REPORT ON THE APPROVAL OF THE APPRAISAL REPORT OF THE SUPERVISORY BOARD ON THE FINANCIAL STATEMENTS OF BGŻ BNP PARIBAS S.A. INCLUDING THE BROKERAGE HOUSE, MANAGEMENT BOARD REPORT ON THE BANK'S ACTIVITY, INCLUDING THE BROKERAGE OFFICE, THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP OF BGŻ BNP PARIBAS S.A., AND OF THE MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE CAPITAL GROUP OF BGŻ BNP PARIBAS S.A FOR THE FISCAL YEAR FROM 1ST JANUARY 2016 TO 31ST DECEMBER 2016, AND ON THE MOTION OF THE MANAGEMENT BOARD ON THE DISTRIBUTION OF PROFIT FOR THE FISCAL YEAR 2016 TOGETHER WITH THE ASSESSMENT OF ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM IN THE BANK BGŻ BNP PARIBAS S.A.

BGŻ BNP PARIBAS

The bank for a changing world

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1. FINANCIAL STATEMENTS OF THE BANK AND THE ACTIVITY REPORT OF THE MANAGEMENT BOARD OF THE BANK

Pursuant to Article 382 § 3 of the Code of Commercial Companies and § 20 paragraph 1 item 2) letter a), of the Articles of Association of the Bank, the Supervisory Board of Bank BGŻ BNP Paribas S.A. conducted an assessment of the financial statements of the Bank for the year ended 31 December 2016, the Management Board Report on the activities of Bank BGŻ BNP Paribas S.A., and the recommendation of the Management Board on the allocation of the profit for the year ended 31 December 2016.
The aforementioned assessment has been made based on:

1. The financial statements covering:
   - Statement of financial position prepared as at December 31, 2016 showing total assets PLN 70 381 933 thou.,
   - Profit and Loss account statement for the period from January 1, 2016 to December 31, 2016 showing net profit of PLN 49 388 thou.
   - Statement of total income for the period from January 1, 2016 to December 31, 2016, showing a total loss of PLN 148 770 thou.,
   - Statement of changes in total equity for the period from January 1, 2016 to December 31, 2016 disclosing a decrease in equity by PLN 41 964 thou.,
   - Cash-flow statement for the period from January 1, 2016 to December 31, 2016 disclosing a negative net cash in the amount of PLN 800 138 thou.,

   and
   - Auditor's notes to financial statements.
2. Management Board Report on the activities of Bank BGŻ BNP Paribas S.A. in 2016.
3. Motion of the Management Board on the profit distribution for the year ended 31 December 2016.
4. Opinion and report of the independent statutory auditor – Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa. – appointed to audit the financial statements based on the resolution of the Supervisory Board No. 79/2015 of 11 June 2015.

The Supervisory Board states as follows:

FINANCIAL STATEMENTS

Based on the assessment of the financial statements of Bank BGŻ BNP Paribas S.A. for the year ended 31 December 2016, the Supervisory Board has concluded that these financial statements, in all material aspects, have been prepared:

- in accordance with the International Financial Reporting Standards approved by the European Union;
- based on properly maintained accounting records;
- in accordance with the provisions of the law governing preparation of the financial statements and provisions of the Bank's Articles of Association influencing the form and content of the financial statements;

and give a fair and clear view of all information material for the evaluation of the financial result of business activities for the period from 1 January 2016 to 31 December 2016, as well as the economic and financial position of Bank BGŻ BNP Paribas S.A. as at 31 December 2016.

SELECTED FINANCIAL DATA

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY PLN '000	Change YoY %
Profit before income tax	134 349	25 276	109 073	431.5%
Net profit for the period	49 388	8 263	41 125	497.7%
Integration costs	*(173 453)*	*(206 354)*	*32 901*	*(15.9%)*
Net profit for the period	189 885	175 410	14 476	8.3%
Total equity	6 121 214	6 163 178	(41 964)	(0,7%)
Total liabilities and equity	70 381 933	63 009 129	7 372 804	11,7%

SEPARATE STATEMENT OF PROFIT AND LOSS

In 2016, the Bank BGŻ BNP Paribas generated a net profit of PLN 49,388 thousand, which denoted a year-on-year growth by PLN 41,125 thousand (497.7%).

The net banking income generated in 2016 was PLN 2,492,248 thousand and was 23.5% higher than in 2015. It resulted mostly from the improved interest income.

The main factors that determined the comparison of the performance in the reporting periods under discussion were the mergers of banks BGŻ S.A., BNPP Polska and Sygma Bank Polska S.A. in 2015 and 2016. Data comparability was upset by the prospective recognition of the result of BNPP Polska in the profit or loss of the Bank in the 2015, i.e. from 30 April 2015, and the performance of Sygma Bank Polska being included in that of the Bank as from 31 May 2016.

Additionally, in 2015 and 2016, the Bank incurred substantial expenses related to the merger processes. Had the effects of integration in the above periods been eliminated, Bank's net profit in 2016 would amount to PLN 189,885 thousand, denoting a 8.3% growth YoY. In 2016, the cost of integration of the banks dropped by 15.9% YoY and amounted to PLN 173,453 thousand.

In 2015 and 2016 the performance of the Bank was affected by events beyond its control. In 2016, the Act on tax on certain financial institutions of 15 January 2016 introduced an additional tax on bank assets, calculated at the monthly rate of 0.0366%. The resulting total charge on the gross banking income in 2016 was PLN 185,876 thousand.

To events that significantly impact comparability of financials of two periods must be included additional costs charges pertaining to 2015, i.e. the statutory payment to the Banking Guarantee Fund to be used to pay guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (PLN 90.2 million), recognizing a provision for contribution to the Borrowers' Support Fund (BSF, PLN 38.2 million) and a fine charged by Office for Competition and Consumer Protection in relation to interchange fees on Visa and MasterCard cash card transactions in Poland (PLN 10.6 million), as well as the settlement of the transaction of acquiring Visa Europe Limited by Visa Inc. (PLN 41,817 thousand), which positively impacted the gross banking income for 2016.

Net interest income

In 2016, the net interest income, which represents the major source of the Bank's income, went up by PLN 356,770 thousand, i.e. 25.4%, which was driven by a rise in interest income of PLN 445,760 thousand, i.e. 21.8% YoY, while interest expense saw a smaller rise of PLN 88,990 thousand, i.e. 13.9% YoY. The level of interest income and expense in 2016 was affected both by external factors and the growth rate of commercial volumes arising mostly from the merger of Bank BGŻ with BNPP Polska and Sygma Bank Polska.

External factors include the policy of the National Bank of Poland regarding base rates involving their stabilization on a record low level (the reference rate of 1.5%).

Interest income on loans and advances to customers, the value of which increased by PLN 291,077 thousand (i.e. 19.9%) YoY, is the major item in the structure of the Bank's interest income (70.4%). In addition to interest on loans and advances, a rise was observed in interest on overdrafts to customers (by PLN 41,836 thousand, i.e. 12.8% YoY). The aforesaid increases resulted from the growth in the scale of operations of the Corporate Banking and Retail and Business Banking segments.

The volume of gross loans in the Bank increased by 6.9% YoY.

Among others, the rise in interest expense was driven by an increase in amounts due to banks as a result of merger processes (in 2015, no costs of financing BNP Paribas Polska S.A. received in the period from 30 April 2015 and an increase in 2016 expenses after the merger with Sygma Bank Polska S.A. as of 31 May 2016). For both banks, the share of liabilities to banks in financing sources was very high.

At the end of 2016, the Bank applied hedge accounting. Hedged items included current accounts maintained in EUR with fixed interest rate, and hedging instruments were plain vanilla IRS transactions, denominated in EUR, with the face value of PLN 4,019,360 thousand. The change in the fair value measurement of hedging transactions is recognized in the Result on hedge accounting; interest on IRS transactions and hedged items is recognized in the net interest income.

In 2016, the net interest income on hedge relationships (the sum of interest income on hedging instruments and interest expense on hedged items) was negative and amounted to PLN -1,042 thousand vs. a positive result of PLN 2,991 thousand for 2015.

