of December 2018. This was caused by a slight decrease in the volume of public sector deposits (by 0.5% YoY), with a 21% increase YoY recorded at the end of December 2018. A negative contribution to the annual growth rate of deposits of non-banking customers was also a decrease in the volume of deposits of non-banking financial institutions YoY.

On the other hand, there was an increase in deposits from private customers, caused by a continually good situation on the labour market, and continued increase in the average level of remuneration and the further withdrawal of assets from investment funds (started in September 2018). However, only the volume of private customers' current deposits increased significantly (16.2% YoY, compared to 15.6% at the end of December 2018). This was the result of the low premium offered by banks for investing savings for longer periods and the reluctance of private customers to freeze their savings. The good liquidity of banks contributed to a further decline in interest rates on term deposits for private customers at the end of the period under review. However, earlier declines in the annual dynamics of the volume of term deposits were halted.

In turn, the increase in institutional deposit dynamics (6.7% YoY, compared to 4.3% YoY at the end of December 2018) was determined by the rapid increase in their current foreign currency deposits (by 19.9% YoY). It was recorded despite the strengthening of the zloty against the EUR and USD and was related, among others to the acceleration of export dynamics in 2019. This effect was partially offset by inhibiting dynamics of PLN deposits (increase by 4.4% YoY, compared to an increase of 7.4% YoY at the end of December 2018), related to i.a. the deterioration of financial results of the institutional sector which began in the fourth quarter of 2018.

Table 4. Banking sector deposits by value

in PLN billion	30.06.2019	31.12.2018	30.06.2018	change	
				1H/2019 vs.1H/2018	2018 vs.2017
Private deposits	790.9	750.9	712.2	11.0%	9.7%
- current	495.0	457.0	426.0	16.2%	15.6%
- term	295.9	293.9	286.2	3.4%	1.7%
Institutional deposits	542.0	526.1	520.6	4.1%	8.2%
- non-bank financial institutions	55.7	60.2	60.1	(7.3%)	5.2%
- business entities	373.0	382.3	346.6	7.6%	6.2%
corporate	280.7	288.1	263.1	6.7%	4.3%
individual entrepreneurs	50.2	52.1	43.5	15.4%	17.0%
farmers	14.8	15.9	14.0	5.5%	4.3%
non-commercial institutions	27.2	26.2	26.0	4.9%	8.7%
- public sector	113.3	83.6	113.9	(0.5%)	21.0%
Total non-bank deposits	1,332.9	1,277.0	1,232.8	8.1%	9.1%

Source: National Bank of Poland (NBP), data for monetary financial institutions except for Central Bank and Credit Unions; residents only.
Note: As the figures have been rounded up, the totals in the table may not add up.

2.3. Stock market and investment situation

The first half of 2019 brought a positive change to the WIG stock index, which represents all listed companies on the Warsaw Stock Exchange (WSE), and noted a 4.3% growth as compared to the end of 2018. Despite the upward trend of all listed indices, the scale of growth differed for shares of large, medium and small companies. And so, the sWIG80 index representing the smallest companies turned out to be the leader, gaining 11.8%, the Warsaw mWIG40 index representing average companies gained 4.4%, and the WIG20 index grouping the largest entities ended the period with a 2.2% growth. The relative strength of the sWIG80 index was influenced primarily by the reversal of trends as regards the redemption of units in domestic funds of small and medium-sized companies and improvement of sentiment among individual investors.

Table 5. Key WSE indices

Index	30.06.2019	31.12.2018	30.06.2018	change in 1H 2019	change YoY
WIG	60,187	57,691	55,954	4.3%	7.6%
WIG20	2,328	2,277	2,135	2.2%	9.0%
mWIG40	4,082	3,909	4,220	4.4%	(3.3%)
sWIG80	11,821	10,571	12,689	11.8%	(6.8%)

Source: Bloomberg

The following factors, among other, had an impact on the image of the Warsaw Stock Exchange in the first half of 2019: (i) expectations of the monetary policy of the largest central banks (Federal Reserve, European Central Bank, Bank of Japan), (ii) political uncertainty (Italy, United Kingdom, France), (iii) uncertainty due to concerns over the global trade war, (iv) weaker macroeconomic monthly data for major euro zone economies, which translated into growing concerns about the scale of the slowdown in global economic growth in the coming periods; (v) announced revision of shares in the MSCI (Morgan Stanley Capital International Index), in which the relative share of domestic securities decreased.

On the Polish government bond market, the first half of 2019 was characterized by considerable volatility. In the first four months of 2019, the yields of domestic 10-year government bonds were in a sideways trend in the range of 2.60% - 3.00%, while the next two months brought a decline to 2.35%. This was due, i.a., to global trends related to the flow of capital to safer assets, as well as a gentle approach in the context of monetary policy presented by major central banks. Bond prices were strengthened by comments from the Monetary Policy Council representatives, which suggested a lack of interest rate increases in the coming quarters.

Table 6. Number of companies, cap and trading volume on WSE

	30.06.2019	31.12.2018	30.06.2018	change in 1H 2019	change YoY
Number of companies	460	465	473	(1.1%)	(2.7%)
Cap of domestic companies (PLN million)	594,378	578,949	569,332	(2.7%)	4.4%
Share trading volume (PLN million)	99,639	106,923*	104,927	(6.8%)	(5.0%)
Futures trading volume (PLN '000)	3,188	3,835*	4,036	(16.9%)	(21.0%)

Source: WSE, * - data for the first half of 2019

In the first half of 2019, 4 new companies appeared on the main market of the WSE (including: 3 due to the transfer of quotations from the New Connect market), and 9 entities left the trading floor. The number of companies listed on the WSE decreased from 465 at the end of 2018 to 460 at the end of June 2019. In the NewConnect organized market, in the first half of 2019, 8 issuers debuted, with the simultaneous withdrawal of 10 entities from listings. On the Catalyst bond market, a total of 552 series of bonds were listed, and the value of the issue exceeded PLN 739 billion.

3. MAJOR EVENTS IN BNP PARIBAS BANK POLSKA S.A. GROUP IN THE FIRST HALF OF 2019

28.01.2019 Resolution of the Management Board regarding the implementation of assumptions in relation the demerger of factoring activities from the Bank and its transfer to BGŻ BNP Paribas Faktoring Sp. z o.o.

The factoring activity being subject to demerger, was acquired by the Bank following the transfer of the core business of Raiffeisen Bank Polska S.A. to the Bank. In 2017, the Bank sold the BGZ BNP Paribas Faktoring Sp. z o.o. ("Company") to BNP Paribas ("Company Shareholder").

The Bank and the Company plan to continue the cooperation, using a strong factoring offer to support the Bank's clients.

29.03.2019 Entering to changes of the Bank's statute (including the company's name) and change of the issuer's website address into the National Court Register

On 29 March 2019, the changes were registered by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register. The changes concerned amendments to the Bank's statute, adopted by Resolution No. 3 of the Bank's Extraordinary General Meeting of 11 December 2018.

As a result, on 29 March 2019 the Bank's name changed from "Bank BGŻ BNP Paribas Spółka Akcyjna" to "**BNP Paribas Bank Polska Spółka Akcyjna**" and the website address from www.bgzbnpparibas.pl to www.bnpparibas.pl.

29.03.2019 Merger of the Bank's subsidiaries

On 29 March 2019, the following Bank's subsidiaries were merged: **Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.** (currently, 20 from May 2019: BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A.) with its registered office in Warsaw ("TFI BGŻ BNP Paribas S.A.") and **Riviera Towarzystwo Funduszy Inwestycyjnych S.A.** (former Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.) located in Warsaw, consisting in the acquisition of Riviera Towarzystwo Funduszy Inwestycyjnych S.A. by TFI BGŻ BNP Paribas S.A. (as the acquiring company) pursuant to art. 492 § 1 point 1 of the Code of Commercial Companies ("Merger"), as a result of the Registry Court entering the Merger in the National Court Register ("Registry") pursuant to the decision of 29 March 2019.

At the same time, on 29 March 2019, in connection with the Merger, the Registry Court made an entry in the Court Register regarding the increase in the share capital of TFI BGŻ BNP Paribas S.A. in the amount of PLN 1,644,912 to the amount of PLN 10,692,912, as a result of the issue of 68,538 ordinary registered series T shares of TFI, with a nominal value of PLN 24 each, intended for the Bank, which is the sole shareholder ("Increase in Capital").

As a result of the Capital Increase, the Bank, as the sole shareholder of TFI BGŻ BNP Paribas S.A. holds a total of 445,538 ordinary registered shares, entitling to the same number of votes at the General Meeting.

17.04.2019 Information on the amount of annual contribution for BNP Paribas Bank Polska S.A., determined by the Bank Guarantee Fund (BFG) in relation to the bank restructuring fund for 2019 in the amount of PLN 116.1 million

The total contributions to the BFG recognized by the Bank as costs of the first quarter of 2019 amount to PLN 129.1 million (the abovementioned annual contribution to the bank restructuring fund for 2019 in the amount of PLN 116.1 million and the contribution to the bank guarantee fund due for the first quarter of 2019 - PLN 13.0 million).

18.04.2019 Decision of PFSA regarding the consent to include the Bank's net profit for the fourth quarter of 2018 in the amount of PLN 36,429,608.99 in the Common Equity Tier 1 capital

5.06.2019 Resolution of the Management Board regarding the sale and transfer of an organized part of the enterprise intended for factoring business to BGŻ BNP Paribas Faktoring Sp. z o.o. located in Warsaw

10.06.2019 Decision of the Polish Financial Supervision Authority on the consent to include the Bank's net profit for the first quarter of 2019 in the Common Equity Tier 1 capital at the separate (in the amount

of PLN 163,358,148.76) and consolidated (in the amount of PLN 161,601,412.49) levels.

14.06.2019 Resolution of the Supervisory Board of BNP Paribas Bank Polska S.A. regarding the consent to conclude the agreement in relation to the sale of an organized part of the enterprise intended for factoring business to BGŻ BNP Paribas Faktoring Sp. z o.o. located in Warsaw

17.06.2019 Conclusion of loan agreement

As a borrower, the Bank concluded the Loan Agreement ("Agreement") with BNP Paribas SA with its registered office in Paris, registered in the commercial register of companies (Registre du Commerce et des Sociétés de Paris) under number 662 042 449, as the lender. Under the Agreement, the lender will grant the Bank a loan not exceeding EUR 500 million, which is equivalent to approximately PLN 2,128 million at the average exchange rate of the National Bank of Poland applicable on 14 June 2019 (EUR 1 = PLN 4.2554) to finance factoring activities maintained by the Bank.

27.06.2019 Ordinary General Meeting of BNP Paribas Bank Polska S.A.

- Consideration and approval of the following:
 - *Financial statements for 2018 and the Management Board report on activities in 2018,*
 - *Report on non-financial information of the Bank and the Bank's Group in 2018,*
 - *Report on the activities of the Bank's Supervisory Board and its committees in 2018.*
- Adoption of a resolution regarding the distribution of the Bank's profit for the financial year 2018.
- Adoption of resolutions on acknowledgment of the fulfilment of duties by the members of the Management Board and Supervisory Board of the Bank in 2018.
- Adoption of a resolution regarding the sale of an organized part of BNP Paribas Bank Polska S.A. covering factoring activities.
- Adoption of resolutions regarding amendments to the Statute of BNP Paribas Bank Polska S.A.

28.06.2019 Conclusion of an agreement on the sale of an organized part of the Bank's enterprise intended for factoring business ("ZORG", "Factoring Activity") to BGŻ BNP Paribas Faktoring Sp.z o.o. ("Factoring Company")

Pursuant to the sale agreement with effect as at 30 June 2019, the Bank sold ZORG to the Factoring Company and transferred to the Factoring Company the obligations related to conducting Factoring Activity specified in the Sale Agreement. The Factoring Company also became a party to employment relations in relation to the transferred employees.

The ZORG sale price was PLN 45 million ("Sale Price"). By 30 July 2019, the Bank and the Factoring Company will conduct final verification of the transferred values of net factoring receivables (after deduction of recognized allowances), for which customers' consents were obtained as regards their transfer under ZORG in relation to the estimated value of net factoring receivables as at 30 June 2019, adopted for the preparation of the financial plan, which is the basis for the calculation of the Sale Price. The difference between the above value of net factoring receivables, amounting to at least 1%, will result in an analogous percentage adjustment of the Sale Price.

The remaining terms of the ZORG Sales Agreement do not differ from those commonly used in trade for this type of agreement.

Any changes made to the composition of the Management Board or the Supervisory Board of the Bank in the first half of 2019 are presented in detail in Chapter 1.4. *Governing bodies of BNP Paribas Bank Polska S.A.*

4. FINANCIAL STANDING OF THE BNP PARIBAS BANK POLSKA S.A. GROUP IN THE FIRST HALF OF 2019

4.1. Consolidated statement of profit or loss

In the first half of 2019 the BNP Paribas Bank Polska S.A. Group generated a net profit of PLN 378,661 thousand, i.e. by PLN 190,060 thousand (100.8%) higher than the one achieved in the same period of 2018.

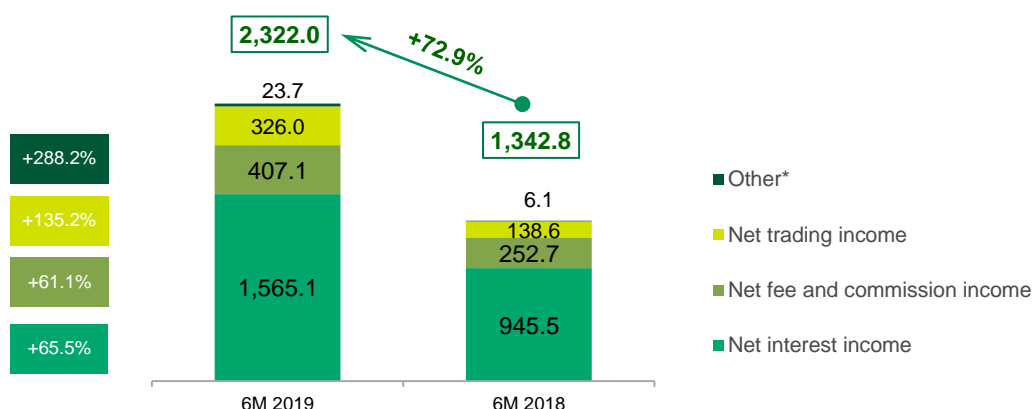
The result on the banking activity of the Group in the analysed period amounted to PLN 2,321,961 thousand, and was higher by PLN 979,118 thousand YoY, i.e. by 72.9%.

The most important event affecting the level of net profit in the first half of 2019 and the comparability of results with the first half of 2018 was the finalization of the acquisition of the Core Business of Raiffeisen Bank Polska S.A. ("RBPL") on 31 October 2018. The profit or loss account of the Bank's Group for the first half of 2018 does not include RBPL's income or expenses.

In addition, the following factors have affected the comparability of results achieved in the analysed periods:

- inclusion of integration costs in operating expenses for first half of 2019. The integration costs amounted to PLN 162,854 thousand as compared to the PLN 3,511 thousand integration costs in the first half of 2018 (related to earlier mergers of BGŻ S.A. and BNP Paribas Bank Polska S.A.). It is estimated that excluding integration costs, the net profit for the first half of 2019 would amount to PLN 510,573 thousand and would be PLN 319,128 thousand (i.e. 166.7%) higher than that achieved in the first half of 2018;
- higher costs incurred by the Group for the Bank Guarantee Fund, resulting from the BGF Council's decision to increase the total amount of contributions to the bank restructuring fund in 2019 compared to 2018. In the first half of 2019, the total BGF costs incurred by the Group amounted to PLN 141,720 thousand and were PLN 59,561 thousand (i.e. 72.5%) higher than the relevant costs in the first half of 2018;
- sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o. on 28 June 2019. The transaction, worth PLN 45,000 thousand was included in the gross financial result of the Bank's Group under operating revenues.

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

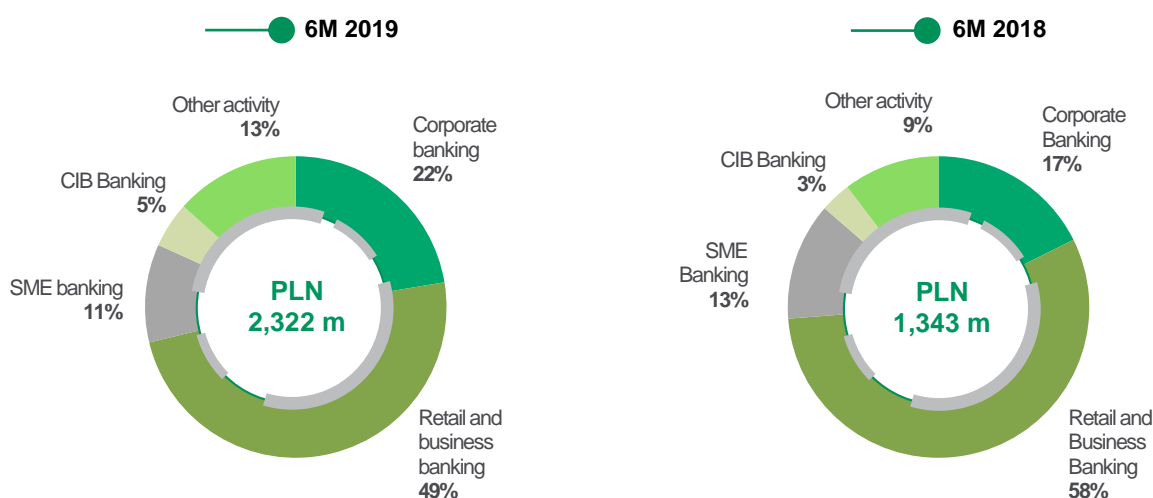


* The 'Other' category includes the result on investment activities, the result on hedge accounting, income on dividends and other operating income and expenses (in 2019 - the amount of PLN 45.0 million related to the sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o.).

Table 7. Statement of profit or loss

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Net interest income	1,565,139	945,490	619,649	65.5%
Net fee and commission income	407,087	252,657	154,430	61.1%
Dividend income	1,556	809	747	92.3%
Net trading income	326,032	138,590	187,442	135.2%
Net investment income	(19,998)	6,726	(26,724)	(397.3%)
Result on hedge accounting due to measurement at fair value	(1,083)	2,823	(3,906)	(138.4%)
Other operating income and expenses	43,228	(4,252)	47,480	(1 116.7%)
Net income on banking activity	2,321,961	1,342,843	979,118	72.9%
Net impairment allowance on financial assets and provisions for contingent liabilities	(205,534)	(117,343)	(88,191)	75.2%
General administrative expenses	(1,232,900)	(773,297)	(459,603)	59.4%
Depreciation and amortization	(221,227)	(82,662)	(138,565)	167.6%
Operating result	662,300	369,541	292,759	79.2%
Tax on financial institutions	(141,327)	(99,871)	(41,456)	41.5%
Profit (loss) before income tax	520,973	269,670	251,303	93.2%
Income tax expense	(142,312)	(81,069)	(61,243)	75.5%
Net profit (loss)	378,661	188,601	190,060	100.8%
Net profit (loss) excluding integration expenses*	510,573	191,445	319,128	166.7%

* integration costs (first half of 2019 – PLN 162,854 thousand, first half of 2018 – PLN 3,511 thousand,
Note: As the figures have been rounded up, the totals in the tables and charts of this Report may not add up

Chart 8. Net income on banking activity by segments

The change in the structure of the result on banking operations visible in the above charts, broken down into segments, is the result of the acquisition of the Core Business of RBPL with its characteristic higher share of corporate clients in the balance sheet structure and the result on banking activities.

Net interest income

Net interest income, constituting the main source of the Group's income, for the 6 months of 2019 amounted to PLN 1,565,139 thousand, and increased YoY by PLN 619,649 thousand, i.e. by 65.5%.

In the first half of 2019, as compared to the first half of 2018, net interest income increased by PLN 746,253 thousand, i.e. by 55.3% YoY with a simultaneous increase in interest expenses by PLN 126,604 thousand, i.e. by 31.4% YoY.

Table 8. Net interest income

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Loans and advances to banks	11,756	11,384	372	3.3%
Loans and advances to clients measured at amortized cost	1,642,728	1,049,815	592,913	56.5%
Loans and advances to clients measured at fair value through profit or loss	33,284	40,607	(7,323)	(18.0%)
Debt instruments measured at amortized cost	210,043	121,450	88,593	72.9%
Debt instruments measured at fair value through profit or loss	280	243	37	15.2%
Debt instruments are measured at fair value through other comprehensive income	117,024	70,592	46,432	65.8%
Derivative instruments under fair value hedge accounting	79,461	54,251	25,210	46.5%
Purchased repo transactions	19	-	19	x
Interest income	2,094,595	1,348,342	746,253	55.3%
Amounts due to banks	(59,650)	(43,003)	(16,647)	38.7%
Debt securities issued	(38,925)	(35,536)	(3,389)	9.5%
Amounts due to customers	(349,687)	(275,510)	(74,177)	26.9%
Leasing liabilities	(4,267)	-	(4,267)	x
Derivative instruments under fair value hedge accounting	(62,211)	(45,534)	(16,677)	36.6%
Repo transactions	(14,716)	(3,269)	(11,447)	350.2%
Interest expenses	(529,456)	(402,852)	(126,604)	31.4%
Net interest income	1,565,139	945,490	619,649	65.5%

A factor which positively influenced the level of net interest income in the first half of 2019, but at the same time disturbed comparability with the same period of 2018, was the inclusion of interest income and costs of the Core Business of RBPL (acquired on 31 October 2018) in the income statement of the Bank's Group for the first six months of 2019.

Among external factors affecting the level of net interest income, NBP's policy regarding the development of basic interest rates and their stabilization at record low level (the reference rate as of March 2015 amounts to 1.5%) and market trends in determining interest rates on deposits should be mentioned.

The fact that the Group's liquidity position was significantly improved as a result of finalizing the acquisition of the Core Business of RBPL (net loans / deposits ratio fell from 104.9% at the end of September 2018 to 88.4% at the end of June 2019) enabled optimization of the pricing policy pursued and, consequently, the improvement of deposit margins.

At the end of June 2019, 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 derivative instruments under fair value hedge accounting) for the first half of 2019 was positive and amounted to PLN 17,250 thousand against PLN 8,717 thousand in the first half of 2018.

Net fee and commission income

The net fee and commission income in the first half of 2019 amounted to PLN 407,087 thousand and was higher by PLN 154,430 thousand, i.e. by 61.1% YoY.

A factor positively affecting the level of net fee and commission income in the first half of 2019 while at the same time disturbing comparability with the same period of 2018 was the fact that the Bank's Group recognized the income and fee and commission expenses of the Core Business of RBPL (acquired on 31 October 2018) in the statement of profit or loss for the first half of 2019.

