The Board of Executives' Report on the Business Activity of BNP Paribas Bank Polska SA Group in the First Half of 2013

BNP PARIBAS | Bank zmieniającego się świata

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1. SUMMARY OF THE BUSINESS ACTIVITY OF BNP PARIBAS BANK POLSKA SA GROUP IN THE FIRST HALF OF 2013

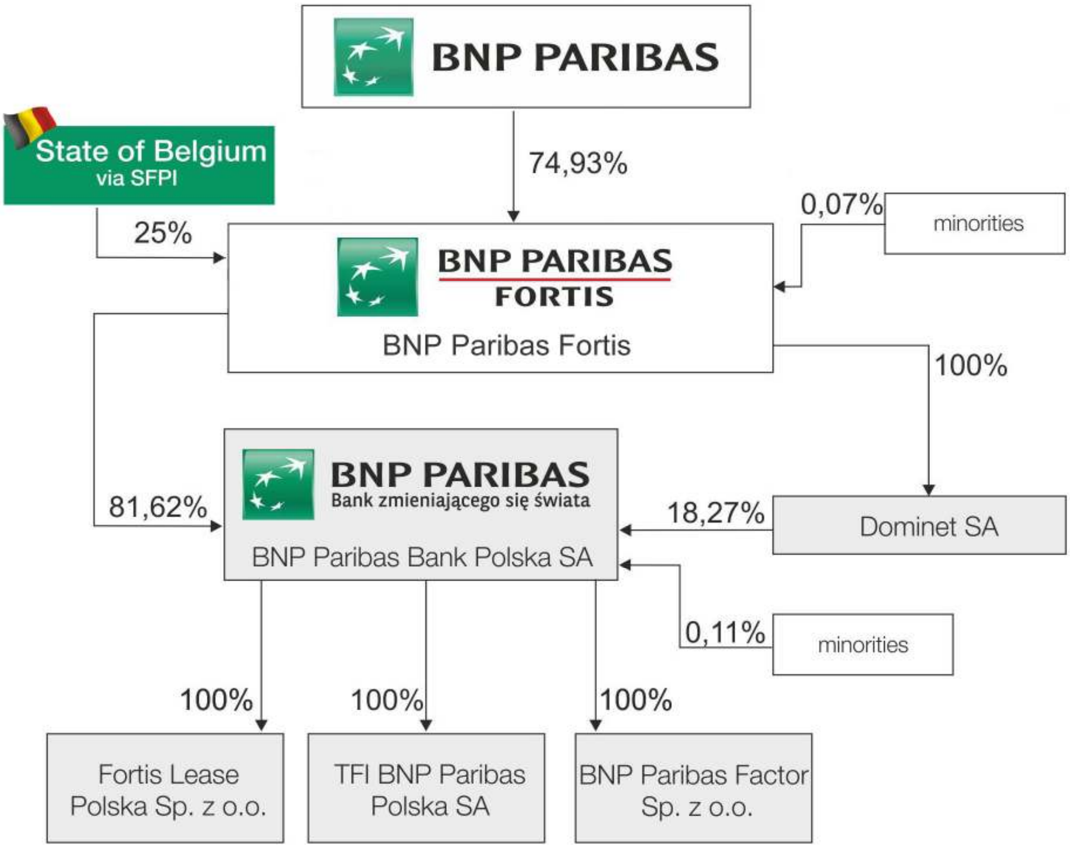
BNP Paribas Bank Polska SA Group (hereinafter: "the Group") is the member of the BNP PARIBAS group, the leading European financial institution operating at the international level.

Mission | **Responsible banking for a changing world**

As at 30 June 2013, the Group comprised the following entities:

- **BNP Paribas Bank Polska SA** (hereinafter referred to as "the Bank") – parent company
  and three subsidiaries:
  - **Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA** (hereinafter: "TFI BNP"),
  - **Fortis Lease Polska Sp. z o.o.** (hereinafter: "FLP"),
  - **BNP Paribas Factor Sp. z o.o.** (hereinafter: "BNP Paribas Factor").

The Bank is the Group's parent company and holds 100% of shares in the subsidiaries' share capital, which entitle to exercise 100% of votes at the general meeting/ meeting of shareholders. All subsidiaries are covered by consolidation.



1.1. Financial and business highlights

The Group of BNP Paribas Bank Polska SA closed the first half of 2013 with the profit after taxation of PLN 51.5 million, i.e. higher by PLN 38.8 million than the result earned in the first half of 2012.

Development of the Group in the first half of 2013 and conditions underlying its growth:

- **4.8% increase in gross loans to customers** as compared to the end of 2012 was mainly caused by an **increase in the loan portfolio of large enterprises** and **active sales of consumer loans** to individual clients, in particular cash loans whose sales amounted to PLN 0.5 billion and grew by 21.5% in comparison to the first half of 2012;
- **4.8% drop in customer deposits**, after a significant growth observed in Q4 2012, mainly as a result of a decrease in the balance of deposits of corporate customers related to active management of customer deposit base and repricing in falling rates environment (at the same time, customers deposits grew by 7.6% as compared to the end of Q1);
- **Safe capital situation of the Group** – the capital adequacy ratio is at 11.83%;
- **The Group's net banking income at the level close to the result for the first half of 2012** despite deteriorating economic environment and considerable interest rates drop, which negatively affects the net interest income; the decrease in the net interest income compensated by **an increase in the net fee and commission income** and net investment income;
- **9.6% decrease in the Group's general expenses along with depreciation costs** attributable to the

consequent execution of the comprehensive cost optimisation programme (12.5% drop in personnel costs, 23,7% fall of depreciation costs and decrease in other expenses, including costs of rents, technology and IT systems and also telecommunications);

- **Continuation of the prudent policy of the risk management** – **28.7% drop** of risk costs as compared to the first half of 2012 as a result of effective restructuring and recovery actions – the cost of risk ratio decreased to **0.6%** from 0.8% in the first half of 2012;
- **Improved quality of the loan portfolio** - the share of non-performing loans in the total loan portfolio of the Group fell from 11.2% recorded at the end 2012 to **9.4%** at the end of the first half of 2013;
- **A significant increase of the return on equity (ROE)** to the level of **6.0%** as compared to 1.7% noted in the first half of 2012;
- **Digital Banking** – in the first half of 2013 the Bank launched a project aimed at upgrade of a digital banking platform – the *Pl@net* Internet banking system for individual customers was updated and an electronic banking application, *Mobile Pl@net*, which allows its users to have a permanent access to their accounts using smartphones and tablets, was implemented.

1.2. External factors affecting the performance and development of the Group during the first half of 2013

1.2.1. Market and economic situation abroad

In the first half of 2013 the pace of global economic growth remained fairly low. Despite an improvement in the US, eurozone's recession continued in Q1 and growth resumed only in Q2. Moreover, signs of a significant slowdown in many emerging economies, among others in China and Brazil, became apparent. Soft economic growth supported the deceleration of commodities' prices on the global markets.

Central bank policies in the eurozone, US and Japan were key factors driving the global financial market in the first half of the year. ECB continued to ease monetary policy, lowering the refi rate in May by 25 bp to 0.5%. Also the Bank of Japan softened its policy by announcing to double its balance-sheet over the next two years, which should help Japan get out of deflation and ensure sustainable growth later on. However, the main information for market sentiment was Federal Reserve System (FED) communication about a possible scaling down of its asset purchases (quantitative easing, QE). The comments triggered an increase in volatility in late May and June, providing for a notable rise in bonds yields, especially across the emerging markets economies.

1.2.2. Polish economy in the first half of 2013

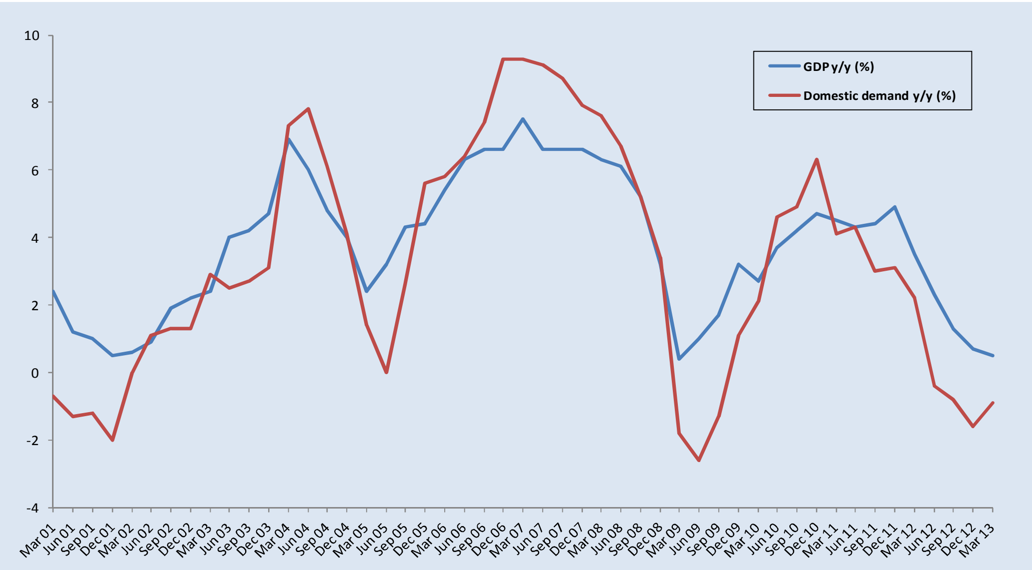
GDP –growth rate and components

In Q1 2013, GDP grew by merely 0.5% y/y. The key factor supporting positive growth was net exports, which added 1.4 pp to economic growth, while domestic demand fell 0.9% y/y. The domestic economy was hit by weak private consumption, due to weak labour market and lower government spending as fiscal tightening was continued. Fixed investments in Q1 declined 2.0% y/y. Inventories also decreased exacerbating the already weak performance of GDP.

A major economic slowdown was also reflected by the monthly activity data. Industrial production and nominal retail sales confirmed the broad-based slump in Poland. In the first six months of the year, industrial output declined on average 0.1% y/y, while retail sales were up by only 0.5% y/y. The output of the construction sector fell sharply by 19.2% y/y. However, it is worth noting that the slump at least partially resulted from a significant base effect, as Poland co-hosted the European Football Championships in June 2012, and the related infrastructure spending provided for a faster construction sector production in the first half of last year.

According to preliminary data in the second quarter GDP rose 0.8% y/y. Over the coming months the Polish economy should gradually gain momentum mainly on the back of an improving situation in the eurozone. GDP is forecast to increase by at least 1.0% y/y in the second half of 2013 and the annual growth average to amount to at least 0.7% y/y. Net exports will remain the key driver for economic growth through the end of the year, which should particularly support stronger industrial output. Better than expected data for July, with production growing 6.3% y/y on the back of exports, may confirm the nascent recovery. Further gradual improvement may be expected over the coming months and a generally better second half of the year. In 2013 as a whole, industrial production should grow on average by 0.5% y/y.

Chart 1. GDP and domestic demand growth rate in 2001-2013 *(Source: Reuters EcoWin)*



Labour market

Deteriorating growth translated into a weaker situation on the Polish labour market in the first half of 2013. The unemployment rate reached its maximum of 14.4% in February. Since then, mainly thanks to seasonal works, it has started to fall to reach 13.2% in June. At the same time employment has been declining - on average by 0.9% y/y. Consequently wage growth remained subdued despite an increase of the minimum wage by 6.7% y/y. On average, the wage growth was 2.1% y/y in the first six months of the year, and although it was higher than inflation rate, it failed to notably support consumption. In spite of view that Polish economy will start to gain momentum over the coming months, the job market will remain under pressure for at least the next coming months. As a result, the wage growth will remain soft - fluctuating in a 1.5%-4.0% y/y range in the remainder of 2013, while the employment is unlikely to start rising before early next year. Therefore, the unemployment rate might exceed this year's maximum in the first quarter of 2014.

Inflation

In early 2013, CPI inflation slowed to 1.7% y/y and remained within the NBP inflation target range. Robust disinflation continued during the following months and by June CPI readings slowed to its all-time low of 0.2% y/y. In the first half of the year CPI inflation averaged 0.9% y/y. Easing price pressures were driven by the lack of demand, falling commodity prices as well as administrative changes in gas prices for households which were cut by 10% in January. Core inflation (excluding food and energy prices) slowed to 0.9% y/y in June from 1.5% y/y in January 2013.

In July a nearly 50% increase in waste collection costs for households pushed CPI inflation to 1.1% y/y. However, a relatively weak consumption demand and low commodity prices should support low, i.e. below 1.5% y/y inflation through the end of the year.

Chart 2. CPI inflation and core inflation (excluding food and energy prices) growth rate 2009-2013 (*Source: Reuters EcoWin*)

Balance of payments

In first half of 2013 official reserves have risen to EUR 81.9 billion in June 2013 from EUR 79.6 billion in January 2013. In the first six months of the year the cumulative deficit on current account was EUR 606 million, significantly below the same period of 2012 when it was EUR 6.7 billion. The improvement was mainly driven by major surpluses in trade of goods and services. The trade surplus increased mainly thanks to weak domestic demand, which curtailed import dynamics. In the period from January to June the trade surplus in goods amounted to EUR 1.0 billion, compared to a EUR 3.7 billion deficit in the same period of 2012. The surplus in services amounted to EUR 2.9 billion in the first six months of the year vs. 2.6 billion in January-June 2012.

From January to June 2013, the surplus on the capital account rose to EUR 4.1 billion from EUR 3.6 billion in the same period of 2012. The surplus was fuelled by a positive balance of transfers with the EU in May, when the inflow of capital transfers amounted to EUR 2.7 billion. Such a significant flow resulted from the reimbursement of costs related to projects realised with the EU funds under the 2007-2013 financial perspective. The surplus on the financial account in the first six months of the year was EUR 2.2 billion, markedly below the surplus in the same period of 2012 which amounted EUR 8.6 billion. Such a significant change was due to outflows of foreign capital from the Polish debt market. From January to June these flows amounted to EUR -190 million, compared to EUR 6.5 billion inflows in the same period of 2012. The net flow of direct investments fell to EUR -930 million from EUR +1.3 billion in the same period of 2012. The balance on other investments was significantly better than in January-June of last year. The surplus of EUR 2.7 billion compared to EUR 1.6 billion deficit in the first half of 2012 reflected a slower pace of deleveraging by foreign banks which are present on Polish market.

A further rise in trade surplus is expected in latter half of 2013, mainly on the back of rising exports and relatively weak imports. The current account deficit will be markedly lower than in 2012.

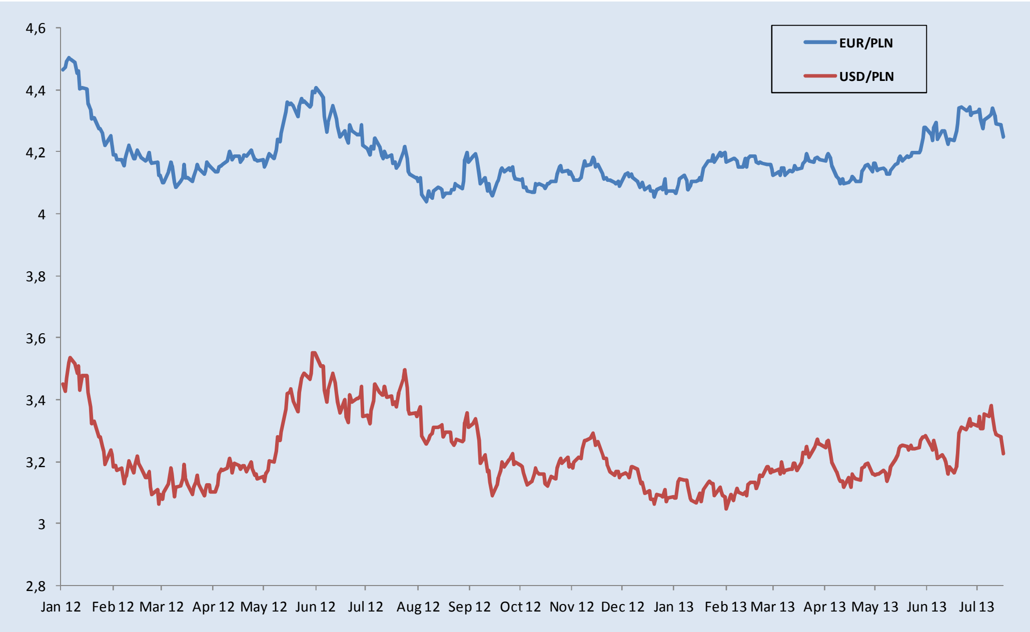
Public finances

Fiscal tightening was continued in the first half of 2013. In light of the economic slowdown, the deficit of PLN 35.5 billion assumed in the 2013 Budget turned out to be unrealistic. As a result of significantly lower revenues, mainly from VAT and CIT taxes, the government decided to prepare a budget amendment. The budget deficit will be raised by PLN 16 billion, additionally savings of PLN 8 billion are envisaged. Before the budget revision, it was necessary to amend the public finance law in order to suspend the first precautionary threshold, which prescribes that if the debt-to-GDP ratio exceeds 50%, the government cannot increase the deficit-to-revenue ratio in the next budget. The government's decision will translate into a rise of the broad fiscal deficit to around 4.0% of GDP and a rise in debt-to-GDP ratio by approximately 1 pp. In 2013 it might amount to 53.5% under local accounting rules. The budget amendment may consequently delay the lifting of the EU's excessive deficit procedure imposed on Poland.

Exchange rate

The exchange rate was heavily impacted by the situation on the Polish bond market. In first five months of the year the zloty was relatively stable and its weakening by about 5% took place after the FED's comments about the possibility of QE tapering. On 7 June 2013 NBP intervened directly on the FX market. The intervention was aimed at curtailing zloty volatility rather than defending any specific exchange rate level. More recently, the statements by the FED governor calmed the sentiment on the FX market. By the end of June EUR/PLN was trading at 4.33 compared to 4.09 in December 2012, while USD/PLN stood at 3.32, compared to 3.10 as of end 2012.

Chart 3. USD/PLN and EUR/PLN rates in 2012 and 2013 (Source: *Reuters EcoWin*)



Interest rate

Rapid disinflation combined with a major economic slowdown, supported further monetary easing. Following two 25 bp cuts in November and December 2012, interest rates were lowered by additional 175 bp until July 2013, reducing the main policy rate to 2.50%, its lowest level in history. The Monetary Policy Council said to have finished the easing cycle in July, and consequently interest rates should remain stable – at least until the year-end.

In the first three months of the year the bond market was fairly stable, but in April yields plummeted by about 80bp, e.g. the yield on 10y bonds fell to 3.21% from 3.93%. The comments about a possible reduction of asset purchases by the FED increased the risk of lower liquidity globally, which triggered higher yields across emerging markets, including Poland. The strongest reaction occurred on the long end of the curve with 10y bonds yield rising by more than 100bp, temporarily reaching 4.37%. In the beginning of July market tensions eased and 10y yields stabilised at the level below 4%, although in August the upward move in yields resumed with 10y bonds approaching 4.50%.

1.2.3. Banking sector in 2013

In light of economic slowdown, the condition of Polish banks remained relatively healthy. Despite weakening growth, the NPL ratio in the corporate sector was up only slightly by 0.1pp to 11.8% in May 2013 from 11.7% in January. The overall NPL ratio remained unchanged compared to January and amounted to 8.1% in May. The loans-to-deposits ratio fell to 112% in May compared to 118.2% in May 2012.

Weak growth was also reflected by soft credit growth and a slower pace of deposit rises. In May 2013, loans rose by 1% y/y compared to 12.3% y/y in May 2012. The monetary easing cycle, which started in November 2012, did not bring any notable rebound in credit, at least not during the first five months of the year. Consumer credit actually fell 3.1% y/y in May. The share of housing loans in foreign currencies decreased to 54.1% from 60.5% in the period from May 2012 to May 2013.

The weaker financial situation of the enterprise sector was reflected in a slow growth rate of corporate deposits. In May, they were up only by 1.1% y/y. However, the situation markedly improved compared to December last year when deposits fell by 7% y/y. Meanwhile, households deposit growth remained fairly stable, fluctuating in a 6–7% y/y range.

Banks' financial results

In the first months of 2013 the situation of banks remained relatively strong, reflected by their financial results, a high capital adequacy ratio and good liquidity position. In Q1 2013 the net result of the sector amounted to PLN 4.1 billion and was 5% lower than in Q1 2012.In the same period, ROE and ROA also decreased to 12.3% and 1.14% from 14.7% and 1.26%, respectively. However, the capital adequacy ratio rose to 15.4% from 14.2%, while the core Tier 1 ratio grew to 14.0% from 12.7%.

Chart 4. Credit facilities and deposits to enterprises in the years 2009 -2013 (*Source: Reuters EcoWin*)

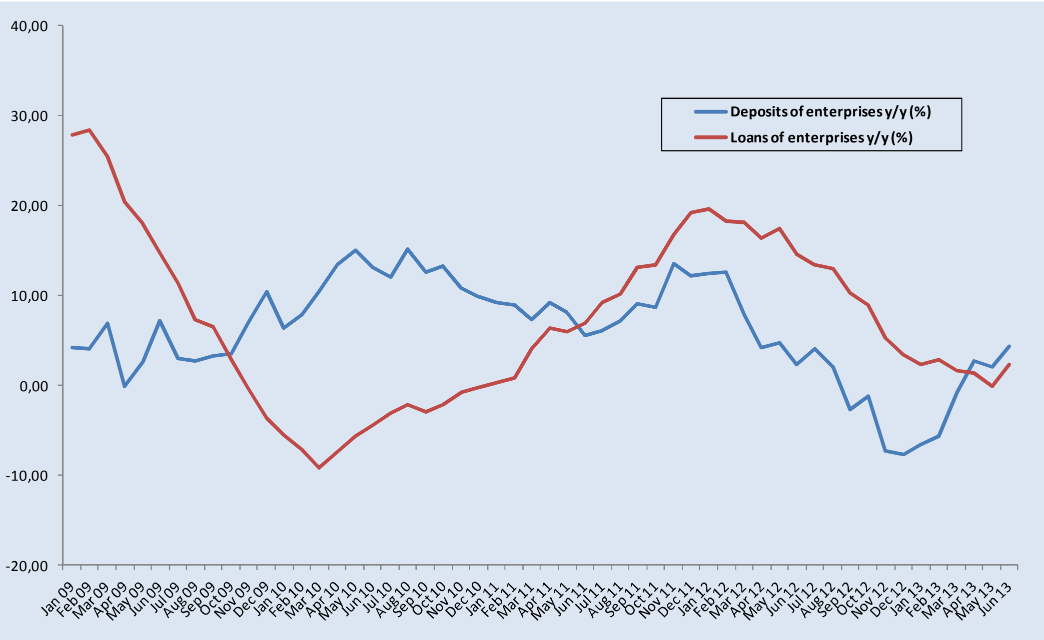
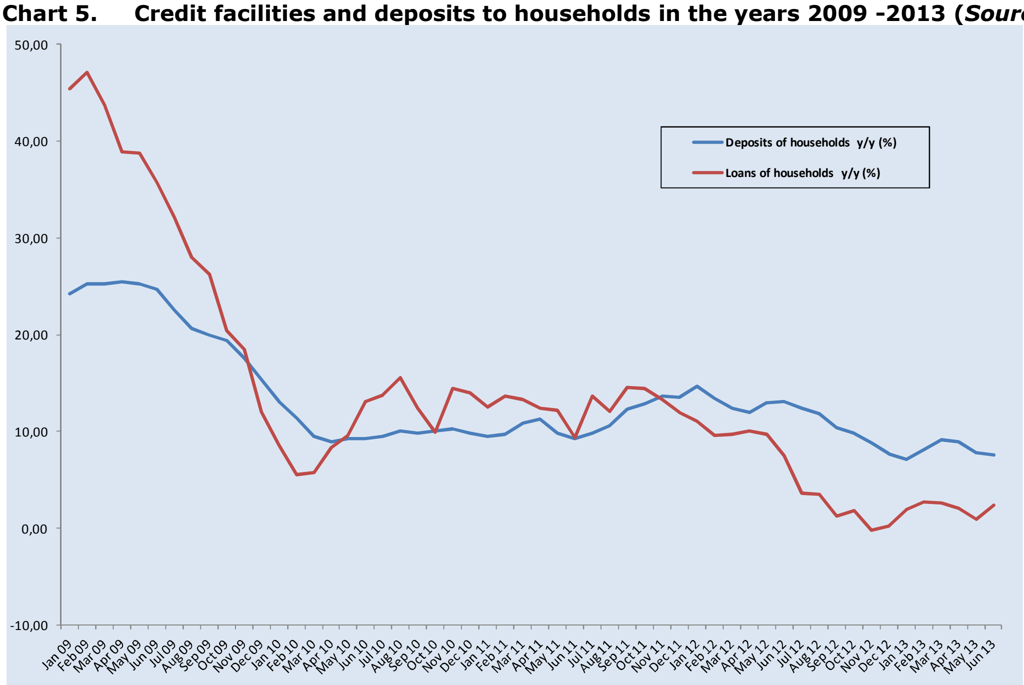


Chart 5. Credit facilities and deposits to households in the years 2009 -2013 (*Source: Reuters EcoWin*)



1.3. Factors that may affect the Group's performance in the second half of 2013

Key factors that may affect the Group's future performance include the following:

- evolution of the global economic situation affecting the level of the Polish economy growth;
- level of the PLN FX rate versus foreign currencies;
- level of investments of Polish enterprises;
- changes in the costs of the Group's financing which depend on the price competition intensity among banks as regards deposit acquisition, and the level of PLN interest rates;
- amount of the prudential fee arising under the amendments to the Bank Guarantee Fund Act passed by the Sejm (the lower house of the Polish parliament) in July 2013.