Net fee and commission income

In 2016, net fee and commission income amounted to PLN 441,633 thousand and denoted a YoY growth by PLN 34,392 thousand (8.4%) as a result of an increase in the fee and commission income by PLN 75,345 thousand (15.9%) YoY, accompanied with a growth of commission expenses by PLN 40,953 thousand (61.5%).

An increase in fee and commission income, mainly as a consequence of acquisition of the customer base of BNPP Polska and Sygma Bank Polska, was recorded in almost all fee categories, especially the following:

- Settlement transactions by PLN 23,221 thousand (49.3%), mostly due to an increase in the number of settlement transactions, and changes in the Fee and Commission Table;
- Loans and advances by PLN 28,008 thousand (19.8%);
- Payment cards – up PLN 6,664 thousand, i.e. 9.5%;
- Guarantee liabilities by PLN 6,081 thousand (27.8%).

An increase in fee and commission expense was mainly driven by:

- higher (by PLN 8 113 thousand, i.e. 17.5%) commission expenses on payment cards, paid to card operators due to a higher number of transactions carried out by the customers;
- higher (by PLN 6 158 thousand, i.e. 386.6%) commission expenses on sale of insurance products;
- an increase of PLN 4 578 thousand, i.e. 90.6%, in costs of the partner network.

Dividend income

In 2016, dividend income resulted from 2015 profit of companies in which the Bank held minority interest, i.e.: Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 911 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3,201 thousand), PONAR Silesia S.A. (PLN 1,647 thousand), VISA (PLN 43 thousand) and from subsidiaries: BNP Paribas Group Service Center S.A. (PLN 6,016 thousand) and BGŻ BNP Paribas Faktoring (PLN 2,744 thousand).

Net trading income and net investment income

The net trading income for 2016 amounted to PLN 253,845 thousand, denoting a YoY growth by PLN 69,499 thousand, i.e. by 37.7%. The level of and changes in net trading income were mainly shaped by the valuation of derivatives and result on foreign exchange transactions.

Net investment income in 2016 amounted to PLN 28,761 thousand and was PLN 18,629 thousand lower than in 2015.

The major factor affecting the income for 2016 was the income from settlement of a transaction involving the acquisition of Visa Europe Limited by Visa Inc. As a result, the Bank received EUR 6.9 million (PLN 30,518 thousand as translated at the rate of 20 June 2016 i.e. EUR 1 = PLN 4.3945) in cash and 2,521 preference C series shares in Visa Inc. The total profit on the transaction was PLN 41,817 thousand. The net profit for 2015 includes realized gains on the sale of a portfolio of securities available for sale in the first, second and fourth quarter of 2015 in the total amount of PLN 47,390 thousand. In December 2015, the Bank realized capital gains on shares and convertible bonds of PLN 13.8 million.

Additionally, in the fourth quarter of 2016, the Bank recognized in impairment loss on shares in a subsidiary of PLN 16,916 thousand.

Other operating income

In 2016, other operating income amounted to PLN 107,021 thousand and was PLN 50,159 thousand (88.2%) higher than in 2015, mainly due to:

- Improving by PLN 13,401 thousand the balance of derecognized provisions for disputes and other liabilities, including partial derecognition (in the first quarter of 2016) of the provision for the fine imposed by Office for Competition and Consumer Protection in 2012, related to the use of a specific template of agreement for individual pension accounts, considered to constitute a breach of collective consumer interest, in the amount of PLN 687 thousand;
- Income of leasing operations, resulting from their integration in the operating structure of the Bank from the date of legal merger with BNPP Polska, being recognized in other operating income;
- The annual adjustment of input VAT for 2015 of PLN 8,820 thousand being recognized in the item "other";
- Higher gain on sale/liquidation of fixed assets.

Other operating expenses

In 2016, other operating expenses amounted to PLN 116,028 thousand and were PLN 24,975 thousand (27.4%) than in 2015, mainly due to:

- Increased debt collection costs;
- Costs of leasing operations, resulting from their integration in the operating structure of the Bank from the date of legal merger with BNPP Polska, being recognized in other operating expenses;

Additionally, costs related to integration of the banks, mainly regarding full impairment and liquidation of assets not to be used in the target structure of the Bank and additional expenses incurred in relation to terminating cooperation with a company providing cashless settlement services, totaling to PLN 18.9 million, were included in other operating expenses for 2016. In 2015, the total integration costs included in other operating expenses amounted to PLN 32.7 million.

In 2015 *Other operating expenses* included the amount of PLN 10.6 million of fine imposed by a decision related to the manner of calculating the interchange fee on Visa and MasterCard payment transactions in Poland by banks acting in agreement and the amount of PLN 6.9 million of a branch liquidation provision pertaining to restructuring processes related to the merger of BGŻ with BNPP Polska.

Net impairment losses on financial assets and provisions for contingent liabilities

Total net impairment losses on financial assets and provisions for contingent liabilities in 2016 was PLN -385,930 thousand and its effect was PLN 81,710 thousand (26.9%) higher than in 2015.

The key contributing factors included exposures of BNPP Polska included in the Bank's loan portfolio since May 2015 (as at 30 April 2015, the acquired portfolio amounted to PLN 18.1 billion) and, to a less extent, the merger with Sygma Bank Polska as of 31 May 2016.

In 2016 the annualized cost of credit risk exposure, i.e. net impairment losses on loans and advances relative to the average balance of net loans and advances to customers (calculated on the basis of quarter-end balances) was 0.7%, i.e. was almost the same as in 2015.

As regards the key operating segments:

- The Retail and Business Banking Segment recorded a decrease in impairment losses of PLN 912 thousand YoY;
- The SME and AGRO Segment recorded an increase of PLN 41,760 thousand YoY;
- The Corporate Banking Segment (including CIB) recorded an increase of PLN 58,703 thousand YoY.

General administrative expenses, personnel expenses, amortization and depreciation

The Bank's general administrative expenses for the period from 1 January to 31 December 2016 (including amortization/ depreciation) went up by PLN 98,204 thousand, i.e. 5.8%, YoY. Both in 2015 and 2016, the merger processes affected the expense level:

- Since May 2015, costs of exBNPP have been recognized;
- Since June 2016, costs of exSygma Bank have been recognized.

The total costs of intregration incurred by the Bank in 2016 amounted to PLN 173.4 million (vs. PLN 206.4 million in 2015) out of which:

- PLN 154.5 million recognized as general administrative expenses (PLN 173.7 million in 2015);
- PLN 18.9 million recognized as other operating expenses (PLN 32.7 million in 2015).

The costs of integration included in other general administrative expenses (PLN 154.5 million) include mainly:

- Projects carried out in relation to the integration of PLN 63.6 million (operational merger - PLN 28.8 million; restructuring of network – PLN 8.1 million; synergy support - PLN 7.5 million; rebranding - PLN 4.9 million; other projects related to i.a. standardization of policies, procedures and tools used in merged bank);
- Recognition of a provision for employment restructuring of PLN 26.0 million;
- PLN 24.4 million related to accelerated amortization of intangible assets decommissioned after the operating merger;
- Retention program of PLN 12.1 million;
- PLN 10.6 million related to the merger of Bank BGŻ BNP Paribas with Sygma Bank Polska.

Costs related to integration, recognized in other operating expenses (PLN 18.9 million), mainly regarding full impairment and liquidation of assets not to be used in the target structure of the Bank and additional expenses incurred in relation to terminating cooperation with a company providing cashless settlement services.

Other factors affecting the comparison of operating expenses in the analyzed years:

- In 2015: (i) contribution to the Borrowers' Support Fund (PLN 38.2 million) and (ii) statutory payment to the Bank Guarantee Fund (BGF) of PLN 90.2 million to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, with regard to PFSA's motion for declaring the bank bankrupt;
- In 2016: - An increase in payments to the Bank Guarantee Fund as a result of an increase in the scale of activity following the merger with BNPP Polska and a change in the rates effective from 2016 and additional BGF costs relating to liquidity process of Bank Spółdzielczy in Nadarzyn.

