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

BNP PARIBAS | Bank zmieniającego się świata

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

BNP Paribas Bank Polska SA (hereinafter: "the Bank") 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**

1.1. Financial and business highlights

BNP Paribas Bank Polska SA closed 2013 with the **profit after taxation** of **PLN 86.3 million**, i.e. higher by PLN 57.0 million than the result earned in 2012.

Development of the Bank in 2013 and conditions underlying its growth:

- **2.3% 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 976.2 million and grew by 22.4% in comparison to 2012;
- **8.5% increase in customer deposits** due to growth of balances on savings accounts held by individual customers, deposits in current accounts of both individual and corporate customers, likewise term deposits held by large enterprises;
- **Safe capital situation of the Bank** – with capital adequacy ratio at 12.9%;
- **The Bank's net banking income** grew by **PLN 7.4 million** (0.9%) despite a material drop of market interest rates and lower positive impact of one-off items - the decrease in the net interest income and net trading income was compensated by **growth in the net fee and commission income,** net investment income on available-for-sale financial assets, other income and dividends;
- **6.7% decrease in the Bank's general expenses along with depreciation costs** attributable to consistent execution of a comprehensive cost optimisation programme (4.7% drop in personnel costs, 24.1% fall of depreciation costs and decrease in other expenses, including costs of rents, technology and IT systems, costs of debt recovery and telecommunications);
- **Continuation of a prudent risk management policy** - **30.5% decrease** in the cost of risk as compared to 2012 resulted from effective debt restructuring and recovery measures (including execution of the agreement on the sale of receivables due to the Bank from Vistula Group SA.) and improvement in the consumer loan portfolio quality – the cost of risk ratio went down to **0.6%** as compared to 0.9% in 2012;
- **Improved quality of the loan portfolio** - the share of non-performing loans in the total loan portfolio of the Bank fell from 11.3% recorded at the end 2012 to **8.3%** at the end of 2013;
- Creation of PLN 20.0 million provisions for lawsuits related to derivative transactions entered into before 2010;
- **Slight growth of income combined with a material cost reduction and lower cost of risk contributed to the increase in the return on equity (ROE)** up to **5.0%** as compared to 1.8% noted in 2012;
- **Digital Banking** – in 2013, a project was launched to modernise the digital banking platform. Under the project, the Pl@net Internet banking system for individual customers was updated and an electronic banking application, "Mobile Pl@net" was implemented to provide its users with a permanent access to their accounts via smartphones and tablets. Furthermore, "iGotówka" (iCash), a loan available fully online, was introduced.

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

1.2.1. Market and economic situation abroad

In 2013 the global economic situation clearly improved as a result of the ongoing recovery. Although in the first half of 2013 the pace of global economic growth remained fairly low, it has started to grow in the period from July to December. In the first half of 2013, despite a slight improvement in the US, the eurozone's recession continued. Moreover, signs of a significant slowdown in many emerging economies became apparent. Decisions of the central banks in the eurozone, the US and Japan were key factors driving the global financial market in the first half of the year. The ECB continued to ease its monetary policy, lowering the refi rate in May by further 25 bps 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. By the end of May the Federal Reserve System (FED) mentioned for the first time the possibility of tapering the quantitative easing (QE) policy, providing for a notable rise in bond yields, especially across the emerging markets' economies.

In the second half of 2013 an improvement of the economic backdrop in the US was reflected by stronger data and leading indicators. In the eurozone, the recovery was muted, although economic activity strengthened as compared to the first half of the year. Emerging markets were slow to react to stronger economic conditions in the US and in the eurozone. China's economy is facing the challenge of structural reforms - which may slow down the pace of growth in the coming quarters, while in Brazil the key problem is high inflation. Relatively slow economic growth of emerging markets supported low commodity prices on global markets.

In the eurozone, disinflation became a major issue with headline HICP prints remaining well below the ECB target. As a result, the ECB decided to cut its refinancing rate by 25 bps to 0.25% in November. At the same time, faster US economic growth triggered the Fed to start tapering the quantitative easing in December. The Fed decided to reduce the pace of asset purchases by USD 10 billion down to USD 75 billion per month. It is expected that the pace of tapering should be maintained over the coming months and the Fed will finish quantitative easing by the end of 2014. The Bank of Japan maintained its monetary easing policies, aimed at escaping the deflation trap and speeding up economic growth.

1.2.2. Polish economy in 2013

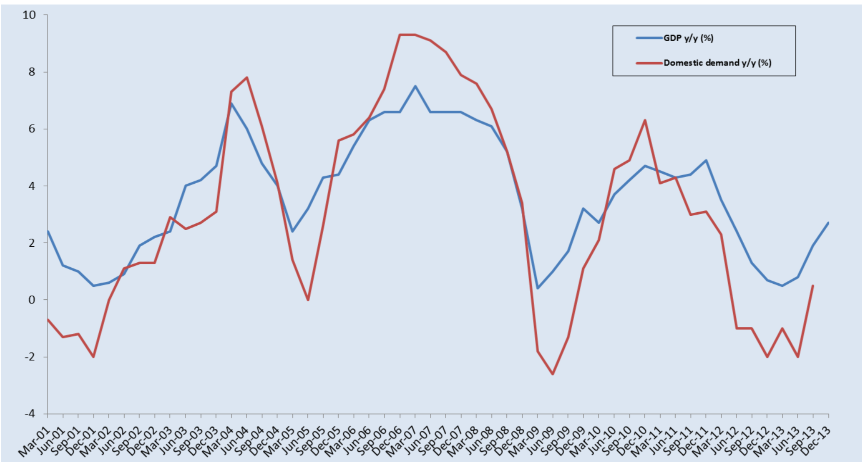
GDP – growth rate and components

In the first months of 2013 the Polish economy markedly slowed down. The GDP rose in Q1 only by a slight 0.5% y/y. The key trigger supporting GDP growth in Poland was net exports while domestic demand remained subdued. The major constraint for the economy was especially a notable fall in households' consumption. In Q2 the economy picked up, however the pace of growth remained fairly timid standing at 0.8% y/y. Since Q3 the broad-based recovery became apparent, with the GDP growth accelerating to a decent 1.9% y/y. The key factor supporting the economy was still net exports, which added 1.5 pp to GDP growth, however in Q3 also domestic demand rebounded. Private consumption rose 0.9% y/y, adding 0.5pp to economic growth, while investments, following a decline over the previous four quarters, rose 0.8% y/y, adding 0.2pp to GDP growth. While inventories have reduced the pace of growth by 0.6pp, the level of stocks will be rising over the coming quarters, in line with recovering economic activity. Q4 economic growth data confirmed the continuing economic revival with GDP growth of 2.7% y/y during October-December. On average the GDP was up by 1.5% y/y in 2013.

Economic rebound was also reflected in the monthly economic activity data. Both industrial production and nominal retail sales confirmed the recovery in Poland. In the last six months of the year, industrial output rose on average by 4.8% y/y vs. a 0.1% y/y decline in the first half of the year. Retail sales rose on average by 4.1% y/y vs. a small 0.7% y/y increase in H1 2013. The decline in construction output of 3.6% y/y was markedly smaller than in the first six months of the year when it reached 19.2% y/y. The 5.8% y/y rise in the construction output in December suggests a better outlook for the sector in 2014. Stronger data and funds from the EU Financial Agenda for 2014-2020 for Poland point to rising investment activity over the coming quarters.

Further gradual acceleration of economic growth is expected in 2014. In the light of improving labour market conditions, private consumption will become the main factor supporting GDP growth. Stronger investments and continued robust exports are also expected. As a result, economic growth should reach 3.0% y/y in Q1 and 3.2% y/y during the whole year.

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



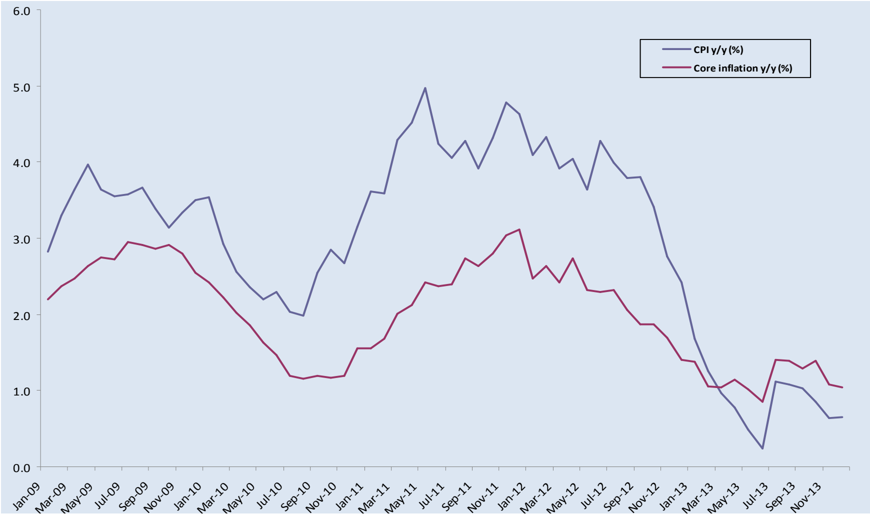
Labour market

Accelerating growth translated also into an improving situation on the Polish labour market. The unemployment rate reached its maximum of 14.4% in February, but since then it kept descending to 13.0% in August and September. In the final months of the year the unemployment rate slightly rose to 13.4% on seasonal effects. While further rises in the unemployment rate are expected over the coming months, the rate should be lower in comparison to the corresponding periods of 2013. In H1 2013 employment also strongly declined - on average by 0.9% y/y, but in the second half of the year demand for labour increased. After twelve months of consecutive falls, employment rose 0.1% y/y in November. Still, during July-December, employment declined on average by 0.2% y/y. In the second half of the year wage growth slightly accelerated to 3.0% y/y vs. 2.1% y/y in H1 2013. The economic recovery in 2014 should translate into faster employment growth, but wage growth will remain relatively stable around 3-4% y/y.

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 July a nearly 50% increase in waste collection costs for households pushed CPI inflation to 1.1% y/y, but in the following months inflation eased again on the back of lower food and fuel prices. By the year-end, CPI inflation stood at 0.7% y/y; in the second half of 2013 it averaged 0.9% y/y – the same as in H1 2013. Inflation should remain well below the NBP target of 2.5%. However, in the light of low commodity prices and still limited demand pressures CPI prints should not exceed 2% y/y by the end of 2014. On average we expect inflation of 1.5% y/y this year.

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



Balance of payments

In early 2013 the official reserves amounted to EUR 79.6 billion. In the first half of the year the reserves were rising reaching its maximum at EUR 84.9 billion in March. In the second half of 2013 official reserves fell to EUR 77.1 billion in December from EUR 82.9 billion in July. In 2013 the cumulative deficit on current account was EUR 5.9 billion, significantly below the same period of 2012 when it reached EUR 14.1 billion. In relation to GDP the deficit lowered to -1.5% of GDP from -3.7% of GDP in 2012. The improvement was mainly driven by surpluses in the balance of trade. In the first half of the year the trade surplus increased chiefly thanks to weak domestic demand, which curtailed import dynamics. Later on, the improvements in trade were mostly driven by a revival of global economic activity. In 2013 the trade surplus in goods amounted to EUR 2.0 billion, compared to a EUR 5.2 billion deficit in the same period of 2012. The surplus in services amounted to EUR 5.0 billion in January-December 2013 vs. 4.7 billion in 2012. Also the income balance somewhat improved, despite heavy profit repatriation by foreign investors in Q3 2013. In 2013 the deficit on the income account was EUR 16.7 billion vs. 17.6 billion in 2012.

In 2013 the surplus on the capital account of EUR 9.0 billion was similar to the one in 2012. The surplus on the financial account in 2013 was a mere EUR 3.6 billion, compared to EUR 17.4 billion in 2012. Such a huge difference was mainly driven by foreign capital outflows from the Polish bond market, which from January through December 2013 reached EUR 200 million vs. an inflow of EUR 13 billion in January-December 2012. Also foreign inflows on the Polish equity market markedly slowed down in 2013 to EUR 912 million vs. EUR 3.0 billion in 2012. In 2013 net FDI flows amounted to EUR 317 million vs. EUR 4.1 billion in 2012. The balance of other foreign investments- was significantly higher than in 2012 The surplus of EUR +2.8 billion in 2013 versus the deficit of EUR 4.6 billion in 2012 highlights the completion of European banks' de-leveraging from the Polish banking sector. Thanks to rising exports, reflecting improving competitiveness of the Polish economy, a further increase of the trade surplus is expected in 2014, along with a reduction of the current account deficit compared to 2013.

Public finances

As a result of economic slowdown and markedly lower tax revenues, especially from VAT and CIT in early 2013, in the second half of last year the Budget Law for 2013 was amended. The deficit ceiling was raised by PLN 16 billion to PLN 51.5 billion. According to the Finance Ministry, the growth recovery in the second half of 2013 helped to reduce the budget deficit by a few billion of zlotys. The Budget Law for 2014 envisages a deficit of PLN 47.7 billion, i.e. 2.8% of GDP.