  On 26 July 2013, the Sejm passed a law amending the Banking Guarantee Fund Act and some other laws. The amendment adds a prudential fee to the list of financial encumbrances imposed on banks. The fee is earmarked for keeping the stabilisation fund in the Banking Guarantee Fund.

  The prudential fee cannot exceed the rate of 0.2%, calculated on the basis defined as 12.5 times of the total capital requirements for risks, exceeded limits and other norms referred to in the Banking Law.

  Pursuant to Article 7 of the aforesaid law, the duty to pay the prudential fee arises for the first time already for 2013, within 60 days of the publication of the fee rate by the BGF Council.

  The duty to pay the prudential fee already for 2013 can affect the annual performance of BNP Paribas Bank Polska SA.

2. STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE

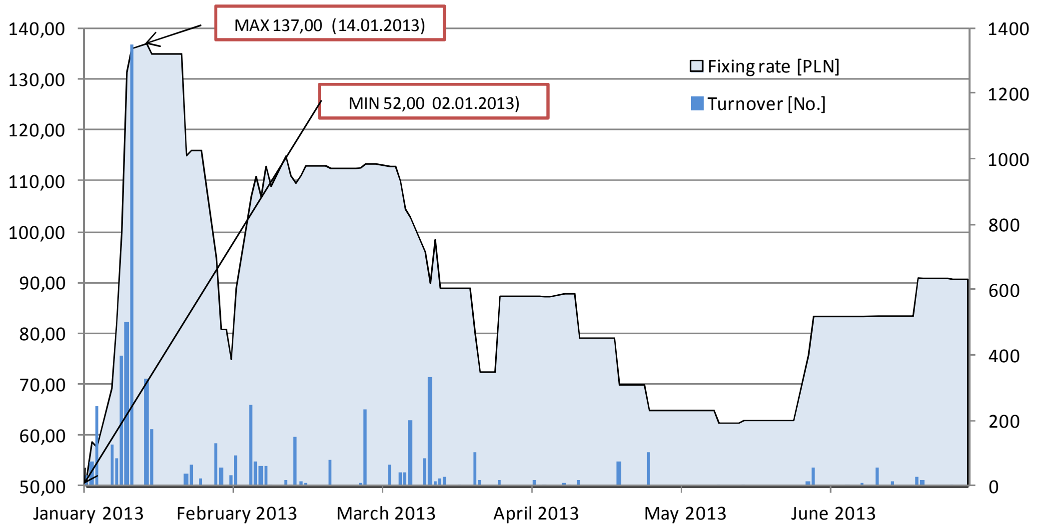
The Bank's stock labelled with the ISIN code: PLPPAB000011 has been quoted on the Warsaw Stock Exchange SA in Warsaw (WSE) since 9 November 1994. The Bank's stock quoted under an abbreviated name BNPPL and symbol BNP is classified in the 250 PLUS segment, yet the limited liquidity of the stock excludes it from any indexes.

At the first session in January 2013, the Bank's stock was traded at PLN 52.00 and simultaneously, it was the lowest share price recorded in the first half of this year. As at 28 June 2013, the Bank’s share price increased to PLN 90.70, i.e. by 74%.

The highest Bank’s share price in the first half of 2013 was recorded on 14 January 2013, when it stood at PLN 137.00. An average share price in the first half of 2013 was PLN 90.19 and it was higher as compared to the average price of PLN 66 in 2012 and PLN 78 in the first half of 2012.

An average volume of the Bank's stock turnover was very low - it amounted to 50 shares per session in the first half of 2013, and was higher than the average volume of stock turnover in 2012 (almost 8 shares per session) and in the first half of 2012 when it reached over 10 shares per session. An average value of the turnover in the Bank’s stock per session in the first half of 2013 was PLN 5.3 thousand and was higher than the average value of the stock turnover of over PLN 0.5 thousand per session in 2012 and PLN 0.8 thousand per session in the first half of 2012.

Chart 6. Quotations of the Bank's stock from 2 January 2013 to 28 June 2013



The stock exchange index, WIG fell from 48,107.89 points noted on 2 January 2013 to 44,747.79 points recorded on 28 June 2013 (i.e. drop by almost 7%).

WIG-Banks, a sector sub-index, recorded a decrease from 6,723.16 points noted on 2 January 2013 to 6,598.44 points recorded on 28 June 2013 (i.e. drop by less than 2%).

3. SHARE CAPITAL AND SHAREHOLDER STRUCTURE

3.1. Share capital of BNP Paribas Bank Polska SA

As at 30 June 2013 and as at the publication date of the report for the first half of 2013, i.e. 29 August 2013:

- the share capital of the Bank was PLN 1,304,380,415.96 - registered and fully paid up;
- total number of shares: 28,692,926 ordinary bearer shares which entitle their holders to 28,692,926 votes at the Bank's general meeting of shareholders, including 16,771,180 (series A to K) dematerialised shares quoted on the regulated market operated by the WSE and 11,921,746 (series L, M and N) non-dematerialised shares outside the trading on the regulated market;
- nominal value of 1 share: PLN 45.46 each.

All the Bank’s shares are bearer shares that entitle to equal voting rights and participation in profit under the same rules. There are no preferences or restrictions related to any group of shares.

In August 2013, i.e. after the balance sheet date, the Bank filed an application to register 11,921,746 series L, M and N ordinary bearer shares of the Bank with the National Depository for Securities (NDS). On 19 August 2013, the NDS’s Management Board adopted Resolution No. 644/13 on conditional registration of the Bank’s shares with NDS under the code PLPPAB000011, i.e. 5,243,532 series L ordinary bearer shares, 2,108,794 series M ordinary bearer shares, and 4,569,420 series N ordinary bearer shares of nominal value of PLN 45.46 each, subject to a condition that WSE approves introduction of the said shares to trading on the same regulated market on which all other shares of the Bank have been admitted. The Bank’s intention is to introduce the series L, M and N shares to trading simultaneously with the new series O shares.

3.2. Planned increase of free float and series O shares issue

The BNP PARIBAS group began to fulfil its commitment towards the Polish Financial Supervision Authority to increase the free float of shares of BNP Paribas Bank Polska SA up to 15% by the end of 2013. Numerous actions have been undertaken to achieve this objective.

On 4 April 2013, the Annual General Meeting of Shareholders of BNP Paribas Bank Polska SA made the decision about reduction of the nominal value of shares with a concurrent increase of the Bank's equity capital by issuing series O shares, with pre-emptive rights excluded.

On 10 May 2013, the Bank registered the first decrease of the Bank's share capital by PLN 130,265,884.04, i.e. to PLN 1,304,380,415.96, achieved by reducing the nominal value of each share from PLN 50.00 to PLN 45.46.

At the next stage, it is planned to further decrease the share capital by reducing the nominal value of shares with a concurrent increase of the Bank's share capital by means of issuance of the series O shares.

The Extraordinary Meeting of Shareholders held on 3 June 2013 determined:

- the final amount of the share capital decrease at PLN 300,128,005.96;
- the minimum amount of the share capital increase at PLN 300,128,010.00 and the maximum amount at PLN 300,131,510.00;
- the final nominal value of shares at PLN 35.00 each;
- the minimum number of series O shares under the new issue at 8,575,086 and the maximum number of series O shares under the new issue at 8,575,186;
- and relevant amendments to the Bank's Statute.

On 19 June 2013, the Polish Financial Supervision Authority approved the Bank's issue prospectus that was published on 20 June 2013. An underwriting agreement was concluded under the terms and conditions set out in the prospectus, whereas the Bank and BNP Paribas Fortis SA/NV and "Dominet" S.A. w likwidacji made the lock-up commitment.

On 27 June 2013, having consulted Citigroup Global Markets Limited and Dom Maklerski Banku Handlowego S.A., the Global Coordinators for the offer, the Bank's Board of Executives decided to suspend the offering of series O shares in view of a highly unfavourably market situation at the Warsaw Stock Exchange.

Further steps to be taken by the Bank and BNP PARIBAS, even though dependent on the market situation, will aim at fulfilling the commitment to increase the free float of shares up to 15% by the end of 2013.

3.3. Information on shareholders holding, directly or indirectly through their subsidiaries, at least 5% of the total number of votes at the issuer’s general meeting

As at 30 June 2013 and the publication date of the report for the first half of 2013, i.e. 29 August 2013, the shareholder structure specifying the shareholders with at least 5% of the total number of votes at the General Meeting was as follows:

Shareholder name	Number of shares	% of the share capital	Share capital (in PLN)	Number of votes at the general meeting	Share (%) in the total number of votes at the GM
BNP Paribas	**28,661,545**	**99.89%**	**1,302,953,835.70**	**28,661,545**	**99.89%**
BNP Paribas Fortis SA/NV	*23,418,013*	*81.62%*	*1,064,582,870.98*	*23,418,013*	*81.62%*
Dominet SA (in liquidation)	*5,243,532*	*18.27%*	*238,370,964.72*	*5,243,532*	*18.27%*
Minority shareholders	**31,381**	**0.11%**	**1,426,580.26**	**31,381**	**0.11%**
Total:	**28,692,926**	**100.00%**	**1,304,380,415.96**	**28,692,926**	**100.00%**

BNP Paribas SA *based in Paris is the parent entity (74.93% shares) of BNP Paribas Fortis SA/NV based in Brussels.*
BNP Paribas Fortis SA/NV *based in Brussels is the parent entity (100% of shares) of Dominet SA.*

3.4. Changes in the shareholder structure in the first half of 2013

The shareholder structure has not been changed as a result of the Bank's share capital decrease registered on 10 May 2013. It was only the nominal value of the stock held by specific shareholders in the share capital structure that changed.

3.5. Resolutions of the General Meetings

On 4 April 2013, the Bank's Annual General Meeting of Shareholders was held which adopted resolutions concerning the approval of separate and consolidated financial statements for 2012, the Board of Executives' Report on the business activity in 2012 and the Supervisory Board's Report for 2012, the approval of the discharge of duties of the Bank's authorities for 2012 and distribution of the 2012 profit.

The Bank's net profit for the fiscal year 2012 which amounted to almost PLN 29.3 million, was earmarked in full for the Bank's equity increase in the following manner: the profit portion of almost PLN 27 million was allocated to the general risk fund and the portion of PLN 2.3 million to the additional capital.

Moreover, the Annual General Meeting of Shareholders of BNP Paribas Bank Polska SA made the decision about reduction of the nominal value of shares with a concurrent increase of the Bank's equity capital by issuing series O shares, with pre-emptive rights excluded.

On 3 June 2013, the Extraordinary Meeting of Shareholders of the Bank was held which determined parameters of the planned issue of series O shares and adopted resolutions on amendments to the Statute.

Following the adopted changes with respect to the share capital, the Extraordinary Meeting of Shareholders also adopted a new wording of Art. 6 of the Bank's Statute. Simultaneously, the Extraordinary Meeting of Shareholders resolved amendments to Art. 9 of the Bank's Statute that confirm exclusion of the General Meeting's authorisation right to make decisions on purchase or sale of real estate (adoption of resolutions in this regard shall still remain within the competences of the Supervisory Board pursuant to Art. 15, para. 3, item 10 of the Bank's Statute). Additionally, Art. 15 item 3 of the Bank's Statute has been changed as to the Supervisory Board's right to grant consent to investments in shares and stock of companies within the *capital development* activity.

4. THE BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING BUSINESS IN THE FIRST HALF OF 2013

The operations of the BNP Paribas Bank Polska SA Group are divided into three business segments:

- Retail Banking (RB), including Personal Finance (PF) responsible for consumer credit activities;
- Corporate and Transaction Banking (CTB),
- other banking activity.

4.1. Retail Banking

- provides services to individuals and small and medium enterprises that generate a turnover up to PLN 40 million;
- 224 own and franchise branches;
- 362 thousand individual customers as at 30 June 2013 versus 355 thousand as at 31 December 2012;
- Personal Finance offers its products to circa 144 thousand clients of Retail Banking;
- 32,985 companies (SME & Micro) as at 30 June 2013 compared to 31,369 thousand as at 31 December 2012.

The Retail Banking segment specialises in providing financial services to individual customers, private banking services and offers its services to small and medium-sized enterprises with turnover up to PLN 40 million. The segment offers also advisory services as regards all forms of daily banking, savings, investment and financing products. Within the Retail Banking, the Bank provides services to the following customer segments:

- **Mass Market** Individual Customers segment – customers of net monthly income / incomings to accounts held at the Bank up to PLN 2.5 thousand, or customers investing assets through the Bank up to PLN 7.5 thousand;
- **Aspiring** Individual Customers segment – customers of net monthly income / incomings to accounts held at the Bank between PLN 2.5 thousand and PLN 7.5 thousand, or customers investing assets through the Bank between PLN 7.5 thousand and PLN 45 thousand;
- **Affluent** Individual Customers segment – customers of net monthly income / incomings to accounts held at the Bank between PLN 7.5 thousand and PLN 30 thousand, or customers investing assets through the Bank between PLN 45 thousand and PLN 250 thousand;
- **Prestige** Individual Customers segment – customers of net monthly income / incomings to accounts held at the Bank at minimum PLN 30 thousand, or customers investing assets through the Bank in the minimum amount of PLN 250 thousand;
- **Private Banking** segment - the Private Banking group of customers who invest assets through the Bank in the minimum amount of PLN 600 thousand, and the **Wealth Management** group of customers holding assets above PLN 5 million;
- SME customers including two segments:
  - **Medium Enterprises** segment (**ME**) - business customers with an annual turnover between PLN 8 million and PLN 40 million;
  - **Small Enterprises** segment (**SE**) - business customers with an annual turnover between EUR 1.2 million (PLN 5 million) and PLN 8 million or with a lower turnover but keeping full accounting books;
- MICRO business customers including three segments:
  - **Professionals** segment – business customers with an annual turnover up to EUR 1.2 million who keep simplified accounting and perform a specific profession consistent with the entrepreneur's competence: lawyer, pharmacist, architect, statutory auditor, investment consultant, tax advisor, surveyor, accountant, doctor, notary, property appraiser, dentist, veterinarian, sworn translator;
  - **Upper Micro** segment - business customers with an annual turnover between PLN 0.5 million and EUR 1.2 million who keep simplified accounting;
  - **Mass Micro** segment - business customers with an annual turnover up to PLN 0.5 million who keep simplified accounting.

4.1.1. Individual Customers Segments

In the first half of 2013, the product offering for individual customers was developed in line with the strategy of building long-lasting relations with customers. The Bank acquired new customers and built relations with them through financing purchases and undertakings, at preferential conditions for personal account holders, in the form of cash or car loans.

The offer of personal accounts for individuals constitutes the core component of the relations with customers, who may choose from among four package types offered with different benefits and charges depending on individual customer needs and preferences:

- *S Package account* – for relatively undemanding customers, with no maintenance fee (although most services will incur fees);
- *M Package account* – a standard account ensuring access to an array of functionalities with a low maintenance fee;
- *L Package account* – for more demanding customers with an extended range of free-of-charge functionalities, but a higher maintenance fee;
- *XL Package account* – an account offering the widest range of services, dedicated mainly to very demanding Mass Affluent and Private Banking customers, with high, but negotiable, maintenance fees.

In addition to a savings and checking account (ROR), the following products and services are available to Package holders:

- cost-free savings accounts with a promotional interest rate for funds up to PLN 15 thousand. In 2013 the interest rate was adjusted to the changing market conditions on a current basis (3.0% in August 2013), still constituting an attractive alternative to term deposits;
- MasterCard debit cards; to limit the costs related to management of the product offering, since the end of 2012 the Bank has been issuing only MasterCard cards;
- the improved *Pl@net* Internet banking system and the mobile banking system, implemented in April 2013, which definitely improved an accessibility to banking via remote channels;
- Call Centre;
- overdraft facility within a savings and checking account;
- settlement services: standing orders, direct debits, domestic and international transfers.

Furthermore, the Bank's customers are offered term deposits, insurance and investment products, mortgage loans and payment cards.

Apart from debit cards related to ROR accounts, the Bank offers:

- credit cards: MasterCard Classic, MasterCard Gold and MasterCard World Signia to Private Banking customers;
- MasterCard pre-paid cards.

The credit card sales starting from June 2013 has been supported with an Internet campaign under the slogan "Go on Holiday With the Best Credit Card", which presents the competitive advantage of BNP PARIBAS cards on the Polish market.

The deposit offering, apart from savings accounts, consists of term deposits for individual customers.

Due to falling deposit interest rates, in the first half of the year customers became more and more interested in alternative ways of accumulating savings. In response to this need, the Bank has offered its customers structured products with principal amount protection at the end of the investment period:

- *EuroTrio* – two-and-a-half-year structured product offered as a group endowment life insurance in cooperation with TUnŻ WARTA SA, which is based on a basket of 3 European stock market indices: FTSE 100 from Great Britain, IBEX 35 from Spain and SMI from Switzerland;
- *WiborProfit 2L* and *WiborProfit 3L* – two and three-year structured products, respectively, in the form of a group life insurance combined with insurance capital funds, offered in cooperation with TUnŻ WARTA SA based on WIBOR 3M;
- *Multiaktywa* – offered at the turn of June and July of 2013 – two-and-a-half-year structured product in the form of a group endowment life insurance combined with insurance capital funds, prepared in cooperation with TUnŻ OPEN LIFE SA, based on quotations of the BNP Paribas FundQuest Select Core Asset Vol 6 EUR index.

Consequently, in the first half of 2013 the Bank has developed its insurance offering through extending the Bank's offering by:

- starting January 2013 - travel insurance, medical costs insurance during a foreign travel called *Safe Travel* (*Bezpieczna Podróż*), sold along with payment cards;
- starting June 2013 - *Prolonged Warranty* insurance that will provide the buyer with cover against car repair expenses in the period of even 3 years, despite the expiring manufacturer's warranty. The insurance is addressed to the customers who finance a used car purchase with a credit facility at the Bank.

In the first half of 2013, in the mortgage loans area the Bank:

- adjusted the pricing conditions through a margin increase,
- in May, the Bank launched a promotion of mortgage loans under which customers who use personal accounts and personal insurance are offered a reduced margin: by 0.5 percentage point in the case of a housing loan and by 0.75 percentage point in the case of a home equity loan;
- modified the personal insurance to mortgage loans through a change of a premium payment method from a one-off basis into a monthly payment.

The changes aimed at increasing the mortgage loans profitability and boosting the sales of other products to customers holding mortgage loans.

In the first half of 2013, a further increase in sales of bank products for individual customers could be observed.

- 32,165 new individual clients were acquired;
- cash loans sales increased consistently and in the first half of 2013 reached the amount of PLN 508 million which is by 21.5% better than in the first half of 2012, when the sales amounted to PLN 418 million;
- sales of credit cards grew significantly, in the first half of 2013 it amounted to 3,238 cards with credit limit of PLN 10.9 million;
- the number of new agreements on overdraft facility in ROR accounts concluded in the first half of 2013 amounted to 7,790 to the total amount of almost PLN 17 million in comparison to 1,033 agreements signed in the first half of 2012 to the amount of PLN 5.2 million, which means over sevenfold growth in the number of concluded agreements;
- the individual customers deposit balance at savings accounts in the first half of 2013 grew by 74.5% from the level of PLN 1,022 million as at the end of December 2012 to the level of PLN 1,865 million as at the end of June 2013, with a simultaneous increase of the total deposit balance of those customers by 11.3%.

The product penetration ratio (defined as the number of products per client) of the current stock of active clients originated after 1 January 2010 is 3.62, compared to 2.54 for those originated before that date, i.e. is by 43% higher.

4.1.2. Personal Finance

The Personal Finance division is responsible for all of the Bank’s consumer finance activities, featuring three key products:

- cash loans — mainly distributed through the branch network but also sold over the Internet, call centre and by independent financial advisors;

- car loans — for new and used cars mainly originated through car dealers and used car brokers;
- credit cards — mainly cross-sold to existing customers holding current accounts or car loans.

Personal Finance is also in charge of the following key processes:

- Processing of all applications for loans from consumers and micro-enterprises, approving loans based on certain acceptance criteria;
- debt collection and recovery proceedings.

Personal Finance is proving a powerful lever for client acquisition, revenue generation and profitability turnaround.

Personal Finance products are distributed mainly through the Bank branch network and directly by external distribution channels such as used car brokers, car dealers and independent financial partners. Other distribution channels include: Internet, call centre, insurance institutions and financial brokers.

Cash and car loans were ranked first in the rankings of Internet portals - Comperia.pl, TotalMoney.pl and Bankier.pl.

Cash loans

To support sales of loans to individuals, a promotional campaign under a slogan *Let's Talk About Your Plans* (*Porozmawiajmy o twoich planach*) was launched in 2013.

In the first half of 2013, a promotional offer for cash loans, Spring 2013 (*Wiosna 2013*) was initiated, with attractive financial conditions depending on opening a personal account at the Bank and with life insurance of a borrower or job loss insurance. Financial conditions for a standard offering were also changed.

In March 2013, a special offer of a cash loan with *0% commission* was introduced, it was available to a group of customers chosen by the Bank.

Car loans

In the first half of 2013:

- a *clean loan for any purpose* was introduced - at used car brokers financing is provided for vehicles not eligible to be financed with a car loan, at car dealers vehicles like scooters are financed, as well as purchase of car parts and accessories, repairs, servicing, etc.;
- the Bank extended the offering with a car loan called *Low Instalment* (*Niska rata*) for purchase of a vehicle at an authorised car dealer;
- a special offer within the campaign *Let's Talk About Your Plans - Spring 2013* was continued, two options possible: with account opening or without an account (both for a purchase of a vehicle and for refinancing a car loan granted by another bank);
- the Bank launched financial solutions to Harley-Davidson clients for purchase of a motorcycle under Harley-Davidson Finance brand name. The Bank's offering is available at Harley-Davidson authorised dealers all over Poland.

Car loans sales totalled PLN 202 million in the first half of 2013 which is by 6.2% better than in the first half of 2012, when the sales amounted to PLN 190 million.

Credit cards

Starting June 2013 a new possibility regarding delivery of 'bicontract' cards has been offered (cards issued along with a cash loan or car loan) within a "fast track" mode. Under the new mode a card is transferred for production and delivery the next day after the loan disbursement. Customers may also choose among new, higher card limits: PLN 3, 4 and 6 thousand.

4.1.3. Private Banking Segment

The Private Banking serves the Bank's most affluent individual customers (or their investment vehicles), with assets of PLN 600,000 or more, who expect an exceptionally high level of services and specialised investment advice.