In the reporting period, the costs of amortization and depreciation went up by PLN 49,630 thousand, i.e. 33.7 % YoY as a result of accelerated amortization of intangible assets decommissioned after the operational merger completion.

STATEMENT OF OTHER COMPREHENSIVE INCOME

In 2016, the Bank's comprehensive income was PLN 98,156 thousand lower than a year before. An adverse change in measurement of financial assets available for sale (an adverse effect of PLN 171,206 thousand), partly offset with an increase in net profit generated in comparative years, was the direct cause of the observed deterioration.

STATEMENT OF FINANCIAL POSITION

Assets

At the end of December 2016, the Bank's balance sheet total amounted to PLN 70,381,933 thousand and was PLN 7,372,804 thousand (11.7%) higher than at the end of December 2015. The increase resulted among others from the merger of Bank BGŻ BNP Paribas with Sygma Bank Polska S.A. effected as of 31 May 2016. The book value of assets of Sygma Bank Polska as at 31 May 2016 was PLN 1,846,619 thousand (including net loans of PLN 1,530,414 thousand).

The key changes in the structure of Bank's assets during 2016 included a growth in the share of financial assets available for sale, accompanied with a decrease in the share of loans and advances to customers and cash and balances at Central Bank.

Loans and advances to customers, which accounted for 75.6% of total assets as at the end of December 2016 vs. 79.1% at the end of 2015, were the key item in the structure of assets. In terms of value, net loans and advances increased by PLN 3,348,259 thousand, i.e. 6.7%.

Assets available for sale were the second largest asset item and constituted 17.8% of the balance sheet total at the end of 2016 (vs. 12.3% a year before). In 2016 their value increased by PLN 4,734,556 thousand, i..e by 61.0%, mostly as a result of extension of the treasury bonds portfolio (an increase by PLN 3,767,761 i.e. by 49.5%) and a purchase of NBP money bills of PLN 999,959 thousand as at the end of 2016.

Changes in earning assets were accompanied by a reduction in cash and balances at Central Bank by PLN 1,523,560 thousand (53.9%).

Loan portfolio

Structure and quality of the loan portfolio

At the end of 2016, gross loans and advances to customers amounted to PLN 56,176.632 thousand and increased by PLN 3,607,982 thousand (6.9%), among others as a result of including the consumer loan portfolio of Sygma Bank Polska to the Bank's portfolio as of 31 May 2016.

Loans and advances to enterprises rose by 2.0% and represent 31.2% of the gross loan portfolio (32.7% at the end of 2015). Loans and advances to households (including individual entrepreneurs and farmers) increased by PLN 2,883,980 thousand, i.e. 8.9%. Mortgage loans totaling PLN 15,005,546 thousand represent almost a half (42.4%) of loans and advances to households.

The share of impaired exposures in gross loans and advances to the Bank's customers increased to 8.0% at the end of 2016 vs. 7.5% at the end of 2015.

Liabilities and equity

As at the end of December 2016, the Bank's total liabilities amounted to PLN 64,260,719 thousand and were PLN 7,414,768 thousand, i.e. 13.0% higher compared with the end of 2015.

At the end of 2016, the share of liabilities in liabilities and equity was 91.3%, i.e. 1.1 p.p. more than a year before. An increase in the share of amounts due to customers, accompanied in a decrease in amounts due to banks was the most important change in liabilities in 2016.

At the end of 2016 amounts due to customers grew by PLN 8,676,476 thousand (18.6%) vs. the end of December 2015 and amounted to PLN 55,297,324 thousand. They accounted for 86.1% of total liabilities as compared to 82.0% at the end of 2015.

The substantial increase in liabilities to customers allowed a reduction of debt arising from loans and advances received from the BNP Paribas Group, which resulted in a drop in the share of liabilities to banks in the total liabilities, which amounted to 8.2% at the end of 2016 compared to 13.4% at the end of 2015. At the end of 2016, liabilities to banks amounted to PLN 5,291,459 thousand and were PLN 2,326,487 thousand (i.e. 30.5%) lower than a year before.

Subordinated liabilities increased by 108.7% as a result of the subordinated loans acquired from the BNP Paribas Group in the balance sheet; they amounted to PLN 440 million and EUR 40 million, respectively, in accordance with the decisions issued by PFSA on 29 January 2016 and to EUR 60 million in accordance with the PFSA decision of 23 December 2016.

Amounts due to customers

At the end of December 2016, amounts due to customers reached PLN 55,297,324 thousand and rose by 18.6% YoY as a result of a substantial improvement in acquisition in the corporate customers sector and maintaining a competitive interest rate for retail customers.

The share of current accounts in total deposits dropped slightly from 52.5% a the end of December 2015 to 50.0% at the end of December 2016. The value of funds deposited in current accounts increased by PLN 3,205,608 thousand, i.e. 13.1%. On the other hand, the share of term deposits in total amounts due to customers grew from 42.0% at the end of December 2015 to 45.6% at the end of 2016. In terms of value, term deposits increased by PLN 5,646,033 thousand, i.e. 28.9% vs. December 2015. Loans and advances received decreased by PLN 217,272 thousand, while other liabilities increased by PLN 42,107 thousand.

Individual customer deposits, which rose by PLN 3,450,266 thousand, i.e. 14.3%, accounted for 49.8% of all amounts due to customers at the end of December 2016 vs. 51.6% at the end of December 2015.

Corporate customer deposits increased by PLN 5,913,073 thousand, i.e. 35.0%. Their share in total amounts due to customers grew from 36.30% at the end of December 2015 to 41.3% at the end of 2016.

Equity

As at the end of December 2016, the Bank's equity amounted to PLN 6,121,214 thousand and was PLN 41,964 thousand lower than at the end of 2015. The change resulted mostly from a drop in the value of revaluation reserve (from PLN 197,607 thousand at the end of 2015 to PLN -552 thousand at the end of 2016) as a result of charging losses on revaluation of financial assets available for sale to equity.

At the same time, following the merger of BGŻ BNP Paribas S.A. and Sygma Bank Polska effected as of 31 May 2016, as at 31 December 2016, the Bank's equity included the amount of PLN 35,703 thousand of supplementary capital and PLN 71,104 thousand of other reserve capital.

Retained earnings grew from PLN 8,263 thousand and the end of 2015 to PLN 49,388 thousand at the end of 2016.

EQUITY AND CAPITAL RATIOS

At the end of 2016, the total capital ratio of the Bank amounted to 14.94% and was 1.16 p.p. higher than at the end of December 2015.

Following the legal merger of Bank BGŻ BNP Bank Polska with Sygma Bank Polska on 31 May 2016, the amount of Tier I capital increased.

As at 31 December 2016, total equity went up by PLN 1,036,542 thousand as compared to 31 December 2015, primarily due to:

- Legal merger of the banks – BGŻ S.A., BNP Paribas Bank Polska S.A. and Sygma Bank Polska S.A. - an increase in the reserve capital and general risk reserve;
- Retaining profit of Bank BGŻ BNP Paribas for 2015 in the amount of PLN 8,263 thousand to be appropriated to the general risk reserve following a resolution of the Ordinary General Shareholders' Meeting of Bank BGŻ BNP Paribas of 30 June 2016;

- Recognizing Bank's net profit of PLN 42, 140 thousand, generated in the period from 1 January 2016 to 30 June 2016 under Tier 1 capital, pursuant to the PFSA decision of 21 December 2016 on approving the recognition of the net profit for the first half of 2016 under Tier 1 capital;
- Recognizing subordinated loans of PLN 440 million and EUR 40 million in Tier II capital in accordance with the PFSA decisions issued on 29 January 2016;
- Recognizing a subordinated loan of EUR 60 million in Tier 2 capital in accordance with the PFSA decision issued on 23 December 2016.

On 19 October 2016, the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.71 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier I capital accounting for at least 75% (i.e. 0.53 p.p.) of such equity.