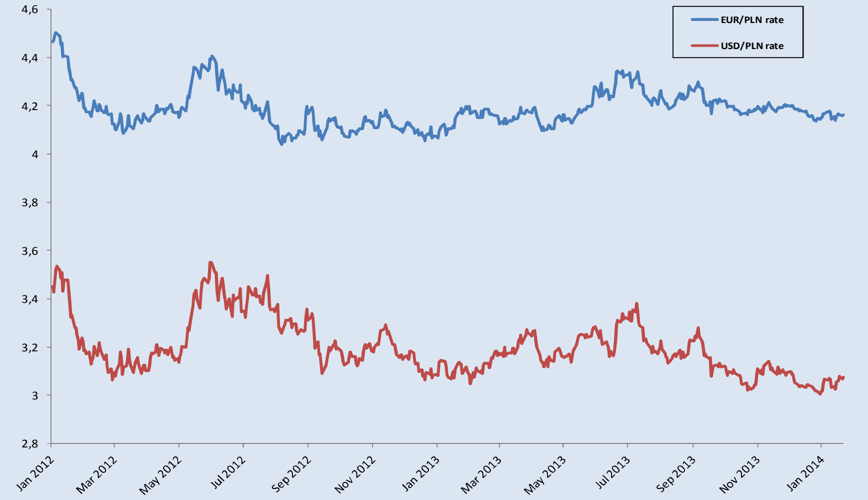
The reshuffle of the pension system affecting the operation of Open Pension Funds (OFE) was a major development from the public finance perspective. OFEs were obliged to transfer 51.5% of their assets to the Social Security Board (ZUS) as of early February 2014. The bulk of these assets will be treasury bonds and bills, which will be redeemed – helping to cut the relation of public debt to GDP by about 7pp to 49.5% as well as to reduce debt service costs.

In November 2013, a new fiscal rule, which ties spending to average pace of GDP growth, was adopted. The counter-cyclical nature of this rule envisages stimulating the economy in times of slowdown, but preventing excessive fiscal loosening in periods of stronger growth.

Exchange rate

In the first half of 2013 the exchange rate was primarily driven by the situation on the Polish bond market. In May and June the zloty weakened by around 5% on the back of a growing risk of tapering off asset purchases by the Fed. In the second half of 2013, the EUR/PLN rate was relatively stable. In the fourth quarter, the zloty appreciated slightly against the euro with EUR/PLN at 4.15 by the year-end. In the second half of 2013 the zloty firmed more markedly against the dollar with the USD/PLN rate falling to around 3.00 by the year-end, which was the lowest exchange rate since September 2011, from 3.40 in early July. The CHF/PLN rate was moving in a range of 3.35-3.45 – in line with the swings in EUR/PLN. Stronger growth prospects for Poland suggest a mild appreciation potential of the zloty in the coming months, especially that the Fed's decision to reduce the scale of quantitative easing did not have a major impact on the PLN exchange rate.

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



Interest rate

Rapid disinflation combined with a major economic slowdown, supported further monetary easing in the first half of 2013. Between November 2012 and July 2013 interest rates were cut by 225 bps with the main reference rate falling to its all-time low of 2.50%. Following the July's rate cut the Monetary Policy Council finished its easing cycle. In November, given absent inflationary pressures and only moderate recovery, the MPC announced its forward guidance of unchanged interest rates until at least mid-2014. In the light of the below-target CPI inflation, the MPC is expected to extend its forward guidance and raise interest rates only in 2015.

In the first three months of the year the bond market was fairly stable. In April yields plummeted by about 80 bps. 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. After a short period of stability the bond yields have risen significantly again from July to early September. The 5y and 10y bond yields rose around 100 bps to 4.85% and 4.25%, respectively. The yields on the front-end of the curve increased by approximately 50 bps to 3.25% in the 2y segment. Such a major move was driven by fears of the quantitative easing tapering by the Fed in September, which would have reduced financial markets' liquidity. In September and October, yields were falling across the curve, but they rose again in November and December on the back of reducing QE in the US. Markets stabilised towards the year-end, with yields falling slightly to 4.30% in 10y, 3.60% in 5y and 3.00% in the 2y segments.

1.2.3. Banking sector in 2013

Despite an economic slowdown in the first half of the year, the condition of Polish banks remained relatively healthy. In spite of the poor economic 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 recovery experienced in the second half of the year supported the improvement in the banking sector. The NPL ratio in the corporate sector fell by 0.3pp down to 11.5% in December from 11.8% in June. The overall NPL ratio, including also loans for households, declined by 0.2 pp to 7.7% in December from 7.9% in June. The loans-to-deposits ratio dropped to 110.8% in December 2013 as compared to 112.9% in December 2012.
The aggregate interest rate cuts of 225 bps supported a rebound in credit activity, although the pace of credit growth was still moderate. In December 2013 loans rose by 4.1% y/y vs. 2.3% y/y in late 2012. Consumption loans rose in November 2013 by 2.8% y/y – marking the first increase since early 2011 and confirming increasing consumption demand. Between December 2012 and December 2013 the share of housing loans denominated in a foreign currency in total declined from 55.2% to 49.9%. Lower interest rates reduced the attractiveness of deposits, which was reflected in the falling growth rate of deposits in the households segment. However, corporate deposits rose in December 2013 by 10% y/y, confirming rising corporate sector profitability.

Banks' financial results

According to data for Q3 2013, the capital adequacy ratio increased and banks' liquidity position improved likewise. Interest rate cuts triggered a reduction of the interest income. The net financial result after three quarters of 2013 was PLN 11.8 billion, some 1.9% less than in the same period of 2012.
ROE and ROA declined to 10.4% and 1.14%, respectively, from 11.5% and 1.25% in the corresponding period of 2012. However, the capital adequacy ratio rose to 15.6% from 14.0%, while the core Tier 1 ratio went up to 14.2% from 12.7%.

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

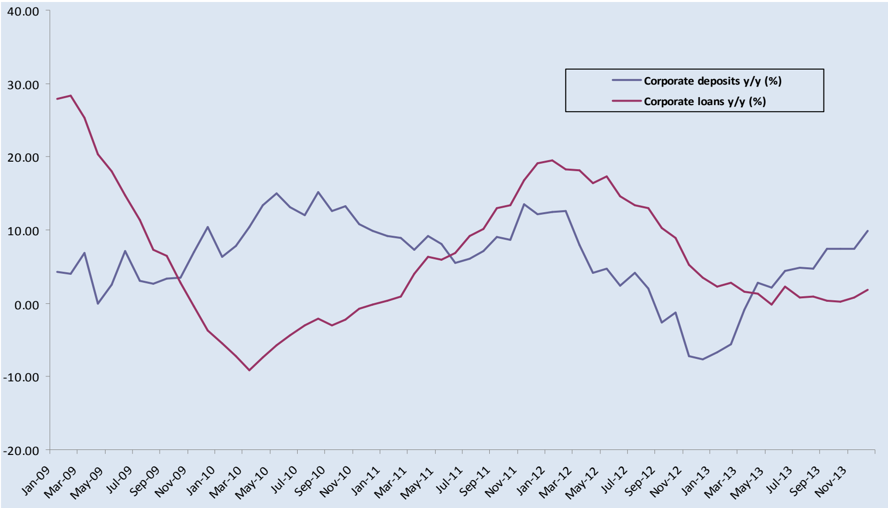
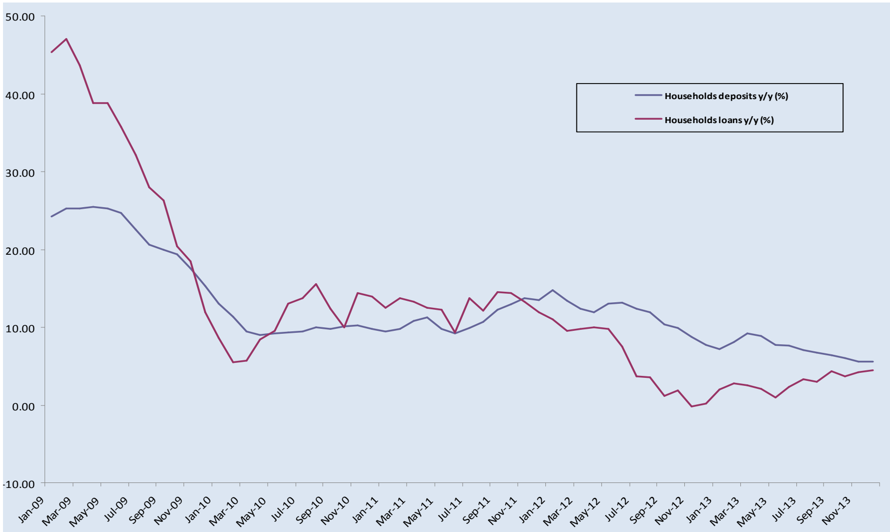


Chart 5. Credit facilities and deposits to households 2009-2013 *(Source: Reuters EcoWin)*



1.3. Factors that in the issuer's opinion will affect the results generated at least in the subsequent quarter

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

- In 2012, lending activity on the Polish market slowed down and this trend persisted in 2013, particularly in the area of consumer loans. However, at the end of 2013, due to the growing consumer demand, consumer loans clearly increased and in the light of the improving economic situation, further growth can be expected in that area.
- Competitors of the Bank focus their activities on consumer loans in view of shorter repayment terms, improved margins, and stabilization of the NPL ratio thanks to improved methods of assessing credit risk and sale of the non-performing loans portfolio.
- Fierce competition for customers' deposits, specifically in retail banking, prevailed in 2012 in connection with actions aimed at increasing liquidity undertaken by competitors of the Bank. However, since the beginning of 2013, a significant weakening of competition was observed in this regard, due to lower demand for loans. At the end of 2013 and in early 2014, banks started to offer higher interest rates.
- Both short-term and long-term market interest rates were significantly reduced, which affected the net interest margin in several ways:
    - average interest margin in current accounts of individual and corporate customers went down;
    - average interest margin for fixed interest rate loans that are financed by variable interest rate deposits, went up;
    - lowering of market interest rates generally had a neutral impact on the interest margin of loans and floating rate deposits, and
    - market value of fixed interest rate bonds increased.
- The level of investments of individual and corporate customers declined as a result of macroeconomic slowdown, while the risk profile of many economic entities deteriorated. Both of these factors intensified the competition for funding sought by economic entities with a good risk profile. As a result, we observe a downward trend in margins for loans denominated in PLN for such lower-risk transactions. It is expected that the investment cycle revival will generate higher demand for loans.

- Acceleration of the digitization process in the Polish banking sector is noticeable, combined with an increasingly growing number of the Bank's competitors who modernize their internet banking platforms or launch mobile or internet banking.
- On 4 October 2013, the Act on amending the Bank Guarantee Fund Act ("BGF Act") became effective. According to the amended provisions of the BGF Act, the amount of the prudential fee is equal to the product of a rate not exceeding 0.2% and a calculation base defined as 12.5 times the sum of capital requirements for various risk types and capital requirements on account of exceeding limits and violating other norms set forth in the Banking Law. In November 2013, the BFG Council announced the prudential fee rate for 2013 at 0.009% of the calculation base as at 31 December 2013. The prudential fee rate for 2014 is 0.037% and the calculation base is again the balance as at the end of December 2013. The duty to pay the prudential fee came into effect within 60 days of publication of the BGF Council resolution on the rate amount. The prudential fee to be paid by the Bank for 2014 will amount to PLN 5.8 million.

2. STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE

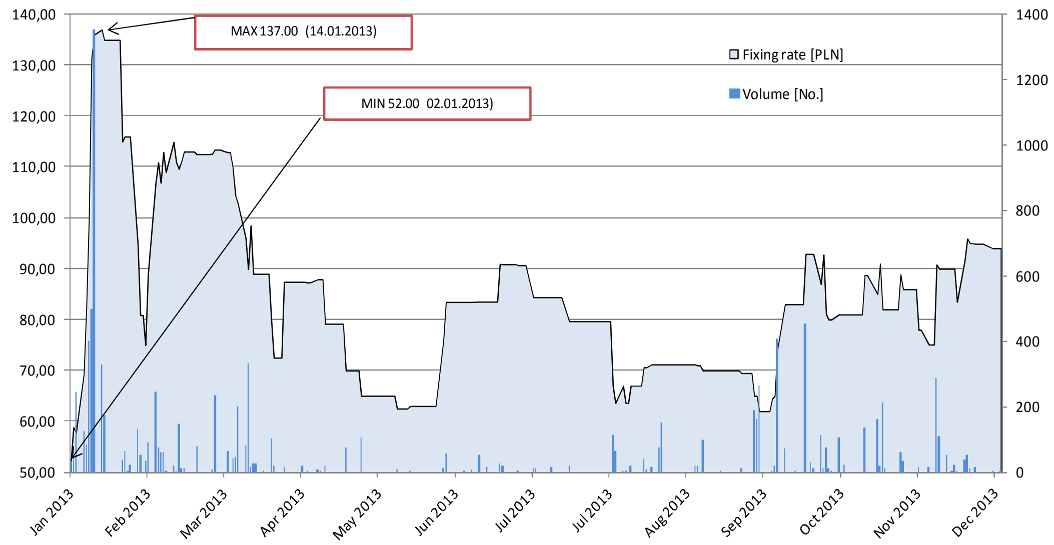
The Bank's stock labelled with the ISIN code: PLPPAB000011 has been quoted on the Warsaw Stock Exchange SA in Warsaw (WSE) since 9 November 1994. The Bank's stock quoted under an abbreviated name BNPPL and a ticker symbol BNP is classified in the 250 PLUS segment, yet the limited liquidity of the stock 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 this year. As at 30 December 2013, the Bank’s share price increased to PLN 94.00, i.e. by 81%.

The highest Bank’s share price in 2013 was recorded on 14 January 2013, when it stood at PLN 137.00. The average stock price was over PLN 84, thus exceeding the average price of PLN 66 in 2012.

An average turnover in the Bank’s stock was very low - nearly 41 shares per session in 2013 and was higher in comparison to the average turnover recorded in 2012 (nearly 8 shares per session). An average value of the turnover in the Bank’s stock per session in 2013 was nearly PLN 4 thousand and was higher than average value of the stock turnover of PLN 0.5 thousand per session in 2012.