In the Private Banking segment the Group provides integrated asset management services and solutions for affluent private individuals and companies established for investment purposes. The services offered include:

- daily banking;
- services of the Brokerage Office;
- other investment instruments and also investment and insurance solutions;
- wealth planning;
- financing needs;
- alternative investments.

All the rendered services are carefully selected and offered in accordance with the MIFID regulations implemented into the Polish legislation.

Daily Banking

The Private Banking customers have, in addition, full access to the Retail Banking range of products and also an array of prestigious debit, credit and charge cards dedicated to the Private Banking segment. The cards provide access to concierge, assistance services and travel insurance. Among them, there is the MasterCard BNP Paribas World Signia card. For the most demanding clients the Bank offers a charge type titanium card, American Express Centurion.

Brokerage Office

The Brokerage Office dedicates its services only to customers of the Bank's Private Banking Department. The services offered include:

- accepting and forwarding orders to acquire or sell financial instruments (in cooperation with investment house Dom Inwestycyjny BRE Banku SA), and
- investment advisory services including preparation of individual investment reports (recommendations) for customers, which, in the part concerning financial instruments, may be provided using the services of accepting and forwarding orders to acquire or sell financial instruments.

These services of the Brokerage Office provided the Private Banking customers with a possibility to invest using the majority of financial instruments available on regulated markets in Poland and chosen foreign markets, including EU and USA. The instruments include, among others: shares, bonds, futures contracts, options, index units, ETF (exchange traded funds).

Moreover, customers may participate in initial public offerings as regards shares and other financial instruments allotted through the Warsaw Stock Exchange.

Other investment instruments and investment and insurance solutions

Customers are ensured access to a specialised asset management offer of TFI BNP. The service is rendered on the basis of an estimated customer profile (stable, balanced or dynamic) within the following investment strategies: participatory portfolio, domestic and foreign funds portfolios and securities portfolios.

Moreover, the Private Banking offering includes structured products, sold as insurance policies, which are tailored to particular customer's needs, debt financial instruments and a wide range of domestic and foreign investment funds.

Wealth planning

This service provides customers with an access to bank experts on wealth planning, tax optimisation and inheritance planning.

Financing needs

The Bank offers the following credit products to Private Banking customers: mortgage loans, cash loans, credit lines available in a current account, other types of loans tailored to individual needs of customers.

Alternative investments

The international offering of the BNP Paribas Wealth Management makes it possible for the Private Banking customers in Poland to enjoy advisory services assisting them in buying works of art or real estate.

4.1.4. SME and MICRO Enterprises Segments

Retail Banking business line provides products and services to MICRO and SME customers with an annual turnover below PLN 40 million. The Bank's offering for these segments includes:

- accounts and packages;
- deposits and placement accounts;
- payment cards;
- credit products;
- liquidity management - cash management;
- trade finance;
- FX and interest rate risk management;
- other financial services (lease facilities, factoring, cash collection, financing agreement, purchase/sale of foreign currencies);
- credit offer linked with the European Union financing programmes.

<u>Development of the offering for micro, small and medium enterprises in 2013:</u>

In April 2013, the Bank launched a new non-renewable loan for micro-enterprises without collateral. This product makes it possible to obtain financing of up to PLN 600,000 and is characterised by a short period of time needed to obtain the credit decision and disbursement of funds. The loan is granted for periods between 6 and 36 months and repayment is made in equal monthly instalments collected automatically from the customer’s current account. Furthermore, in April 2013 the Bank launched the SmartData Gen.2 application, which supports clients in settling business expenses paid for with business cards.

The Bank is currently working on a new offering for micro companies. One of its elements is promotion of *the Biznes Profit Moja Firma* package for new customers introduced at the beginning of June 2013 (fee for the package will be PLN 0.00, provided that an average monthly balance of minimum PLN 10,000 is maintained on accounts).

4.2. Corporate and Transaction Banking (CTB)

- provides comprehensive bank services to medium-size companies and corporate businesses generating annual turnover in excess of PLN 40 million, and to companies that are a part of international groups;
- 9 Business Centres;
- 2,871 corporate customers as at 30 June 2013 versus 2,719 as at 31 December 2012.

The **Corporate and Transaction Banking segment** focuses on medium and large enterprises, offering them financial solutions based on standard banking products and services as well as specialised financial products.

The Corporate and Transaction Banking customers are corporate entities and institutions whose annual sales revenues exceed PLN 40 million. They can be divided into four basic groups:

- Polish mid caps (annual revenues between PLN 40 million and PLN 600 million);
- multinationals (companies belonging to multinational groups);
- Polish large corporates (annual turnover above PLN 600 million and potential for investment banking services);
- public sector and institutions.

Among Corporate and Transaction Banking customers Polish large corporates accounted for 5%, 28% were Polish mid caps, and 61% were multinationals, while the remaining group included the public sector and institutional clients.

Distribution channels

The Corporate and Transaction Banking segment operates through Business Centres located across the country in large cities, which operate separately from the Bank's branches network. Presently, the Bank has nine Business Centres: three in Warsaw, and one in each of Kraków, Gdańsk, Katowice, Poznań, Wrocław and Łódź.

Internet Banking

The Bank offers enhanced online banking services through its *BiznesPl@net* and *Connexis* Internet banking platforms, tailored to the needs of its corporate customers. *BiznesPl@net* enables users to customise the authorisation to access their account and it can be integrated with corporate accounting systems. In addition to the features available through *Pl@net*, the *BiznesPl@net* system allows customers to process all their transactions online, including opening and amending letters of credit and executing currency transactions (using the *Deal on Pl@net* platform).

Products and services

The Bank provides a number of transactional banking and financing products for its corporate customers, supported by the BNP PARIBAS group's expertise. The Bank's core corporate competencies include:

- **global trade services** – full service of import and export letters of credit, guarantees and documentary collection, supply chain financing and export finance solutions. The Trade Finance Department offers fast and reliable service including dedicated IT tools;
- **deposits** - overnight to term deposits indexed on WIBOR rates;
- **cash management** - an integrated approach to a group of products designed to cater both domestic and international cash flows of our customers, including competitively priced tools to support the management of receivables inflow and payment processing as well as comprehensive cash services, cash pooling schemes and advanced card solutions for business clients.

  In the second quarter of 2013, a new innovative model of transaction communication for corporate customers has been implemented that integrates the customer's financial and accounting system with the Bank's servers. What makes this solution unique is that after integration of a customer system, the Bank becomes in fact a transaction centre which enables a customer to make payments by debiting accounts held with other banks (also in Poland) and to receive bank statements from other banks.
- **corporate financing** - overdrafts, revolving credit facilities, investment loans and EBRD/EIB programmes;
- **structured finance for mid-caps** - financing for acquisitions, large capital expenditures, structured bilateral or syndicated facilities in the PLN 20–200 million range;
- **real estate finance** - for office, retail and logistic projects addressed to customers who:
  - plan a construction or extension of commercial real estate using a construction loan;
  - plan purchasing or refinancing commercial real estate through either an investment loan or leasing;
- **investment banking expertise** - services provided by the Corporate and Transaction Banking experts, including M&A advisory, project finance, equity and debt capital markets expertise;
- **financial markets products** - including FX spot and forward transactions either carried out by the Bank dealing room or through a competitively priced FX Internet platform (*Deal on Pl@net*) as well as FX options, FX swaps, interest rate swaps and other derivative products, which are offered in conjunction with the Fixed Income platform of Corporate and Investment Banking of BNP PARIBAS Branch in Warsaw;
- **leasing and factoring** - offered through FLP and BNP Paribas Factor, respectively, both of which are integrated in the Corporate and Transaction Banking segment.

4.3. Other banking activity

Operationally, the other banking activity is run by the ALM/Treasury Line. Its aim is to ensure an appropriate level of financing so that the banking activities can be conducted in a safe manner and in line with the regulatory requirements and to provide a safe structure of future cash flows.

The ALM/Treasury line activities include a treasury department functions, assets and liabilities management and a profit centre named Corporate Centre. The ALM/Treasury line manages the Group's liquidity, sets internal and external reference rates and manages the interest rate risk, as well as operational and structural FX risks. Its role includes both a prudential mandate (complying with the internal rules and regulatory requirements) and an optimising mandate (managing funding costs and generating results by leveraging balance sheet positions).

The main responsibilities of treasury function include ensuring a balanced short term liquidity position while optimising the cost of funding; ensuring a proper structure of assets and liabilities, including sensitivity to interest rates changes; conducting transactions in the financial markets, such as money market cash transactions, FX swaps, FX spot and forward, IR derivatives, buying and selling of treasury bills, bonds and NBP bills; managing short term liquidity positions in all currencies and managing short term interest rate risk and managing FX risk.

ALM is mainly responsible for ensuring a balanced medium- and long-term liquidity position, while optimising the cost of funding, securing stable funding sources, managing the internal fund transfer pricing (reference rates) system, managing medium- and long-term liquidity risk, managing medium and long term IR risk, investing equity and managing the bonds portfolio.

The Corporate Centre represents the owner and manages the Bank's equity.

4.4. Clearing activity

Outgoing PLN payments to domestic banks are settled electronically only, through the ELIXIR and SORBNET systems. In June 2013, NBP replaced the existing SORBNET system with SORBNET2.

The Group undertakes clearing activities, participating in the EuroELIXIR system for handling domestic transfer orders in Euro. It also offers SEPA credit transfers and indirectly participates in TARGET2.

5. ANALYSIS OF PERFORMANCE OF BNP PARIBAS BANK POLSKA GROUP IN THE FIRST HALF OF 2013

BNP Paribas Bank Polska SA Group has consolidated the results of BNP Paribas Factor Sp. z o.o. (BNP Paribas Factor) from the company acquisition date, i.e. from 2 April 2012. Therefore, the Q1 2012 results of the company are not recognised in the Group's consolidated results for the first half of 2012. Acquisition of that company and consolidation of its results have an impact on the amount of indices calculated and comparisons made.

5.1. Consolidated Income Statement

The Group's profit after taxation stood at PLN 51.5 million, which was by PLN 38.8 million higher as compared to the result in the first half of 2012. Despite a deteriorating economic situation and a material decrease in interest rates, which adversely affects the interest income, net banking income in the first half of 2013 remained at a level similar to the one in the first half of 2012. Furthermore, the improved quality of the credit portfolio and efficient debt restructuring and collection activities contributed to reduction of the cost of risk by 28.7%, while the consistent implementation of the operating activity optimisation programme resulted in the Group's cost decrease by 9.6%.

Evolution of key items of the Consolidated Income Statement is presented below.

in PLN million	1H 2012	1H 2013	Δ 2013/2012
Net interest income	276.8	266.8	-3.6%
Net fee and commission income	69.6	71.8	3.3%
Net trading income	53.8	50.0	-7.2%
Other income*	12.4	21.1	70.5%
Net banking income	**412.6**	**409.8**	**-0.7%**
Total expenses	-318.4	-287.7	-9.6%
Cost of risk	-72.2	-51.5	-28.7%
Net operating profit/loss	**22.0**	**70.6**	**220.4%**
Net profit/loss from disposal of assets, shares and interest	-0.6	-0.4	-43.4%
Profit/loss before taxation	**21.4**	**70.2**	**228.3%**
Income tax	-8.6	-18.7	116.9%
Profit/loss after taxation	**12.8**	**51.5**	**303.8%**

In the first half of 2013, the Group recorded the following non-recurring or extraordinary items:

- PLN 19.1 million: net income on account of the settlement of a prepayment of some credit facilities from the BNP PARIBAS group (primarily a subordinated loan) with the positive market valuation, which affected the net interest income in the Other Banking Activity segment.

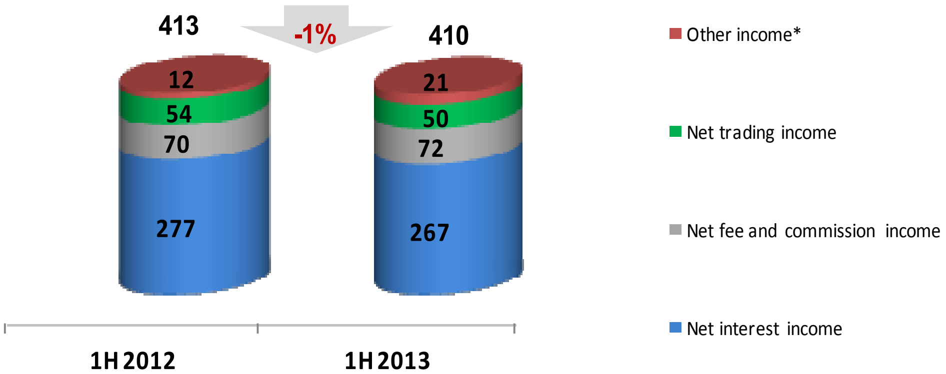
In the first half of 2012, the Group recorded the following non-recurring or extraordinary items:

- PLN 10.1 million: net income on account of the settlement of a prepayment of some credit facilities from the BNP PARIBAS group with the positive market valuation, which affected the net interest income in the Other Banking Activity segment;
- PLN 7.9 million: profit generated on account of closing some hedging transactions connected with hedge accounting, which had an impact on the net trading income in the Other Banking Activity segment;
- PLN 40.7 million: additional one-off provisions related to change in accounting estimates, chiefly regarding the consumer credit portfolio of the former Dominet Bank, that impacted the cost of risk in the Retail Banking segment;
- PLN 13 million: employment restructuring provision, which increased personnel expenses in the following segments: Retail Banking by PLN 10.8 million, Corporate and Transaction Banking by PLN 1.6 million and Other Banking Activity by PLN 0.6 million.

5.1.1. Net banking income

The chart below shows a structure of basic items of the net banking income in the periods compared.

Chart 7. Net banking income structure in the first half of 2012 and in the first half of 2013 (in PLN million)

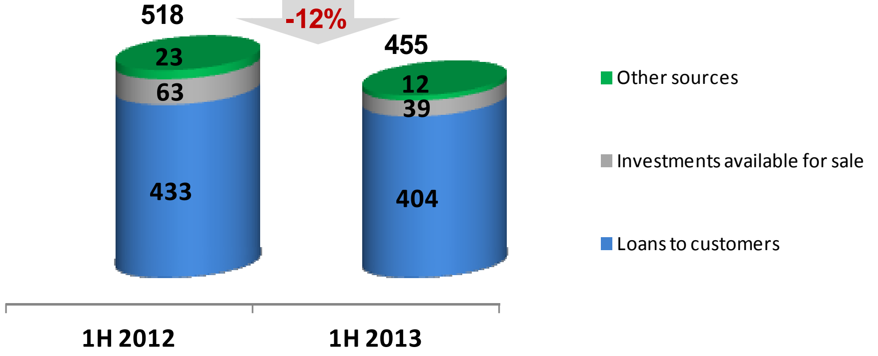


**Other income includes: net profit/loss on available-for-sale financial assets, net profit /loss on hedging transactions, net profit/loss on the hedged item, dividends, other revenues and other operating expenses*

5.1.1.1. Interest income

In the income statement structure, the net interest income prevails, accounting for 65% of the total net banking income. The net interest income was lower than in 2012 by PLN 10.0 million, or 3.6%. The interest income structure in the periods compared was the following:

Chart 8. Interest income structure in the first half of 2012 and in the first half of 2013 (in PLN million)



Interest income amounted to PLN 455.4 million in the first half of 2013, which represents a drop by 12.1% (PLN 62.7 million) compared to H1 2012.

Interest on loans to the Group's customers, which in the analysed period amounted to PLN 403.6 million, fell by 6.7%, or PLN 28.9 million. Detailed information on gross loans to customers in the first half of 2012 and in the first half of 2013 is presented in the table below.

Loans to customers	1H 2012			1H 2013		
	Average balance	Interest income	Average interest rate	Average balance	Interest income	Average interest rate
	in PLN million		%	in PLN million		%
Mortgage loans	5 833	67	2.3	5 855	68	2.4
Consumer loans and credit facilities	2 325	104	9.0	2 352	107	9.2
Commercial loans	7 761	216	5.6	7 660	189	5.0
Finance lease receivables	1 792	44	4.9	1 689	37	4.4
Factoring receivables	60	2	5.3	111	3	4.8
Total loans to customers, gross	**17 771**	**433**	**4.9**	**17 667**	**404**	**4.6**

Decrease in interest on loans to customers derived chiefly from lower market interest rates, which affected in particular average interest rates on commercial loans and finance lease receivables, and also lower average balances of those loans. The decrease in average balances of commercial loans by PLN 101.4 million, or 1.3%, was primarily related to a limited demand for investment loans, in particular among small and medium-size enterprises, in view of a deteriorating economic situation. Lower by PLN 102.7 million (5.7%) average balances of finance lease receivables were mainly related to a decrease in non-performing loan balances, which resulted from efficient debt restructuring and collection activities, and also slower growth of new production in connection with the economic slowdown.

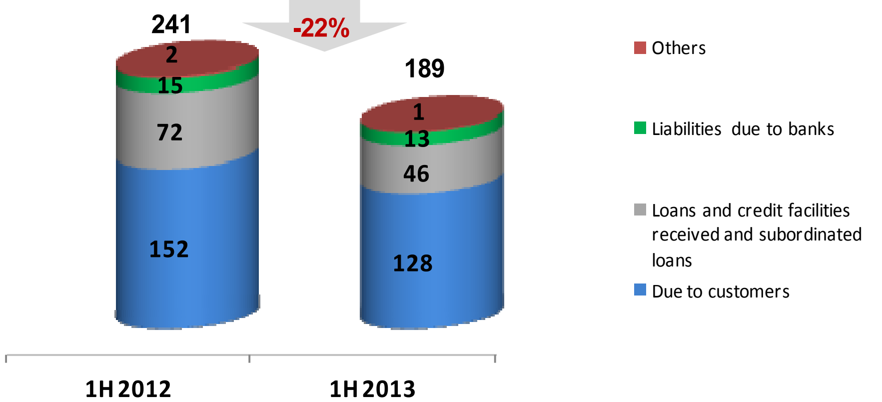
At the same time, the level of interest on loans to customers was positively affected by higher interest income on consumer loans and credit facilities, primarily as a result of high sales of cash loans and lower balance of non-performing loans.

Interest income on securities available for sale dropped by 37.5%, or PLN 23.6 million, in connection with lower average balances of these securities and a decrease in market interest rates as compared to the first half of 2012.

Interest income on receivables due from banks fell by PLN 10.6 million in relation to a decrease in the volume of funds invested in the interbank market.

Interest expenses went down by PLN 52.7 million as compared to the first half of 2012. The interest expense structure in the periods compared was the following:

Chart 9. Interest expense structure in the first half of 2012 and in the first half of 2013 (in PLN million)



Lower interest expense was attributable mainly to lower interest expense related to subordinated loans and loans and credit facilities received (in total, by PLN 25.2 million, or 35.2%) and lower interest expense due to customers (by PLN 24.1 million or 15.9%).

The decrease in interest expense related to subordinated loans and loans and credit facilities received was attributable to:

- lower average balances of subordinated loans and credit facilities received by the Group;
- drop in the market interest rates;
- net income of PLN 19.1 million received by the Bank in connection with the settlement of prepaid tranches of credit facilities from the BNP PARIBAS group with the positive market valuation (versus PLN 10.1 million received on that account in H1 2012).

Furthermore, the interest margin on loans from the BNP PARIBAS group increased when some old loans were repaid and new loans were contracted under current market terms. Impact of the sole interest margin growth on the interest expense related to subordinated loans and loans and credit facilities from the BNP PARIBAS group to the Bank as compared to the first half of 2012 amounted to approximately PLN 14 million.

The interest expense on credit facilities received by BNP Paribas Factor, the Bank's subsidiary, stood at PLN 1.8 million in H1 2013 as compared to PLN 1.1 million for the period from 2 April to 30 June 2012.

Interest expense on customer deposits went down by PLN 24.1 million or 15.9%, despite growth of average volumes of such deposits (by nearly 4.6% as compared to H1 2012), as a consequence of the market interest rate decrease. The table below presents detailed information on liabilities due to customers:

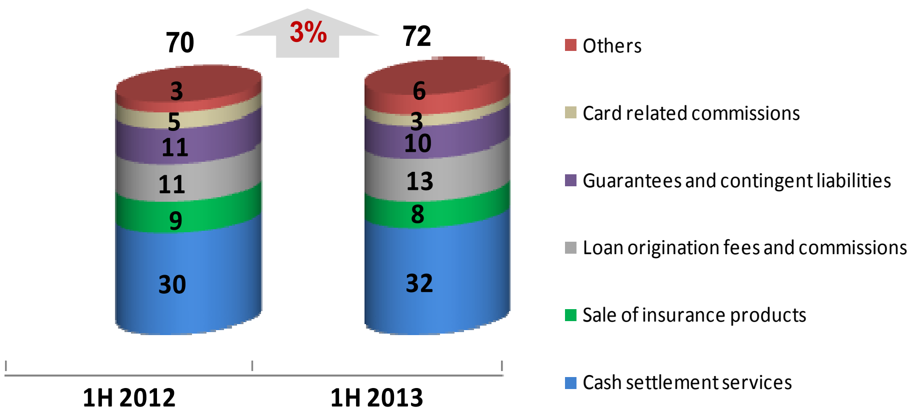
Due to customers	1H 2012			1H 2013		
	Average balance	Interest cost	Average interest rate	Average balance	Interest cost	Average interest rate
	in PLN million		%	in PLN million		%
Current deposits	3 224	33	2.0	3 616	32	1.8
Term deposits (including cash collateral)	5 742	119	4.2	5 760	96	3.4
Total due to customers	**8 966**	**152**	**3.4**	**9 376**	**128**	**2.7**

Interest expense on liabilities due to banks diminished by PLN 2.2 million or 14.1% in connection with the market interest rate fall.

5.1.1.2. Net fee and commission income

The second largest item in the Group's income was net fee and commission income which in the first half of 2013 accounted for 18% of the net banking income and was by PLN 2.3 million higher than in the first half of 2012.

Chart 10. Net fee and commission income structure in the first half of 2012 and in the first half of 2013 (in PLN million)



The main sources of the net fee and commission income in the Group were fees and commissions on cash settlement services, commissions related to the sale of insurance products, loan origination, guarantee issuance, and payment card-related fees.

The improved net fee and commission income was attributable mainly to:

- increase of commissions for cash settlement services by 5.3%;
- higher loan origination fees by 14.5%;
- recognition of net fee and commission income of BNP Paribas Factor in the amount of PLN 2.4 million in consolidation in the current year, as compared to PLN 1.0 million for the period from 2 April to 30 June 2012.

Furthermore, the net fee and commission income on the sale of insurance products was lower by PLN 1.5 million, especially on account of the sale of insurance for car and cash loans due to the changing structure of the consumer loan portfolio. Also the net fee and commission income related to cards went down, due to higher fees and commission paid to contractors this year.

5.1.1.3. Net trading income

As at the end of H1 2013, the net trading income amounted to PLN 50.0 million, which in comparison to the result generated in H1 2012 represents a decrease by PLN 3.9 million (7.2%). The net income drop YoY resulted primarily from lower net income on releasing fair value adjustments on account of the Bank customers' currency options by PLN 5.6 million.

Net income on foreign exchange transactions reached PLN 47.2 million in the first half of 2013 and was higher by 0.7% as compared to the first half of 2012, chiefly owing to higher net income on FX transactions of the Group's customers. An increase in the average volume of these transactions counterbalanced to some extent the decrease in the related margin.

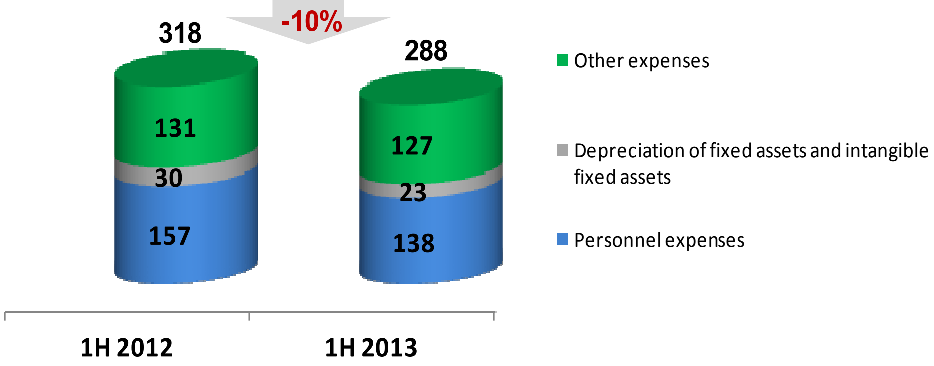
5.1.1.4. Other income[1]

Other income in H1 2013 stood at PLN 21.1 million and was by PLN 8.7 million higher than in the previous year. This growth was primarily attributable to an increase in the net investment income (by PLN 7.0 million) related to earnings made on the sale of securities.

