

BANK BGŻ BNP PARIBAS S.A.
Warsaw, 26 August 2015

**MANAGEMENT REPORT
ON THE ACTIVITIES OF
THE CAPITAL GROUP OF
BANK BGŻ BNP PARIBAS S.A.
in the first half of 2015**



BGŻ BNP PARIBAS

Bank
zmieniającego się
świata

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

The Capital Group of Bank BGŻ BNP Paribas S.A. (hereinafter referred to as the “Group”) operates within BNP Paribas, a leading multi-national financial group present in 75 countries with nearly 185,000 employees. With its experience of almost 200 years, the BNP Paribas Group is present in Europe, North and South America as well as Asia-Pacific, where it provides services to all customer groups.

It is the mission of Bank BGŻ BNP Paribas S.A. to offer responsibly innovative financial solutions supporting customers in changing their world and stimulating the local economy.

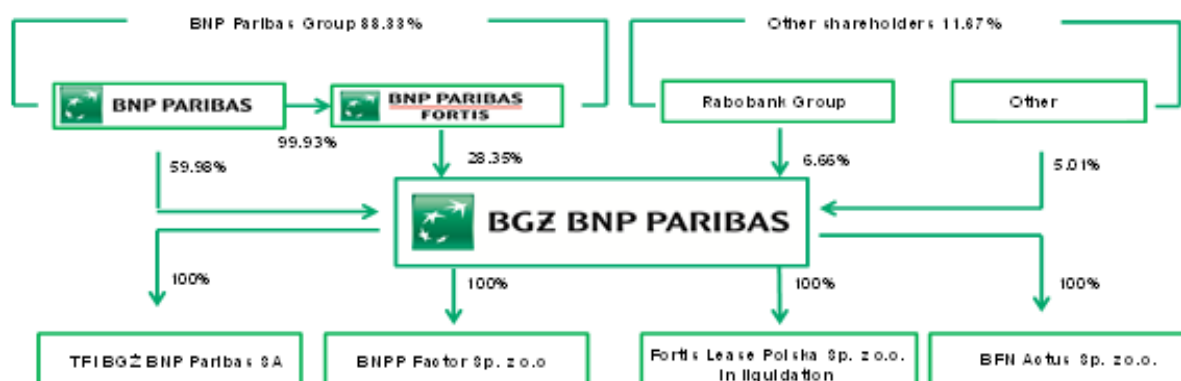
1.1. COMPOSITION OF THE GROUP AND CONSOLIDATED COMPANIES

Composition of the Group as at 30 June 2015:

Bank BGŻ BNP Paribas S.A. (hereinafter referred to as the “Bank” or “BGŻ BNPP”) – the parent, and four subsidiaries:

Entity's name	Core business	Bank's interest in share capital	Consolidation and measurement method
Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska S.A. - as of 13 July 2015, Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A. (“TFI BGŻ BNPP”)	investment fund establishment and management	100.0%	full method
BNP Paribas Factor Sp. z o.o. (“Factor”)	factoring	100.0%	full method
Bankowy Fundusz Nieruchomościowy ACTUS Sp. z o.o. (“Actus”)	purchase and sale of real property	100.0%	full method
Fortis Lease Polska Sp. z o.o. in liquidation (“FLP”)	leasing	100.0%	full method

The Group's shareholder structure:



Merger of Bank Gospodarki Żywnościowej S.A. and BNP Paribas Bank Polska S.A.

On 30 April 2015, a legal merger of Bank Gospodarki Żywnościowej S.A. (“Bank BGŻ”) and BNP Paribas Bank Polska S.A. (“BNPP Polska”) was completed. The legal merger was preceded by decisions of the supervision authorities.

On 9 April 2015, the Polish Financial Supervision Authority (PFSA) issued the following authorization and decision related to the merger of Bank BGŻ and BNPP Polska:

- a consent for the merger of Bank BGŻ (as the acquirer) and BNPP Polska (as the acquiree) through the transfer of all assets, equity and liabilities of BNPP Polska onto Bank BGŻ (merger); and
- a decision that there are no grounds for voicing an objection against the intention of Bank BGŻ to purchase directly the shares in TFI BNP Paribas Polska S.A., the number of which is sufficient to exceed the threshold of 50% of votes at the General Meeting.



On 10 April 2015, BNP Paribas Fortis SA/NV obtained the decision of the European Central Bank, issued as part of the Single Supervisory Mechanism, whereby a consent for the planned merger of Bank BGŻ and BNPP Polska was granted.

On 23 April 2015, the Polish Financial Supervision Authority granted its consent for amendments to the Statute of Bank BGŻ made in relation to the merger.

On 30 April 2015, the District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, recorded the banks' merger in the National Court Register. Upon the entry of the merger in the National Court Register, the Bank's business name was changed from Bank Gospodarki Żywnościowej S.A. to Bank BGŻ BNP Paribas S.A. In relation to the merger, the Court also entered the amendments to the Statute, as adopted by the Extraordinary Shareholders' Meeting of Bank BGŻ on 25 February 2015, to the National Court Register.

The merger was completed in accordance with Article 492.1.1 of the Code of Commercial Companies by transferring all the assets, equity and liabilities of BNPP Polska (the acquiree) onto Bank BGŻ (the acquirer), which was accompanied by an entry of the increase in the share capital of Bank BGŻ from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 shares in Bank BGŻ with the par value of PLN 1.00 each, acquired by the existing shareholders of BNPP Polska (merger shares). The shareholders of BNPP Polska received 5 merger shares in exchange for 6 shares in BNPP Polska.

As a result of the merger, Bank BGŻ assumed all the rights and obligations of BNP Paribas Bank Polska S.A., which was wound up without a liquidation procedure.

On 6 May 2015, the Management Board of the National Depository for Securities adopted a resolution concerning conditional registration of 28,099,554 I series ordinary bearer shares in the merged Bank, with the par value of PLN 1.00 each, with the securities depository. The Management Board of the National Depository for Securities set 7 May 2015 as the reference date, i.e. the date when the title to the shares in BNPP Polska to be converted in connection with the banks' merger was confirmed. Additionally, the Management Board of the National Depository for Securities decided to assign ISIN code PLBGZ0000010 to the merger shares upon their registration. The merger shares were registered with the depository on 18 May 2015, after the Management Board of the Warsaw Stock Exchange (WSE) had adopted a decision on their introduction to trading on the regulated market.

On 12 May 2015, the Management Board of WSE adopted a resolution concerning admission of I series, ordinary bearer shares in Bank BGŻ BNP Paribas S.A. and their introduction to trading on the Main Market of WSE and to reintroduce the shares in the merged Bank to trading as of 18 May 2015, as well as exclusion of the shares in BNPP Polska from trading on the Main Market of WSE.

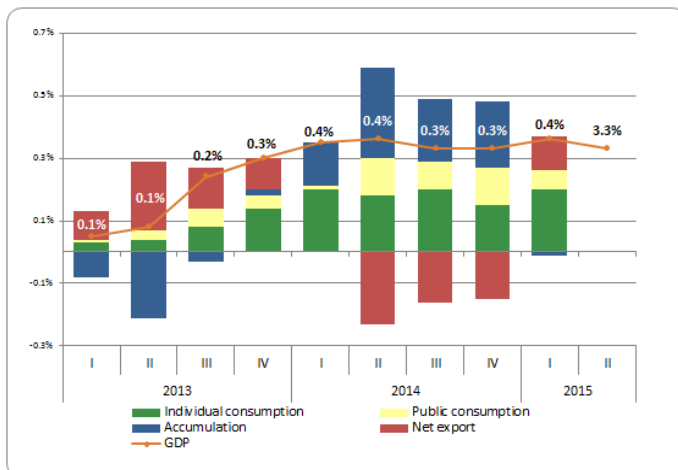
2. EXTERNAL FACTORS AFFECTING THE GROUP'S OPERATIONS IN THE FIRST HALF OF 2015

2.1. MACROECONOMIC CONDITIONS

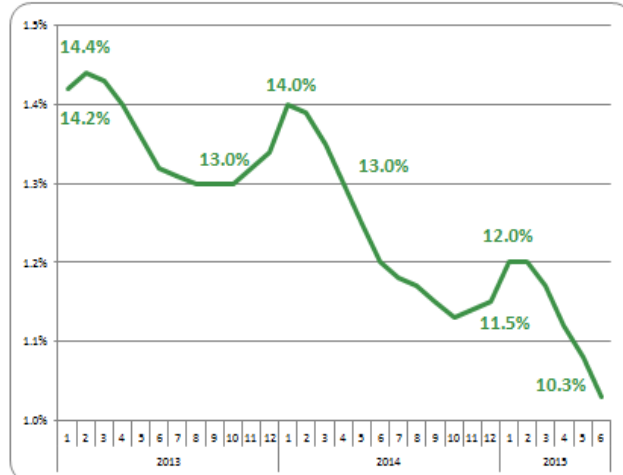
At the beginning of 2015, the economic growth rate in Poland increased, reaching the level of 3.6% YoY in the first quarter vs. the average of 3.3% in the second half of 2014. In the second quarter the growth rate also remained high, i.e. at a level of more than 3.3%. A slight slowdown in the annual growth rate was affected mainly by such one-off factors as transfer of some holiday expenses to the first quarter and upward revision of prior figures. Good economic performance was possible thanks to gradual elimination of the negative effects of export sanctions imposed before by Russia on food produced by EU Member States, which was accompanied by gradual improvement of the economic conditions in the eurozone. The latter was facilitated by further monetary policy easing by the European Central Bank (ECB), which launched the quantitative easing (QE) program in March 2015 to support the tools implemented before. As a result of expansion of trade, the contribution of foreign trade increased to 1.1 p.p. in the first quarter of 2015 after three quarters when its effect on the Polish GDP had been negative. However, it was domestic demand, which rose in the first quarter by 2.6% YoY, that remained the key factor driving economic growth at the beginning of the year, accounting for 2.5 p.p. of the GDP growth. Except for a change in stock levels, all its components continued to contribute substantially to economic growth at the level of 1.4 p.p. for investment and 0.6 p.p. for public consumption. As regards investment, a high, more than 18% YoY rise in investment in the processing industry accounting for over 70% of total industry was particularly optimistic.



Larger-scale use of the production capacity throughout the past year as well as greater optimism about the future economic conditions and reduced financing costs had a positive effect on the aforementioned improvement. However, the key factor affecting both domestic demand and the entire GDP growth was private consumption, whose contribution in the first quarter was 2 p.p. vs. the average of 1.8 p.p. in the second half of 2014. Continued deflation increasing the real purchasing power of households and gradual improvement of the labor market conditions were the key factors responsible for good performance in that category.

Chart 1. GDP growth YoY

Source: Central Statistical Office, internal estimates

Chart 2. Registered unemployment rate

Since the beginning of 2015, a further drop in the registered unemployment rate, which was 11.3% on average between January and June as compared to 13.4% in the corresponding period of the preceding year, had been recorded. The aforesaid decrease was driven not only by improvement of the economic conditions but also exit of some people from the labor market, without which the drop in the unemployment rate would not have been so considerable. Although pays continued to rise, their increase in the enterprise sector was not exponential. The average growth of 3.5% YoY in this category between January and June 2015 was only 0.1 p.p. higher than in the second half of 2014. Most probably, continued deflation, which limited the pay expectations of employees while increasing their real pay, was responsible for the moderate pay growth. However, employment growth, which was at the average level of 1.1% YoY in the enterprise sector in the analyzed period vs. the average of 0.9% in the second half of 2014, was the key sign of improvement of the conditions on the labor market.

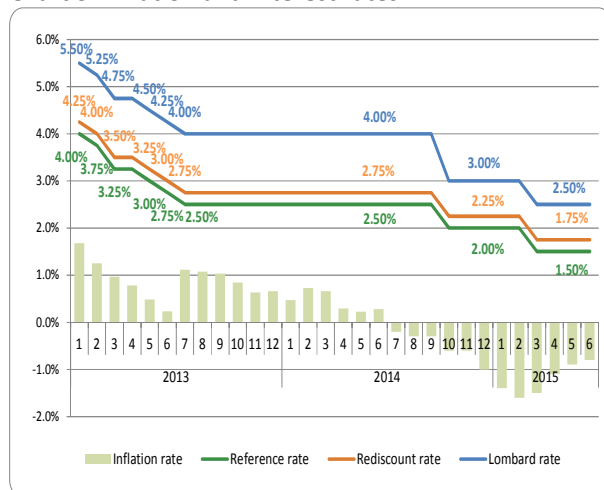
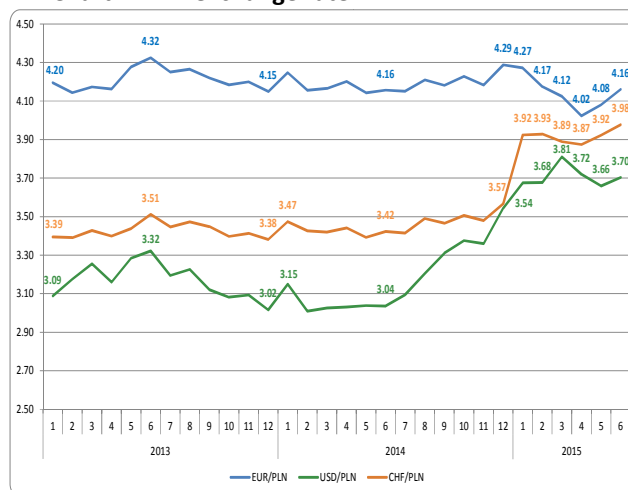
A strong deflation pressure continued in the first months of 2015. A drop in prices year-on-year was driven mainly by a sudden reduction in oil prices, which was observed until the end of January 2015 and translated into lower prices of fuel. Additionally, deflation was driven by a continued significant drop in the prices of food and non-alcoholic beverages. Although the most noticeable reduction in prices was observed in January and February (-3.9% and -17.6% YoY for food and beverages and fuel, respectively), which was followed by reversal of the negative trends, CPI went down between January and June by 1.2% YoY on average vs. 0.5% YoY on average in the second half of 2014.

Deeper deflation at the turn of the year made the Monetary Policy Council cut the interest rates by further 50 b.p. in March, as it did in October 2014. A considerable reduction in the cost of money was also driven by willingness to maintain the economic recovery signs in the still uncertain external environment. The ECB's launch of the quantitative easing program was an additional argument for monetary policy easing. Given considerably higher interest rates in Poland, the actions taken by the ECB posed a risk of sudden appreciation of the Polish currency and deterioration of economic conditions, especially as regards exports.

The pressure for the Polish currency to appreciate had been visible since the beginning of the year and the EUR/PLN exchange rate dropped from 4.28 at the end of December 2014 to slightly less than 4.00 at the end of April 2015. Appreciation was driven mainly by a considerable inflow of foreign capital to the Polish bond market. It could result from a significant interest rate disparity between Poland and the majority of developed economies as well as expectations as to a rise in bond prices following the launch of the European QE program. The balance of trade had also been increasing considerably since the beginning of the year, which



additionally fueled the demand for the Polish currency. However, at the end of April 2015, the EUR/PLN declining trend was discontinued in the context of concerns about Grexit, which led to an outflow of capital from the bond market, and the PLN/EUR exchange rate went up to 4.20 at the end of June.

Chart 3. Inflation and interest rates

Chart 4. PLN exchange rate


Source: Central Statistical Office and National Bank of Poland

2.2. PERFORMANCE OF THE BANKING SECTOR

According to preliminary data published by the Polish Financial Supervision Authority, in the first half of 2015 the net profit of the Polish banking sector dropped by 8.2% YoY to the level of PLN 7.96 billion (as compared to PLN 8.67 billion in the first half of 2014). The aforesaid decrease year-on-year was affected by a drop in net banking income (by 4.9% YoY). Also a rise in general administrative expenses (by 4.0% YoY), related mainly to the banks' payment of a higher annual and prudential fee to the Bank Guarantee Fund, exerted an adverse, though considerably less significant effect on the change in the profit generated by the sector year-on-year. The drop in net profit of the sector would have been more considerable had it not been for a sharp rise in profit on other operations (by 35.7% YoY) and a decrease in the negative balance of impairment losses and other provisions (by 11.8% YoY).

Table 1. Selected income statement items of the banking sector

mIn PLN	the first half of 2015	the first half of 2014	change YoY	
			PLN million	%
Net interest income	17 070	18 702	(1 632)	(8.7%)
Net fee and commission income	6 676	6 950	(274)	(3.9%)
Dividend income	889	897	(9)	(1.0%)
Other	3 282	2 815	467	16.6%
Net banking income	27 917	29 365	(1 448)	(4.9%)
Profit or loss on other operations	723	533	190	35.7%
Operating expenses, personnel expenses	(7 493)	(7 563)	70	(0.9%)
General administrative expenses	(6 448)	(6 200)	(249)	4.0%
Amortization and depreciation	(1 382)	(1 344)	(37)	2.8%
Total expenses	(15 323)	(15 107)	(216)	1.4%
Impairment allowances on assets and other provisions	(3 554)	(4 029)	475	(11.8%)
Profit before income tax	9 769	10 727	(958)	(8.9%)
Income tax expense and other statutory reductions in profit	(1 807)	(2 058)	251	(12.2%)
Net profit for the period	7 962	8 669	(707)	(8.2%)

Note: As the figures have been rounded, the totals in the table may be different.

Source: PFSA



The abovementioned decrease in net banking income in the first half of 2015 was influenced mainly by a marked drop in net interest income (by 8.7% YoY), which was largely the effect of the Monetary Policy Council's two cuts of the NBP interest rates, one in October 2014 and another in March 2015. An asymmetric reduction of the NBP lombard rate leading to a sharp decrease in the maximum interest, which limits, among other things, the permissible rates of interest applicable to consumer credit, was of major importance. Additionally, a sharp drop in net fee income (by 3.9% YoY), related mainly to a two-time reduction of the interchange fee, contributed negatively to the annual change in net banking income. The aforesaid decrease in net banking income would have been considerably stronger had it not been for a dynamic (by 16.6% YoY) but also significant in terms of volume, increase in the balance of other items. On the one hand, it was driven by sale of a portion of the treasury bond portfolio by some banks in favorable market conditions. On the other, it was affected by substantial additional profits generated by three banks on sale of shares in controlled entities operating in other segments of the financial market.

The nominal growth rate of the volume of loans to non-bank customers increased slightly in the first half of 2015 (to 7.4% YoY at the end of June 2015 from 7.1% YoY at the end of December 2014). However, the said rise was mainly attributable to strong depreciation of the Polish currency against selected base market currencies, i.e. CHF and USD. On the other hand, a slowdown was observed in the growth rate of deposits from non-bank customers (to 5.6% YoY at the end of June 2015 from 9.3% YoY at the end of December 2014).

Private debt went up as at the end of June 2015 by 8.8% YoY vs. a rise of only 5.5% YoY as at the end of December 2014. This was due to strong depreciation of the Polish zloty against the Swiss franc, which translated into a considerable increase in the level of private debt arising from foreign currency mortgage loans despite gradual repayment of principal of loans taken out before. Additionally, increased sales of consumer credit in PLN year-on-year had a positive effect on new loans in the private segment. The continued good conditions in that market segment were mainly determined by two factors. In general, they were possible thanks to earlier liberalization of the provisions set out in Recommendation T by the Polish Financial Supervision Authority with respect to cash loan and installment loan procedures. However, it was mainly affected by the continued pressure of banks on selling cash loans as high-income products (even despite a sharp drop in the aforementioned maximum interest), which was reflected, among other things, in their intense advertising activity in that market segment. Additionally, the continued strong supply of consumer credit was accompanied by a demand stronger than in the preceding year (though less buoyant than expected by banks). In effect, at the end of June 2015, private debt related to consumer credit went up by 5.6% YoY, to the highest level on record.

A slight slowdown, measured by new loans, was recorded in the segment of mortgage loans in PLN, though. The demand for mortgage loans was not as high as expected despite the lowest level of the NBP interest rates on record, further gradual improvement of the labor market conditions and the continued favorable conditions on the real estate market (where new apartment sales exceeded the level observed at the time of the boom in 2007). A relatively low demand impulse was also generated by the *Mieszkanie dla Młodych* program launched at the beginning of 2014. The lower than expected demand for mortgage loans was determined by several factors. First, in the context of the lowest interest rates in history, a major part of investors paid for apartments in cash (in whole or in part). Second, given the increased uncertainty driven by concerns about Grexit, some investors refrained from making any purchases on the real estate market. Third, availability and sales of mortgage loans in the Polish currency could have been limited by banks' implementation of more demanding down-payment requirements as of the beginning of 2015 (a rise by further 5% to 10%, in accordance with the amended Recommendation S).

According to the Polish Bank Association, loans in the Polish zloty continued to dominate in the currency structure of new mortgage loans in the first half of 2015, while the share of foreign currency mortgage loans remained marginal.

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

PLN billion	30.06.2015	31.12.2014	30.06.2014	change YoY	
				PLN billion	%
Loans to private customers	519.2	492.3	477.2	42.0	8.8%
- mortgages loans	376.4	353.7	342.4	34.0	9.9%
- in PLN	201.5	191.0	179.5	21.9	12.2%
- in foreign currencies	174.9	162.7	162.9	12.1	7.4%
- consumer credit	141.4	137.4	133.8	7.5	5.6%
- other loans to private customers	1.5	1.2	1.0	0.5	50.1%
Loans to institutional customers	522.8	506.7	493.2	29.6	6.0%
- non-bank financial institutions	52.6	51.5	44.0	8.7	19.7%
- business entities	392.0	375.9	371.3	20.7	5.6%
enterprises	289.1	278.2	276.7	12.5	4.5%
sole proprietors	66.0	62.8	61.6	4.4	7.1%
farmers	31.1	29.3	27.6	3.4	12.7%
non-commercial institutions	5.7	5.7	5.3	0.4	7.5%
- public sector	78.2	79.3	78.0	0.2	0.3%
Total loans to non-bank customers	1 042.0	999.0	970.4	71.7	7.4%
- in PLN	755.2	727.9	708.1	47.2	6.7%
- in foreign currencies	286.8	271.1	262.3	24.5	9.3%

Note: As the figures have been rounded, the totals in the table may be different.