Chart 6. Quotations of the Bank's stock from 02/01/2013 to 31/12/2013



WIG, a stock exchange index, rose from 48,107.89 points noted on 2 January 2013 to 51,284.25 points recorded on 30 December 2013 (increase by 6.6%).

WIG-Banks, a sector sub-index, recorded an increase from 6,723.16 points noted on 2 January 2013 to 8,014.15 points recorded on 30 December 2013 (i.e. by 19.2%).

3. SHARE CAPITAL AND SHAREHOLDER STRUCTURE

3.1. Share capital of BNP Paribas Bank Polska SA

As at 31 December 2013 and as at the publication date of the annual report for 2013, i.e. 11 March 2014:

- 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.

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

In 2013, the BNP PARIBAS group began its efforts to fulfil the commitments towards the Polish Financial Supervision Authority to increase the free float of shares of BNP Paribas Bank Polska SA up to 15%. Numerous actions were 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, further decrease of the share capital was planned 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 General Meeting of the Shareholders held on 3 June 2013 determined the amount by which the share capital would be decreased and increased. The General Meeting also resolved on the nominal value of shares, minimum and maximum number of the series O shares and relevant amendments to the Bank's Statute.

On 19 June 2013, the Polish Financial Supervision Authority (KNF) approved the issue prospectus of the Bank. 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 SA, the Global Coordinators for the offer, the Bank's Board of Executives decided to suspend the offering of the series O shares in view of a highly unfavourable market situation at the Warsaw Stock Exchange. On 5 September 2013, having consulted the Global Coordinators for the offer, the Bank's Board of Executives decided not to proceed with the public offering of the series "O" shares mainly in view of an unstable situation at the stock market in Poland.

On 9 October 2013, the Bank's Extraordinary General Meeting resolved to raise the Bank's share capital by the issuance of 8,575,086 series "O" shares. The share issue was to be made available to investors under a public offering, with pre-emptive rights of the existing shareholders excluded.

On 5 December 2013, BNP PARIBAS group and Rabobank group announced to have reached an agreement under which BNP PARIBAS group acquired a 98.5% stake in Bank Gospodarki Żywnościowej S.A. (hereinafter "BGŻ"). The transaction will be completed subject to the execution of the final documentation and to the necessary regulatory approvals.

In connection with the planned transaction of BNP PARIBAS Group in Poland, the Bank suspended its work on the share issue and applied to KNF (the Polish Financial Supervision Authority) for consent to suspend the proceedings regarding the issue prospectus approval. On 18 December 2013, the Bank disclosed information that the aforesaid consent had been obtained.

As a consequence, the Bank's new share issue and free float increase did not materialize within the time frame assumed, i.e. 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 31 December 2013 and the 2013 annual report publication date, i.e. 11 March 2014, shareholders' 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 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 (w likwidacji)	*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 based in Paris is the parent entity (holder of 99.93% shares) of BNP Paribas Fortis SA/NV based in Brussels. On 14 November 2013, BNP PARIBAS acquired, through an investment vehicle SFPI/FPIM, a 25% shareholding in BNP Paribas Fortis SA/NV, owned by the Belgian state.

BNP Paribas Fortis SA/NV based in Brussels is the parent entity (100% shares) of Dominet Spółka Akcyjna w likwidacji.

3.4. Changes in the shareholder structure in 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 nearly PLN 29.3 million, was earmarked in full for the increase of the Bank's own funds in the following manner: the profit portion of nearly PLN 27 million was allocated to the general risk fund, and 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. However, the issue was not carried out.

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 on 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 amended as to the Supervisory Board's right to grant consent to investments in shares and stock of companies within the capital development.

On 9 October 2013, the Bank's Extraordinary General Meeting resolved to raise the Bank's share capital by the issuance of 8,575,086 series "O" shares. The share issue was to be made available to investors under a public offering, with pre-emptive rights of the existing shareholders excluded.

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

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

- Retail Banking (RB) *, including Personal Finace dedicated to consumers loans;*
- 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 60 million (maximum PLN 40 million until end-2013, but in the range between PLN 40 million and PLN 60 million, the customer assignment is mutually agreed by RB and CTB business lines);
- 224 own and franchise branches;
- 365,689 individual customers as at 31 December 2013 compared to 355 thousand as at 31 December 2012;
- Personal Finance targets 149,000 Retail Banking customers;
- 33,810 enterprises (SME & Micro) as at 31 December 2013 compared to 31,369 as at 31 December 2012.

The Retail Banking segment specializes in providing financial services to individual customers, private banking services and offer intended for small and medium-sized enterprises. 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 with 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 with 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 with 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 with 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 60 million;
  - **Small Enterprises segment (SE)** - business customers with an annual turnover between EUR 1.2 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 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 various 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 between four types of packages that come 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 December 2013, a new offer of a personal account named *Konto Dobrze Dobrane* was introduced in selected pilot branches. A distinctive feature of the offer is its great flexibility that enables any customer to tailor a personal account to his/her personal needs. Since January 2014, the offer has been available in the entire branch network. Furthermore, a personal account played the key role in the promotional offer of cash loans.

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 (3.5% in December 2013), still remaining an attractive alternative to term deposits;
- *MasterCard* debit cards;
- Under the Digital Banking project initiated to develop digital banking services, the internet banking system *Pl@net* has been revamped and customers could begin using the mobile banking system *Mobile Pl@net* in April 2013, which definitely improved access to banking services 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.

In addition to debit cards linked to ROR accounts, the Bank offers:

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

Card sales was supported by promotional campaigns:

- an Internet campaign under the slogan *"Jedź na wakacje z Najlepszą Kartą Kredytową (Go on Holiday With the Best Credit Card)"* conducted from June 2013, which presented the competitive advantage of BNP Paribas cards on the Polish market.
- "*Podróż za kartę (Holiday for a Card)"* promotion available since December 2013.

Faced with falling deposit interest rates in 2013, customers showed growing interest in alternative ways of accumulating savings. In response to this need, the Bank in cooperation with insurance companies - TUnŻ Warta S.A. and TUnŻ Open Life S.A, offered structured products with principal amount protection at the end of the investment period:

- *EuroTrio* – two-and-a-half-year structured product offered as group endowment life insurance, 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 group life insurance linked with an insurance capital fund, based on WIBOR 3M;
- *Multiaktywa* – two-and-a-half-year structured product in the form of group endowment life insurance linked with an insurance capital fund, based on quotations of the BNP Paribas FundQuest Select Core Asset Vol 6 EUR index;
- *Global Stars* – two-and-a-half-year structured product offered as group endowment life insurance linked with the insurance capital fund UFK Open Life FS1, based on BNP Income Star Funds index;
- *DuoProfit* – two-year structured product in the form of life insurance linked with an insurance capital fund. A potential profit depends on fluctuations in NBP mid-rates for two currencies: euro and American dollar versus Polish zloty in the selected observation periods.

In August 2013, the Bank, in cooperation with TUnŻ Warta S.A., introduced *Panorama Funduszy Plus* - unit-linked investment product with a single premium. The target audience of this product are customers who seek long-term investments linked with insurance coverage.

Consequently, the Bank expanded its insurance offer by adding the following products:

- starting January 2013 - travel insurance, medical costs insurance during a foreign travel called *Bezpieczna Podróż (Safe Travel)*), sold along with payment cards;
- starting June 2013 - *Przedłużona Gwarancja (Prolonged Warranty)* insurance that protects a buyer against car repair expenses in the period of even 3 years, despite the expiring manufacturer's warranty. The insurance is for customers who finance a used car purchase with a credit facility at the Bank;
- starting September 2013 - innovative insurance *Mobileo* covering portable devices of the whole family under one policy.

In 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 using personal accounts and personal insurance were 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 2013, a further increase in sales of bank products for individual customers could be observed:

- cash loan sales was consistently growing to reach PLN 976.2 million in 2013, which is by 22.4% better than in 2012, when the sales amounted to PLN 797.6 million;
- credit card sales noted considerable growth - 16,982 cards were sold in 2013 with the credit limits for nearly PLN 50 million;

- the number of new agreements on overdraft facility in ROR accounts concluded in 2013 amounted to 15,156 to the total amount of PLN 31.8 million, in comparison to 3,401 agreements signed in 2012 to the amount of PLN 16.4 million, which represents fivefold growth in the number of concluded agreements.
- total balance of deposits made by individual customers from Mass Market, Aspiring, Affluent and Prestige segments systematically showed an upward trend. The balance rose by 18% at the end of 2013 compared to the end of 2012;
- sale of investment products soared by 113% throughout 2013 and stood at over PLN 237 million, whereas the sales totalled almost PLN 112 million in 2012.
- a share of products among the Bank's customers is systematically rising. Furthermore, products per individual customer ratio (computed as the number of products per one customer) for the existing base of active customers acquired after 1 January 2010 amounts to 3.65 as compared to 2.50 for customers acquired before that date and is 43% higher.

4.1.2. Personal Finance

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

- cash loans — mainly distributed through the branch network but also sold over the internet, the call centre and by independent financial partners;
- car loans for new and used cars; financing is mainly initiated by used car dealers and authorised dealers;
- credit cards — mainly cross-sold to existing customers holding current accounts or car loans.

Personal Finance is the driving force behind customer acquisition, income earning and boosting profitability.

As at 31 December 2013, Personal Finance funded loans granted to 149,000 Retail Banking customers.

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

- signing-off all applications for loans to consumers and micro-enterprises, greenlighting loans based on certain acceptance criteria;
- debt collection;
- customer phone service provided by the Call Centre, including also CRM (cross-selling) actions and loan sales by phone.

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

In the first half of 2013, a promotional offer for cash loans, *Wiosna 2013* (Spring 2013) was initiated, with attractive financial conditions dependent 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.

iGotówka (iCash) was launched in September– a modern credit product available fully online. Customers may apply for a loan, upload required documents and sign an agreement at the website *www.igotowka.pl*. They may receive loan funds into their accounts without visiting the Bank's branch.

In the second half of 2013, the Bank once again offered a promotion of cash and car loans to customers - *Jesień 2013 (Autumn 2013)*. Customers could take out loans at attractive pricing conditions (interest rate from 8.9% for cash loans and 6.9% for car loans) linked with maintaining a personal account with the Bank and taking out life insurance or job loss insurance.

To support sales of loans to individuals, advertising campaigns for the Spring and Autumn promotions were carried out in 2013 with the use of TV impact. The Bank also widely promoted its offer on the internet.

Car Loans

Car loans in 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.;
- *Niska Rata (Low Instalment)* - loan earmarked for a purchase of a vehicle from an authorised car dealer.
- special loan offer was continued under the campaign *Porozmawiajmy o twoich planach - Wiosna 2013 (Let's Talk About Your Plans - Spring 2013)* (for purchase of a vehicle and refinancing a car loan from another bank) available in two options: with or without opening an account;
- an offer to finance a purchase of Harley-Davidson motors was made available to customers under Harley-Davidson Finance brand. The Bank's offering is available at Harley-Davidson® authorised dealers all over Poland.
- under the contract with Volvo Auto Polska, the Bank provided Volvo dealerships in Poland with an attractive vehicle financing offer.

Credit Cards

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

4.1.3. Private Banking Segment

The Private Banking line serves the Bank's most affluent individual customers (or their investment vehicles), with liquid 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 Bank provides integrated asset management services and solutions for affluent 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.

The Private Banking customers have, in addition, full access to the Retail Banking range of products and 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. The selection of cards on offer includes MasterCard BNP Paribas World Elite. For the most demanding clients the Bank offers a charge type titanium card - American Express Centurion.

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 Dom Maklerski mBank S.A.), and
- investment advice service under which personalised investment recommendations are formulated for customers for a fee.

Owing to the services rendered by the Brokerage Office, the Private Banking customers receive recommendations and analyses consistent with the global strategy of the BNP PARIBAS Group. Investment portfolios of customers are also monitored to verify their compliance with the rules governing the selection of financial instruments adopted by BNP Paribas Wealth Management. The Brokerage Office has provided the Private Banking customers with the possibility of investing in the majority of financial instruments available on regulated markets in Poland and chosen foreign markets, including EU and USA. Those instruments include e.g. shares, bonds, futures contracts, options, index units and exchange traded funds (ETF).

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

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

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

In 2014, the offer of foreign funds will be expanded to include Parvest funds managed by BNP Paribas Investment Partners and BlackRock funds.

This service provides customers with access to bank experts on wealth planning and inheritance planning.

The Bank's offer comprises loans to Private Banking customers, including individuals and special purpose vehicles founded to optimise wealth management. Customers may use such products as mortgage loans (also to finance real estate for lease), cash loans, overdraft limit, all denominated in in PLN, EUR, USD. Other types of loans are tailored to individual customer needs.

In 2014, the Bank plans to expand the credit offer by adding loans for a shareholding purchase and bank guarantees.

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 60 million (below PLN 40 million until the end of 2013, but in the range between PLN 40 million and PLN 60 million, the customer assignment is mutually agreed by RB and CTB business lines).

The Bank's offering for these segments includes:

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

In the first half of 2013 the Bank started offering a new cash loan for microenterprises up to PLN 1.5 million, including a loan up to PLN 600,000 with no tangible collateral required. The distinctive feature of the loan is a short waiting period for a credit decision and disbursement of funds, likewise simplified formalities. The financing term is between 6 and 60 months, and even up to 72 months for loans to Professionals. The interest rate is variable and based on WIBOR 3M.