The net fee and commission income increased in the first half of 2019 as compared to the first half of 2018 by PLN 186,757 thousand, i.e. by 58.1% YoY while commission costs increased by PLN 32,327 thousand, i.e. by 46.9%.

An increase in fee and commission income was recorded in all categories. The increase in fee and commission income was recorded primarily in terms of revenues from:

- payment and credit card services: by PLN 51,368 thousand, i.e. by 102.4%,
- lending and leasing activities: by PLN 35,126 thousand, i.e. by 35.4%,
- execution of transfers and electronic banking services: by PLN 28,862 thousand, i.e. by 119.8%,
- account management: by PLN 18,395 thousand, i.e. by 37.4%,
- guarantee obligations and documentary operations: by PLN 13,051 thousand, i.e. by 80.3%.

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

- payment and credit card services: by PLN 13,303 thousand, i.e. 33.7%,
- intermediation in the sale of the Bank's products and acquisition of customers by PLN 6,995 thousand, i.e. by 82.6%,
- cash services by PLN 4,070 thousand, i.e. by 235.7%,
- brokerage in the sale of insurance products by PLN 3,493 thousand, i.e. by 95.1%.

Table 9. Net fee and commission income

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Fee and commission income				
loans, advances and leases	134,293	99,167	35,126	35.4%
account maintenance	67,596	49,201	18,395	37.4%
cash service	19,716	8,833	10,883	123.2%
cash transfers and e-banking	52,959	24,097	28,862	119.8%
guarantees and documentary operations	29,302	16,251	13,051	80.3%
asset management and brokerage operations	57,500	44,635	12,865	28.8%
payment and credit cards	101,511	50,143	51,368	102.4%
insurance mediation activity	26,776	19,172	7,604	39.7%
product sale mediation and customer acquisition	11,135	4,315	6,820	158.1%
other commissions	7,619	5,836	1,783	30.6%
Fee and commission income	508,407	321,650	186,757	58.1%
Fee and commission expense				
loans, advances and leases	(1,509)	(1,581)	72	(4.6%)
account maintenance	(2,518)	(1,722)	(796)	46.2%
cash service	(5,797)	(1,727)	(4,070)	235.7%
cash transfers and e-banking	(2,527)	(617)	(1,910)	309.6%
asset management and brokerage operations	(8,124)	(7,740)	(384)	5.0%
payment and credit cards	(52,733)	(39,430)	(13,303)	33.7%
insurance mediation activity	(7,165)	(3,672)	(3,493)	95.1%
product sale mediation and customer acquisition	(15,460)	(8,465)	(6,995)	82.6%
other commissions	(5,487)	(4,039)	(1,448)	35.9%
Fee and commission expense	(101,320)	(68,993)	(32,327)	46.9%
Net fee and commission income	407,087	252,657	154,430	61.1%

Dividend income

Dividend income in the first half of 2019 amounted to PLN 1,556 thousand and was derived from the 2018 profits of companies in which the Bank held minority interests, i.e.: Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 1,179 thousand) and VISA (PLN 377 thousand).

Dividend income in the first half of 2018 came from the 2017 profits of companies in which the Bank had minority interests and amounted to PLN 809 thousand (PLN 783.7 thousand for Krajowa Izba Rozliczeniowa S.A and PLN 25.2 thousand for VISA).

Net trading income and net investment income

The net trading income in the first half of 2019 amounted to PLN 326,032 thousand and was higher by PLN 187,442 thousand, i.e. by 135.2% YoY. The level and volatility of this result is mainly determined by the valuation of derivative instruments and the result on the exchange position. A factor positively influencing the result on trading activities was the fact the results of the Core Business of RBPL were recognized in the Group's result for the first half of 2019.

The net investment income for the first half of 2019 was negative and amounted to PLN -19,998 thousand. It was lower by PLN 26,724 thousand as compared to the result achieved in the first half of 2018 (PLN 6,726 thousand).

The key factor in the result for the first half of 2019 was the change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit or loss which was negative and amounted to PLN -19,413 thousand.

In the first half of 2018, the most important item was the profit from the sale of debt instruments in the amount of PLN 10,409 thousand which neutralized the negative impact of the change in the valuation of the portfolio of loans and advances to customers measured at fair value through profit and loss, which was negative and amounted to PLN -4,243 thousand.

Other operating income

Other operating income in the first half of 2019 amounted to PLN 108,851 thousand, and was higher by PLN 56,178 thousand, i.e. by 106.7% as compared to the same period of the previous year.

The increase was primarily due to the inclusion in other operating income of the PLN 45,000 thousand gain from the sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o.

Table 10. Other operating income

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Sale or liquidation of property, plant and equipment and intangible assets	8,796	3,135	5,661	180.6%
Sale of goods and services	10,521	7,110	3,411	48.0%
Release of provisions for litigation and claims and other liabilities	9,862	350	9,512	2,717.7%
Recovery of debt collection costs	7,815	8,971	(1,156)	(12.9%)
Recovered indemnities	408	12,578	(12,170)	(96.8%)
Leasing operations	4,754	14,973	(10,219)	(68.2%)
Other operating income	66,695	5,556	61,139	1,100.4%
Total other operating income	108,851	52,673	56,178	106.7%

In addition, the level of other operating income in the first half of 2019 was positively influenced by:

- increase in revenues by PLN 9,512 thousand (i.e. by 2,717.7%) due to the removal of provisions for disputes and other liabilities;

- increase in revenue from the sale or liquidation of fixed assets and intangible assets by PLN 5,661 thousand, i.e. by 180.6%;
- increase in revenue resulting from the sale of goods and services by PLN 3,411 thousand, i.e. by 48.0%.

The amount of other operating income in the first half of 2019 was adversely affected by:

- decrease in revenue from compensations by PLN 12,170 thousand, i.e. by 96.8%.
- decrease in leasing revenues by PLN 10,219 thousand, i.e. by 68.2%.

Other operating expenses

Other operating expenses in the first half of 2019 amounted to PLN 65,623 thousand and were higher by PLN 8,698 thousand (i.e. by 15.3%) as compared with the first half of 2018. The following factors had impact on the current level of operating expenses:

- higher losses on the sale or liquidation of fixed assets and intangible assets by PLN 9,935 thousand, i.e. by 302.9%;
- higher expenses of debt collection as well as compensations, penalties and fines in total by PLN 4,064 thousand, i.e. by 20.3%;
- lower expenses due to provisions for disputes and other liabilities by PLN 3,089 thousand, i.e. by 22.4%.

Table 11. Other operating expenses

in PLN '000	6 months	6 months	change YoY	
	ended 30.06.2019	ended 30.06.2018	PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(13,215)	(3,280)	(9,935)	302.9%
Provisions for litigation and other liabilities	(10,682)	(13,771)	3,089	(22.4%)
Debt collection	(21,478)	(18,973)	(2,505)	13.2%
Donations made	(2,970)	(1,454)	(1,516)	104.3%
Costs of leasing operations	(11,035)	(12,364)	1,329	(10.7%)
Costs of compensations, penalties and fines	(2,609)	(1,050)	(1,559)	148.5%
Other operating expenses	(3,634)	(6,033)	2,399	(39.8%)
Total other operating expenses	(65,623)	(56,925)	(8,698)	15.3%

Net impairment allowance 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 2019 amounted to PLN -205,534 thousand, and its negative impact on the Group's results was higher by PLN 88,191 thousand, i.e. by 75.2% YoY. Considering the key operating segments¹:

- the Retail and Business Banking segment recorded an increase in the negative balance of allowances by PLN 69,513 thousand YoY,
- SME Banking segment - improvement by PLN 24,479 thousand YoY,
- Corporate Banking segment (including CIB) - increase by PLN 6,965 thousand YoY.

The factor negatively affecting the net impairment allowance on financial assets and provisions for contingent liabilities in the first half of 2019 and, at the same time, a factor which affected comparability with the same period of the previous year was the significant increase in the size of the loan portfolio and inclusion of the revenues and costs from allowances

¹ Information based on the note on operational segments included in the Consolidated financial statements of the BNP Paribas Bank Polska S.A. Group for the period of 6 months ended 30 June 2019

regarding the Core Business of RBPL (acquired on 31 October 2018) in the Group's profits and losses for the first half of 2019.

In the first half of 2019, the Bank concluded agreements regarding the sale of a portfolio of loans from the retail portfolio. The amount of receivables sold under agreements covered in a significant part by impairment allowances, or derecognized, amounted to PLN 618,223 thousand (principal, interest and other side charges). The contractual price for the sale of these portfolios has been set at PLN 69,873 thousand. The net impact on the Bank's result from the sale of portfolios amounted to PLN 7,639 thousand and is presented in the creation and derecognition of impairment allowance on loans and advances.

In the first half of 2018, the Bank concluded agreements regarding the sale of a portfolio of loans from the retail portfolio and SMEs. The amount of receivables (covered by a significant amount of impairment allowances, or derecognized) sold under the agreements amounted to PLN 756,370 thousand (principal, interest and other side charges). The contractual price for the sale of these portfolios has been set at PLN 86,268 thousand. The net effect on the Bank's result from the sale of portfolios amounted to PLN 40,360 thousand and is presented in the recognition and derecognition of impairment allowance on loans and advances.

The cost of gross credit risk expressed as the ratio of net impairment allowances on loans and advances to customers, measured at amortized cost (calculated on the basis of balances at the end of the quarters) amounted to 0.55% in the first half of 2019 and deteriorated by 12 bps in comparison to the first half of 2018 (0.43%).

The reason for the said deterioration in the first half of 2019 as compared to the same period of the previous year was the lack of a positive impact of the sale of receivables on the result of impairment losses on financial assets and provisions for contingent liabilities (excluding the impact of receivables sales, the risk cost in the first half 2019 would amount to 0.57%, and in the first half of 2018 to 0.58%).

General administrative expenses, depreciation and amortization

General administrative expenses (including depreciation and amortization) of the BNP Paribas Bank Polska Group for the first half of 2019 amounted to PLN 1,454,127 thousand, and were higher YoY by PLN 598,168 thousand, i.e. by 69.9%.

The increase in the expenses was mainly due to the merger of the Bank with the Core Business of Raiffeisen Bank Polska S.A. (RBPL) and the integration costs incurred thereby as well as due to an increase in fees for the Bank Guarantee Fund.

Table 12. General administrative expenses and amortization

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Personnel expenses	(674,306)	(414,348)	(259,958)	62.7%
Marketing	(76,547)	(50,635)	(25,912)	51.2%
IT and telecom expenses	(119,036)	(52,044)	(66,992)	128.7%
Rental expenses	-	(71,786)	71,786	(100.0%)
Costs related to short-term leasing and operation	(48,392)	-	(48,392)	x
Other non-personnel expenses	(148,125)	(89,364)	(58,761)	65.8%
Business travels	(11,079)	(5,913)	(5,166)	87.4%
ATM and cash handling expenses	(4,203)	(1,556)	(2,647)	170.1%
Outsourcing costs related to leasing operations	(2,169)	(3,018)	849	(28.1%)
Bank Guarantee Fund fee	(141,720)	(82,159)	(59,561)	72.5%
Polish Financial Supervision Authority fee	(7,323)	(2,474)	(4,849)	196.0%
Total general administrative expenses	(1,232,900)	(773,297)	(459,603)	59.4%
Amortization	(221,227)	(82,662)	(138,565)	167.6%
Total expenses	(1,454,127)	(855,959)	(598,168)	69.9%

The total amount of integration costs in the first half of 2019 amounted to PLN 162.9 million (including PLN 3.5 million related to the SKOK Rafineria acquisition), including:

- PLN 161.5 million which has been included in general administrative expenses,
- PLN 1.4 million which has been included in other operating expenses and relates mainly to the costs of liquidation of fixed assets (PLN 3.4 million) and removal of provisions for the restructuring of branches (reduction of costs by PLN 1.8 million).

The integration costs included in the overall administrative costs are related primarily to integration with RBPL and include:

- costs of calculating accelerated depreciation of systems in connection with bank merger processes - PLN 55.5 million,
- rebranding costs related to the change of the Bank's name from 1 April 2019 - PLN 23.7 million,
- creation of a provision for retention programs - PLN 22.6 million,
- costs of consulting services - PLN 14.2 million.

The largest increase in expenses by type YoY (by PLN 260.0 million) occurred in the item "personnel expenses", which is mainly related to the increased number of employees after the acquisition of RBPL, the costs of provisions created for employment restructuring and the inclusion in the Group's structure of employees of three companies previously owned by the RBPL Group.

The cost of BFG fees also increased significantly. The total contributions recorded in the Bank's expenses in the first half of 2019 amounted to PLN 141.7 million and were PLN 59.6 million higher than in the same period last year:

- the annual contribution to the bank restructuring fund for 2019 (fully settled in the first quarter of this year) was PLN 116.1 million, compared to PLN 52.8 million in the first half of 2018,
- contributions to the bank guarantee fund due for the 6 months amounted to PLN 25.6 million and was PLN 3.8 million lower than the amount from the corresponding period of 2018.

The increase in BFG fees results from the increase in the total amount of contributions required from the banking sector and specified by the Bank Guarantee Fund Council (PLN 2 billion in contributions to the bank restructuring fund for 2019 compared to PLN 960 million in 2018 and PLN 791 million in contributions to the bank's guarantee fund for 2019 compared to PLN 1.24 billion in the previous year).

In addition, the level of expenses was influenced by an increase of the following expenses:

- IT and telecommunications expenses (by PLN 67.0 million), mainly related to the costs of system maintenance - software and hardware,
- other tangible costs (by PLN 58.8 million), mainly related to: postal and telecommunications services, security, office materials, car fleet, advisory and consultancy, which is related to the increase in employment and the number of bank branches after the merger with RBPL.

In connection with the implementation (on 1 January 2019) of IFRS 16 "Leasing", which specifies a single leasing pricing model, there has been a change in cost records. Rent costs in the first half of 2019 were listed as depreciation costs of property rights (PLN 55.1 million), as interest costs on the leasing liability (PLN 3.6 million) and as part of a separate item of administrative expenses: short-term leasing and operation costs.

Depreciation and amortization expenses increased in the first half of 2019 by PLN 138.6 million, compared to the same period of the previous year. The primary factors were:

- the implementation of IFRS "Leases" on 1 January 2019: rents, car leasing costs, IT equipment are now listed under depreciation expenses which caused an increase of the latter by PLN 60.3 million,
- the increased depreciation of systems in connection with bank merger processes - an increase by PLN 55.5 million.

4.2. Statement of comprehensive income

The comprehensive income of the Group in the first half of 2019 amounted to PLN 363,245 thousand, and was by PLN 194,375 thousand (i.e. by 115.1%) higher than in the corresponding period of 2018.

The recorded increase was mainly due to an increased net profit and an additional positive change in the valuation of financial assets.

Table 13. Statement of comprehensive income

in PLN '000	6 months	6 months	change YoY	
	ended 30.06.2019	ended 30.06.2018	PLN '000	%
Net profit (loss)	378,661	188,601	190,060	100.8%
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss upon fulfilment of certain conditions	(15,728)	(19,322)	3,594	(18.6%)
Net change in measurement of financial assets at fair value through other comprehensive income	(19,423)	(23,128)	3,705	(16.0%)
Deferred tax	3,695	3,806	(111)	(2.9%)
Items that will not be reclassified subsequently to profit or loss	312	(409)	721	(176.3%)
Actuary valuation of employee benefits	386	(521)	907	(174.1%)
Deferred tax	(74)	112	(186)	(166.1%)
Other comprehensive income (net of tax)	(15,416)	(19,731)	4,315	(21.9%)
Total comprehensive income for the period	363,245	168,870	194,375	115.1%

4.3. Statement of financial position

Assets

The Group's total assets as at the end of June 2019 amounted to PLN 106,544,101 thousand and were lower by PLN 2,478,418 thousand, i.e. by 2.3%, compared to the end of December 2018.

This change was mainly due to the sale (on 28 June 2019) of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o., as a result of which the Bank transferred assets in the amount of PLN 1,658,174 thousand to the factoring company (a detailed description of the transaction is included in Chapter "3.3 Sale of an organized part of the enterprise" of the Consolidated financial statements of the BNP Paribas Bank Polska S.A. Group for the period of 6 months ended 30 June 2019).

The second factor contributing to the decrease of the Group's assets is the process of balance sheet optimization related, i.a., with a significant change (improvement) of liquidity which resulted from the acquisition of the Core Business of RBPL on 31 October 2018. Optimization of the Bank's deposit base allows for an improvement of the interest margin.

Table 14. Assets

in PLN '000	30.06.2019	31.12.2018	change	
			PLN '000	%
Cash and balances at Central Bank	2,350,499	2,897,123	(546,624)	(18.9%)
Amounts due from banks	527,687	961,496	(433,809)	(45.1%)
Derivative financial instruments	729,564	715,671	13,893	1.9%
Differences from hedge accounting	231,929	130,405	101,524	77.9%
Loans and advances to customers measured at amortised cost	70,857,188	70,997,701	(140,513)	(0.2%)
Loans and advances to customers measured at fair value through profit or loss	2,182,483	2,416,249	(233,766)	(9.7%)
Securities measured at amortised cost	15,977,152	11,939,238	4,037,914	33.8%
Financial instruments measured at fair value through profit or loss	211,283	204,421	6,862	3.4%
Securities measured at fair value through other comprehensive income	9,917,396	15,875,339	(5,957,943)	(37.5%)
Investment property	55,868	55,868	0	x
Intangible assets	498,069	520,767	(22,698)	(4.4%)
Tangible assets	1,136,103	511,275	624,828	122.2%
Deferred tax assets	989,616	1,034,313	(44,697)	(4.3%)
Other assets	879,264	762,653	116,611	15.3%
Total assets	106,544,101	109,022,519	(2,478,418)	(2.3%)

The most important changes in the structure of the Group's assets in the first half of 2019, as compared to the end of 2018, are the increases in loans and advances to customers measured at amortised cost and at fair value (+1.2 p.p.) with a simultaneous decrease in securities and financial instruments (-1.2 p.p.). The decrease was related primarily to the securities portfolio measured at fair value through other comprehensive income (-5.3 p.p.) and it was accompanied by an increase in the value of securities measured at amortised cost (+4.0 p.p.).

The structure of assets is dominated by loans and advances to customers whose share accounted for 68.5% of total assets at the end of June 2019, compared to 67.3% at end of the previous year. In terms of value, the volume of net loans and advances decreased by PLN 374,279 thousand, i.e. by 0.5% (a result of the aforementioned sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities).

The second largest asset item was securities and financial instruments, which accounted for 24.5% of the balance sheet total as at the end of June 2019 (compared to 25.7% at the end of 2018). Their total value decreased by PLN 1,913,167 thousand (i.e. by 6.8%), mainly as a result of a reduction in the portfolio of government bonds issued by central government institutions and classified as securities measured at fair value through other comprehensive income.

At the same time, there was a decrease from 3.5% to 2.7% of the total share of receivables from banks as well as cash and balances at the Central Bank, which dropped in value by PLN 980,433 thousand, i.e. by 25.4%. The decrease was related primarily to the NBP account, current accounts and interbank deposits.

Loan portfolio

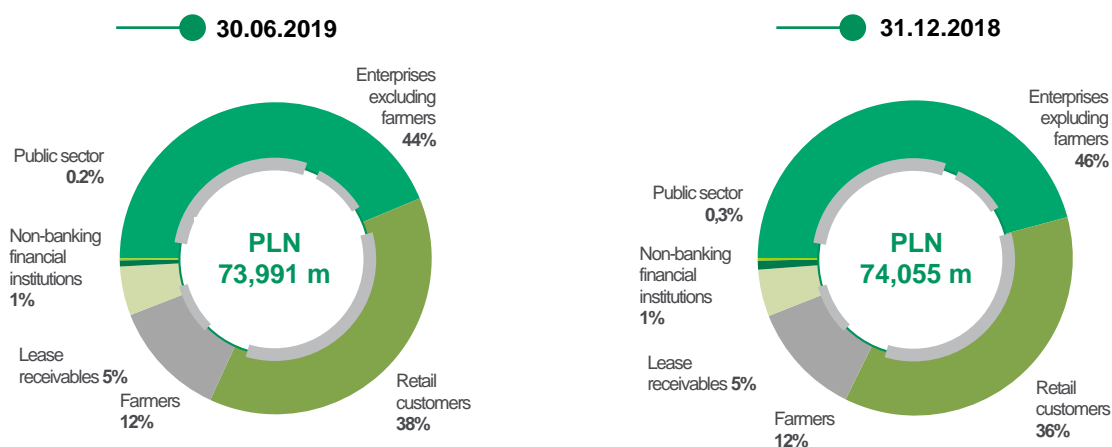
Structure and quality of the loan portfolio

At the end of June 2018, gross loans and advances to customers (the total of portfolios measured at amortized cost and at fair value) amounted to PLN 76,316,777 thousand, and decreased by PLN 278,305 thousand, i.e. by 0.4% compared to the end of 2018 (primarily as a result of the aforementioned sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities).

Table 15. Structure of the loan portfolio measured at amortised cost

in PLN '000	30.06.2019		31.12.2018	
	PLN '000	share %	PLN '000	share %
Gross loans and advances	73,990,743	100.0%	74,054,662	100.0%
Business entities with the exception of farmers	32,352,039	43.7%	33,932,209	45.8%
Farmers	9,010,999	12.2%	8,681,538	11.7%
Retail customers	28,242,592	38.2%	27,001,876	36.5%
- mortgage loans	17,027,836	23.0%	16,054,648	21.7%
in PLN	12,021,033	16.2%	10,828,584	14.6%
in foreign currencies	5,006,803	6.8%	5,226,064	7.1%
- cash loans	7,407,539	10.0%	7,150,386	9.7%
- other retail loans	3,807,217	5.1%	3,796,842	5.1%
Lease receivables	3,762,432	5.1%	3,561,739	4.8%
Public sector	154,877	0.2%	190,073	0.3%
Other financial entities	467,804	0.6%	687,227	0.9%

Chart 9. Gross loans and advances measured at amortised cost - structure



As regards the portfolio measured at amortized cost, the share of loans and advances to business entities excluding farmers (PLN 32,352,039 thousand at the end of June 2019) decreased by 2.1 p.p. and is at the level of 43.7%. Loans for retail customers (PLN 28,242,592 thousand) account for 38.2%, with more than half of this portfolio (60.3%) being mortgage loans (PLN 17,027,836 thousand), which account for 23.0% of the entire portfolio measured at amortized cost (increase by 1.3 p.p. compared to the end of 2018). Ranked third are loans for farmers (PLN 9,010,999 thousand) whose share in the entire portfolio increased slightly (by 0.5 p.p., to 12.2% at the end of June 2019).