Source: National Bank of Poland, data for monetary financial institutions, excluding the Central Bank and Cooperative Savings and Credit Unions, residents only

In the first half of 2015, the growth rate of loans and advances from enterprises slowed down as well. However, it should be emphasized that the said strong trend concerned only other loans and advances from enterprises. The growth rate of new loans, defined narrowly (both as regards working capital and investment loans), decreased inconsiderably, which does not indicate a significant slowdown in the business activity of companies or a drop in their investment spending. What deserves attention, though, is a considerable slowdown in the increase of foreign currency loans to enterprises year-on-year, which used to be very high (and exceeded the Polish zloty depreciation rate), accompanied by a slight increase in PLN loans year-on-year.

Private customers' savings remained the key source of a rise in banking sector deposits. Despite the lowest NBP interest rates on record, their annual growth rate in the first half of 2015 dropped inconsiderably, remaining at the level of almost 10% at the end of June 2015. This could have been attributable, among other things, to the aforementioned further, gradual improvement of the labor market conditions as well as the changing (and worse at the end of the analyzed period) situation on the Warsaw Stock Exchange. In contrast to 2014, the level of private deposits was mainly affected by a strong increase in the current deposit volume. At the end of June 2015, the volume of term deposits in that customer segment was similar to that recorded at the end of December 2014.

On the other hand, in the first half of 2015, a considerable increase was recorded in the deposit activity of enterprises, measured by the annual growth rate of volume (a slight drop in the nominal value of corporate deposits vs. the end of December 2014 was only seasonal). More intense deposit activity of enterprises was observed despite a high increase in their investment spending in the first quarter of 2015 on an annual basis as well as the Russian embargo on some food imports. On the one hand, it could have been supported by a rise in sales income generated by enterprises on the Polish market, which was reflected in at least a moderate annual increase in real retail sales (despite the continuing deflation trend). On the other hand, it could have been positively affected by exports, which were growing fast despite the abovementioned embargo. A marked drop in public sector deposits (mainly in foreign currencies) year-on-year, which resulted in a decrease in total foreign currency deposits of non-bank customers, was also of key importance.

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

PLN billion	30.06.2015	31.12.2014	30.06.2014	change YoY	
				PLN billion	%
Private deposits	570.8	549.4	520.6	50.1	9.6%
- current	281.9	260.6	251.5	30.4	12.1%
- term	288.9	288.8	269.1	19.8	7.3%
Institutional deposits	401.7	407.0	400.0	1.8	0.4%
- non-bank financial institutions	48.9	57.5	51.5	(2.6)	(5.0%)
- business entities	285.3	288.0	254.3	31.0	12.2%
enterprises	224.9	226.7	200.3	24.7	12.3%
sole proprietors	31.2	33.2	26.4	4.8	18.2%
farmers	10.0	9.9	9.6	0.5	4.2%
non-commercial institutions	19.2	18.2	18.2	1.1	5.5%
- public sector	67.5	61.6	94.2	(26.6)	(28.3%)
Non-bank deposits (total)	972.5	956.4	920.6	51.9	5.6%
- in PLN	869.3	859.7	806.4	62.9	7.8%
- in foreign currencies	103.2	96.7	114.2	(11.0)	(9.6%)

Note: As the figures have been rounded, the totals in the table may be different.

Source: National Bank of Poland, data for monetary financial institutions, excluding the Central Bank and Cooperative Savings and Credit Unions, residents only

2.3. STOCK MARKET AND INVESTMENT

The first half of 2015 did not see any major change in the WIG stock market index, which represents all companies listed on WSE (an increase by 3.7%). However, in the analyzed period WSE saw differences in market trends for the shares in large, medium-sized and small enterprises, which was reflected in the relevant indices. WIG 20, which represents the largest enterprises, recorded a symbolic profit of 0.1% in the first half of 2015, sWIG80, which comprises small enterprises, rose by 6.6% and mWIG40 saw a rise of 5.8%. The major factor responsible for the relative weakness of WIG20 was political risk, which affected mainly entities operating in the financial and power industries, which represent the major part of WIG20.

The following factors determined the situation on the Warsaw Stock Exchange in the first half of 2015: (i) the continued armed conflict between Russia and Ukraine, which translated into a rise in the risk premium expected by investors for equity investments in our region; (ii) the ECB launching the eurozone treasury bond buy-back program aimed at preventing deflation and stimulating the eurozone economies; (iii) financial difficulties faced by Greece, which involved a probability of its going bankrupt and exit from the eurozone; (iv) growing political risk resulting from the populist declarations made by representatives of the ruling and opposition parties (e.g. tax on financial sector assets or possible acquisition of unprofitable coal mines by power companies).

As regards Polish treasury bonds, the first half of 2015 brought a move away from the bull market which continued throughout 2014. Consequently, the yield on 10-year bonds rose from ca. 2.5% at the end of 2014 to 3.2% at the end of the first half of 2015.

Table 4. Major WSE indices

Index	30.06.2015	31.12.2014	30.06.2014	change Y/Y
WIG	53 328	51 416	51 935	2.7%
WIG20	2 318	2 316	2 409	(3.8%)
mWIG40	3 685	3 483	3 446	6.7%
sWIG80	12 902	12 108	12 778	1.0%

Source: WSE



In the first half of 2015, 8 new companies were listed on WSE, 4 of which as a result of transfer of quotations from the New Connect market. The number of WSE listed companies increased from 458 at the end of June 2014 to 474 a year later. Twelve new issuers entered the New Connect market in the first half of 2015 (as compared to 22 in total in 2014). Finally, there were 529 bond issues on the Catalyst market and their value exceeded PLN 594 billion.

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

	30.06.2015	31.12.2014	30.06.2014	change Y/Y
Number of companies	474	471	458	3.5%
Cap of domestic companies (PLN million)	605 185	591 165	607 218	(0.3%)
Share trading volume (PLN million)	113 945	232 864	117 688	(3.2%)
Futures trading volume ('000)	4 009	9 002	5 144	(22.1%)

Source: WSE

3. MAJOR EVENTS IN THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2015

16.02.2015	The Polish Financial Supervision Authority approved the Information Memorandum of Bank Gospodarki Żywnościowej S.A. prepared in connection with the merger of Bank BGŻ and BNP Paribas Bank Polska S.A.
25.02.2015	The Extraordinary Shareholders' Meetings of Bank BGŻ and BNPP Polska adopted resolutions on the banks' merger , increase in the share capital of Bank BGŻ through the issue of 28,099,554 I series shares and consent for the proposed amendments to the Statute of Bank BGŻ. The post-merger consolidated text of the Bank's Statute was adopted by the Extraordinary Shareholders' Meeting of Bank BGŻ.
5.03.2015	An agreement with the trade unions active at Bank BGŻ and one of the two trade unions active at BNPP Polska was made, whereby the procedures related to the group redundancy process were defined.
9.04.2015	The Polish Financial Supervision Authority granted its consent for the merger of Bank Gospodarki Żywnościowej S.A. and BNP Paribas Bank Polska S.A.: <ul style="list-style-type: none"> the PFSA granted its consent for the merger of Bank BGŻ (as the acquirer) and BNPP Polska (as the acquiree) through the transfer of all assets, equity and liabilities of BNPP Polska onto Bank BGŻ; and the PFSA adopted a decision that there are no grounds for voicing an objection against the intention of Bank BGŻ to purchase directly the shares in TFI BNP Paribas Polska S.A., the number of which is sufficient to exceed the threshold of 50% of votes at the General Meeting.
10.04.2015	BNP Paribas Fortis SA/NV obtained a decision of the European Central Bank issued as part of the Single Supervisory Mechanism, whereby a consent for the planned merger of the banks was granted.
23.04.2015	The Polish Financial Supervision Authority granted its consent for amendments to the Statute of Bank Gospodarki Żywnościowej S.A. made in relation to the banks' merger.
30.04.2015	Legal merger of Bank BGŻ and BNP Paribas Bank Polska The District Court for the capital city of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, recorded the banks' merger, an increase in the share capital and amendments to the Statute in the National Court Register. Upon the entry of the merger in the National Court Register, the Bank's business name was changed from Bank Gospodarki Żywnościowej S.A. to Bank BGŻ BNP Paribas S.A. The merger was completed in accordance with Article 492.1.1 of the Code of Commercial Companies by transferring all the assets, equity and liabilities of BNPP Polska (the acquiree)



onto BGŻ (the acquirer), which was accompanied by an entry of the increase in the share capital of Bank BGŻ from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 shares in Bank BGŻ with the par value of PLN 1.00 each, acquired by the existing shareholders of BNPP Polska (merger shares). The shareholders of BNPP Polska received 5 merger shares in exchange for 6 shares in BNPP Polska.

As a result of the merger, Bank BGŻ assumed all the rights and obligations of BNP Paribas Bank Polska S.A., which was wound up without a liquidation procedure.

6.05.2015 **The Bank was notified** by BNP Paribas SA and BNP Paribas Fortis SA/NV of their shareholding in the merged Bank BGŻ BNP Paribas S.A. as a result of acquisition of I series merger shares issued.

The share of BNP Paribas in the total number of votes at the Bank's General Meeting dropped below the threshold of 90% to 88.33%, including 59.98% held directly and 28.35% held through BNP Paribas Fortis SA/NV (BNPP Fortis).

BNPP Fortis, which did not hold any shares in Bank BGŻ before the merger, exceeded the threshold of 25% of the total number of votes. Detailed information concerning the parties holding more than 5% of the total number of votes has been presented in Section 7.1 of this Report.

18.05.2015 **The new I series merger shares were registered with the National Depository for Securities** under code ISIN PLBGZ0000010 and introduced to trading on the Main Market of the Warsaw Stock Exchange.

The shares in Bank BGŻ BNP Paribas were reintroduced to trading on the Main Market of the Warsaw Stock Exchange.

19.06.2015 **General Meeting of Bank BGŻ BNP Paribas S.A.**

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

4.1. COMPOSITION OF THE SUPERVISORY BOARD OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2015

Composition of the Supervisory Board of Bank BGŻ as at 1 January 2015:

Full name	Office held in the Supervisory Board of the Bank
Jean-Paul Sabet	Chairman of the Supervisory Board
Jean Lemierre	Vice-Chairman of the Supervisory Board
Jarosław Bauc	Member of the Supervisory Board
Dariusz Filar	Member of the Supervisory Board
Michel Vial	Member of the Supervisory Board
Mariusz Warych	Member of the Supervisory Board

Changes in the composition of the Supervisory Board of the Bank in the first half of 2015:

- on 23 April 2015, Mr. Dariusz Filar submitted a statement of resignation from the office of Member of the Supervisory Board of the Bank as of 30 April 2015;
- on 15 June 2015, Mr. Jean Lemierre submitted a statement of resignation from the office of Member of the Supervisory Board and Vice-Chairman of the Supervisory Board of the Bank as of 19 June 2015;
- on 19 June 2015, the General Meeting of the Bank appointed Mr. Jacques d'Estais, a representative of the BNP Paribas Group, and Ms. Monika Nachyła, a representative of the Rabobank Group, to the Supervisory Board of the Bank.



Composition of the Supervisory Board of the Bank as at 30 June 2015:

Full name	Office held in the Supervisory Board of the Bank
Jean-Paul Sabet	Chairman of the Supervisory Board
Jarosław Bauc	Independent Member of the Supervisory Board
Jacques d'Estais	Member of the Supervisory Board
Monika Nachyła	Member of the Supervisory Board
Michel Vial	Member of the Supervisory Board
Mariusz Warych	Independent Member of the Supervisory Board

4.2. COMPOSITION OF THE MANAGEMENT BOARD OF BANK BGŻ BNP PARIBAS S.A IN THE FIRST HALF OF 2015

Composition of the Management Board of Bank BGŻ as at 1 January 2015:

Full name	Office held in the Management Board of the Bank
Józef Wancer	President of the Management Board
Gerardus Cornelis Embrechts	First Vice-President of the Management Board (resignation as of 31 March 2015)
Magdalena Legęć	Vice-President of the Management Board
Monika Nachyła	Vice-President of the Management Board (resignation as of 30 April 2015)
Dariusz Odzioba	Vice-President of the Management Board (resignation as of 31 March 2015)
Witold Okarma	Vice-President of the Management Board (resignation as of the merger date, i.e. 30 April 2015)
Wojciech Sass	Vice-President of the Management Board
Andrzej Sieradz	Vice-President of the Management Board (resignation as of 31 March 2015)

Changes in the composition of the Management Board of the Bank in the first half of 2015:

- on 29 January 2015, the Supervisory Board appointed Mr. Wojciech Kemblowski as Vice-President of the Management Board of Bank BGŻ S.A., Chief Risk Officer, as of the date of satisfaction of the last of the following conditions:
 - obtaining a consent for the appointment from the Polish Financial Supervision Authority (granted on 28 April 2015);
 - merger of Bank BGŻ S.A. and BNPP Polska (completed on 30 April 2015);
- on 20 March 2015, the Supervisory Board adopted a resolution on appointment of Mr. Bartosz Urbaniak to the position of Member of the Management Board of the Bank as of 1 April 2015;
- on 20 March 2015, statements of resignation were submitted by:
 - Ms. Monika Nachyła, Vice-President of the Management Board, as of 30 April 2015;
 - Mr. Gerardus Embrechts, First Vice-President of the Management Board, as of 31 March 2015;
 - Mr. Dariusz Odzioba, Vice-President of the Management Board, as of 31 March 2015;
 - Mr. Witold Okarma, Vice-President of the Management Board, as of the date of the merger of Bank BGŻ S.A. and BNPP Polska, i.e. 30 April 2015;
 - Mr. Andrzej Sieradz, Vice-President of the Management Board, as of 31 March 2015;
- on 30 April 2015, Mr. Józef Wancer resigned from the position of President of the Management Board. The resignation will be effective at the later of 17 September 2015 and the date of the PFSA's consent for appointment of a new President of the Management Board in accordance with Article 22b of the Banking Law. At the same time, the Bank was informed by BNP Paribas that following expiry of the term of office of Mr. Józef Wancer, BNP Paribas intends to vote for his appointment to the Supervisory Board at the General Meeting;
- on 30 July 2015 (after the end of the reporting period), Mr. Józef Wancer submitted a representation, whereby the effective date of his resignation from the position of President of the Management Board



of the Bank was changed. In accordance with the aforesaid representation, Mr. Wancer will hold the office of President of the Management Board until 31 August 2015;

- additionally, on 30 April 2015, the Supervisory Board appointed Mr. Tomasz Bogus to the position of President of the Management Board. The aforesaid resolution will enter into force as at the date of the consent of the PFSA, under Article 22b of the Banking Law, for appointment of Mr. Tomasz Bogus to the position of President of the Management Board, not earlier, though, than on 17 September 2015;
- on 30 July 2015 (after the end of the reporting period), the Supervisory Board of the Bank adopted a resolution amending the resolution on conditional appointment of the President of the Management Board of BGŻ BNP Paribas S.A. The aforesaid change concerned the date of appointment of Mr. Tomasz Bogus to the position of President of the Management Board of BGŻ BNP Paribas S.A. The aforesaid resolution on appointment will enter into force as of the date of the consent of the Polish Financial Supervision Authority for the appointment, under Article 22b of the Banking Law, not earlier, though, than on 1 September 2015;
- additionally, on 30 April 2015 the Supervisory Board appointed seven new Vice-Presidents of the Management Board as of 1 May 2015, including: Daniel Astraud, Francois Benaroya, Blagoy Bochev, Jan Bujak, Jaromir Pelczarski, Jean-Philippe Stephane Rodes and Michel Thebault;
- on 18 June 2015, the Supervisory Board of the Bank appointed the Bank's Management Board for a new, three-year term of office, without changing its composition;
- on 27 July 2015 (after the end of the reporting period), Mr. Wojciech Sass submitted a statement of resignation from the position of Vice-President of the Management Board of the Bank as of 31 August 2015.

Composition of the Management Board of the Bank as at 30 June 2015:

Full name	Office held in the Management Board of the Bank
Józef Wancer	President of the Management Board
Daniel Astraud	Vice-President of the Management Board
François Benaroya	Vice-President of the Management Board
Blagoy Bochev	Vice-President of the Management Board
Jan Bujak	Vice-President of the Management Board
Wojciech Kemblowski	Vice-President of the Management Board
Magdalena Legęć	Vice-President of the Management Board
Jaromir Pelczarski	Vice-President of the Management Board
Stephane Rodes	Vice-President of the Management Board
Wojciech Sass	Vice-President of the Management Board
Michel Thebault	Vice-President of the Management Board
Bartosz Urbaniak	Member of the Management Board

5. RATINGS

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

On 21 May 2015, the ratings for the Bank's long- and short-term deposits have been upgraded to Baa2/Prime-2 from Baa3/Prime-3 with a stable outlook.

The aforesaid change resulted from confirmation of the Baseline Credit Assessment (BCA) at the ba2 level and the Advanced Loss Given Failure (LGF) analysis, which enabled to improve the rating by one grade as compared to the adjusted Baseline Credit Assessment at the baa3 level.

Additionally, the Bank obtained new Counterparty Risk Assessments at the A3(cr)/P-2 (cr) level.

The change in the ratings was driven by the close of the rating review process carried out for 10 banks in Poland following implementation of a new rating methodology for banks, as announced on 16 March 2015.



Moody's Investors Service	Rating
Long-term deposit rating	Baa2
Short-term deposit rating	Prime-2
Baseline Credit Assessment, BCA	ba2
Adjusted Baseline Credit Assessment, Adjusted BCA	baa3
Counterparty Risk assessments, CRa	A3(cr)/P-2(cr)
Outlook	stable

6. AWARDS AND ACCOLADES

In the first half of 2015, the Bank received the following rewards and accolades:

February 2015	BNP Paribas Bank Polska S.A. was named Top Employer Polska 2015 for the second time, for its HR policy developed in line with best market practices, by Top Employers Institute.
May 2015	Bank BGŻ received the Srebrny Listek CSR Polityki award bestowed by the <i>Polityka</i> weekly to socially responsible companies.
June 2015	BGŻ BNP Paribas received the Portfel Wprost award in the mortgage loans category.

7. THE SHAREHOLDERS' STRUCTURE OF BANK BGŻ BNP PARIBAS S.A.

7.1. SHAREHOLDERS' STRUCTURE

As at 30 June 2015 and the date of submission of the report for the first half of 2015, i.e. 31 August 2015, the structure of the shareholders of Bank BGŻ BNP Paribas S.A., including those holding at least 5% of the total number of votes at the General Meeting, was as follows:

Table 6. Shareholder structure

Shareholder	Number of shares	Percentage interest in share capital	Number of votes at the General Shareholders' Meeting	Percentage share in the total number of votes at the General Shareholders' Meeting
BNP Paribas, total:	74 409 864	88.33%	74 409 864	88.33%
<i>BNP Paribas directly</i>	50 524 889	59.98%	50 524 889	59.98%
<i>BNP Paribas Fortis SA/NV directly</i>	23 884 975	28.35%	23 884 975	28.35%
Rabobank International Holding B.V.	5 613 875	6.66%	5 613 875	6.66%
Other	4 214 579	5.01%	4 214 579	5.01%
Total	84 238 318	100.00%	84 238 318	100.00%

As at 30 June 2015, the Bank's share capital amounted to PLN 84,238 thousand. Following the registration of the merger of Bank BGŻ and BNPP Polska on 30 April 2015, the share capital of Bank BGŻ was increased from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 I series shares.

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

The Bank's shares are ordinary bearer and registered shares (as at 30 June 2015, there were 13,024,915 registered shares, including 4 B series shares).

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



Four B series registered shares of 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 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 2015 and the date of submission of the report for the first half of 2015, i.e. 31 August 2015, no shares issued by the Bank were held by members of the Management Board, Supervisory Board or the key executives.

As declared by BNP Paribas SA to the Polish Financial Supervision Authority, the number of the Bank's shares that are traded freely (free float) should 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, in accordance with the specific conditions laid down in the aforesaid declarations.

7.2. CHANGES IN THE SHAREHOLDER STRUCTURE IN THE FIRST HALF OF 2015

Squeeze-out

On 3 December 2014, BNP Paribas SA and Rabobank International Holding B.V. (Rabobank) entered into an agreement, as referred to in Article 87.1.5 of the *Act on Public Offering*, concerning the purchase of Bank BGŻ shares by demanding that all remaining shareholders of Bank BGŻ sell all Bank BGŻ shares which they hold in accordance with Article 82 of the *Act on Public Offering* ("squeeze-out").

On 13 January 2015, Bank BGŻ was notified that BNP Paribas and Rabobank, acting in agreement concerning the purchase of the shares in Bank BGŻ through squeeze-out, hold 56,129,200 shares in Bank BGŻ in total, which represent 56,129,200 votes at the General Meeting, thus ca. 99.98% interest in the share capital and ca. 99.98% of the total number of votes at the General Meeting of Bank BGŻ.

On 19 January 2015, the squeeze-out procedure was closed by BNP Paribas. At the same time, the agreement of 3 December 2014 made by BNP Paribas and Rabobank with respect to the purchase of shares in Bank BGŻ through squeeze-out expired.

Consequently, on 23 January 2015, the Bank was notified that following the squeeze-out, BNP Paribas SA with its registered office in Paris holds 50,524,889 shares in Bank BGŻ, which represent 50,524,889 votes at the General Meeting, thus ca. 90.0000025% interest in the share capital and ca. 90.0000025% of the total number of votes at the General Meeting of Bank BGŻ. The shareholding of Rabobank International Holding B.V. remained unchanged, i.e. 5,613,875 shares representing 9.9999975% of the total number of shares.

Issue of I series merger shares

Pursuant to a resolution of the Extraordinary Shareholders' Meeting of 25 February 2015, the Bank issued a public offering of 28,099,554 I series merger shares.

Following the registration of the increase in the share capital from PLN 56,138,764.00 to PLN 84,238,318.00 through the issue of 28,099,554 I series merger shares, on 30 April 2015, the merger shares were acquired by the existing shareholders of BNPP Polska. The shareholders of BNPP Polska received 5 merger shares in exchange for 6 shares in BNPP Polska. The fractional shares, i.e. those which were not handed over to the shareholders of BNPP Polska as a result of approximation, were acquired by BNPP Fortis.

As a result, the percentage share of the existing shareholders of Bank BGŻ in the total number of votes at the General Meeting of the Bank changed. The share of BNP Paribas in the total number of votes at the General Meeting of the Bank decreased below the threshold of 90%. At the same time, BNPP Fortis, which did not hold any shares in Bank BGŻ before the merger, exceeded the threshold of 25% of the total number of votes.