5.1.2. Expenses

Specific cost categories in the periods compared were the following:

Chart 11. Cost structure in the first half of 2012 and in the first half of 2013 (in PLN million)



The Group has been consistently pursuing a comprehensive structural programme of cost optimisation started in the first quarter of 2012, under which a number of measures were undertaken to lower the cost base, increase operating efficiency and create a financial capacity to invest in the modernization of the Group and support its development. Optimisation initiatives and activities identified within the programme will bring PLN 86.6 million savings on a full-year basis.

In the first half of 2013, the Group's general expenses and depreciation were by PLN 30.7 million (9.6%) lower than in the first half of 2012.

Personnel expenses of the Group stood at PLN 137.6 million in the first half of 2013 and were lower by PLN 19.7 million, or 12.5%, than in the corresponding period of the previous year. Remuneration expenses in the current year were lower which was related to the effect of the one-off provision in the amount of PLN 13 million created for the employment restructuring programme that charged the costs in the first half of 2012. Without the impact of the aforesaid provision, personnel expenses dropped by PLN 6.7 million (4.7%) predominantly due to a lower average FTE level in the Bank (by approximately 9% as compared to H1 2012) and in its subsidiary TFI BNP. However, the personnel expenses of BNP Paribas Factor were consolidated in the Group's results for H1 2013 at PLN 1.4 million, as compared to PLN 0.6 million for the period from 2 April to 30 June 2012.

Depreciation of fixed and intangible assets amounted to PLN 22.7 million in H1 2013 and was lower by 23.7% than in the corresponding period of 2012 as a result of investment savings.

Other expenses of the Group in the first half of 2013 amounted to PLN 127.4 million and were by PLN 3.9 million lower than in the first half of 2012. The decrease in other expenses was due to savings made within the cost optimization programme, mainly as regards costs of rents, technology and IT systems and also telecommunications. At the same time, as a result of the acquisition of BNP Paribas Factor, the other expenses of that company were recognised in the amount of PLN 2.0 million in consolidation as compared to PLN 0.6 million in the period from 2 April to 30 June 2012.

5.1.3. Cost of risk

Keeping the low risk profile remains the priority issue for the Group. In H1 2013, the cost of risk amounted to PLN 51.5 million, which is a decrease by PLN 20.7 million (28.7%) as compared to the corresponding period of the previous year.

The cost of risk fell due to the following:

- efficient debt restructuring and recovery activities with respect to the impaired loan portfolio;
- maintaining a high quality of newly granted consumer loans;
- considerably smaller-scale creation of additional provisions for the portfolio of consumer loans granted till mid-2009. The level of those loans in the first half of the previous year was seriously affected by non-recurrent provisions of PLN 40.7 million that resulted from applying more conservative estimates of recoverable non-performing loans;
- sales of a portion of the non-performing loan portfolio.

The cost of risk was lower despite the unquestionable economic downturn, which particularly affected the construction sector and the segment of small and medium enterprises, and required the Bank to create additional provisions for loans to such customers.

**Other income includes: net profit/loss on available-for-sale financial assets, net profit /loss on hedging transactions, net profit/loss on the hedged item, dividends, other revenues and other operating expenses*

5.1.4. Contribution of specific sector segments to the financial result

	Retail Banking			Corporate and Investment Banking			Other Banking Activity		
in PLN million	**1H 2012**	**1H 2013**	**Δ**	**1H 2012**	**1H 2013**	**Δ**	**1H 2012**	**1H 2013**	**Δ**
Net banking income	185	195	5%	141	133	-6%	86	82	-5%
Total operating costs	-257	-232	-9%	-48	-49	2%	-14	-6	-55%
Cost of risk	-80	-59	-27%	8	6	-18%	1	1	39%
Net operating profit/loss	**-152**	**-96**	**-37%**	**101**	**90**	**-11%**	**73**	**77**	**5%**
Net profit/loss from disposal of assets, shares and interest	-0,4	-0,3	-22%	-0,2	0,0	-80%	0	0	-
Profit/loss before taxation	**-152**	**-96**	**-37%**	**101**	**90**	**-11%**	**73**	**77**	**5%**

Retail Banking

Net banking income in Retail Banking reached PLN 194.9 million and was higher by 5.3% as compared to the first half of 2012. The above result accounts for 48% of the entire Group's net banking income.

Key factors which had an impact on the Retail Banking net banking income include:

- net interest income higher by 6.1%, primarily as a result of higher net interest income on the portfolio of consumer loans and credit facilities; on the other hand net interest income on savings accounts was affected negatively by the Payments Services Directive that requires a 2-month client notice period prior to re-pricing;
- growth of net commission and fee income by 3.6%, mainly as a result of higher commissions and fees on cash settlements and the growth of commissions related to the activities of the subsidiaries: TFI BNP and BNP Paribas Factor, was partially offset by lower fee income on insurance products and commissions related to cards;
- growth of net income on foreign currency transactions made by the Group's customers.

General expenses and depreciation and the "cost allocation" item, which is the value of costs allocated from support units to the Retail Banking, amounted to PLN 232.5 million and were by 9.5% lower as compared to the cost level for the first half of 2012. Retail Banking personnel expenses, which accounted for 52% of the Group's total personnel expenses, decreased by PLN 4.5 million, or 6.0%.

Cost of risk reached PLN 58.5 million in the first half of 2013 and was lower by PLN 21.8 million as compared to the corresponding period of the previous year, primarily owing to much smaller, than a year before, scale of creation of additional provisions for the portfolio of legacy consumer loans granted until mid-2009. The level of those provisions in the first half of 2012 was considerably affected by non-recurrent provisions of PLN 40.7 million that resulted from applying more conservative estimates of recoverable non-performing loans. Furthermore, the cost of risk was affected by the clear economic downturn, which was particularly severe in the segment of small and medium-sized enterprises.

Gross loss before taxation of the Retail Banking segment in the first half of 2013 amounted to PLN 96.4 million as compared to the loss of PLN 152.4 million in the first half of 2012.

Corporate and Transaction Banking

The net banking income of the Corporate and Transaction Banking decreased from PLN 141.1 million earned in the first half of 2012 down to PLN 132.5 million in the first half of 2013, i.e. by 6.1%.

The change in CTB net revenues is attributable primarily to:

- net interest income lower by 10.1% (i.e. PLN 7.5 million) which was mainly related to lower balances of lease receivables and a drop in market interest rates affecting in particular cash management revenues;
- net trading income lower by PLN 6.0 million due to net revenues on releasing fair value adjustments related to FX options of the Bank's customers in the amount of PLN 6.4 million in the first half of 2012 as compared to PLN 0.7 million in the first half of 2013;
- net fee and commission income higher by PLN 1.0 million.

General expenses and depreciation and the "cost allocation" item, which is the value of costs allocated from support units to the Corporate and Transaction Banking, amounted to PLN 48.9 million in H1 2013, compared to PLN 47.7 million in the first half of 2012. Personnel expenses which accounted for 13.2% of the Group's total personnel expenses, increased by PLN 1.7 million.

In the first half of 2013 the Corporate and Transaction Banking recorded a positive result on account of cost of risk in the amount of PLN 6.2 million (in connection with the release of net provisions for customer loan receivables) compared to the positive result on the cost of risk item in the amount of PLN 7.6 million in the first half of 2012. The improved cost of risk results from restructuring measures undertaken by the Group and better quality of the credit portfolio.

The Corporate and Transaction Banking segment's profit before tax stood at PLN 89.8 million in the first half of 2013, compared to the profit before tax of PLN 100.8 million in the first half of 2012.

Other Banking Activity

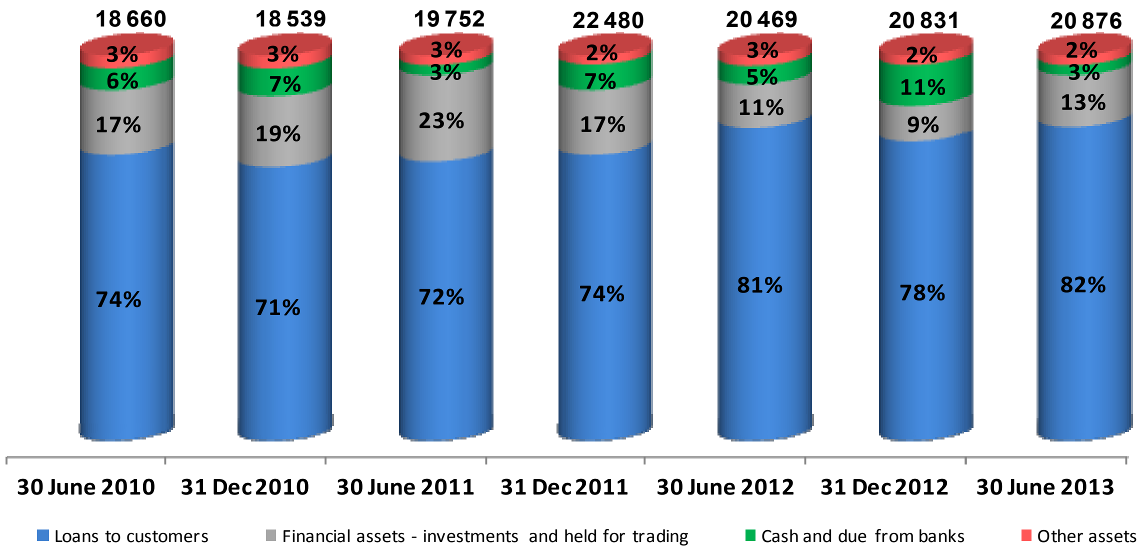
The Other Banking Activity is operationally managed by the ALM/Treasury line. In the first half of 2013, the net banking income from this activity amounted to PLN 82.3 million as compared to PLN 86.4 million in the first half of 2012. The result was impacted mainly by lower by PLN 10.4 million net interest income related to a drop of their average balances as well as decreasing market interest rates and higher interest on the loans drawn. On the other hand, net gain on available-for-sale financial assets increased as compared to the first half of 2012 by PLN 5.8 million in connection with gains earned on the sale of securities.

5.2. Consolidated balance sheet

5.2.1. Assets

The Group's total assets as at 30 June 2013 stood at a level similar to the one as at the end of December 2012. Increase in receivables due from customers and in the portfolio of available-for-sale investments offset a decrease in the value of cash and cash equivalents, including mainly short-term receivables due from other banks.

Chart 12. Group's assets structure as at 30/06/2013 as compared to earlier periods (in PLN million)



The table below presents the structure and evolution of the Group's selected assets (consolidated):

in PLN million	31 Dec 2012	30 June 2013	Δ 2013/2012
ASSETS			
Loans to customers	16 160	17 062	6%
Investments – available for sale and others	1 825	2 661	46%
Cash and cash equivalents	1 981	415	-79%
Due from banks	208	126	-40%
Financial assets held for trading	146	93	-36%
Property, plant and equipment and intangible assets	153	162	6%
Other assets *	358	357	0%
TOTAL ASSETS	**20 831**	**20 876**	**0%**

**Other assets include: assets and settlements on account of income tax, hedging instruments, non-current assets held for sale and other assets*

5.2.1.1. Loans to customers - Group's loan portfolio profile

Net loans to customers, which increased by PLN 903 million or 5.6% over the level noted as at the end of December 2012, constitute the primary item of the assets structure. This increase was primarily driven by:

- increase in the loan portfolio of large enterprises;
- active sale of consumer loans to individual customers, especially cash loans, thanks to an attractive offering supported by strong marketing activity;
- the zloty depreciation against foreign currencies of the Bank's foreign currency loan portfolio, which contributed to the nearly 1.9% increase of the total net loan portfolio;

Owing to consistent risk management, the Group systematically improves the loan portfolio quality. As a result of the risk management activity, including the sale of a portion of the uncollectible receivables portfolio in May 2013, the share of non-performing receivables in the Group's loan portfolio has continued to decrease and also the level of impairment provisions has been lower.

Gross loans to customers increased from PLN 17,362 million (out of which PLN 11,582 million constituted gross loans to Retail Banking customers and PLN 5,779 million constituted gross loans to Corporate and Transaction Banking customers) as at the end of December 2012 to PLN 18,189 million (out of which PLN 11,769 million constituted gross loans to Retail Banking customers and PLN 6,420 million constituted gross loans to Corporate and Transaction Banking customers).

Loan portfolio evolution and structure are the following:

in PLN million	31 Dec 2012	Share (%)	30 June 2013	Share (%)	Δ 2013/2012
Commercial loans	7 324	42%	7 943	44%	8%
Mortgage loans	5 804	34%	5 944	33%	2%
Consumer loans and credit facilities	2 331	13%	2 404	13%	3%
Finance lease receivables	1 715	10%	1 707	9%	0%
Other receivables*	188	1%	191	1%	1%
Total loans to customers, gross	**17 362**	**100%**	**18 189**	**100%**	**5%**
Provisions for impairment and IBNR	-1 202		-1 127		-6%
Total loans to customers, net	**16 160**		**17 062**		**6%**

**Other receivables include: loans to State-owned entities, receivables from financial instruments (FX spots and FX swaps) recognised at the trade date, factoring and other receivables, likewise interest to be received*

The highest increase in comparison to December 2012 (by PLN 619 million, or 8.5%) was recorded in **commercial loans for business entities**; their share in the structure of receivables due from customers remains the greatest. This increase was due primarily to:

- disbursement of several major loans to finance investment projects of large enterprises,
- higher utilisation of overdraft limits,
- The impact of higher FX rates on foreign currency commercial loans, which resulted in growth of total commercial loans portfolio by 1.7%.

An increase in balances (by 9.8%) was recorded also in the portfolio of PLN car loans for enterprises.

However, due to substantial economic slowdown, a limited demand for investment loans is observed among small and medium enterprises whose portfolio as at the end of June 2013 remained slightly lower than in December last year.

As at the end of June 2013, the balance of **loans to individuals** stood at PLN 8,348 million and was higher than as at the end of December 2012 by PLN 214 million, or 2.6%. The following factors contributed to the above:

– growth of the portfolio of **mortgage loans** by PLN 140 million or 2.4%

  Despite a lower demand for housing loans this year in relation to the closing of the "Family Own Home" government programme, the portfolio of **PLN mortgage loans** grew by PLN 120 million, or 7.3%, as compared to December 2012, as the attractive offer of these products was sustained. Their share in the total portfolio of mortgage loans has been successively growing (from 28.5% as at the end of December 2012 up to 29.9%), which is also due to the fact that the Bank discontinued granting new mortgage loans in foreign currencies. The value of **foreign-currency mortgage loan** portfolio, which amounted to PLN 4,169.4 million as at the end of June 2013, slightly grew (by 0.5%) as a result of an increase of FX rates, in particular CHF (depreciation of the Polish zloty led to an increase in the value of mortgage loans by PLN 146 million). Excluding the impact of FX rate changes, the foreign currency mortgage loans dropped by 3%.

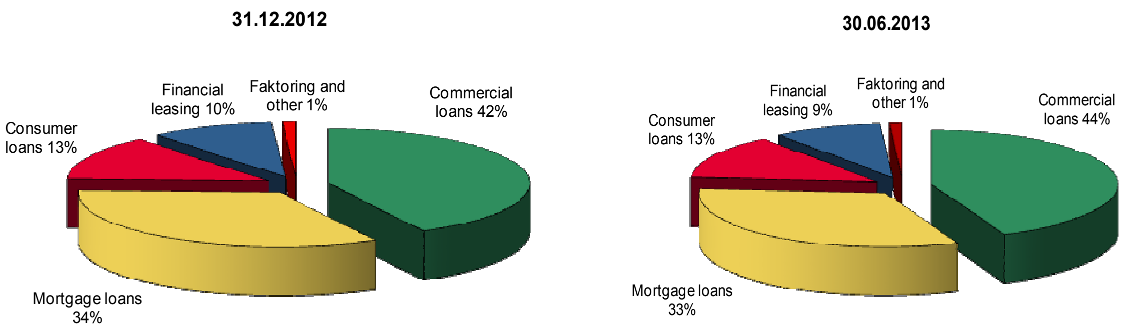
– Increase in the value of **consumer loans and credit facilities** by PLN 74 million or 3.2%

  Thanks to an attractive offering of cash loans, which remains one of the best on the market, and intensive marketing actions, the sales of those loans in the first half of 2013 amounted to PLN 0.5 billion and were by 21.5% higher than in the corresponding period of 2012. The higher sale of cash loans compensated a reduction in the balance of consumer loans as a result of the sale of a portion of the uncollectible receivables portfolio in May 2013.

Gross **finance lease receivables** remained at the level similar to the one reported at the end of December 2012. Impact of the FX rate growth, which is responsible for the increase in the value of foreign-currency lease receivables by 5.1%, offset a decrease in the value of the leasing portfolio, affected mainly by:

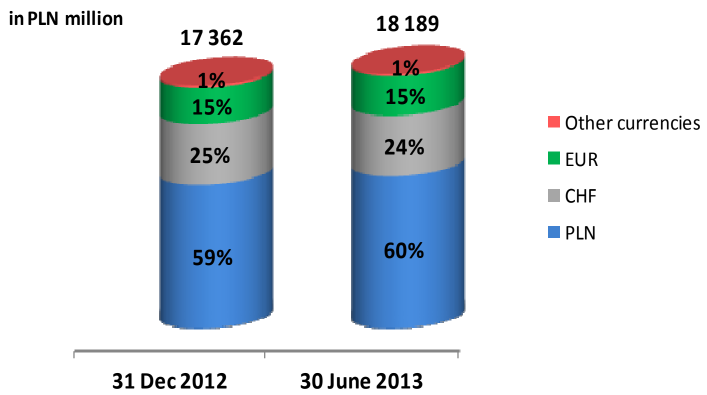
- efficient debt restructuring and recovery activities which resulted in diminishing the balance of non-performing loans;
- economic slowdown causing a limited demand in the area of investment projects of enterprises and in consequence, lower growth of the new leasing production.

Chart 13. Structure of gross loans to customers of the Group as at 31 Dec 2012 and 30 June 2013



In the periods compared, the currency structure of gross loans to customers was as follows:

Chart 14. Currency structure of gross loans to customers as at 31 Dec 2012 and 30 June 2013 (in PLN million)



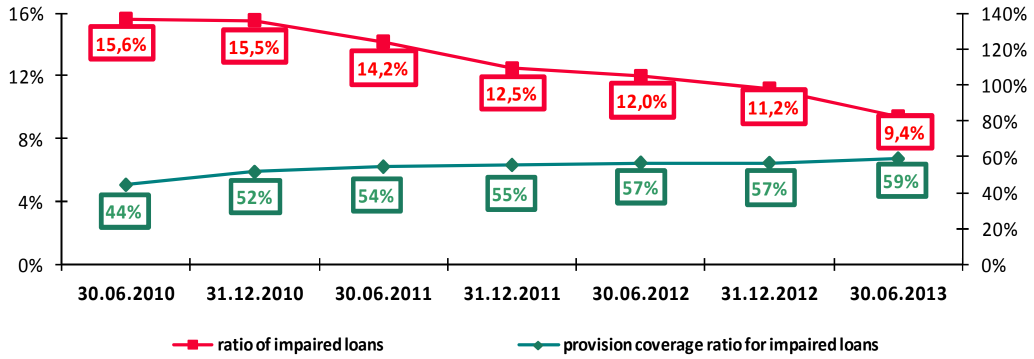
Foreign currency loans accounted for 40% of gross loans to customers as at 30 June 2013, with the highest share of CHF loans in the amount of PLN 4,342.5 million, which constituted 24% of the total gross loans to customers.

5.2.1.2. Loan portfolio quality

Improvement of the loan portfolio quality is one of the Group's priorities. As at the end of June 2013, the gross value of the portfolio of impaired loans to customers amounted to PLN 1,715 million, which accounted for 9.4% of the total portfolio. A continued downward trend is observed with respect to the ratio of impaired (non-performing) loans in the total portfolio as a result of:

- keeping a high quality of the new loan production thanks to the consistently pursued prudent credit policy;
- effective debt restructuring and recovery measures with respect to the non-performing portfolio;
- sale of a portion of the uncollectible receivables portfolio: in May 2013, the Bank sold a portion of the non-performing loans portfolio in the aggregate gross balance-sheet value of PLN 100 million as at 30 April 2013.

Chart 15. Evolution of the ratios of impaired loans and of the related provisioning as at 30 June 2013 as compared to previous periods

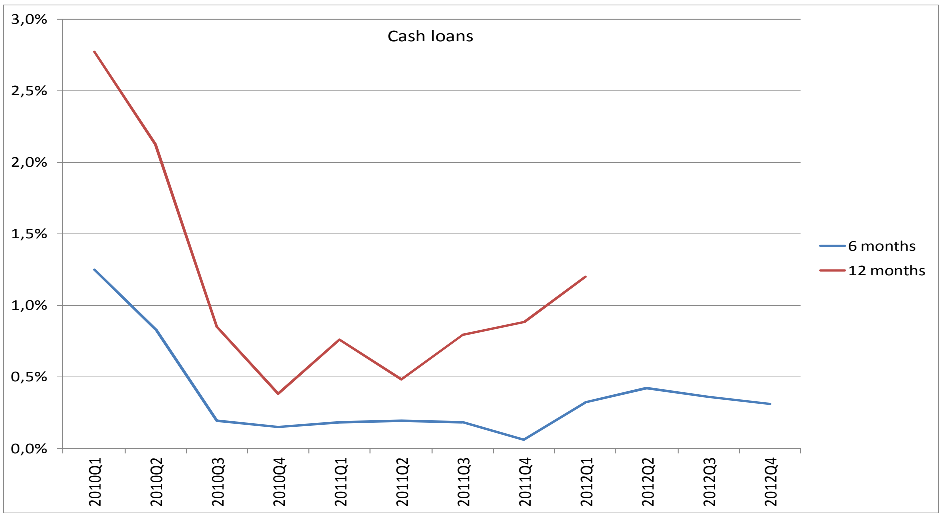


The table below presents the share of non-performing loans in total loans as divided into the segmets:

NPL ratio (% of gross loans)	2010	2012	H1 2013
Corporate&Transaction Banking (CTB)	23.9%	14.7%	10.8%
SME & Micro*	15,0%	14.1%	14.2%
Consumer loans*	30.5%	19.5%	15.7%
Mortgage loans	1.7%	2.3%	2.6%
Total Loans	**15.5%**	**11.2%**	**9.4%**

**Consumer loans include cash, car and credit card loans including car loans for SME&Micro customers*

The improvement of the quality of new cash loans for individuals is evidenced by the following vintage curve showing the share of loans with delayed payments of 91 days or more after six or 12 months since origination of a cash loan:



A decrease in provisions for impairment and IBNR (by 6.2%, i.e. PLN 75 million as compared to the balance as at the end of December 2012) resulted primarily from the following:

- effective restructuring and recovery of non-performing receivables;
- sale of a portion of the uncollectible receivables portfolio classified into the "lost" category.