Table 16. The quality of the loan portfolio measured at amortized cost

in PLN '000	30.06.2019			31.12.2018		
	gross total	including: impaired	share %	gross total	including: impaired	share %
Gross loans and advances	73,990,743	4,084,098	5.5%	74,054,662	4,157,588	5.6%
Institutional entrepreneurs, excluding farmers	32,974,720	2,080,413	6.3%	34,809,509	2,216,156	6.4%
Farmers	9,010,999	670,312	7.4%	8,681,538	586,234	6.8%
Retail customers	28,242,592	1,178,209	4.2%	27,001,876	1,222,984	4.5%
- mortgage loans	17,027,836	491,591	2.9%	16,054,648	528,972	3.3%
in PLN	12,021,033	187,301	1.6%	10,828,584	206,162	1.9%
in other currencies	5,006,803	304,290	6.1%	5,226,064	322,810	6.2%
- cash loans	7,407,539	528,091	7.1%	7,150,386	421,097	5.9%
- other retail loans	3,807,217	158,527	4.2%	3,796,842	272,915	7.2%
Lease receivables	3,762,432	155,164	4.1%	3,561,739	132,214	3.7%

The ratio of exposure to impaired exposures in gross loans and advances to customers and measured at amortized cost improved to 5.5% at the end of the first half of 2019 as compared to 5.6% at the end of 2018.

Table 17. Quality ratios of the loan portfolio measured at amortized cost

in PLN '000	30.06.2019	31.12.2018	change	
			PLN '000	%
Total gross loans and advances to customers	73,990,743	74,054,662	(63,919)	(0.1%)
Impairment allowances	(3,133,555)	(3,056,961)	(76,594)	2.5%
Total net loans and advances to customers	70,857,188	70,997,701	(140,513)	(0.2%)
Exposures without impairment triggers				
Gross balance sheet exposure	69,906,645	69,897,074	9,571	0.0%
Allowance	(1,007,643)	(1,019,649)	12,006	(1.2%)
Net balance sheet exposure	68,899,002	68,877,425	21,577	0.0%
Impaired exposures (phase 3)				
Gross balance sheet exposure	4,084,098	4,157,588	(73,490)	(1.8%)
Impairment allowance	(2,125,912)	(2,037,312)	(88,600)	4.3%
Net balance sheet exposure	1,958,186	2,120,276	(162,090)	(7.6%)

in PLN '000	30.06.2019	31.12.2018	change	
			PLN '000	%
Ratios				
Share of impaired exposures in gross portfolio	5.5%	5.6%		(0.1 p.p.)
Coverage with impairment allowances	(52.1%)	(49.0%)		(3.1 p.p.)

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

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

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

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

In the light of the provisions of IFRS 9, the contractual terms of the securitization do not fulfil the conditions for derecognition of securitized assets. In connection with the above, the Bank recognizes securitized assets in "Loans and advances to customers" as at 30 June 2019 at net value of PLN 2,235,692 thousand.

Liabilities and equity

As at the end of June 2019, the total value of the Group's liabilities amounted to PLN 95,620,415 thousand and was lower by PLN 2,842,291 thousand, i.e. by 2.9% as compared to the value at the end of 2018.

The share of liabilities in total liabilities and equity of the Group amounted to 89.7% in the analysed period as compared to 90.3% at the end of the previous year.

The most significant change in the structure of liabilities in the first half of 2019 was a decrease in the share of amounts due to customers with a simultaneous increase in the share of amounts due to banks and separating lease liabilities in accordance with IFRS 16.

The most significant item in the structure of liabilities are amounts due to customers. As at the end of June 2019, their share in total liabilities was 86.4% which constituted a decrease by 2.1 p.p. compared to the end of 2018. In terms of value, the volume of these liabilities decreased by PLN 4,549,840 thousand, i.e. by 5.2% compared to December 2018 and amounted to PLN 82,641,868 thousand. The decrease is a result of an optimization policy with reference to the liquidity position of the Group.

Amounts due to banks increased in the analysed period, which resulted in the increase of their share in total liabilities by 1.0 p.p. to the level of 5%. Amounts due to banks totalled PLN 4,803,636 thousand and were higher by PLN 827,167 thousand (i.e. by 20.8%) than at the end of 2018.

Total equity as at 30 June 2019 amounted to PLN 10,923,686 thousand and increased as compared to 31 December 2018 by 3.4%, i.e. by PLN 363,873 thousand. The share of total equity in total liabilities and equity of the Group at the end of June 2019 was at the level of 10.3% (as compared to 9.7% at the end of 2018).

Table 18. Liabilities and equity

in PLN '000	30.06.2019	31.12.2018	change	
			PLN '000	%
Amounts due to banks	4,803,636	3,976,469	827,167	20.8%
Differences from hedge accounting regarding the fair value of hedged items	205,551	123,600	81,951	66.3%
Derivative financial instruments	800,950	783,818	17,132	2.2%
Amounts due to customers	82,641,868	87,191,708	(4,549,840)	(5.2%)
Securities issued	2,179,424	2,179,424	0	0.0%
Subordinated liabilities	1,867,972	1,875,769	(7,797)	(0.4%)
Other liabilities	599,594	-	599,594	x
Current income tax liabilities	2,095,921	1,711,641	384,280	22.5%
Deferred tax	20,303	174,589	(154,286)	(88.4%)
Provisions	8,274	8,276	(2)	(0.0%)
Total liabilities	95,620,415	98,462,706	(2,842,291)	(2.9%)
Share capital	147,419	147,419	0	0.0%
Supplementary capital	9,110,976	9,111,033	(57)	0.0%
Other reserve capital	1,572,757	1,208,018	364,739	30.2%
Revaluation reserve	125,763	141,179	(15,416)	(10.9%)
Retained earnings	(33,229)	(47,836)	14,607	(30.5%)
Retained profit	(411,890)	(408,214)	(3,676)	0.9%
Net profit for the period	378,661	360,378	18,283	5.1%
Total equity	10,923,686	10,559,813	363,873	3.4%
Total liabilities and equity	106,544,101	109,022,519	(2,478,418)	(2.3%)

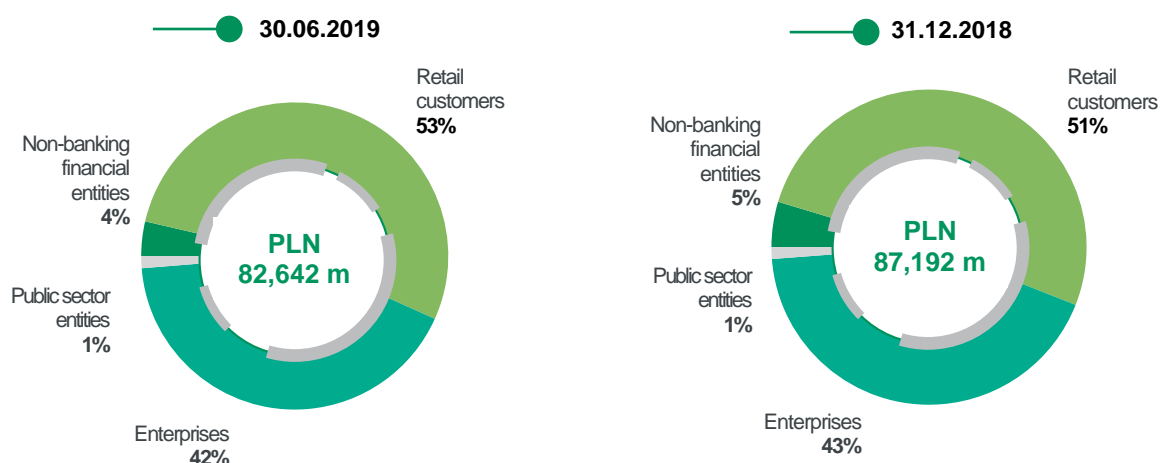
Amounts due to customers

At the end of June 2019, amounts due to customers amounted to PLN 82,641,868 thousand and were lower by PLN 4,549,840 thousand, i.e. by 5.2% compared to the end of 2018, which is the result of the policy of optimization of the Group's deposit base.

The decrease was noted mainly in the deposits of business entities, whose volume decreased by PLN 2,620,615 thousand, i.e. by 7.0% (including PLN 1,248,393 thousand related to current accounts). Simultaneously, the share of this segment in the structure of total amounts due to customers decreased to 42.0% vs. 42.8% as at the end of December 2018.

The volume of deposits of retail customers amounted to PLN 43,874,970 thousand and decreased by PLN 878,408 thousand, i.e. by 2.0%. At the same time, their share in the total amounts due to customers increased to 53.1% as compared to 51.3% at the end of December 2018.

The volume of deposits of non-banking financial entities and the public sector entities decreased in total by PLN 1,050,817 thousand (decrease by 20.6% as compared to the end of 2018).

Chart 10. Structure of amounts due to customers

The share of current accounts in the structure of amounts due to customers in total amounted to 65.7% at the end of June 2019, recording an increase by 2.1 p.p. as compared to the end of 2018. The funds deposited on current accounts amounted to PLN 54,270,020 thousand and decreased by PLN 1,220,931 thousand, i.e. by 2.2%. This was a result of a decrease in the volume of the business entities segment (by PLN 1,248,393 thousand, i.e. -4.8% compared to the end of 2018). This was partially balanced by the increased volume of funds deposited in retail customer accounts and increased deposits of the budget sector.

The share of term deposits in the structure of amounts due to customers in the analysed period amounted to 32.8% and decreased by 1.9 p.p. as compared to the end of 2018. Value of term deposits decreased by PLN 3,098,364 thousand, i.e. by 10.2% as compared to December 2018 and reached PLN 27,140,764 thousand. This decrease was mainly related to the segments of business entities, non-banking financial institutions and retail customers (decrease in volume by PLN 1,152,506 thousand, PLN 1,036,471 thousand, PLN 909,617 thousand respectively).

The share of other liabilities in the structure of amounts due to customers amounted to 1.5% (decrease by 0.2 p.p. as compared to December 2018). Their volume amounted to 1,231,084 thousand.

Table 19. Amounts due to customers by products

in PLN '000	30.06.2019		31.12.2018	
	PLN '000	share %	PLN '000	share %
Amounts due to customers	82,641,868	100.0%	87,191,708	100.0%
Current accounts	54,270,020	65.7%	55,490,951	63.6%
Term deposits	27,140,764	32.8%	30,239,128	34.7%
Other liabilities	1,231,084	1.5%	1,461,629	1.7%

Equity

As of the end of June 2018, the Group's equity amounted to PLN 10,923,686 thousand, and was by PLN 363,873 thousand, i.e. by 3.4% higher than at the end of 2018.

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2019, the entire Bank's net profit for 2018, in the amount of PLN 364,739 thousand was allocated to reserve capital.

4.4. Equity and capital ratios

The total capital ratio of the Group as of 30 June 2019 amounted to 15.12% and increased as compared to December 2018 by 0.49 p.p. The consolidated Common Equity Tier 1 ratio (CET I) and consolidated Tier 1 ratio (Tier I) of the Group as at 30 June 2019 were identical and amounted to 12.84% (increase compared to the end of 2018 by 0.46 p.p.).

Total own funds as at 30 June 2019 increased by PLN 168,140 thousand as compared to 31 December 2018, which resulted mainly from the inclusion of the consolidated net profit for the first quarter of 2019 in the amount of PLN 161,601 thousand (consent of the Polish Financial Supervision Authority of 10 June 2019).

In accordance with the Resolution of the Ordinary General Shareholders' Meeting of BNP Paribas Bank Polska S.A. of 27 June 2019, the Bank's entire profit for 2018, in the amount of PLN 364,739 thousand, was allocated to reserve capital.

The total risk exposure amount as of 30 June 2019 amounted to PLN 81,856,516 thousand and decreased by PLN 1,594,765 thousand as compared to the end of 2018, which resulted primarily from the sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o., on 28 June 2019.

Table 20. Equity and capital ratios of the Group

in PLN '000	30.06.2019	31.12.2018	change	
			PLN '000	%
Tier I capital				
– share capital	147,419	147,419	0	0.0%
– supplementary capital	7,259,316	7,259,316	0	0.0%
– reserve capital	2,797,264	2,432,582	364,682	15.0%
– general banking risk fund	627,154	627,154	0	0.0%
– intangible assets	(497,669)	(520,621)	22,952	(4.4%)
– other items of equity included in Tier I capital	176,215	388,449	(212,234)	(54.6%)
Total Tier I capital	10,509,699	10,334,299	175,400	1.7%
Tier II capital				
– subordinated liabilities classified as own funds	1,865,230	1,872,490	(7,260)	(0.4%)
Total own funds	12,374,929	12,206,789	168,140	1.4%
Risk exposure due to:				
– credit risk	72,711,716	74,358,821	(1,647,105)	(2.2%)
– market risk	919,841	844,070	75,771	9.0%
– operational risk	7,941,509	7,908,064	33,445	0.4%
– credit valuation adjustment	283,450	340,326	(56,876)	(16.7%)
Total risk exposure	81,856,516	83,451,281	(1,594,765)	(1.9%)
Capital ratios of the Group				
Total capital requirement (TCR)	15.12%	14.63%		0.49 p.p.
Tier I ratio	12.84%	12.38%		0.46 p.p.

In accordance with the Act of 5 August 2015 on macroprudential supervision of the financial system and crisis management in the financial sector and the Regulation of the Minister of Finance from 1 January 2019, the capital requirements applicable to banks in Poland increased due to an increase in the buffer level from 1.875% to 2.5%.

On 8 August 2018, the Bank received a letter from the Polish Financial Supervision Authority informing about the PFSA's review of the adequacy of the buffer rate of other systemically important institution. As a result of the review, the PFSA concluded that there were no reasons to repeal or amend the PFSA's Decision of 4 October 2016, as set out in the PFSA Decision of 19 December 2017 on the Bank (on a consolidated and separate levels) of the buffer of other systemically important institutions equivalent to 0.25% of the total risk exposure amount.

On 15 October 2018, the Bank received a recommendation from the Polish Financial Supervision Authority to maintain equity of the Bank to cover an additional capital requirement of 0.36 p.p. in order to hedge the risk resulting from FX mortgage loans for households, which should consist at least in 75% of Tier 1 capital (corresponding to 0.27 p.p.) and at least in 56% of Common Equity Tier 1 capital (which corresponds to 0, 20 p.p.). On 30 November 2018, these levels were confirmed by the PFSA as being applicable also on the consolidated level.

As a result of the above changes, the minimum levels of capital adequacy ratios resulting from legal regulations and administrative decisions issued by the Polish Financial Supervision Authority ("PFSA") as of 30 June 2019, both on a consolidated and separate level, are as follows:

- Common Equity Tier 1 ratio (CET I) = 10.45%;
- Tier I capital ratio = 12.02%;
- Total Capital Ratio = 14.11%.

On 10 July 2019, the Bank received a decision of the Polish Financial Supervision Authority, dated 9 July 2019, confirming the expiry of the PFSA decision of 15 October 2018, on the basis of which the PFSA recommended that the Bank should maintain own funds to cover an additional capital requirement of 0.36 p.p. in order to hedge the risk resulting from FX mortgage loans for households which should consist at least in 75% of Tier 1 capital (corresponding to 0.27 p.p.) and at least in 56% of Common Equity Tier 1 capital (which corresponds to 0, 20 p.p.) as stated in art. 92 paragraph 1 of the EU Parliament and EU Council Regulation No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation No 575/2013").

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

The Group, after analysing the requirements of Regulation No. 2017/2395, decided to apply the transitional provisions provided for in this Regulation, which means that the full impact of the implementation of IFRS 9 will not be taken into account for the assessment of capital adequacy of the Bank. As a result of adjusting the calculation of regulatory capital requirements, it was estimated that taking into account the full impact of the implementation of IFRS 9 on the total capital ratio of the Bank would reduce its value by 70 basis points.

4.5. Financial ratios

The Group's return on equity (ROE) calculated in a normalized approach (excluding the impact of integration costs) amounted to 9.5% in the first half of 2019 and it was by 3.6 p.p. higher than in the first half of 2018. Return on assets (ROA) calculated in the same way amounted to 0.9% and increased as compared to the corresponding period of 2018 by 0.4 p.p. The ratios calculated on the basis of the reported amounts amounted to 7.1% and 0.7%, respectively (increase by 1.2 p.p. and 0.2 p.p.).

The Cost/Income ratio (excluding the costs of integration) is at the level of 55.6%, lower by 7.9 p.p. as compared to the first half of 2018. The ratio calculated on the basis of the reported amounts amounted to 62.6%, and thus decreased by 1.1 p.p. compared to the corresponding period of 2018.

Presentation of ratios calculated on the basis of the profit or loss account category excluding the costs of integration (understood as additional costs related to the merger processes) as well as additional allowances due to allowance on the expected credit losses for not-impaired loans and gain on a bargain purchase of RBPL Core Business (as relates to 2018) is aimed at providing additional information allowing the assessment of the current potential of the merged banks.

The net interest margin calculated in relation to average assets was 2.9% and increased by 0.3 p.p. compared to the first half of 2018 owing to balance sheet optimization processes and price policy implemented by the Group.

The cost of credit risk increased as compared to the level recorded in the first half of 2018 by 0.12 p.p. and amounted to 0.55%.

The value of the ratio constituting the ratio of net loans and advances to deposits improved as compared to the end of the first half of 2018 due to the favourable liquidity structure of the acquired assets and liabilities of the Core Business of RBPL. As at the end of June 2019 it amounted to 88.4%.

Table 21. Financial ratios

	30.06.2019	31.12.2018	30.06.2018	change YoY p.p.
Return on equity ⁽¹⁾	9.5%*	6.5%*	5.9%*	3.6
Return on assets ⁽²⁾	0.9%*	0.6%*	0.5%*	0.4
Net interest margin ⁽³⁾	2.9%	2.7%	2.6%	0.3
Cost/Income ⁽⁴⁾	55.6%*	59.9%*	63.5%*	(7.9)
Cost of credit risk ⁽⁵⁾	(0.55%)*	(0.55%)*	(0.43%)	(0.12)
Net loans/Deposits ⁽⁶⁾	88.4%	84.2%	101.3%	(12.9)
Gross loans/Total source of funding ⁽⁷⁾	84.7%	81.3%	90.5%	(5.8)

* Normalized values calculated excluding: integration costs (1st half of 2019 – PLN -162,854 thousand, 2018 – PLN -265,804 thousand, 1st half of 2018 – PLN -3,511 thousand), allowance due to expected credit losses in connection with the acquisition of the Core Business of RBPL (2018: PLN -238,897 thousand) and the gain on the bargain purchase of the Core Business of RBPL (2018: PLN +291,706 thousand). The impact of integration costs and the cost of the allowance due to expected credit losses on the net profit was estimated using the standard 19% income tax rate. In the case of the "costs" category, the amount visible 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 amount of the income statement comprising the result from banking activities was adjusted for the integration costs recorded under other operating costs and the gain on bargain purchase of the Core Business of the RBPL.

(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. Due to a significant increase in the balance sheet total as of 31 October 2018 and the prospective recognition of the interest result of the acquired Core Business of RBPL for the last two months of 2018 in the Bank's interest income - for the fourth quarter of 2018 the weighted average number of days was assumed (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 allowances on loans and advances in relation to the average balance of gross 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.

5. OPERATIONS OF BNP PARIBAS BANK POLSKA S.A. GROUP IN THE FIRST HALF OF 2019

5.1. Branches and ATM network

Branches

As at 30 June 2019, the Bank had 544 retail and business banking branches (435 branches of former BGŻ BNP Paribas and 109 branches of exRBPL, including 27 partner branches).

The branch network is supported by 21 Wealth Management Centres and the retail network is supported by 101 Customer Service Points.

As part of a network optimization project, 150 retail and business banking branches were closed from 31 October 2018 to the end of June 2019.

The first half of 2019 saw a continued transformation of the branch network, which began in 2017. A new branch design was introduced and a new customer service model based on moving basic everyday transactions to self-service channels was further developed. In the first half of the present year, 60 facilities of the new type were opened. In total, the Bank has 76 branches operating in the new format. In 17 of these, cash services are provided only in self-service devices.

As part of a pilot project, two branches were opened in shopping centres.

As at 30 June 2019, the Bank had 7 branches with the "Facility without barriers" Certificate, issued by the Integration Foundation for good practices in providing services for the disabled (in 2019, 3 branches were awarded this title).

In addition, from 1 April 2019, all Bank branches obtained the **OK SENIOR®** Certificate, which confirms that senior (60+) customers are served in a safe, easily comprehensible and accessible manner.

The sales network for Corporate Banking consists of 9 Regional Corporate Business Centres, within which there are 25 Corporate Business Centres located in the largest business centres in Poland.

For the SME segment, the sales network includes 8 SME Banking Regions comprising 51 SME Business Centres, located on 37 local markets.

ATM and Cash Deposit Machine (CDM) Network

As at 30 June 2019, there were 365 cash deposit machines (CDMs) in the Bank's branches (335 of these allow for cash deposits, contactless deposits and withdrawals with the Bank's cards or a BLIK code, cash withdrawals with Google Pay and Apple Pay; 30 are older generation devices allowing for the traditional deposit and withdrawal of cash with a card).

276 ATMs supporting only standard withdrawals and VISA or MasterCard transactions remain in the branch network.

5.2. Alternative distribution channels

E-banking and mobile banking

In the first half of 2019, the Bank recorded an increase in the number of clients with access to online and mobile banking services as well as customers actively using these service channels. After the acquisition of the core banking operations of Raiffeisen Bank Polska S.A., the Bank took over transaction systems (R-Online and R-Online Biznes) and mobile applications (Mobile Portfolio and R-Mobile Biznes).

Changes in online banking offer for retail customers introduced in the first half of 2019:

PI@net

- introduction of new 500+ and 300+ applications,
- preparation for the implementation of the new GOonline banking platform,
- optimization and regulatory changes as well as changes related to the acquisition of Raiffeisen Bank Polska S.A.'s Core Business and the resulting customer migration.

GOmobile

- GOtravel travel insurance, providing quick insurance before a journey,
- implementation of push notifications (the function was activated by 87% of active GOmobile users),
- launch of a Pre-Approved credit service for a full base of users with a loan offer (up to PLN 30 thousand),
- Allegro Renewable Limit for customers with Rata Od.nowa allowing them, i.a. to check the amount, due date and account number for payments,
- added features for clients acting as proxies - access to the products for which they are proxies,
- added option of ATM deposits with a BLIK code (without a card),
- development of customer feedback - numerous improvements based on customer feedback, including card graphics, information messages for customers, prompting transfer recipients from the history, added option of Retry/Reply to transfer.