Following the merger and acquisition of the fractional shares by BNPP Fortis, the BNP Paribas Group holds the total of 74,409,864 shares in the Bank representing 88.33% of the share capital, which corresponds to 74,409,864 votes and represents 88.33% of the total number of votes, where:

- a) 50,524,889 shares in the Bank representing 59.98% of the share capital as well as 50,524,889 votes and 59.98% of the total number of votes are held by BNP Paribas directly; and



b) 23,884,975 shares in the Bank representing 28.35% of the share capital as well as 23,884,975 votes and 28.35% of the total number of votes are held by BNP Paribas indirectly through BNPP Fortis, a subsidiary.

The share of the Rabobank Group decreased from 9.99% to 6.66%. Rabobank International Holding B.V. holds the total of 5,613,875 shares in the Bank representing 6.66% of the share capital as well as 5,613,875 votes and 6.66% of the total number of votes.

8. BANK'S SHARE PRICE ON WSE

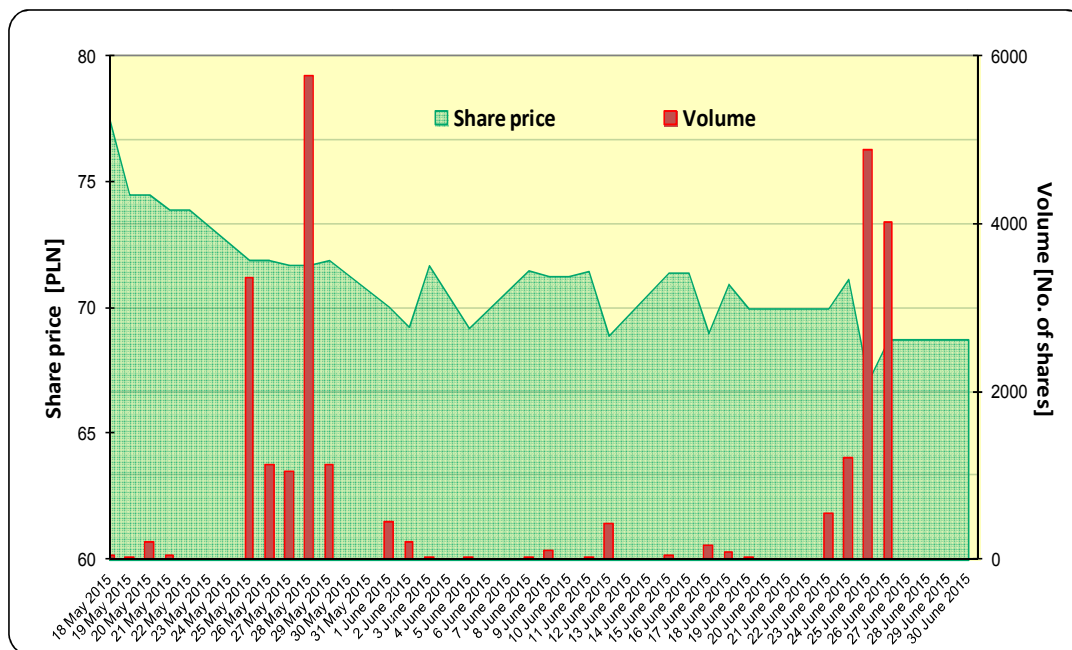
The Bank's shares, to which ISIN code PLBGZ0000010 has been assigned, are listed on the Main Market of the Warsaw Stock Exchange (WSE).

On 23 December 2014, trading in the shares in Bank BGŻ was suspended until 18 May 2015, when the banks' merger had been registered, the new I series share issue recorded in the securities depository and the shares admitted and introduced to trading on the Main Market of WSE.

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

During the first session after reintroduction of the shares to trading, i.e. on 18 May 2015, the price was PLN 77.50 as compared to PLN 68.75 on 30 June 2015. The average price of the Bank's shares in the period was PLN 71.13. The average trading volume was almost 994 shares per session, while the average value of the Bank's shares traded per session was PLN 55.6 thousand.

Chart 5. The Bank's share price between 18 May 2015 and 30 June 2015





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

On 30 April 2015, a legal merger of Bank BGŻ and BNP Paribas Bank Polska S.A. was completed through the transfer of the total assets, equity and liabilities of BNPP Polska, as the acquiree, onto Bank BGŻ, as the acquirer.

The business combination transaction was accounted for using the book value method. Bank BGŻ recognized the assets, equity and liabilities of BNPP Polska at their book value measured as at the merger date, i.e. 30 April 2015, which were adjusted only in order to ensure consistency of the accounting principles adopted by Bank BGŻ. As the book value method was used, no goodwill or surplus of the fair value of the net assets over the business combination cost was recognized in relation to the transaction. The difference between the carrying amount of the net assets of BNPP Polska, which were transferred, and the par value of the shares issued of PLN 28,099 thousand, totaling PLN 2,033,941 thousand, was recognized in the Bank's equity. The results of the operations of BNPP Polska were recognized in the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas prospectively, i.e. as from 30 April 2015.

As at 30 April 2015, the book value of the assets held by BNPP Polska was PLN 23,349,411 thousand, which accounted for more than 37% of the balance sheet total of the merged Bank as at 30 June 2015. Additionally, the loans of PLN 18,138,127 thousand and deposits of PLN 12,392,905 thousand transferred as at 30 April 2015 represented almost 37% and 28% of the loans and deposits of the merged Bank as at the end of June 2015, respectively.

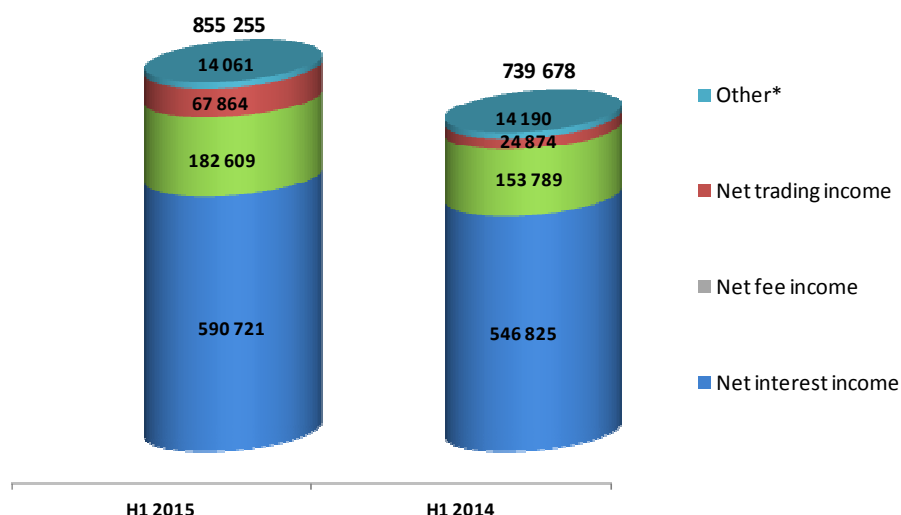
The Group's comparative data for the preceding periods was not restated and the analysis presented further in this section was performed for the figures reported by the Group of Bank BGŻ, which has an effect on the comparisons and the ratios.

9.1. CONSOLIDATED STATEMENT OF PROFIT OR LOSS

In the first half of 2015, the Capital Group of Bank BGŻ BNP Paribas generated a net profit of PLN 17,803 thousand, i.e. lower by PLN 90,695 thousand (83.6%) year-on-year.

Integration costs related to the merger (PLN 138.3 million) and a higher level of impairment losses on financial assets as compared to the preceding year were the key factors that had a negative effect on the profit for the period. The aforementioned negative factors were partially offset by a higher net banking income.

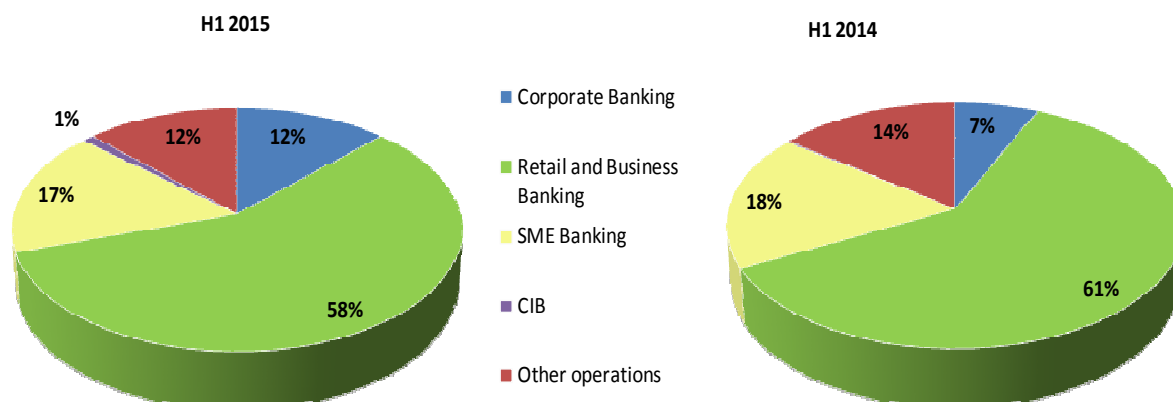
Chart 6. Net banking income in PLN '000



* Other comprises result on investing activities, result on hedge accounting, dividend income as well as other operating income and expenses


Table 7. Consolidated statement of profit or loss

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Net interest income	590 721	546 825	43 896	8.0%
Net fee and commission income	182 609	153 789	28 820	18.7%
Dividend income	5 230	3 302	1 928	58.4%
Net trading income	67 864	24 874	42 990	172.8%
Result on investing activities	35 200	5 476	29 724	542.8%
Result on hedge accounting	-	(156)	156	(100.0%)
Other operating income and expenses	(26 369)	5 568	(31 937)	(573.6%)
Net banking income	855 255	739 678	115 577	15.6%
Net impairment losses on financial assets and contingent liabilities	(133 896)	(111 153)	(22 743)	20.5%
General administrative expenses	(632 773)	(444 867)	(187 906)	42.2%
Depreciation and amortization	(63 057)	(49 835)	(13 222)	26.5%
Operating result	25 529	133 823	(108 294)	(80.9%)
Share in profit/loss of associates	-	2 096	(2 096)	(100.0%)
Profit before income tax	25 529	135 919	(110 390)	(81.2%)
Income tax	(7 726)	(27 421)	19 695	(71.8%)
Net profit (loss)	17 803	108 498	(90 695)	(83.6%)
Integration costs	138 331	-	-	-
Net profit (loss) excluding integration costs	129 851	108 498	21 353	19.7%

Chart 7. Net banking income by segments


Net interest income

In the first half of 2015, net interest income, which represents the major source of the Group's income, went up by PLN 43,896 thousand, i.e. 8.0%, which was driven by a rise in interest income by PLN 37,405 thousand, i.e. 4.3% YoY, accompanied by a reduction in interest expense by PLN 6,491 thousand, i.e. 2.0% YoY. The level of interest income and expense in the first half of 2015 was affected both by external factors and the growth rate of commercial volumes as well as the merger of Bank BGŻ and BNPP Polska.

The main external factors include the policy adopted by the National Bank of Poland with respect to the basic interest rates and their lowest level on record (in June 2015, the reference rate was 1.5% vs. 2.5% a year before).

Interest income on loans and advances to customers, the value of which increased by PLN 58,419 thousand (i.e. 10.2%) YoY, is the major item in the structure of the Group's interest income (almost 70%). In addition to interest on loans and advances, a rise was observed in interest on loans and advances to customers in current accounts (by PLN 12,545 thousand, i.e. 9.4% YoY). The aforesaid increases were observed mainly in the Corporate Banking and the Retail and Business Banking segments owing to a higher volume of loans as a result of the



merger with BNPP Polska. The volume of (gross) loans increased by 72.3% YoY. A drop in interest on reverse repo transactions (by PLN 15,974 thousand) results from the sale of the entire portfolio in the second quarter of 2015.

Table 8. Net interest income

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Loans and advances to banks	11 178	14 132	(2 954)	(20.9%)
Loans and advances to customers in current accounts	146 669	134 124	12 545	9.4%
Loans and advances to customers	630 483	572 064	58 419	10.2%
Hedging instruments	396	9 024	(8 628)	(95.6%)
Reverse repo securities	7 559	23 533	(15 974)	(67.9%)
Debt securities	105 296	111 299	(6 003)	(5.4%)
Interest income	901 581	864 176	37 405	4.3%
Amounts due to banks	(22 876)	(29 679)	6 803	(22.9%)
Debt securities issued	(9 975)	(17 639)	7 664	(43.4%)
Amounts due to customers	(270 427)	(244 699)	(25 728)	10.5%
Repo securities	(7 581)	(25 334)	17 753	(70.1%)
Hedging instruments	(1)	-	(1)	-
Interest expense	(310 860)	(317 351)	6 491	(2.0%)
Net interest income	590 721	546 825	43 896	8.0%

A drop in interest expense was mainly the result of a lower cost of repurchase agreements, a lower level of liabilities arising from issue of debt securities and a lower level of amounts due to banks, which in total decreased by PLN 32,220 thousand YoY. This, despite low NBP interest rates, was sufficient to offset completely an increase in interest on amounts due to customers, which went up by PLN 25,728 thousand, i.e. 10.5% YoY, as a result of an increase of the deposit base of the Bank by 56.4% YoY, also due to the merger with BNPP Polska.

Net fee income

Between 1 January 2015 and 30 June 2015, net fee income went up by PLN 28,820 thousand, i.e. 18.7% YoY, which was driven by a rise in fee income by PLN 33,289 thousand, i.e. 18.9% YoY, accompanied by an increase in fee expense by PLN 4,469 thousand, i.e. 19.6%.

An increase in fee income, mainly as a consequence of acquisition of the customer base of BNPP Polska, was recorded in almost all fee categories (except fees on payment cards), specifically on:

- loans and advances (by PLN 13,535 thousand, i.e. 27.2%);
- account administration and clearing transactions (the total of PLN 8,401 thousand, i.e. 13.9%), which was attributable to an increase in the number of accounts as well as changes introduced to the Rates and Charges Information;
- insurance products sold – by PLN 4,412 thousand, i.e. 62.9%;
- broker transactions – by PLN 2,292 thousand, i.e. 24.1% – owing to a focus on retail and selected institutional customers, constantly expanded range of investment funds distributed as well as the investment advice and portfolio management service, the performance of the Brokerage Office was good, which translated into a rise in fee income on broker transactions.

A drop in fee and commission income on payment cards by PLN 13,193 thousand, i.e. 30.2% YoY was mainly due to a reduction in interchange fees (in July 2014 and another one in January 2015).


Table 9. Net fee and commission income

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Fee and commission income				
– loans and advances	63 272	49 737	13 535	27.2%
– settlements	15 511	8 274	7 237	87.5%
– accounting maintenance	53 163	51 999	1 164	2.2%
– guarantee commitments	7 260	3 952	3 308	83.7%
– brokerage operations	11 800	9 508	2 292	24.1%
– payment cards	30 426	43 619	(13 193)	(30.2%)
– insurance activity	11 430	7 018	4 412	62.9%
– asset management	1 612	-	1 612	-
– other	15 403	2 481	12 922	520.8%
Fee and commission income	209 877	176 588	33 289	18.9%
Fee and commission expense				
– loans and advances	(2 003)	(758)	(1 245)	164.2%
– payment cards	(19 332)	(17 344)	(1 988)	11.5%
– insurance activity	(443)	(128)	(315)	246.1%
– related to partners' network	(962)	-	(962)	-
– other	(4 528)	(4 569)	41	(0.9%)
Fee and commission expense	(27 268)	(22 799)	(4 469)	19.6%
Net fee and commission income	182 609	153 789	28 820	18.7%

An increase in fee expense was mainly driven by higher fee expense on payment cards paid to card operators due to a higher number of transactions carried out by the Bank's customers, as well as that on loans and advances.

Dividend income

In the first half of 2015, dividend income went up by PLN 1,928 thousand, i.e. 58.4% Y/Y in analysed period. Dividends were paid from profits generated in 2014 by the entities in which the Bank holds minority interest, i.e. Krajowa Izba Rozliczeniowa S.A. (KIR), Biuro Informacji Kredytowej S.A. (BIK) as well as TFI BNPP Polska, a subsidiary.

Net trading income and result on investing activities

Net trading income for the first six months of 2015 increased by PLN 42,990 thousand, i.e. 172.8% YoY. The level of and changes in net trading income are affected mainly by measurement of the Bank's IRS positions used as interest rate hedges as well as trading in debt securities.

Result on investing activities in the first half of 2015 went up by PLN 29,724 thousand year-on-year and it was affected by realized gains on sale of the available for sale securities portfolio both in the first quarter and in the second quarter of 2015 in the total amount of PLN 35,200 thousand.

Other income

Other operating income for the first half of 2015 increased by PLN 468 thousand, i.e. 2.9% year-on-year. In the analyzed period, a drop was recorded in gain on sales of goods and services as well as other operations, which was offset in whole by income from leasing operations included in the operating structure of the Bank.

**Table 10. Other operating income**

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Sale and liquidation of fixed assets and intangible assets	956	-	956	-
Gain on sale of goods and services	2 618	3 975	(1 357)	(34.1%)
Release of provisions for litigations and claims as well as other liabilities	172	749	(577)	(77.0%)
Recovery of debt collection costs	1 811	1 383	428	30.9%
Recovery of overdue debts, redeemed receivables, noncollectible debts and payment of receivables that were excluded from the consolidated statement of financial position	3 273	3 114	159	5.1%
Income from leasing operations	3 073	-	3 073	-
Other	4 955	7 169	(2 214)	(30.9%)
Total other operating income	16 858	16 390	468	2.9%

Net impairment losses on financial assets and contingent liabilities

In the first half of 2015, net impairment losses on financial assets and contingent liabilities rose by PLN 22,743 thousand, i.e. 20.5% year-on-year. This was mainly attributable to:

- adoption of a more prudential approach to individually material exposures, in compliance with the standards of the BNP Paribas Group;
- changes in the parameters used for purposes of estimating impairment losses in December 2014, as a result of which: (i) the period of historical observations for purposes of Probability of Default (PD) calculation was reduced for customers with cash loans from 2 years to 1 year; (ii) the Loss Identification Period (LIP) was extended to 12 months for farmers and to 7 months for customers with integrated accounts; and (iii) a more conservative approach was introduced for purposes of estimating recovery parameters for customers with integrated accounts;
- an increase in the balance of loans due to the merger with BNPP Polska.

As regards the key operating segments¹:

- the Retail and Business Banking Segment recorded an increase in impairment losses of PLN 63,617 thousand YoY;
- the SME and AGRO Segment recorded an increase of PLN 5,071 thousand YoY;
- the Corporate Banking Segment saw a positive change by PLN 37,905 thousand YoY resulting from derecognition of provisions in the first half of 2015 totaling PLN 24,130 thousand as compared to recognition of provisions in the corresponding period of the preceding year.

General administrative expenses, personnel expenses, depreciation and amortization

The Group's general administrative expenses between 1 January and 30 June 2015 went up by PLN 187,906 thousand, i.e. 42.2% year-on-year. This was mainly related to the costs of the integration of Bank BGŻ and BNPP Polska.

The integration costs incurred by the Bank in the first half of 2015 totaled PLN 138.3 million and included:

- PLN 108.6 million recognized as general administrative expenses;
- PLN 29.7 million recognized as other operating expenses.

¹ Information based on the segmentation note to the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the first half of 2015 presenting data that ensures comparability between 30 June 2015 and 30 June 2014.



Integration costs recognized as general administrative expenses comprise mainly:

- recognition of a restructuring provision totaling PLN 49.3 million;
- costs of legal and consulting services of PLN 28.7 million;
- integration-related projects totaling PLN 16.0 million (including costs of rebranding in the amount of PLN 8.9 million and development of a single product offering of PLN 2.2 million);
- retention program of PLN 5.5 million;
- termination benefits to members of the Management Board of PLN 3.2 million.

Integration costs recognized as other operating expenses are mainly related to:

- write-off of IT investment projects in progress, related to applications which will not be used in the target architecture of the Bank, totaling PLN 13.1 million;
- recognition of a provision for closing down Bank BGŻ branches as part of the planned restructuring process, totaling PLN 6.9 million;
- costs of liquidation of assets related to branch visualization and assets carrying the previous logo of the banks, totaling PLN 3.3 million.

Apart from integration costs, the level of operating expenses in the first half of 2015 was also affected by:

- takeover of the employees of BNPP Polska as of 30 April 2015 as a result of the merger;
- an increase in the level of payments to the Bank Guarantee Fund by PLN 23.8 million YoY attributable to introduction of higher rates of both the annual and the prudential fee related to creation of the stabilization fund and expansion of the Bank's operations following its merger with BNPP Polska;
- non-personnel expenses of former BNPP Polska of PLN 31.5 million (excluding the costs of the Bank Guarantee Fund).

Table 11. General administrative expenses, personnel expenses, depreciation and amortization

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Personnel expenses	(353 355)	(252 735)	(100 620)	39.8%
Marketing	(19 755)	(21 523)	1 768	(8.2%)
IT and telecom costs	(49 174)	(38 792)	(10 382)	26.8%
Rental expenses	(58 942)	(45 908)	(13 034)	28.4%
Other non-personnel expenses	(24 796)	(21 307)	(3 489)	16.4%
External services	(74 167)	(40 957)	(33 210)	81.1%
Business travels	(1 502)	(862)	(640)	74.2%
ATM and cash handling costs	(1 162)	(533)	(629)	118.0%
Costs of outsourcing services related to leasing operation	(2 643)	-	(2 643)	-
Bank Guarantee Fund fee	(42 262)	(18 424)	(23 838)	129.4%
Polish Financial Supervision Authority fee	(5 015)	(3 826)	(1 189)	31.1%
Total general administrative expenses	(632 773)	(444 867)	(187 906)	42.2%
Amortization and depreciation	(63 057)	(49 835)	(13 222)	26.5%
Total expenses*	(695 830)	(494 702)	(201 128)	40.7%

* for purposes of calculation of the expense to income ratio

The costs of depreciation and amortization went up by PLN 13,222 thousand, i.e. 26.5% year-on-year. This was attributable to a rise in amortization of intangible assets by PLN 9,622 thousand (as a consequence of investments in IT systems) as well as depreciation of property, plant and equipment by PLN 3,654 thousand.