Pursuant to Article 39, item 1 of the Act on Macroprudential Supervision over the Financial System and Crisis Management in the Financial System, PFSA, seeking an opinion of the Financial Stability Committee identified, on 4 November 2016, the Bank as a systemically-important institution and imposed on a buffer equal to 0.25% of the total risk exposure amount, calculated pursuant to Article 92, item 3 of EU Regulation no 575/2013.

In the analyzed period, the total risk exposure rose by PLN 3,230,022 thousand, mainly as a result of the banks' merger.

FINANCIAL RATIOS

In 2016 ROE calculated upon elimination of the integration expenses would amount to 3.0%. The synergy effects and results of restructuring initiatives should be seen in a rise in the said ratio in the future. Upon elimination of the integration expenses, ROA would amount to 0.3% and remain unchanged compared to 2015.

Presentation of ratios based on the statement of profit or loss, upon elimination of the integration expenses (defined as additional costs related to the merger of BGŻ S.A., BNP Paribas Polska S.A. and Sygma Bank Polska S.A.) is to provide additional information that allows evaluation of the current potential of the merged banks.

Net interest margin remained on the level of 2.6% despite the Bank's focus on obtaining customer deposits and maintaining competitive interest as the interest rates in Poland reached a record low level (the NBP reference rate of 1.5%).

The Expense to Income ratio improved significantly, mostly due to a substantial income increase (by 22.5%) accompanied with a three times lower growth in expenses. If the cost of integration were excluded, the Expense to Income ratio would be 65.0%, which is 8.9 p.p. lower than the level observed at the end of 2015, i.e. 73.9%. For the purposes of the above ratio calculation, the denominator contains income from banking activity which constitutes sum of net interest income, net fee and commission income, dividend income, net trading income, net investment income, result on hedge accounting and other operating income and expenses.

Cost of risk remained the same as in 2015 and amounted to 0.7%.

Net loans to deposits and gross loans to total debt ratios have improved as compared to the end of 2015 due to a growth in the share of customer deposits in the financing of Bank's operations.

Financial ratios

	31.12.2016	31.12.2015	31.12.2014	Change 2016/2015 p.p.
Return on equity(1)	3.0%*	3.3%*	3.5%*	(0.2 p.p.)
Return on assets(2)	0.3%*	0.3%*	0.4%*	0.0 p.p.
Net interest margin(3)	2.6%	2.6%	2.9%	0.0 p.p.
Expense to Income(4)	65.0%*	73.9%*	67.4%*	(8.9 p.p.)
Cost of credit risk(5)	(0.7%)	(0.7%)	(1.1%)	0.0 p.p.
Net loans to Deposits(6)	99.8%	112.3%	97.2%	(12.5 p.p.)
Gross loans to Total debt(7)	90.0%	97.4%	88.3%	(7.4 p.p.)

*

**Standardized figures except for integration costs. Effects of integration costs on net profit have been estimated using the standard income tax rate of 19%. For the expense category, the figure disclosed in the financial statements has been reduded by the cost of integration as recorded under general and administrative expenses and as depreciation/amortization. For the income category, the figures disclosed in the statement of profit or loss, contributing to the net banking income have been adjusted by integration costs as recorded under other operating expenses.*

(1) Net profit relative to average equity, calculated based on quarter-end balances for last five quarters.

(2) Net profit relative to average assets, calculated based on quarter-end balances for last five quarters.

(3) Net interest income relative to average assets, calculated based on quarter-end balances for last five quarters.

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

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

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

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

ASSESSMENT MADE BY THE SUPERVISORY BOARD

After becoming acquainted with the consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended on 31 December 2016 prepared by the Management Board, and the opinion and report of the independent statutory auditor, the Supervisory Board decides to give a positive opinion to the financial statements of the Group for the year ended on 31 December 2016, and recommend the approval of the financial statements to the Ordinary General Meeting.

2. REPORT OF THE MANAGEMENT BOARD ON ACTIVITY OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2015

The Supervisory Board declares that the report on activity of Bank BGŻ BNP Paribas S.A. Capital Group in 2015 is consistent with information contained in the consolidated financial statements for the year ended on 31 December 2015. The Supervisory Board recommends the approval of the report on activity of the Bank BGŻ BNP Paribas S.A. Capital Group in 2015 to the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A.

3. RECOMMENDATION OF THE MANAGEMENT BOARD ON 2016 PROFIT ALLOCATION

Supervisory Board hereby recommends to the Ordinary Shareholders Meeting of the Bank that the whole profit after taxation (net profit) for the fiscal year 2016 in the amount of PLN 49 388 207.10 (say: forty nine million three hundred eighty eight thousand two hundred and seven zlotys and ten grosz) shall be transferred to the general banking risk reserve created for unidentified banking risks.

4. FINANCIAL STATEMENTS OF THE BANK'S CAPITAL GROUP AND REPORT OF THE MANAGEMENT BOARD ON ACTIVITY OF BANK'S CAPITAL GROUP IN 2016

Pursuant to § 20 paragraph 1 item 2) letter b) of the Articles of Association, the Supervisory Board of Bank BGŻ BNP Paribas S.A. conducted an assessment of the consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended 31 December 2016 and the report on the activity of the Capital Group in 2016.

The aforementioned assessment was conducted on the basis of:

1. Consolidated financial statements covering:
   - consolidated statement of financial situation drawn up as at December 31, 2016 with balance sheet total of PLN 72 304 999 thou.,
   - consolidated profit and loss account for the period from January 1, 2016 to December 31, 2016 showing net profit of PLN 76 860,
   - consolidated statement of comprehensive income for the period from January 1, 2016 to December 31, 2016 showing a total loss of PLN 121 727 thou.,
   - consolidated statement of changes in equity for the period from January 1, 2016 to December 31, 2016 showing a decreases in equity of PLN 121 533 thou.,

- consolidated cash-flow statement for the period from January 1, 2016 to December 31, 2016 disclosing a negative net cash in the amount of PLN 778 712 thou.,

  and
- Auditor's notes to the consolidated financial statements.

2. Report of the Management Board on the activities of Bank BGŻ BNP Paribas S.A. Capital Group in 2016.
3. Opinion and report of the independent statutory auditor – Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa – selected for the audit of the financial statements based on the resolution of the Supervisory Board No. 79/2015 of 11 June 2015.

The Supervisory Board states as follows:

CONSOLIDATED FINANCIAL STATEMENTS

As a result of the assessment of consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended on 31 December 2016, the Supervisory Board states that the statements in all relevant aspects:

- have been drawn up in accordance with the International Financial Reporting Standards approved by the European Union,
- are compliant with legal provisions regulating the preparation of financial statements, which affect the form and contents of the financial statements,

and reliably and clearly present all information relevant for the assessment of the financial result on the business activity for the period from 1 January 2016 to 31 December 2016, as well as the economic and financial position of Bank BGŻ BNP Paribas S.A. Capital Group as at 31 December 2016.

SELECTED FINANCIAL DATA

PLN '000	12 months ended 31.12.2016	12 months ended 31.12.2015	Change YoY PLN 000	Change YoY %
Profit before income tax	174 507	29 692	144 815	487.7%
Net profit for the period	76 860	13 293	63 567	478.2%
Integration costs	*(181 404)*	*(206 354)*	*24 950*	*(12.1%)*
Net profit for the period *excluding integration cost*	223 797	180 440	43 358	24.0%
Total equity	6 146 821	6 268 354	(121 533)	(1.9%)
Total liabilities and equity	72 304 999	65 372 338	6 932 661	10.6%

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

In 2016, the Capital Group of Bank BGŻ BNP Paribas generated a net profit of PLN 76 860 thousand, i.e. higher by PLN 63 567 thousand (478.2%) year-on-year.

Net banking income generated in 2016 was PLN 2 640 219 thousand and was higher by 28.8% year-on-year. The increase resulted from improvement of net interest income.