Table 22. Retail customer data

Specification	Name of the system	30.06.2019	30.06.2018
	Total	2,365,074	1,251,373
Number of customers with access	PI@net	1,523,385	1,251,373
	R-Online	841,689	-
	Total	785,875	514,659
Number of active users	PI@net	498,372	514,659
	R-Online	287,503	-
	Total	3,615,197	1,984,001
Average monthly number of transactions	PI@net	1,991,852	1,984,001
	R-Online	1,623,345	-
	Total	325,510	116,023
Number of active Mobile users	Mobile PI@net/GOmobile	222,303	116,023
	Mobilny Portfel (Mobile Wallet)	103,207	-

The following changes took place in the online banking offer for business customers in the first half of 2019:

BiznesPI@net

- Implementation of the first package of changes which adjust the system to the functions currently used by the users of R-Online Biznes (exRBPL system), including:
 - adding predefined templates for the export of the MT940 statement and imports (PLI, PLA, Import XML R2019),
 - changes in the deposit module - interest preview feature, feature enabling the selection of the account to settle the capital and interest, feature enabling the export of a list of deposits with details to a file,
 - changes in the statement generation module, enabling the generation of a monthly statement in pdf/MT940 format,
 - changes in the account transactions history module: enabled descriptions of operations as well as highlighting debit and credit transactions,
 - field 'Customer reference number' added to all transfer forms,
 - changes in the card module: added card account number and available limit; the ability to block/unblock a card,
 - added possibility to execute orders in EUR for the benefit of the II Tax Office in Warsaw,
 - added feature for adding a single transfer to a package;

- Regulatory changes, resulting from:
 - The Payment Services Directive 2 (**PSD2**), i.a. enabling launch of the API production environment for selected third parties (TPP) for testing purposes,
 - amendments to the Tax Ordinance in the area of preventing the use of the financial sector for scams (Journal of Laws of 2017, item 2491) **in the scope of STIR** (System Teleinformatyczny Izby Rozliczeniowej - Teleinformation System of the Clearing House) - they relate to blocking entrepreneurs' accounts in accordance with the decisions of the National Tax Administration in the mode provided for in the Act.

Table 23. Corporate and SME customer data

Specification	Name of the system	30.06.2019	30.06.2018
	Total	238,744	183,063
Number of customers with access	BiznesPI@net	205,729	183,063
	R-Online Biznes	33,015	-
	Total	148,695	112,149
Number of active users	BiznesPI@net	120,035	112,149
	R-Online Biznes	28,660	-
	Total	5,221,494	2,950,662
Average monthly number of transactions	BiznesPI@net	3,249,666	2,950,662
	R-Online Biznes	1,971,828	-
	Total	11,838	4,807
Number of active Mobile users	Mobile BiznesPI@net	8,474	4,807
	Mobilny Portfel (Mobile Wallet)	3,364	-

Bank cards

As regards the issuing and servicing of payment cards, BNP Paribas Bank Polska S.A. cooperates with MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards.

As at 30 June 2019, the number of cards issued amounted to 2,165.1 thousand, which was 826.8 thousand more than the year before. The reported significant increase is primarily due to the finalization (on 31 October 2018) of the purchase of core banking activities of Raiffeisen Bank Polska S.A. An additional growth factor was the acquisition of customers under the new personal account *Konto Otwarte na Ciebie* - the Bank's offer launched after the rebranding in April 2019 - and the possibility of issuing three new debit cards (*Karta Otwarta na Dzisiaj*, *Karta Otwarta na eŚwiat*, *Karta Otwarta na Świat*).

Table 24. Number of bank cards issued by BNP Paribas Bank Polska S.A.

thousand	30.06.2019	30.06.2018	change YoY	
			thousands of pieces	%
Debit cards – retail customers	1,257.2	758.1	499.1	65.8%
Credit cards – retail customers	723.5	479.4	244.1	50.9%
Debit cards – business	170.1	87.6	82.5	94.2%
Deferred payments cards – business	7.6	6.1	1.5	24.6%
Credit cards – business	6.7	1.2	5.5	458.3%
Prepaid cards	0.0	5.9	(5.9)	(100.0%)
Total number of cards issued	2,165.1	1,338.3	826.8	61.8%

Cooperation with intermediaries

At the end of the first half of 2019, as regards retail and business banking, the Bank actively cooperated with 16 nationwide intermediaries on the basis of outsourcing contracts for the acquisition of banking products, as well as 152 local intermediaries (based on marketing agreements). The latter informed potential customers about the Bank's product offer.

As regards Personal Finance, the Bank cooperated with 14 nationwide intermediaries and 1 online intermediary, on the basis of outsourcing contracts for the acquisition of the cash loan product.

5.3. Retail and Business Banking

Segmentation

Retail and Business Banking provides financial services to individuals, private banking customers as well as businesses (micro-enterprises). 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 7.5 thousand;
- Private Banking (Wealth Management): customers investing assets in the amount of at least PLN 1 million through the Bank; in June 2019 a "Family Fortunes" sub-segment was created as part of Private Banking: clients who invest assets via the Bank in the amount of at least PLN 10 million.

- **Business Customers** (micro-enterprises):

- Entrepreneurs:
 - non-Agro, not preparing full financial reporting (in accordance with the principles specified in the Accounting Act) and with an annual net income for the previous financial year below EUR 2 million;
 - non-Agro, preparing full financial reporting, with an annual net income for the previous financial year below PLN 4 million and credit exposure not exceeding PLN 1.2 million;
 - Agro entrepreneurs not preparing full financial reporting, with an annual net income for the previous financial year below EUR 2 million, who conduct 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;
- Individual farmers, with credit exposure below PLN 3 million;
- Individual farmers, with 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, workers unions);
- Housing communities, property managers.

Product offer for retail customers

The Bank provides services for retail customer, focusing primarily on the personal account offer, term deposits and consumer finance products (i.e. cash loans, account limit, credit cards, insurance).

The offer includes all forms of current banking services, savings, investments and loans.

At the end of June 2019 there were 2 tariff plans within the Bank's offer of **personal accounts for retail customers**: *Konto Otwarte na Ciebie* - a new current account (which replaced the previously offered *Konto Optymalne* and *Konto Maksymalne*) and *Konto Bankowość Prywatna* for clients within the private banking segment. In the May ranking of personal accounts by Money.pl, the new Bank account was recognized as the best personal account.

In the branches and remote channels of the Bank acquired as part of the RBPL core banking activities, the following products were offered to customers: Wymarzone Konto Osobiste, Konto Osobiste Premium, Konto Aktywne and Konto Friedrich Wilhelm Raiffeisen.

As concerns the management of the retail banking product offer in the first half of 2019, the Bank focused on improving the efficiency of operations and the profitability of products. Business processes underwent further standardization, as did regulations and price lists.

As part of the new personal account *Konto Otwarte na Ciebie* (introduced to the Bank's offer on 8 April 2019), three types of debit cards are issued:

- *Karta Otwarta na Dzisiaj* - dedicated to people with lower incomes, looking for inexpensive and transparent financial solutions;
- *Karta Otwarta na eŚwiat* - dedicated to frequent online buyers who use remote channels of access to the Bank and are concerned about security in cyberspace; the card has free Cyber Assistance Insurance;
- *Karta Otwarta na Świat* - dedicated to frequent travellers, who value convenience and lower costs of foreign currency transactions. The card offers free "Cancellation of Travel" insurance, and by the end of 2019 also free Internet worldwide. The card won 1st place in the Ranking of Travel Accounts conducted in June 2019 by the financial portal Money.pl.

Between May and June 2019, the Bank conducted a nationwide marketing campaign promoting the new personal account and 3 new debit cards, mainly on TV, online, in social media and through external OOH (out of home) advertising.

The Bank's deposit offer for retail customers included savings accounts (*Konto Dobrze Oszczędnościowe*, *Rachunek Sejf*, *Autooszczędzanie* Savings Account and products transferred from RBPL: *Konto Wymarzony Cel* and *Konto Lokacyjne Plus*) and term deposits (deposits in PLN and foreign currencies, internet term deposits available via PI@net or Online internet banking, promotional deposits, progressive and special deposits available for selected segments of the Bank's clients).

The first half of 2019, much like the years 2015-2018, 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. These included: special offer term deposits, promotional interest rates on savings accounts, rewarding customers who deposited new funds in the Bank and retention offers.

The Bank regularly launched attractive special offers for its Premium and Private Banking customers for selected maturities of the *Lokata 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 *Indywidualne Konto Emerytalne* ("Individual Retirement Account"), offered as a savings account or a retirement fund. Also available to them is the *Indywidualne Konto Zabezpieczenia Emerytalnego* ("Retirement Security Account") in the form of an investment fund.

The offer acquired as part of the core business of RBPL includes term deposits. The most popular were term deposits openable via online banking, i.e. *Lokata Internetowa* and *e-Lokata*. The offer also included the *Lokata na Start* deposit (with a 2.00% interest rate for 3 months), the *Lokata Wideo* deposit (with an interest rate of 1.70% for 3 months), standard term deposits in PLN and foreign currency term deposits in EUR and USD.

Customers who expected profits higher than the interest on term deposits were offered a wide range of investment products in the first half of 2019, including:

- over 500 investment funds managed by 25 national and international investment fund management companies, available through PI@net and Online (open investment funds);
- 5 Portfolios: strategies based on BNP Paribas FIO subfunds;
- structured certificates issued by BNP Paribas Issuance B.V. based in the Netherlands;
- investment deposit (exRBPL offer);
- life insurance with insurance capital funds (UFK) from TU Europa and Generali Życie TU (exRBPL offer); and
- the aforementioned *Indywidualne Konto Emerytalne* ("Individual Retirement Account") and *Indywidualne Konto Zabezpieczenia Emerytalnego* ("Retirement Security Account") in the form of BNP Paribas FIO investment fund portfolios.

Furthermore, in the first half of 2019 the Bank continued:

- The sale of personal accounts as part of the Bank at Work Partner Program offer, which is intended, i.a. for employees the Bank's Corporate and SME Banking customers, employees of public and private universities, employees of entities providing financial intermediation, employees of financial institutions, employees of uniformed services, employees of Local Government Units. In addition to personal accounts, the Program also includes: a revolving loan in the personal account and a credit card, as well as cash loans and mortgage products on preferential conditions.
- Cooperation with Financial Intermediaries and Employment Agencies in the area of retail product acquisitions (personal accounts and cash loans). On this basis, the Bank developed a product offer addressed to clients from the Ukraine. It is supported by a number of tools that help set up an account or easily gain access to the Polish mobile network (cooperation with a telecommunications company). The service is facilitated by a website, the GOMobile application, a Contact Center and advertising materials in Ukrainian. In addition, the Bank charges lower fees for foreign transfers made via online banking from BNP Paribas Bank Polska to banks in the BNP Paribas Group, including Ukrsibbank.

BGŻOptima

BGŻOptima is a brand of BNP Paribas Bank Polska S.A. under which savings and investment products are offered in the direct model. Both existing and new customers had a wide range of products to choose from, from short 3-month to 24-month term deposits, with competitive market rates.

The volume of BGŻOptima deposits at the end of the first half of 2019 totalled PLN 4.7 billion.

In the first half of 2019, the Bank's activities focused on stabilizing the volume of funds accumulated in BGŻOptima, while optimizing the interest margin.

Additionally, BGŻOptima operates a traditional Investment Centre which offers investment advice to customers in and around Warsaw. Moreover, it is involved in educational initiatives and information campaigns addressed to customers and aimed to inform them about methods of multiplying their savings and available investment products. Every year, BGŻOptima publishes a report on the approach of Polish customers to investments and savings.

The retail customer loan offer in the first half of 2019 included:

- mortgage loans and advances in PLN,
- personal account loans (renewable loans),
- consumer finance products (described in more detail in Chapter 6.4. *Personal Finance*)

In the first quarter of 2019, the Bank introduced a fully unified offer for exBGŻ BNPP and exRBPL customers by choosing, i.a., the same partners for life insurance and property insurance.

As regards mortgage loans, the Bank also launched a new sales channel through the so-called Virtual Branch. During a telephone conversation with a video expert, the client can make a preliminary assessment of his creditworthiness, receive a personalized list of required documents and arrange to submit an application at a branch of his choice.

In the first half of 2019, the volume of mortgage loans increased by almost 180% YoY.

In order to support customers in financial difficulties and those with mortgage loans, the Bank continued its government support program financed from the Borrowers Support Fund.

Bearing in mind the high quality of retail customer service and supplementing the deposit offer, the sale of a revolving overdraft loan linked to a current account was continued. At the end of June, Friends&Family tests regarding the application and conclusion of a revolving loan agreement via the Internet Banking System proved successful. Thus, the product gained a new sales channel.

In addition, in the first half of the current year many process improvements were implemented. They limited the scope of data entered directly by Consultants and increased the number of automatically generated documents.

Private Banking: BNP Paribas Wealth Management

Private Banking provides services to customers with assets exceeding PLN 1 million and to a dedicated customer segment with assets over PLN 10 million: Family Fortunes. BNP Paribas Wealth Management offers an individual approach to each customer and additionally a relational approach, i.e. "family approach".

BNP Paribas Wealth Management benefits from the over 100-year experience, market position and best practices of the BNP Paribas group - number 1 in the field of Wealth Management in the Euro Zone and the seventh largest global player in Wealth Management.

In February of this year, BNP Paribas Wealth Management in Poland received a distinction in the prestigious annual competition of the "Euromoney" British financial magazine for the best quality of private banking services in our country. In addition, the brand received an award in the "Private Banking Services Overall" category, i.e. for overall operations.

BNP Paribas Wealth Management was also recognized as the best private bank in Poland in the following four categories:

- succession Planning Advice and Trusts – the best private bank in the field of wealth management,
- high Net Worth Clients (USD 5 million - USD 30 million) – best private bank for a HNWI (HighNetWorth Individuals) customer,
- super Affluent Clients (USD 1 million -USD 5 million) – best private bank for Super Affluent customers,
- philanthropic Advice – the best private bank in philanthropic consultancy.

In the prestigious Forbes ranking of credit cards, the MasterCard World Elite BNP Paribas Wealth Management credit card took 3rd place, which meant a rise of nine positions compared to the last ranking published by this magazine.

In the eighth edition of the prestigious Forbes rating of private banking services BNP Private Banking received a 4.5 star rating which is mainly due to the open architecture of products, as well as the focus on innovative solutions both in the sphere of investment, and in the field of tax and succession planning. The Forbes rating also appreciates real estate brokerage and access to global markets.

As part of the offer unification project, in the second quarter of the current year BNP Paribas Wealth Management enabled exRBPL clients to use investment advisory services (Dlite) and asset management services (DPM) available at the Brokerage Office. At the same time, the credit process and loan offer have been standardized for all BNP Paribas Wealth Management clients, the Wealth Planning service is available to them.

Business customer offer

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.

From 1 April 2019, three new product packages were introduced to the Bank's offer as part of **transactional banking for business customers**:

- *Konto Otwarte na Biznes* - intended for customers with simplified financial reporting, as well as full financial reporting, if their net sales revenue for the previous financial year did not exceed PLN 4 million;
- *Konto Otwarte na Biznes Non-profit* - offer addressed to non-profit organizations, e.g. foundations, home owners' associations, property managers and housing cooperatives
- *Konto Otwarte na Agrobiznes* - offer addressed to individual farmers.

As part of the *Konto Otwarte na Biznes* offer, every company starting a business (present on the market for a period not exceeding six months) receives free financial reporting for 12 months. As part of the *Konto Otwarte na Biznes* and *Konto Otwarte na Agrobiznes* packages, in addition to a current account customers receive access to online banking and are issued a debit card.

New Accounts charge fees in a dynamic way, depending on the amount of inflows to the client's accounts and the average balance maintained on the current account. Ultimately, these products will have differentiated charging for deposits, withdrawals and electronic transfers, and the level of commission charged will depend on the number of transactions.

The loans offered in the business segment to finance daily operations and investment needs are addressed to micro-enterprises, small enterprises (subject to simplified financial reporting requirements), as well as individual farmers and home owners' associations.

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 and consolidation loans. Additionally, business clients (micro-enterprises and individual farmers) were able to use EU loans, subsidised loans, guarantees and currency risk management products.

The Bank also offers products that minimize the risk of agricultural activity: seasonal insurance of agricultural crops. Through a crop insurance contract, the farmer gains insurance protection and financial security. Insurance of at least 50% of arable land is also a condition for obtaining a low-interest disaster loan and full financial assistance in the event of a natural disaster.

In order to improve the efficiency of the crediting process for micro-enterprises and individual farmers, the Bank undertook a number of initiatives aimed at its significant improvement. Due to the optimization and automation of the credit process, the time needed for credit decisions was reduced for simple, uncomplicated and unsecured credit transactions, and a simplified procedure was implemented for clients with good credit history (currently used for nearly 40% of applications submitted in the Micro-enterprises segment). In addition, quick loans were introduced in branches.

At the end of February factoring products offered in cooperation with BGŻ BNP Paribas Faktoring Sp. z o.o. (an entity of the BNP Paribas group) were added to the Business Banking segment product offer. The factoring sales model was based on the path of transferring customers to a factoring company. A Business Consultant and a factoring specialist cooperate in the process of granting factoring limits.

In the second quarter of 2019, the Bank introduced the ELENA program of the European Investment Bank to the offer for Home Owners Associations. The funds obtained through this initiative will allow the Bank to create an energy efficiency financing program whose beneficiaries will receive comprehensive technical support and consultancy for thermomodernization as well as preferential financing. Additionally, the beneficiaries will receive 90% refinancing of energy audit costs.

In the first half of 2019, the Bank expanded its long-term car rental offer for micro-enterprises. In June 2019 the Bank launched access to a tool intended for the entire sales network. The tool streamlines the process of transferring customers to Arval Service Lease Polska Sp. z o.o. - an entity of the BNP Paribas Group.

In the first half of 2019, the Bank conducted marketing campaigns: Biznes Ofensywa (*'Business Offensive'*), Agro Ofensywa (*'Agro Offensive'*) and Wspierajmy Sąsiedzki Biznes (*'We support Neighbourly Business'*). New customers who applied for a loan and opened a current account with a debit card and electronic banking received free account maintenance for 12 months and a loan offer at preferential price conditions.

The Wspierajmy Sąsiedzki Biznes (*'We support Neighbourly Business'*) campaign was also a social campaign, encouraging the use of products and services of local companies, and promoting the importance of neighbourly business in local communities. The new edition of the campaign is part of the Bank's long-term strategy, according to which the Bank is a close partner of local companies and supports them in the development of their business.

Bank guarantees and letters of credit

In the first half of 2019, the Bank issued 25 bank guarantees at the request of business customers for a total value of PLN 1.6 million.

Commercial volumes

As at 30 June 2019, Retail and Business Banking deposits on a consolidated level amounted to PLN 51,176 million and were PLN 1,137 million, i.e. 2% lower than at the end of 2018. The largest decrease was recorded in terms of deposits: by PLN 1,263 million. The percentage share of each of the three basic product categories: current accounts, savings accounts and term deposits was similar to the December 2018 and amounted to 34%, 34% and 31%, respectively.

Table 25. Deposits and loans: Retail and Business Banking²

in PLN '000	30.06.2019	31.12.2018	change YoY	
			PLN '000	%
Current accounts	17,511,238	16,826,610	684,629	4%
Savings accounts	17,209,854	17,685,789	(475,935)	(3%)
Term deposits	16,019,898	17,283,198	(1,263,300)	(7%)
Overnight deposits	434,877	517,352	(82,475)	(16%)
Accounts and Deposits	51,175,867	52,312,949	(1,137,082)	(2%)
Consumer loans	9,213,688	9,022,759	190,929	2%
Investment loans	6,169,139	6,295,539	(126,399)	(2%)
Overdrafts	3,808,471	3,697,798	110,673	3%
Mortgage loans	16,893,661	15,887,973	1,005,688	6%
Lease receivables	1,632,216	1,813,830	(181,614)	(10%)
Credit cards	1,075,306	971,628	103,677	11%
Other loans	591,897	521,460	70,437	14%
Net loans and advances	39,384,378	38,210,987	1,173,391	3%

As at 30 June 2019 the value of the loan portfolio in the Retail and Business Banking segment on a consolidated level amounted to PLN 39,384 million, i.e. 3% (PLN +1,173 million) more than at the end of 2018. The increase concerned primarily mortgage loans (+6%, PLN +1,006 million).

In the analysed period, the volume of FX mortgage loans (withdrawn from the offer in 2008-2009) amounted to PLN 5,007 million (as at the end of 2018 it was PLN 5,226 million), including loans in CHF which constituted almost 99% of this portfolio.

Gross income on banking activity: Retail and Business Banking

In the first half of 2019 the gross profit in the Retail and Business Banking segment was PLN 35.1 million (compared to PLN 39.8 million in the previous year).

The comparability of results with the first 6 months of 2018 was affected by the finalization, on 31 October 2018, of the acquisition of the core banking activities of Raiffeisen Bank Polska S.A. The profit and loss account of the Bank's Group for the first half of 2018 does not include RBPL's revenues and costs.

The income on banking activity of Retail and Business Banking in the first half of 2019 amounted to PLN 1,134 million and was 47% higher compared to the corresponding period of the previous year. This result accounts for 48.8% of the total income on banking activity of the Group in the analysed period. Personal Finance generated 34.9% of the income on banking activity in this segment.

² 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 2018 were presented in accordance with the segmentation for 2019.

The value of deposits excludes balances of some credit institutions which are considered interbank deposits in management reporting, whereas in financial reporting they are recognized as customer deposits. In addition, the balances exclude accrued interest before maturity.

Table 26. Gross income on banking activity³

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Interest income	885,675	598,605	287,070	48%
Fee and commission income	203,021	157,411	45,610	29%
Trading and other income	45,411	17,762	27,649	156%
Income on banking activity	1,134,107	773,777	360,330	47%
Net impairment losses	(132,251)	(62,738)	(69,513)	111%
Operating expenses and amortisation and depreciation	(628,986)	(459,629)	(169,358)	37%
Expense allocation	(267,178)	(158,529)	(108,649)	69%
Operating result	105,691	92,881	12,810	14%
Tax on financial institutions	(70,595)	(53,054)	(17,541)	33%
Gross profit of the segment	35,096	39,827	(4,731)	(12%)

5.4. Personal Finance

The **Personal Finance Segment** is responsible, in particular, for preparing the product offer and managing consumer loans distributed through the Retail and Business Banking branch network and external distribution channels. Its offer includes the following major product groups:

- **cash loans** – distributed mainly through the branch network, the Contact Centre; the Bank's service points, service points operated by Carrefour, the Bank's specialized brokerage partners and via the internet, including the Internet Banking System and the Mobile Banking System (the GoMobile smartphone app);
- **instalment purchase loans** – offered to retail customers in stores belonging to the Bank's commercial partners, with whom the Bank has cooperation agreements in place. This includes traditional stores, internet stores and stores on the Allegro e-commerce platform;
- **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;
- **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** – offered in cooperation with Arval Service Lease Polska Sp. z o.o. 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 and commercial partners with whom the Bank has cooperation agreements in place.