**Other operating expenses**

In the first half of 2015, other operating expenses totaled PLN 43,227 thousand, which denotes a considerable increase (by PLN 32,405 thousand) as compared to the corresponding period of the preceding year, mainly in relation to:

- integration costs, including:
 - write-off of IT investment projects in progress, related to applications which will not be used in the target architecture of the Bank, totaling PLN 13.1 million;
 - recognition of a provision for closing down Bank BGŻ branches as part of the planned restructuring process in relation to the banks' merger, totaling PLN 6.9 million (item: costs of recognition of provisions for restructuring, disputes and other liabilities);
 - liquidation of assets related to branch visualization and assets carrying the previous logo of the banks, totaling PLN 3.3 million;
- additional expenses incurred due to termination of cooperation with an insurance company.
- recognition of costs of leasing operations in other operating expenses as a result of inclusion of leasing operations in the operating structure of the Bank.

Table 12. Other operating expenses

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Loss on sale or liquidation of property, plant and equipment and intangible assets	(14 092)	(739)	(13 353)	1 806.9%
Impairment charges on other receivables	(222)	(1 112)	890	(80.0%)
Provisions for restructuring of assets, litigation and claim, and other liabilities	(10 606)	(474)	(10 132)	2 137.6%
Debt collection	(5 529)	(5 683)	154	(2.7%)
Donations made	(23)	(1 287)	1 264	(98.2%)
Costs of leasing operations	(2 935)	-	(2 935)	-
Other operating expenses	(9 820)	(1 527)	(8 293)	543.1%
Total other operating expenses	(43 227)	(10 822)	(32 405)	299.4%

**9.2. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

In the first half of 2015, the Capital Group's other comprehensive income was lower by PLN 291,649 thousand as compared to the preceding year.

A drop in net profit by PLN 90,695 thousand YoY, mainly as a result of the costs of integration with BNPP Polska in the amount of PLN 138.3 million, accompanied by a change in measurement of available for sale financial assets (i.e. a portfolio of long-term treasury bonds), led to a considerable decrease in the Group's other comprehensive income.

In the analyzed period, the Group did not recognize measurement of derivative instruments designated as cash flow hedges, separated in the first half of 2014. Bank BGŻ entered into IRS transactions from in the second quarter of 2012 to April 2014 with a view to hedging interest rate risk due to changes in future cash flows related to interest on preferential loans granted, the interest rate of which was determined by reference to the NBP rediscount rate (with a multiplier of 1.5 or 1.6). After the maturity date of the aforesaid transactions (April 2014), the hedging relationship was terminated and discontinued.

Table 13. Statement of other comprehensive income

in PLN '000	the first half of 2015	the first half of 2014	change YoY	
			PLN '000	%
Net profit (loss) for the period	17 803	108 498	(90 695)	(83.6%)
Other comprehensive income				
<i>Items that will be subsequently reclassified to profit or loss under certain conditions</i>	<i>(117 855)</i>	<i>88 268</i>	<i>(206 123)</i>	<i>(233.5%)</i>
Net change in valuation of available for sale financial assets	(145 499)	117 373	(262 872)	(224.0%)
Net change in valuation of cash flow hedges	-	(8 400)	8 400	(100.0%)
Income tax expense on other comprehensive income	27 644	(20 705)	48 349	(233.5%)
<i>Items that will not be reclassified to profit or loss</i>	<i>3 048</i>	<i>(2 121)</i>	<i>5 169</i>	<i>(243.7%)</i>
Actuarial valuation of employee benefits	3 763	(2 619)	6 382	(243.7%)
Deferred tax	(715)	498	(1 213)	(243.6%)
Other comprehensive income(net of tax)	(114 807)	86 147	(200 954)	(233.3%)
Total comprehensive income for the period	(97 004)	194 645	(291 649)	(149.8%)

9.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION**Assets**

The balance sheet total of the Group as at the end of June 2015, following the merger of Bank BGŻ and BNPP Polska, was PLN 62,602,243 thousand, which denotes a rise by PLN 22,105,668 thousand, i.e. 54.6% as compared to the end of December 2014.

Loans and advances to customers, which represented 79% of total assets as at the end of June 2015 vs. 73% at the end of 2014, were the key item in the structure of assets. In terms of value, the volume of net loans and advances increased by PLN 19,902,738 thousand, i.e. 67.2%, mainly due to inclusion of the loan portfolio of BNPP Polska, which totaled PLN 18.1 billion as at 30 April 2015.

A considerable increase was also observed in available for sale financial assets, by PLN 1,348,078 thousand, i.e. 19%, to PLN 8,432,095 thousand after the portfolios of both banks were combined, in particular following inclusion of the portfolio of treasury bonds held by BNPP Polska, as well as cash and balances at Central Bank, by PLN 682,665 thousand, i.e. 38.1%.

The reserve requirement declared as at the end of June 2015 was PLN 1,607,699 thousand vs. PLN 1,086,490 thousand in December 2014.

**Table 14. Assets**

in PLN '000	30.06.2015	31.12.2014	change	
			PLN '000	%
Cash and balances with the Central Bank	2 472 825	1 790 160	682 665	38.1%
Loans and advances to banks	308 917	404 724	(95 807)	(23.7%)
Reverse repo transactions	-	100 668	(100 668)	(100.0%)
Debt securities held for trading	260	199 404	(199 144)	(99.9%)
Derivative financial instruments	357 102	420 152	(63 050)	(15.0%)
Hedging instruments	6 459	-	6 459	-
Loans and advances to customers	49 534 661	29 631 923	19 902 738	67.2%
Available for sale financial assets	8 432 095	7 084 017	1 348 078	19.0%
Investment property	54 627	54 627	0	0.0%
Intangible assets	265 983	165 307	100 676	60.9%
Property, plant and equipment	490 236	411 063	79 173	19.3%
Provision for deferred tax	438 027	173 828	264 199	152.0%
Other assets	241 051	60 702	180 349	297.1%
TOTAL ASSETS	62 602 243	40 496 575	22 105 668	54.6%

Loan portfolio**Structure and quality of the loan portfolio**

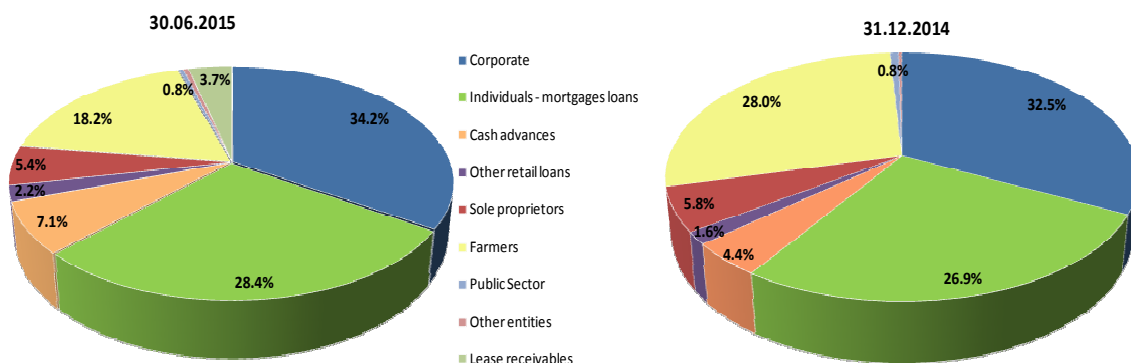
At the end of the first half of 2015, gross loans and advances to customers went up by PLN 21,322,270 thousand, i.e. 68%, which was mainly attributable to inclusion of the loan portfolios of BNPP Polska.

Loans and advances to corporate increased by 76.8% and account for 34% of the gross loan portfolio as compared to 32% as at 31 December 2014. Loans and advances to households (including those to sole proprietors and farmers) rose by PLN 11,284,905 thousand, i.e. 54.6%. Mortgage loans totaling PLN 14,820,881 thousand represent more than a half of loans and advances to households.

Table 15. Structure of the loan portfolio

in PLN '000	30.06.2015		31.12.2014	
	PLN '000	Percentage share	PLN '000	Percentage share
Gross loans and advances	52 194 582	100.0%	31 062 312	100.0%
Corporate	17 840 709	34.2%	10 089 671	32.5%
Individuals – mortgages loans	14 820 881	28.4%	8 340 820	26.9%
– in PLN	7 386 089	14.2%	5 438 868	17.5%
– in foreign currencies	7 434 792	14.2%	2 901 952	9.3%
Cash loans	3 694 783	7.1%	1 366 177	4.4%
Other retail loans	1 141 910	2.2%	487 150	1.6%
Sole proprietors	2 811 810	5.4%	1 789 720	5.8%
Farmers	9 493 888	18.2%	8 694 500	28.0%
Public sector	213 011	0.4%	216 419	0.7%
Other entities	236 096	0.5%	77 855	0.3%
Lease receivables	1 941 494	3.7%	-	0.0%

A major change in the size and structure of the loan portfolio was the effect of a legal merger of Bank BGŻ and BNPP Polska, completed on 30 April 2015. Credit exposures to corporates and farmers were the key item of the loan portfolio of former Bank BGŻ, while mortgage loans to individual customers represented the major part of former BNPP portfolio.


Chart 8. Gross loans and advances

Table 16. Quality of the loan portfolio

PLN '000	30.06.2015			31.12.2014		
	Total gross value	including: impaired	Percentage share	Total gross value	including: impaired*	Percentage share
Gross loans and advances	52 194 582	4 436 174	8.5%	31 062 312	2 452 967	7.9%
Mortgages loans	14 820 881	614 410	4.1%	8 340 820	351 924	4.2%
– in PLN	7 386 089	200 997	2.7%	5 438 868	181 052	3.3%
– in foreign currencies	7 434 792	413 413	5.6%	2 901 952	170 872	5.9%
Cash loans	3 694 783	435 914	11.8%	1 366 177	134 286	9.8%
Other retail loans	1 141 910	133 128	11.7%	487 150	55 834	11.5%
Farmers	9 493 888	341 585	3.6%	8 694 500	305 001	3.5%
Institutional customers (excluding farmers)	21 101 626	2 779 162	13.2%	12 173 665	1 605 922	13.2%
Lease receivables	1 941 494	131 975	6.8%	-	-	x

* including non-impaired exposures with indications of impairment

The ratio of share of impaired exposures in gross loans and advances to the Bank's customers increased from 7.9% at the end of 2014 to 8.5% at the end of June 2015.

Table 17. Credit portfolio quality ratios

in PLN '000	30.06.2015	31.12.2014	change	
			PLN '000	%
Loans and advances to customers (gross)	52 194 582	31 062 312	21 132 270	68.0%
Impairment allowances	(2 659 921)	(1 430 389)	(1 229 532)	86.0%
Loans and advances to customers (net)	49 534 661	29 631 923	19 902 738	67.2%
Losses incurred but not reported (IBNR)				
Gross exposure	47 758 408	28 609 345	19 149 063	66.9%
Impairment allowances on receivables assessed collectively with no impairment identified (IBNR provision)	(306 729)	(151 524)	(155 205)	102.4%
Net exposure	47 451 679	28 457 821	18 993 858	66.7%
Impaired exposures*				
Gross on-balance sheet exposure	4 436 174	2 452 967	1 983 207	80.8%
Impairment loss	(2 353 192)	(1 278 865)	(1 074 327)	84.0%
Net exposure	2 082 982	1 174 102	908 880	77.4%
Ratios				
Share exposure with identified impairment in loan portfolio, gross	8.5%	7.9%	0.6 p.p.	7.7%
Impairment coverage	(53.0%)	(52.1%)	0.9 p.p.	1.7%

* including non-impaired exposures with indications of impairment

**Liabilities and equity**

As at the end of June 2015, the Group's total liabilities amounted to PLN 56,474,679 thousand and were higher by PLN 20,134,408 thousand, i.e. 55.4%, as compared to the end of 2014.

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

At the end of the first half of 2015, customer deposits went up by PLN 11,372,268 thousand, i.e. 34.7% vs. the end of December 2014, to PLN 44,176,712 thousand. They accounted for 78% of total liabilities as compared to 90% at the end of 2014. The volume of amounts due to customers of BNPP Polska, which increased the deposit base of the merged Bank, was PLN 12.4 billion as at 30 April 2015.

Following the merger of the two financial institutions, a rise was recorded in the balance of amounts due to banks to PLN 9,528,844 thousand at the end of June 2015, i.e. by PLN 7,982,105 thousand, which was mainly attributable to the merged Bank's takeover of loans and advances obtained by BNPP Polska from the BNP Paribas Group as well as EBRD and EIB, which totaled PLN 6.7 billion as at 30 April 2015.

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

Table 18. Total liabilities and equity

in PLN '000	30.06.2015	31.12.2014	change	
			PLN '000	%
Amounts due to banks	9 528 844	1 546 739	7 982 105	516.1%
Repo transactions	-	45 364	(45 364)	(100.0%)
Differences resulting from fair value hedges against interest rate risk attributable to hedged items	5 442	-	5 442	-
Derivative financial instruments	357 215	448 908	(91 693)	(20.4%)
Amounts due to customers	44 176 712	32 804 444	11 372 268	34.7%
Debt securities issued	469 276	762 311	(293 035)	(38.4%)
Subordinated liabilities	859 333	320 951	538 382	167.7%
Other liabilities	832 664	325 751	506 913	155.6%
Current tax liabilities	38 155	9 639	28 516	295.8%
Provision for deferred tax	8 052	8 052	0	0%
Provisions	198 986	68 112	130 874	192.1%
TOTAL LIABILITIES	56 474 679	36 340 271	20 134 408	55.4%
Share capital	84 238	56 139	28 099	50.1%
Other supplementary capital	5 092 196	3 430 785	1 661 411	48.4%
Other reserve capital	780 875	271 859	509 016	187.2%
Revaluation reserve	142 234	255 362	(113 128)	(44.3%)
Retained earnings	28 021	142 159	(114 138)	(80.3%)
- retained profit	10 218	4 128	6 090	147.5%
- net profit for the period	17 803	138 031	(120 228)	(87.1%)
TOTAL EQUITY	6 127 564	4 156 304	1 971 260	47.4%
TOTAL LIABILITIES AND EQUITY	62 602 243	40 496 575	22 105 668	54.6%

The balance of liabilities arising from issue of debt securities went down as a result of redemption of 4 tranches of certificates of deposits with the total par value of PLN 290,000 thousand. Certificates of deposits issued as at 30 June 2015 amounted to PLN 465,000 thousand (par value).



Deposits

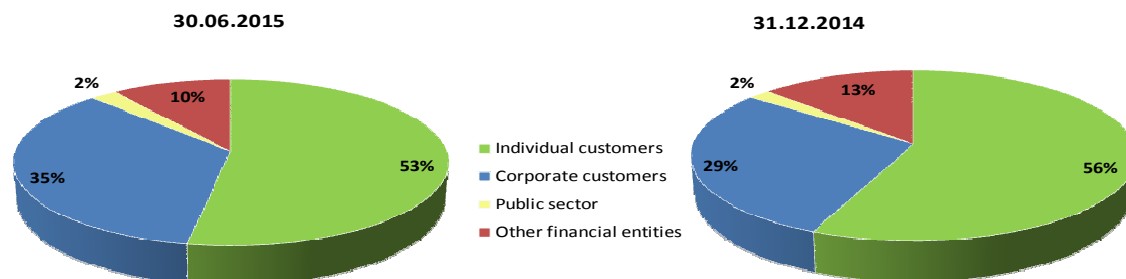
At the end of the first half of 2015, customer deposits went up by PLN 11,372,268 thousand, i.e. 34.7% as compared to the end of 2014, which was mainly attributable to inclusion of the deposit base of BNPP Polska. The share of current and savings accounts in total deposits rose to 51% vs. 45.5% at the end of December 2014. The value of funds deposited in current accounts increased by PLN 7,749,574 thousand, i.e. 51.9%. On the other hand, the share of term deposits in total deposits dropped from 46.9% at the end of December 2014 to 42.2% at the end of June 2015. In terms of value, term deposits increased by PLN 3,259,766 thousand, i.e. 21.2% vs. December 2014. The balance of loans and advances taken out went up by PLN 163,195 thousand, while other liabilities increased by PLN 199,733 thousand.

Table 19. Amounts due to customers by products

in PLN '000	30.06.2015		31.12.2014	
	PLN '000	%	PLN '000	%
Amounts due to customers	44 176 712	100.0%	32 804 444	100.0%
Current accounts	22 676 351	51.3%	14 926 777	45.5%
Term deposits	18 658 888	42.2%	15 399 122	46.9%
Loans and advances received	2 454 764	5.6%	2 291 569	7.0%
Other liabilities	386 709	0.9%	186 976	0.6%

Individual customer deposits, which rose by PLN 4,810,888 thousand, i.e. 25.9%, accounted for almost 53% of all deposits at the end of June 2015 vs. 56.5% at the end of December 2014.

On the other hand, corporate customer deposits increased by PLN 5,923,674 thousand, i.e. 62.7%. Their share in total deposits rose from 28.8% at the end of December 2014 to 34.8% at the end of June 2015.

Chart 9. Customer deposits

Equity

As at the end of June 2015, the Group's equity amounted to PLN 6,127,564 thousand and was higher by PLN 1,971,260 thousand as compared to the end of 2014. The aforesaid change in equity in the analyzed period was mainly the effect of the merger of Bank BGŻ and BNPP Polska and the resulting issue of I series merger shares as well as retaining the profit generated by Bank BGŻ in 2014 in the amount of PLN 137,730 thousand to be allocated to the general risk reserve and the supplementary capital.

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

The profit for the first half of 2015 was affected materially by incurred restructuring costs.

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

**9.4. EQUITY AND CAPITAL RATIOS**

The total capital ratio of the Group increased from 13.81% at the end of December 2014 to 14.08% at the end of June 2015.

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

As at 30 June 2015, total equity went up by PLN 2,853,082 thousand as compared to 31 December 2014, primarily due to:

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

In the analyzed period, the total risk exposure rose by PLN 19,715,286 thousand, mainly as a result of the banks' merger.

Table 20. The Group's consolidated equity and capital ratios

in PLN '000	30.06.2015	31.12.2014	change	
			PLN '000	%
Tier 1 capital				
– share capital	84 238	56 139	28 099	50.1%
– supplementary capital	3 273 648	1 605 049	1 668 599	104.0%
– reserve capital	2 095 674	1 976 955	118 719	6.0%
– general risk reserve	498 399	120 640	377 759	313.1%
– Intangible assets	(265 983)	(165 307)	(100 676)	60.9%
– other items of equity included in Tier 1 capital	225 705	3 944	221 761	5 622.7%
Total Tier 1 capital	5 911 681	3 597 420	2 314 261	64.3%
Tier 2 capital				
– subordinated liabilities classified as equity	857 844	319 023	538 821	168.9%
Total equity	6 769 525	3 916 443	2 853 082	72.8%
Risk exposure due to:				
– credit risk	43 341 900	25 271 559	18 070 341	71.5%
– market risk	273 069	255 383	17 686	6.9%
– operational risk	4 355 846	2 702 037	1 653 809	61.2%
– credit valuation adjustment	93 996	120 547	(26 551)	(22.0%)
Total risk exposure	48 064 811	28 349 526	19 715 285	69.5%

Consolidated capital ratios of the Group	30.06.2015	31.12.2014	change	
			p.p.	%
Total capital requirement	14.08%	13.81%	0.27	1.9%
Tier 1 ratio	12.30%	12.69%	(0.39)	(3.1%)

**Table 21. The Bank's separate equity and capital ratios**

in PLN '000	30.06.2015	31.12.2014	change	
			PLN '000	%
Tier 1 capital	5 917 197	3 593 293	2 323 904	64.7%
Tier 2 capital	857 844	319 023	538 821	168.9%
Total equity	6 775 041	3 912 316	2 862 725	73.2%
Total risk exposure	47 288 965	28 394 598	18 894 367	66.5%

Separate capital ratios of the Bank	30.06.2015	31.12.2014	change	
			p.p.	%
Total capital requirement	14.33%	13.78%	0.55	4.0%
Tier 1 ratio	12.51%	12.65%	(0.14)	(1.1%)

**9.5. FINANCIAL RATIOS**

In 2015, the Group's ROE dropped year-on-year, which was the result of a decrease in net profit due to costs of integration of Bank BGŻ and BNPP Polska. If integration costs were excluded, ROE would be 5.4%. The synergy effects and results of restructuring initiatives should be seen in a rise in the said ratio in the future. Also, ROA went down as compared to the preceding year. If integration costs were excluded, ROA would be 0.5%. The net interest margin decreased to 2.5% due to a record low level of interest rates in Poland, with the reference rate of the National Bank of Poland at 1.5%.

The Cost to Income ratio deteriorated considerably due to the integration costs incurred despite a 15% rise in income. If integration costs were excluded, the Cost to Income ratio would be 66.4%, which is similar to the level observed at the end of the first half of 2014, i.e. 66.9%.

Following a rise in the second half of 2014, the ratio of credit risk costs dropped to 0.7% at the end of the first half of 2015, i.e. to a level which is slightly lower than the one observed at the end of the first half of 2014 (0.8%).

The financial ratios which present gross loans and advances relative to deposits as well as total debt increased as compared to the end of 2014 due to a higher share of loans from the BNP Paribas Group used for purposes of financing the mortgage portfolio.