Professionals may also apply for a loan up to PLN 220,000 based on a declaration about income earned. A list of tangible collateral has been limited to a mortgage and taking over a specific amount as collateral. The Bank has ceased to require promissory notes in favour of civil suretyships. Life insurance in two options is available with a loan and customers who decide to take out an insurance policy may obtain more attractive loan pricing conditions.

In the second half of 2013, the offer for microenterprises was expanded by adding an overdraft facility up to PLN 1 million, available under new conditions, including a facility up to PLN 500,000 with no tangible collateral required. Both products are processed in Rat@tu application, which considerably shortens the period from applying for a loan to disbursement of funds. The application makes it also possible to automatically generate credit agreements and other credit documents for customers. Life insurance in 3 options is offered with the overdraft facility. Insurance holders may benefit from a lower margin. At the same time, the Bank launched the promotion of a cash loan at fixed interest rate, with compulsory life and serious illness insurance. Implementation of the promotional offer was supported by a marketing campaign targeted mainly at Professionals and Upper Micro segments.

To modernize the daily banking offer for Micro segment, the Bank started the promotion of the package *Biznes Profit Moja Firma* in June 2013 (fee for the package is PLN 0.00 provided that an average monthly balance of minimum PLN 10,000 is maintained on accounts). In December 2013, the promotion was replaced by three new Packages for Micro customers:

- Biznes Przelew (Business Transfer- mainly for customers who use internet banking and make non-cash transactions),
- Biznes Gotówka (Business Cash - for customers whose cash turnover is handled by the Bank and who use branch services)
- Biznes Optymalny (Optimal Business - for customers who use remote access channels, non-cash transactions, branch services and cash payments and withdrawals).

A monthly fee for each package is PLN 0.0 provided that an average balance in accounts is PLN 7,500.

Furthermore, a simplified path for granting FX limits for spot and forward transactions for small and medium enterprises was implemented in 2013. The Bank has significantly limited the list of documents required from customers applying for a limit up to PLN 25,000 for spot transactions and limit up to PLN 75,000 for forward transactions. The limit granting process has been also simplified.

For the SME segment customers:

- FX and IR options have been made available with no need to grant to the client the FX or IR limit, if the client pays the premium on the very day when the transaction is concluded;
- Fixed Term Loan has been introduced for customers who want to refinance investments and outlays incurred or refinance financial investments funded by other banks. The loan is secured by a mortgage on real estate. The loan is available to customers rated up to 7, whilst the maximum amount is PLN 4 million.
- *Regular* credit process has been modified and users have gained access to a new version of WENUS application supporting the credit process.

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 60 million (PLN 40 million until the end of 2013, but in the range between PLN 40 million and PLN 60 million, the customer assignment is mutually agreed by RB and CTB business lines), and to companies that are a part of international groups
- 9 Business Centres
- 2,975 corporate customers as at 31 December 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 60 million (PLN 40 million until the end of 2013, but in the range between PLN 40 million and PLN 60 million, the customer assignment is mutually agreed by RB and CTB business lines). They can be divided into four basic groups:

- Polish mid caps (annual revenues between PLN 60 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 60% were multinationals, while the remaining group included the public sector and institutional clients.

In 2013, an initiative was undertaken to increase the Bank's share in the market of Polish enterprises. The results of intensive acquisition of customers from this segment will be already visible in the first quarter of 2014.

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. Dynamic growth of the Corporate and Transaction Banking in 2013, likewise further development prospects in 2014, led the Bank to open new business centres, subordinate to the existing ones, in the following cities: Szczecin, Bydgoszcz, Toruń, Lublin, Kielce, Rzeszów.

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 speedy 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 also held with other banks (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 (from 15 February 2014 through Leasing Department) 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. The Line's primary purpose is to ensure an adequate level of funds to enable running the banking business in a secure manner while adhering to legal norms, and also ensuring a safe structure of the future cash flows.

The ALM/Treasury Line manages the Bank's liquidity and determines internal and external reference prices. It manages the Bank's balance sheet interest rate risk, operational and structural FX risks. The above tasks cover both a prudential aspect (observance of external regulations and internal procedures) and an optimisation purpose (funding cost management and generation of the net income on the management of the bank's balance sheet items). The ALM/Treasury Line activity is pursued through three profit centres: Treasury Department, ALM Department and Corporate Centre.

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, formulating and pursuing the FX policy. The assigned duties include managing short term liquidity positions in all currencies and managing short term interest rate risk and managing FX risk by concluding transactions in financial markets (such as money market cash transactions, FX transactions, FX swaps, FX spot and forward, IR derivatives, buying and selling of treasury bills, bonds and NBP bills).

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

The third profit centre is a Corporate Centre. The Corporate Centre result reflects management of the Bank's equity (at internal transfer price).

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 Bank also pursues a clearing activity. The Bank participates in the EuroELIXIR system for handling domestic transfer orders in EUR. It also offers SEPA credit transfers and indirectly participates in TARGET2.

In 2013 the Bank started cooperation with Sygma Banque to act as an intermediary for processing incoming and outcoming transfers, including mass payments. The Bank processes Sygma Banque payments, both domestic and cross-border, executed via Sorbnet and Elixir payment systems. The Bank acts as a transparent payment operator of Sygma Banque preserving its original settlement numbers in the Domestic Clearing Chamber (KIR SA).

5. ANALYSIS OF BNP PARIBAS BANK POLSKA SA PERFORMANCE IN 2013[1]

5.1. Income Statement

The Bank's profit after taxation stood at PLN 86.3 million, which was by PLN 57.0 million higher as compared to the result in 2012. Despite a material decrease in market interest rates and a lower positive impact of non-recurring items, the net banking income in 2013 grew by PLN 7.4 million (0.9%). Furthermore, efficient debt restructuring and recovery on the one hand and an improved quality of the credit portfolio on the other contributed to the cost of risk reduction by 30.5%, while the consistent implementation of the operating activity optimisation program caused general expenses to decrease by 6.7%. Evolution of key items of the Income Statement is presented below:

in PLN thousand	2012	2013	Δ 2013/2012
Net banking income	788 613	796 033	0,9%
Total operating expenses	-589 176	-549 919	-6,7%
Cost of risk	-150 994	-105 011	-30,5%
Net result on provisions	-1 041	-21 769	n/a
Net operating profit/loss	**47 402**	**119 334**	**151,7%**
Net profit/loss from disposal of assets, shares and interest	-2 091	-4 951	136,8%
Profit/loss before taxation	**45 311**	**114 383**	**152,4%**
Income tax	-16 023	-28 112	75,4%
Profit/loss after taxation	**29 288**	**86 271**	**194,6%**

In 2013, the Bank 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 a positive mark to market, which affected the net interest income in the Other Banking Activity segment in Q1 2013;
- PLN -4.8 million: write-down for impairment of the Bank's shares held in TFI BNP Paribas, which impacted the net profit/loss from disposal of assets, shares and interest in Q1 2013;
- PLN 20.0 million: cost of provisions for legal risk related to litigation with the Bank's customers regarding derivative instruments, which affected the net result on provisions in Q3 2013 in the following segments: Retail Banking in the amount of PLN 6.6 million, and Corporate and Transaction Banking in the amount of PLN 13.4 million.

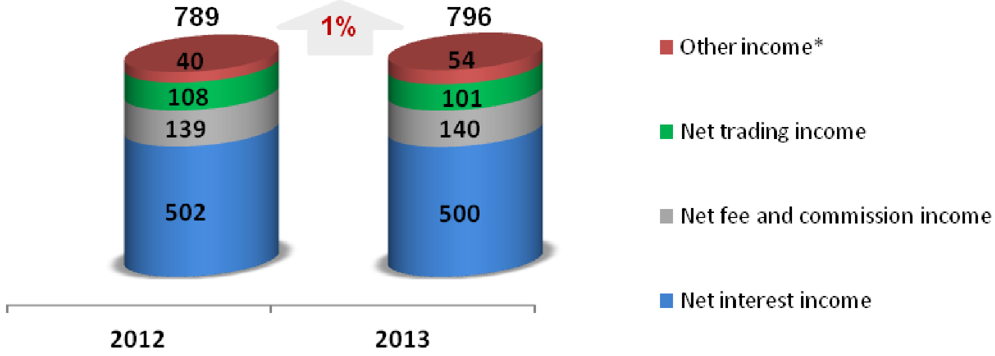
In 2012, the Bank recorded the following non-recurring or extraordinary items:

- PLN 23.2 million: net income on account of the settlement of a prepayment of some credit facilities from the BNP PARIBAS group with a positive mark to market, 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 related to hedge accounting, which had an impact on the net trading income in Q1 2012 in the Other Banking Activity segment;
- PLN 58.2 million: additional one-off provisions related to change in accounting estimates, regarding primarily the consumer credit portfolio of the former Dominet Bank, which impacted the cost of risk in the Retail Banking segment;
- PLN 13 million: employment restructuring provision, which increased personnel expenses in Q2 2012 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 2012 - 2013 (in PLN million)



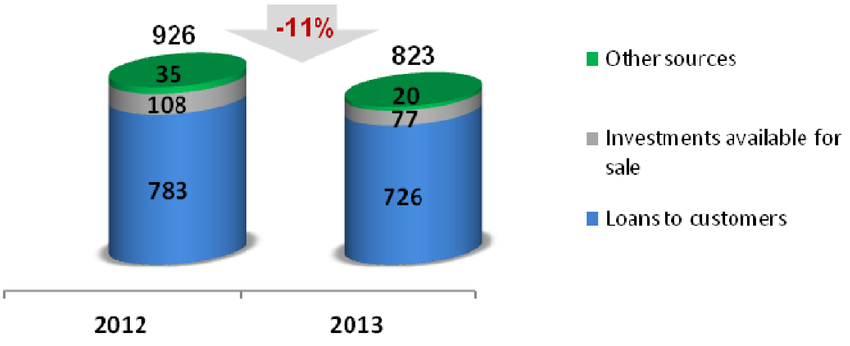
**Other income include: Net gain/loss on available-for-sale financial assets, net profit/loss on hedging transactions, net profit/loss on the hedged item, dividends and other income, and other operational expenses*

1 Certain financial data have been rounded and presented in PLN million or PLN billion, not in PLN thousand as in the Financial Statements. Accordingly, in certain instances the sum of numbers in tables and charts may not conform exactly to the total figure. Some percentages in the tables have also been rounded, and accordingly their totals may not exactly add up to 100%. Percentage changes during the compared periods were computed on the basis of the original (not rounded) amounts.

5.1.1.1. Net interest income

Net interest income, accounting for 62.9% of the total net banking income in 2013, is prevailing in the income statement structure. The net interest income was by PLN 1.6 million (0.3%) lower as compared to the previous year; however, both the Group's interest income and expenses were affected by materially lower market interest rates. The interest income structure in the periods compared was the following:

Chart 8. Interest income structure in 2012 - 2013 (in PLN million)



Interest income in 2013 amounted to PLN 823.0 million, which represents a fall by 11.1% (PLN 102.7 million) compared to 2012.

Interest on loans to customers of the Bank, which in the analysed period amounted to PLN 726.2 million, fell by 7.3%, or PLN 57.1 million.

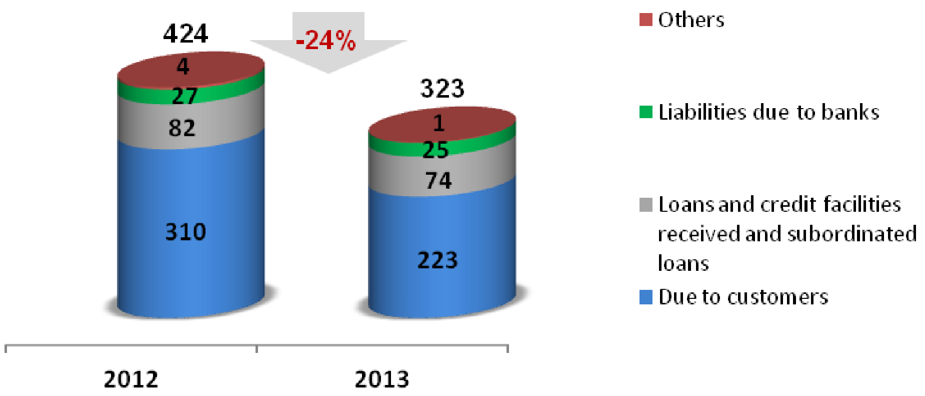
Decrease in interest on receivables due from customers derived chiefly from materially lower market interest rates, which in particular resulted in lower average interest rates on commercial and mortgage loans (for commercial loans, this effect was partially offset by additional interest income of PLN 8.7 million, earned in Q3 2013, related to restructuring of the receivables due from Vistula Group SA). Furthermore, the level of interest on receivables due from customers was positively impacted by growth of interest income on consumer loans and credit facilities, related primarily to considerable sales of cash loans and a decreased balance of non-performing loans.

Interest income on securities available for sale dropped by 28.3%, or PLN 30.5 million, chiefly due to a lower yield on debt securities in 2013.

Interest income on receivables due from banks fell by PLN 12.4 million, primarily in relation with a lower volume of funds invested in the interbank market.

Interest expenses went down by PLN 101.1 million as compared to 2012. The interest expense structure in the periods compared was the following:

Chart 9. Interest expense structure in 2012 - 2013 (in PLN million)



Lower interest expense was attributable primarily to lower expense on interest due to customers (by PLN 87.2 million, or 28.1%) and lower interest expense related to subordinated loans and loans and credit facilities received (in total, by PLN 8.5 million, or 10.3%).

Interest expense on customer deposits went down by PLN 87.2 million, despite growth of average volumes of such deposits (by nearly 7% as compared to 2012), owing to an active management of interest rates on savings accounts and term deposits in the context of the market interest rate decrease.