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 loan, mortgage loan and micro-enterprise loan applications, as well as loan approval based on specific criteria;

³ Information based on the segmentation note included in the Consolidated report of BNP Paribas Bank Polska S.A. Group for the period of 6 months ended 30.06.2019

- debt collection (from retail customers and micro-enterprises);
- telephone customer service via the Contact Centre (including loan sales for retail customers over the phone) and marketing campaigns (including CRM/cross-selling).

Product offer

Cash loans

In the first half of 2019, 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” campaign, concerning loans for a term of over 24 months;
 - Happy Days offer - commission-free loan,
 - consolidation loan offer with reduced financing costs,
 - neighbour’s day offer with attractive financing costs,
- the possibility of completing a loan application process (started through the Contact Centre) online: via TeleOnline,
- further automation of the loan approval processes which shortened the average process duration by 20%,
- wider availability of cash loans in the GOMobile mobile banking system,
- a new simplified and shortened loan application process.

Instalment loans

The Bank 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 10,000 retail partners (online and in traditional stores) that provide funding for purchases. The terms of instalment loans are linked to the loan offer provided by the Bank’s commercial partners at a given time.

From July 2018, customers can sign paperless contracts: electronic loan agreements. It is available in all of the Bank’s partner stores which offer purchase financing in cooperation with the Bank and is currently the leading form of concluding agreements by individual clients.

This process, implemented in cooperation with the Autenti company, was awarded the 'Golden Banker' award in the Fin-Tech Innovation category in 2019.

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

- free loan for up to 60 months,
- first instalment postponed by up to 6 months;

In the first half of 2019, the Bank successfully expanded the circle of its business partners to include:

- companies selling photovoltaic systems and other renewable energy sources (RES) to individual customers (over 150 new cooperation agreements). The Bank established cooperation with Innogy Polska and other leading retail companies which sell RES and financed 3.3 thousand installations,
- the telecommunications industry: in cooperation with Play, the Bank finances purchases made by individual customers. In the first half of 2019, the loan application and agreement finalization processes were improved.

Car loans, leasing advances

In the first half of 2019, the Bank commenced cooperation with Opel and introduced the following products to the offer:

- dedicated loan offer,
- employee offer for Opel factory employees and dealers,
- dedicated leasing loan offer,
- financing of the dealer's service pack

In the first half of 2019, the Bank also expanded its core product offer by:

- "One Day Visit" - a loan offer with deferred security requirement,
- application (widget) for presenting the loan and leasing instalments on the website of Hyundai's importer. The tool shows the monthly cost of financing a configured car with the possibility of adjusting parameters such as: length of financing and own contribution,
- automatic credit approvals for the customers of individual car dealers.

Leases

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 2019 the following were introduced into the car leasing offer:

- life insurance and a new GAP insurance offer,
- special offer with importer's subsidy for Hyundai and KIA dealers - leasing 102%,
- financial calculator for the leasing offer on Hyundai Motor Poland websites,
- a new price offer for dealers, used car dealerships, brokers and branches of the Bank,
- extension of the maximum leasing period from 60 to 72 months,
- new documentation for clients: leasing simulation, application and contract.

The following were introduced in cooperation with the Opel brand:

- operational leasing, financial leasing (including VAT margin) offer,
- financing the dealer's service pack,
- financing of one-year OC/AC motor insurance.

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. The product concerns new passenger vehicles only and is available for a term of 30 to 60 months, in the amount between PLN 20 thousand and PLN 500 thousand.

In the first half of 2019, the Bank introduced the following as part of long-term rental:

- new function for downloading entrepreneur data by tax identification number,
- "Free2Move Lease" - a product offered in cooperation with the new Opel car importer. The offer is available for 24 to 60 months.

Credit cards

The acquisition of the core banking activities of Raiffeisen Bank Polska S.A. on 31 October 2018, strengthened the Bank's position as one of the largest credit card issuers 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 10 thousand.

In June 2018, the Bank enabled credit card holders to use the Apple Pay service as one of the first institutions on the Polish market. Mobile payments are currently very popular among clients the number of users of this service is growing.

The Bank offers credit cards to customers from all segments, both individual and corporate, in addition to 6 co-branded partner cards issued in cooperation with leading retail shops and leading industry brands.

Furthermore, the Bank cooperates with:

- the Carrefour Polska retail chain in terms of consumer loans offered by the Bank, thus strengthening the competitiveness of the product offer in the Personal Finance segment. The leading product in the offer is the Carrefour co-brand card.
- the largest e-commerce platform in Poland: Allegro. Customers can finance purchases in instalments ("Raty od nowa"), based on a virtual credit limit. The solution is unique on the Polish market.

5.5. Operations of the Brokerage Office of BNP Paribas Bank Polska S.A.

The operations of the Brokerage Office of BNP Paribas Bank Polska S.A. 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 2019, the Brokerage Office sold units in almost 400 funds managed by 20 investment fund management companies. As at the end of June 2019, the value of investment fund management company assets sold through BNP Paribas Bank Polska was PLN 3.9 billion.

Fee and commission income on sales of units in investment fund management companies (through the Bank's branches) amounted to PLN 20.8 million in the first half of 2019, compared to PLN 17.7 million in the first half of 2018. Brokerage fee and commission income in the first half of 2019 totalled PLN 12.2 million, compared to PLN 14.0 million in the first half of 2018. 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.

In the analysed period, the total fee and commission income of the Brokerage Office increased by PLN 1.2 million compared to the same period of 2018.

Table 27. Fee and commission income of the Bank's Brokerage Office

PLN '000	6 months	6 months	change YoY	
	Ended 30.06.2019	ended 30.06.2018	PLN '000	%
Brokerage fees and commissions	12,151	14,006	(1,855)	(13%)
Fees on sales of units in investment funds	20,793	17,705	3,088	17%
Fee and commission income	32,944	31,711	1,233	4%

Table 28. Share of the Bank's Brokerage Office in WSE trading volume

		30.06.2019		30.06.2018	
		volume	share	volume	share
Shares	PLN million	931.1	0.5%	689.5	0.3%
Bonds	PLN million	37.8	2.7%	28.6	2.0%
Contracts	number	102,896	1.7%	24,672	0.3%
Investment certificates	PLN million	0.8	1.3%	0.6	0.8%
Options	number	5,597	1.5%	5,318	2.0%

5.6. SME Banking

Segmentation

The **Small and Medium Enterprises Banking Area (SME)** comprises three main customer sub-segments:

- **Agro Customers** with full financial reporting, with prior year's net income between PLN 4 and PLN 40 million and credit exposure not exceeding PLN 12 million. This segment also includes agricultural producer groups and organizational units of the State Forests, regardless of income and credit exposure;
- **Non-Agro Customers** - a sub-segment for entities with full financial reporting, with prior year's net income between PLN 4 and PLN 40 million and credit exposure not exceeding PLN 12 million, as well as public finance entities with a budget of up to PLN 100 million,
- **Farmers** (i.e. economic entities devoted to agricultural production) with full financial reporting, prior year's net income between PLN 0 and PLN 60 million, and credit exposure not exceeding PLN 25 million; as well as individual farmers in the case of whom the Bank's exposure is between PLN 4 million and PLN 25 million or between PLN 3 million and PLN 4 million if the collateral in arable land covers less than 50% of credit exposure.

Distribution channels

In the first half of 2019, the Bank continued its efforts to merge the Bank's distribution network, including exBGŻ and exRBPL branches. A new target structure of the sales network was also implemented. The completion of these efforts coincided with the change of the Bank's name to BNP Paribas Bank Polska S.A. and the rebranding of branches.

For the SME segment, the implemented target sales network consists of 8 SME Banking Regions comprising 51 SME Business Centres, which were located on 37 local markets with the highest potential.

A key element of service at the Bank 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.

SME customers benefit from ongoing operational service in the network of retail branches, electronic banking channels offered by the Bank, and can also count on telephone operational and information support from the Business Service Zone.

Product offer

The Bank has a rich and flexible product offer addressed to clients from the SME segment, which allows for the adjustment of many parameters to the individual needs of the client.

The offer includes products such as:

- **transactional products** as part of the customer's account or package, including: cashless domestic and cross-border transactions, cash transactions (including closed ones), cash transactions - deposits and withdrawals in Bank branches, payments at Poczta Polska, deposits and withdrawals at counters and in deposit machines, domestic transfers (including transfers in the Elixir, Sorbnet and Express Elixir systems), foreign transfers (including SEPA transfers, SEPA D0, TARGET), debit cards (PLN, EUR, multi-currency), credit, charge, identification of incoming payments, Host 2 Host - integration of the financial and accounting system with the internet banking system, automatic transfers of funds between various accounts, product packages - Turbo Box, FX Box, Open Box and Multi Box;
- **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 day-to-day running of a 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);

- **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.;
- **leasing services**, including: the lease of machines and equipment, process lines, vehicles, real property (offered in cooperation with BNP Paribas Leasing Solutions Sp. z o.o.).

In the analysed period, the product offer in the segments of trade finance and leasing was extended: they were made available to exRBPL customers. The factoring offer and customer service practices were standardized.

Business line development in the first half of 2019

The acquisition of the core business of exRBPL in the 4th quarter of 2018 significantly strengthened the Bank's market position in the SME segment, the Bank aspires to become the leader of this segment in Poland.

Key goals for the first half of 2019 included the further integration of the Bank. During this period, many activities of the integration process which were particularly important from the clients' perspective were realized, including:

- a new customer segmentation was introduced based on the best experiences from the two banks,
- the target sales network structure for the SME segment has been implemented,
- a standard customer portfolio model was developed for SME consultants,
- operational and information services have been integrated to form a Business Service Zone (BSZ) dedicated to the after-sales service of customers from the SME segment. BSZ is a modern service channel, within which tele-advisors support customers in the most important product and service areas, such as: bills, electronic banking, bank cards,
- key processes were optimized and standardized (with processes for the Corporate Banking Area),
- new, simplified and standardized (with the Corporate Banking Area) sales and after-sales documentation was introduced,
- the product offer was expanded by introducing, i.a., new products in the area of trade financing and by establishing a dedicated Deposit Team supporting clients in the field of investing funds. In addition, leasing and factoring offers for SME customers were standardized,
- the visual identification of IT systems and electronic documents was changed in connection with the change of the Bank's name.

The first half of the year also was also devoted to efforts aimed at improving the quality and convenience of customer service, including the digitization of the most important areas of customer service and implementation of new IT tools. The key achievements in this area are:

- automation of the crediting process by introducing a new loan application tool (an online tool to help the customer apply for a loan) and the use of the OCR (Optical Character Recognition) system in the process of analysing financial data. Work is currently underway on the introduction of new, more automated credit monitoring,
- introduction of a loan agreement generator,
- pilot launch of an electronic on-boarding application, which is a fully digital, integrated and secure tool that streamlines the process of introducing a new customer to databases and the process of opening new accounts,
- further development of the BiznesPI@net electronic banking system, including the launch of a product application module and after-sales instructions as well as the addition of new functions used previously by exRBPL customers in the Online Biznes system,
- as regards operational services, the second stage of improvements for the Business Service Zone operational process management system has been implemented, enabling automatic categorization of customer requests received by phone or email and providing reporting in this regard.

eLending Application

At the end of April 2019, SME and Corporate Banking customers of the Bank as well as their advisers were provided with an innovative and convenient eLending Application.

Features of the application:

- includes dynamic adaptation to the specifics of a given client, his legal status, requested products, proposed collateral, while taking into account the requirements of the crediting process,

- allows the customer's adviser to personalize the application before making it available to the client; thus, the application will "ask" the client only for information or documents that are necessary to grant a credit decision and which the Bank did not have before,
- all application forms have a friendly interface, including tips for the client and the adviser,
- the possibility of joint work of the client and adviser on the loan application, which streamlines the process of preparing the necessary information and documents by the client, thus reducing the need to exchange e-mail correspondence,
- availability in both Polish and English.

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 2019, at the request of SME customers, the Bank issued:

- 466 bank guarantees for a total value of PLN 103.8 million,
- 104 import letters of credit with a total value of PLN 23.7 million, and handled 118 export letters of credit with a total value of PLN 31.1 million issued by third-party banks.

Commercial volumes

As at 30 June 2019, SME Banking deposits on a consolidated level amounted to PLN 9,685 million and were PLN 771 million, i.e. 7% lower than at the end of 2018. The portfolio structure did not change significantly. Much like in the previous year, almost three quarters of the total deposits were current accounts.

Table 29. Deposits and loans – SME Banking⁴

in PLN '000	30.06.2019	31.12.2018	change YoY	
			PLN '000	%
Current accounts	6,819,913	7,430,178	(610,265)	(8%)
Savings accounts	382,604	334,459	48,145	14%
Term deposits	1,580,784	1,651,452	(70,667)	(4%)
Overnight deposits	902,244	1,040,655	(138,411)	(13%)
Accounts and Deposits	9,685,545	10,456,744	(771,199)	(7%)
Investment loans	5,226,650	5,388,038	(161,387)	(3%)
Overdrafts	2,419,715	2,310,750	108,965	5%
Mortgage loans	15,056	15,494	(438)	(3%)
Lease receivables	625,827	524,902	100,925	19%
Short-term loans	632,871	716,947	(84,076)	(12%)
Factoring	6,859	375,179	(368,320)	(98%)
Other loans	4,699	5,104	(406)	(8%)
Net loans and advances	8,931,678	9,336,415	(404,737)	(4%)

As at 30 June 2019 the value of the loans and advances portfolio in the SME Banking on a consolidated level amounted to 8,932 million, and was lower by 4% than at the end of 2018. The decrease was largely the effect of the sale agreement regarding an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o. (decrease in the volume of factoring receivables by PLN 368 million).

⁴ See: footnote on p.49

Gross income: SME Banking segment

In the first half of 2019, the gross result of the SME segment was PLN 19.8 million, compared to PLN 35.3 million in the previous year.

Table 30. Gross income: SME Banking segment⁵

in PLN '000	6 months	6 months	change YoY	
	ended 30.06.2019	ended 30.06.2018	PLN '000	%
Interest income	153,201	124,259	28,943	23%
Fee and commission income	63,918	36,859	27,060	73%
Trading and other income	27,362	10,724	16,638	155%
Income on banking activity	244,482	171,841	72,641	42%
Impairment losses	(48,759)	(24,280)	(24,478)	101%
Operating expenses and amortisation and depreciation	(82,977)	(58,315)	(24,662)	42%
Expense allocation	(69,331)	(36,171)	(33,159)	92%
Operating result	43,415	53,074	(9,659)	(18%)
Tax on financial institutions	(23,621)	(17,755)	(5,867)	33%
Gross profit of the segment	19,794	35,320	(15,526)	(44%)

The comparability of results with the first half of 2018 was affected by the acquisition of the core business of Raiffeisen Bank Polska S.A. (on 31 October 2018). The profit and loss of the Bank's Group for the first half of 2018 does not include RBPL's revenues and costs.

The income on SME banking activity in the first 6 months of 2019 amounted to PLN 244.5 million and was higher by 42% than in the corresponding period of the previous year. This result constitutes 10.5% of the Group's total income on banking activity in the analysed period.

5.7. Corporate Banking

Segmentation

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 40 million, or in the case of whom the Bank's exposure is equal to or greater than PLN 12 million, as well as to entities operating as part of multinational capital groups.

Corporate Banking customers are classified into 4 key groups:

- Polish corporations with an annual income between PLN 40 million and PLN 600 million (or between PLN 60 million and PLN 600 million in the case of business entities related to agricultural production) or with a credit exposure greater than or equal to PLN 12 million (or PLN 25 million for business entities related to agricultural production);
- 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.

⁵ See: footnote on p.50

Distribution channels

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.

Corporate Banking services are provided by 9 Regional Corporate Banking Centres located in: Warsaw (two), Łódź, Gdańsk, Poznań, Wrocław, Katowice, Kraków and Lublin. As part of the Regional Corporate Banking Centres, there are 25 Corporate Banking Centres located in the largest business centres in Poland, thus ensuring a wide geographical and sector coverage. Within these branches, consultants provide services to corporate clients locally. After-sales services for the clients of the Corporate Banking segment are also carried out via the Business Service Telephone Center and online banking systems.

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 BiznePI@net, MultiCash, Connexis, FX PI@net, Online Biznes, Dealer;
- **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 and Dealer electronic currency platforms;
- **factoring** – offered in cooperation with BGŻ BNP Paribas Faktoring Sp. z o.o.;
- **leasing services** – i.a. leasing of machinery and equipment, technological lines, means of transport, real estate offered in cooperation with BNP Paribas Leasing Solutions;
- **public sector services** – organising the issue of municipal bonds, forfeiting and dedicated cash management solutions.

Business line development in the first half of 2019

The Bank's goals in the area of Corporate Banking in the first half of 2019 focused on further integration with exRBPL and operational transformation. Part of this process is the digital and operational transformation in customer service, which aims to provide customers with the highest quality of services on the market while maximizing operational efficiency.

The ongoing transformation applies to all aspects of customer service, including the implementation of new organizational structures in operations, optimization and digitization of processes, and the development of new IT tools to streamline processes and increase customer convenience in using the products and services offered by the Bank.

As part of the above-mentioned transformation and integration processes, a number of initiatives and improvements were implemented, including:

- the creation of a Business Service Center (BSC) which will be the unit dedicated for after-sales services offered to clients from the area of Corporate Banking in the centralized model;
- optimization and standardization (with processes used in the SME segment) of key processes, including new, simplified sales and after-sales documentation;
- the visual identification of IT systems and electronic documents was changed in connection with the change of the Bank's name.

In the first half of 2019, the Bank further developed an online banking system for BiznesPI@net customers through changes on several levels:

- further development of the self-service zone: the modules of electronic product applications and after-sales instructions were launched;
- new functions previously used by exRBPL clients in the Online Biznes system have been added, thus preparing the BiznesPI@net system for the migration of exRBPL clients planned for the 4th quarter of 2019. These include: the addition of predefined templates for exporting MT940 statements, changes to the statement generation module, changes to the account operations history, the addition of a function for adding a single transfer to a package, changes to the card module;
- changes related to PSD2 were introduced, i.a. enabling the launch of the API production environment for selected third parties (TPP) for testing purposes;
- changes related to the IT System of the Clearing House, resulting from the amendment to the Tax Code in the scope of preventing the use of the financial sector for fraud (Journal of Laws of 2017, item 2491). The changes concern the blocking of entrepreneurs' accounts in accordance with the decisions of the National Tax Administration in the mode provided for by the Act.

Similarly to last year, the Bank conducted a series of meetings and information, education and business workshops which supported small and medium enterprises and corporations in the international expansion of the so-called Foreign Trade Program (FTP). The main aim of FTP is sharing knowledge about foreign markets, supporting Polish entrepreneurs and showing positive examples of foreign expansion into new markets. Last year, the Foreign Trade Program focused on the markets of Africa and the Far East. This year's edition of the program was dedicated to European markets: France, Italy and Belgium. The meetings were organized in 16 cities and over 1,500 clients from the areas of Corporate Banking and SMEs participated.

At the end of June 2019, three new derivative products were included into the Bank's offer, which will contribute to further business development and building the Bank's competitive advantage:

- **FlexiForward** – similar to the classic FX Forward transaction, allowing for partial or total settlement of transactions within a customer-specified time interval without adjusting the time points (so-called "Window Forward"),
- **Knock-out options** – allowing for inclusion in the strategy (or a single option) of an extinction barrier in order to improve the price,
- **CAP payable in instalments** – the possibility to purchase interest rate options with a premium payable in instalments associated with secured loan instalments (tax limit required). The main advantage of the product is the ability to individually determine the level of collateral by the customer and the absence of costs other than the premium in the event of a decrease in interest rates.

In the first half of 2019 the Bank continued the adopted Corporate Banking strategy and focused on:

- acquisition and quick activation of new customers as a basis for further cooperation
- development of customer transactions and increasing the number of products used by clients (cross-sell of individual product lines),
- services for enterprises which conduct international operations,
- becoming a leading bank in the area of foreign trade and specialized finance services (trade finance / specialized finance, global trade solutions).

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 2019, at the request of Corporate Banking customers, the Bank:

- issued 3,7 thousand bank guarantees, with a total value of PLN 1,267.8 million.
- opened 1.1 thousand import letters of credit with a total value of PLN 531.5 million and handled 252 export letters of credit with a total value of PLN 1,888.9 million issued by other banks for those customers.

Commercial volumes

As at 30 June 2019, consolidated Corporate Banking deposits amounted to PLN 20,853 million and were PLN 2,303 million, i.e. 10% lower than at the end of 2018. The share of current accounts in the portfolio increased by 3.2 p.p., while the volume of term deposits dropped by 4.6 p.p. compared to December 2018.

As at 30 June 2019 the value of the loans and advances portfolio in the Corporate Banking segment amounted to PLN 23,701 million, i.e. 5% less than at the end of 2018, primarily as a result of the sale of an organised part of the Bank's enterprise earmarked for conducting factoring activities to BGŻ BNP Paribas Faktoring Sp. z o.o. (decrease in the volume of factoring receivables by PLN 1,260 million).

Table 31. Deposits and loans – Corporate Banking⁶

in PLN '000	30.06.2019	31.12.2018	change YoY	
			PLN '000	%
Current accounts	13,358,261	14,101,937	(743,676)	(5%)
Saving accounts	26,817	36,402	(9,585)	(26%)
Term deposits	3,755,567	5,236,718	(1,481,151)	(28%)
Overnight deposits	3,712,274	3,780,452	(68,178)	(2%)
Deposits and Accounts	20,852,919	23,155,509	(2,302,590)	(10%)
Investment loans	11,656,174	11,872,733	(216,560)	(2%)
Overdrafts	6,442,650	5,855,790	586,860	10%
Mortgage loans	11,345	30,820	(19,475)	(63%)
Lease receivables	1,821,115	1,496,936	324,180	22%
Short-term loans	3,678,760	4,235,141	(556,381)	(13%)
Factoring	80,955	1,341,083	(1,260,127)	(94%)
Other loans	10,493	29,244	(18,751)	(64%)
Net loans and advances	23,701,493	24,861,747	(1,160,254)	(5%)

Gross income: Corporate Banking segment

In the first half of 2019, the gross result of Corporate Banking was PLN 254.2 million and was 183% higher than in the previous year (PLN 89.8 million in 2018).

The comparability of results was affected by the finalization, on 31 October 2018, of the acquisition of the core business of Raiffeisen Bank Polska S.A. The profit or loss of the Bank's Group for the first half of 2018 does not include RBPL's income and expenses.