Table 22. Financial ratios

	30.06.2015	31.12.2014	30.06.2014	change YoY p.p.
Return on equity ⁽¹⁾	5.4%*	3.6%	5.9%	(0.5)
Return on assets ⁽²⁾	0.5%*	0.4%	0.6%	(0.1)
Net interest margin ⁽³⁾	2.5%	2.9%	3.0%	(0.5)
Cost/Income ⁽⁴⁾	66.4%*	67.8%	66.9%	(0.5)
Credit risk cost ⁽⁵⁾	(0.7%)	(1.1%)	(0.8%)	0.1
Loans/Deposits ⁽⁶⁾	125.1%	101.8%	107.2%	17.9
Loans/Total sources of funding ⁽⁷⁾	97.5%	88.2%	90.9%	6.6

* normalized values excluding integration costs

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

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

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

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

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

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

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



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

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

- Strong domestic demand and improvement of economic conditions in the eurozone translate into more optimistic forecasts for the Polish GDP. According to the European Commission, GDP in Poland should rise by 3.3% in 2015 and 3.4% in 2016 as compared to an increase of 1.8% and 2.1%, respectively, in the European Union as a whole.
- Geopolitical instability (e.g. the Ukrainian crisis) and the still uncertain prospects for the EU economy related, among other things, to the debt crisis in Greece may have an adverse effect on the macroeconomic conditions, which, in turn, may result in deterioration of the financial condition and performance of the entire banking sector.
- Stabilization of the interest rates of the National Bank of Poland at a record low level reduces the Bank's ability to increase margins. On the one hand, it may result in a decrease of financing costs incurred by individuals and enterprises, which should translate into a higher demand for loans. On the other hand, it may discourage households from investing their savings in the form of bank deposits and have an adverse effect on the yield on zero-interest deposits.
- As a result of an accelerated growth rate driven by a rise in private consumption and investment, one may expect a pickup in demand for both consumer credit and corporate loans. The majority of banks in Poland continue to focus on consumer credit due to their shorter repayment dates, higher margins and stabilization of the NPL ratio owing to application of more effective credit risk assessment methods and sales of irregular loan portfolios. This growing competition may reduce the Group's ability to achieve its objectives related to sales of consumer credit. On the other hand, a strong increase in demand for loans will support their accomplishment.
- As the financial condition of corporates is good, one may expect a rise in new loans in the entire sector, which will also translate into imposition of more demanding liquidity requirements to be satisfied by banks, which may intensify competition in securing deposits and lead to a drop in margins.
- Following the sudden appreciation of CHF against all major currencies, including the Polish zloty, in response to the decision of the Swiss National Bank of 15 January 2015 to abandon the Swiss franc - euro cap, numerous solutions were developed for customers with CHF loans. In March 2015, the banks adopted the so called 'six-pack', i.e. a set of the following solutions that may be used by the end of 2015, or possibly longer:
 - consideration of the negative LIBOR rate when calculating interest on mortgage loans in foreign currencies;
 - reduction in the currency spread;
 - suspension or extension of the loan repayment period at the customers' request;
 - enabling obligors to change the currency from CHF to PLN at the average rate of the National Bank of Poland;
 - resignation from any additional collateral or loan insurance;
 - introduction of more flexible restructuring terms for mortgage loans taken out by those customers who live in the apartments/houses financed with the use of the loan.
- Mortgage loans denominated in CHF form part of the Group's portfolio. However, it should be emphasized that depreciation of the Polish currency against the Swiss franc has had a limited effect on currency and liquidity risk as the Bank has access to stable and long-term sources of funding appropriate considering the characteristics of the loan portfolio. Potential further legislative changes related to mortgage loans, including *the Act laying down specific principles of foreign currency mortgage loan restructuring due to changes in foreign exchange rates relative to the Polish currency*, as adopted by the Sejm and forwarded to the Senate, which introduces the possibility to convert foreign currency loans into PLN loans at the exchange rate in force and banks' cancellation of 90% of the difference between PLN loans and foreign currency loans could have a negative effect on the operations and financial performance of the Group.



- The possible imposition of tax on banking assets, further increases in the fees to the Bank Guarantee Fund or introduction of new fees in relation to mortgage loans or the difficulties encountered by the cooperative savings and credit unions could have an adverse effect on the profitability of the banking system in Poland. The annual Bank Guarantee Fund fee rate for 2015 has risen from 0.1% to 0.189%, while the prudential fee rate from 0.037% to 0.05%, which affects the level of costs in 2015. The costs of the aforementioned fees continue to be recognized on the accrual basis throughout the year.



11. OPERATIONS OF THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A. IN THE FIRST HALF OF 2015

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

- **Retail and Business Banking** providing comprehensive services to:
 - retail customers; and
 - business customers (microenterprises), to include:
 - entrepreneurs whose annual net income for the preceding financial year is below PLN 10 million and the Bank's credit exposure to a customer is less than PLN 2 million;
 - farmers, where the Bank's credit exposure to a customer is less than PLN 1 million and Standard Output² in the preceding financial year was less than EUR 50 thousand.

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

- **SME and Agro Banking** providing services to:
 - institutional customers with annual net income for the preceding financial year of PLN 10-60 million, or the Bank's credit exposure of PLN 2-25 million;
 - farmers with the Bank's credit exposure of PLN 1-25 million or the Standard Output³ in the preceding financial year of EUR 50 thousand or more; and
 - Agro entrepreneurs with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producer groups.
- **Corporate Banking** providing services to institutional customer with net annual income for the preceding financial year equal to or exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more.
- **Corporate and Institutional Banking (CIB)** supporting sales of products of the BNP Paribas Group dedicated to the largest Polish corporates. It comprises services to strategic customers and the Financial Markets Division.
- **Other Operations** carried out mainly through the ALM Treasury Division.

11.1. DISTRIBUTION CHANNELS

Branches

As at 30 June 2015, the Bank had 601 retail and business banking branches. The branch network was supported by 11 external cash desks handling cash transactions, 10 Investment Product Centers (IPC) providing comprehensive services related to investment products offered by the Brokerage Office of Bank BGŻ BNP Paribas as well as 6 Private Banking Centers.

As of the date of the legal merger of Bank BGŻ and BNPP Polska, i.e. 30 April 2015, the retail sales network was reorganized. The country was divided into 9 Regions with 78 leading branches and 523 branches (including 24 partner branches operating under franchise contracts).

² parameter describing the economic size of farms in accordance with the Community Typology for Agricultural Holdings

³ see above



In the first half of 2015, following the banks' merger, a decision was taken to close down 10 branches and relocate further 3. Additionally, 1 external cash desk was closed down.

Banking products and services dedicated to corporate customers were sold by 44 SME and 9 Corporate Business Centers.

ATM network

As at 30 June 2015, the Bank had 624 branch ATMs, 411 of which were the property of IT Card and 213 of the Bank. The ATMs carry the logo of Bank BGŻ BNP Paribas.

The ATM network located in the Bank's branches is available to customers free of charge. Depending on the type of their account, retail customers could use all ATMs located in Poland or only branch ATMs free of charge. For some types of personal accounts, the number of free-of-charge ATM cash withdrawals was limited to 4 per month. At the same time, affluent customers using dedicated personal accounts could withdraw cash from ATMs located worldwide free of charge.

Microenterprises could make free-of-charge cash withdrawals using the branch ATMs and selected Planet Cash ATMs (68). Additionally, customers using the *Plan Agro Lider*, *Agro Lider Prestiż* and *Plan Agro* packages could withdraw cash free of charge from the ATMs of the BPS S.A. Group and SGB-Bank S.A.

Corporate customers using the *Standard* and *e-Biznes Lider Prestiż* package could make free-of-charge cash withdrawals using the branch ATMs, selected Planet Cash ATMs (68) as well as Euronet ATMs (6,206). Finally, customers using the *Agro Lider Prestiż* package could use all ATMs located in Poland free of charge.

11.2. ALTERNATIVE CHANNELS

Online banking

In the first half of 2015, the Bank recorded an increase in the number of customers using online banking services, both among individual and institutional customers. The number of transactions carried out via online banking rose as well.

Table 23. Data related to eBGŻ system

eBGŻ system		30.06.2015	30.06.2014	change YoY	
				thousand	%
Number of clients with access	eBGŻ/eBGŻ Lite	465 855	438 107	27 748	6.3%
	eBGŻ Firma	97 984	89 496	8 488	9.5%
Number of clients actively logging in	eBGŻ	288 107	278 300	9 807	3.5%
	eBGŻ Lite	74 168	-	74 168	100.0%
	eBGŻ Firma	57 287	53 466	3 821	7.1%
Average number of transactions	eBGŻ	1 269 732	1 171 875	97 857	8.4%
	eBGŻ Lite	42 728	-	42 728	-
	eBGŻ Firma	1 249 967	1 121 302	128 665	11.5%

Table 24. Information on the Pl@net system

Pl@net system	30.06.2015
Number of clients with access*	245 033
Average number of transactions	430 804

*customers being parties to an online banking agreement

**Table 25. Information on BGŻOptima**

BGŻOptima	30.06.2015	30.06.2014	change YoY	
			number	%
Number of clients with access	163 898	138 942	24 956	18.0%
Average number of transactions	56 411	49 652	6 759	13.6%

In May 2015, eBGŻ users were provided with a functionality enabling them to download PDF bank statements to the Bank's credit card accounts. Following the merger of Bank BGŻ and BNPP Polska, a uniform graphic layout was introduced for the transaction systems.

The functionalities of the online banking system eBGŻ were updated to reflect changes introduced to the Bank's offering. Additionally, the range of services offered by the merged Bank includes the electronic banking service PI@net and BiznesPI@net (offered to BNPP Polska customers before).

Telephone banking

In the first half of 2015, the total number of customers using the telephone banking system rose by 32,909 as compared to the end of June 2014.

Table 26. Information on TeleBGŻ

TeleBGŻ		30.06.2015	30.06.2014	change YoY	
				number	%
Number of customers with access to TeleBGŻ	Retail customers	503 409	473 674	29 735	6.3%
	Institutional customers	144 399	141 225	3 174	2.2%

Bank cards

As regards issuing and management of payment cards, Bank BGŻ BNP Paribas S.A. partners with such organizations as MasterCard and Visa. The card portfolio includes debit, credit and deferred payment cards. As at 30 June 2015, 887 thousand cards had been issued, which denotes a rise by almost 268 thousand cards (43%) year-on-year and is mainly attributable to the banks' merger.

Table 27. Number of banking cards issued by Bank BGŻ BNP Paribas S.A.

thousand	30.06.2015	30.06.2014	change YoY	
			thousand	%
Debit cards retail	699.1	502.4	196.7	39.2%
Credit cards retail	104.5	54.6	49.9	91.4%
Debit cards business	76.4	60.1	16.3	27.1%
Business card with deferred payment	5.8	1.3	4.5	346.2%
Credit cards business	1.0	0.0	1.0	-
Total number of cards issued	886.8	618.4	268.4	43.4%

In the first half of 2015, the Bank launched initiatives aimed at encouraging personal account holders to use the debit cards linked with their accounts for purposes of payment for their everyday purchases. Customers opening new personal accounts and establishing a relationship with the Bank could use a special offer providing for 5% moneyback over a period of three months for their supermarket purchases paid for with the use of the debit card.

Furthermore, between March and May 2015, a promotional campaign addressed to customers using their debit cards only for ATM cash withdrawals was initiated. The customers received a gift for any purchase paid for using the debit card. Almost 6.5% of customers made their first debit card payment at the time of the special offer.



In March 2015, the Bank launched the 3D Secure service for its customers, offering additional security for card payments made in online stores carrying the MasterCard SecureCode logo. The service consists in confirmation of online transactions with a single SMS password sent to the card holder's mobile phone.

In the first half of 2015, the customers of former BGŻ could still raise the limit of their credit cards and transfer funds from the credit card accounts to their personal accounts at attractive prices.

Customers using the electronic banking system were offered an electronic bank statement for their credit card accounts. Following implementation of Recommendation U issued by the Polish Financial Supervision Authority, Aviva insurance offered to credit card holders was discontinued. In the merged Bank, all new credit card insurance products are provided by Cardif Assurances Risques Divers S.A. and Europ Assistance S.A.

Cooperation with intermediaries

At the end of June 2015, the Bank cooperated actively with 20 network intermediaries, such as Open Finance, Notus or Expander, and 12 local intermediaries. The scope of such cooperation included acquisition of banking products. Direct supervision over conclusion of any cooperation agreements (both with network and local intermediaries) is exercised from the Head Office of the Bank.

In the first half of 2015, following the merger of Bank BGŻ and BNPP Polska, a standard financial intermediation agreement form was introduced, as a result of which 73 agreements were terminated.

In the first half of 2015, the Bank also followed a policy of monitoring the intermediaries' compliance with the terms of cooperation agreements centrally. The scope of the assessment included the sales results and the quality of the loan portfolio provided by the intermediaries. Seventeen intermediation agreements were terminated as a result.

11.3. RETAIL AND BUSINESS BANKING

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

- Retail Customers:
 - Mass;
 - Affluent;
 - Private Banking, i.e. customers investing their assets of at least PLN 600 thousand through the Bank;
- Business Customers (microenterprises);
 - Professionals: entrepreneurs with limited financial reporting, in conformity with the principles laid down in *the Accounting Act*, and following occupations defined in a separate document;
 - Entrepreneurs:
 - with limited financial reporting, in conformity with the principles laid down in the *Accounting Act*;
 - with full financial reporting, in conformity with *the Accounting Act*, and those whose net annual income for the preceding financial year is lower than PLN 10 million, while the Bank's exposure is lower than PLN 2 million;
 - Agro entrepreneurs (whether with full financial reporting or not), the activities of which are classified based on selected PKD 2007 codes;
 - Farmers, where the Bank's credit exposure to a customer is less than PLN 1 million and Standard Output⁴ in the preceding financial year was less than EUR 50 thousand.

⁴ see footnote on p. 35

**Development of the product offering**

The first half of 2015 was a period of the lowest interest rates of the National Bank of Poland on record. In this context, the deposit operations of the Bank were primarily aimed at ensuring stability of the retail customer savings portfolio while optimizing the deposit margin. As part of the initiatives launched in relation to the banks' merger, consistent interest rates were introduced for deposits.

The Bank promotes the establishment of long-term relationships with customers, awarding bonuses to those cooperating with the Bank actively and depositing new funds.

At the end of the first half of the year, the new *Konto Praktyczne* account was included in the range of products offered by Bank BGŻ BNP Paribas. It is an attractive product for customers willing to use the Bank's services related to day-to-day finance management and transfer their salaries to the account.

The Bank offers to the *Konto Praktyczne* holders:

- no charge, if at least PLN 1 thousand is transferred to the account monthly;
- free of charge cash withdrawals from ATMs worldwide;
- free of charge domestic transfers in PLN, submitted through the electronic banking channel;
- MasterCard debit card with a contactless payment feature with no charges for the card provided that cashless transactions in the minimum total amount of PLN 300 are made in the billing period.

Those customers for whom *Konto Praktyczne* is the first bank account may enjoy an unconditional waiver of the account fee and the fee for the card linked with the account until they turn 26.

A special offer *Konto Aktywna Pensja* has been launched in relation to *Konto Praktyczne* for customers who have not held a personal account with the Bank for the past six months. Thus, following benefits are offered during a period of 12 months, up to the amount of salary (the maximum of PLN 5 thousand):

- interest rate of 4% p.a. on funds deposited in the personal account;
- fee-free overdraft facility in the personal account.

It is the first product offered on the market which combines interest on the funds deposited in the personal account with an attractive loan offering. The existing accounts, i.e. *Konto Nr 1* and *Konto Dobrze Dobrane*, are no longer sold but they continue to be maintained.

In March 2015, prior to the legal merger, Bank BGŻ and BNPP Polska introduced modifications to the Rates and Charges Information for retail customers, applicable to personal accounts and debit cards no longer offered but maintained. The said modifications concerned, among other things, the account fees, mainly those related to management of debit cards and handling cash transactions made with their use.

The Bank withdrew account-linked cards without the contactless payment feature.

In the first half of 2015, numerous campaigns aimed at supporting cashless debit card payments were initiated, to include:

- exemption from fees for the card for 3 months in return for a first non-cash transaction;
- no monthly fee for the service cards with contactless sticker for six months;
- campaign that encourages cardholders to pay debit card for purchases. In return for the transaction at the point of retail and service customers receive guaranteed prize in kind. Thanks to the campaign, nearly 6.5% of the customers covered by the action for the first time used the card to pay for their daily expenses;
- the activation campaign consists in rewarding customers for the first cashless payments return of 5% of the expenditure made with the card at grocery stores (up 20 PLN per month for a period of 3 months).



Furthermore, new visuals and card carriers were developed and introduced for debit cards of the merged Bank. Also modern images in line with the new visual identification of the Bank were proposed. The card carriers are aimed at encouraging customers to use their cards actively not only for cash but also cashless (including contactless) transactions.

New insurance products were implemented to mortgage products offer.

Table 28. Retail and Business Banking Deposits and Loans⁵

in PLN '000	30.06.2015	30.06.2014	change	
			PLN '000	%
Current accounts	5 832 206	3 924 887	1 907 319	49%
Savings accounts	10 238 564	8 329 128	1 909 436	23%
Term deposits	10 753 383	8 135 520	2 617 863	32%
Overnight deposits	490 560	304 465	186 095	61%
Accounts and deposits	27 314 714	20 694 000	6 620 713	32%
<i>including: BGŻOptima</i>	<i>5 617 652</i>	<i>4 863 131</i>	<i>754 521</i>	<i>16%</i>
Consumer credit	4 690 106	1 216 929	3 473 176	285%
Investment loans	4 946 683	3 910 319	1 036 364	27%
Loans and advances in current accounts	3 148 624	2 322 758	825 866	36%
Mortgage loans	14 884 187	8 227 464	6 656 723	81%
Lease receivables	163 969	-	163 969	-
Credit cards	191 780	88 110	103 669	118%
Short-term loans	185 725	171 817	13 908	8%
Other loans	293 827	299 496	(5 668)	(2%)
Loans and advances	28 504 900	16 236 893	12 268 007	76%

Deposits

In the first half of 2015, in addition to the standard deposit offering, former BGŻ customers could use 9 special offers involving term deposits, 2 special offers related to the new savings account *Konto z Zyskiem*, 4 new offers of the progressive deposit, 6 investment deposit subscriptions and 1 unit-linked product. Also new retention products were regularly introduced with a view to persuading the existing customers not to withdraw their savings from the Bank.

The Bank regularly launched attractive special offers to its private banking customers for selected maturities of the *Lokata bardzo osobista* deposit in addition to a high-interest *Lokata urodzinowa* deposit.

The customers of former BNPP Polska could enjoy the special offer of a three-month deposit dedicated to those depositing new funds or holding or opening the *Konto dobrze dobre* and *Konto dobrze oszczędnościowe* accounts. They could also use 3 special offers related to the *Konto Dobrze Oszczędnościowe* account.

The Bank offered the following investment products complementing the deposit offering:

- a 2.5-year structured product in the form of individual life and endowment unit-linked insurance EuroStars III;
- a 2-year structured product in the form of individual life unit-linked insurance 20 Stars 20 Extra and 20 Stars 20 Komfort.

⁵ Selected segment deposit and loan volumes have been presented based on data derived from management information systems due to availability of more detailed product information.

The deposit volume does not include balances from some credit institutions, which are treated as interbank deposits for management reporting purposes and for financial reporting purposes they are recognized as customer deposits. Additionally, the balances do not include interest accrued but not due.



As at 30 June 2015, Retail and Business Banking deposits totaled PLN 27,314.7 million, which denotes a rise by PLN 6,620.7 million, i.e. 32%, year-on-year. In addition to the merger, an increase in the volume of term deposits (both standard and negotiated) at the Bank's Branches was the key growth factor.

Table 29. Number of retail customer deposit accounts

thousand	30.06.2015	30.06.2014	change YoY	
			thousand	%
Number of accounts* at branches	1 813.8	1 346.9	466.9	34.7%
Current accounts	971.1	751.7	219.5	29.2%
Savings accounts	524.6	312.2	212.4	68.0%
Term deposits	318.1	283.1	35.0	12.4%
Number of BGŻOptima accounts	220.1	190.2	29.9	15.7%
Savings accounts	188.1	158.9	29.2	18.4%
Term deposits	32.0	31.3	0.7	2.2%
Total number of accounts	2 033.9	1 537.1	496.8	32.3%

* excluding auxiliary accounts

BGŻOptima

BGŻOptima complements the savings and investment products offered by the Bank. The offering is addressed to customers willing to use financial services online and comprises deposits, savings accounts as well as distribution of investment fund units.

As at 30 June 2015, the number of customers using BGŻOptima services was 163,9 thousand, which denotes that almost 19 thousand new customers have been acquired since the beginning of the year.

Loans

In the first half of 2015, the Bank's retail loan activity focused on increasing its share in the retail loan market while maintaining profitability of such loans.

As at the end of the first half of 2015, the value of the Retail and Business Banking loan and advance portfolio was PLN 28,505 million, which denotes a rise by PLN 12,268 million (76%) as compared to the corresponding period of the preceding year. A higher volume of cash loans and mortgage loans in PLN as well as those in convertible currencies (mainly CHF) was the key growth factor.

The offering of former BGŻ included such loan product special offers as *BIK Pass*, *Etatowcy*, *Hipoteka w spłacie* or consolidation for affluent customers. At the beginning of the year, two new special offers were launched, namely *Kredyt na PIT* and *Pożyczka na szóstkę*. The first one enabled customers to obtain a cash loan based on their PIT returns for the prior year, as a result of which they were not obliged to submit any additional financial documents, which shortened the time necessary to take out the loan considerably. *Pożyczka na szóstkę* with an attractive interest rate of 6% p.a. was another new special offer attracting considerable customer interest, as a result of which its period was extended to mid-June.

Additionally, former BNPP Polska launched a special offer of a cash loan with an attractive interest rate starting at 5.9% p.a., where the pricing terms depended on the loan amount and tenor. The offer was available until mid-June 2015.

On 15 June 2015, the merged Bank implemented a new loan application processing system (for cash loans and revolving loans). As a result, it is able to launch a unified product offering for its customers.

In the first half of 2015, the credit card holders being the customers of former BGŻ could still raise the limit of their credit cards and transfer funds from the credit card accounts to their personal accounts at attractive prices. Customers using the electronic banking system were offered an electronic bank statement for their credit card accounts. Additionally, the scope of credit card services provided through the electronic banking system was extended to include Visa card activation.



In accordance with the guidance of the Polish Financial Supervision Authority, as of 1 April 2015 the Bank implemented Recommendation U, which has also had an effect on sales of cash loans. The terms on which loan products linked with insurance are offered have been modified. After the merger all new insurance products are provided by Towarzystwo Ubezpieczeniowe Cardif (a company from the BNP Paribas Group) and Europ Assistance. The Bank's customers are also encouraged to use actively the discount programs offered by the payment associations Visa and MasterCard.

In the first half of 2015, PLN mortgage loans sold by the Bank totaled PLN 504 million, which denotes a 30% increase year-on-year. That was the effect of campaigns consisting in promoting selected mortgage transaction types while maintaining product profitability, in addition to improvement of product features or sales supporting processes.

Following rapid appreciation of CHF in January 2015, the value of the CHF mortgage loan portfolio went up by more than 9% (as compared to 30 June 2014). The volume of foreign currency loans (withdrawn from the offering between 2008 and 2009) was PLN 7,435 million (up by PLN 4,533 million vs. 31 December 2014).

To meet customers' expectations, the Bank implemented solutions aimed at supporting those customers that had taken out mortgage loans in the Swiss franc, as proposed by the Polish Bank Association (the so called 'six-pack'), which included, among other things, application of negative LIBOR rates, reduction of the currency spread for CHF and waiving the right to demand additional collateral to be provided by the customer.