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 Bank,
- drop in market interest rates.

Additionally, 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. As compared to 2012, the 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 amounted to approx. PLN 17.7 million.

Furthermore in 2013, the Bank received net income of PLN 19.1 million on account of the settlement of prepaid tranches of credit facilities from the BNP PARIBAS Group with a positive mark to market (versus PLN 23.2 million received on that account in 2012).

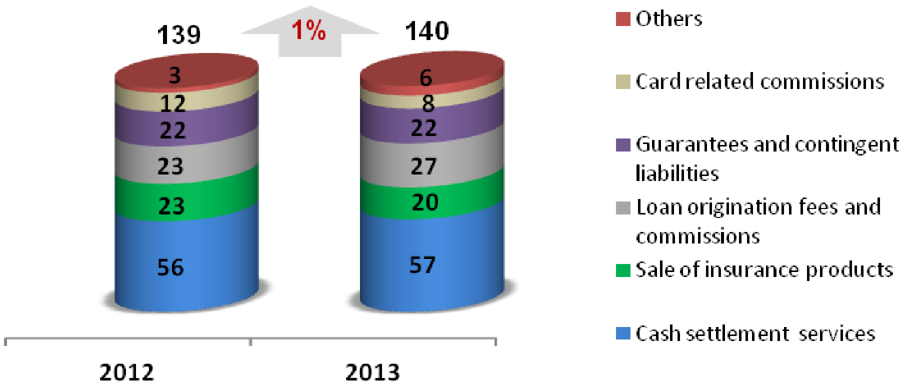
Interest expense on liabilities due to banks diminished by PLN 2.3 million, or 8.6%, in connection with the market interest rate fall.

Net interest margin in 2013 stood at 2.8% as compared to 2.9% in 2012. In the periods compared, the interest margin amount was affected by one-off income items related to the settlement of a prepayment of some credit lines granted by the BNP PARIBAS group (mainly the subordinated loan) with a positive mark to market; excluding the said income, the net interest margin in 2013 would stand at 2.7% compared to 2.8 in 2012.

5.1.1.2. Net fee and commission income

The second largest item in the Bank's income was net fee and commission income which in 2013 accounted for 17.6% of the net banking income and was by PLN 1.3 million higher than in 2012.

Chart 10. Net fee and commission income structure in 2012 - 2013 (in PLN million)



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

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

- higher loan origination fees (by 17.3%);
- increase in fees and commissions for cash settlement services that include primarily account maintenance, cash transaction and bank transfer fees (by 2.4%).

Furthermore, products per individual customer ratio, computed according to the Bank's own methodology as the number of products per one customer, is growing and for the existing base of active customers acquired after 1 January 2010 it amounts to 3.65, as compared to 2.50 for customers acquired before that date.

On the other hand, the following was recorded:

- the net fee and commission income on sale of insurance products was lower by PLN 3.5 million, in particular as regards the sale of car and cash loan insurance, due to a changing structure of the consumer loan portfolio (the average level of insurance premiums on loans granted till the end of 2009 was higher in comparison to the premiums on loans granted after that period.) It should be emphasised that in the net fee and commission income, the Bank does not recognise in advance, as non-recurring items, the total income on account of insurance premiums related directly to bancassurance banking products. Such income is settled in time (premiums collected in advance) or accrued periodically (monthly premiums) in the Bank's net fee and commission income. Only the income related to intermediation of insurance products not related directly to banking products is recognised as a non-recurring item in the net fee and commission income;
- The lower net fee and commission income related to cards (due to higher fees and commissions paid to card issuers this year), which was partially offset by net income from the release of provisions previously created with a view to these commissions, which are presented in the other fee and commission income and other fee and commission expense items.

5.1.1.3. Net trading income

In 2013, the net trading income amounted to PLN 101.4 million, which in comparison to the result generated in 2012 represents a decrease by PLN 6.5 million (6.0%). The decline YoY resulted primarily from lower positive impact of the fair value adjustments on account of credit risk of derivative instruments due to the reversal of fair value adjustments of currency options held by the Bank's customers (by PLN 7.2 million), and a lack of non-recurring income from the execution of certain hedging transactions related to hedge accounting in the amount of PLN 7.9 million, which affected the result in 2012.

Net income on foreign exchange transactions reached PLN 98.4 million in 2013 and was higher by 6.4% as compared to 2012, chiefly owing to higher net income on FX transactions of the Bank's customers. The net FX income was higher owing to an increase in the average volume of such transactions.

5.1.1.4. Other income[2]

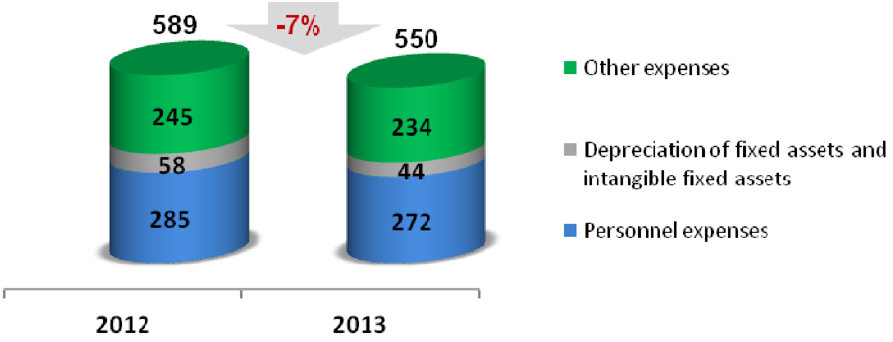
Other income in 2013 stood at PLN 54.5 million and was by PLN 14.2 million higher than in the previous year. This growth was primarily attributable to an increase in the net investment income (by PLN 7.5 million) in connection with profits earned on the sale of securities and a higher dividend received from the subsidiary, Fortis Lease Polska (by PLN 2.1 million).

[2] *Other income include: Net gain/loss on available-for-sale financial assets, net profit/loss on hedging transactions, net profit/loss on the hedged item, dividends and other income, and other operational expenses*

5.1.2. Expenses

Specific cost categories in the periods compared were the following:

Chart 11. Structure of expenses in 2012 - 2013 (in PLN million)



The Bank has been consistently pursuing a comprehensive structural programme of cost optimisation ("Triathlon"), 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 Bank and support its development. 95 optimisation initiatives and activities identified within the programme were expected to bring PLN 86.6 million savings a year. In 2013, all the savings planned under the programme were achieved. Additionally, the Bank is sharing in a global cost-efficiency project of the BNP PARIBAS group: Simple & Efficient. As a result of undertaken actions, in 2013 the Bank's general expenses and depreciation were by PLN 39.3 million (6.7%) lower than in 2012, even though the Bank made development investments.

Personnel expenses of the Bank in 2013 stood at PLN 271.9 million and were lower by PLN 13.5 million, or 4.7%, than in the previous year. Remuneration expenses went down, which was related to the one-off provision in the amount of PLN 13 million for the employment restructuring programme that charged the costs in 2012. The expenses decreased also due to a lower average employment level in the Bank. Furthermore, in view of improving financial performance, higher provisions for bonuses were created in 2013.

Depreciation of fixed and intangible assets amounted to PLN 44.3 million in 2013 and was by 24.1% lower than in 2012, which is attributable to investment savings.

Other expenses of the Bank in 2013 stood at PLN 233.6 million and were by PLN 11.7 million lower than in 2012. The decrease in other expenses was primarily related to savings made within the cost optimization programme, mainly as regards costs of rents, technology and IT systems, debt collection and telecommunications.

5.1.3. Cost of risk

Continuation of a prudent risk management policy remains the Bank's priority. In 2013, the cost of risk amounted to PLN 105.0 million, which is a decrease by PLN 46.0 million (30.5%) as compared the previous year.

Cost of risk ratio (computed as the quotient of the cost of risk and the average balance of gross loans to customers as at the end of the four subsequent quarters) stood at 0.6% in 2013 versus 0.9% in 2012.

The cost of risk was lower due to the following:

- effective restructuring and debt recovery measures concerning the impaired portfolio, including execution of the agreement on the sale of receivables due to the Bank from Vistula Group SA.
- maintaining a high quality of newly granted consumer loans;
- a considerably smaller-scale creation of additional provisions for the portfolio of consumer loans granted till mid-2009. In 2012, the level of these loans was seriously affected by one-off provisions of PLN 58.2 million that resulted from applying more conservative estimates of recoverable non-performing loans;
- sale of a portion of the non-performing loan portfolio.

The cost of risk diminished despite the economic downturn at the beginning of 2013, which particularly affected the construction sector and the segment of small and medium enterprises, which required the Bank to create additional provisions for loans to such customers.

5.1.4. Net result on provisions

In 2013, net result on provisions stood at PLN -21.8 million as compared to PLN -1.0 million in the corresponding period of 2012. The result is attributable to the following:

- cost of provisions for legal risk related to litigation with bank customers on account of financial instruments in the amount of PLN 20.7 million, of which PLN 20 million was related to options (the provision amount increased in consequence of the Bank's receiving of two new lawsuits related to options concluded by the Bank before the year 2010, with considerable amounts in dispute, and also restructuring actions taken by the Bank). In Q4 2013, the Bank signed settlement agreements in two option cases (including the one concerning the highest claim amount to date);
- other cost of the legal risk provision of PLN 1.1 million.

5.1.5. Contribution of specific segments to the financial result

in PLN thousand	Retail Banking			Corporate and Transaction Banking			Other Banking Activity		
	2012	2013	Δ	2012	2013	Δ	2012	2013	Δ
Net banking income	367 968	393 462	6,9%	258 553	275 012	6,4%	162 092	127 559	-21,3%
Total operating expenses	-488 794	-454 619	-7,0%	-81 096	-83 282	2,7%	-19 286	-12 018	-37,7%
Cost of risk	-176 984	-130 212	-26,4%	25 979	24 718	-4,9%	11	483	n/a
Net result on provisions	-424	-8 517	n/a	-252	-13 251	n/a	-365	-1	-99,7%
Net operating profit/loss	**-298 234**	**-199 886**	**-33,0%**	**203 184**	**203 197**	**0,0%**	**142 452**	**116 023**	**-18,6%**
Net profit/loss from disposal of assets, shares and interest	-1 817	-5 555	205,7%	-274	604	-320,4%	0	0	-
Profit/loss before taxation	**-300 051**	**-205 441**	**-31,5%**	**202 910**	**203 801**	**0,4%**	**142 452**	**116 023**	**-18,6%**

Retail Banking

Net banking income in Retail Banking reached PLN 393.5 million and was higher by 6.9% as compared to 2012. The above result accounts for 49.4% of the Bank's total net banking income.

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

- growth of net interest income by 9.3% primarily as a result of higher margins and production in terms of consumer loans (however, the Payment Service Directive (PSD) that imposes the requirement of sending a 2-month notice of change in price conditions to customers has adversely affected the net interest income on savings accounts in the first half of the year; an improvement of savings account margin has been recorded starting from Q3 2013);
- growth of net income on foreign currency transactions made by the Bank's customers;
- higher (by PLN 2.1 million) dividend received from the subsidiary, FLP;

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 454.6 million and were by 7.0% lower as compared to the cost level for 2012. RB personnel expenses which accounted for 52.7% of the Bank's total personnel expenses, remained flat.

The cost of risk amounted to PLN 130.2 million in 2013 and declined by PLN 46.8 million as compared to the previous year mostly owing to much lower amount of additional provisions for the portfolio of consumer credits granted before mid-2009. In 2012, the level of these loans was seriously affected by non-recurrent provisions of PLN 58.2 million that resulted from applying more conservative estimates of recoverable non-performing loans. Furthermore, the cost of risk was impacted by the clear economic downturn at the beginning of 2013, which was particularly severe in the segment of small and medium-sized enterprises.

In 2013, net result on provisions stood at PLN -8.5 million as compared to PLN -0.4 million in 2012. The above result includes the cost of provisions for legal risk related to litigation with the Bank's customers on account of financial instruments in the amount of PLN 7.4 million (of which PLN 6.6 million was related to options) and other cost of provisions for legal risk amounting to PLN 1.1 million.

Gross loss in the Retail Banking segment in 2013 amounted to PLN 205.4 million as compared to the loss of PLN 300.1 million in 2012.

Corporate and Transaction Banking

Net banking income in the Corporate and Transaction Banking activity reached PLN 275.0 million and was higher by 6.4% as compared to 2012. The above result accounts for 34.5% of the Bank's total net banking income.

The change in CTB net income is attributable primarily to:

- net interest income higher by PLN 5.6 million;
- net fee and commission income higher by PLN 2.4 million;
- net revenues of PLN 4.5 million from the sale of shares in Vistula Group SA in relation to the debt restructuring (as compared to PLN 0.5 million in 2012);
- net trading income lower by PLN 1.8 million primarily as a result of lower net revenues from releasing fair value adjustments related to FX options of the Bank's customers (PLN 8.5 million in 2012, as compared to PLN 1.2 million in 2013), which was partially compensated for by higher net income on FX transactions of the Bank's customers.

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 83.3 million in 2013, compared to PLN 81.1 million in 2012. Personnel expenses which accounted for 11.7% of the Bank's total personnel expenses, increased by PLN 3.0 million.

In 2013 the Corporate and Transaction Banking recorded a positive result on account of cost of risk in the amount of PLN 24.7 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 26.0 million in 2012. The result on account of cost of risk was positive owing to efficient restructuring measures undertaken by the Bank, including the sale of receivables due from Vistula Group SA, and a higher quality of the credit portfolio.

In 2013, net result on provisions stood at PLN -13.3 million as compared to PLN -0.3 million in 2012. This result was impacted chiefly by the cost of provisions for legal risk related to litigation with the Bank's customers involving financial instruments.