The banking income of Corporate Banking in the first 6 months of 2019 was PLN 519.6 million, which is 120% more than in the corresponding period of 2018. It represented 22.4% of the total net income on the Group's banking activity in the analysed period.

⁶ See: footnote on p.49

Table 32. Gross income: Corporate Banking segment⁷

in PLN '000	6 months ended 30.06.2019	6 months ended 30.06.2018	change YoY	
			PLN '000	%
Interest income	292,555	137,082	155,473	113%
Fee and commission income	124,340	60,436	63,904	106%
Trading and other income	102,656	39,130	63,526	162%
Income on banking activity	519,551	236,648	282,903	120%
Impairment losses	(35,207)	(17,486)	(17,721)	101%
Operating expenses and amortisation and depreciation	(153,541)	(78,010)	(75,531)	97%
Expense allocation	(35,951)	(27,674)	(8,277)	30%
Operating result	294,851	113,477	181,374	160%
Tax on financial institutions	(40,611)	(23,654)	(16,957)	72%
Gross profit of the segment	254,241	89,823	164,418	183%

5.8. Agro segment

Product offer for the Agro subsegment

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 the Agro Ekspres overdrafts collateralised with mortgage, and the 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 agri-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 March of this year there was a change in the *Rules for granting preferential loans*, consisting in increasing the *de minimis* aid limit for entities using loans for the purchase of agricultural land and disaster loans with a level of loss not exceeding 30% from EUR 15,000 to EUR 20 thousand.

Insurance

In order to promote the *Życie i Zdrowie* insurance, new functions have been introduced in the sales service system to copy the insuring party's data from the policies regarding Agricultural Equipment, Crop and Agro Concordia directly to the *Życie i Zdrowie* policy. In addition, leaflets about this product were added to other types of policies.

Loans with Rural Development Plan (RDP) 2014-2020

In the first half of 2019, an increase in the number of applications for funding as part of the Rural Development Plan 2014-2020 (RDP) could be observed. Due to the fact that these projects are financed from public sources, great emphasis is placed on the transparency of the choice of service providers and goods suppliers. RDP 2014-2020 beneficiaries are obliged to make public inquiries on the portal of the Agency for Restructuring and Modernization of Agricultural Farms whenever the value of an offer is above EUR 30 thousand. Thus, the Bank has access to a list of potential customers who carry out investments in the area of operations of a given Branch or Business Center.

⁷ See: footnote on p.50

Sales support

In the first half of 2019, members of Agro Expert Teams (Micro and SME/Corporate) engaged in a number of pro-sales tasks and tasks aimed to improve the quality of the existing portfolio. They held close to 540 meetings with current and potential customers of the Bank, over 225 expert opinions were prepared, 170 of these for new transactions (verification of revenue and cost assumptions and production capabilities) and 55 as part of reviews of the functioning Agro portfolio (verification of the condition of farms and recommendations as to optimal paths of cooperation).

During the period in question, Agro experts conducted over 200 training sessions for the Bank's employees. They participated in dozens of Agro events at the national and regional level, further improving the Bank's image in this segment. In addition, Agro Experts supported initiatives and projects such as: the Agronomist.pl portal or the Agro Safe Financing campaign - targeted at both clients and employees of the Bank.

Agro Offensive

From 15 January to 31 May 2019, the annual *Agro Offensive campaign* dedicated to Agro farmers and entrepreneurs was underway. The campaign was dedicated to both Micro-enterprises and SME customers.

The goal of the campaign was to attract new customers and increase the sales of loan and leasing products in the segment. The special offer concerned the following loans: *Agro Ekspres*, *Rzeczówka* (revolving renewable and non-renewable credit account), *Agro Progres*, *Unia+* and preferential loans. In addition, attractive pricing for leasing and leasing loans was offered in cooperation with BNP Paribas Leasing Solutions.

This year's Agro Offensive was supported by dedicated marketing materials, a campaign in traditional media (e.g. newspapers, ATMs) as well as online and in social media. Agro Offensive was also present at industry fairs (AgroTech Kielce 2019) and business meetings with clients.

Agro Academy

In March 2019 the 4th cycle of the Bank's unique educational meetings commenced. Seven conferences took place in the first half of 2019, during which agricultural market analysts and experts who cooperate with the Bank shared their knowledge on current topics related to Polish agriculture. This year's edition covered topics such as: prospects and challenges for agriculture after 2020, farm energy costs, the new nitrates directive, and the situation on primary agricultural markets.

The invitation is addressed to both current and potential customers of the Bank.

Agronomist.pl

Agronomist.pl is the Bank's new online platform, which was created for farmers and processors of the food sector. Users have access not only to the latest Food&Agro analyses and price forecasts, but also to information about the weather at a given location, to a farm management system, and even to satellite field mapping. Agronomist is a unique, free platform which combines a wide set of tools for farmers and processing companies.

Within three months of launch, the portal had over 30,000 visitors, and 1.6 thousand registered users.

Sub-brand BNP Paribas Food&Agro

In connection with the Bank's rebranding and the need to highlight the offer addressed to the agrobusiness segment, a dedicated **BNP Paribas Food&Agro** sub-brand was introduced in April 2019. It is used in marketing materials (letters, product cards, product presentations, business cards, stationery, advertising materials, etc.).

100 years of Agro

In 2019, the Bank celebrates 100 years of activity on the Agro market, as the heir to Bank Rolny, which was appointed by a decree of Marshal Piłsudski in 1919.

In the jubilee year, we emphasize our long-standing tradition of providing services within the Agro segment and we have launched the "We have been looking into the future for 100 years" campaign, which, in addition to standard campaign activities, involves:

- a series of 7 meetings dedicated to Agro clients from the Micro-enterprises and SME segments (over 1.2 participants);
- competition for a bachelor's or master's thesis on topics related to the development of agribusiness, for graduates of Polish universities;
- competitions in the press and social media dedicated to farmers.

5.9. 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, the Financial Markets Department, Custody Services Department and Financial Institutions Department, whose offer is addressed to banks, insurance companies, pension and investment funds, as well as the State Treasury.

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, privatization and restructuring, transactions on debt and equity capital markets and operations on the currency and money market;
- structured finance: financing acquisitions and investment projects;
- cash flow and liquidity management, working capital optimization;
- financial and commodity risk management (risk related to price fluctuation on commodity markets).

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.

Corporate and Institutional banking focuses on four key areas:

- transactions on the Polish and international FX and interest rate markets. This involves management of market risk in the trading book, quotations of FX market and interest rate market instruments (together with transactions on the derivatives market), setting the foreign exchange rates effective at the Bank as well as structuring and managing the risk involved in the structured products offered by the Bank;
- direct sales of financial market products enabling currency, interest rate and commodity price risk management, to customers;
- preparation of macroeconomic analyses and forecasts for purposes of the trading and treasury operations of the Bank and for external use, cooperation with external institutions and research centres focusing on analyses;
- arrangement of debt security issues for corporate customers.

The **Financial Market Department's** main activity areas in the first half of 2019 were:

- operational integration of exBGŻ and exRBPL organizational structures along with the migration of existing transactions and clients to integrated systems;
- obtaining the PFSA's permission to run an option book which allows for transactions in local portfolios without the need to maintain a back-to-back structure.

The **Custody Services Department's** main activity areas in the first half of 2019 were:

- further improvements regarding the quality of service, in accordance with the changing supervisory requirements and market situation;
- preparation of a product offer for new clients from the open investment funds segment (implementation planned for the fourth quarter of 2019).

5.10. 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 Center.

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 and organizing the work of the Asset-Liability Committee (ALCO).

5.11. Cooperation with financial institutions

As at 30 June 2018, the Bank was a correspondent bank of ca. 1000 other banks, and held 76 nostro accounts for 31 major currencies in other banks.

In the discussed period, the Bank held 82 loro accounts denominated in 22 currencies for foreign and local banks. The loro accounts in the Bank's accounting records represent an external source of cost-free working capital used in the Bank's operations. These accounts are used mainly for purposes of customer and bank-to-bank transfers.

In the first half of 2019, 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 recommendations.

5.12. Digital Transformation Program

The Digital Transformation Program was launched in 2017. Its goal is to focus on the needs of customers who expect that a modern bank should, above all, provide excellent service, not only in a traditional branches, but primarily via the Internet. Online services are available to customers at the time and place of their choosing, which naturally leads the bank towards the digitization of further services, the simplification and automation of processes and the reduction of documentation on paper.

Five major programs are a part of the Bank's Digital Transformation:

- 1) E-transformation – i.e. improving the efficiency of the operational model (completed in over 92%, 23 out of 36 projects were implemented, 13 are being implemented),
- 2) Digitization of solutions for the client (completed in over 65%, 11 out of 24 projects were implemented, 13 are being implemented),
- 3) Adaptation of IT systems (completed in over 75%, 3 out of 8 projects were implemented, 5 are being implemented),
- 4) Effective data management (completed in over 55%, 7 out of 19 projects were implemented, 12 are being implemented),
- 5) Inspiring workplace (completed in over 78%).

As part of the above programs, 44 projects have been completed so far, 43 are being implemented. Over 75% of the Bank's Digital Transformation Program goals were implemented.

The Bank's Digital Transformation Program will last until 2020.

The table below presents the key areas of the Bank's transformation and the most important achievements in the first half of 2019.

Area	Direction	Key achievements in the first half of 2019
<p>Digitization of customer experience</p>	<ul style="list-style-type: none"> ○ Building personalized, easy-to-use products, available to customers 24/7, regardless of the service channel chosen by the client. 	<ul style="list-style-type: none"> ○ New features of the GOmobile application, i.a.: GOtravel insurance, push notifications, Pre-Approved loan service, Allegro Renewable limit for owners of the <i>Raty Od.nowa</i> product, proxy support, payments with BLIK codes. ○ The development of GOmobile translated into an increase in the number of users by 92% and of the number of transactions. At the end of the first half of 2019, the number of transactions amounted to approx. 4.1 million, which constituted 93% of the number of transactions for the entire 2018 (approx. 4.4 million). ○ Agronomist.pl - a comprehensive and modern portal of the Bank, which was created in response to the needs of farmers and processors. The platform, including its functions, appearance and the arrangement of individual tools, was created in cooperation with representatives of the aforementioned groups. Users have access not only to the latest Food&Agro analyses and price forecasts, but also to information about the weather at a given location, to a farm management system, and even to satellite field mapping.
<p>E-transformation</p>	<ul style="list-style-type: none"> ○ Simplification and automation of processes, efficient operation and reduction of paper documentation to a minimum, as well as modern tools and branches: <ul style="list-style-type: none"> • automation and robotization: comprehensive automation of processes, reduction of manual work, simplification and improvement of our efficiency, automation of the complaint process - improving the quality of customer service; • sales network transformation: streamlining the work of branches through new tools (e.g. optimization of cash services), a better workplace and a friendly space to meet customer needs, (so as to set new standards as regards service quality and the banking offer in Poland). 	<ul style="list-style-type: none"> ○ Further robotization of business processes: implementation of new robots responsible for processes within the areas of Operations and Personal Finance, including the handling of enforcement seizures, payment cards, deposits, bills, complaints and support for external entities cooperating with the Bank (law firms). At present, 20 robots perform tasks at the Bank, supporting employees in 61 processes: 43 in the Operations division, 17 in the area of Personal Finance, 1 in the Department of Loan Decisions. ○ Implementation of Artificial Intelligence Smart Workforce - the program aims to implement a number of projects intended to support employees with the use of technologies such as chatbots, automation based on cognitive robots and machine learning solutions. As part of the program, new tools will be introduced in areas such as cash management, sales of loan products and mailing services. ○ Further implementation of a new type of branches - a change in the philosophy of customer service, including a completely

Area	Direction	Key achievements in the first half of 2019
		<p>new design of branches, without traditional service desks. Branches in the new format are fully automated, allowing employees to focus on customer needs and the high quality of service. Cash transactions are carried out with the use of recyclers located in branches (devices that combine the functions of an ATM and a cash deposit machine, carry out contactless transactions and BLIK transactions), which customers can use 24/7. So far 76 branches have been redesigned.</p> <ul style="list-style-type: none"> ○ Extending the use of electronic signatures ○ improving loan extension processes as part of the paperless project implemented in cooperation with Autenti. ○ 48,000 loan agreements were included in the process. loan agreements for PLN 268 million were signed. The process is available at 10,000 service points for instalment loans and at selected partners for credit cards. In April 2019, the Bank received a distinction in the "Fin-Tech Innovation" category for implementing, together with Autenti, an electronic signature to improve loan processes.
<p>Inspiring workplace</p>	<ul style="list-style-type: none"> ○ Creation of a friendly work environment for all employees, based on a culture of cooperation and equipped with modern digital tools; preparation for the introduction of agile work methods. 	<ul style="list-style-type: none"> ○ Introduction of the mobile application for managing employee leaves. ○ Introduction of a new system, including mobile applications, to manage and settle business trips.

5.13. HR management

Headcount

At the end of June 2019, the Group of BNP Paribas Bank Polska S.A. had 10,673 FTEs (including employees on maternity leave, childcare leave and longer sick leave) as compared to 7,596 FTEs at the end of 2018 (increase by 3,077 FTEs). The increase in employment YoY was mainly due to the merger of the Bank with the core banking activities of Raiffeisen Bank Polska on 31 October 2018.

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

Table 33. Headcount in the Group of the Bank

in FTEs	30.06.2019	31.12.2018	30.06.2018
The Group of the Bank	10,673	11,265	7,596
Total Bank, including:	10,278	10,854	7,321
Head Office	5,260	5,455	3,396
Branches	4,872	5,246	3,795
Mobile Relationship Managers	91	92	91
Brokerage Office	48	54	35
Trade Unions	7	7	4
TFI BGŻ BNPP	29	26	24
BNP Paribas Group Service Center S.A.	289	291	241
Campus Leszno Sp. z o.o.	8	8	10
BFN ACTUS Sp. z o.o.	0	0	0
BNP Paribas Leasing Services Sp. z o.o.*	1	0	0
BNP Paribas Financial Services Sp. z o.o.**	24	39	x
BNP Paribas Solutions Sp. z o.o.**	44	36	x
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.**	-	11	x

* employment in the company as at 31.12.2018 and 30.06.2019 was 0.25 FTEs; leasing activity is conducted on the basis of a cooperation agreement (SLA)

** the companies are subject to consolidation from the moment of the legal merger with the core banking activities of RBPL, i.e. 31.10.2018

Employment restructuring

In the first half of 2019, the process of HR management changes at the Bank in connection with the acquisition of exRBPL was continued. Ensuring effective customer service, which would meet the clients' needs, required the implementation of a new organizational structure and an adjustment of employment levels. The employment optimization process was implemented. In accordance with an agreement signed with the trade unions operating at the Bank collective redundancies are in progress. The dismissal process is planned for two years (2019-2020). In addition, the Parties to the Agreement have agreed that collective redundancies will cover no more than 2,200 employees.

In order to alleviate the social consequences of collective redundancies, the Bank introduced the Voluntary Leave Program and, in agreement with trade unions, decided to pay additional compensation and other elements of social protection, in addition to statutory bonuses for redundant employees.

Steps have also been taken to adapt processes, procedures and internal regulations that would enable effective and transparent HR management in the entire Bank.

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 long term interest 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 BNP Paribas Bank Polska S.A., which was developed in line with guidelines included in Resolution No. 258/2011 of the PFSA and the requirements of CRD 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 as well as to existing regulations;
- 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 2019, training was carried out in close cooperation with the Bank's business lines.

The total number of training participants was over 76 thousand, including 4.2 thousand participants of traditional, stationary training.

Major training initiatives in the first half of 2019:

- courses dedicated to the new product offering and use of the operating systems for employees of the sales network;
- courses raising the level of product knowledge, dedicated to the sales network employees, including those focusing on investment funds and sales of insurance products;
- Introductory training for the newly employed;
- courses supporting the change management skills in the process of merging the Bank with the core banking activities of Raiffeisen Bank Polska SA;
- courses for managers increasing their team-leadership competencies and skills related to providing feedback;
- soft skills courses for the Bank's employees;
- courses for employees of the sales network supporting the development of sales skills;
- mandatory courses resulting from legal regulations which came into force in 2018 and 2019 (GDPR, MiFID2);
- courses implementing post-audit recommendations of the Polish Financial Supervision Authority;
- courses supporting the development of a risk culture at the Bank, especially in the areas of operational risk and compliance;
- introduction of an online English learning platform.

Development programs implemented in the first half of 2019:

- *Prestige Development Program* – the program is aimed at ensuring that managers have the key competencies necessary to carry out the Bank's strategy today and in the future. The program is dedicated to employees who are high achievers and display management potential. In March 2019, an edition of the program was completed. Currently, work is underway on a new concept for the program. It will take into account the needs of employees, the Bank's strategy, as well as competences necessary for the future. The launch of the new version is planned for the beginning of 2020.
- *Leaders for Tomorrow* initiative – a development program of the BNP Paribas Group 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.
- *Digital Ambassadors Program* - the aim of the program is to build a digital culture at 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 both functioning and newly implemented tools, promotion of social tools and digital solutions supporting remote work and business efficiency, transferring knowledge to colleagues, participation in testing and implementing new solutions, 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 top level managerial staff* – training workshops – focused on strengthening cooperation, breaking silos, strengthening entrepreneurship and client-centeredness.
- Continuation of the *Inner Labour Market* initiative launched in 2014, which aims to strengthen the professional mobility of employees within the organization.
- *Mobility Center* - a project aimed at actively supporting employees affected by the process of collective redundancies in navigating the labour market, with particular emphasis on the internal market.
- *Occupational Mobility Days* – local edition of International Mobility Days, an annual program taking place simultaneously in several dozen countries of the BNP Paribas group. The program includes inspirational lectures, workshops and webinars on the subject of personal and professional development, as well as meetings with Managers, HR Business Partners and recruiters.
- *Feedback culture* building program - two key aspects from amongst the seven foundations of the Bank's organizational culture were selected: cooperation and trust (pulse check). The program aims at developing values based on mutual respect for D&I (diversity and inclusion), as well as care for open, transparent communication and regular feedback.

Internship and partnership programs

- The Bank offers traineeship and internship programs to students and university graduates:
- The *"Postaw na rozwój"* (Focus on Development) during the Summer internship program, addressed to 2nd and higher year students, takes place in July and August. The purpose of this program is to transfer knowledge, prepare students for the profession and strengthen the Bank's image as a desirable employer.
- *"Ambadorskie Duety"* (Ambassador Duos) program, addressed to 2th and 3th year students. Bank representatives undertake activities at selected universities. The aim is to build the Bank's image as an attractive employer.

5.14. Information technology

IT projects implemented in the first half of 2019 continued to be focused on aspects related to the Bank's transformation, the digitization of the customer experience, improvement of the operating model and the modernisation of the work environment.

IT projects carried out in the first half of 2019 focused mainly on three areas:

- 1) Projects for business lines - support for achieving their goals;
- 2) Projects related to the implementation of national and international requirements (including GDPR, Split Payment, PSD2), optimization of the Bank's day-to-day operations and adaptation to the dynamically changing Cyber Security and infrastructure conditions;
- 3) Projects aimed at finalising the integration of the banks (rebranding, standardization of the offer, operational fusion).

Key IT projects within particular areas in the first half of 2019

I. Business lines projects

Retail Banking and Personal Finance

- Further development of the GOMobile mobile application, addition of the following features:
 - Travel insurance,
 - Transaction notifications,
 - Pre-Approved offer, BLIK ATM,
 - Availability of Google Pay i Apple Pay,
 - Access to GOMobile for Allegro customers and proxies;
- Friends&Family testing phase of the new GOonline platform with full functionality;
- Changes to the customer onboarding process, allowing accounts to be opened online with the use of an electronic signature - the option of identity verification at the level of the courier who delivers a card;
- Dynamic customization of the offer with the Real-time Flexible Marketing tool;
- Online Chat service for customers;
- Rebranding of front-end systems for retail customers and implementation of a new flagship offer;
- Cooperation with car dealers, with the aid of a car configurator for the Hyundai brand and implementation of products for the Opel brand;
- Implementation of an advanced application for the transcription and analysis of conversations with clients in the Contact Center.

Corporate and SME Banking

- Digitization and standardization of the onboarding process for corporate and SME customers in the Capsel sales application and via the eApplication platform.
- Standardization of the eApplication platform for corporate and SME customers.
- Introduction of the improvements in credit process – quick loan application Formula 1 product;
- Improved handling of split payments in the scope of: direct debit orders - adding split payment to direct debit, automatic VAT payment (for own economy) and a report of unclosed VAT accounts (Reporting Portal);
- Rapid search of applications for business teams due to the implementation of an application management module in Turbo Planet;
- Implementation of a new application for customers which enables data exchange between the bank and a company by means of messages in the XML file format using web service technology;
- Rebranding of front-end systems in corporate and SME banking.

Corporate and Institutional Banking

- Adjustment of reporting to MIFID requirements from UK to EU in connection with Brexit;
- Addition of the ISIN code required by MIFID2 to commodity swap transaction reports to the Central Securities Depository of Poland;
- Implementation of new functions as part of the Vista program: structured products, Flexiterm Forward, Cap with Instalments (interest rate option with the customer paying the premium in instalments).

II. Projects related to the Bank's daily operations

Cross-cutting projects for business lines and regulatory projects

- Access to the API interface for PSD2 as the first Bank in Poland;
- Increased efficiency of the decision-making process and reduced amount of information collected from customers, owing to the automatic supply of data in External Databases;
- Migration of SKOK Rafineria customers;
- Implementation of significant improvements in the KYC process;
- Introduction of a data warehouse for the Credit Risk Management area;
- Implementation of a GDPR platform and implementation of mechanisms for anonymizing personal data after a retention period.

Infrastructure projects

- Increased functionality of the Contact Center platform due to migration to the standardised target for the combined Bank;
- Improvements for business consultants in the Contact Center owing to the expansion of the IVR system;
- Increased ability to monitor the quality of conversations with clients (new, integrated Verint system);
- Launch of the SIM system for downloading, archiving and managing recorded GSM calls in accordance with MIFID II guidelines.

Cyber-security projects

- Participation in the national cybersecurity exercises for the banking sector - CyberEXE2018, the Bank was the first to restore 100% availability of services;
- Standardization of the DPL (Data Leakage Protection) systems, which protect e-mail communication and are related to security policies for the merged Banks
- Development and launch of a face-to-face training program #Bądź_Bezpieczny (#Be_Safe) for new employees of the Bank (in the first half of 2019, 300 people were trained);
- Development of security procedures based on local and group regulatory requirements for contracts with third parties related to cloud solutions;
- Implementation of the Windows Hello system which enables biometric authentication for the first group of laptop users;
- Launch of the Imperva system (Web Application Firewall system) in the mode of blocking threats to the network of the combined Bank and protecting the network with the Darktrace system (a system based on Artificial Intelligence mechanisms detecting anomalies in network traffic);
- Development of a new application for IT risk classification and analysis;
- CyberArk system upgrade (Privileged Access Management system), providing further possibilities for recording privileged sessions and the feature of multi-factor authentication;
- Preliminary audit of compliance with ISO 27001 for the Department of Security and Business Continuity Management as part of a certification project conducted in connection with the requirements of the Act on the national cybersecurity system;
- Upgrade of the ArcSight system (SIEM class system - System Information and Event Management) which increases system performance and anomaly detection capabilities.