Net banking income – Retail and Business Banking

In the first half of 2015, net banking income in the Retail and Business Segment was PLN 492.4 million, which denotes a 10% increase year-on-year. It represents 57.6% of the Group's net banking income. More than 60% of net banking income was generated by Retail Banking (individual customers) and almost 40% by Business Banking (microenterprises and farmers).

Table 30. Net banking income – Retail and Business Banking⁶

in PLN '000	the first half of 2015	the first half of 2014	change	
			PLN '000	%
Net interest income	360 080	327 713	32 367	10%
Net fee and commission income	113 866	102 039	11 827	12%
Net trading income	18 560	19 475	(915)	(5%)
Dividend income	834	-	834	-
Other	(906)	(842)	(64)	8%
Net banking income	492 434	448 385	44 049	10%

11.4. PERSONAL FINANCE

Personal Finance is responsible for the Bank's operations involving financial services provided to consumers, with three major products, i.e.

- cash loans – distributed mainly through the branch network, but also via the Internet and the call center;
- car loans – for new and used vehicles, initiated mainly by used car dealers and authorized car dealers;
- credit cards – offered to customers being parties to a credit card linked cash loan or car loan agreement.

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

It also assumes responsibility for the following key processes:

⁶ Information based on the segmentation note to the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the first half of 2015 presenting data that ensures comparability between 30 June 2015 and 30 June 2014



- authorization of consumer credit and microenterprise loan applications as well as credit approval based on specific criteria;
- debt collection;
- telephone customer service via the Contact Center, including: CRM (cross-sell) initiatives and loan sales via the telephone.

Cash loans

In the first half of 2015, the Bank launched the following offers related to cash loans:

- a special offer of cash loans with attractive pricing terms and life insurance;
- a special offer with a guarantee of the lowest total cost of credit and attractive pricing terms depending on personal account opening at the Bank as well as the obligor's life or job loss insurance. The special offer guarantees that the cash loan obtained by the customer will have the lowest total cost of credit as compared to same-parameter (amount, currency, tenor, obligor's identity) loan products offered by other banks;
- a new offer of life insurance products accompanying cash loans (following the introduction the requirements of Recommendation U).

The first half of 2015 saw major efforts related to the merger of Bank BGŻ and BNPP Polska which involved, among other things, launching the cash loan as the first product available to the entire sales network of the merged Bank BGŻ BNP Paribas.

Following the banks' merger, Bank BGŻ BNP Paribas introduced the new standard and promotional offer of cash loans.

The sale of cash loans in both banks in the first half of 2015 was PLN 1,052 million.

Car loans

In the first half of 2015, the Bank launched the following offers related to the car loans:

- a new special offer and a standard offer for the first quarter and the second quarter of 2015 addressed to authorized dealers of Hyundai and Kia;
- a 4x25 balloon loan offer for authorized dealers of Hyundai;
- the *PROMO KOMIS* special offer with modified price parameters;
- a new offer of insurance products accompanying car loans (following the introduction the requirements of Recommendation U);
- a standard loan offer for authorized dealer car purchases, with modified price parameters.

Sales of new car loans in both banks in the first half of 2015 years amounted to PLN 346 million.

Leases

Apart from car loans, the Bank's customers may enter into operating and finance lease agreements (including the *Vat Marża* finance lease) from PLN 20,000 (PLN 13,000 for new motorcycle dealers) to PLN 1,000,000 for new vehicles and PLN 500,000 for used vehicles.

Lease agreements may be signed for passenger cars, trucks of up to 8 tons, buses, tractors, motor scooters, motorcycles and quads.

Credit cards

Credit cards are distributed to customers being parties to a credit card linked cash loan or car loan agreement. The available limits are PLN 2, 3, 4 or 6 thousand.

11.5. BROKER SERVICES AND DISTRIBUTION OF UNITS IN INVESTMENT FUND MANAGEMENT COMPANIES

The operations of the Brokerage Office of Bank BGŻ BNP Paribas focus on provision of services to retail customers complementing the investment products offered by the Bank.

Additionally, the Brokerage Office provides services to selected institutional customers such as open-end investment funds, investment fund management companies and other asset managers, and, following the merger date, also to Private Banking customers.



The core business of the Brokerage Office comprises portfolio management and investment advice. Investment advice is provided (in two versions) to Affluent customers (former Bank BGŻ version) and Private Banking customers (former BNPP version). Following the merger, portfolio management services were also added to the offering of the Brokerage Office. They are addressed to Private Banking customers only.

The net broker fee income in the first half of 2015 amounted to PLN 2,050 thousand vs. PLN 2,462 thousand in the first half of 2014.

The Brokerage Office offers a wide range of investment funds managed by recognized Polish Investment Fund Management Companies. Therefore, the Bank's customers are now capable of diversifying their savings effectively. At the end of June 2015, the Brokerage Office sold units in more than 130 funds managed by nine Investment Fund Management Companies. As at 30 June 2015, the value of Investment Fund Management Company assets sold by Bank BGŻ BNP Paribas totaled PLN 1,721 million, which represents a 16.3% increase vs. 31 December 2014.

In the analyzed period, fee income on sales of units in Investment Fund Management Companies by the Investment Product Centers (IPC) and the Bank's branches increased substantially. In the first half of 2015, they totaled PLN 9,617 thousand and were higher by 36.5% than in the corresponding period of 2014.

The total net fee income of the Brokerage Office rose by PLN 2,161 thousand YoY.

Table 31. Fee and commission income of the Brokerage Office if the Bank BGŻ BNP Paribas S.A.

PLN '000	30.06.2015	30.06.2014	change YoY	
			PLN '000	%
Broker fees and commissions	2 050	2 462	(412)	(16.7%)
Commissions from the sale of units in investment funds	9 617	7 044	2 573	36.5%
Fee and commission income from brokerage operations	11 667	9 506	2 161	22.7%

Improved financial performance of the Brokerage Office was the effect of the implemented growth strategy, which places a central focus on both human resources and development of the product offering.

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

		30.06.2015		30.06.2014	
		volume	share	volume	share
Stock	PLN million	473 096	0.23%	630.46	0.29%
Bonds	PLN million	7.36	1.00%	33.49	3.56%
Futures	number	50 907	0.64%	44 864	0.46%
Investment certificates	PLN million	0.85	1.07%	1.00	1.93%
Options	number	3 926	1.03%	1 543	0.37%



11.6. SME AND AGRO BANKING

SME and Agro Banking provides services to customers with sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million. The Bank's portfolio includes more than 19 thousand customers classified to the aforesaid segment. Additionally, the SME segment includes the SME Farmers and the Agro sub-segments.

- SME Farmers are customers with full financial reporting and sales income of less than PLN 60 million or farmers without full financial reporting and the Standard Output (SO) in the preceding financial year of EUR 50 thousand or more.
- The SME Agro sub-segment comprises entrepreneurs with full financial reporting and sales income of PLN 10-60 million or the Bank's credit exposure of PLN 2-25 million, including agricultural producer groups.

The SME sales network has been divided into 7 SME Regions with 44 SME Business Centers dedicated solely to provision of services to Small and Medium-Sized Enterprises:

- West – 8 SME Business Centers;
- North – 7 SME Business Centers;
- Northeast – 5 SME Business Centers;
- Central Poland – 6 SME Business Centers;
- East – 5 SME Business Centers;
- South – 5 SME Business Centers;
- Southwest – 8 SME Business Centers.

At present, the SME sales network has 311 employees, including: 7 SME Regional Directors, 44 SME Business Center Directors, 180 Relationship Managers (including Agro, Non-Agro and Active Sales Experts) as well as 80 Sales Support Assistants. Additionally, the SME sales network is supported by product specialists from other departments of the Bank, who possess expertise on the products offered and participate in the sales process. The Relationship Managers and product specialists cooperate closely in the area of factoring, leases, cash management, treasury or trade finance.

The Bank offers a wide variety of products to its SME and Agro customers. The offering developed for small and medium-sized enterprises includes such products as:

- transactional products which may be used freely as part of the customer's account or package (cashless domestic and cross-border transactions, cash transactions, also closed ones, automatic fund transfers between accounts);
- deposit products for the customer's investment of surplus cash (e.g. standard deposits, negotiated deposits with maturity and interest rate agreed on a case-by-case basis, deposits made through the online banking system as well as deposit accounts for flexible surplus cash management);
- loan products providing funding for the day-to-day running of the business as well as implementation of investment and development projects, refinancing expenditure that has already been incurred or loans granted by other banks (loans and advances in current accounts, revolving and non-revolving working capital loans and investment loans);
- trade finance products (export and import documentary LCs, export and import documentary collection, LC discounting as well as nostro and loro guarantees);
- financial market transactions for purposes of currency, interest rate and commodity price risk management (e.g. FX Spot, FX Forward, FX options, IRS, interest rate options, commodity swap, commodity options);
- other financial services, such as lease of machines and equipment, process lines, vehicles, real property as well as factoring services dedicated to manufacturing, sales and service companies entering into deferred payment sales transactions (offered in cooperation with BNP Paribas Factor Sp. z o.o.).



The said products ensure increased flexibility, as a result of which numerous parameters may be matched to the individual needs of each customer.

At the end of the first half of 2015, the Bank provided services to 19,430 SME customers, 5,809 (30%) of which were farmers, 2,367 (12%) Agro enterprises and 11,254 (58%) other sector enterprises.

Table 33. Deposits and loans – SME and Agro⁷

in PLN '000	30.06.2015	30.06.2014	change	
			PLN '000	%
Current accounts	2 895 784	1 987 638	908 146	46%
Savings accounts	437 881	283 041	154 841	55%
Term deposits	1 097 853	1 059 596	38 258	4%
Overnight deposits	530 980	538 248	(7 268)	(1%)
Accounts and deposits	4 962 499	3 868 522	1 093 976	28%
Consumer credit	2 391	-	2 391	-
Investment loans	7 299 180	5 926 327	1 372 853	23%
Loans and advances in current account	2 342 599	1 553 195	789 404	51%
Lease receivables	470 126	-	470 126	-
Credit cards	1 974	871	1 103	127%
Short-term loans	1 129 360	788 458	340 903	43%
Other loans	339 960	133 504	206 456	155%
Loans and advances	11 585 590	8 402 355	3 183 235	38%

Agro sub-segment. The Bank has developed a comprehensive offering for the agri-food segment, from accounts, through deposits and loans to agricultural insurance (voluntary and obligatory) offered in liaison with Concordia Polska TUW.

As regards loans, the Bank offers a wide variety of working capital and investment loans to farmers and agro enterprises. Such products as loans and advances in current accounts collateralized with mortgage, *Agro Ekspres*, *Agro Progres* investment loan for financing agricultural holdings as well as preferential loans are still very popular among the Bank's customers.

In May 2015, a new Agro loan policy was approved due to the necessity to bring the principles governing provision of loans to farmers and agricultural support entities into line with those followed by the BNP Paribas Group.

Preferential loans

In response to the amendments introduced to European Commission regulations and national laws, as from 12 March 2015 a new preferential loan policy has been adopted. The number of lines of credit has been reduced to 6 as compared to the preceding years:

- RR – for investments in agriculture and inland fishing;
- Z – for purchases of agricultural land;
- PR – for investments in the agricultural product, fish, crustacean and mollusk processing industry as well as purchases of shares;
- K01 – disaster investment line;
- K02 – disaster working capital line;
- MRsck – subsidized loans for purchases of agricultural land by young farmers.

⁷ see footnote on p. 40



One entity may obtain: a loan for investments in the agricultural holding of up to PLN 5 million, a loan for investments in specialized agricultural production of up to PLN 8 million and a loan for processing of up to PLN 16 million. Purchases of agricultural land in specialized agricultural production may not be financed as part of line Z and MRsck but only as part of line RR up to 10% of eligible expenses. The minimum agricultural land area requirement applies only to purchases of agricultural land for purposes of establishing a new holding (line Z and MRsck). Investments in the agricultural product, fish, crustacean and mollusk processing industry by large enterprises may not be financed until EU notification.

The following new definitions were introduced:

- *incentive effect* – applicable to line RR, PR and MRsck, which denotes that in the case of these lines of credit, prior to submission of the loan application, the investor is not allowed to commence any activities or construction works related to the investment. Commencement of the project work or the relevant activities should be understood as commencement of any activities or construction works related to the investment or the first legally binding obligation to order any equipment or services, or any other obligation which makes the project or activity irreversible, whichever occurred earlier. Purchases of land or commencement of preparatory work, such as obtaining permits and performing feasibility studies, are not regarded as commencement of the project or activity;
- *transfer of ownership* – a change of the person managing an asset as a result of handover of the asset itself or as a result of a legal transaction entered into by the owner and the holder, such as sale, donation, lease, lending for use or rental.

In 2015, the Agency for Restructuring and Modernization of Agriculture (ARMA) introduced a new formula for allocation of loan limits to interested banks. Bank BGŻ won ARMA competition for the best offering of preferential loans to farmers. As a result, more than PLN 900 million, i.e. 60% of the total limit for all banks for the current year, was allocated to Bank BGŻ, which offered the most attractive pricing terms, i.e. no arrangement fees and a markup of 2.48%. At present, the interest rate offered to customers is 3% p.a.

Typically, preferential loans are used mainly for purchases of agricultural land, construction and modernization of buildings, purchases of machines and equipment as well as establishment of perennial crop plantations. The offering is addressed not only to farmers but also agri-food sector enterprises.

Net banking income – SME and Agro Banking

In the first half of 2015, net banking income in SME and Agro Banking was PLN 141.9 million, which denotes a 7% increase year-on-year. It represents 16.6% of the Group's net banking income.

Table 34. Net banking income – SME and Agro Banking⁸

in PLN '000	the first half of 2015	the first half of 2014	change	
			PLN '000	%
Net interest income	86 655	83 603	3 052	4%
Net fee and commission income	39 477	34 418	5 059	15%
Net trading income	14 704	11 820	2 884	24%
Dividend income	2	-	2	-
Other	1 131	2 499	(1 368)	(55%)
Net banking income	141 969	132 340	9 629	7%

11.7. CORPORATE BANKING

Corporate Banking offers a wide variety of financial services to large and medium-sized enterprises with annual turnover exceeding PLN 60 million or the Bank's credit exposure of PLN 25 million or more, as well as entities operating in multinational capital groups.

⁸ See footnote on p.42



Corporate Banking customers are classified into 4 key groups:

- Polish mid-caps (with annual income of PLN 60-600 million);
- multinational customers (companies operating in multinational capital groups);
- large Polish corporations (with annual turnover of more than PLN 600 million and an investment banking potential);
- public sector and institutions.

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

In the first half of 2015, an initiative aimed at increasing the share in the market of Polish enterprises was continued. The effects of the intense customer acquisition strategy are visible through an increased share of those enterprises in the entire Corporate Banking loan portfolio.

The Agro sector expertise of Bank BGŻ combined with the capabilities of the multinational BNP Paribas Group enable development of an attractive and modern offering addressed to agri-food sector customers.

Distribution channels

Corporate Banking services are provided by Business Centers (BCs) located in large cities across Poland, which are separate from the Bank's branch network. At present, the Bank has nine business centers, including three in Warsaw, one in Kraków, Gdańsk, Katowice, Poznań, Wrocław and Lublin. In addition to the existing BCs, services are provided to customers locally by CTB relationship managers in Szczecin, Bydgoszcz, Toruń, Łódź, Kielce and Rzeszów.

Online banking

The Bank provides its corporate customers with extended access to online banking through the *BiznesPI@net* and *Connexis* platforms suited to the needs of large, medium-sized and small enterprises. *BiznesPI@net* may be used for modification of account access authorizations and it may be integrated with the company's accounting systems. In addition to the functionalities available through the *PI@net* platform, the *BiznesPI@net* system enables customers to process all their transactions online, to include LC opening and modification as well as entry into foreign exchange transactions (via the *Deal on PI@net* platform of the Bank).

Products and services

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:

- **global trade finance** – comprehensive services related to import and export LCs, bank guarantees and documentary collection, supply chain finance and export financing with the use of dedicated IT tools;
- **deposits** – from overnight to term deposits, indexed using the WIBOR rate;
- **cash management** – an integrated approach to a group of products related to management of the customers' domestic and cross-border cash flows, together with price competitive tools which support management of amounts due received and paid by the customer, including comprehensive cash management services, cash pooling structures and advanced card solutions.

The Bank has implemented an innovative customer – Bank transactional communication model, which integrates the finance and accounting system of the customer with the Bank's servers (host to host). This unique solution makes the Bank a transactional center through which the customer may make payments debited also to accounts maintained by other banks and receive bank statements from such other banks;

- **corporate financing** – loans and advances in current accounts, revolving loans and investment loans;
- **mid-cap structured finance** – financing acquisitions, high capital expenditure as well as structured bilateral or syndicated loans of PLN 20-200 million;
- **real estate financing** – financing office, retail and warehouse space for customers:
 - planning the construction or extension of commercial property with the use of a construction loan;
 - planning the purchase or refinancing of commercial property with the use of an investment loan or lease;



- **investment banking services** – provided by experts, including advisory services related to mergers and acquisitions, project finance as well as capital markets and debt securities;
- **financial market products** – including spot and forward FX transactions made by the Bank's dealers or via a price competitive FX platform (*Deal on Pl@net*), together with FX options, FX swaps, interest rate swaps and other derivative products offered along with the *Fixed Income* platform of Corporate and Institutional Banking;
- **lease and factoring services** – offered by the Lease Department and the Factoring Unit and BNP Paribas Factor, respectively.

Table 35. Corporate Banking Deposits and Loans⁹

in PLN '000	the first half of 2015	the first half of 2014	change	
			PLN '000	%
Current accounts	3 435 089	1 161 501	2 273 588	196%
Savings accounts	2 850	402	2 448	609%
Term deposits	4 033 044	2 066 577	1 966 467	95%
Overnight deposits	1 695 695	337 202	1 358 493	403%
Accounts and deposits	9 166 678	3 565 682	5 600 996	157%
Consumer credit	242	-	242	-
Investment loans	5 286 507	2 864 526	2 421 981	85%
Loans and advances in current accounts	2 574 348	1 247 612	1 326 736	106%
Mortgage loans	-	836	(836)	-
Lease receivables	1 304 344	-	1 304 344	-
Credit cards	3 125	213	2 912	1 367%
Short-term loans	2 142 518	1 106 726	1 035 792	94%
Other loans	777 971	424 177	367 678	87%
Loans and advances	12 089 055	5 644 090	6 458 849	114%

TRADE FINANCE PRODUCTS FOR CORPORATE BANKING CUSTOMERS

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

Bank guarantees and LCs

Between January and June 2015, the Bank issued 1,201 bank guarantees at the request of Corporate Banking customers, which totaled PLN 618.3 million.

In the first half of 2015, the Bank opened 695 import LCs in the total amount of PLN 265.2 million at the request of Corporate Banking customers and handled 195 export LCs totaling PLN 318.8 million, issued by third-party banks for the benefit of those customers.

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

Net banking income – Corporate Banking

In the first half of 2015, net banking income of Corporate Banking was PLN 106.3 million, which denotes a 114% increase year-on-year. It represented 12.4% of the Group's net banking income as compared to 6.7% in the corresponding period of the preceding year. This was due to inclusion of the corporate portfolio of BNPP Polska.

⁹ see footnote on p. 40

**Table 36. Net banking income – Corporate Banking¹⁰**

in PLN '000	the first half of 2015	the first half of 2014	change	
			PLN '000	%
Net interest income	58 639	28 686	29 953	104%
Net fee income	27 838	15 507	12 331	80%
Net trading income	19 343	5 521	13 822	250%
Dividend income	2	-	2	-
Other	471	(38)	509	(1 339%)
Net banking income	106 293	49 676	56 617	114%

11.8. CORPORATE AND INSTITUTIONAL BANKING (CIB)

Corporate and Institutional Banking (CIB) supports sales of products of the BNP Paribas Group dedicated to the largest Polish enterprises. After the legal merger, CIB Banking area was included in the Bank's structure, comprising services to strategic customers and Financial Markets Division.

CIB Banking has been delivering comprehensive financial and risk management solutions to its customers, including:

- financing the day-to-day operations and investments carried out by enterprises;
- advisory services related to mergers and acquisitions;
- structured finance; financing acquisitions and investment projects;
- cash flow and liquidity management, working capital optimization;
- financial and commodity risk management.

CIB Banking 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 development of Polish enterprises and implementation of projects of strategic importance to Poland, to include construction of power plants, green energy or fuel sector funding or securing financing for cross-border acquisitions of listed companies.

Financial Markets Division

The Financial Markets Division focuses on four key business areas:

- transactions on the Polish and international FX and interest rate markets. This involves management of market risk in the trading book, quotations of FX 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 management of 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 centers focusing on analyses;
- organization of debt security issues for corporate customers.

The Financial Markets Division has recorded a considerable increase in transaction volumes in all customer segments.

In the first half of 2015, the economists of Bank BGŻ BNP Paribas won, for the second time in a row, a prestigious international competition organized by Consensus Economics, a leading administrator of macroeconomic surveys, regarding the most accurate forecasts of the economic growth and CPI inflation for the Polish economy.

¹⁰ see footnote on p. 42



11.9. OTHER OPERATIONS

Other operations of the Group are carried out mainly through the Asset Liability Management and Treasury Division (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.

ALM Treasury assumes responsibility for liquidity management at the Bank, setting internal and external reference prices, management of the interest rate risk inherent in the Bank's balance sheet as well as the operational and structural currency risk. ALM Treasury focuses on both prudential (compliance with external and internal regulations) and optimization aspects (financing cost management and generating profit on management of the Bank's balance sheet items).

The operations of ALM Treasury are carried out through two profit centers, i.e. ALM Treasury and Corporate Center.

One of the key risk management mechanisms in place at the Bank is systemic transfer of structural risks (liquidity, banking book interest rate, operational and structural currency risk) from all business lines to the ALM Treasury, which manages those risks centrally. Risk is transferred mainly through the transfer pricing system, which reflects the business financing strategy adopted by the Bank.

ALM Treasury is mainly responsible for ensuring a balanced liquidity position in addition to optimizing the costs of financing the Bank's operations as well as a proper structure of assets and liabilities, including sensitivity to changes in interest rates. Other functions of that line focus on management of the internal transfer pricing system, balance sheet analysis, modeling and measurement of liquidity and interest rate risks in the banking book as well as coordinating the activities of the ALCO

11.10. COOPERATION WITH FINANCIAL INSTITUTIONS

As at 30 June 2015, the Bank was a correspondent bank of ca. 860 other banks, and held 48 nostro accounts for 18 major currencies with foreign banks.