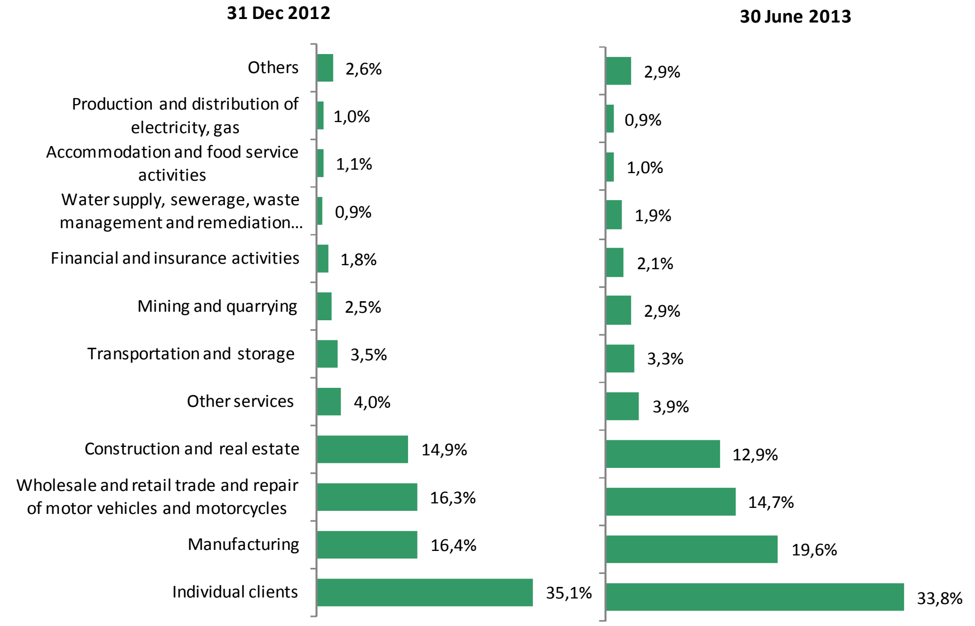
The above measures counterbalanced the impact of the economic downturn, which particularly affected the construction sector and the segment of small and medium enterprises, and required the Bank to create additional provisions for non-performing loans to such customers.

5.2.1.3. Loan portfolio by sectors under statistical classification

As at the end of June 2013, the Group's exposure (balance sheet and off-balance sheet credit exposures) stood at PLN 25.3 billion and was concentrated mainly on the financing for individual customers and the following sectors: manufacturing, wholesale and retail trade, construction and real estate activities, other services, transportation and storage as well as mining and quarrying.

Loan portfolio by sectors in the compared periods was the following:

Chart 16. Loan portfolio by sectors as at 31 Dec 2012 and 30 June 2013



5.2.1.4. Investments available for sale

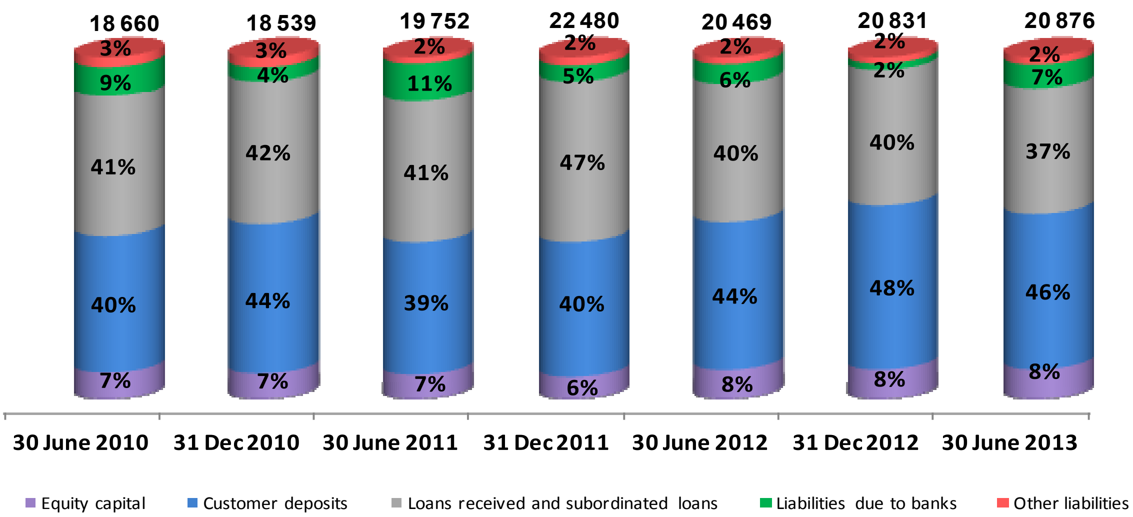
Investments available for sale increased by PLN 835 million, i.e. 45.8% as compared to December 2012. As a result of an increased excessive liquidity in the second quarter of 2013, the Bank purchased NBP bills and increased the portfolio of Treasury bonds.

At the end of June 2013, Treasury bonds and NBP bills had the biggest share in the Group's investment portfolio (68% and 30%, respectively).

5.2.2. Liabilities

The Group's liabilities structure is as follows:

Chart 17. Liabilities structure as at 30 June 2013 as compared to previous periods



The table below presents the structure and evolution of selected liabilities of the Group (consolidated):

in PLN million	31 Dec 2012	30 June 2013	Δ 2013/2012
LIABILITIES			
Due to customers	10 065	9 579	-5%
Loans and credit facilities received	7 590	7 227	-5%
Due to banks	382	1 415	270%
Subordinated liabilities	694	471	-32%
Financial liabilities held for trading	87	86	-1%
Other liabilities *	282	354	26%
Total equity	**1 731**	**1 745**	**1%**
TOTAL LIABILITIES	**20 831**	**20 876**	**0%**

**Other liabilities include: provisions, hedging instruments, differences from hedging the fair value of hedged items against interest rate risk, liabilities on account of securities issue, deferred tax provision, current tax liabilities and other liabilities.*

5.2.2.1. Due to customers and institutions

Customer deposits together with loans and credit facilities received continue to constitute the main source of financing the Group's assets.

In H1 2013, the Group continued adjusting its financing structure to current needs.

As compared to the end of December 2012, the value of **loans and credit facilities received** went down by 4.8% (PLN 362 million), mainly as a result of:

- repayment of the CHF 90 million credit line from the BNP PARIBAS group in January 2013 (the Bank repaid the portion of credit lines in the total amount of CHF 250 million; the repayment was partially compensated by drawing two new financing tranches from the BNP PARIBAS in 160 million), in view of the fact that the Bank's liquidity situation continued to remain good;
- repayment of a portion of some credit facilities by FLP.

Loans and credit facilities received mainly include credit facilities granted by the BNP PARIBAS group, which as at the end of June 2013 represented 90% of credit facilities received by the Group, likewise the credit facilities from the European Investment Bank and European Bank for Reconstruction and Development earmarked for financing investment projects of small and medium enterprises.

Subordinated liabilities include subordinated loans from the BNP PARIBAS group. Their value fell by PLN 224 million (32.2%) as compared to December 2012, in effect of changes made by the Bank at the end of 2012 and in early 2013 to the currency and maturity structure of the loans taken. In December 2012, the Bank took two subordinated loans: of CHF 60 million and EUR 60 million with a longer maturity, which replaced the loan of EUR 100 million being repaid. The second tranche in the amount of EUR 60 million was repaid at the beginning of January 2013. Thanks to the steps undertaken, the capital adequacy ratio resistance to FX rate fluctuations was increased.

Liabilities **due to banks**, whose share in total liabilities as at the end of June reached 6.8%, are an additional source of financing. Increase in the value of liabilities due to banks (by PLN 1,032 million) resulted primarily from a growth of value of term deposits, mainly deposits of banks from the BNP PARIBAS group.

5.2.2.2. Customer deposits

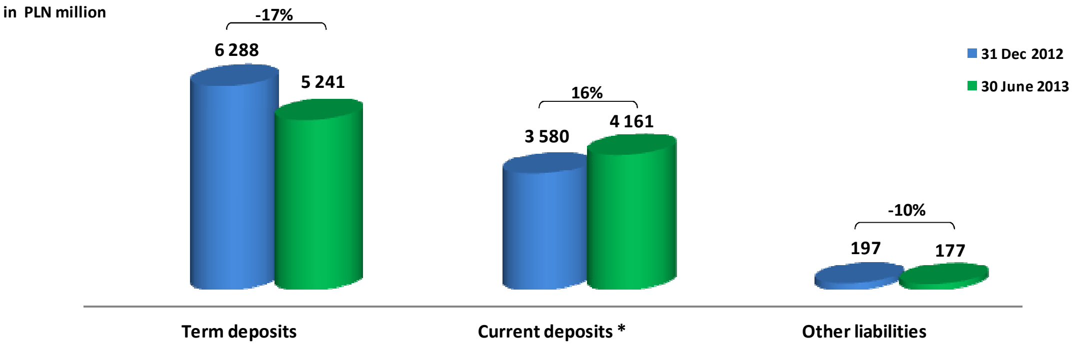
The balance of liabilities due to customers as at the end of June 2013 decreased by PLN 486 million, i.e. 4.8% to PLN 9,579 million (out of which PLN 5,617 million constituted deposits from Retail Banking customers and PLN 3,962 million constituted deposits from Corporate and Transaction Banking customers) from PLN 10,065 million (out of which PLN 5,351 million constituted deposits from Retail Banking customers and PLN 4,714 million constituted deposits from Corporate and Transaction Banking customers) as at the end of December 2012. However, the decrease was related to the change in the deposits base structure, related to active management of customer deposits base and repricing in falling rates environment, and it concerned primarily:

- PLN term deposits (by PLN 983 million, or 16.6%) of large enterprises mainly;
- balances of current foreign currency accounts of business customers.

The above decreases were partially offset by an increase in current deposits in PLN (growth by PLN 778 million, or 32.0%), among which the greatest growth was noted for balances of savings accounts of individuals.

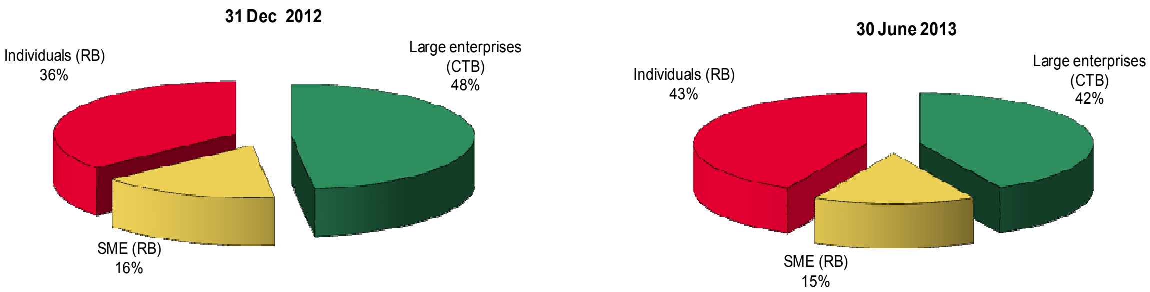
Deposits denominated in foreign currencies represent 13% of total customer deposits. The balances of foreign currency deposits went down as compared to December 2012 by PLN 266 million, or by 17.3%, while the fall concerned mainly current deposits held by large enterprises. In the structure of foreign currency deposits, EUR deposits are predominant (79% of foreign currency deposits and 11% of total customer deposits).

Chart 18. Structure of liabilities due to customers by deposit type as at 31 Dec 2012 and 30 June 2013



**inclusive of savings accounts, which at the end of June 2013 accounted for 45% of total current deposits*

Chart 19. Structure of customer deposits broken down by segments as at 31 Dec 2012 and 30 June 2013 (based on management data)



5.2.2.3. Equity capital

As at the end of June 2013, the Group's equity capital amounted to PLN 1,745 million which represents growth by 0,8% or PLN 14 million over the end of December 2012. This growth results mainly from net profit generated by the Group in the first half of 2013. The above effect, however, was partially counterbalanced by a decrease in revaluation reserve (by PLN 38 million) that regarded investments available for sale.

In the course of preparation to the new share issue in May 2013, the Bank's share capital was decreased by PLN 130 million down to PLN 1,304 million, by reducing the nominal value of each share from PLN 50.00 to PLN 45.46. At the same time, the other capital was increased by the same amount.

5.2.3. Capital Adequacy Ratio

The BNP Paribas Bank Polska SA Group's capital situation in 2013 remained stable, which allowed the Group to safely continue its business activity and carry out plans. As at 30 June 2013 the Group's capital adequacy ratio was 11.83% in comparison to 13.8% as at the end of December 2012.

The decrease of the capital adequacy ratio in comparison to December 2012 resulted primarily from the planned repayment of a subordinated loan of EUR 60 million in January 2013 (excluding the loan, the Group's capital adequacy ratio as at the end of last year would have amounted to 12.38%), as well as from the increase in the capital requirement for credit risk caused by the growth of balances of loans to customers.

The total capital requirement as at the end of June 2013 reached PLN 1,446 million and was by 5.1% higher than as at the end of December 2012.

5.3. Contingent Liabilities - Off-balance Sheet Commitments

Contingent off-balance sheet commitments evolution and structure are the following:

Contingent liabilities granted and received (in PLN million)	31 Dec 2012	30 June 2013	Δ 2013/2012
Total contingent liabilities granted			
- items related to financing	4 930	5 400	10%
- guarantees	1 922	2 124	11%
Total contingent liabilities granted	**6 852**	**7 524**	**10%**
Contingent liabilities received			
- items related to financing	1 462	2 185	49%
- guarantees	490	512	4%
Total contingent liabilities received	**1 952**	**2 697**	**38%**
Total contingent liabilities	**8 804**	**10 221**	**16%**

Contingent financial commitments increased primarily with respect to unused credit lines (mainly overdraft credit facilities) granted to companies. The above commitments include credit lines granted and not utilised, credit card limits, unused overdraft credit facilities, loan commitment letters issued, general financing agreements and import letters of credit issued.

Off-balance sheet guarantee commitments granted include guarantees issued in favour of customers, general guarantee agreements and export letters of credit issued. The growth noted in comparison to December 2012 referred in particular to guarantees issued by the order of the Bank's business customers.

The growth of contingent financial liabilities received by the Group resulted primarily from an increase of unused credit lines available for the Bank at the NBP.

Off-balance sheet guarantee commitments obtained by the Group encompass mainly guarantees and sureties that secure the granted loans. Their slight growth noted in comparison to December 2012 concerned primarily guarantees received from the banks of the BNP PARIBAS group.

5.4. Basic ratios

The consolidated ratios are presented below:

Ratio	30 June 2012	31 Dec 2012	30 June 2013
Profitability Ratios			
Net interest margin (NIM)*	2.8%	2.9%	2.9%
Expenses / Revenues*	77.2%	74.0%	70.2%
Return on assets (ROA)*	0.1%	0.15%	0.5%
Return on Equity (ROE)*	1.7%	1.9%	6.0%
Net fee and commission income / Net banking income	16.9%	17.9%	17.5%
Equity ratios			
Tier 1 ratio*	9.1%	9.5%	9.1%
Capital Adequacy Ratio	11.6%	13.8%	11.8%
Loan portfolio quality			
NPL ratio*	12.0%	11.2%	9.4%
Provisioning coverage ratio*	56.6%	56.6%	59.4%
Cost of risk ratio*	0.8%	0.9%	0.6%

Liquidity ratios			
Net loans to deposits ratio	186.6%	160.6%	178.1%
Net PLN loans to PLN deposits ratio	114.9%	107.8%	119.1%
Stock ratios			
Earnings (loss) per share	0.5	1.2	1.8
Book value per share	58.8	60.3	60.8

*These ratios were calculated per annum as follows:

Net interest margin (NIM)	Net interest income / average balance of interest-bearing assets (arithmetic mean of total financial assets held for trading, receivables due from banks, loans to customers, investments available for sale and hedging instruments) as at the end of four subsequent quarters in %
Cost / Revenues	General expenses and depreciation / net banking income in %
Return on Assets (ROA)	Profit (loss) after taxation / average assets as at the end of four subsequent quarters in %
Return on Equity (ROE)	Profit (loss) after taxation / average total own funds as at the end of four subsequent quarters in %
Tier 1 ratio	Quotient of Tier 1 capital and capital requirements multiplied by 12.5
NPL ratio	Gross value of impaired loans to customers / gross loans to customers in %
Provisioning coverage ratio	Impairment provisions for incurred and reported losses / gross value of impaired loans to customers in %
Cost of risk ratio	Cost of risk / average gross balance of loans to customers as at the end of four subsequent quarters in %

5.5. Average interest rate of deposits and loans

Basic variable interest rates applied to loans by the Bank are based on WIBOR rate for PLN loans and LIBOR or EURIBOR rates for foreign currency loans.

Average nominal interest rates of current and term deposits at the Bank at the end of H1 2013, as compared to the end of 2012, was the following:

- PLN deposits: 3.17% versus 3.69%;
- FC deposits: 0.59% versus 0.56%.

Average nominal interest rate for total loans, both performing and non-performing loans, broken down by currency, was the following:

- PLN loans: 6.76% versus 7.86% as at the end of 2012;
- EUR loans: 2.62% versus 2.75% as at the end of 2012;
- USD loans: 1.99% versus 1.98% as at the end of 2012;
- CHF loans: 1.17% versus 1.23% as at the end of 2012.

5.6. Enforcement titles and value of collateral

In the first half of 2013, the Bank issued 83 enforcement titles in the enterprises and affluent individual customer segments for the total amount of PLN 117,513 thousand as at 30 June 2013 in comparison to 103 enforcement titles issued in those segments in the first half of 2012 for the amount of PLN 73,398 thousand.

Moreover, in the first half of 2013 the Bank issued 3,931 enforcement titles and lawsuits in electronic writ of payment proceedings in the individual customers segment, valued in total at PLN 57,925 thousand as compared to 15,358 enforcement titles and lawsuits in electronic writ of payment proceedings in the exposure value of PLN 89,334 thousand issued in the first half of 2012.

The nominal value of collateral established on borrowers' accounts and assets totalled PLN 81,375,882 thousand as at 30 June 2013, as compared to PLN 77,073,467 thousand as at 30 June 2012.

5.7. Management of financing sources

The basic sources of financing for lending activity of the BNP Paribas Bank Polska SA Group include customer deposits accepted by the Bank both from enterprises and individuals as well as medium and long-term credit facilities granted by financial institutions, including credit lines and subordinated loans from entities that are part of BNP PARIBAS. Pursuant to the financing strategy followed by the Bank, the loan portfolio denominated in a foreign currency is financed primarily by credit facilities from the entities included in the BNP PARIBAS group, whereas the loan portfolio in PLN is mainly financed by funds acquired from individual customers and enterprises.

In the Bank’s opinion, the stability of financing sources is satisfactory.

Structure of financing sources	31 December 2012 in PLN thousand	30 June 2013 in PLN thousand	Δ 2013/2013
Customer deposits	10,064,950	9,578,611	-5%
Credit lines and subordinated loans	8,284,007	7,698,041	-7%
Own equity	1,730,945	1,744,784	1%

In the first half of 2013, the deposit balances as well as the medium and long-term credit lines and subordinated loans decreased.

In January 2013 the Bank partially prepaid CHF credit lines (CHF 250 million) and drew down subsequent tranches in the total amount of CHF 160 million, thus adjusting the total outstanding balance to the shrinking balance of the loan portfolio in this currency. The Bank repaid a subordinated loan of EUR 100 million (EUR 40 million in December 2012 and EUR 60 million in January 2013), and took new subordinated loans of CHF 60 million and EUR 60 million in December 2012. Owing to the measures undertaken, the maturity of the debt held was extended.

Financing granted by the BNP PARIBAS group to other entities of BNP Paribas Bank Polska SA Group in the reporting period decreased by PLN 758 million. The total value of medium and long-term financing by the BNP PARIBAS group (including subordinated loans, without interest) as at the end of June 2013 amounted to PLN 6,999 million.

In July 2013 (i.e. after the balance sheet date), the Bank repaid a credit tranche of CHF 25 million and drew down subsequent funds amounting to EUR 30 million.

The BNP Paribas Bank Polska SA Group actively cooperates with the European and international financial institutions such as the European Investment Bank and European Bank for Reconstruction and Development. In December 2012, the Bank was granted further tranches of the financing from the European Investment Bank in the amount of PLN 205 million. At the end of June 2013, the disbursed financing made available by these institutions (interest not included) totalled PLN 691 million.

6. PROSPECTS FOR ACTIVITY DEVELOPMENT OF BNP PARIBAS BANK POLSKA SA GROUP

The BNP PARIBAS group continues its current growth strategy in Poland, with focus on gradual, sustainable and profitable growth, whilst maintaining a prudent risk profile.

The long-term ambition of BNP Paribas Bank Polska SA is to steadily build a strong, universal bank in the Polish market that would be the pillar of the BNP PARIBAS Group's operations in Poland and would rank among the top ten banks in Poland with a market share of approximately 5% in terms of assets. The Bank and its subsidiaries (the Group) intends to develop its presence and market share in all its main operating segments of individual customers (retail/private banking), micro, small and medium-sized enterprises, and domestic and international corporates.

However, the realisation of this ambition will be influenced by the evolution of the domestic macroeconomic situation, evolution of the competitive environment and availability of financial resources for the Bank to develop its strategy. The key external factors that may affect the Group's performance in second half 2013 are presented in item 1.3. of this *Report*.

In the **corporate customers business segment (CTB)**, the Group is pursuing its growth strategy with a multi-pronged approach, by continuing to develop and maintain its strong presence among Polish subsidiaries of multinational corporations that are customers of the BNP PARIBAS Group on a global scale, fully leveraging the BNP Paribas Group's *"One bank for Corporates in Europe"* programme and, in parallel, putting a considerably stronger focus on Polish-owned companies and mid-sized enterprises, which constitute the core of the Polish economy and among which the Group is inadequately represented.

Since 2012 Bank has broadened its range of competences in CTB area by adding Structured Finance, Public Sector and Institutions, likewise Real Estate and Capital Development.

The financing based on leasing and credit facilities, with a growing share of lease products, is treated as a key factor to establish and maintain relations. Additionally, it is accompanied by very active cross-selling of other specialist services. Fortis Lease Polska Sp. z o.o., in cooperation with the Bank, offers lease of fixed assets, including real estate, means of transport, construction machinery and specialist equipment for the industry.

Customers of the Bank have access to factoring services offered through BNP Paribas Factor Sp. z o.o. Expansion of the Bank's Group by the factoring company, acquired in 2012, means not only enhancement of business competence of the Bank but also new cross-selling opportunities as regards the offer for companies.

The sales network of the CTB Business Line operates through 9 Business Centres (BC) located in large cities countrywide.

The Bank closely cooperates with BNP PARIBAS Branch in Warsaw. Respecting the division of competences implemented between entities of the BNP PARIBAS group in Poland, the Bank provides a full range of commercial banking services and financing to a large base of corporate customers. By contrast, the Branch focuses on the provision of investment banking products to the Group in Poland and manages relationships with the largest corporate and institutional customers of the BNP PARIBAS group in Poland.

In line with general CTB strategy the corporate banking activity in the second half of 2013 will focus on:

- leveraging the Group's expertise on multinationals and large corporates and adapting it to expand the Group's market share in Polish mid caps, and to accompany those clients in their development (especially on international trade, cash management and financing);
- maintaining a highly diversified revenue mix through a combination of lending and other banking activity, supported by a significant share in niche segments, such as documentary trade;
- financing clients' current and investment needs through a wide range of tools including standard loans, working capital facilities, investment loans, leasing and factoring, with a focus on structured credit and real estate financing, with a view to promote the stability of net interest margin;
- providing competitive and innovative solutions covering the whole range of clients' needs with respect to daily banking, cash management, trade services, FX and hedging, i.e. cross-selling products;
- active relationship development based on the allocation of a dedicated relationship manager for each client who works with highly qualified product specialists in these product areas (for products such as cash management, structured products, FX market, trade finance, factoring and leasing, etc.);
- constant monitoring of performance of the sales force, with a performance-based HR management system and an incentive policy; and
- maintaining solid underlying profitability, a balanced risk profile of new production and a strong financial condition.

In the **retail banking business segment (RB)**, the Bank will continue to focus on increasing its number of active clients with a set of "acquisition products", mainly distributed by a quality, but under-utilised branch network. The Bank targets to increase the number of active clients at a Compound Annual Growth Rate of 10% (net) over the medium term (the next three to four years) to materially improve network utilization & efficiency.

The Bank aims at providing to its customers a full range of credit facilities and services, including daily banking, consumer loans, investment loans, savings products and investment solutions for individuals, micro, small and medium-sized enterprises (SME) with special emphasis put on responsible lending and innovation. For affluent customers the Bank has introduced a new private banking offer, including brokerage office services. The Bank intends to engage with customers based on long-term relationships, balancing between financing needs of clients and cross-selling capital-light and low-risk products, and ensuring a stable growth of current accounts. Honesty and transparency are the base in building relations with our clients.