The main factors that determined the change in the performances in the reporting periods under discussion were the aforementioned mergers of banks BGŻ, BNPP Polska and Sygma Bank Polska in 2015 and 2016. Data comparability was upset by the prospective recognition of the result of BNPP Polska in the results of the Bank in 2015, i.e. from 30 April 2015, and beginning consolidation of Sygma Bank Polska S.A. results from the moment of the purchase of shares of the Bank.

In addition, the Group was bearing significant costs associated with integration process in 2015 an 2016. Had the integration cost been eliminated, the net profit in of the Capital Group in 2016 would have amounted to PLN 223 797 thousand and would have been 24.0% higher than in the previous year. In 2016 integration process cost was lower by 12.1% in comparison to 2015 and amounted to PLN 181 404 thousand.

In between 2015 and 2016 events took place, independent of the Group, affecting generated results. The main event of 2016 was introducing the Act on Tax on Certain Financial Institutions of 15 January 2016 according to which banks' assets are subject to taxation at a monthly rate of 0.0366%. The Capital Group's total charges in this respect amounted to PLN 185 876 thousand in 2016.

Other event significantly affecting comparability of the results of the periods under discussion include additional cost burden in 2015, i.e.: contribution to the Bank Guarantee Fund (BGF) of PLN 90.2 million to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, recognition of provision for a contribution to the Borrowers' Support Fund (FWK, PLN 38.2 million), penalty imposed by the Office of Competition and Consumer Protection (UOKiK) regarding calculation of the interchange fees on Visa and MasterCard transactions in Poland (PLN 10.6 million) as well as settlement of the transaction of acquiring Visa Europe Limited by Visa Inc. (PLN 41,817 thou.) positively affecting gross income of 2016.

Net interest income

In 2016, the net interest income, which represents the major source of the Capital Group's income, went up by PLN 403 505 thousand, i.e. 28.4%, which was driven by a rise in interest income by PLN 514 805 thousand, i.e. 24.9% YoY, accompanied by a slower pace of an increase in interest expense by PLN 111 300 thousand, i.e. 17.2% YoY.

The level of interest income and expense in 2016 was mainly affected affected both by external factors and the growth rate of commercial volumes, which largely derived from the merger of Bank BGŻ BNPP Polska with Sygma Bank Polska.

The main external factors include the policy adopted by the National Bank of Poland with respect to the basic interest rates and their current lowest level on record (the reference rate was 1.5%).

Interest income on loans and advances to customers which saw an increase of PLN 360 658 thousand, i.e. 24.2% YoY, is the largest item in the structure of the Capital Group's interest income (71.5%). In addition to interest on loans and advances, the Group saw a rise in interest on overdrafts to customers (up PLN 41 836 thousand, i.e. 12.8% YoY). The aforesaid increases were observed mainly in the Corporate Banking and Retail and Business Banking segments and resulted from a larger activity scale.

The Capital Group's growth rate in the gross loan volume amounted to 5.1% YoY.

The rise in interest expense was driven, i.a., by an increase in amounts due to banks. The increase was due to the integration process (in 2015 there was no cost of financing received by BNP Paribas Polska S.A. till 30 April 2015 as well as in 2015 there was lower cost of financing activity of Sygma Bank Polska S.A. because of the beginning of consolidation from 1 December 2015). Contribution of amount due to banks in sources of financing of both above-mentioned banks was at very high level..

The Capital Group applied hedge accounting as at the end of 2016. Hedged items were fixed-rate EUR current accounts. The hedging instruments were standard IRS transactions, i.e. plain vanilla IRS in EUR with a nominal value of PLN 4 019 360 thousand. The change in the fair value measurement of hedging instrument is recognized in the Result on hedge accounting; interest on IRS transactions and hedged items is recognized in interest income.

In 2016, the net interest result on hedge relationships (the sum of interest income on hedging instruments and interest expense on hedged items) was negative (a loss of PLN 1 042 thousand) as compared to an income of PLN 2 991 thousand in 2015.

Net fee and commission income

In 2016, net fee and commission income amounted to PLN 493 220 thousand and went up by PLN 70 518 thousand, i.e. 16.7% YoY, which was driven by a rise in fee and commission income of PLN 114 167 thousand, i.e. 23.1% YoY, whereas fee and commission expenses went up by PLN 43 649 thousand, i.e. 61.4% YoY.

An increase in fee and commission income, mainly as a consequence of acquisition of the customer base of BNPP Polska and Sygma Bank Polska, was recorded in almost all fee categories, especially the following:

- loans and advances – up PLN 53 527 thousand, i.e. 37.4%,
- account administration and clearing transactions - up PLN 23 693 thousand, i.e. 50.3%, which was attributable mainly to an increase in the accounts as well as changes introduced to the Table of Commissions and Fees,
- payment cards – up PLN 8 025 thousand, i.e. 11.3%,
- guarantee commitments – up PLN 6 081 thousand, i.e. 27.8%.

An increase in fee and commission expense was mainly driven by:

- higher by PLN 8 411 thousand, i.e. 18.1% payment cards expenses, due to a higher number of transactions carried out by the customers,
- higher by PLN 6 158 thousand, i.e. 386.6% insurance activity expenses,
- higher by PLN 5 842 thousand, i.e. 109.1% related to partners' network expenses.

Dividend income

In 2016 dividend income was derived from 2015 profit generated by companies, in which the Bank holds minority interests, i.e. Krajowa Izba Rozliczeniowa S.A. (KIR, PLN 911 thousand), Biuro Informacji Kredytowej S.A. (BIK, PLN 3 201 thousand), PONAR Silesia S.A. (PLN 1 647 thousand), VISA (PLN 43 thousand).

Net trading income and net investment income

The net trading income for the twelve months of 2016 was PLN 255 191 thousand and increased by PLN 71 730 thousand, i.e. o 39,1% YoY. The level of and changes in net trading income are mainly shaped by the valuation of derivatives and result on foreign exchange transactions.

The net investment income in 2016 was PLN 46 199 thousand and decreased by PLN 1 553 thousand year-on-year.

The major factor affecting the income for the current period was the income from settlement of a transaction involving the acquisition of Visa Europe Limited by Visa Inc. As a result of the settlement, the Capital Group of BGŻ BNP Paribas received EUR 6.9 million in cash – the equivalent of PLN 30 518 thousand (at the average exchange rate of the National Bank of Poland of 20 June 2016 4.3945); and 2 521 C-series preference shares in Visa Inc. The Bank's net income from the aforementioned transaction amounted to PLN 41 817 thousand. In 2015 net investment income included realized gains on sale of the available for sale securities portfolio in Q1, Q2 and Q4 2015 in the total amount of PLN 47 674 thousand. In December 2015, the Bank realized capital profit on shares and convertible bonds of PLN 13.8 million.

Other operating income

Other operating income in 2016 amounted PLN 130 324 thousand and increased by PLN 69 513 thousand, i.e. 114.3% YoY, mainly as a result of the following:

- recovery of overdue debts, redeemed receivables, non-collectible debts and payment of receivables that were excluded from the consolidated statement of financial position – higher by PLN 18 627 thousand,
- gain on sale of goods and services – higher by PLN 12 476 thousand,
- release of provisions for litigation and claims and other liabilities – higher by PLN 10 501 thousand, including reversal in the first quarter of 2016 of a part of the provision for a penalty imposed by UOKiK on the Bank in 2012 for using a certain template of an agreement on maintaining individual pension accounts which was deemed to be in breach of collective consumer interests (PLN 687 thousand),
- recognition of income from leasing operations in other operating income as a result of the inclusion of leasing activity in the Bank's operating structure from the moment of legal merger with BNPP Polska,
- recognition of annual adjustment of input VAT for 2015 in other operating income (PLN 8 820 thousand).

Other operating expenses

In 2016, other operating expenses totaled PLN 116 591 thousand and were 26.1% (i.e. PLN 24 132 thousand) higher compared to 2015. Such an increase resulted from the following:

- increase of debt collection expenses,
- leasing activity expenses resulting from integration of leasing activity in the operating structure of the Bank from the date of legal merger with BNPP Polska.