The Corporate and Transaction Banking segment's profit before tax stood at PLN 203.8 million in 2013, compared to the profit before tax of PLN 202.9 million in 2012.

Other Banking Activity

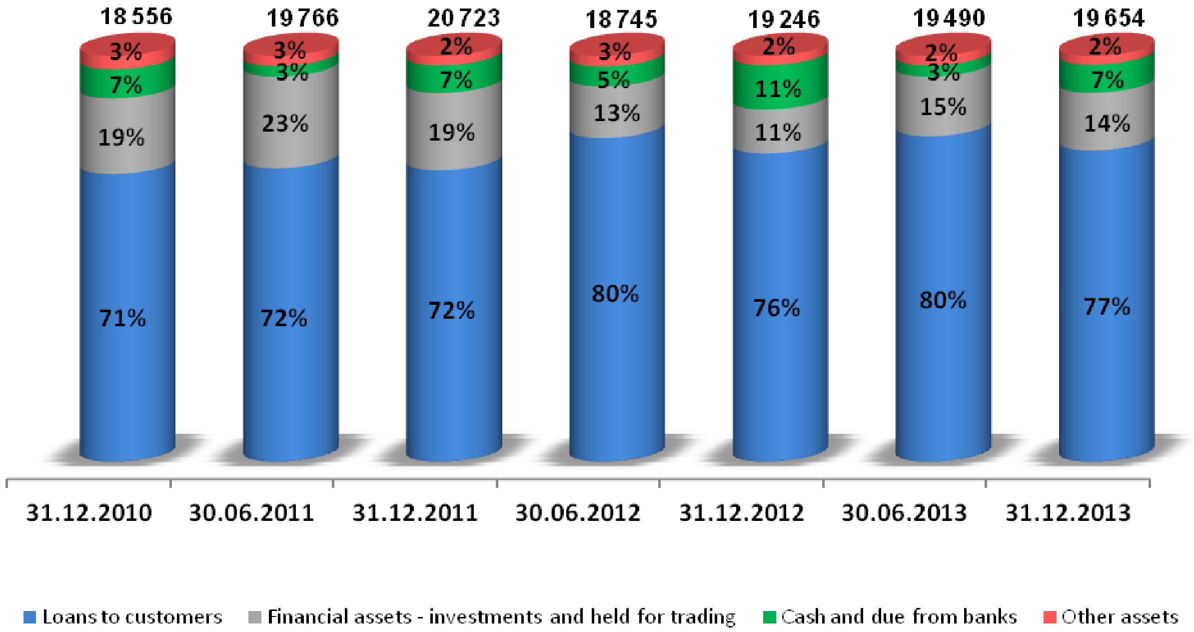
The Other Banking Activity is operationally managed by the ALM/Treasury line. In 2013, the net banking income of the Other Banking Activity segment amounted to PLN 127.6 million as compared to PLN 162.1 million in 2012. This result was primarily due to a decrease in net interest income by PLN 30.6 million, mainly because of lower interest income on available-for sale securities, higher cost of the CHF financing received from the BNP PARIBAS group, and net trading income lower by PLN 7.5 million. However, net gain on available-for-sale financial assets increased by PLN 3.5 million as compared to 2012 in connection with gains earned on the sale of securities.

5.2. Balance Sheet

5.2.1. Assets

The Bank's total assets as at 31 December 2013 were higher than the total assets as at the end of December 2012 by PLN 407.9 million, or 2.1%. Increase in the total assets concerned primarily loans to customers and the portfolio of available-for-sale investments; this growth offset a decrease in the value of cash and cash equivalents, including mainly short-term receivables due from other banks.

Chart 12. Bank's assets structure as at 31 December 2013 as compared to earlier periods (in PLN million)



The table below presents the evolution of selected assets of the Bank:

in PLN thousand	31 Dec 2012	Share (%)	31 Dec 2013	Share (%)	Δ 2013/2012
AKTYWA					
Loans to customers	14 611 806	75,9%	15 074 082	76,7%	3,2%
gross loans to customers without impairment	13 914 760		14 717 024		5,8%
gross impaired loans to customers	1 765 282		1 329 639		-24,7%
impairment provisions	-1 068 236		-972 581		-9,0%
Investments – available for sale and others	1 938 431	10,1%	2 720 205	13,8%	40,3%
Cash and cash equivalents	1 903 463	9,9%	1 290 203	6,6%	-32,2%
Due from banks	208 045	1,1%	79 201	0,4%	-61,9%
Financial assets held for trading	145 838	0,8%	70 118	0,4%	-51,9%
Property, plant and equipment and intangible assets	152 245	0,8%	162 616	0,8%	6,8%
Other assets *	285 877	1,5%	257 189	1,3%	-10,0%
RAZEM AKTYWA	**19 245 705**	**100,0%**	**19 653 614**	**100,0%**	**2,1%**

**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 - the Bank's loan portfolio profile

Net loans to customers, which increased by PLN 462.3 million (3.2%) over the level noted as at the end of December 2012, constitute the primary item of the assets structure. This increase was driven by:

- increase in the loan portfolio of large enterprises;
- active sale of consumer loans to individuals, cash loans in particular, thanks to an attractive offering supported by strong marketing activity;
- improved quality of the loan portfolio resulting in lower provisions for impairment.

Owing to consistent risk management and efficient restructuring and collection of non-performing receivables, including the sale of a portion of the uncollectible receivables portfolio in May and November 2013, both the value and share of non-performing receivables in the Bank's credit portfolio have been systematically decreasing. Loans to customers without impairment grew by 5.8% YoY.

Gross loans to customers went up from PLN 15,680.0 million at the end of December 2012 (of which PLN 11,066.7 million were gross loans to Retail Banking customers and PLN 4,613.3 million gross loans to Corporate and Transaction Banking customers) to PLN 16,046.7 million (including PLN 10,970.5 million of gross loans to Retail Banking customers and PLN 5,076.2 million of gross loans to Corporate and Transaction Banking customers).

Loan portfolio evolution and structure are the following:

in PLN thousand	31 Dec 2012	Share (%)	31 Dec 2013	Share (%)	Δ 2013/2012
Commercial loans	7 486 148	48%	7 857 638	49%	5,0%
Mortgage loans in PLN	1 654 463	11%	1 789 026	12%	8,1%
Mortgage loans in foreign currencies	4 149 779	26%	3 903 697	25%	-5,9%
Consumer loans and credit facilities	2 330 502	15%	2 442 003	15%	4,8%
Other receivables*	59 150	0%	54 299	0%	-8,2%
Total loans to customers, gross	**15 680 042**	**100%**	**16 046 663**	**100%**	**2,3%**
Provisions for impairment and IBNR	-1 068 236		-972 581		-9,0%
Total loans to customers, net	**14 611 806**		**15 074 082**		**3,2%**

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

The highest increase in comparison to December 2012 (by PLN 371.5 million, or 5.0%) was recorded in **commercial loans for business entities**; their share in the structure of gross loans to customers remains the greatest. This increase was due primarily to:

- disbursement of several major loans for investment projects of large enterprises;
- higher utilisation of overdraft facility limits;
- active sale of car loans to enterprises, which in 2013 amounted to PLN 231.0 million and was by 8.8% higher than in 2012 when the sale volume equalled PLN 212.3 million. Sale of car loans to all the Bank's clients (both enterprises and individuals) totalled PLN 385.7 million in 2013 as compared to PLN 375.4 million in 2012.

However, the economic slowdown especially in the first half of 2013 affected the demand for investment loans among small and medium enterprises; as at the end of December 2013, the portfolio of such loans remained slightly below the level as at the end of December 2012.

Furthermore, the balance of loans to enterprises in 2013 was considerably impacted by efficient debt restructuring and recovery of non-performing receivables, including the sale of substantial loan receivables with impairment loss due from Vistula Group S.A. As a result of these activities, the balance of non-performing loans, and in particular their share in the portfolio of large enterprises, has considerably diminished.

As at the end of December 2013, the balance of **loans to individuals** amounted to PLN 8,134.7 million and remained at the level recorded at the end of December 2012. The following factors contributed to the above:

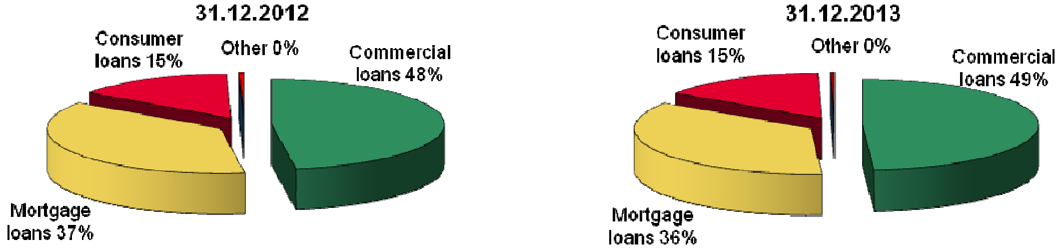
– increase in the value of **consumer loans and credit facilities** (by PLN 111.5 million, or 4.8%).

  Thanks to an attractive offering of cash loans, which remains one of the best on the market, and also marketing campaigns, the sales of those loans in 2013 amounted to PLN 976.2 million and were by 22.4% higher than in 2012 (when it stood at PLN 797.6 million.) A higher sale of cash loans compensated for a reduction in the balance of consumer loans which resulted from selling a portion of the uncollectible receivables portfolio in May and November 2013.

– growth of the **mortgage loan** portfolio (by PLN 111.5 million, or 1.9%);

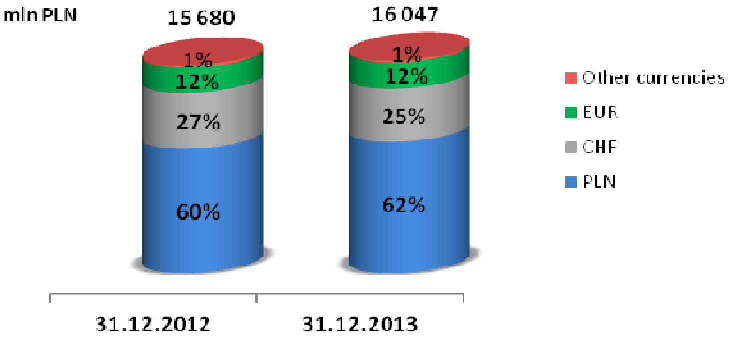
  Despite lower demand for housing loans in 2013 in relation to phasing out of the "Family Own Home" government program, the balance of **PLN mortgage loans** grew by PLN 134.6 million, or 8.1%, as compared to December 2012, as the attractive offer of these products was sustained. Their share in the total portfolio of mortgage loans has been successively growing (from 28.5% as at the end of December 2012 up to 31.4%), which is also related to the fact that the Bank discontinued granting new mortgage loans in foreign currencies. Furthermore, the value of **foreign currency mortgage loans**, which at the end of December 2013 amounted to PLN 3,903.7 million, went down by 5.9% (PLN 246.1 million); the decrease resulted from lower foreign-currency balances combined with a slight appreciation of the Polish zloty against CHF - as at the end of 2013, mortgage loans denominated in CHF stood at at PLN 3,826.9 million and accounted for 98.0% of the entire balance of foreign currency mortgage loans.

Chart 13. Structure of gross loans to customers of the Group as at 31 December 2012 and 31 December 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 December 2012 and 31 December 2013 (in PLN million)



As at 31 December 2013, foreign currency loans accounted for 38.4% of the gross loans to customers portfolio, with the biggest share of CHF loans in the amount of PLN 4,029.3 million, representing 25.1% of the total portfolio of gross loans to customers. The value of the foreign currency loan portfolio fell by 2.3% as compared to December 2012.

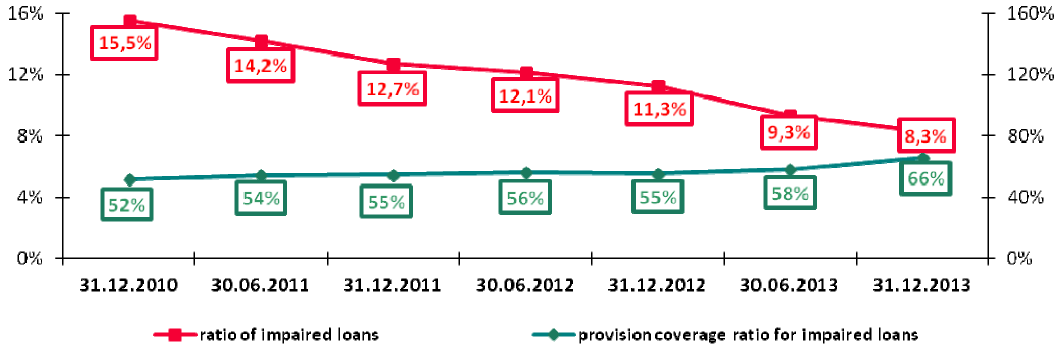
5.2.1.2. Loan portfolio quality

Quality of the loan portfolio is one of the Bank's priorities.

As at the end of December 2013, the gross value of the portfolio of impaired loans to customers amounted to PLN 1,329.6 million, hence it decreased by PLN 435.6 million (24.7%) as compared to December 2012. 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;
- efficient debt restructuring and recovery of the non-performing portfolio, including the sale of a considerable impaired loan receivable due to the Bank from Vistula Group S.A.
- 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, and in November a portfolio was sold in the gross balance-sheet value of PLN 65 million.