III. Rebranding (D2.5) and migration of factoring operations

- Successful rebranding process, during which:
 - introduction of a new card and account offer for retail clients and of packages for the micro-enterprise segment,
 - the online customer service process has been standardized,
 - the work environment has been standardized;
- New segmentation of corporate and SME clients;
- Migration of factoring operations to the BNPP Faktor system,
- Rebranding of branches, back office and documentation.

5.15. Operations

In the first half of 2019, the Operations department began a strategic transformation project aimed at centralizing functions and operational processes at the Headquarters located in Ruda Śląska (while leaving some specialized functions in Warsaw and Krakow), as well as at optimizing and increasing work efficiency with reduced employment. .

The project consists of four migration waves that will be implemented by mid-2020.

In the current period, the Operations department continued improving processes and supporting business as part of the SpeedOPS project, including:

- the implementation of new robots which conduct processes for the areas of Operations and Personal Finance, including: servicing enforcement seizures, payment cards, deposits, bills, complaints and providing support for external entities cooperating with the Bank (law firms);
- analysis of 140 processes and identification of optimization possibilities, including the reduction of 19 FTEs.

In the area of administration and real estate, a physical rebranding project was implemented in the first half of 2019. Efforts related to the transformation of branches and the construction of a new Bank Headquarters in Warsaw continued.

6. DESCRIPTION OF THE ACTIVITIES OF BNP PARIBAS BANK POLSKA S.A. GROUP IN THE FIRST HALF OF 2019

6.1. BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A.

BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. ("BNPP TFI", "the Company") 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.

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

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

In the first half of 2019, the following significant events occurred in relation to the company's operation:

- merger of the Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. and Riviera Towarzystwo Funduszy Inwestycyjnych S.A., involving the acquisition of Riviera TFI S.A. by TFI BGŻ BNP Paribas S.A (as the acquiring company) pursuant to article 492 § 1 point 1 of the Commercial Companies Code, as a result of entry of the merger into the appropriate National Court Register by the Registry Court, pursuant to the decision of 29 March 2019;
- deciding to participate in the Employee Capital Plans (Pracownicze Plany Kapitałowe - PPK) program. A new fund was created for this purpose - BNP Paribas PPK SFIO. At the same time, in accordance with legal requirements, the Company's equity was increased to over PLN 25 million;
- registration of the change of the Company's name from Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. to BNP Paribas Towarzystwo Funduszy Inwestycyjnych S.A. on 20 May 2019.

Currently, the Company manages the following funds:

- **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 2019, assets under management totalled approx. PLN 1,867.8 million;
- **BGŻ SFIO**, the management of which was taken over by the company 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 2019, assets under management exceeded PLN 339 million;
- **BNP Paribas FIO**, which entered the Polish market in 2005. It comprises three sub-funds investing mainly in the Polish market. As at the end of June 2019, assets under management totalled PLN 44.1 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 2019, assets under management exceeded PLN 8.5 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 2019, assets under management totalled PLN 2.5 million
- **Spektrum SFIO**, created in July 2014, with four separated sub-funds. The value of assets at the end of June 2019 amounted to over PLN 148 million (fund management acquired as a result of the merger with Riviera TFI);
- **FWR Selektynywny Fundusz Inwestycyjny Zamknięty** – is a product created in May 2014 and addressed only to private banking clients, i.e. Friedrich Wilhelm Raiffeisen private banking. FWR Selektynywny FIZ is a portfolio of absolute return funds, including foreign ones, supported by investments in typically equity funds and by alternative assets funds (e.g. receivables, real estate). The value of the fund's assets at the end of June 2019 was PLN 5.34 million (fund management acquired as a result of the merger with Riviera TFI);
- **BNP Paribas PPK SFIO** with eight sub-funds (defined date funds) intended for clients Employee Capital Plans.

BNPP TFI 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 34. Basic financial data of BNP Paribas TFI S.A.

PLN '000	30.06.2019	31.12.2018	31.12.2017
Balance sheet total	36,061	18,918	17,130
Long-term investments	611	608	650
Equity	28,873	12,887	12,592
including: net financial result	(925)	2,584	2,821

The share capital of BNPP TFI amounts to PLN 16,692,912.00 and is divided into 695,538 shares with the par value of PLN 24.00 each. As at 30 June 2019, its equity totalled PLN 28.9 million and was sufficient to ensure security of the entity's daily operations.

As at 30 June 2019, assets under management of BNPP TFI totalled PLN 2,415 million (compared to PLN 1,811 million at the end of 2018). The increase in the value of assets in 2019 was mainly influenced by two factors (i) inclusion of Riviera TFI funds into the group and (ii) increased net sale of units.

Due to one-off expenses related to merger with Riviera TFI, as well as expenses of PPK project, BNPP TFI recorded negative financial result in the amount of PLN 0.9 million in the first half of 2019.

6.2. 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 30 June 2019, 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.

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

Table 35. Basic financial data of BFN Actus Spółka z o.o.

PLN '000	30.06.2019*	31.12.2018	31.12.2017
Balance sheet total	56,089	56,129	54,785
Long-term investments	55,868	55,868	54,435
Equity	47,657	47,688	46,557
including: net financial result	(31)	1,113	(229)

* - data not audited

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

BNP Paribas Leasing Services Sp. z o.o. (the "Company") in cooperation with the Bank, offers its clients a wide range of leasing products. The Company's share capital as at 30 June 2019 comprised 4 thousand of equal shares with a total value of PLN 40,000 thousand. The total of assets was equal PLN 2,962,137 thousand. The Company has 59 branches (54 opened in 2016, 2 - in 2017, 2 - in 2018 and 1 - in the first half of 2019.).

In the first half of 2019, the Company signed 9.9 thousand of new agreements with a total value of PLN 1,121,436 thousand, which meant an increase by 27% YoY.

Table 36. Basic financial data of BNP Paribas Leasing Services Spółka z o.o.

PLN '000	30.06.2019	31.12.2018	31.12.2017
Balance sheet total	2,962,137	2,413,330	869,606
Long-term investments*	2,646,585	1,833,087	547,249
Equity	(3,804)	7,244	(11,280)
including: net financial result	(11,048)	(14,490)	(12,005)

* *receivables due to financing granted*

6.4. BNP Paribas Group Service Center S.A.

The scope of the entity's business activity includes:

- **financial intermediation services** for Bank BNP Paribas Bank Polska S.A., consisting in:
 - providing 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;
- **services auxiliary to insurance brokerage**, consisting in administration and performance of group insurance contracts made by the Bank;
- **agency services** for insurance services;
- **providing IT services** for the development of applications as well as for banking and financial systems for entities from the BNP Paribas Group;
- **leasing** the AVAYA telecom platform to the Bank;
- comprehensive **management of loyalty programs** for parties connected with the Bank;
- providing **marketing services** for employees of the Bank's partners.

Table 37. Basic financial data of BNP Paribas Group Service Center S.A.

PLN '000	30.06.2019*	31.12.2018	31.12.2017
Balance sheet total	21,218	29,354	19,072
Long-term investments	11,790	22,536	10,298
Equity	16,973	23,701	14,467
including: net financial result	4,634	12,621	18,406

* - *initial data*

6.5. BNP Paribas Financial Services Spółka z o.o.

BNP Paribas Financial Services Sp. z o.o. (the "Company") has been operating since 18 September 2001 (date of entry into the National Court Register). It became a part of the Bank's Group as a result of the acquisition of exRBPL on 31 October 2018.

The Company provides financial intermediation services, including the sale of banking products to the Bank's clients. An area of the Company's operations is also the insurance agent's activity related to post-sale agency activities in connection with group insurance contracts concluded by the exRBPL with insurers. In particular, agents focus on the verification of accrued insurance premiums, verification of calculated insurance premiums, checking the timeliness of premium payments by the Policyholder and informing the insurer about irregularities.

Financial intermediation services provided by the Company include:

- offering consumer loans, credit cards, deposit products, additional products related to customer activity or other activities coordinated with the Bank and performing other activities related to banking operations,
- handling the Bank's loyalty program,
- reaching target group customers indicated by the Bank and presenting them with the offer of products listed in the contract,
- providing customers with reliable information regarding a given product, as well as regarding procedures and financial conditions relevant to the Bank's products, consistent with the current fees and commissions as well as within limits resulting from the Agreement,
- collecting up-to-date customer documents required by the Bank in order to apply for the Bank's product,
- checking documents submitted by customers in terms of formal and substantive content, in particular their validity, reliability and correctness, readability and completeness,
- conducting negotiations with selected entities within the scope of banking services offered by the Bank,
- verifying the manner and scope of customer representation and verification of persons authorized to make declarations of will on behalf of customers, including signature patterns,
- providing the Bank with client documentation related to the performed activity and other documents that the Bank may request in order to consider the client's application,
- determining the identity of clients, stating the authenticity of signatures submitted on documents required by the Bank, and certifying compliance with original documents and signatures submitted by customers.

Table 38. Basic financial data of BNP Paribas Financial Services Sp. z o.o.

PLN '000	30.06.2019	31.12.2018
Balance sheet total	15,423	22,802
Long-term investments	15,010	22,244
Equity	15,009	22,198
including: net financial result	1,455	1,153

6.6. BNP Paribas Solutions Spółka z o.o.

BNP Paribas Solutions Sp. z o.o. (the „Company”) has been operating since 9 July 2014 (date of entry into the National pCourt Register). It became a Part of the BNP Paribas Bank Polska S.A. Group as a result of the acquisition of exRBPL on 31 October 2018. The Company owns the online currency exchange platform - Rkantor, which is one of the main sources of income. By logging in to their register, the customer is able to exchange currencies and make money transfers. All activities are carried out by the customer in the system.

BNP Paribas Solutions Sp. z o.o. has the status of a National Payment Institution (based on the authorization of the Polish Financial Supervision Authority of 22 September 2015), which authorizes to keep payment registers and carry out interbank transfers by customers.

The Company's primary area of operations covers brokerage activities related to the securities and commodity exchanges market - currency exchange office activity. In addition, it carries out activities related to software, consulting in the field of IT, data processing, website management (hosting) and activities supporting financial services (excluding insurance and pension funds), the activity of insurance agents and brokers.

Currently, the primary goal of BNP Paribas Solutions Sp. z o.o is to provide individual and institutional clients with the widest range of currency exchange and fund transfer products via the Rkantor.com internet platform. Emphasis is placed on maintaining the highest level of security and speed, combined with low transaction costs.

In addition, the Company realizes the following projects for the Bank:

- construction of an online transaction platform for currency exchange (New FX PI@net),
- servicing the "#Korzystaj" purchasing program available in the Bank's Electronic Access Channels,
- Kalejdoskop Walut [Kaleidoscope of Currency] - application for the Treasury sales network supporting the sale of currency products and financial instruments,
- SONDA - MIFID survey for clients of all Bank business lines.

Table 39. Basic financial data of BNP Paribas Solutions Sp. z o.o.

PLN '000	30.06.2019	31.12.2018
Balance sheet total	67,313	76,442
Long-term investments	63,235	74,211
Equity	2,287	3,638
including: net financial result	(1,361)	(772)

6.7. Campus Leszno Spółka z o.o.

Campus Leszno Sp. z o.o. (the "Company") was established on 28 June 2018 by a company agreement in the form of a notarial deed and entered into the Register of Entrepreneurs of the National Court Register.

The Company was separated from the Bank's structures, where it formerly functioned as the Training and Conference Center (CSK Leszno). The Company's activity still consists in providing training and recreational services as well as providing a training, hotel and catering base. The Company's operations include entertainment and recreational activities, activities related to the organization of fairs, exhibitions and congresses, and other business services.

6.8. BGZ Poland ABS1 Designated Activity Company

BGZ Poland ABS1 Designated Activity Company ("SPV") is based in Ireland, 3rd Floor Kilmore House, Park Lane, Spencer Dock, Dublin. It is 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 agreements concluded on 11 December 2017 (as amended), 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.

7. KEY RISKS MANAGEMENT

Risk management is an integral part of the Bank's overall management system. In addition to legal and regulatory requirements, it covers the specific nature, scale and complexity of business operations and associated risks. It ensures, through various risk management and risk control units at individual levels of management at the Bank, that all significant types of risk are measured and reduced.

The Bank strives to identify and assess threats arising from the internal and external environment that could have a significant impact on the financial stability of the Bank. The risk identification process is performed as part of the annual review of the internal capital assessment process (ICAAP).

The following risks are identified by the Bank within the activities performed:

- 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 and they are subject to periodical reviews.

The Bank has developed detailed procedures applicable to particular risks, defining the level of risk appetite. The risk appetite, within the limits set by the risk tolerance, defines the manner in which the Bank uses its risk-taking capacity by specifying the degree of risk exposure that a given business area may take for each type of risk. For non-measurable risks, the procedures are analysed and monitored within the prescribed time limits based on 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 of the Bank, 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, Problematic Loan Committee, Products Approval, Services, Transaction and Businesses Committee, as well as Internal

Control Coordination Committee), Risk Area department, Compliance Division as well as Security and Continuity of Business Management Department.

The key role in the risk management system at the Bank is fulfilled by the Management Board of the Bank, which defines the risk policy, risk appetite, 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 of the Bank.

7.1. 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 BNP Paribas Bank Polska 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 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 "BNP Paribas Bank Polska 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 2019, the Bank obtained a total of PLN 695.5 million of receivables, of which:

- PLN 158.7 million – as a result of debt collection activities (corporate entities – PLN 32.6 million, micro enterprises – PLN 39.8 million, SME – PLN 15.0 million, Personal Finance – PLN 54.7 million, mortgages – PLN 16.6 million);
- PLN 466.9 million – as a result of portfolio restructuring;
- PLN 69.9 million – as a result of NPL portfolio sale.

7.2. Liquidity, currency and interest rate risk

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

- finance assets and meet 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. There is a uniform risk monitoring system at the Bank, covering the core business of Raiffeisen Bank Polska S.A. acquired in 2018, which provides current information on the Bank's liquidity risk level.

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, including 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 (CED) Bank and other financial institutions.

The policy adopted by the Bank allows it also to use other sources of funding, to include own debt securities issue or structured transactions.

At the end of June 2019, the Bank financed a portfolio of mortgage loans in CHF with funds in EUR and USD including medium- and long-term foreign exchange transactions.

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 40. Structure of loan financing portfolio

in PLN million	30.06.2019
Net loans	70,857
Total sources of funding	88,366
Customer deposits, including:	82,642
- retail customers	43,875
- corporates	34,719
- non-banking financial institutions	2,995
- public sector entities	1,053
Amounts due to banks	3,545
Debt securities issued	2,179

At the end of June 2019, compared to the end of 2018, the amount of wholesale financing received from the BNP Paribas group remained at a similar level. The Bank's loans in foreign currencies are financed with the use of customer deposits and - in necessary – with the use of foreign currency exchange transactions. In case there is such a need, the Bank may use funds from medium- and long-term loans from the BNP Paribas Group, which provides stable funding to address shortages in EUR, USD and CHF.

As at 30 June 2019, the structure of open long-term lines of credit was as follows:

Table 41. Structure of loans from BNP Paribas Group

in PLN million	30.06.2019
CHF	150
EUR	200
PLN	560

Table 42. Structure of loans from the EBRD, EBI and EIB

in PLN million	30.06.2019
EUR	30
PLN	250

In addition, in the securitization process of the loan portfolio, the Bank received funding in the amount of PLN 2,179 million and EUR 40 million.

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 foreign currency 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 Division.

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.

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.

When determining the interest rate risk profile, the Bank takes into account not only contract parameters, but also the actual characteristics of the products resulting from customer behavior and built-in options, applying models e.g. for current accounts, savings accounts, fixed rate loans, credit cards.

Modeling the behavior of products divided into business lines allows to select a stable and unstable part, reacting in different ways to changes in interest rates.

The following basic types of interest rate risk analyses (in general and divided by currencies) are defined in the policy on interest rate risk adopted by the Bank:

- a mismatch between the repricing dates of assets and liabilities ("gapping"), for banking portfolio;
- sensitivity of interest income to defined - expected and crisis - scenarios for shifting interest rate curves, assuming various interest rate curve scenario (EaR);
- the amount of interest income under defined scenarios for the change of interest rate curves (NII);
- sensitivity due to different reference rates (basic risk);
- average investment length of capital and non-interest bearing current accounts (structural elements);

- sensitivity of fair value to a parallel shift of interest rate curves by 1 basis point, and to a shift of interest rate curves by 1 basis point at a selected nodal point of the curve;
- sensitivity of fair value measured as the nominal value of the annual transaction (item) with identical sensitivity -One Year Equivalent (OYE);
- change in fair value of capital with defined scenarios for changing interest rate curves.

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 on a daily, monthly or quarterly basis. 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 2019. Utilization of set limits is below the maximum values.

Table 43. Interest rate gap (in PLN million)

Term	Gap
1M	(10,589)
3M	1,001
6M	287
1Y	(1,593)
2Y	(5,548)
3Y	(5,376)
5Y	(6,470)
10Y	1,086

The average length of capital investment and non-interest bearing current accounts as at 30 June 2019 was 4.5 years.

The sensitivity of interest income at the offsets of interest rate curves by + 50bp as at 30 June 2019 is presented in the table below:

Table 44. Sensitivity of interest income (in PLN million)

1st year	2nd year	3rd year
24.5	40.0	55.5

7.3. 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 2019, 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.

7.4. 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.

In the first half of 2019, 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 2019, transactions related to foreign credit activity of the Bank represented 42% of the Bank's exposure toward countries, treasury transactions (including deposits and derivatives) represented 15%, while the remaining part, i.e. 36%, was related to international trade transactions (letters of credit and guarantees). France accounted for 29%, the Netherlands for 14%, Luxembourg for 13%, Austria for 7%, Belgium for 7%, and Great Britain for 6%, of the exposure. The remaining exposure was related to Switzerland and Moldova.

7.5. Operational risk

The Bank's operational risk is defined in accordance with the requirements of the Polish Financial Supervision Authority included in Recommendation M 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 system

The Bank maintains and develops an operational risk management system that comprehensively integrates the management of individual types of operational risk in all areas of the Bank's operations. The objective of the operational risk management system is to ensure the safety of the Bank's operations by implementing effective mechanisms for identification, assessment and quantification, monitoring, control, reporting and taking actions aimed at reducing operational risk. Such measures take into account the structures, processes, resources and scopes of responsibilities at various organizational levels within the Bank.

The operational risk management strategy has been described in the *Operational Risk Management Strategy of BNP Paribas Bank Polska S.A.*, which was approved by the Management Board of the Bank and accepted by the Supervisory Board. *The Operational Risk Policy of BNP Paribas Bank Polska S.A.*, adopted by the Management Board of the Bank, includes the organizational framework and standards for operational risk management. These documents address 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 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 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 of operational risk management of BNP Paribas Bank Polska S.A.*, 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 Management (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 of BNP Paribas Bank Polska S.A., 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 dimensions. Periodic assessment and review of the Bank's operational risk profile is based on an analysis of the Bank's current risk parameters, changes and risks occurring in the Bank's environment, implementation of the business strategy, as well as the adequacy of the organizational structure and the effectiveness of the risk management and internal control system.

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 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 BNP Paribas Bank Polska S.A.", 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, 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.

Capital requirements due to operational risk

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).

Operational risk management in the Bank's subsidiaries

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.

7.6. Legal risk

As at 30 June 2019, 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.

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 (currently: BNP Paribas Bank Polska S.A.) 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. Acquisition of the core business of Raiffeisen Bank Polska S.A. (RBPL) did not change the situation of the Bank as RBPL was not a party to this claim.

Corporate claims against the Bank (interchange fee)

As at 30 June 2019 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 2019, the Bank was the defendant in 146 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 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 Bank is not a party to any collective action regarding these loans. The total value of claims pursued in the above cases amount to PLN 43.94 million.

The Bank monitors the state of court decisions (both domestic and European) on an ongoing basis regarding loans indexed / denominated in foreign currency and currency in terms of shaping and possible changes in the case-law. As regards 9 proceedings so far validly completed, 8 claims against the Bank were dismissed, and in 1 case despite the dismissal of the claim, the court in the justification annulled the contract.

The Bank's portfolio does not include indexed loans.

8. CORPORATE SOCIAL RESPONSIBILITY (CSR)

„In a changing world responsibility matters”

BNP Paribas Bank Polska S.A. understands corporate social responsibility and sustainability as long-term financing of the economy and building lasting relationships with clients in accordance with ethical principles, a responsible approach to employee development and involvement, increasing the availability of products and services, openness to clients' needs, initiatives for local communities, limiting negative impact of its operational activities, pro-ecological products and services, and the promotion of eco-attitudes.

Corporate Social Responsibility (CSR) Strategy of BNP Paribas Bank Polska S.A. is consistent with the BNP Paribas Group Strategy. It consists of 12 commitments under 4 pillars of responsibility: economic, workplace, social and environmental responsibility. Through activities under the CSR Strategy, the Bank supports the implementation of Sustainable Development Goals (SDGs), global challenges for the world announced in 2015 by the UN.

I. ECONOMIC RESPONSIBILITY

The key dimension of responsibility of BNP Paribas Bank Polska S.A. is a long-term support for the development of the economy by financing projects of individual clients and enterprises - so as to support their growth. At the same time, the Bank monitors CSR risks in sensitive sectors, and financing decisions precede the analysis of the social, economic and environmental impact of the company and project.

CSR monitoring of clients and transactions

The Bank is constantly implementing the process of monitoring transactions and financing companies in terms of environmental and social aspects, corporate governance (ESG - environmental, social, governance). To this end, sensitive sectors in which transactions are carefully considered by a team of experts in terms of compliance with the principles of sustainable development have been identified: coal, mining, defence and security, forestry, nuclear energy, agri-food.

In the first half of 2019, 223 CSR analyses and recommendations were carried out. The Bank continued the exit process from financing entities from the tobacco sector, resulting from the global decision taken in 2017 by the BNP Paribas Group to discontinue financial and investment activities in relation to tobacco manufacturers as well as growers and wholesalers whose main business is tobacco-related.