In the analyzed period, the Bank maintained 38 loro accounts in 5 currencies for 31 foreign banks, 1 domestic bank and 1 foreign non-bank financial institution. The loro accounts in the accounting records of Bank BGŻ BNP Paribas S.A. represent an external source of cost-free working capital used in the Bank's operations. Those accounts are used mainly for purposes of customer and bank-to-bank transfers.

Additionally, the Bank provided services to the cooperative banking sector, both as regards transactional banking and treasury.

In the first half of 2015, Bank BGŻ BNP Paribas S.A. cooperated with one foreign non-bank financial institution offering cheap and fast money remittance services – MoneyGram (USA), both as regards cash and credit transfers. The transactions were two-directional – from and to Poland.

Additionally, cooperation with other domestic and foreign financial institutions was continued, to include mainly investment funds, insurance companies, pension funds as well as brokers and banks, as a result of which a large number of treasury and deposit transactions were entered into. Moreover, cooperation of new entities was secured to enable the Bank to conclude transactions involving both the existing and new products in the future.

**11.11. ORGANIZATION AND HUMAN RESOURCES****Organizational structure**

The major organizational changes introduced in the first half of 2015 resulted from the merger of Bank BGŻ and BNPP Polska into the new Bank BGŻ BNP Paribas S.A. Reliance on the assets and expertise of both these organizations enabled establishment of a strong universal bank offering a wide range of products and services to all customer segments, including specialist products dedicated to customers operating on the global market.

The business activities of the Group have been organized in four areas: a) Retail and Business Banking, including Personal Finance; b) SME and Agro; c) Corporate Banking; and d) Corporate and Institutional Banking (CIB). As a result, the relationships with customers are more focused and appropriate sales, marketing and technological solutions may be selected.

Retail and Business Banking customers may now use the services of a wider branch network across Poland, with strong presence in medium-sized and small towns thanks to former BGŻ branches and in large cities thanks to former BNPP branches. Additionally, the digital platform focused on more affluent customers adds new dimensions to the broad offering of Bank BGŻ BNP Paribas, thus contributing to development of more technologically sophisticated services.

SME and Corporate Banking customers are served by a network of SME Business Centers and Corporate Centers located across Poland.

The sales and customer service model adopted by Bank BGŻ BNP Paribas is supported by units grouped in the IT, operations, business support and risk functions as well as the finance function as regards supervision and control of the Bank's finance management. A key role in the processes carried out at the Bank, especially from the perspective of its security, is performed by the audit, compliance, operational risk management, legal support as well as internal and external communication units reporting directly to the President of the Management Board of the Bank. HR units assume responsibility for stimulating the Bank's business activity by searching for and providing the best solutions in human resources management.

The organizational structure of the Bank built after the merger will be optimized along with operational and system integration processes, taking into account market challenges and ambitious growth objectives.

Human resources

Following the banks' merger, at the end of June 2015, Bank BGŻ BNP Paribas had 7,762 FTEs (including employees on maternity leave, childcare leave and longer sick leave), comparing to 5,209 FTE's as at the end of 2014.

The table below presents the Bank's employment structure as at 30 June 2015 in FTEs:

Table 37. The Bank's headcount (in FTEs)

	30.06.2015
Total Bank, including:	7 762
Head Office	3 116
Branch network	4 485
Mobile Relationship Managers	88
Brokerage Office	57
Training Center	13
Trade Unions	3

Anticipating the necessity of employment restructuring, on 4 March 2015 Bank BGŻ, BNPP Polska and the Inter-Company Committee of the Independent, Self-Governing Trade Union *Solidarność* of Banking Sector Employees at Bank Gospodarki Żywnościowej S.A., the Trade Union of the Employees of Bank Gospodarki Żywnościowej S.A. and Cooperative Banks (two trade unions active at Bank BGŻ) and the Company Organization of the Independent, Self-Governing Trade Union *Solidarność* No. 3254 at BNPP Polska, entered into an agreement whereby the procedures related to the group redundancy process were defined (the *Agreement*). The parties agreed that group dismissal will take place during the period of 24 months of the banks' merger and affect no more than 1,800 employees.



The parties established the criteria of selection of employees whose employment contracts would be terminated as part of the group redundancy process, set out the conditions to be satisfied by employees in order to participate in the voluntary redundancy scheme, the terms of termination benefits and additional compensation to employees, including the terms of relocation (change of the workplace) and the outplacement program.

To mitigate the social effects of the restructuring initiatives necessary to build a new, efficient organization, two voluntary redundancy schemes were launched for employees whose job positions are planned to be eliminated and who satisfy the age criteria. The aforesaid criteria have been developed with a view to reducing the effects of job loss by those employees who would experience the most considerable difficulties on the labor market and, consequently, could be faced with unemployment or those who, due to their age (the maximum of 4 years to be granted the right to retirement), are not willing to confront new challenges. Employees who decide to join in the schemes will be granted additional compensation by the Bank upon termination of employment. The first scheme is addressed to women who are more than 50 years old and men who are more than 55 years old and have not reached the pre-retirement protection age, while the second scheme is dedicated to those employees who have reached the pre-retirement protection age.

With a view to fulfilling its obligations to dismissed employees, as set out in the abovementioned Arrangement, on 29 April 2015 Bank BGŻ recognized a restructuring provision of PLN 49.3 million, and BNPP Polska of PLN 35.7 million. The aforesaid provisions cover termination benefits, additional compensation as well as cost of training addressed to dismissed employees.

Information regarding remuneration of Members of the Management Board and the Supervisory Board of the Bank has been presented in Note 40 *Related-party transactions* to the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the period of 6 months ended 30 June 2015.

Information on the Bank's shares held directly by Members of the Management Board and Supervisory Board of the Bank has been presented in Note 42 *Shareholders of Bank BGŻ BNP Paribas S.A.* to the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the period of 6 months ended 30 June 2015.

Training and development

The training activities in the first half of 2015, as in 2014, supported the achievement of the business objectives of the Bank through a close liaison with the business lines as regards development of the employees' skills and competencies, but mainly in relation to the merger and integration of two financial institutions with a view to preparing employees for provision of premium quality services to both external and internal customers. The total number of on-site training and e-learning course participants was 69,663, including 60,651 who completed e-learning courses.

Major training initiatives in the first half of 2015:

- courses aimed at ensuring a consistent level of knowledge of the products and systems possessed by the employees of the merged organizations;
- courses increasing leadership competencies of managers, focusing in particular on change management;
- training programs supporting improvement of knowledge of and competencies in mergers and acquisitions as well as change management in implementation of the business strategy of the organization;
- courses supporting development of a risk culture at the Bank as well as pro-active employee attitudes and behaviors, especially in operational risk, compliance and crisis management areas;
- courses raising the level of product knowledge, dedicated to the salesforce, including those focusing on investment funds and sales of insurance products;
- courses supporting development of sales skills and enhancing the quality of customer service, addressed to salesforce;
- foreign language courses.

Development programs implemented in the first half of 2015:

- *Prestiż* Potential Development Program – the last, 3rd stage of the Program aimed at developing highest potential employees as managers and experts;



- *Talenty sprzedaży* Development Program – the last stage of another edition of the Program dedicated to the best relationship managers in retail and business banking. The manager and expert career paths are developed as part of the Program.

In the first half of 2015, the Bank continued the *Internal Labor Market* initiative launched in 2014 with a view to enhancing the occupational mobility of the employees inside the organization.

The Occupational Mobility Days were an initiative launched in the first half of 2015 to support the occupational mobility of the employees, who could obtain detailed information on the nature of work in a specific business area or attend meetings, both traditional and virtual, during which issues related to professional development were discussed. Additionally, *Centrum Mobilności Zawodowej* (Occupational Mobility Center) was launched on the internal social networking website, where the employees are provided with access to up-to-date job offers on the Internal Labor Market and solutions supporting their professional development.

Internship and traineeship programs

The Bank offers traineeship and internship programs to students, university graduates and high-school students.

Employer branding

In the first half of 2015, the Bank continued the *Ambassador Program* aimed mainly at promoting the Bank among university students.

The agenda included lectures and presentations given by the Bank's experts. In June 2015, the 1st edition of the Banking Academy addressed to 20 students of the University of Economics in Katowice came to an end.

Additionally, the Bank's Goldenline profile was created for employer branding purposes.

11.12. INFORMATION TECHNOLOGY

In the first half of 2015, the Bank spent PLN 51.45 million on IT investments, with 76 projects completed and 28 projects in progress in that period.

The most important initiative is the integration of Bank BGŻ and BNPP Polska. Its scope includes numerous projects to be carried out in the following phases:

- legal merger – 47 projects completed;
- image merger (single brand introduction) – 27 projects completed and 5 in progress;
- operational merger (IT system integration) – 22 projects in progress.

Major IT initiatives

The projects related to preparation for the legal merger, which was completed on 30 April 2015, were aimed at integration of IT tools and systems. They guaranteed uninterrupted operations of the new Bank while ensuring complete operational security and minimizing the negative effect on customers. The key tasks fulfilled at that phase:

- implementation of single processes for risk assessment and new customer approval, transaction monitoring and a single register for purposes of fulfilling the obligations imposed by the General Inspector for Financial Information;
- functions centralization and integration of systems managing financial market transactions and supporting market risk management;
- integration of domestic and cross-border payments, modification of transaction systems handling directly banking operations, including access to clearing networks, implementation of consistent transaction filtering principles as well as centralization of levies on bank accounts and enquiries;
- implementation of a single approach to risk measurement and reporting, along with shared customer risk management principles and application;
- introduction of consistent principles of financial accounting and keeping the accounting records so as to ensure security of the merged Bank's operations and their compliance with the applicable laws;
- securing connections between the IT networks of both banks and ensuring mutual access to the IT systems;



- change of the Bank's name in documents and systems available to customers.

Projects related to image merger and introduction of new products to the offering of the merged Bank involved introduction of a consistent customer service policy at each Branch of former BNPP Polska and former BGŻ with respect to cash and cashless transactions as well as key business products, while ensuring compliance with security policies and procedures. Project work related to the aforesaid phase included mainly:

- change of the image and visual identity of the branches/head office;
- preparation of IT infrastructure at branches;
- granting access to the CRM application to branch employees;
- granting access to the credit process supporting application to branch employees;
- implementation of consistent principles of information, transaction, sales and collection service in the Contact Center;
- launching a single Internet website;
- launching the *Aktywna Pensja* personal account and the cash loan;
- launching a single Intranet website.

Projects in progress

Projects related to the operational merger and ensuring the Bank's compliance with the new legal requirements were launched in the second quarter of 2015 and they include large-scale and long-term initiatives in the following areas:

- online banking migration;
- accounting system migration;
- adjustment of credit processes and applications;
- implementation of a single card management system;
- introduction of a single archiving system.



12. OPERATIONS OF THE SUBSIDIARIES IN THE CAPITAL GROUP OF BANK BGŻ BNP PARIBAS S.A.

12.1. TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH BGŻ BNP PARIBAS S.A. (TFI BGŻ BNPP)

On 17 November 2014, BNPP and BGŻ notified the Polish Financial Supervision Authority of the intention of BGŻ to purchase the shares in Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska S.A. as a result of the banks' merger. On 9 April 2015, the Polish Financial Supervision Authority issued a decision that there are no grounds for voicing an objection against the intention of Bank BGŻ to purchase directly the shares in TFI BGŻ BNPP. As a result of the merger, Bank BGŻ BNP Paribas S.A. became the parent of TFI BGŻ BNPP. As from 13 July 2015 (after the end of the reporting period), following registration of the amendments to the Statute, the entity has been operating under the business name of Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.

TFI BGŻ BNPP has been carrying out business in the financial services industry since 1992. Before, it was active on the Polish capital market as a brokerage office whose scope of business included professional investment advice, purchase and redemption of fund units, trade in shares and bonds not admitted to organized trading as well as asset management services.

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

- investment fund establishment and management;
- intermediation in sale and redemption of units and shares in foreign funds;
- management of financial instrument portfolios of individual customers.

TFI BGŻ BNPP is the manager of BNP Paribas FIO, which entered the Polish market in 2005. BNP Paribas FIO is the first umbrella investment fund in Poland with separated sub-funds. At the end of June 2015, it comprised the following sub-funds: *BNP Paribas Akcji*, *BNP Paribas Stabilnego Wzrostu* and *BNP Paribas Papierów Dłużnych*. BNP Paribas FIO offers also an individual retirement account – *IKE BNP Paribas FIO* and an individual pension insurance account – *IKZE BNP Paribas FIO*.

The financial instrument portfolio management services offered by the entity since 1996 include provision of comprehensive solutions related to investments on the Polish and international capital markets. At present, the entity's product offering comprises:

- portfolios of domestic financial instruments suited to 5 risk profiles of customers;
- portfolios of stable, balanced and dynamic Polish and foreign funds based on funds investing in clean asset classes;
- participation portfolios in line with the co-management principle.

Additionally, TFI BGŻ BNPP offers individual investment solutions.

The Bank cooperates with TFI BGŻ BNPP as an intermediary in sales of the financial instrument portfolio management service. Through the Private Banking Department, the asset management service of TFI BGŻ BNPP is offered to affluent individual customers of the Bank. Under an agreement with TFI BGŻ BNPP, the Bank's Brokerage Office distributes units in BNP Paribas FIO.

The share capital of TFI BGŻ BNPP amounts to PLN 9,048 thousand and is divided into 377,000 shares with the par value of PLN 24.00 each. The level of its equity is sufficient to ensure security of the day-to-day running of the business. As at 30 June 2015, TFI BGŻ BNPP held assets totaling PLN 14.8 million and assets under management of PLN 236.4 million.

Table 38. Key financial information of TFI BGŻ BNPP

PLN '000	30.06.2015	31.12.2014	31.12.2013
Balance sheet total	14 823	15 555	15 067
Long-term investments	3 727	3 811	3 516
Equity	14 338	14 945	14 454
including: net profit/loss	296	1 046	1 015

**12.2. BNP PARIBAS FACTOR SP. Z O.O.**

Following the merger of Bank BGŻ and BNPP Polska, as of 30 April 2015 Bank BGŻ BNP Paribas S.A. became the new owner of the entity. As the factoring services of Bank BGŻ will fall within the scope of the entity's operations, its market share will increase considerably. The position of Bank BGŻ on the Agro services market should not be underestimated as it creates considerably greater growth opportunities for the entity.

BNP Paribas Factor Sp. z o.o. is a factoring company active on the Polish market since 2004. It supports the business operations of enterprises, including the corporate customers of the BNP Paribas Group, by offering factoring services, to include recourse factoring, non-recourse factoring and reverse factoring. BNP Paribas Factor is a member of the Polish Factors Association and Factors Chain International, which is an international association of factoring companies. Its services are dedicated to small, medium-sized and large manufacturing, sales and service companies entering into deferred payment sales transactions. The entity focuses on services addressed to multinational corporations. By offering an extended and integrated mix of financial products, BNP Paribas Factor opens up the opportunity of cross-sell to corporate and SME customers of the Group.

The share capital of BNP Paribas Factor amounts to PLN 10.4 million and is divided into 20,820 shares. As at 30 June 2015, BNP Paribas Factor held assets totaling PLN 580.1 million.

Table 39. Key financial information of BNP Paribas Factor

PLN '000	30.06.2015	31.12.2014	31.12.2013
Balance sheet total	580 109	446 878	169 232
Receivables from customers	540 587	413 053	150 598
Equity	13 717	12 016	10 049
including: net profit/loss	1 883	1 968	763

12.3. BANKOWY FUNDUSZ NIERUCHOMOŚCIOWY ACTUS SP. Z O.O.

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

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

As at 30 June 2015, the entity's investment portfolio comprised undeveloped land in Wrocław-Marszowice, with the area of 46.8468 ha. In accordance with the Local Development Plan, the real property will be used for residential building purposes.

In the first half of 2015, the supervisory measures employed with respect to the entity focused on creation of conditions appropriate for the sale of the aforesaid real property.

Table 40. Key financial information of BFN Actus

PLN '000	30.06.2015	31.12.2014	31.12.2013
Balance sheet total	54 870	55 011	62 744
Long-term investments	54 627	54 627	62 524
Equity	9 337	10 027	17 125
including: net profit/loss	(696.5)	(7 273)	(2 096)

**12.4. FORTIS LEASE POLSKA SP. Z O.O. IN LIQUIDATION**

On 15 February 2014, under an agreement between Fortis Lease Polska Sp. z o.o. (FLP) and BNP Paribas Bank Polska SA, Fortis Lease Polska was transferred onto BNPP Polska in return for redeemed shares in FLP, which accounted for 99.98% of the share capital of FLP. Thus, the leasing operations of FLP were incorporated into the structure of BNPP Polska.

As at 30 June 2015, the share capital of FLP amounted to PLN 20 thousand and was divided into 2 shares. The assets held by FLP totaled PLN 4.96 million.

Pursuant to a Resolution of the Extraordinary Shareholders' Meeting of FLP dated 30 June 2014, the liquidation procedure was opened for the entity on 1 July 2014. As at 30 June 2015 and the date of approval hereof, i.e. 31 August 2015, the liquidation procedure had not been closed.



13. KEY RISKS AND RISK MANAGEMENT

The Bank identifies, measures, monitors and manages the risks involved in its business operations. In particular, the following risks are identified in the risk monitoring, control and management process:

Risks inherent in the Bank's operations:

- credit risk
- counterparty risk
- market risk (identified for the trading portfolio)
- interest rate risk in the banking portfolio
- liquidity risk
- operational risk
- compliance risk
- break-even risk (business risk)
- reputation risk
- strategic risk
- leverage risk
- model risk

Key risks identified at the Bank:

- **credit risk**
- **business risk**
- **market risk**
- **interest rate risk in the banking portfolio**
- **liquidity risk**
- **operational risk**

and, considering overlapping risk categories:

- concentration risk;
- contagion risk.

In order to ensure that the aforementioned risks have been identified, defined and are subject to appropriate control and management, the Bank has developed detailed procedures applicable to all risk categories, both at the level of the Bank as a whole and its business divisions, which specify the risks and define the applicable limits. All methods and procedures are reviewed periodically in terms of their appropriateness and reliability and subject to validation tests, stress tests as well as back-testing. For non-measurable risks, the procedures are analyzed and monitored within the prescribed time limits based on various qualitative methods.

The risk management system of the Bank comprises mainly the Supervisory Board, the Management Board, dedicated committees (Internal Audit Committee at the level of the Supervisory Board, ALCO, Risk Management Committee, Retail Banking Risk Committee, Personal Finance Risk Committee, Credit Committee, Distressed Loan Committee as well as New Products, Businesses and Organization Committee), Risk Departments, Compliance and Operational Risk Division as well as Security and Business Continuity Department.

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



13.1. CREDIT RISK

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

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

Additionally, the aforementioned credit policies lay down detailed principles applicable to risk identification, measurement and acceptance, collateral securing repayment of the loan as well as customer monitoring during the term of the loan agreement.

The organization of the credit risk management process is brought into line with the business line structure at the Bank. A central role in the credit risk management system is performed by Risk, which is an organizationally separate unit managed by a Member of the Management Board acting in the capacity of the Chief Risk Officer. Credit risk management activities are supported by the Risk Management Committee as well as the Retail Banking/Personal Finance Risk Committees.

The obligors' credit risk is assessed using rating and scoring classification systems in addition to the risk classification standards defined in IFRS.

Credit decisions are adopted in accordance with the decision-making model approved 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 account for the risk involved in such a transaction;
- credit risk is diversified on such dimensions as geographical regions, industries, products and customers;
- credit decisions may only be taken by competent employees;
- the customer and the transactions made with the customer are monitored transparently from the perspective of the customer, in a manner that strengthens the relationship between the Bank and the customer.

The Bank's subsidiaries

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

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



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

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

Debt restructuring and collection

In the first half of 2015, the debt collection procedures resulted in recovery of receivables totaling PLN 46.7 million. The aforesaid debt was repaid as a result of enforced collection, instituted bankruptcy proceedings and arrangements made with the obligors.

In the first half of 2015, the Bank issued 2,597 enforcement titles for retail loans and microenterprises.

13.2. LIQUIDITY, CURRENCY AND INTEREST RATE RISK

Liquidity risk is defined as the inability to discharge liabilities where the costs in a specific currency and location remain acceptable.

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

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).

Liquidity, currency and interest rate risk is monitored using a formal system of limits and reports. The system of limits comprises the majority of liquidity, currency and interest rate risk parameters analyzed by the Bank. The limits are defined with a view to ensuring that:

- the desirable market risk level, as defined in the strategy adopted by the Bank, is maintained;
- the limits defined by the Bank 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 interest rate operations and transactions, market interest rate levels and the risk measures applied by the Bank.

In its market risk analyses, the Bank relies on scenario analysis and stress tests. The said analyses are based both on theoretical changes in market parameters 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 high morale in addition to extensive practical expertise and theoretical knowledge about the tasks performed. The procedures in place at the Bank enable control over correctness of task fulfilment.

The Bank's policy is based on the principle that the business (direct entry into transactions), operations (transaction booking and clearing) and control functions (risk measurement and monitoring) forming part of the currency, interest rate and liquidity risk management process are fulfilled by separate, organizationally independent units. The scopes of their responsibilities are clearly defined to determine their role and accountability in the risk management process.



This enables separation of the business functions from risk control, operations from risk control and operations from business functions

in order to guarantee appropriate quality of risk control and operational processes in addition to ensuring that the results of control indicating that the risk level is too high generate appropriate response of the Bank's management.

The Bank has adopted risk control and management policies that determine the measures to be employed in crisis situations. They define the principles of crisis identification, the scope of measures to be employed as well as responsibilities necessary to mitigate the related risk and to implement corrective actions.

Liquidity risk

The Bank's liquidity risk comprises:

- financing liquidity risk, i.e. the risk that expected or unexpected withdrawal instructions will not be performed without incurring unacceptable losses or without running a risk to the Bank's ability to carry out its business;
- market liquidity risk, i.e. the inability to realize assets due to inappropriate market depth or market disruptions. Thus, the said risk is related to market risk to a certain extent. Market liquidity risk reflects the changes in the liquidation value of the portfolio as a result of changes in its value expressed by market valuation. Liquidity risk involves uncertainty as to the time necessary to liquidate assets.