The Bank wants to be perceived on the individual customers market as a bank that values customers loyalty and acts fairly by applying the rule of "responsible lending". The Bank's growth strategy is to acquire new individual customers through promotional loan products (mainly cash loans with an average ticket value above PLN 20,000 or car loans) 'bundled' with other products, such as current accounts and insurance, or certain requirements such as cash inflow and account usage. This strategy leverages the Group's expertise in the consumer loan business due to the integration of the best-in-class Personal Finance, and in particular:

- using the Personal Finance "hook" products bundled with active current accounts as key client "acquisition & activation" tool;
- competitive pricing coupled with operating excellence in the consumer finance sphere enables the Bank to develop a profitable client portfolio, based on high-quality clients, with relatively lower cost of risk and superior cross-selling potential;
- continued excellence in granting, collection & scoring.

In the Individual Customers segment in the second half 2013, the Bank intends to follow its strategy as regards:

- active sale of cash loans and car loans. In car finance business the Bank intends to consolidate leading position in used cars by revitalizing distribution network and increase penetration in new cars through structuring partnerships with car makers;
- development of investment and savings' products, as well as servicing current accounts.
- developing the Private Banking business, offering full service with a strong focus on investment advisory, investment product sales and brokerage services, strongly supported by the BNP Paribas Group's expertise as a leader in private banking in Europe;
- improvement of sales management and sales quality and accelerate acquisition of clients through the Internet, development of Internet platform and mobile banking and affinity marketing. The new multi-channel sale model, combined with the fully utilized potential of the Customer Relationship Management (CRM) tool, will significantly boost sales of auxiliary products (including personal accounts);
- acquisition of new customers, accompanied by loyalty-building activities among the existing customers to enhance the customer retention.

As regards the SME segment, the Bank plans to develop a product offering that supports our customers' current business activity and its further growth. To redevelop the SME segment, the Group intends to:

- capitalise on its network of 27 dedicated branches (Financial Centres) and over 100 client advisors, supported by analysts and assistants;
- capitalise on its broad and competitive range of financing and banking solutions (cash management, trade finance, FX, leasing and factoring), with special expertise in EU-backed loans;
- improve credit process & product expertise; aiming at reduction of loan approval and drawdown availability times, whilst maintaining a prudent approach to risk;
- implement a dedicated offering for the professional/micro-enterprise sector, which represents another significant sector of the economy and one in which the Bank is also inadequately represented.

In the first half of 2013 the Bank has initiated implementation of a new standardized offer for micro companies based on fast credit processes, providing customers with products covering specific micro client needs to help them develop their business, and maintaining a balance between risk profile, return on equity (with higher margins than in the SME segment) and adequate collateral. This initiative is supported by:

- the creation of a dedicated sales force in selected branches and expansion of the sales role of managers in small branches;
- an adapted and largely score-based risk process; and
- a complete range of products for clients in this sector, covering daily banking, saving, financing and insurance needs.

In this segment, the Bank plans an intensive, yet sustainable, growth of revenues, balanced development of its credit and deposit side and stronger emphasis put on development of transaction banking in comparison to lending activities. Non-interest income, i.e. income generated by operations on accounts, foreign exchange and trade finance transactions will play a significant role in boosting revenues in the SME segment.

The Bank's strength is its expert knowledge about acquisition of EU funding and access to loans financed by the EIB and EBRD. Agreements with the EIB and EBRD enable the Bank to finance investment projects of medium enterprises.

As regards the development of the multichannel international banking model (MIB), in addition to reinforcement of the Contact Centre, Internet and Mobile Banking, the network of branches will remain the primary distribution channel for Retail Banking and Personal Finance. The Bank has been carrying out the plan to modernise and improve visibility of the existing branches (revamping and alignment with the new branch model standards.

The Bank is committed to investing substantially in marketing activity to support product sales campaigns and to improve awareness of the BNP PARIBAS brand in Poland, especially in the retail segment. The Bank is implementing its communications strategy:

- with a strong presence in mass media (principally television);
- by increasing the role of digital communication (principally the Internet);
- by using direct marketing to target existing and potential customers, thanks to CRM-driven contact opportunities; and
- with specific campaigns directed at the corporate and SME sectors, highlighting the Group's commitment to these sectors.

Implementation of the adopted business strategy through balanced and ambitious development of the activity in the above segments, appropriate risk control system, stepping up effectiveness in the cost management area, boosting of operating revenues, improvement of financial results of the Bank, as well as ensuring high standards of customer service - are the priorities in the management of the Bank in 2013.

These actions are reflected in the Recovery Programme for BNP Paribas Bank Polska SA prepared in accordance with Article 142 of the Banking Law Act and implemented with the consent of the Polish Financial Supervision Authority.

Having noted in the past the non-performing loan ratio higher than average in the Polish banking sector the Bank focuses in its credit policy on reducing the possibility of new such loans through more prudent credit risk approach and granting loans and credit lines with low probability of default as well as making use of cross-selling potential. The effect of the new approach to risk, combined with the amortisation of the old high margin/high risk portfolio, has reduced revenue growth and necessitated a stronger focus on cost reduction. In 2012, the Bank initiated a comprehensive structural programme of cost optimisation aimed at improving the financial position, in particular reducing the cost/income ratio. Numerous initiatives addressed improvements in automation, simplification of organisational structure, insourcing/outsourcing, process improvement, negotiation of more favourable contracts, decrease in number of layers in the organisational structure and marketing expenses re-prioritisation. Implementation of the redundancy programme in the period from 30 June 2012 till 30 June 2013 has resulted in the redundancy of 370 full-time employees, of which 59 internal replacements. There were 95 initiatives realised which will result in the savings of PLN 86.6 million on a full-year basis.

On 11 July 2013, the Polish Financial Supervision Authority approved the revised Recovery Programme for BNP Paribas Bank Polska SA. In the revised Programme approved by PFSA, new assumptions in terms of financial projections for years 2013-2014 have been adopted; they take into account the present economic slowdown and faster-than-expected reduction of interest rates by the Monetary Policy Council. In the PFSA opinion, the full implementation of the Recovery Programme should allow the Bank to permanently achieve positive financial results and improve the main economic and financial ratios, and thus enable the finalisation of the recovery process by the assumed deadline i.e. 31 December 2014.

As a result of the Recovery Programme, the Board of Executives expects to improve its cost/income ratio and general profitability, whilst keeping an adequate risk profile. Assuming continuing growth in the economy, the Board of Executives aims for the Group to achieve the following targets in/over the medium term (the next three to four years):

- grow recurring revenues at a Compound Annual Growth Rate of between 6% and 8% over that period;
- reduce the cost income ratio to below 60%, down from 74.0% in 2012;
- improve the return on equity to above 10%, up from 1.9% in 2012;
- reduce the share of impaired loans in credit portfolio to approximately 8%, down from 11.24% in 2012, and maintain it at that level,

whilst maintaining for the Bank on a standalone basis:

- capital adequacy ratio above 12%;
- tier 1 ratio above 9%; at Group level tier 1 ratio will be maintained above 8.5%, and
- ratio of loans to deposits in PLN below 110%.

In first half 2013 the Bank enjoyed an improvement of the loan portfolio quality thanks to the sale of a portion of non-performing loans in the segment of individual customers and SME (carried out in May 2013), stricter monitoring of repayments and more effective debt collection process, as well as considerable improvement in the quality of newly granted loans. In second half of 2013, the Bank plans to continue selling the non-performing loan receivables and maintain the quality of newly acquired customers, which should result in further improvement of credit portfolio quality.

The Bank's capital position remains secure. The Bank's (stand alone) capital adequacy ratio as at June 30, 2013 reached the level of 12.20% and the Tier 1 ratio reached 9.6%. The Bank's liquidity position remains at a safe level. All regulatory measures are met, and the Bank maintains a liquidity buffer above the required minimum level. The Group's capital adequacy ratio stood at 11,83% (Tier 1 ratio at 9.1%) as at 30 June 2013, thus substantially exceeding the minimum level of 8% as required under the *Banking Law Act*.

Considering the deadline for fulfillment of the commitment to increase the free float of the Bank's shares to at least 15% until the end 2013, the BNP PARIBAS group undertook actions to increase the free float of the Bank's shares via issuance of new shares. In the first step the Shareholders' Meeting of April 4th, 2013 authorized adjustments to the Bank's capital structure, including reduction in nominal value of shares and then further decrease of the share capital by reducing the nominal value of shares with a concurrent increase of the Bank's share capital by means of issuance of the series O shares. In the second step the EGM of June 3, 2013 decided on details of the share issue. The public offering series O shares was launched in June based on Prospectus approved by the KNF on June 19th, however had to be suspended on 27 June 2013 due to highly unfavourably market situation at the Warsaw Stock Exchange. The fulfillment of BNP PARIBAS's Group commitment is planned by the end 2013. Registration of capital increase in result of the new share issue should lead to an increase in the Bank's equity and consequently an improvement in its capital adequacy ratio. The reduction in nominal value will not negatively affect the Bank's capital level and capital adequacy ratios.

Similarly as in 2012, the Supervisory Board and Board of Executives do not publish the financial performance projections for 2013.

7. BASIC RISK TYPES AND RISK MANAGEMENT

The Bank identifies, measures, monitors and manages all risks that arise in its activity. The Bank divides monitoring, control and risk management processes into the following categories:

- credit risk;
- liquidity risk;
- FX risk;
- interest rate risk;
- counterparty risk;
- operational risk.

To guarantee that the above-mentioned risk categories are identified, defined, as well as appropriately controlled and managed, the Bank observes numerous internal control procedures and risk level limits, which were described in detail in Note 21 of the Interim Abbreviated Consolidated Financial Statements of the Group of BNP Paribas Bank Polska SA for the First Half of 2013.

For all risk categories, the Bank has developed detailed procedures at the level of both the Bank and individual business lines, which describe the risks and relevant exposure limits. All methods and procedures are subject to periodic reviews to verify their adequacy and accuracy through validation tests, stress tests and back testing. In the case of immeasurable risks, the procedures are analysed and monitored using various quality-based methods.

The primary bodies responsible for risk management are as follows: the Supervisory Board, the Board of Executives, dedicated committees (Audit Committee at the Supervisory Board's level, Assets and Liabilities Committee (ALCO), Risk Committee, Credit Committee, Watchlist and Doubtful Debts Committee, New Products & Activities & Organisations & Exceptional Transaction Validation Committee), Risk Area Departments, Compliance, Control and Fraud Prevention Line and the Information Security and Business Continuity Department.

The key role in the risk management system of the Bank is played by the Board of Executives, which determines the risk management policy and adopts the risk management rules, as well as defines the limit setting policy for relevant risks and policy for defining the risk control procedures. The source of the risk management policy is the *Risk Management Strategy* adopted by the Board of Executives and approved by the Supervisory Board.

The following diagram illustrates the essential organisational elements of the risk management structure of the Bank.

7.1. Credit risk

Credit risk is a risk of the Bank incurring losses on account of granted loans due to customers' failure to meet their obligations to the Bank defined in loan agreement.

The credit risk management system at the Bank has been defined in the *Credit Policy* approved by the Board of Executives. Detailed financing rules and criteria with respect to products offered by a given business line, types of loans available, financing purposes, limits and terms and conditions, are determined in credit policies for specific business lines. Pursuant to the credit policy criteria, the Bank's intention is to cooperate with customers with good reputation and in satisfactory economic and financial situation.

Credit policies specify also detailed rules of risk identification, measurement and acceptance, collateral for loan repayment and monitoring customers over the course of the loan agreement.

The credit risk management process is adjusted to the business line structure adopted by the Bank. An organisationally separate Risk Area, headed by a Member of the Board of Executives in the function of the Chief Risk Officer, performs the key role in the credit risk management. The credit risk management activity is supported by the Risk Committee and Retail Banking and Personal Finance Risk Committees.

The Bank assesses the borrower risk using the rating and scoring classification systems and risk classification according to IFRS.

Credit decisions are made according to the decision-making model approved by the Bank's Board of Executives and the Supervisory Board, and adjusted to the standards applicable in the BNP PARIBAS group. The decision-making authority model takes into consideration the business lines' structure, defines the number of decision-making levels, the scope of their authorisation powers, likewise the rules, criteria and conditions of making credit decisions. Quantitative limits of decision-making authorisations depend on the customer segment, customer risk profile and financing term.

In the first half of 2013, the Bank introduced changes to the credit risk management system to improve its effectiveness and align it with the BNP Paribas standards as well as regulatory requirements. The most significant changes include:

- implementation of the BNP Paribas rating scale;

- update of the Bank's Credit Policy;
- implementation of the process of granting and monitoring limits for financial institutions;
- implementation of the process for approving the risk involved in transactions of the Trade Finance Department;
- applying the scoring system to the MICRO segment customers;
- introduction of new rules for approving changes and temporary deviations from terms and conditions of credit decisions/loan agreements;
- modification of the rules applied to appraisals of real properties that secure credit exposures;
- introduction of a new Authorisation Ticket standard used in the process of granting and reviewing credit exposures of CTB and SME segment customers.

7.2. Liquidity, Foreign Exchange and Interest Rate Risks

Liquidity risk is defined as the risk of being unable to fulfil obligations at an acceptable price in a given place and currency.

Foreign exchange risk is the risk of adverse changes in the Bank's financial result caused by changes in market foreign exchange rates.

Interest rate risk is the risk of unfavourable changes in the Bank's financial result or the Bank's capital, which arises from one of the following reasons:

- differences between dates of interest rate change of the Bank's assets and liabilities that finance them (mismatch risk);
- changes in market interest rates that affect the fair value of the Bank's open positions (interest rate change risk);
- exercise by customers of options embedded in the banking products, which may be exercised as a result of changes in market interest rates (customer option risk).

The Bank monitors the liquidity risk, foreign exchange risk and interest rate risk by means of a formal system of limits and reports.

The system of limits covers the majority of analysed parameters of liquidity, foreign exchange and interest rate risks. The limits are set in such a way so as to:

- maintain the desired market risk profile defined in the Bank's strategy;
- not exceed the risk level acceptable by the BNP PARIBAS group.

In the event a limit is exceeded, the unit responsible for keeping the reported values below a given limit is required to undertake actions to enable reduction of a given risk pursuant to procedures binding in the Bank.

The information system used in the risk management ensures accumulation of data on interest rate operations and transactions, market interest rate levels and the risk measures applied.

As regards the risk management, the Bank's policy objective is that employees responsible for the supervision and service of risk management processes have high moral standards likewise long-term expertise and theoretical knowledge required for such duties.

In its policy, the Bank has adopted a rule that business functions (direct transaction conclusion), operating functions (e.g. transaction posting and settlement), control functions (risk level measurements and monitoring), that are part of the FX, interest rate and liquidity risk management, are performed by units that are organisationally separate.

The policy that consists in a clear separation of:

- business functions from the risk level control functions - is to ensure that the quality of FX and interest rate risk level control would not deteriorate as a result of an internal conflict of interest, and that any control results that show an excessive FX risk would trigger an appropriate response of the Bank's management;
- operating functions from the risk control function - is to ensure that the quality of risk level control would not worsen as a result of an internal conflict of interest, and that any control results that show an excessive risk level would trigger an appropriate response of the Bank's management;
- operating functions from business functions - is to ensure that the quality of operating processes would not decrease as a result of an internal conflict of interest.

The Bank has developed policies on risk control and management, including the procedure in case of emergency situations. The said policies refer also to FX and interest rate risk management processes.

Liquidity Risk

In the Bank's assessment, the liquidity risk is divided into:

- financing liquidity risk, understood as the risk of a failure to fulfil the expected or unexpected requests for payment of funds, without incurring unacceptable losses or without putting the business activity at risk;
- market liquidity risk refers to an impossibility of selling assets due to inadequate market depth or occurrence of market disruptions. Such risk is therefore to some extent related to the market risk. The market liquidity risk manifests changes of the portfolio liquidation value due to changes in the portfolio value represented by the mark-to market valuation. The liquidity risk involves uncertainty as to the time needed to liquidate assets.

The Bank identifies the following liquidity types:

- immediate liquidity – within a current day;
- future liquidity – for a period exceeding the current day, which may be further broken down by the following:
  - current liquidity – for up to seven (7) days;
  - short-term liquidity – from over seven (7) days up to one (1) month;
  - medium- and long-term liquidity - above one (1) month.

The Bank defines liquidity risk as the risk of losing its ability to:

- meet its payment obligations in a timely manner;

- obtain funds from alternative sources;
- generate a positive balance of cash flows within a specified time span.

The Bank's strategy consists in the following:

- ensuring high quality standards for the liquidity management processes. Under the strategy, measures aimed at improving the quality of the liquidity management processes have been assigned the top priority at the Bank;
- striving to ensure that the Bank's dependence on market conditions is limited to such an extent that in a market crisis the Bank will be able to keep its liquidity for one month, without limiting the range of services or initiating changes in the core business. In the event of a market crisis lasting for a longer period, the Bank's strategy provides that liquidity would be sustained, however, the previous development direction might be changed in this situation, and the Bank would allow of costly changes in the business profile;
- minimisation, in an active way, of the prospect for the occurrence of unfavourable events for the Bank. Considering that the probability of such factors occurrence may not be completely eliminated, the Bank's strategy consists also in ensuring that, should such factors occur, the Bank will sustain its financial liquidity at minimum own costs (measurable and immeasurable) and take efficient steps to regain the confidence of customers and financial institutions as soon as possible.

Foreign exchange risk

The Bank runs business, which results in taking currency positions that are sensitive to market FX rate changes. At the same time, the Bank strives to limit the exposure to the foreign exchange risk related to offering FC products to customers. The Bank carries out a limited activity on the foreign exchange market in order to generate a financial result on short-term arbitrage positions.

The Bank's exposure to the market foreign exchange risk is mitigated by a system of limits. Pursuant to the Bank's policy, the market FX risk level is managed by the Treasury Department through the management of an intraday foreign currency position and end-of-day foreign currency position. In order to manage its foreign currency position in an efficient and accurate manner, the Bank uses an IT system supplying up-to-date information concerning:

- foreign currency position;
- total foreign currency position;
- Value at Risk (VaR);
- daily profit/loss on the foreign currency position management.

Foreign currency position and VAR are limited and reported as at the end of day by the Risk Capital Market Department.

To measure the foreign exchange risk, the Bank applies the Value at Risk (VaR) method. This is the change of the market value of a component of assets or an asset portfolio, based on specific assumptions concerning market parameters, at a specified period and with a specified probability. It is assumed that for the purposes of the currency risk, VaR is determined with a 99% confidence level. The calculation of VaR for foreign exchange risk takes into account a one-day term of maintaining foreign currency positions. The VaR methodology is subject to a quarterly quality control by comparing the projected values with the values determined on the basis of actual FX rate changes, assuming that the given currency position is maintained (the so-called 'back testing'). The comparative period is the last 250 business days.

Interest rate risk

The Bank carries out operations that result in open interest rate risk positions.

The market interest rate risk is concentrated in two separate portfolios: ALM portfolio and Treasury portfolio managed by the ALM/Treasury Line. The above portfolios were divided considering re-pricing dates of items which they comprise. The ALM portfolio contains items of longer re-pricing terms than the Treasury portfolio.

The Bank, with a significant scale of its trading activity, holds a banking book and a trading book, pursuant to Resolution 76/2010 (as amended) of the Polish Financial Supervision Authority.

According to the Bank's policy, the interest rate risk is analysed both jointly and separately for each of the said books. The banking book comprises the entire ALM portfolio and some part of the Treasury portfolio which does not belong to the trading book.

An essential part of the ALM portfolio consists of banking book transactions which are not made by the ALM/Treasury Line but result from the activity of business lines offering deposit and credit products to the Bank's customers.

The ALM portfolio also includes transactions that hedge the interest rate risk generated by products offered to the Bank's customers and the securities portfolio maintained.

The Bank's policy indicates the following basic analysis types to assess an interest rate risk:

- Value at Risk (VaR), calculated with the 99% confidence level for various terms of maintaining positions for the banking and trading portfolio;
- Interest Earnings at Risk (EaR) - simulations of future net interest earnings (for the next 12 months), with the assumption of diverse interest rate curve scenarios;
- Periodic Gap (PG) - mismatched re-pricing dates of interest-bearing positions;
- One Year Equivalent (OYE) - a measure of sensitivity of interest-bearing positions to movements in interest rates;
- sensitivity to the parallel shift of the interest rate curve.

These analyses are a core element of the system of limiting the interest rate risk in the Bank. The individual analyses are made for the relevant portfolios on a daily, monthly or quarterly basis, depending on the type of analysis and the portfolio concerned.

Moreover, the Bank carries out analyses of the banking book sensitivity to extreme interest rate changes, using significantly higher interest rate changes than usually observed (stress tests).

7.3. Counterparty Risk

Counterparty Risk is a credit risk related to the counterparty to transactions with the obligation amount varying over time, depending on market parameters. Thus the counterparty risk is related to transactions in instruments whose value may change over time depending on such factors as the level of interest rates or foreign exchange rates. A different value of exposure may affect the customer solvency and is fundamental for the customer's ability to meet its obligations at the time of transaction settlement.

The Bank determines the exposure amount on the basis of the current valuation of contracts and the potential future change in the exposure value, depending on the transaction type, customer type and settlement dates.

The counterparty risk calculation includes the following transactions recognised in the Bank's trading book: foreign exchange transactions, interest rate swap transactions, currency options and interest rate options.

The assessment of counterparty credit risk for transactions generating counterparty risk is comparable to the assessment for granting loans. Rules of entering into FX and derivative transactions, likewise granting, using and monitoring credit limits for such transactions with customers are regulated at the Bank in dedicated procedures. Under the policy adopted, the Bank enters into any transactions based on individually allocated limits and the knowledge of the customer. The Bank has defined product groups offered to customers depending on their individual knowledge and experience.

7.4. Operational risk

For the purposes of managing operational risk, the Bank adopted the definition followed in the BNP PARIBAS group, according to which operational risk should be understood as the risk of incurring an economic loss, arising from the application of inappropriate or ineffective internal processes or from external events, regardless of whether these events occurred as a result of intentional actions, were a chance occurrence or were due to natural causes. Internal processes can include issues related to IT systems applied at the Bank and human resources management. External events are understood to include floods, fires, earthquakes or terrorist attacks.

Operational risk is the basic risk inherent in the Bank's business activity, which increases proportionally to the complexity of organisation, systems applied likewise products and services offered. The scope of operational risk also includes legal risk and compliance risk.

Operational risk profile, which constitutes the assessment of risk severity level, understood as the scale and structure of operational risk exposure, is used to define the level of exposure to operational risk (i.e. exposure to operational losses) and may be presented in structural dimensions (core process areas) and scale dimensions (residual risk level) selected by the Bank. The assessment is performed as a part of the operational risk mapping. Risk profile is defined during annual operational risk mapping sessions, at which the operational risk is assessed for the main operational risk factors (people, processes, systems and external events) and the Bank's key processes.

The operational risk management consists in continuous operational risk identification, analysis, monitoring, control, reporting and counteracting processes, including determination of relevant structures, processes, resources and scopes of responsibility for the above processes at various organisational levels of the Bank. A cause-and-effect analysis of an event is the basis for operational risk management. The Bank's policy in this respect is described in the *Operational Risk Management Policy at BNP Paribas Bank Polska SA.*

The Operational Risk Management Policy determines the Bank's objectives and methods of their accomplishment as regards the quality of operational risk management, likewise the Bank's adaptation to legal requirements arising from recommendations and resolutions issued by the local banking regulatory authorities.

The operational risk management strategy specifies the Bank's objectives regarding:

- quality of operational risk management;
- verification of the operational risk profile, taking into account the scale and structure of the operational risk that the Bank incurs;
- permitted exposure reflecting the Bank's appetite for operational risk;
- methods used to adapt the Bank to the legal requirements laid down in Recommendations and Resolutions adopted by local banking regulatory authorities;
- principles of internal control pertaining to operational risk.

The strategy covers all areas of the Bank's business operations.