Innovation

"Elephant whisperers, or about cooperation between a start-up and a bank"

Bank, together with partners - Kancelaria Domański Zakrzewski Palinka, Impact and Fintek - has prepared a special guide on cooperation of a fintech start-up with the Bank. The publication touches on, among others, a number of legal issues and on the areas of IT architecture and IT Security.

Successive editions of Office Hours

During the so-called *Office Hours* (the Bank's proprietary approach to cooperation with young technology companies), Bank experts meet with promising start-ups that can provide cutting-edge technological solutions. So far, 15 editions of Office Hours have been held, in which over 600 solutions were analysed.

Customer development support

II edition of the Foreign Trade Program

BNP Paribas Bank Polska supports entrepreneurs in expanding into foreign markets through the Foreign Trade Program. This is a joint initiative of the Bank, KUKE S.A. and Bisnode Polska, which aims to support small and medium enterprises and corporations in foreign expansion. In May 2019, yet another edition of the program has been launched. It focused on three markets: Italian, French and Belgian.

Agronomist

Agronomist.pl is the Bank's new platform, created in April 2019 for farmers and processors of the food sector. Platform users have access to the latest Food&Agro analyses, price forecasts and information on weather at a given location, farm management system, and even satellite field mapping. Agronomist.pl is a first, free platform gathering in one place such a wide set of tools for farmers and processing companies. Some of the functionalities, including satellite field mapping and farm management systems are only available to the Bank's customers. The Bank plans to further expand the portal in cooperation with clients from the agri-food sector and business partners.

II. RESPONSIBILITY IN THE WORKPLACE

Responsibility in the workplace is primarily manifested in creating a good environment that supports the professional development of employees and their commitment. It serves to promote openness, respect for diversity and readiness for professional mobility.

Promoting diversity

"Equal place" workshops

The Bank's organizational culture is built on the basis of respect for diversity. This year, on 14 June and 10 July, "Equal place" workshops on non-discriminatory treatment in services were organized in cooperation with the Polish Society of Anti-Discrimination Law. The workshop was attended by 35 people responsible for managing diversity in various areas of the organization.

"Relationship culture at work" webinars

In May and June this year, the HR team carried out webinars on actions which could promote culture and respect in relations between the Bank's employees. 750 people employed at the Bank participate in webinars.

Professional Development Days

In April 2019 in Warsaw, Krakow, Ruda Śląska, Olsztyn, Poznań and Szczecin, the Professional Development Days (Dni Rozwoju Zawodowego - DRZ) took place - the local edition of International Mobility Days, the annual program taking place simultaneously in several dozen countries of the BNP Paribas Group. The DRZ's offer included, among others, inspirational lectures, workshops, webinars and individual meetings with Managers, HR Business Partners and Recruiters. The trainers encouraged employees to develop the following areas: personal brand, recruitment savoir vivre, positive psychology, competencies of the future and mutual knowledge. 750 people participated in the Professional Development Days.

II edition of the Digital Ambassadors program

The goal of the program is to build a digital culture at the Bank. The key role in this process is played by Digital Ambassadors, whose task is to acquire knowledge and skills in the field of functioning and implemented new tools, supporting remote work and business efficiency, transferring knowledge to colleagues, participating in testing and implementing new solutions, promoting new work techniques, collecting and providing IT with information about the needs of employees, as well as tracking market news in order to implement them in the Bank.

Introduction of the *About Me* platform

About Me is the BNP Paribas Group platform for managing work results as well as employees' careers and development. It allows to enter the employee's professional experience, strengths (competences), professional development preferences, set goals, record regular feedback from a supervisor and plan personal development.

III. SOCIAL RESPONSIBILITY

Responsibility in this dimension means undertaking active actions for the environment within which the Bank operates. It focuses on areas in which the Bank can contribute to a positive social change in the most adequate way, i.e. combating social exclusion and supporting education and culture, especially in small communities.

Social activities are implemented by the CSR Office in cooperation with the BNP Paribas Foundation.

The rebranding campaign "You are the Change and we are the Bank of a changing world"

One of the elements of the campaign related to the change of the brand from 1 April 2019, was the campaign involving the organization's stakeholders to actively change the world, entitled 'Important questions'. The heroes' observations were to be a source of inspiration for changes in everyday life. As part of the campaign, a special website zostanzmiana.pl was created, as well as films were produced in cooperation with people representing respected and recognized associations and foundations such as the Kosmos dla Dziewczynek Foundation, Nasza Ziemia Foundation, Ocalenie Foundation, Social Wolves, Zwolnieni z Teorii, Łąka Foundation, Lambda Warsaw Association.

Internet users could vote for the project of their choice and support important changes. The largest number of Internet users' votes were received by the following projects: Kosmos dla Dziewczynek Foundation, Lambda Warsaw Association, Ocalenie Foundation and Nasza Ziemia Foundation; for the implementation of which each organization received financial support from the Bank in the amount of PLN 50,000. The Łąka Foundation and the Social Wolves Foundation received PLN 20 thousand from the Bank for the implementation of its initiatives.

Local Bank Ambassadors

In March 2019, the second edition of the Local Bank Ambassador program was launched, the one of a kind program of this type both in Poland and in the BNP Paribas Group. Currently, nearly 100 Local Ambassadors are active throughout Poland.

As part of this Program, the Bank became a partner of the summer edition of the initiative addressed to university and high school students – *Zwolnieni z Teorii (Exempt from Theory)*. The task of young people is to implement projects on diversity in cooperation with the Bank's employees.

Promoting responsible attitudes

CSR Days 2019

As part of the European Sustainable Development Week, on 3-7 June 2019, the Bank hosted the CSR Days 2019. The employees had the opportunity to learn about the Bank's activities for business responsibility and participate in numerous events: 80 people took part in CPR training, over 150 people participated in meetings promoting safe and ecological driving, over 1,600 people benefited from the consultation "Żyj zdrowo!" ("Live healthy!"). In addition, employees had the opportunity to test hybrid and electric cars, learn about VR (Virtual Reality) technology in medicine, curiosities about urban beekeeping and take part in meetings with representatives of partner organizations of the Bank and the BNP Paribas Foundation. During the CSR Days 2019, 140 people joined the bone marrow donor database of the DKMS Foundation.

Children's Day with the Coalition for Polish Innovations

The Bank is a partner of the Coalition for Polish Innovations Foundation (Koalicja na Rzecz Polskich Innowacji - KPI). Together they have organized a celebration of Children's Day for children of employees of KPI partners and children from the Orphanage. In the Bank's head office at Grzybowska in Warsaw on 8 June 2019, the children participated in three workshops: DIY, MUSICION, and DIGIKIDS.

BNP Paribas Foundation

The Foundation has been conducting socially useful activities in the field of education, social solidarity and culture since 2006. These activities are social investments that solve important local problems and support the development of civil society. As part of its statutory objectives, the Foundation runs proprietary programs and supports selected projects and organizations that play an important role in building and maintaining civil society. The Foundation also coordinates initiatives and actions involving Bank employees in solving important social problems.

Social involvement of the Bank's employees

Competition for volunteer projects

The BNP Paribas Foundation supports the CSR Office in coordinating the employee volunteering program at the Bank. In January 2019, the Foundation launched the 7th edition of the annual Volunteer Projects Competition. Employees in teams of at least 3 people sent 70 ideas to help in local communities. 36 winning teams received funding from the Foundation of up to PLN 4,000 and a substantive, organizational and communication support.

Social Actions

Akcja Krwinka (*Blood Donation Day*) - the 9th edition, coordinated by the BNP Paribas Foundation, was organized on May 22 and June 18 this year in 5 of the Bank's locations. 233 employees joined the campaign, thanks to which 63 litres of blood were collected.

Registration of potential bone marrow donors - organized in June this year, as part of the CSR Days.

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

As part of the Program, by the employees' decision, since January 2019, the Alivia Oncological Foundation is being supported. 182 donor employees participated in the program of voluntary salary deductions for social purposes.

Long-term scholarship programs

Klasa (Class) scholarship program

In February-April 2019, the 17th recruitment to the scholarship program *Klasa* took place. The aim of the Program is to support talented young people who are in difficult financial situation and come from small towns, by enabling them to study in reputable high schools. The BNP Paribas Foundation has received over 100 applications.

Since 2003, 700 junior high and elementary school graduates have received support.

Agrotalenty (Agitalents) scholarship program

As part of the Program, the Foundation annually offers scholarships for 40 winners of the Polish Olympiad in Agricultural Knowledge and Skills and 10 of the most talented students of agricultural fields of study. Since 2012, nearly 300 pupils and students have received support.

Cooperation with the BNP Paribas Group**Wiedza do potegi (*Knowledge to the power*) tutorial-scholarship program**

The BNP Paribas Foundation has been cooperating with the Ocalenie Foundation since 2015, and since 2018, the organizations have been jointly running the „Wiedza do potęgi” (*Knowledge to the power*) program for refugee youth. The goal of this program is to help them to continue their education in a new place and find their place in the Polish education system. For the implementation of the project in 2019-2020, the BNP Paribas Foundation received a 3-year grant from the BNP Paribas Group.

Dream Up educational program

Dream Up is an educational program of the BNP Paribas Group, currently implemented in 29 countries. As part of this project, the BNP Paribas Foundation and the Praga-Południe District Culture Promotion Center organize music classes for children and youth. Their goal is the artistic and personal development of participants and their social integration. In June 2019, nearly 70 people regularly participated in the program.

IV. RESPONSIBILITY FOR THE ENVIRONMENT

BNP Paribas Bank Polska S.A implements minimizing the negative impact on the environment of in three dimensions: limiting the negative impact of operational activity and promoting eco-attitudes among employees, responsible financing of the economy and clients as well as cooperation and involvement in cross-sectoral initiatives.

BNP Paribas Bank Polska for energy transformation**ELENA program**

On 26 March 2019, BNP Paribas Bank Polska concluded an agreement with the European Investment Bank (EIB) under which it acquired funds from the EU program ELENA (European Local Energy Assistance) based on the Horizon 2020 program to improve the energy efficiency of multi-family residential buildings. The cooperation with the EIB in this respect will allow the Bank to increase the scope of financing investments in this area within the next 3 years.

Financing renewable energy sources**Fotowoltaika (Photovoltaic) program for prosumers**

In the first half of 2019, the photovoltaic program for prosumers introduced streamlining in the form of dissemination of the paperless process as a leading form of concluding a contract with an individual customer and the option of postponing the payment of the first instalment by 1 month as compared to the standard schedule.

Photovoltaic loan for micro farmers

Due to the positive changes in the RES Support System in Poland, the Bank is constantly increasing its activity in financing renewable energy sources. One of the initiatives in the first half of 2019 was a promotional price offer for an investment loan for the purchase and installation of photovoltaic installations for micro farmers.

Promotion of energy efficiency

A team of renewable energy and AGRO experts actively supports clients who are planning pro-ecological projects that are favourable to a sustainable economy and the energy transformation of the Polish economy. In addition, the Bank cooperated with an external expert in the field of energy trading, who - during a series of meetings with clients - advised on how to reduce energy costs through appropriate energy efficiency.

Bank of Green Change**Promoting eco-attitudes**

In April 2019, the 'Bank of Green Change' (Bank Zielonych Zmian - BZZ) educational program was launched and targeted towards the employees of BNP Paribas Bank Polska. As part of the campaign, whose main theme is 5 fractions of garbage segregation, numerous meetings are organized, including with the author of the book *Życie Zero Waste* (Life Zero Waste) and the ograniczamsie.com blog, as well as with a climatologist and director of the document "Separate species". In addition, a special page dedicated to ecology, was created on the internal intranet.

Eco-improvements

As part of the Bank of Green Change program, the Bank implemented a number of initiatives affecting the minimization of the harmfulness of the organization's functioning against nature. Pursuant to the municipalities acts and regulations, waste segregation is gradually introduced in all branches of the Bank.

BNP Paribas Bank Polska has started the fight against plastic: the purchase platforms have been withdrawn from ordering disposable plastic cups, cutlery, plates, etc., and water in plastic bottles, and the offices have been equipped with water dispensers, decanters and glasses. At the same time, the process of minimizing the consumption of plastic in canteens

located in the Bank's headquarters is underway - the organization promotes bringing your own container and replaces plastic cutlery and packaging with ecological and compostable ones, to finally reach the state of plastic free. A pilot waste composting program was also started in the canteen at the Bank's head office in Warsaw at Kasprzaka Street.

The Bank promotes and produces sustainable gadgets: reusable lunchboxes and eco-bags.

COOPERATION AND COMMITMENT IN CLIMATE INITIATIVES

6-7 May 2019	SDGs Summit organized by CSR Europe in Brussels - presentation of the Bank's actions for climate
9 May 2019	meeting from the cycle of Rendezvous Business of the French-Polish Chamber of Commerce (CCIFP) entitled "Bank of green changes - climate, responsibility, cooperation" - presentation of the Bank's activities in the field of development of "green" pro-climate financing and product for individual consumers: Photovoltaics for prosumers
13-15 May 2019	XI European Economic Congress in Katowice - participation in the debate devoted to the topic of sustainable development in company strategies
3-5 June 2019	IX European Financial Congress in Sopot - the Bank hosted the debate "Green finance - principles, standards and reporting in the financial sector"

CSR PARTNERSHIPS ESTABLISHED IN THE FIRST HALF OF 2019

CEO Call to action	during the SDGs Summit 2019, CSR Europe announced the "Call to action" initiative joining CEOs of companies declaring support for the implementation of SDGs actions taken by organizations, through which they will manage to build a new order for Europe. The need to build social and climate justice and sustainable development was supported by the President of BNP Paribas Bank Polska as the only CEO from Poland.
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Full list available at <https://www.bnpparibas.pl/csr/partnerstwa>.

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

The most important external factors that may affect the Group's results in subsequent periods include:

- **Economic development in Poland.** Since the beginning of 2018, the GDP growth in Poland has been around 5% YoY. In the first quarter of 2019 it amounted to 4.7% YoY, slowing down from 4.9% in the fourth quarter of 2018. In the first quarter of 2019, the increment was based on domestic demand, with solid consumption dynamics and historically high investment growth. Weaker data on the economic situation in the euro zone and increasing supply constraints suggest that GDP growth may slow down further in the following quarters, but the scale of the slowdown will be limited by the increment in social transfers introduced by the government.
- **Situation on the domestic labour market.** The unemployment rate remains at historically low levels. In the first quarter of 2019, it fluctuated around 6.0%. Data available up to this date indicate that the unemployment rate fell to 5.4% in May. The impact of adverse demographic trends and the lowering of retirement age on the number of economically active people in the previous quarters was compensated by a significant influx of workers from Ukraine. In the medium- and long- term, reducing labour supply may reduce potential and real GDP growth. Wage pressure has recently remained elevated.
- **Changes in inflation.** Inflation in Poland in recent months has gradually increased to the level of 2.5% of the NBP inflation target, exceeding it in June, when CPI inflation amounted to 2.6% YoY. Acceleration of inflation is mainly driven by rising fuel, food and core inflation prices. On the other hand, high wage growth combined with high demand pressure drives core inflation, which is likely to rise above 2% by the end of 2019. We also expect that in the second half of the year CPI inflation will be close to the upper inflation target, i.e. 2.5%-3.5%. Despite accelerating CPI inflation, the Monetary Policy Council (MPC) kept interest rates unchanged. After the last MPC meetings, NBP President Adam Glapiński pointed out that in his opinion interest rates may remain unchanged even until the end of the Council's term in

2021. The upward risk for inflation is the pro-inflationary impact of the fiscal loosening announced this year. Higher spending on social transfers combined with supply constraints on the labour market should lead to pressure on rising the inflation. On the other hand, the downside risk is the possibility of a smaller transfer of wage growth to core inflation in the conditions of increased productivity growth. Market interest rates in Poland fell at the turn of the year, following their counterparts in the core markets (the United States and the euro zone), which was due to, inter alia, signals from the Federal Reserve suggesting that the US central bank has halted the monetary policy tightening cycle.

- **Potential increase of imbalance in public finances.** High economic activity and improved tax collection have contributed to a further reduction of the public finance sector deficit from 1.4% of GDP in 2017 to 0.5% of GDP in 2018. However, the deficit trajectory in the case of deficit will be stopped this year. Increasing social transfers by the government will result in an increase in the deficit to nearly 1.5% in 2019. The prospect of an increase in the deficit by increasing rigid expenditure makes it vulnerable to a possible stronger slowdown in economic activity.
- **Global trade war.** Currently, the trade dispute was eased during a meeting of US and Chinese presidents at the June G-20 summit, during which the parties agreed to resume trade negotiations. The uncertain situation regarding the future of negotiations and further US-China relations may contribute to the economic slowdown in the world as well as in Poland.
- **Potential increase in volatility and risk aversion in European financial markets,** resulting from slowing economic growth in the euro zone, as well as the uncertain situation in global trade. Higher risk aversion in the European bond market may increase the risk premium for Polish assets and cause an increase in the yield of Polish Treasury securities (especially at the long end of the yield curve). On the other hand, incoming dovish statements of ECB members reporting their willingness to further ease monetary policy may be a signal stimulating risk appetite in European financial markets.
- **Potential significant weakening of the zloty exchange rate against key currencies,** in response to a possible increase in volatility and risk aversion in financial markets. In the event of a stable situation in the external environment, BNP Paribas forecasts a weakening of the EUR / PLN exchange rate to 4.15 by the end of 2019.
- **Further decisions regarding the foreign currency loan portfolio:** On 4 July 2019, the Parliament adopted the Act on support for housing borrowers in a difficult situation. The Act extends the criteria and scope of available assistance, by lowering income thresholds, extending the time and amount of support. The process of cancelling part of the support provided is also simplified. The last 40 instalments will be possible to be redeemed after paying 100 instalments on time. In the final project, there was no record of the creation of the so-called Conversion Fund, which would cover the cost of converting mortgage loans. The maximum quarterly contribution of 0.5% of the balance sheet total of currency mortgages would translate into PLN 2.5 billion a year. Private debts of borrowers remain an unresolved issue. In April 2019, the Supreme Court issued a ruling on franc loans, in which it decided that the indexation clause, which converts the loan balance on the day of payment into CHF currency and an increase in the debt balance proportional to the increase in the franc exchange rate, violates the interests of the consumer and has been removed. This means that the foreign currency loan will be converted into a PLN loan, leaving the current interest rate. Therefore, this will mean shifting the currency risk and the domestic interest rate to the banks. The borrower will only bear the risk of Swiss interest rate. In the third quarter of 2019, a judgment of the Court of Justice of the European Union is expected, which will indicate what Polish courts should do if the index clause in credit agreements is considered abusive. One option is to convert the loan into PLN at the contracting rate and keep the interest rate based on the LIBOR rate. According to the preliminary assessment of the Polish Bank Association, the cost of such a solution on a sector scale would be PLN 60 billion, which could seriously threaten the condition of some institutions.
- **Recommendation S.** PFSA adopted an amendment to Recommendation S regarding good practices in the management of mortgage-secured credit exposures. The draft amendment requires banks to introduce mortgage loans based on a fixed or periodically fixed interest rate.
- The "key for debt" solution, which enabled clients to free themselves from debt by handing over the property to the bank, was removed from the current project. It would be a beneficial solution for customers whose debt would become significantly higher than the value of the real estate being credited. However, this would transfer part of the risk to the Bank, which would also have to translate into an increase in the cost of such a loan. The popularity of such a solution would also be further limited by the stricter requirements for LTV (<70%) and DTI (<35%). The amendment, however, retains the obligation to offer loans with a fixed interest rate (at least for the first few years of the loan duration), popular in Europe, but almost unknown in Poland.
- **The Act on Employee Capital Plans (Pracownicze Plany Kapitałowe - PPK),** effective from 1 July 2019. In the first stage, the largest employers employing over 250 employees are to join the PPK. Then, in 2021, small businesses and public finance sector entities. Entry of PPK into force will increase the cost of doing business.
- **Anti-usury Act.** At the beginning of July, the Parliament received a bill limiting the cost of loans, which is mainly targeted at companies offering so-called "Chwilówki." The European Commission did not agree to the proceeding under urgent procedure, which limits the likelihood of adopting an act during this term of the Parliament. Under the project, non-interest cost limits will be drastically reduced. The Act in its current form, with high probability, will strongly limit the possibilities of further operations of loan companies, which will push some borrowers into unregulated areas. In addition,

the possible insolvency of loan companies will mean no redemption of the bonds issued by them, which serve as the primary source of financing.

- **Development of the offer of banking services by external entities**, among others, thanks to the entry into force of the **Payment Services Directive (PSD2)** regarding payment services within the EU internal market from 14 September 2019. PSD2 introduces, among others, online access to data on the customer's invoice and payment initiation service at the customer's request. The above-mentioned services may be provided by third parties (entered in the registers kept by the Polish Financial Supervision Authority). The directive also imposes obligations on banks to provide public application software interfaces (so-called APIs) and to implement additional security requirements.

10. SUBSEQUENT EVENTS

- 10.07.2019 Decision of the Polish Financial Supervision Authority (KNF) on the expiry of the decision regarding the Bank's maintenance of own funds to cover the additional capital requirement in order to hedge the risk arising from currency mortgage loans for households.**

The KNF decision of 15 October 2018 concerned an additional requirement of 0.36 p.p. over the value of the total capital ratio, 0.27 p.p. over the value of Tier 1 capital ratio and 0.20 p.p. above the value of Common Equity Tier 1 capital ratio referred to in art. 92 paragraph 1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms ("Regulation No 575/2013").

11. STATEMENT OF THE MANAGEMENT BOARD OF BNP PARIBAS BANK POLSKA S.A.

The truthfulness and reliability of the presented reports

The Management Board of BNP Paribas Bank Polska S.A. declares that to the best of his knowledge:

- Interim Consolidated Report of the BNP Paribas Bank Polska S.A. Group for the period of 6 months ended 30 June 2019 and comparable data were prepared in accordance with the applicable accounting principles and reflect in a true, reliable and clear manner the property and financial situation of the Bank's Group and its financial result;
- Management Board report on the activities of the BNP Paribas Bank Polska S.A. Group in the first half of 2019, provides a true picture of the development, achievements and situation of the Bank's Group, including a description of the basic risks and threats.

The Bank's Management Board's position on the possibility of implementing previously published results forecasts for a given year

The Bank did not publish financial forecasts for 2019.

SIGNATURES OF MEMBERS OF MANAGEMENT BOARD OF BNP PARIBAS BANK POLSKA S.A.

28.08.2019	Przemysław Gdański <i>President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Jean-Charles Aranda <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Daniel Astraud <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Philippe Paul Bézieau <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	André Boulanger <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Przemysław Furlepa <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Wojciech Kemblowski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Kazimierz Łabno <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Jaromir Pelczarski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>
28.08.2019	Jerzy Śledziewski <i>Vice-President of the Management Board</i>	<i>qualified electronic signature</i>