The following types of liquidity are distinguished by the Bank:

- immediate liquidity – the present day;
- future liquidity – beyond the present day, broken down into:
 - current liquidity – within 7 days;
 - short-term liquidity – more than 7 days to 1 month;
 - medium- and long-term liquidity – 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 funding;
- generate a positive balance of cash flows within a defined time horizon.

The Bank's strategy focuses on:

- sustainable, organic growth of the balance sheet (an increase in the value of assets has to be linked with a corresponding rise in the level of financing) as well as off-balance sheet transactions and liabilities;
- limitation of the Bank's dependence on market volatility and ensuring that in a market crisis the Bank will quickly be able to discharge its liabilities without reducing the range of its services or initiating changes in its core business profile. If a crisis situation continues in the longer term, the Bank's strategy focuses on maintenance of liquidity with possible changes in growth directions and introduction of costly business profile change processes;
- active limitation of the probability of adverse events which may have an effect on the Bank's liquidity. In particular, this concerns events which may affect reputation risk. In such case, the Bank will employ measures aimed at restoring confidence of both customers and financial institutions as soon as practicable;
- ensuring high quality of liquidity management standards. Actions aimed at improving the quality of liquidity management at the Bank are its top priority.

Amounts due to customers, medium- and long-term lines of credit and equity are the major sources of funding used by the Bank. Medium- and long-term lines of credit, including subordinated loans, are provided mainly by the BNP Paribas Group, the European Bank for Reconstruction and Development and the European Investment Bank.



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

Loan financing structure

The Bank's loans in PLN 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.

The Bank's loans in foreign currencies are financed mainly with the use of medium- and long-term loans from the BNP Paribas Group. This concerns, in particular, the CHF mortgage loan portfolio, for which a stable level of funding has been secured by the Bank.

Loans disbursed as at 30 June 2015:

Table 41. Structure of loans from the BNP Paribas Group

million	30.06.2015
CHF	1 756.50
EUR	163.23
PLN	1 011.58

Table 42. Structure of loans from the EBRD and EIB

million	30.06.2015
EUR	76.39
PLN	639.89

Table 43. Structure of loans from Rabobank

million	30.06.2015
CZK	68.00
EUR	85.41
PLN	511.04
USD	32.17

Currency risk

The Bank's operations result in the occurrence of currency positions which are sensitive to changes in foreign exchange rates. At the same time, it is the Bank's intention to limit its exposure to currency risk resulting from the FX products offered to customers. The Bank's activity on the foreign exchange market is limited with a view to generating a profit on short-term arbitrage positions.

The Bank's exposure to market currency risk is reduced through a system of limits. In accordance with the Bank's policy, the level of market currency risk is managed by the Financial Markets Division, which focuses on the intraday position and the end of day position. In order to ensure effective and precise currency position management, the Bank relies on an information system which provides up-to-date information concerning:

- the currency position;
- the global currency position;
- Value at Risk (VaR);
- daily gains/losses on currency position management.

The global currency position and VaR are limited and reported at day-end by the Financial and Counterparty Risk Department.



The Bank's currency risk is measured using the Value at Risk (VaR), which denotes the change in the market value of an asset or an asset portfolio with specific assumptions concerning the market parameters, at a specific time and with defined probability. For purposes of currency risk monitoring, it is assumed that VaR is determined with a 99% confidence level. VaR calculation for currency risk is based on the assumption that currency positions are held for one day. The quality of the VaR methodology is analyzed on a quarterly basis. The test involves a comparison of the forecast figures and those determined on the basis of actual changes in foreign exchange rates, assuming that the currency position is maintained (back-testing). The comparative period covers the last 250 business days. The VaR model was back-tested in the first half of 2015 and the verification did not identify the necessity to make any adjustments.

Interest rate risk

The operations carried out by the Bank result in open interest rate positions.

The market interest rate risk is concentrated in two separate portfolios, namely the portfolio of the ALM Treasury and the portfolio of the Financial Markets Division. The said portfolios were separated considering the characteristics of the positions contained therein. The structural interest rate risk and liquidity are managed as part of the portfolio of the ALM Treasury. The portfolio of the Financial Markets Division is a trading portfolio. A position is opened as a result of sale of financial instruments on account of customers as well as transactions entered into on the Bank's account.

As the scope of the Bank's trading operations is wide, a banking portfolio and a trading portfolio, as defined in Resolution 76/2010 (as amended) of the Polish Financial Supervision Authority, have been identified.

In accordance with the Bank's policy, interest rate risk is analyzed both collectively and separately for each of the aforesaid portfolios. The banking portfolio comprises the total portfolio of the ALM Treasury Division.

Banking portfolio operations which are not carried out by the ALM Treasury but result from the operations of the business lines offering deposit and credit products to the Bank's customers represent a major part of the ALM portfolio.

The portfolio managed by the Financial Markets Division is a trading portfolio.

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

- Value at Risk (VaR), determined with a 99% confidence level for various periods over which positions are held in the banking and trading portfolio;
- Earnings at Risk (EaR) – simulations of future net interest income (within the next year) assuming different yield curve scenarios;
- interest rate gap – a mismatch between the repricing dates of interest-bearing items;
- PV'01 – a measure of sensitivity of interest-bearing items to changes in the rates of interest;
- sensitivity to a parallel shift in the yield curve.

The aforesaid analyses are the major component of the system used for purposes of mitigating interest rate risk at the Bank. The analyses are performed for the relevant portfolios on a daily, monthly or quarterly basis, depending on the type of analysis and the portfolio.

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

No limits had been exceeded as at 30 June 2015.

13.3. COUNTERPARTY RISK

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

At the end of June 2015, counterparty risk was calculated for the following types of transactions contained in the trading portfolio of the Bank: foreign exchange transactions, interest rate swap transactions, FX options, interest rate options and commodity derivatives.



Counterparty credit risk for transactions which generate counterparty risk is assessed using the same methodology as the one applied to loans. This denotes that in the credit process transactions are subject to limits, the value of which results directly from assessment of customer creditworthiness performed in the same way as in the process of credit product offering. However, the assessment also takes into account the specific nature of transactions, in particular their changing value in time or direct dependence on market parameters.

The principles applicable to foreign exchange transactions, derivative transactions as well as credit limit granting, use and monitoring for transactions subject to counterparty risk limits have been laid down in dedicated procedures. According to the policy in place at the Bank, all transactions are entered into considering individual limits and knowledge of the customer. The Bank has defined groups of products offered to customers depending on their expertise and experience.

13.4. COUNTRY RISK

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

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

As at 30 June 2015, foreign lending operations of the Bank represented a half, international trade transactions accounted for 36%, treasury transactions for 13% and derivative transactions entered into with foreign corporate customers represented 0.2% of the Bank's country risk exposure. France accounted for 22%, Germany for 21% and the Netherlands for 18% of the exposure. The remaining exposure was related to the Czech Republic, Belgium and UK.

13.5. OPERATIONAL RISK

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

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



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

- tools used for purposes of recording operational events, together with the principles of their recording, allocation and reporting;
- operational risk analysis, its monitoring and day-to-day control;
- counteracting an elevated level of operational risk, to include risk transfer;
- calculation of the capital requirement related to operational risk.

Compliance with the operational risk policy is verified by the Bank's Management Board periodically and, if necessary, the required adjustments are made in order to improve the system. To this end, the Management Board of the Bank is regularly provided with information concerning the scale and types of operational risk to which the Bank is exposed, its effects and management methods.

Internal environment. The Bank precisely defines the roles and responsibilities in the operational risk management process, considering its organizational structure. The Operational Risk Department is responsible for day-to-day operational risk analysis in addition to development of appropriate risk control and mitigation techniques and their improvement. Development and implementation of the Bank's strategy with respect to insurance as a risk mitigation technique is the responsibility of the Administration Unit, while the Security and Business Continuity 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 common laws and their effect on the operations, in addition to court and administrative proceedings which affect the Bank. The Compliance Department is responsible for day-to-day compliance risk analysis as well as development of appropriate risk control techniques and their improvement.

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

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

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

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

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

Internal control system. The internal control system principles have been formulated in the *Internal Control Policy of the Bank*, which was approved by the Management Board of the Bank and accepted by the Supervisory Board. The said document lays down the key principles, defines the organizational framework and establishes the standards of the Bank's internal control environment. The Bank's internal control objectives are, in particular, improvement of efficiency of controls as part of a uniform, effective internal control system based on three control levels, as well as improvement of the process of the Bank's response to identified internal control inefficiencies and raising the risk awareness in the organization. The Bank's management is involved in the process of ensuring and confirming the efficiency of the key processes and controls (management sign-off).

Functional control is exercised in accordance with the *Functional Control Rules*.



Control and monitoring. The Bank monitors periodically the efficiency of the operational risk management system and its appropriateness for its current risk profile. The organization of the operational risk management system is reviewed as part of periodic control exercised by the Internal Audit Division, which is not directly involved in the operational risk management process but provides professional and unbiased opinions supporting achievement of the Bank's objectives. The operational risk management system is overseen and its appropriateness and efficiency are assessed by the Supervisory Board.

Reporting and transparency of operations. The capital requirement necessary to cover the Bank's operational risk is calculated using the Tier 1 ratio method both for Bank BGŻ BNP Paribas SA and its subsidiaries.

The Bank's subsidiaries

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

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

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

13.6. LEGAL RISK

As at 30 June 2015, no proceedings had been instituted before courts, arbitration or public administration bodies with respect to the Bank's receivables or liabilities, the value of which would exceed 10% of the Bank's equity.

As at 30 June 2015, the total value of the litigation initiated against the Bank (excluding proceedings against debt collection) was PLN 110,122,518.77. The value of the litigation initiated by the Bank was PLN 129,574,912.16.

14. CERTIFIED AUDITOR

On 11 June 2015, acting pursuant to Section 20.1.1g) of the Bank's Statute and in conformity with the applicable laws and professional standards, the Supervisory Board of the Bank appointed Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office at al. Jana Pawła II 19 in Warsaw (00-854), recorded under number 73 on the list of entities authorized to audit financial statements, kept by the National Council of Statutory Auditors ("*Deloitte*"), as the entity authorized to audit the separate financial statements of Bank BGŻ BNP Paribas S.A. and the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for 2015-2017. *Deloitte* will be responsible for:

- auditing the annual financial statements of the Bank and the annual consolidated financial statements of the Capital Group of the Bank;
- reviewing the interim (semi-annual) financial statements of the Bank and the Capital Group of the Bank;

prepared in conformity with the International Financial Reporting Standards.



15. GROWTH PROSPECTS OF BANK BGŻ BNP PARIBAS S.A.

Bank BGŻ BNP Paribas is part of the global BNP Paribas Group.

The merger of two complementary organizations (Bank BGŻ and BNPP Polska) enabled the establishment of a financial institution willing to become the leading integrated universal bank in Poland, which combines top-quality service with operational efficiency and profitability of operations. The market share of the merged Bank exceeds 4% and the Bank is the eighth largest bank in Poland in terms of asset value. The Bank's ambition is to become one of the five largest banks in Poland within the upcoming 3 to 5 years.

As it is the mission of the Bank to offer responsibly innovative financial solutions supporting customers in changing their world and stimulating the local economy, Bank BGŻ BNP Paribas will focus its efforts on creating value for its customers in the long term. To this end, it will rely on its multi-sector expertise and experience to develop pragmatic solutions exerting a positive effect on the comfort of its customers' life and development of enterprises, while ensuring compliance with the highest professional, loyalty and responsibility standards. Additionally, a better understanding of the needs and expectations of customers will contribute to improvement of relationships and enhancing mutual trust.

It is the intention of Bank BGŻ BNP Paribas to be a bank open to its customers, communicating with them in a clear and professional manner, sharing its experience and expertise, treating the customers as its business partners and delivering the value they expect.

The Bank and its subsidiaries intend to further strengthen their presence and increase the market share in all major areas of their operations. Reinforcing the current leading position in the agri-food sector, becoming a leader in consumer credit and establishing model banking solutions dedicated to large enterprises and multinational corporations in Poland while drawing on the global experience of the BNP Paribas Group are the key areas of the business expansion of Bank BGŻ BNP Paribas in the near future. Optimization of the range of products offered, identification of the sources of competitive advantage and elimination of redundant distribution chain links will enable the Bank to expand its operations in terms of new markets and new customers in the future, in addition to development of a profitable offering and competencies ensuring sustainable growth. This will be supported by quick adaptation to the competitive environment, efficient knowledge management as well as effective use of the synergies and diversity brought by the employees of the BNP Paribas Group.

Bank BGŻ BNP Paribas is an organization with the prospects of long-term operations, whose scale and market share ensure sustainable and profitable growth in addition to maintaining a prudential risk profile. The stability and scale of the operations carried out by the BNP Paribas Group will considerably increase the probability of implementation of the value growth strategy in the upcoming years. Adoption of the highest operating standards and consistent achievement of the objectives defined by the Bank will contribute to building solid foundations for efficient and effective operations, to the pleasure of the shareholders, customers and employees.

The merged Bank is operating under the new brand of BGŻ BNP Paribas and using a single customer service approach. The operational merger, including migration of customers to a single IT system and a single offering of products and services, is to be closed by the end of 2016.

Within the next 3 years, assuming stability of market conditions at that time, full income synergies should be achieved at the level of 5% of the accumulated income base as well as full gross cost synergies of 10-15% of the accumulated cost base. The synergy effect in 2017 is estimated at the level of PLN 350 million, with restructuring costs of ca. PLN 440 million to be incurred within 3 years, including the restructuring costs of the BNP Paribas Group. Synergies will be achieved through:

- IT system optimization, retail branch network restructuring (ca. 100 branches to be closed down) and efficiency improvement projects (central and back-office functions);
- implementation of an integrated business model of the BNP Paribas Group: cross-sell based on the competence of the business lines (Personal Finance, Wealth Management, Global Markets, Corporate Banking etc.);
- development of the online offering drawing on the experience with BGŻOptima – an online channel of BGŻ.

Furthermore, in accordance with the growth strategy of the BNP Paribas Group in Poland and as declared by BNP Paribas SA to the Polish Financial Supervision Authority upon acquisition of Bank Gospodarki Żywnościowej S.A. concerning the merger of Sygma Banque SA Branch in Poland and BGŻ BNPP, a preliminary agreement for the purchase of shares in Sygma Bank Polska S.A. by Bank BGŻ BNP Paribas was signed on 28 July 2015.



Sygma Bank Polska is one of the leading entities on the Polish consumer finance market, in particular in the area of credit cards (a portfolio of 700,000 cards). It also enjoys a strong position in the segment of installment loans and cash loans.

The Management Board of the Bank expects that acquisition of Sygma Bank Polska will enable BGŻ BNPP to broaden its product offering on the Polish consumer finance market, which will exert a positive effect on the Bank's income with a slightly negative impact on its capital ratios.

16. MAJOR EVENTS AFTER THE END OF THE REPORTING PERIOD

13.07.2015 Following registration of changes in the National Court Register, Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska S.A. has been operating under the business name of **Towarzystwo Funduszy Inwestycyjnych BGŻ BNP Paribas S.A.**

27.07.2015 Mr. **Wojciech Sass** submitted a statement of resignation from the position of Vice-President of the Management Board of the Bank.

28.07.2015 Bank BGŻ BNP Paribas S.A. signed the following agreements with Sygma Banque SA with its registered office in Paris:

- *a preliminary share purchase agreement*, whereby the Bank and Sygma Banque are obliged to enter into a final share purchase agreement under which BGŻ BNPP will acquire 1,000 (one thousand) registered shares in Sygma Bank Polska Spółka Akcyjna with its registered office in Warsaw ("Sygma Bank Polska"), representing 100% of the shares in Sygma Bank Polska and 100% of votes at the General Meeting of Sygma Bank Polska, from Sygma Banque (or its legal successor), at the total price of PLN 200 million.

The final agreement for the purchase of shares in Sygma Bank Polska will be signed after the following conditions precedent have been satisfied: (i) registration of Sygma Bank Polska in the Register of Entrepreneurs of the National Court Register; (ii) the PFSA granting the authorizations and issuing the decisions required under the *Banking Law* (as defined below); and (iii) the entry of the Resolution of the Supervisory Board of BGŻ BNPP concerning the consent for acquisition of the shares in Sygma Bank Polska by BGŻ BNPP into force.

- *a preliminary share purchase agreement*, whereby the Bank and Sygma Banque are obliged to enter into a final share purchase agreement under which BGŻ BNPP will acquire 100% of the shares in Laser Services Polska Spółka Akcyjna with its registered office in Warsaw ("LSP") at the total price of PLN 11 million from Sygma Banque (or its legal successor).

The final agreement for the purchase of LSP shares will be signed after the following conditions precedent have been satisfied: (i) acquisition of 100% of shares in Sygma Bank Polska by BGŻ BNPP; and (ii) the entry of the Resolution of the Supervisory Board of BGŻ BNPP concerning the consent for acquisition of LSP shares by BGŻ BNPP into force.

Sygma Banque is a related party of the Bank, operating in the BNP Paribas Group, whereas 100% of the shares in Sygma Banque are held by the LaSer Group, which is a wholly-owned entity of BNP Paribas Personal Finance. In the process of reorganization of the operations of the BNP Paribas Personal Finance Group, Sygma Banque will be merged with BNP Paribas Personal Finance, which will become the legal successor of Sygma Banque.

Sygma Bank Polska is a Polish bank which will be established as a result of transformation of Sygma Banque SA Branch in Poland (the "Branch"), i.e. a branch of the credit institution Sygma Banque, operating in Poland, under Article 42a-42f of the *Banking Law* of 29 August 1997 (the "*Banking Law*"), through the transfer of all assets, equity and liabilities of the Branch, being the business of the Branch, as a contribution in kind to Sygma Bank Polska, as permitted by the Polish Financial Supervision Authority on 24 July 2015. Registration of Sygma Bank Polska in the Register of Entrepreneurs of the National Court Register is planned in the near future. Sygma Bank Polska will continue the operations and strategy of Sygma Banque SA Branch in Poland.

LSP is a company providing services to Sygma Banque SA Branch in Poland, the scope of which includes loan and consumer credit arrangement and offering as well as performance of other banking operations.



Sygma Banque SA Branch in Poland is one of the leaders on the consumer credit market, present in Poland since 1988, which focuses on provision of active support to retail chains in the form of financial and non-financial services to their clients, in particular credit cards, installment loans and cash loans. Sygma Banque SA Branch in Poland has more than a million active customers and a loan portfolio of PLN 1.4 billion.

The acquisition of Sygma Bank Polska by BGŻ BNPP is in line with the declaration made to the Polish Financial Supervision Authority by BNP Paribas SA upon acquisition of Bank Gospodarki Żywnościowej S.A. concerning the merger of the operations of Sygma Banque SA Branch in Poland with those carried out by the Bank.

30.07.2015 Mr. **Józef Wancer** submitted a representation, whereby the effective date of his resignation from the position of President of the Management Board of the Bank was changed. In accordance with the aforesaid representation, Mr. Wancer will hold the office of President of the Management Board until 31 August 2015.

The Supervisory Board of the Bank adopted a resolution amending the resolution on conditional appointment of President of the Management Board of BGŻ BNP Paribas S.A. The aforesaid change concerned the date of appointment of Mr. **Tomasz Bogus** to the position of President of the Management Board of Bank BGŻ BNP Paribas S.A. The aforesaid resolution on appointment will enter into force as of the date of the consent of the Polish Financial Supervision Authority for the appointment, under Article 22b of the Banking Law, not earlier, though, than on 1 September 2015.

3.08.2015 **Registration of Sygma Bank Polska Spółka Akcyjna** with its registered office in Warsaw in the Register of Entrepreneurs of the National Court Register. Thus, the first condition precedent necessary for conclusion of the final agreement for the purchase of shares in Sygma Bank Polska by BGŻ BNPP from Sygma Banque SA with its registered office in Paris, France (or the legal successor of Sygma Banque SA) was satisfied.

6.08.2015 Announcement of the Management Board of the Bank about convening the Extraordinary Shareholders' Meeting on 1 September 2015.

25.08.2015 The Polish Financial Supervision Authority, acting under art. 22 b of the Banking Law Act, issued its consent for the appointment of Mr. Tomasz Bogus as President of the Management Board of the Bank BGŻ BNP Paribas S.A. Therefore, the condition precedent, specified in the Bank's Supervisory Board resolution has been satisfied. Considering that the said resolution has come into force, Mr. Bogus will assume the post of the CEO on 1 September 2015.

17. REPRESENTATIONS OF THE MANAGEMENT BOARD OF THE BANK

Fairness and reliability of the presented financial statements

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

- the Consolidated Interim Report of the Capital Group of Bank BGŻ BNP Paribas S.A. for the period of 6 months ended 30 June 2015 and the comparative data have been prepared in accordance with the applicable accounting principles and they give a true, fair and clear view of the economic and financial position of the Bank's Capital Group as well as its financial performance in all material respects;
- the Management Report on the Activities of the Capital Group of Bank BGŻ BNP Paribas S.A. for the first half of 2015 gives a true view of the development and achievements as well as the situation of the Bank's Capital Group, including a description of the key risks and threats.

Appointment of the entity authorized to audit financial statements

The Management Board of BGŻ BNP Paribas S.A. hereby represents that Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Warsaw, an entity authorized to audit financial statements, has been appointed pursuant to Section 20.1.1g) of the Statute of Bank BGŻ BNP Paribas S.A. by the Bank's Supervisory Board (Resolution No. 79/2015 of the Supervisory Board, dated 11 June 2015) in accordance with the law as the entity responsible for reviewing the consolidated financial statements of the Capital Group of Bank BGŻ BNP Paribas S.A. for the first half of 2015, and that the aforesaid entity and the certified auditors conducting the review meet the requirements to issue an unbiased and independent review report, in conformity with the applicable provisions of national laws.



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

.....
Józef Wancer
President
of the Management Board

.....
Daniel Astraud
Vice-President
of the Management Board

.....
Francois Benaroya
Vice-President
of the Management Board

.....
Blagoy Bochev
Vice-President
of the Management Board

.....
Jan Bujak
Vice-President
of the Management Board

.....
Wojciech Kemblowski
Vice-President
of the Management Board

.....
Magdalena Legęć
Vice-President
of the Management Board

.....
Jaromir Pelczarski
Vice-President
of the Management Board

.....
Stephane Rodes
Vice-President
of the Management Board

.....
Wojciech Sass
Vice-President
of the Management Board

.....
Michel Thebault
Vice-President
of the Management Board

.....
Bartosz Urbaniak
Member
of the Management Board

Warsaw 26th August, 2015