Furthermore, other operating expenses in 2016 included integration costs. Integration costs related mainly to write-off and decommission of assets (which were not subject to use in the target architecture of the Bank) and additional expenses incurred as a result of termination of collaboration with a company providing non-cash settlements (total amount PLN 18.9 million). In 2015 integration costs included in other operating expenses amounted to PLN 32.7 million.

In 2015 the item Other operating expenses included expenses of a fine imposed on the Bank related to judgement concerning calculation of interchange fee on transactions made by cards Visa and MasterCard by banks cooperating based on the agreement (PLN 10.6 million). What is more, other operating expenses in 2015 included a provision for liquidation of branches of Bank BGŻ as part of the restructuring process related to the merger with BNPP Polska of PLN 6.9 million.

Net impairment losses on financial assets and provisions for contingent liabilities

Net impairment losses on financial assets and provisions for contingent liabilities for 2016 amounted to PLN – 398,833 thousand, up PLN 97 007 thousand, i.e. 32.1% YoY, predominantly due to BNPP Polska'a exposures that had been factored in the Bank's loan portfolio since May 2015 (as at 30 April 2015 the value of the portfolio acquired was PLN 18.1 billion), and a consequence of the consolidation with Sygma Bank Polska since December 1, 2015

In 2016 the annualized cost of credit risk exposure, i.e. net impairment losses on loans and advances relative to the average balance of net loans and advances to customers (calculated on the basis of quarter-end balances) was 0.7% and it was almost identical in comparison to the same period last year.

As regards the key operating segments:

- The Retail and Business Banking Segment recorded decrease in impairment losses of PLN 9 903 thousand YoY,
- The SME and AGRO Segment recorded an increase of 42 087 thousand YoY,
- The Corporate Banking Segment (together with CIB) recorded an increase of 60 252 thousand YoY.

General administrative expenses, personnel expenses, amortization and depreciation

The Capital Group's general administrative expenses for 2016 went up by PLN 163 213 thousand, i.e. 9.5% in comparison with 2015. This was mainly due to the merger and integration costs:

- exBNPP's expenses were recognized from May 2015
- exSygma's expenses were presented from June 2016.

The integration costs incurred by the Capital Group in 2016 totaled PLN 181.4 million (in 2015 - PLN 206,4 million) and included:

- PLN 162.5 million recognized as general administrative expenses (in 2015 – PLN 173.7 million),
- PLN 18.9 million recognizes as other operating expenses (in 2015 – PLN 32.7 million).

The integration costs incurred by the Capital Group in 2016 totaled PLN 162.5 million and included:

- Integration-related projects totaling PLN 63.6 million (including costs of operational merger in the amount of PLN 28.8 million, reorganization of sales network – PLN 8.1 million, synergy support - PLN 7.5 million; rebranding expenses – PLN 4.9 million, other projects concerning unification of policies, procedures and tools used in connected bank's structures),
- PLN 26.0 million related to recognition of a restructuring provision,
- PLN 24.4 million related to accelerated amortization of IT systems that will be decommissioned after the operating merger
- PLN 12.1 million related to retention program,
- PLN 10.6 million related to the merger of Bank BGŻ BNP Paribas with Sygma Bank Polska,
- PLN 8.0 million related to the merger incurred by Sygma Bank Polska before the merger.

Integration costs recognized as other operating expenses totaling PLN 18.9 million are mainly related to write-off and liquidation of assets, which were not subject to use in the target architecture of the Bank and additional expenses incurred due to termination of cooperation with a company performing non-cash settlements.

To compare level of operating costs in analyzed periods it is necessary to take into consideration the following:

- Costs incurred in 2015 concerning contribution to the Borrower Support Fund of PLN 38.2 million and obligatory statutory payment to the Bank Guarantee Fund (BGF) of PLN 90.2 million to be used for payment of guaranteed funds for depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie, with regard to PFSA's motion for declaring the bank bankrupt,
- Costs incurred in 2016 concerning an increase in the level of payments to the Bank Guarantee Fund resulting from an increase in the scale of activity following the merger with BNPP and taking into account payments incurred by Sygma Bank Polska and change in the rates effective from 2016 and additional costs concerning BGF payments, related to the bankruptcy of Bank Spółdzielczy w Nadarzynie.

In the reporting period, the costs of amortization and depreciation in relation to 2015 went up by PLN 58 140 million, i.e. 39.2%. The increase was a result of an accelerated depreciation of intangible assets, which had been decommissioned after the operational merger.

STATEMENT OF COMPREHENSIVE INCOME

In 2016, the Group's comprehensive income was lower by PLN 76 139 thousand as compared to the preceding year. A drop resulted mainly from negative change of valuation of financial assets available for sale (amounted to PLN 171 757 thousand) and was partly mitigated by an increase of profit earned in the comparable periods.

STATEMENT OF FINANCIAL POSITION OF THE CAPITAL GROUP

Assets

The balance sheet total of the Group as at the end of December 2016 amounted to PLN 72 304 999 thousand, which constitutes a rise of PLN 6 932 661 thousand, i.e. 10.6% as compared to the end of December 2015.

The most important changes in Group's total assets structure are increase of share of financial assets available for sale together with decrease of share of loans and advances to customers and cash and balances with the Central Bank.

Loans and advances to customers, which accounted for 76.2% of total assets as at the end of December 2016 vs. 80.0% at the end of 2015, were the key item in the structure of assets. In terms of value, net loans and advances increased by PLN 2 806 327 thousand, i.e. 5.4%.

Second largest item was financial assets available for sale, which accounted for 17.3% of total assets as at the end of 2016 (vs. 12.0% at the end of 2015). In 2016 its value increased by PLN 4 652 781 thousand, i.e. 59.3% mainly as a result of an increase in the portfolio of treasury bonds of PLN 3 687 997 thousand, i.e. 48.0% and purchase of treasury bills of PLN 999 959 thousand as at the end of 2016.

Changes of working assets resulted from decrease of value of cash and balances with the Central Bank, which dropped by PLN 1 523 569 thousand, i.e. 53.9%.

Loan portfolio

Quality and structure of loan portfolio

At the end of December 2016, gross loans and advances to customers amounted to PLN 58 077 227 thousand and went up by PLN 2 801 584, i.e. 5.1% vs. year-end in 2015.

Loans and advances to enterprises rose 7.0% and represent 33.3% of the gross loan portfolio (as at the end of 2015 – 32.7%). Loans and advances to households (including individual entrepreneurs and farmers) increased by PLN 1 054 928 thousand, i.e. 3.1%. As at 31 December 2016 mortgage loans amounted to PLN 15 005 546 thousand and accounted for almost half (42.4%) of loans and advances to households.

The share of impaired exposures in gross loans and advances to the Bank's customers increased to 7.47% at the end of 2016 vs. 7.7% at the end of 2015.

Liabilities and equit

As at the end of December 2016, the Bank's total liabilities amounted to PLN 66 158 178 thousand and were higher by PLN 7 054 194 thousand, i.e. 11.9%, as compared to the end of 2015.

As at the end of 2016 share of liabilities in total liabilities and equity accounted for 91.5% and was higher by 1.1 p.p. as compared to 2015. The most significant change in liabilities structure was increase of share of liabilities due to customers together with decrease of liabilities due to banks.

At the end of 2016, customer deposits went up by PLN 8,627,623 thousand, i.e. 18.5% vs. the end of December 2015, to PLN 55 155 014 thousand. They accounted for 83.4% of total liabilities as compared to 78.7% at the end of 2015.

As a result of a significant increase of liabilities due to customers reduction of loans and advances received from BNP Paribas Group was possible. It resulted in a decrease of a share of liabilities due to banks in total liabilities, which as at the end of 2016 accounted for 11.0%, compared to 16.7% as at the end of 2015. The value of liabilities due to banks dropped by PLN 2 568 078 thousand, i.e. 26.0% as compared to the prior year, and amounted to PLN 7 308 814 thousand.