Chart 15. Evolution of the ratios of impaired loans and of the related provisioning as at 31 December 2013 as compared to previous periods

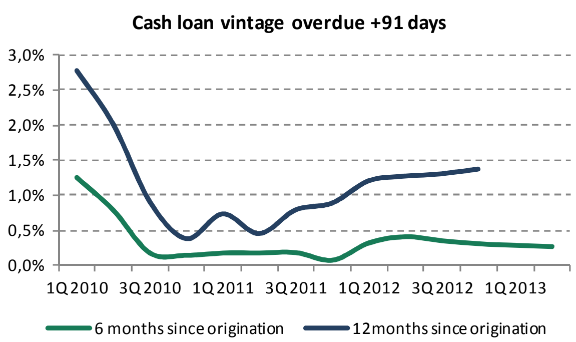


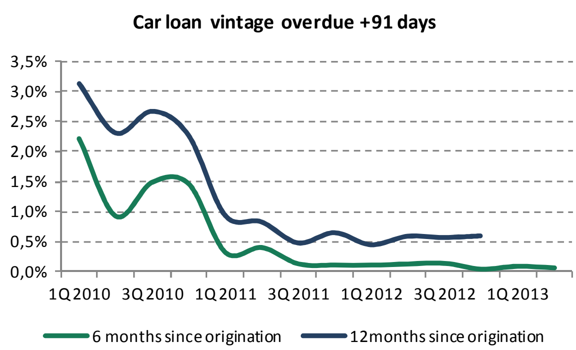
The table below presents values of the ratio of non-performing receivables to the total loan portfolio, broken by segments:

NPL ratio (% of the gross loans to customers)	31 Dec 2010	31 Dec 2012	31 Dec 2013
Corporate and Transaction Banking (CTB)	23,9%	15,8%	9,0%
SME and Mikro*	15,0%	14,6%	14,5%
Consumer loans*	30,5%	19,5%	13,2%
Mortgage loans	1,7%	2,3%	2,6%
Total loans to customers	**15,5%**	**11,3%**	**8,3%**

**consumer loans include cash loans, car loans and credit card limits, including car loans granted to customers from the SME segment*

Quality improvement of new cash and car loans is illustrated by the historical curves pointing to the decreasing share of loans past due by 91 or more days after 6 or 12 months from the loan granting date:





A decrease in provisions for impairment and IBNR (by 9.0%, i.e. PLN 95.7 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.

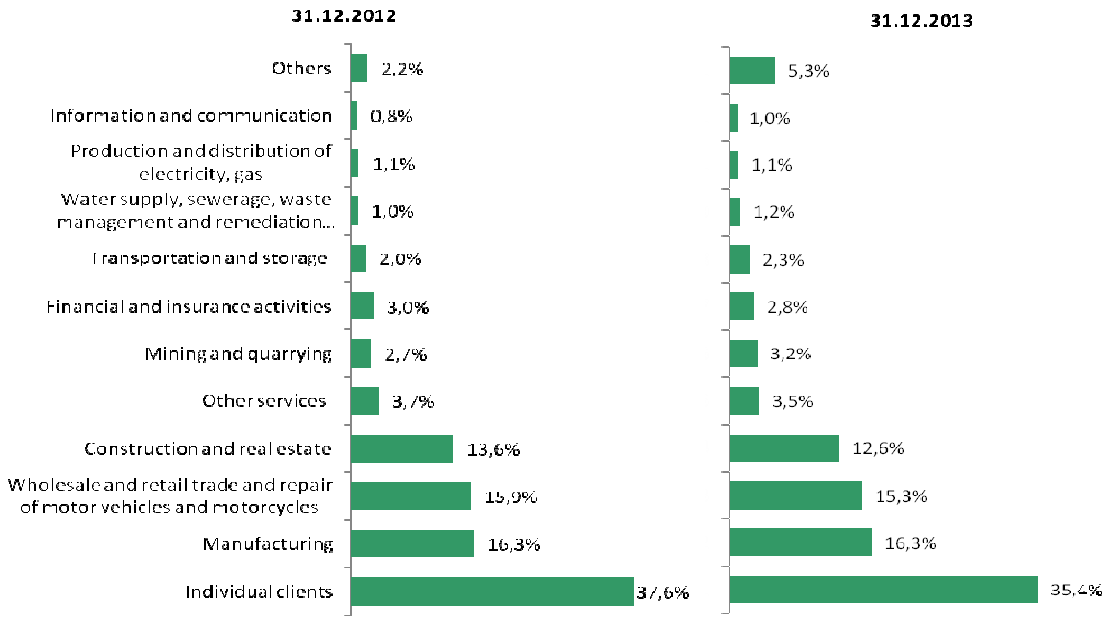
The above measures counterbalanced the impact of the economic downturn in the beginning of the year 2013, which particularly affected the construction sector and the segment of small and medium enterprises, and required the Bank to create additional provisions for non-performing loans to such customers.

5.2.1.3. Loan portfolio by sectors under statistical classification

As at the end of December 2013, the Bank's exposure (balance sheet and off-balance sheet credit exposures) stood at PLN 23.5 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, mining and quarrying, and financial and insurance activities.

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

Chart 16. Loan portfolio by sectors as at 31 December 2012 and 31 December 2013



5.2.1.4. Investments available for sale

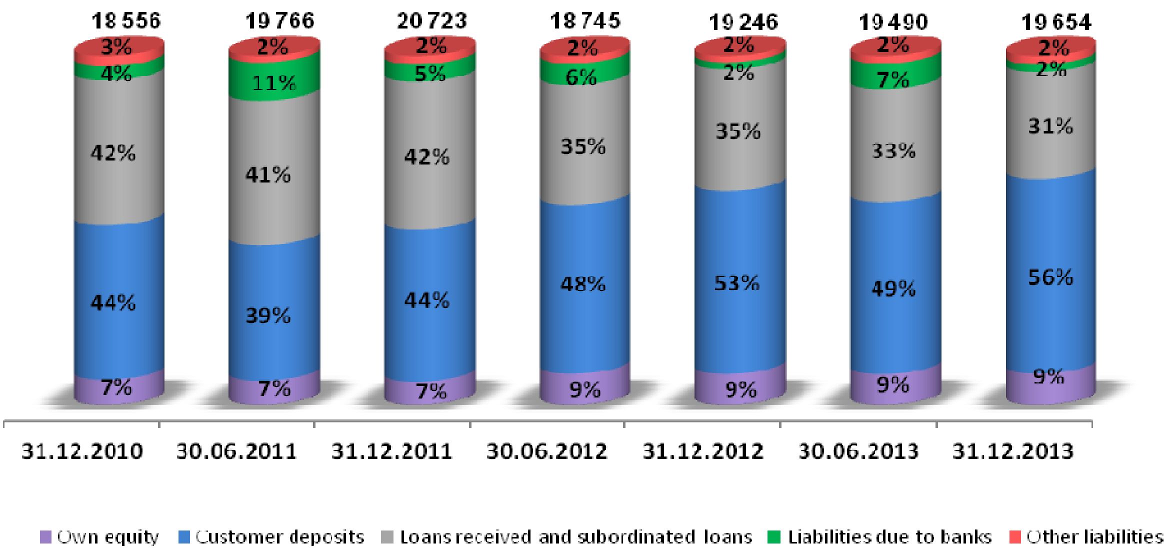
Investments available for sale increased by PLN 786.6 million (43.3%) as compared to December 2012. In order to optimise the utilisation of the liquidity surplus, the Bank purchased cash bills issued by the NBP and increased the portfolio of Treasury bonds and also bonds issued by other banks.

At the end of December 2013, Treasury bonds and NBP bills had the biggest share in the Bank's investment portfolio (70% and 27%, respectively).

5.2.2. Liabilities

The Bank's liabilities structure is as follows:

Chart 17. Liabilities structure as at 31 December 2013 as compared to previous periods



The table below presents the structure and evolution of the Bank's selected liabilities:

in PLN thousand	31 Dec 2012	Share (%)	31 Dec 2013	Share (%)	Δ 2013/2012
LIABILITIES					
Due to customers	10 113 114	52,5%	10 971 677	55,8%	8,5%
Loans and credit facilities received	6 023 287	31,4%	5 586 978	28,4%	-7,2%
Due to banks	382 327	2,0%	424 273	2,2%	11,0%
Subordinated liabilities	694 251	3,6%	452 192	2,3%	-34,9%
Financial liabilities held for trading	86 718	0,5%	69 790	0,4%	-19,5%
Other liabilities *	248 054	1,3%	392 467	2,0%	58,2%
Total equity	**1 697 954**	**8,8%**	**1 756 237**	**8,9%**	**3,4%**
TOTAL LIABILITIES	**19 245 705**	**100,0%**	**19 653 614**	**100,0%**	**2,1%**

**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. Liabilities

Customer deposits together with loans and credit facilities received continue to constitute the main source of financing the Bank's assets. In 2013, the Bank continued adjusting its financing structure to the current needs.

As compared to the end of December 2012, the value of **loans and credit facilities received** went down by 7.2% (PLN 436.3 million), mainly as a result of:

- repayment by the Bank of certain credit lines from the BNP PARIBAS group in January, July and October 2013 (the Bank repaid credit lines in the aggregate amount of CHF 525 million and EUR 90 million, and also drew down new tranches of the BNP PARIBAS group's financing in the total amount of CHF 360 million and EUR 120 million with a longer maturity), in connection with a decreasing balance of the CHF loan portfolio;

The principal component of loans and credit facilities received are credit facilities granted by the BNP PARIBAS group; as at the end of December 2013 they constituted 90.5% of loans received by the Bank. This category includes also credit facilities from the European Investment Bank and the European Bank for Reconstruction and Development earmarked for financing investment projects of small and medium-sized enterprises.

Subordinated liabilities include subordinated loans from the BNP PARIBAS group. Their value fell by PLN 242.1 million (34.9%) 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 that was repaid. The second tranche in the amount of EUR 60 million was repaid at the beginning of January 2013. Owing to the measures undertaken, the resilience of the Bank's capital adequacy ratio to the exchange rate volatility has improved and the debt maturity has been extended.

Liabilities **due to banks**, whose share in total liabilities of the Bank as at the end of December 2013 reached 2.4%, are an additional source of financing. The growth in due to banks (by PLN 41.9 million as compared to the end of December 2012) was mainly fuelled by the increased value of the term deposits, in particular deposits made by the banks of the BNP PARIBAS group.

5.2.2.2. Customer deposits

As at the end of December 2013, the balance of liabilities due to customers amounted to PLN 10,971.7 million (of which PLN 5,960.8 million were deposits held by Retail Banking customers, whereas PLN 5,010.9 million were deposits held by Corporate and Transaction Banking customers), so it grew by PLN 858.6 million (i.e. 8.5%) as compared to December 2012, when it stood at PLN 10,113.1 million and included Retail Banking deposits of PLN 5,351.3 million and Corporate and Transaction Banking deposits of PLN 4,761.9 million.

The growth was related to the deposit base structure change, as a result of an active management of the deposit base, and concerned mainly the following:

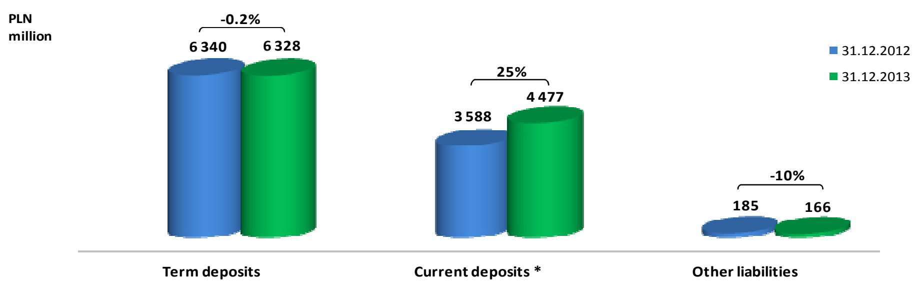
- savings accounts of individuals;
- core deposits on current accounts of individuals and enterprises.

Furthermore, term deposits held by large enterprises also exceeded the balances noted at the end of December 2012, which were affected by several short-term large deposits of corporate customers. The aforementioned increases compensated for lower term-deposit balances in the segments of individuals and small and medium enterprises.

Consequently, PLN current deposits went up by PLN 894.3 million (i.e. 36.8%), counterbalancing a decrease in PLN term deposits (by PLN 26.8 million, or 0.5%)

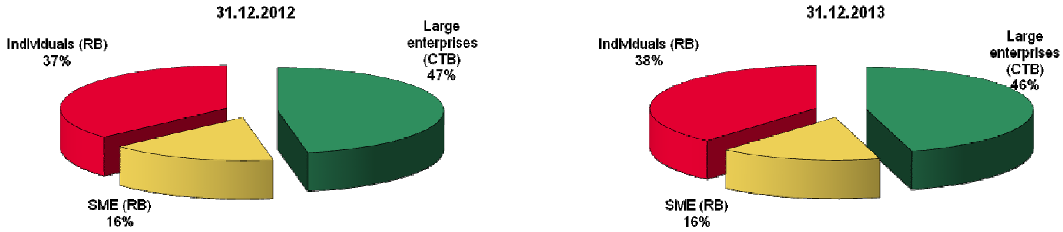
Deposits denominated in foreign currencies account for 14% of total customer deposits. Their balances stood at the same level as at the end of 2012. In the structure of foreign currency deposits, EUR deposits prevail (79% of foreign currency deposits and 11% of total customer deposits).

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



*inclusive of savings accounts, which at the end of December 2013 accounted for 39% of total current deposits

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



5.2.2.3. Equity capital

As at the end of December 2013, the Bank's equity capital amounted to PLN 1,756.2 million which represents growth by 3.4% or PLN 58.3 million over the end of December 2012. This growth results mainly from net profit generated by the Bank in 2013. The above effect, however, was partially offset by a decrease in revaluation reserve (by PLN 28.0 million) that referred to investments available for sale.