The Bank's Board of Executives periodically verifies the implementation of the Bank's operational risk management policy assumptions. With this end in view, the Bank's Board of Executives is kept informed on an on-going basis on the scale and types of operational risk the Bank is exposed to, and also its consequences and operational risk management methods.

Ongoing examination of operational risk along with development and improvement of adequate risk control techniques are tasks of the dedicated organisational unit, i.e. the Operational Risk Department, which operates within the Compliance and Operational Risk and Control and Fraud Prevention Line. The Real-Estate Contracts and Insurance Group in the Facility Management and Administration Department is responsible for the definition and implementation of the Bank's strategy in terms of Bank insurance as a risk mitigation method.

The Bank precisely divides duties related to operational risk management, adjusted to the existing organisational structure of the Bank, taking into account recording of operational losses as well as monitoring, mitigation and reporting of the operational risk level.

Recording operational losses facilitates an effective analysis and monitoring of operational risk. The loss recording process is supervised by the Operational Risk Department, which verifies quality and completeness of data recorded in the internal database of operational losses.

The Bank is particularly committed to identification and assessment of reasons for current exposure to operational risk related to banking products, reduction of operational risk by improving internal processes and mitigation of operational risk that accompanies the introduction of new products and services.

Operational risk management tools include:

- IT software application to record operational losses along with the rules of their recording, allocation and reporting;

- analysis, monitoring and daily control of operational risk;
- mitigation and transfer of operational risk;
- calculation of a capital requirement for operational risk.

Under the Bank's policy, operational losses are allocated to business lines. The principal idea of allocation is to ensure that the business line management is directly interested in the control quality and efficiency of mitigation of operational risk accompanying the service of specific products.

Risk areas that are vital for products offered by the Bank are subject to ongoing monitoring of exposure to operational risk. To this end, the Bank monitors the operational risk level on the basis of results of regular operational controls defined for the essential areas of the Bank's business. The operational control system is now in its implementation phase. Furthermore, every year operational risk mapping sessions are held to determine the Bank's operational risk profile through the operational risk assessment for the main operational risk factors and the Bank's key process areas. One of effects of the above analysis are remedial actions formulated whenever increased exposure to operational risk is identified.

The Bank periodically verifies efficiency of the implemented operational risk management system and its adequacy to the Bank's current risk profile. The operational risk management system is supervised and regularly reviewed by the Audit Department, which is operationally independent and employs competent and appropriately trained staff. The Bank's Supervisory Board oversees the control over the system of operating risk management and assesses its adequacy and effectiveness.

The Bank uses the Basic Indicator Approach to calculate the capital requirement for operational risk.

Under the legal risk management programme, the Legal Department monitors, analyses and warns about any risks and irregularities it has detected. Ongoing monitoring of the compliance risk along with development and improvement of adequate risk control techniques are the tasks of the dedicated organisational unit, the Compliance Department.

In view of growing external and internal threats that bear signs of fraud or offence against assets of the Bank or its customers, likewise continuously improved modus operandi of such incidents, the Bank has extended and enhanced the process of counteracting, detecting and examining such instances. Its implementation is the responsibility of a specialised unit, the Fraud Prevention Department.

The Bank's subsidiaries

Pursuant to the regulatory provisions, the Bank exercises supervision over operational risk associated with the activities of its subsidiaries. The supervision is exercised by means of:

- participation of the Bank in development and modification of rules governing operational risk management in subsidiaries;
- substantive support provided by the Bank as regards methods of operational risk management;
- participation of the Bank's representatives in selected activities concerning operational risk management in subsidiaries;
- verification of compliance of the operational risk management in subsidiaries with the strategy and policy of the Bank and the BNP PARIBAS group.

Within the strategy and policy of operational risk management, the subsidiaries:

- specifically introduce the operational risk management rules;
- establish organizational units (or individual positions) responsible for the operational risk management.

The Bank's subsidiaries adopted definitions of risks conforming to the definitions in force in the Bank for the purposes of managing operational risk.

Pursuant to supervisory regulations, the Bank is obliged to keep a record of operating losses of the subsidiaries - TFI BNP, FLP and BNP Paribas Factor, based on data provided by these entities.

The subsidiaries of the Bank, as companies not bound by the banking law requirements, are not obliged to calculate the capital requirement for operational risk. Nevertheless, as Bank subsidiaries, they are required to provide financial data for its calculation and further reporting by the Bank. In order to calculate the capital requirement for operational risk, TFI BNP, FLP and BNP Paribas Factor provide financial data in accordance with supervisory recommendations for the calculation of capital requirement related to operational risk using the Basic Indicator Approach.

Organizational units (or individual positions) in the subsidiaries, which are responsible for the operational risk management - cooperate to this effect with the Operational Risk Department, which ensures supervision over the operational risk management processes.

Assessment of the size and profile of the operational risk associated with the operations of TFI BNP, FLP and BNP Paribas Factor is made on the basis of the information provided by these entities.

Financial data regarding the risk management are described in Note 21 of the Interim Abbreviated Consolidated Financial Statements of the Group of BNP Paribas Bank Polska SA for the First Half of 2013.

7.5. Legal, Administrative and Arbitration Proceedings

In the ordinary course of its business, the Group is involved in various legal proceedings concerning its operating activities. These proceedings mostly include civil, commercial, and consumer protection cases. In no case the value in dispute exceeds 10% of the Bank's equity capital.

To the best knowledge of the Bank, as at 30 June 2013, the total value of lawsuits pending before the courts, involving the Group, either as a claimant or a defendant (excluding invitations to negotiate in-court settlements), was PLN 217.8 million. As at 30 June 2013, the total value of lawsuits in which the Group is a claimant was PLN 101.2 million, net of interest, and the total value of lawsuits in which the Group is a defendant was PLN 116.6 million, net of interest.

The Bank has been served a statement of claim filed by a principal of a guarantee issued by the Bank. The value in dispute is approximately PLN 26 million. However, it is not a dispute regarding payment by the Bank, but regarding adjudication of non-existence of the right and obligation to disburse funds from the guarantee issued by the Bank for a beneficiary being a party to an agreement with the claimant. It therefore follows that any judgement passed in the case cannot result in awarding any payment by the Bank to the claimant. The Bank has been ordered by the court not to disburse funds from the guarantee until the case is decided.

As at 30 June 2013, the Bank's provision for legal risk was PLN 13.6 million, including the value of the provisions created by the Bank against legal risk related to pending legal proceedings (covering claims relating to FX derivatives, franchise branch network, and others) in the amount of PLN 10.3 million. In the Board of Executives' opinion the Bank's provision for legal risk as at 30 June 2013 r was fully adequate to the risk level.

The Bank is one of 20 Polish banks involved in proceedings pending before the Anti-monopoly Court relating to the fine imposed in 2006 by the President of the Office of Competition and Consumer Protection (UOKiK) in connection with anticompetitive practices consisting in jointly determining interchange fee rates on transactions performed using Visa and MasterCard systems in Poland. The fine imposed on the Bank by the President of the Office of Competition and Consumer Protection was PLN 2.9 million. Following an appeal by the banks, in 2008, the Anti-monopoly Court reversed the decision of the President of the Office of Competition and Consumer Protection. In 2010, following an appeal of the President of the Office of Competition and Consumer Protection, the Appellate Court reversed the judgement of the Anti-monopoly Court and referred the case for reconsideration by the Anti-monopoly Court. In case the proceedings result in an unfavourable outcome, the Bank established a provision of PLN 2.9 million.

Claims relating to FX derivative transactions, including those related to FX options, concern certain transactions which were made by the Bank's clients in 2008 and 2009. As at 30 June 2013 the nominal value of claims related to transactions in derivative instruments, including currency options, that were filed in court or reported to the Bank, totalled PLN 133.8 million, net of interest. They cover eleven cases against the Bank pending before the courts (common courts and Supreme Court), with the aggregate value in dispute of approximately PLN 90.6 million, whereas with respect to five cases the Bank has been requested to join in court settlement negotiations (the total value covered by these settlements as at 30 June 2013 was approximately PLN 43.2 million, net of interest), which may potentially lead to initiating litigation.

The highest unit value in dispute among these relates to a former request to join the in-court settlement negotiations concerning payment of PLN 54.4 million. Despite the mediation proceedings having taken place, the parties have failed to reach a settlement. The Bank was informed that the customer filed a lawsuit against the Bank on 10 June 2013 with the District Court in Warsaw, 16th Commercial Division, to seek reimbursement of payments it made in favour of the Bank to settle currency options in 2008 and 2009. In the lawsuit the claimant demands payment of PLN 54.4 million, increased by statutory interest (according to the claimant interest has accrued from 3 January 2007 and amounts to approximately PLN 44 million, whereas according to the Bank interest has accrued as of April 2012 and amounts to approximately PLN 8.5 million). Nevertheless, based on the legal opinions it has obtained, the Board of Executives estimates that it has the legal arguments which will enable efficient defence against the claimant's claims.

After the balance-sheet date, in two of five cases in which the Bank had been previously requested to join in-court settlement negotiations, claims were brought against the Bank, The first claim was delivered to the Bank on 23 August 2013 and the second one was delivered to the court on 8 August 2013 but has not been delivered to the Bank so far. The first claim in question totals PLN 17.7 million, excluding interest asserted by the claimant to amount to PLN 4.9 million. The second claim in question totals circa PLN 30 million (comparing with in-court settlement negotiation it was increased by PLN 20 million).

8. AFFILIATED ENTITIES

8.1. Profile of Shareholders holding over 5% of votes at the General Meeting

8.1.1. BNP PARIBAS

The ultimate parent company of BNP Paribas Bank Polska SA is BNP PARIBAS, which currently holds 28,661,545 shares, which represent 99.89% of the share capital of the Bank and carry the right to 99.89% of the votes at the General Meeting.

BNP PARIBAS (16 Boulevard des Italiens, 75009 Paris, France) is a joint-stock company (société anonyme) based in Paris, incorporated under French law and authorised to pursue banking activity in compliance with relevant French law regulations. BNP PARIBAS is registered in the Register of Commerce and Companies in Paris (RCS Paris) under number 662 042 449. BNP PARIBAS is a public company whose shares are listed on the NYSE Euronext Paris (Compartment A, ISIN code: FR0000131104). BNP PARIBAS is not directly or indirectly controlled by any entity.

As at 9 July 2013 (after the balance sheet date), the share capital of BNP Paribas amounted to EUR 2,488,925,578 and was divided into 1,244,462,789 fully paid up shares, with a nominal value of EUR 2 each. These shares are inscribed or bearer shares, at their owner's discretion, subject to the applicable law provisions.

The BNP PARIBAS group is the leader of banking and financial services in Europe that operates in close to 80 countries worldwide and employs almost 190,000 people, including over 140,000 in Europe. The group maintains the leading position in three core businesses, which are complementary to one another:

- *Retail Banking* that includes:
  - *Domestic Markets* comprising a network of retail banking in France (FRB), Italy (Banca Nazionale del Lavoro), Belgium (BRB) and Luxembourg (LRB) (BNP Paribas Fortis and BGL BNP Paribas);
  - *International Retail Banking* that comprises all retail banks of the BNP PARIBAS group outside the euro zone, including BNP Paribas Bank Polska SA;
  - BNP Paribas Personal Finance;
  - *Equipment Solutions* - units that provide assets financing services (BNP Paribas Leasing Solutions, Arval, BNP Paribas Personal Investors).
- *Investment Solutions* comprising Wealth Management - Private Banking and Assets Management services, Investment Partners - asset management services, Securities Services - custody services; Insurance and Real Estate Services - insurance and real estate management services;
- *Corporate and Investment Banking, CIB,* which comprises the Fixed Income, Advisory & Capital Markets - investment advisory and capital markets, and Corporate Finance - corporate banking within specialised services or Structured Finance.

The BNP PARIBAS group's operations in Poland do not include solely the Bank and its subsidiaries: TFI BNP, FLP and BNP Paribas Factor but the group also operates through a number of other companies, including BNP Paribas Branch in Poland that offers investment banking products and serves the largest corporate and institutional customers of the BNP PARIBAS group in Poland. The specialised entities of the BNP PARIBAS group also provide other services, including:

- investment services (BNP Paribas Investment Partners);
- custody services (BNP Paribas Securities Services S.K.A. - Branch in Poland);
- insurance (Cardif Towarzystwo Ubezpieczeń na Życie Polska SA - Cardif Assurances Risques Divers SA - Branch in Poland);
- lease services (BNP Paribas Leasing Solutions through BNP Paribas Lease Group sp. z o.o.);
- car fleet financing and management (Arval Service Lease Polska Sp. z o.o.);
- real property management (BNP Paribas Real Estate Advisory & Property Management Poland Sp. z o.o.).

<u>Financial performance for the first half of 2013 based on unaudited financials:</u>

For the whole first half of the year, BNP PARIBAS had solid results despite a challenging environment. Revenues totalled EUR 19,972 million, down slightly by 0.1% compared to the first half of 2012. They include this semester EUR 299 million in one-off items compared to EUR -788 million during the first half of last year. The operating divisions' revenues contracted 3.1%. Operating expenses edged down 2.8%, to EUR 12,805 million, such that gross operating income came to EUR 7,167 million, up 5.3% compared to the first half of 2012. It declined by 2.0% for the operating divisions.

At EUR 2,087 million, the cost of risk was up 16.1% compared to the first half of 2012, which included considerable write-backs at CIB. Operating income was stable at EUR 5,080 million (+1.5%). Non-operating items totalled EUR 235 million compared to EUR 1,921 million in the first half of 2012, which included in particular EUR 1,790 million in one-off income booked after the group sold a 28.7% stake in Klépierre SA.

The BNP PARIBAS group thus posted EUR 5,315 million in pre-tax income in the first half of the year, down 23.3% compared to the same period a year earlier. One-off items totalled EUR +151 million compared to EUR 918 million in the first half of 2012. BNP PARIBAS posted EUR 3,347 million in net income attributable to equity holders in the first half of the year, down 29.1% compared to the same period a year earlier when the sale of a stake in Klépierre S.A. was booked.

BNP PARIBAS balance sheet is rock-solid. Solvency was very high with a Basel 3 fully loaded common equity Tier 1 ratio of 10.4%; the Basel 3 fully loaded leverage ratio calculated on the sole basis of common equity Tier 1, was 3.4%, above the regulatory threshold of 3% starting on 1st January 2018. The group's immediately available liquidity reserve was 236 billion. Net book value per share 1 was EUR 61.6. Lastly, Simple & Efficient, the ambitious programme to simplify the group's way of functioning and improve operating efficiency, confirmed its rapid start with 330 million euros in recurring savings generated in the first half of the year.

Details related to the BNP PARIBAS group and its financial results are available at: http://www.bnpparibas.com

8.1.2. BNP Paribas Fortis

BNP PARIBAS holds the Bank's shares via **BNP Paribas Fortis SA/NV**, set up under the laws of Belgium and having its registered office in Brussels (Montagne du Parc 3, B-1000 Brussels, Belgium). BNP Paribas Fortis has been entered into the Register of Legal Persons under number 0403.199.702. The paid-up share capital of BNP Paribas Fortis SA/NV is EUR 9,374,878,367.40.

BNP PARIBAS is the parent company of BNP Paribas Fortis due to holding its shares accounting for 74.93% of the share capital and vesting the right to exercise 74.93% of votes at its general meeting. BNP Paribas Fortis shares accounting for 25.00% of its share capital and vesting the right to exercise 25.00% of the votes at its general meeting are held by the government of the Kingdom of Belgium via the investment entity SFPI (Société Fédérale de Participation et d'Investissement).

BNP Paribas Fortis holds:

- directly 23,418,013 shares accounting for 81.62% of the Bank's share capital and vesting the right to exercise 81.62% of the votes at the General Meeting;
- indirectly, via Dominet, 5,243,532 shares accounting for 18.27% of the Bank's share capital and vesting the right to exercise 18.27% of the votes at the General Meeting (BNP Paribas Fortis is Dominet's sole shareholder, directly holding shares accounting for 100% of the share capital of Dominet and vesting the right to exercise 100% of votes at its general meeting).

8.1.3. Dominet SA (in liquidation)

Dominet SA (joint stock company) in liquidation based in Warsaw (ul. Suwak 3, 02-676 Warsaw) holds share capital of PLN 2,971,349. Through Dominet SA in liquidation, BNP Paribas Fortis SA/NV holds 5,243,532 shares of BNP Paribas Bank Polska SA, or 18.27% of the Bank's share capital, which entitle to exercise 18.27% of the total number of votes at general meetings of the Bank.

The sole shareholder of Dominet SA in liquidation is BNP Paribas Fortis SA/NV which holds directly 100% of shares and votes at the company's general meeting.

On 1 August 2012, an extraordinary general meeting of Dominet adopted a resolution on the dissolution of the company, which led to the launch of the liquidation of Dominet. The purpose of the liquidation is to streamline the structure of operations of BNP PARIBAS group in Poland and to transfer the shares held by Dominet to its shareholder BNP Paribas Fortis.

8.2. Subsidiaries

BNP Paribas Bank Polska SA is the controlling entity of the following three subsidiaries: Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska S.A., Fortis Lease Polska Sp. z o.o. and BNP Paribas Factor Sp. z o.o., holding 100% of their shares.

8.2.1. Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA (investment fund company)

TFI BNP has been operating in the financial services sector since 1992. It conducts the following activities: professional investment advisory services, acquisition and redemption of interests in unit trusts, trading in shares and bonds that are not admitted to organised trading and portfolio management.

TFI BNP operates on the basis of the permit issued by the Polish Financial Supervision Authority as regards:

- setting up investment funds and their management;
- acting as agent in distribution and redemption of participation units and participation titles to foreign investment funds;
- management of portfolios of financial instruments of individual customers.

TFI BNP manages BNP Paribas FIO (formerly: Fortis FIO) launched on the Polish market in 2005. BNP Paribas FIO is the first umbrella fund on the Polish market with separated sub-funds. In the first half of 2013 the fund comprised the following subfunds BNP Paribas Akcji (stock sub-fund), BNP Paribas Stabilnego Wzrostu (stable-growth sub-fund), BNP Paribas Papierów Dłużnych (debt securities sub-fund) and BNP Paribas Komercyjnych Papierów Dłużnych (commercial debt securities sub-fund). Within the BNP Paribas FIO there are also available the Individual Pension Account - IKE BNP Paribas FIO and Individual Pension Security Account - IKZE BNP Paribas FIO. On 25 January 2013, BNP Paribas Sector Sub- Fund, separated under BNP Paribas FIO Fund, was merged with BNP Paribas Stock Sub-Fund.

As part of the financial instrument portfolio management activity conducted by the company since 1996, comprehensive solutions are offered with respect to investments on capital markets, both in Poland and abroad. TFI BNP offers equity, balanced and debt securities portfolios, including also Polish and foreign funds portfolios, as well as active allocation portfolios with a defined share of equity. Structured bond portfolios are available within individual portfolios, whereas customers interested in primary market offers may choose an IPO Portfolio.

Under the agreement of 5 November 2007, the Bank cooperates with TFI BNP as an intermediary offering financial instrument portfolio management services. In cooperation with the Private Banking Department, the asset management services of TFI BNP are offered to high net worth individuals who are customers of the Bank.

The share capital of TFI BNP amounts to PLN 9,048 thousand, and is divided into 377,000 shares with the nominal value of PLN 24 each. The own funds level is sufficient for safely conducting current operations.

As at 30 June 2013, TFI BNP had assets totalling PLN 14.6 million and assets under management totalling PLN 191 million.

8.2.2. Fortis Lease Polska Sp. z o.o.

Fortis Lease Polska is a lease firm which specialises in leasing solutions, such as operating or financial leasing, tailored to the needs of enterprises. FLP has been in business on the Polish market since 2000. As at the end of the first half of 2013, customers' exposure towards FLP amounted to PLN 1,701 million.

FLP offers lease of real estate and a wide range of fixed assets, which include construction, agricultural and industrial machinery, means of transport, i.e. passenger cars and trucks, including rail, air and water means of transport, as well as IT and office equipment. Lease of real estate plays the most important part, its share accounts for more than half the value of the portfolio, whereas machinery - about 27% and vehicles - about 19%. In terms of the type of a product financed, the respective structure of the portfolio has not changed significantly compared to the last year. The share of machinery recorded growth, whilst the other values dropped. The described interrelations are presented in the table below.

Segment	Share in portfolio Q2 2012 (%)	Share in portfolio Q2 2013 (%)
Real estate	51.46%	51.37%
Machines	23.40%	27.06%
Trucks	15.98%	13.54%
Passenger cars	6.22%	5.68%
Other means of transport	2.14%	1.63%
IT and office equipment	0.79%	0.72%

FLP's portfolio comprises contracts in PLN, EUR and CHF. The share of contracts in Swiss francs is consistently declining. The share of contracts in PLN rose and stands at 53%, while the share of contracts in EUR also noted a rise and equals 40%.

Currency	Share in portfolio Q2 2012 (%)	Share in portfolio Q2 2013 (%)
PLN	52.46%	53.41%
EUR	39.16%	40.48%
CHF	8.38%	6.11%

FLP provides services mainly to the Bank's customers - currently about 1,900 customers. Customers of the CTB line - 69% and RB line - 25% constitute the majority of the entire portfolio.

FLP holds share capital of PLN 115 million, which is divided into 11,500 shares. As at 30 June 2013, FLP’s assets amounted to PLN 1.67 billion.

8.2.3. BNP Paribas Factor Sp. z o.o.

BNP Paribas Factor has been operating on the Polish market since 2006. BNP Paribas Factor supports financing of the business activities of the BNP PARIBAS enterprise and corporate customers by offering a wide range of factoring services, including non-recourse and recourse factoring. BNP Paribas Factor is a member of the Polish Association of Factors and of Factors Chain International. Its target clients are small, medium and large manufacturing and trade enterprises, as well as providers of goods or services on deferred payment terms, and it specialises in servicing international corporate customers. In addition to enabling the Group to provide an expanded and integrated range of financing products, it also creates cross-selling opportunities with respect to corporate and SME customers.

BNP Paribas Factor holds share capital of PLN 10.4 million, which is divided into 20,820 shares. As at 30 June 2013, assets of BNP Paribas Factor amounted to PLN 146.2 million.

8.3. Minority interest

As at 30 June 2013, the BNP Paribas Bank Polska SA Group held interest exceeding 5% of share capital of the company:

Odlewnie Polskie SA

The Bank owned 1,952,896 shares of Odlewnie Polskie SA, which accounts for 9.45% of the company's share capital. The ordinary bearer shares held enable the Bank to exercise 1,952,896 voting rights at the general meeting of the company, i.e. a 9.45% share in the general number of votes at the general meeting. In 2010, the company's shares were acquired by the Bank under a debt composition agreement with the company's creditors, through a conversion of receivables pursuant to Article 294, item 3 of the *Bankruptcy and Rehabilitation Act of 28 February 2003.*

9. AGREEMENTS SIGNIFICANT FOR THE GROUP'S ACTIVITY

9.1. Major agreements signed with the BNP PARIBAS group entities

9.1.1. Loan agreements with BNP PARIBAS

- In January 2013, the Bank repaid CHF 250 million representing a part of credit lines it had taken. The repayment was partly compensated by two new tranches of financing disbursed by the BNP PARIBAS group, in the total amount of CHF 160 million. Their repayment date falls on 1 March 2015 with respect to a tranche of CHF 80 million, and on 1 September 2015 with respect to another tranche of CHF 80 million.
- In January 2013, the Bank also prepaid EUR 60 million being a part of a subordinated loan granted under the agreement with BNP Paribas Fortis SA/NV dated 23 October 2007. The repayment was made upon consent of the Polish Financial Supervision Authority to the prepayment of the funds totalling EUR 100 million.
- In July 2013, i.e. after the balance sheet date, the Bank repaid a credit line of CHF 25 million and drew down subsequent funds from the BNP PARIBAS group amounting to EUR 30 million.

9.1.2. Financing agreements with Fortis Lease Polska Sp. z o.o.

- On 22 January 2013, the Bank consented to extend, until 5 December 2013, the availability period of the PLN 60 million credit limit granted to FLP under the multi-option credit line agreement dated 17 November 2000.
- Furthermore, on 25 February 2013, the Bank and FLP signed Annex no. 1 to the uncommitted facility agreement dated 23 March 2012. The Annex concerned an increase of the maximum facility amount to PLN 248 million and determination of the credit line availability on 5 December 2013.