Value of subordinated liabilities increased by 108.7% YoY as a result of classification of subordinated loans of PLN 440 million, EUR 40 million received by the Bank from BNP Paribas S.A. (following PFSA's consent of 29 January 2016) and EUR 60 million (in accordance with PFSA's decisions of 23 December 2016).

Amounts due to customers

At the end of December 2016, amounts due to customers amounted to PLN 55 155 014 thousand and went up by 18.5% compared to the end of December 2015. An increase resulted mainly from significant improvement of acquisition in corporate customers sector and maintaining a competitive level of interest rates for retail customers.

The share of current and savings accounts in total amounts due to customers dropped to 50.1.0% vs. 52.5% at the end of December 2015. The value of funds deposited in current accounts increased by PLN 3 200 935 thousand, i.e. 13.1%. The share of term deposits in total deposits went up to 45.5% at the end of June 2016 from 41.9% at the end of December 2015. In terms of value, term deposits increased by PLN 5 604 307 thousand, i.e. 28.7% vs. end of 2015. The balance of loans and advances received decreased by PLN 217 272 thousand and other liabilities went up by PLN 39 653 thousand.

Individual customer deposits rose by PLN 3 447 812 thousand, i.e. 14.3 %, and accounted for 49.9% of all amounts due to customers at the end of December 2016. As compared to the end of December 2015 this indicator accounted for 51.8%. Corporate customer deposits increased by PLN 6 001 567 thousand, i.e. 35.7%. Their share in total deposits rose to 41.4% at the end of December 2016 from 36.1% at the end of 2015.

Equity

As at the end of December 2016, the Group's equity amounted to PLN 6 146 821 thousand and was PLN 121 533 thousand lower compared to the end of 2015. The change in equity was mainly due to a decrease in revaluation reserve from PLN 198 090 thousand as at the end of 2015 to PLN -497 thousand as at the end of December 2016. Such a decrease of revaluation reserve resulted from recognizing losses from revaluation of financial assets available for sale.

At the same time, after the merger with Sygma Bank Polska made on 31 May 2016, the Capital Group recognized PLN 16 222 thousand and PLN 71 104 thousand under supplementary capital and other reserve capital, respectively, in its equity. Retained profit decreased from PLN 112 956 thousand as at the end of December 2015 to PLN 94 421 thousand at the end of 2016.

EQUITY AND CAPITAL RATIOS

The total capital requirement of the Group was 14.40% at the end of 2016 and improved by 0.95% compared to the December 2015.

As at 31 December 2016, total equity went up by PLN 884 133 thousand as compared to 31 December 2015, primarily due to:

- the legal merger of Bank BGŻ S.A., BNPP Polska S.A. and Sygma Bank Polska – an increase of reserve capital and general risk reserve;

- allocation of the net profit for 2015 of PLN 8 263 thousand, to the general risk reserve – in accordance with the Resolution of Ordinary General Meeting dated 30 June 2016;
- allocation the Bank's net profit generated in the first half year of 2016 in the amount of PLN 42 140 PLN to Tier I capital – in accordance with PFSA's decision dated 21 December 2016 concerning consent to allocate net profit for the first half year of 2016 to Tier I capital;
- allocation the subordinated debt in the amount of PLN 440 million and EUR 40 million to Tier II capital – in accordance with PFSA's consents dated 29 January 2016;
- allocation the subordinated debt in the amount of PLN 60 million to Tier II capital – in accordance with PFSA'a consents dated 23 December 2016.

Furthermore, pursuant to Art. 39 of the Act on macroprudential supervision over the financial system, on 4 November 2016, PFSA after a consult with Financial Stability Board identified the Bank as a systemically important institution and imposed a buffer in the amount of 0.25% of total risk exposure, which is calculated in accordance with art. 92 par. 3 of the Capital Requirement Regulation (575/2013).

On 27 December 2016 the Management Board of Bank BGŻ BNP Paribas received a recommendation from the Polish Financial Supervision Authority concerning the Bank's maintenance of equity necessary to satisfy an additional capital requirement at the level of 0.68 p.p. in order to hedge the risk resulting from foreign currency mortgage loans granted to households, with Tier 1 capital accounting for at least 75% (i.e. 0.51 p.p.) of such equity.

In 2016 total risk exposure increased by PLN 2 818 235 thousand.

EQUITY AND CAPITAL RATIOS

In 2016, the Capital Group of the Bank saw an improvement in the ROE year-on-year, mainly as a result of faster growth of income than costs and due to slight improvement of interest margin. Following elimination of the integration costs, ROE would have accounted to 3.6%. The synergy effects and results of the merger of the banks BGŻ S.A., BNPP Polska and Sygma Bank Polska, and effects of restructuring initiatives should result in an improvement in the said ratio in the future. Following elimination of the integration costs, the ROA would have accounted to 0.3% and would not be subject to change in comparison with 2015.

Presentation of indicators calculated based on profit and loss categories (excluding integration costs) aims at showing additional information, which would let asses the actual potential of the merged banks.

Despite Bank's concentration on gaining deposits and maintaining competitive interest rates in situation of record low market interest rates (NBP reference rate at 1.5%), net interest margin rose slightly to 2.7% year-on-year.

The Expense to Income ratio improved significantly due to faster income growth (27.7%) together with three times lower increase in costs. If the costs of integration were excluded, the Expense to Income ratio would have been 64.6% - 9.6 p.p. lower as compared to the end of 2015 (74.2%). In order to calculate aforesaid indicator, as a denominator was taken net banking income, which comprises total net interest income, net fee and commission income, dividends income, net trading income, result on investment activities, result on hedge accounting, other operating income and expenses.

Cost of risk is at the same level in comparison with 2015 and amounts to 0.7%.

Loan to deposit and sources of finance financial ratios have improved compared to the prior year due to an increase of customer's deposits share in total Group's source of finance.

Financial ratios

	31.12.2016	31.12.2015	31.12.2014	Change
Return on equity[(1)]	3.6%*	3.4%*	.3.6%	0.2
Return on assets[(2)]	0.3%*	0.3%*	0.4%	0.0
Net interest margin[(3)]	2.7%	2.6%	2.9%	0.1
Expense to Income[(4)]	64.6%*	74.2%*	67.8 %	(9.6)
Cost of credit risk[(5)]	(0.7%)	(0.7%)	(1.1%)	0.0
Net loans to Deposits [(6)]	103.7%	118.0%	97.1%	(14.3)
Gross loans to Total sources of funding[(7)]	90.4%	98.2%	88.2%	(7.8)

*

**Normalized values, excluding integration expenses. Integration expenses' influence on the Bank's net profit was estimated, using the standard income tax rate 19%. Furthermore, expenses category presented in the financial statement was reduced by the amount of the integration costs, recorded as general administrative costs, depreciation and amortization. Income category presented in the financial statement as a net banking income was reduced by the amount of the integration costs recorded as other operating expenses.*

(1) Net profit relative to average equity, calculated based on last 5 quarter-end balances.

(2) Net profit relative to average assets, calculated based on last 5 quarter-end balances.

(3) Net interest income relative to average assets, calculated based on last 5 quarter-end balances.

(4) Total general administrative expenses, amortization and depreciation relative to total net banking, calclulated as a total interest income, fee and commission income, trade income, investment income, hedging income and other revenues and expenses,

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

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

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

ASSESSMENT MADE BY THE SUPERVISORY BOARD

After becoming acquainted with the consolidated financial statements of Bank BGŻ BNP Paribas S.A. Capital Group for the year ended on 31 December 2016 prepared by the Management Board, and the opinion and report of the independent statutory auditor, the Supervisory Board decides to give a positive opinion to the financial statements of the Group for the year ended on 31 December 2016, and recommend the approval of the financial statements to the Ordinary General Meeting.

5. REPORT OF THE MANAGEMENT BOARD ON ACTIVITY OF BANK BGŻ BNP PARIBAS S.A. CAPITAL GROUP IN 2016

The Supervisory Board declares that the report on activity of Bank BGŻ BNP Paribas S.A. Capital Group in 2016 is consistent with information contained in the consolidated financial statements for the year ended on 31 December 2016. The Supervisory Board recommends the approval of the report on activity of the Bank BGŻ BNP Paribas S.A. Capital Group in 2016 to the Ordinary General Meeting of Bank BGŻ BNP Paribas S.A.

6. ASSESSMENT OF ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM AT THE BANK

The organisation of the internal control system is in line with the banking law requirements and resolution of the Polish Financial Supervision Authority No. 258/2011 and it encompasses the risk control mechanisms (including: functional control), checking the compliance of the Bank's activities with the provisions of law and internal regulations, as well as the internal audit. The internal control system is adjusted to the specifics of the conducted activity and takes into consideration the Bank's resources. The Bank performs periodic verification of the risk control mechanisms functioning in the Bank.

The Management Board of the Bank is responsible for the effectiveness of the risk management system, internal control system, internal capital assessment and reviews, the internal capital assessment and maintenance process, and for the supervision over the efficiency of these processes, making necessary adjustments and improvements in case of a change of the risk level in the Bank's activity, economic environment factors, and irregularities in systems and processes functioning. Moreover, the Management Board determines the principles of functioning of the organizational units which participate in the Bank management, and is responsible for the preparation, introduction, and update of the written policies, strategies, and procedures in this respect.

The Supervisory Board performs supervision over the internal control system and evaluates its adequacy and effectiveness via the Bank's Internal Audit Committee. The Committee performs assessment, among others, on the basis of the results of audits conducted by the Internal Audit Line, about which it is informed in periodic reports on the activities of the Internal Audit Line. Besides, the Committee becomes familiar with the progress in the realization of the recommendations and findings without recommendations, issued by the Internal Audit Line, external auditor and the supervisory bodies.

The Committee was informed about the changes in the Audit Plan and the level of its realization. The Internal Audit Line monitors the situation in the Bank on the current basis, and changes in its environment and – if needed – makes necessary adjustments in the Audit Plan.

The Internal Audit Line supports the Bank in achieving its targets by the checking and assessing, in an independent and objective manner, adequacy and effectiveness of the internal control system, including the quality of management of the risk related to the Bank's activity.

is an important element of the internal control system next to Internal Audit Line.

Compliance and Fraud Prevention Line is responsible for compliance and anti-fraud monitoring and encompasses support of the Management Board and the Supervisory Board in the identification and assessment of the following risks:

- the non-compliance risk,
- the reputational risk
- the fraud risk
- anti-money laundering and sanctions risk.

Compliance and anti-fraud includes also employee behaviour, systems and processes within the Bank with scope in requirements of applicable laws as well as regulations by the Bank and the standards of conduct, including market behaviour.

Monitoring and evaluation of compliance is made on the basis of, among others, assessment of key compliance risks, monitoring of Bank's organizational units, the opinion issued by the organizational units included in the Compliance and Fraud Prevention Line to the internal regulations and risk assessment carried out in the framework of the implementation of new banking products and services.

The evaluation results are submitted to the Management Board and Supervisory Board members through the presentation of reports on the activities of the Compliance and Fraud Prevention Line in the work of the Internal Audit Committee of the Bank.

Compliance and Fraud Prevention Line supports the decision-making processes within the Bank, provides support to the Management and Supervisory Boards in the identification and assessment of compliance risks, acts as an advisor, indicates potential hazards, and submits solutions proposed for effective management compliance risks.

The Operational Risk & Control (ORC) departmentsupervises and coordinates the process of implementation of functional control in the Bank, carried out semi-annually, as well as the process of verification of the mechanisms and procedures of internal control in the Bank, realised annually. Functional control is realised semi-annually by managers of all units of the Bank (network and Head Office units), or by persons appointed by them. Periodical functional control covers verification of correctness of operation of individual areas, and risk self-assessment. With respect to the functional control process, the monitoring of post-control recommendations implementation rated as high and medium risk, is undertaken.

The ORC Department prepares semi-annual reports including the results of functional control, indicating the areas with biggest irregularities identified, and in consultation with the competent units actions are determined, aiming at elimination of irregularities in the future. The reports are presented to the Management Board for approval.

The ORC Department also performs supervision over the operational control process in the Bank, as a 2. level control, under which it coordinates and supports the process of implementing the Fundamental Monitoring Points (FMP) concept, and also cooperates with the units responsible for operational control in the Bank.

The process of verification of mechanisms and procedures of internal control is realized every year through self-assessment of risk and control environment by managers supervising individual areas of the Bank's activity (owners of control processes and mechanisms). The purpose of the review is identification of possible gaps in the control environment, including potential ineffectiveness of some controls. The review results in a report indicating cross-sectional data and statistics with respect to currently applied in the Bank control mechanisms, as well as deficiencies in the control process. In case the analysis shows gaps and irregularities, such report indicates actions to be taken to eliminate such gaps/ irregularities. The report is presented to the Management and Supervisory Boards for approval.

7. ASSESSMENT OF ADEQUACY AND EFFECTIVENESS OF RISK MANAGEMENT WITH REGARD TO RISKS ESSENTIAL FOR THE BANK

The system of risk management in the Bank is a formal system governed, i.a., by the policy of managing and reporting capital adequacy of the Bank (ICAAP), credit policy, policy of managing retail exposure risk, strategy of risk management, specifying the Bank's appetite for key risks associated with the Bank's activity, approved by the Supervisory Board. The

Bank has a list of essential risks, approved by the Management Board, and the system of their measuring, limiting and reporting. The limits and thresholds for the major risks are specified once a year and reflected in the risk appetite statement of Bank BGŻ BNP Paribas. The Bank regularly monitors and reports compliance with the limits, and if a limit is exceeded, the Bank takes actions to restore the situation where the risks are held within the limits specified by the Management and Supervisory Boards of the Bank. Regular monitoring and reporting cover also the size and type of deviations from the principles and policies applicable in the Bank.

The Management Board of the Bank and the relevant Committees approve detailed policies and principles of risk management and perform daily supervision over the risk management system. The Bank operates the **Assets and Liabilities Committee (ALCO)** responsible for supervision and supporting management risks associated with financial liquidity risks and market risks within the Bank's portfolio. The Bank also has the **Risk Management Committee** responsible for various risks associated with Bank's activities including the risks associated falling under ALCO controls. The Bank has the **Internal Control Coordination Committee**, which supports the Bank's Management Board in implementing the Bank's operational risk strategy and in particular, performs control of consistency, completeness and effectiveness of the internal control system, and the processes of operational risk management. The Committee also manages major risks connected to the system of internal control in the Bank and its subsidiary entities.

With the above in mind as 31 December 2016 amongst others the following committees operated in the Bank:

- RB Risk Committee,
- PF Risk Committee,
- Credit Committee,
- Bad Loan Committee,
- Capital Investments Committee,
- Information Security and Business Continuity Committee,
- Products, Services, Transactions and Activities Approval Committee (NPAO)
- Customer Approval Committee (CAC),
- Disciplinary Committee,
- Ethics Committee,
- Investment Project Committee,
- Reference Rate Quote Committee
- Real Estate Committee,
- Brokerage House Investment Committee,
- Financial and Compliance Risk Committee,
- Procurement Committee,
- Bonds Committee.
- Compliance and Risk Assessment Committee

The Bank's Management Board through dedicated committees obtains regular and comprehensive information on the Bank's exposures to credit risks, operational risks, financial liquidity risks as well as market and interest rate risks. Appropriate committees within their competences define task which must be undertaken in case the Bank engages in excessive risks.

Supervisory Board regularly obtains reports prepared by organisational units of the Head Office covering significant risks in Bank's operations. Additionally the Supervisory Board has established two committees operating Internal Audit Committee and Risk Committee.

The scope of reported information covers the Bank's exposures to various risks including credit (including stress test risk), operational, interest rate and liquidity risks.

8. CONCLUSION

In the opinion of the Supervisory Board the system of internal controls is adequate for the level of activities and complexity of the activities of the Bank. Additionally the Supervisory Board evaluates that the risks management system is managed adequately to the key risks and is carried out in accordance with policies adopted by the Bank.