Details regarding agreements and transactions with affiliated entities for the first half of 2013 and comparative data for the first half of 2012 are presented in Note 19 of the Interim Abbreviated Consolidated Financial Statements of the Group of BNP Paribas Bank Polska SA for the First Half of 2013.

9.2. Agreements with international institutions

- Annex no. 4 dated 14 March 2013 to the Loan Agreement signed with the European Bank for Reconstruction and Development (EBRD) of 26 January 2011.

  Under the Annex, the Bank can reuse EUR 7 million, derived from repayment of loans, to continue financing small and medium investment projects undertaken by enterprises under the Polish Sustainable Energy Financing Facility Programme (PolSEFF).
- On 12 June 2013, performance of the agreement signed with the European Investment Fund (EIF) on EIF suretyships for investment financing, came to an end.

9.3. Significant agreements with customers not affiliated with the Bank

- On 11 February 2013, the Bank and customers not affiliated with the Bank entered into multi-option credit line agreements up to EUR 50 million, which constitute the equivalent of approximately PLN 208 million at the NBP mid-rate of 11 February 2013. The credit funds will finance the current activity of the customers. Each disbursement requires the Bank's approval. The financing term is 12 months. The credit interest rate has been established based on the WIBOR and EURIBOR rate increased by a margin. The financing conditions correspond to market conditions.
- On 15 July 2013, i.e. after the balance sheet date, the Bank and a customer not affiliated with the Bank signed the Annex dated 11 July 2013 to a multi-option credit line agreement, regarding an increase, in the period from the date of fulfilment of terms and conditions specified in the Annex till 1 December 2013, of the credit limit from EUR 42 million to EUR 47 million, i.e. the equivalent of approximately PLN 202 million at the NBP mid-rate of 16 July 2013. Pursuant to the Annex, from 2 December 2013 till the end of the current credit term, i.e. till 11 January 2014, the aforesaid limit will be reduced to EUR 20 million. As specified in the Annex, the financing term lasts to 22 June 2015. Under the Annex, the Bank grants the customer an overdraft facility, a guarantee credit line and a letter of credit line.

  The funds likewise the guarantee and L/C lines provided under the Annex are related to the customer's business activity. The interest rate of the overdraft facility was determined based on the WIBOR rate increased by a margin. The guarantee lines are granted against a commission while the L/C lines are provided under the terms and conditions specified in the Table of Commissions and Fees for Enterprises. Terms of financing and of issuing guarantees and L/Cs determined in the Annex correspond to market conditions.

The above agreements met the criteria of significant agreements at the time of their conclusion as the value of the agreement subject matters for the Bank exceeded 10% of the Bank's equity capital.

Additionally, the conditional agreement for sale of receivables due to the Bank and BNP Paribas Fortis from Vistula Group SA was deemed significant owing to its material impact on the Group's financial standing and results:

- On 26 July 2013, BNP Paribas Bank Polska SA ("the Bank") and BNP Paribas Fortis SA/NV ("BNP Paribas Fortis") on the one hand, and Raport 5 Non-Standard Closed-End Securitization Investment Fund and Forum XI Closed-End Investment Fund ("Funds"), managed by FORUM Towarzystwo Funduszy Inwestycyjnych SA, on the other hand, signed a conditional agreement for a sale of receivables due to the Bank and BNP Paribas Fortis from Vistula Group SA ("the Agreement"). The aggregate nominal value of the principal of the Bank's receivables that were sold conditionally under the Agreement and were so far recognised in the Bank's books as non-performing receivables, amounted to approx. PLN 141 million as at 26 July 2013.
- The implementation of the Agreement in part pertaining to the Bank has been contingent on the completion of a number of conditions precedent, including in particular the payment to the benefit of the Bank of the price in the amount of approximately PLN 103 million by the Funds. The fulfilment of the last condition precedent for the agreement, including the payment to the benefit of the Bank of the agreed sale price, occurred on 13 August 2013.

9.4. Agreements with the central bank and the regulators

Agreements with the National Bank of Poland

In connection with launching the Sorbnet2 system on 10 June 2013, the Bank and NBP signed an agreement on opening and maintaining an account in the Sorbnet2 system, and a term deposit account agreement in the Sorbnet 2 system.

9.5. Agreements with auditor

On 11 June 2012, the Bank signed an agreement with Mazars Audyt Sp. z o.o., with its registered office at ul. Piękna 18, 00-549 Warsaw, KIBR (Polish National Chamber of Statutory Auditors) register number 186, regarding an audit and review of financial statements for 2012-2017, with an option to terminate this agreement by the Bank after an audit of financial statements for 2013.

On 31 August 2012, the Bank's Supervisory Board introduced a rule under which a statutory auditor of BNP Paribas Bank Polska SA would be changed after five years of cooperation at the latest.

In consequence, on 7 November 2012, an annex was signed to the agreement dated 11 June 2012 with Mazars Audyt Sp. z o.o., under which the agreement term was shortened, which means that the agreement will expire upon completion of the audit of the financial statements for 2013.

On 16 May 2013, another annex to the agreement dated 11 June 2012 was signed, wherein the total remuneration for the auditor for the work performed in 2013 was determined at PLN 597 thousand (VAT excluded).

Furthermore, on 19 March 2013, the Bank's Supervisory Board selected Mazars Audyt Sp. z o.o. as the entity authorised to review Q1 2013 financial statements of BNP Paribas Bank Polska SA and its Group.

On 28 March 2013, the Bank entered into an agreement with Mazars Audyt Sp. z o.o. regarding a review of the abbreviated interim consolidated financial statements as at 31 March 2013. The review was made for the purpose of public offering of the Bank's Series "O" shares and their admittance to trading on the Warsaw Stock Exchange, in connection with incorporation (or including by reference) of the statements in the Bank's issue prospectus prepared. The net remuneration on account of the aforesaid agreement amounted to PLN 100 thousand net.

In addition to the above, on 28 March 2013 the Bank and Mazars Audyt Sp. z o.o. entered into an agreement regarding the auditor's participation in the work related to the preparation of a Polish version of the Bank's Series "O" share issue prospectus for the needs of the Bank's shares' public offering and admitting to trading on the Warsaw Stock Exchange. The remuneration set out in the agreement, excluding VAT, equals PLN 100 thousand. Moreover, under the agreement the Bank will incur the costs of necessary, documented and justified expenses related to travel costs of participants of specific audits, likewise costs of mail deliveries indispensable to perform the work, and costs of report translations, if any.

10. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The BNP Paribas Bank Polska SA Group is committed to corporate social responsibility (CSR) and follows four main guiding principles in this regard:

1. ECONOMIC responsibility: financing the economy in an ethical manner;
2. Responsibility for NATURAL ENVIRONMENT: counteracting climate changes;
3. CITIZENSHIP responsibility: fight against exclusion, promotion of education and culture;
4. SOCIAL responsibility: observing a committed and fair personnel policy.

The Group aims to pursue its business objectives in a transparent, consistent and sustainable manner, with the emphasis on accommodating the interests and needs of its customers, shareholders, business partners, employees and the communities in which it operates.

The Group offers preferential loans, in cooperation with the European Bank for Reconstruction and Development (EBRD), for companies that implement energy efficiency projects. In 2012, EnergoLeasing was introduced, a product which enables customers to finance investments in new, more energy-efficient machinery and equipment.

Within the Group itself, there are various initiatives to encourage employees to save energy and paper.

The community involvement programme is implemented by the BNP Paribas Fortis Foundation, i.e. the entity dedicated to undertake pro-social actions.

Detailed description of the corporate social responsibility was included in the Board of Executives' Report on the business activity of BNP Paribas Bank Polska SA Group in 2012.

11. ORGANISATIONAL STRUCTURE

11.1. Bank authorities

Pursuant to the Bank's Statute, BNP Paribas Bank Polska SA bodies comprise:

- General Meeting;
- Supervisory Board;
- Board of Executives.

Permanent and temporary committees acting as advisory and decision-making bodies are appointed at the Bank. Permanent committees include:

- *Assets and Liabilities Committee (ALCO)* that oversees the management of liquidity, interest rate and FX risks;
- *Risk Committee* that monitors and manages core risks arising from the Bank's business activity. The Risk Committee is a body superior to other committees of the Risk area;
- *RB Risk Committee* acts with an aim to streamline the management of credit products offered by the RB segment;
- *PF Risk Committee* acts with an aim to streamline the management of credit products offered by the PF segment;
- *Credit Committee* that takes credit decisions, except for the decisions that fall within the competence of the Watchlist and Doubtful Debts Committee;
- *Watchlist and Doubtful Debts Committee* that takes decisions, on a case by case basis, regarding classification of the Bank's customers to a watchlist or assignment of a default status, or adopting of a specific strategy towards customers and also making necessary write-downs/creating provisions for default customer exposures;
- *Internal Control Coordination Committee*, responsible for the efficient management of the Bank's internal control system;
- *Information Security and Business Continuity Committee,* responsible for oversight and management of the information security and business continuity system;
- *New Products, Activities and Organizations and Exceptional Transaction Validation Committee* that approves new initiatives regarding various activities, new products, services and non-standard transactions;
- *Investment Committee* that manages the Bank's project portfolio: takes decisions regarding implementation of new projects, accepts material changes in ongoing projects and verifies whether goals of given projects have been achieved;
- *Financial Risk and Compliance Committee* that advises the Board of Executives and Compensation Committee as regards the remuneration policy.

Composition, scope of competence and activity of Committees are defined in the relevant Committee Regulations approved by resolutions adopted by the Bank Board of Executives or Supervisory Board, respectively.

The following committees operate within the Supervisory Board of BNP Paribas Bank Polska SA:

- Audit Committee,
- Compensation Committee;

They are appointed under the Bank's Statute and the Supervisory Board Regulations and operate based on separate regulations.

11.2. Business lines and sales outlets

The basic organisational structure of the Bank comprises the following:

- Head Office;
- operating units.

The Bank's business and organization is structured along customer service lines (business lines) providing comprehensive service to specific customer and/or service market segments. As at 30 June 2013 the following customer service/business lines were operating at the Bank:

- Retail Banking Business Line - offers comprehensive services to two customer groups: i) individuals, ii) corporate customers with the annual sales revenues not exceeding PLN 40 million, and also provides brokerage services;
- Personal Finance Business Line – a business line that deals in particular with preparation of a product offering and management of consumer loans offered via external distribution channels and the RB branch network;
- Corporate and Transaction Banking - CTB Business Line provides comprehensive bank services to medium and large-sized companies, based among other things on the criterion of total annual turnover above PLN 40 million, and to companies that belong to international groups, irrespective of their annual turnover.

The following branches, gathered in 7 regions, operate within the RB sales network:

- own branches - Financial Centres;
- own branches and sub-branches;
- franchise branches operating under cooperation agreements concluded with the Bank.

The type of customer segment serviced is a criterion according to which the branch type is determined. The customer segment is represented by Relationship Managers dedicated to it. Financial Centres service all RB business line customers, while branches and sub-branches mainly deal with individual customers.

As a result of new branches opening, relocating and revamping, the Bank's branch network comprised, as at the end of June 2013, 52 branches in the new branch concept (NBC). The concept consists of five key pillars: communication of all the values of the Bank's brand, promotion of products and services offered in the branch, customer-friendly design—a place "open" to the customer, appropriately organized waiting area and functionality 24/7 self-service area.

As at 30 June 2013, the Bank had 224 branches. Number of branches with a breakdown into particular regions:

- Centre Region – 48 branches, including: 6 Financial Centres, 33 own branches and 9 franchise branches;
- South Region – 36 branches, including: 5 Financial Centres, 25 own branches and 6 franchise branches;
- Śląsk (Silesia) Region – 30 branches, including: 4 Financial Centres, 22 own branches and 4 franchise branches;
- West Region – 28 branches, including: 3 Financial Centres, 21 own branches and 4 franchise branches;
- North Region – 31 branches, including: 5 Financial Centres, 21 own branches and 5 franchise branches;
- Łódź Region – 24 branches, including: 2 Financial Centres, 19 own branches and 3 franchise branches;
- Dolny Śląsk Region – 27 branches, including: 3 Financial Centres, 14 own branches and 10 franchise branches.

Moreover, Business Centres are separated within the CTB business line, i.e. operating units dedicated to servicing medium and large-sized enterprises.

On 15 March 2013, the Business Centre Warsaw III was separated from among the two existing Business Centres in Warsaw. The BC Warsaw III was established to develop cooperation with domestic customers. It focuses on providing services to domestic customers and the public sector and institutions. By contrast, the remaining Business Centres in Warsaw focus on handling relationships with international customers.

As at 30 June 2013 there were 9 Business Centres: three in Warsaw and one each in Krakow, Gdańsk, Katowice, Poznań, Wrocław and Łódź.

11.3. Staff

As at the end of June 2013, the employment in the BNP Paribas Bank Polska SA Group amounted to 2,757 FTEs.

As at 30 June 2013, the employment level at the Bank, expressed in full time equivalents (including employees on maternity and parental leaves and on long sick leaves) amounted to 2,718 as compared to 2,969 as at 30 June 2012, which means a net decrease by 251 FTEs as compared to the end of June 2012.

The Bank's staff is relatively young as the average age of an employee is 35 years, whilst the share of employees aged 35 and below stands at 56%. As much as 79% of the staff has higher education. The share of managerial staff is 16%, of which more than half are women.

As at 30 June 2013, employment in TFI BNP amounted to 10.8 FTEs, while employment in Fortis Lease Polska Sp. z o.o. amounted to 5.1 FTEs and 22.9 FTEs in BNP Paribas Factor.

12. BANK AUTHORITIES

12.1. Composition of the Bank's Board of Executives as at 30 June 2013

	Name and surname	Position in the Bank's Board of Executives	Area
1.	Frédéric Amoudru	President of the Board of Executives	President of the Board, Chief Executive Officer
2.	Jan Bujak	Senior Vice President of the Board of Executives	Chief Financial Officer, Finance and Legal
3.	Jaromir Pelczarski	Vice President of the Board of Executives	Technology, Operations & Process Services
4.	Michel Thebault	Vice President of the Board of Executives	Personal Finance Business Line
5.	Wojciech Kembłowski	Member of the Board of Executives	Risk
6.	Marta Oracz	Member of the Board of Executives	Human Resources
7.	Adam Parfiniewicz	Member of the Board of Executives	Retail Banking Business Line (RB BL)
8.	Stéphane Rodes	Member of the Board of Executives	Corporate and Transaction Banking (CTB)

Changes in the composition of the Board of Executives of BNP Paribas Bank Polska SA

In the first half of 2013, no changes in the personal composition of the Board of Executives took place.

<u>Presence of the Board of Executives' members in the governing bodies of affiliated entities as at 30 June 2013</u>

- Frédéric Amoudru held also the position of Chairman of the Supervisory Board of TFI BNP Paribas Polska SA; Chairman of the Supervisory Board of Fortis Lease Polska Sp. z o.o.; Member of the Management Board of BNP Paribas Real Estate Advisory and Property Management Poland Sp. z o.o.;
- Jan Bujak performed the function of a Member of the Supervisory Board of TFI BNP Paribas Polska SA, Deputy Chairman of Dominet's Supervisory Board;
- Stephane Rodes performed the function of the Deputy Chairman of the Supervisory Board of Fortis Lease Polska Sp. z o.o., Member of the Supervisory Board of BNP Paribas Factor Sp. z o.o.;
- Adam Parfiniewicz performed the function of a Member of the Supervisory Board of TFI BNP Paribas Polska SA;'
- Wojciech Kembłowski performed the function of a Member of the Supervisory Board of BNP Paribas Factor Sp. z o.o.

12.2. Composition of the Bank's Supervisory Board as at 30 June 2013

	Name and surname	Function in the Bank's Supervisory Board
1.	Jean-Paul Sabet	Chairman
2.	Jarosław Bauc	Vice Chairman, independent
3.	Filip Dierckx	Vice Chairman
4.	Monika Bednarek	Supervisory Board's member, independent
5.	Francois Benaroya	Supervisory Board's member
6.	Yvan De Cock	Supervisory Board's member
7.	Jean Deullin	Supervisory Board's member
8.	Helene Dubourg	Supervisory Board's member
9.	Andrzej Wojtyna	Supervisory Board's member, independent

Changes in the composition of the Supervisory Board of BNP Paribas Bank Polska SA

The Annual General Meeting of the Bank held on 4 April 2013, appointed two new members of the Supervisory Board:

- Jean-Paul Sabet, the Deputy Head of the BNP PARIBAS group's International Retail Banking (IRB);
- Yvan De Cock, Member of the Executive Committee and Head of Corporate and Public Sector Banking of BNP Paribas Fortis SA/NV.

At the same time, Mr Camille Fohl, who took up new duties in the BNP Paribas SA Group, resigned from his function of the Deputy Chairman and membership in the Bank's Supervisory Board effective the date of holding the Annual General Meeting. Mr Camille Fohl has served on the Supervisory Board since 26 June 2009.

At the Supervisory Board meeting, held after adjournment of the Annual General Meeting on 4 April 2013, Mr Jean-Paul Sabet took up the function of the Chairman of the Bank's Supervisory Board.

12.3. Information on the Bank's shares held by the Board of Executives and Supervisory Board Members

As at 30 June 2013 and as at the publication date of the first half 2013 report, i.e. 29 August2013, none of the Board of Executives and Supervisory Board's members held any shares issued by BNP Paribas Bank Polska SA or other financial instruments related to them.

12.4. Information on the Board of Executives and Supervisory Board Members' remuneration

The total remuneration and the value of benefits obtained by the members of the Board of Executives, Supervisory Board and Managing Directors of BNP Paribas Bank Polska SA are specified in the table below:

in PLN thousand	01/01/2012 - 30/06/2012	01/01/2013 - 30/06/2013
Board of Executives, including:	5,170	4,297
- remuneration	2,972	3,325
- other*	2,198	972
Supervisory Board	351	441
Managing Directors**	10,686	9,302

** in the "Other" item, the Bank recognises costs related to medical care, company cars (lump sum), apartment expenses, equivalents for holiday leave, bonuses and remuneration for meetings of the Board of Executives.*

***Gross remuneration paid out of the salary fund, including ZUS (Social Security) contributions for Directors directly reporting to the Board of Executives.*

In 2013, for the first time, a portion of variable compensation awarded for 2012 to employees covered by the "Policy on variable remuneration for executives and other persons who have significant influence on the risk profile at BNP Paribas Bank Polska SA" was deferred for payment in future periods.

The Bank and the managing persons entered into no agreements that provide for any compensation in the event such people resign or are dismissed from their job position without an important reason, or when they are discharged or dismissed due to the Bank's merger through acquisition.

Members of the Bank's Board of Executives who are members of Supervisory Boards of subsidiaries, received no remuneration on that account, both in 2013 and 2012.

13. CORPORATE GOVERNANCE

The Bank observes corporate governance rules and internally promotes the application of the best practices in the Bank as well as monitors their functioning.

In 2013 BNP Paribas Bank Polska SA, as a listed company, is subject to corporate governance rules defined in the *Code of Best Practices for WSE Listed Companies* (hereinafter "Best Practices”) that constitutes an appendix to Resolution No. 19/1307/2012 adopted by the WSE Supervisory Board on 21 November 2012. The Bank applies the rules established in it to the extent recommended by the Board of Executives and the Supervisory Board of the Bank.

The Bank gives information on any permanent or incidental breach of corporate governance rules or other incidents related to fulfilment of Best Practices provisions in a form of current reports published on the Bank's website and through EBI system (electronic database). Once a year, the Bank prepares a report on corporate governance observance, which is attached to the annual report.

On 8 March 2013, the Bank published a Report on corporate governance rules application at the Bank in 2012 constituting a part of the 2012 annual report, approved by the Bank's Annual General Meeting on 4 April 2013. All of the Bank's existing Corporate Governance Reports are published on the Bank's website.

14. BOARD OF EXECUTIVES’ REPRESENTATIONS

Correctness and reliability of reports presented

The Board of Executives of BNP Paribas Bank Polska SA represents that, to the best of their knowledge:

- the Abbreviated Interim Consolidated Financial Statements of the Group of BNP Paribas Bank Polska SA for the First Half of 2013 and the comparative data were prepared pursuant to the binding accounting principles and they accurately, reliably and clearly reflect the property and financial situation of the Bank’s Group and its net profit in all material aspects.
- the Board of Executives' Report on the Activity of BNP Paribas Bank Polska SA Group in the First Half of 2013 contains the true picture of the Bank Group’s development and achievements, including a description of basic risks and threats.

Selection of an entity authorised to audit the financial statements

The Board of Executives of BNP Paribas Bank Polska SA hereby represents that Mazars Audyt Sp. z o.o. based in Warsaw, an entity authorised to audit financial statements, was chosen, under Article 15, Section 3, item 8) of the Statute of BNP Paribas Bank Polska SA by the Supervisory Board based on a recommendation given by the Board of Executives and the Audit Committee (Resolution no. 24/2012 of 23 May 2012), pursuant to the provisions of law, as the entity to review the consolidated financial statements of BNP Paribas Bank Polska SA Group for the first half of 2013, and that the above entity and statutory auditors employed to perform the review, meet the conditions to issue an impartial and independent audit report, in accordance with the respective provisions of Polish law.

Signatures of all Members of the Board of Executives (on the Polish original):

29 August 2013	Frédéric Amoudru President of the Board of Executives	.... signature
29 August 2013	Jan Bujak Senior Vice President of the Board of Executives Chief Financial Officer	.... signature
29 August 2013	Jaromir Pelczarski Vice President of the Board of Executives	.... signature
29 August 2013	Michel Thebault Vice President of the Board of Executives	.... signature
29 August 2013	Wojciech Kembłowski Member of the Board of Executives	.... signature
29 August 2013	Marta Oracz Member of the Board of Executives	.... signature
29 August 2013	Adam Parfiniewicz Member of the Board of Executives	.... signature
29 August 2013	Stephane Rodes Member of the Board of Executives	.... signature

Annex 1
to the Board of Executives' Report on the Business Activity of BNP Paribas Bank Polska SA Group in the First Half of 2013

Consolidated Income Statement (in PLN thousand)	1 April 2013 30 June 2013	1 January 2013 30 June 2013	1 April 2012 30 June 2012	1 January 2012 30 June 2012
Interest income	221,958	455,376	257,545	518,034
Interest expense	-98,573	-188,536	-123,223	-241,219
Net interest income	**123,385**	**266,840**	**134,322**	**276,815**
Fee and commission income	48,166	94,966	45,334	88,346
Fee and commission expense	-11,328	-23,122	-9,691	-18,779
Net fee and commission income	**36,838**	**71,844**	**35,643**	**69,567**
Net trading income	26,573	49,961	22,296	53,822
Net profit/loss on hedging transactions	-1,524	-2,228	-1,457	-4,748
Net profit/loss on the hedged item	1,524	2,228	1,457	4,748
Net profit/loss on available-for-sale financial assets	4,580	18,670	10,295	11,648
Dividends	11	11	-	-
Other revenues	8,064	14,037	5,374	9,835
Other operating expenses	-6,751	-11,601	-4,352	-9,103
Net banking income	**192,700**	**409,762**	**203,578**	**412,584**
General expenses	**-132,347**	**-264,961**	**-152,713**	**-288,621**
Personnel expenses	-69,191	-137,591	-84,630	-157,332
Other general expenses	-63,156	-127,370	-68,083	-131,289
Depreciation	**-11,266**	**-22,709**	**-15,017**	**-29,760**
Gross operating profit/loss	**49,087**	**122,092**	**35,848**	**94,203**
Cost of risk	-20,021	-51,485	-29,796	-72,169
Net operating profit/loss	**29,066**	**70,607**	**6,052**	**22,034**
Net profit/loss from disposal of assets, shares and interest	-203	-361	-617	-638
Profit/loss before taxation	**28,863**	**70,246**	**5,435**	**21,396**
Income tax	-8,151	-18,740	-2,581	-8,642
Profit/loss after taxation	**20,712**	**51,506**	**2,854**	**12,754**