In the course of preparation to the public share issue in May 2013, the Bank's share capital was decreased by PLN 130.3 million down to PLN 1,304.4 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. In connection with an acquisition planned in Poland by the BNP PARIBAS group, in December 2013 the Bank suspended the share issue process.

5.2.3. Capital Adequacy Ratio

The capital situation of BNP Paribas Bank Polska SA in 2013 remained stable, which allowed the Bank to safely continue its business activity and carry out plans. As at 31 December 2013 the Bank's capital adequacy ratio stood at 12.9%, compared to 14.5% 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 Bank's capital adequacy ratio as at the end of last year would have amounted to 12.9%), 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 December 2013 stood at PLN 1,260.9 million and was by 2.5% higher than as at the end of December 2012.

Tier 1 ratio equalled 10.3% and exceeded the level recorded at the end of December 2012 (i.e. 10.1%).

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 thousand	31 Dec 2012	31 Dec 2013	Δ 2013/2012
Total contingent liabilities granted			
- items related to financing	5 022 341	5 818 363	15,8%
- guarantees	1 922 255	2 008 974	4,5%
Total contingent liabilities granted	**6 944 596**	**7 827 337**	**12,7%**
Contingent liabilities received			
- items related to financing	1 462 000	2 125 000	45,3%
- guarantees	490 046	514 690	5,0%
Total contingent liabilities received	**1 952 046**	**2 639 690**	**35,2%**
Total contingent liabilities	**8 896 642**	**10 467 027**	**17,7%**

Contingent financial commitments increased (by PLN 796.0 million) primarily with respect to unused credit lines (mainly overdraft credit facilities) granted to corporate customers. 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 comprise guarantees issued in favour of customers, general guarantee agreements and export letters of credit. 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 Bank resulted primarily from an increase of unused credit lines available for the Bank at the NBP.

Off-balance sheet guarantee commitments obtained by the Bank encompass mainly guarantees, counter-guarantees and sureties that secure the granted loans. Their slight growth noted in comparison to December 2012 concerned primarily guarantees received from other banks.

5.4. Basic ratios

The Bank's ratios are presented below:

Ratio	31 Dec 2012	31 Dec 2013
Profitability Ratios		
Net interest margin (NIM)*	2.9%	2.8%
Cost / Income*	74.7%	69.1%
Return on Assets (ROA)*	0.2%	0.4%
Return on Equity (ROE)*	1.8%	5.0%
Net fee and commission income / Net banking income	17.6%	17.6%
Equity ratios		
Tier 1 ratio*	10.1%	10.3%
Capital Adequacy Ratio	14.5%	12.9%
Loan portfolio quality		
NPL ratio*	11.3%	8.3%
Provisioning coverage ratio *	55.3%	65.7%
Cost of risk ratio *	0.9%	0.6%
Net loans to deposits ratio	144.5%	137.4%
Net PLN loans to PLN deposits ratio	99.0%	96.4%
Stock ratios		
Earnings (loss) per share	1.10	3.01
Book value per share	59.2	61.2

*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 / Income	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 rate of current and term deposits at the Bank in 2013, as compared to the average interest rate 2012, was the following:

- PLN deposits: 2.63%, compared to 3.89%;
- FC deposits: 0.52%, compared to 0.81%.

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

- PLN loans: 6.57% versus 7.79% in 2012;
- EUR loans: 2.66% versus 2.87% in 2012;
- USD loans: 1.89% versus 1.78% in 2012;
- CHF loans: 1.16% versus 1.22% in 2012.

5.6. Enforcement titles and value of collateral

In 2013, the Bank issued 183 enforcement titles in the enterprises and affluent individual customer segments for the total amount of PLN 196,236 thousand as at 31 December 2013 in comparison to 165 enforcement titles issued in those segments in 2012 for the amount of PLN 145,320 thousand.

Moreover, in 2013 the Bank issued 6,978 enforcement titles and lawsuits in electronic writ of payment proceedings in the individual customers segment, valued in total at PLN 100,895 thousand as compared to 23,197 enforcement titles and lawsuits in electronic writ of payment proceedings in the exposure value of PLN 158,925 thousand issued in 2012.

The nominal value of collateral established on borrowers' accounts and assets totalled PLN 70,820,574 thousand as at 31 December 2013, as compared to PLN 90,831,710 thousand as at 31 December 2012.

5.7. Management of financing sources

The basic sources of financing for lending activity include customer deposits accepted by the Bank both from enterprises and individuals, medium and long-term credit facilities granted by financial institutions, including credit lines and subordinated loans from entities that are part of the BNP PARIBAS group, and the Bank's equity. 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 Dec 2012 *in PLN thousand*	31 Dec 2013 *in PLN thousand*	Δ 2013/2012
Customer deposits	10,113,114	10,971,677	8%
Credit lines and subordinated loans	6,717,538	6,039,170	-10%
Own equity	1,697,954	1,756,237	3%

In 2013, deposit balances in PLN increased, whereas the balance of foreign currency loans slightly went down. The total balance of customer deposits went up.

The balance of the medium and long-term credit lines and subordinated loans diminished.

In January 2013 the Bank partially repaid 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 decreasing balance of the loan portfolio in this currency. Likewise in January 2013, the Bank repaid a subordinated loan of EUR 60 million. In July 2013, the Bank repaid a credit line of CHF 25 million. Simultaneously, a credit tranche of EUR 30 million was drawn down. In October 2013, the Bank repaid the maturing credit line of CHF 250 million. At the same time, the Bank drew down funds under subsequent tranches, in the aggregate amount of CHF 200 million. In December 2013, the Bank repaid the maturing credit line of EUR 90 million, while receiving funds in the same amount under the subsequent tranche.

Financing granted by the BNP PARIBAS group to the Bank in the reporting period decreased by PLN 680 million. The total value of medium and long-term financing by the BNP PARIBAS group (including subordinated loans) as at the end of December 2013 amounted to PLN 5,510 million.

Furthermore, the Bank actively cooperates with European and international financial institutions, including the European Investment Bank and the European Bank for Reconstruction and Development. At the end of December 2013, the disbursed financing made available by these institutions (interest not included) totalled PLN 528 million.

The Bank ensures its short-term liquidity also through credit lines available in the interbank market.

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

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.

According to the strategy reviewed in 2013, 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 2014 are presented in *item 1.3. of this Report*.

The adoption of the strategic plan of organic growth does not exclude development through acquisitions on the Polish market at the same time. In December 2013 BNP PARIBAS group has reached the agreement with Rabobank Group for the purchase by BNP Paribas group of the 98.5% stake held by Rabobank in Bank Gospodarki Żywnościowej S.A. ("Bank BGŻ"), valuing Bank BGŻ at PLN 4.2 billion (approximately EUR 1 billion). The completion of the transaction is subject to obtaining the necessary regulatory approvals.

The acquisition of Bank BGŻ constitutes a major step towards attaining a critical size of the BNP PARIBAS group banking operations in Poland. This transaction, bringing together two complementary entities, will strengthen the capacity of BNP PARIBAS to provide its Polish clients with a full range of services. The combination of Bank BGŻ expertise, notably in the agri & food business and in e-banking, with the existing operations of BNP Paribas Bank Polska will create a unique player among Polish banks with significant growth prospects.

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.

CTB will continue to develop its competences in the area of 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, offered lease of fixed assets, including real estate, means of transport, construction machinery and specialist equipment for the industry. Aiming at improvement of the business and cost efficiency the leasing business of the subsidiary has been incorporated into the Bank's structure on 15 February 2014 (after the balance-sheet date). Leasing solutions are offered at the Bank now by the newly created Leasing Department.

Customers of the Bank have access to factoring services offered through BNP Paribas Factor Sp. z o.o. Since the acquisition of the factoring company in 2012 the cooperation with the factoring subsidiary, meant 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 2014 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 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 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 addition to products and services available to individual customers, the Bank addresses its offering through Private Banking unit to high-net-worth individuals holding assets worth PLN 600,000 and above. The offering includes services of a Brokerage Office, investment advisory services, wealth planning, discretionary portfolio management and execution of clients' orders for the sale and purchase of financial instruments. Private Banking customers also have access to services and products offered by the BNP PARIBAS group Wealth Management. In 2013 the Private Banking business enjoyed dynamic growth based on the new model and set-up launched in 2012.

In the Individual Customers segment in 2014, 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 multi-channel sale model, combined with the fully utilized potential of the Customer Relationship Management (CRM) tool facilitates 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, in 2013 the Bank developed a new product offering that supports our customers' current business activity and its further growth. To further develop the SME segment, the Group intends to capitalize on :

- its network of 28 dedicated branches (Financial Centres) and over 100 client advisors, supported by analysts and assistants;
- its broad and competitive offer of financing and banking solutions (cash management, trade finance, FX, leasing and factoring), with special expertise in EU-backed loans;
- improved credit process & product expertise; aiming at reduction of loan approval and drawdown availability times, whilst maintaining a prudent approach to risk;
- 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 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. The EU programmes in general facilitate granting loans & leasing, and guarantees for RB SME, Micro, CTB, Individuals and Public Sector. Agreements with the EIB and EBRD enable the Bank to finance investment projects of medium enterprises. As it is expected that this kind of programs will intensify a dedicated unit has been created in January 2014 to effectively manage the Bank's internal ability and capacity of absorbing various EU and Public funds that will be available in Poland in the period of 2014-2020. The new EU&Public Programmes Office will be responsible for cooperation with different institutions involved in EU funds distribution (searching, analyzing and initiating the most appropriate EU and Public Programmes, contracting and reporting) as well as for creating for all business lines in the Bank a coherent sales strategy based on EU and Public programmes.

In 2013 the Bank pursued further development of the multichannel international banking model (MIB), having completed reinforcement of the Contact Centre, Internet and Mobile Banking. Still 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, maintaining high 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 remain the priorities in the management of the Bank for 2014.

In 2013 the Bank completed a comprehensive structural programme of cost optimisation launched in 2012 aimed at improving the financial position, in particular reducing the cost/income ratio. The project focused on optimisation of operational efficiency and cost reduction, mainly in the central and back office functions, while at the same time investing selectively in the sales network and business lines. The Bank introduced improvements in automation, simplification of organisational structure, insourcing/outsourcing, process improvements, negotiation of more favourable contracts, decrease in number of layers in the organisational structure and marketing expenses re-prioritisation. The project included a redundancy programme affecting 363 full-time positions till the end of 2013, out of which 60 persons were re-employed on other internal positions. There were 95 initiatives realised which resulted in the savings of PLN 86.6 million on a full-year basis. In execution of its cost cutting initiatives the Bank proved the ability to contain cost without hampering future business development.

In 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, August and November 2013), stricter monitoring of repayments and more effective debt collection process, as well as improved quality of newly granted loans. Moreover pro-active restructuring and debt recovery efforts resulted in successful completion of Vistula Group debt restructuring. At the same time the management maintains the prudent risk approach and applies prudent provisioning of litigations related to FX derivatives transactions concluded prior to 2010.

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.

In the revised Programme for BNP Paribas Bank Polska SA, approved by Polish Financial Supervision Authority (PFSA) in July 2013, 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 execution of the Group's strategy, 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%.

The results of the Group in 2013 show strong profitability improvement driven by continued progress on strategy implementation across the business pillars. The Bank maintained solid capital position and liquidity. The future is marked with a solid revenue growth potential supported by the expected forthcoming economic recovery.

The Bank's capital position remains secure. The Bank's (stand alone) capital adequacy ratio as at December 31, 2013 reached the level of 12.9% and the Tier 1 ratio reached 10.3%. 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 12.4% (Tier 1 ratio at 9.7%) as at 31 December 2013, thus substantially exceeding the minimum level of 8% as required under the *Banking Law Act*.

In 2013, the Bank's management with full support of its main shareholder took actions to conduct a capital increase through issuance of new shares aimed to reach free float of 15% and thus to fulfil the commitment of the BNP PARIBAS group towards the Polish Financial Supervision Authority (PFSA).

The planned public offering of the series "O" shares, based on the issue prospectus approved by the PFSA on 19 June 2013, was finally not carried out in view of a highly unfavourable market situation at the Warsaw Stock Exchange. In the third quarter of 2013, the Bank continued its endeavours to fulfil the commitment. On 9 October 2013, the Extraordinary General Meeting of the Bank made a new decision to increase the Bank's share capital through the issue of 8,575,086

series "O" shares, with a concurrent decrease of the share capital by reducing the nominal value of each share from PLN 45.46 to PLN 35.00. The series "O" shares are to be made available to investors under a public offering, with pre-emptive rights of the existing shareholders excluded. 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 would not negatively affect the Bank's capital level and capital adequacy ratios.
In December 2013, the proceedings before the PFSA aimed at the approval of the Bank's issue prospectus prepared in relation to the offering of series O shares of the Bank (on the basis of the resolution of the EGM of 9 October 2013) were suspended by the PFSA. Discontinuation of work on the offering by the Bank and applying for the suspension of the proceedings was related to information received by the Bank from BNP PARIBAS group, on planned acquisition of the shares in Bank Gospodarki Żywnościowej S.A.

In connection with the foregoing, the Bank was not able to attain the increase of the free float of the Bank's shares to 15% by the previously planned deadline, i.e., the end of 2013.

Similarly as in 2013, the Supervisory Board and Board of Executives do not publish the financial performance projections for 2014.

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,
- foreign exchange risk (FX risk),
- interest rate risk,
- counterparty risk,
- operational risk.

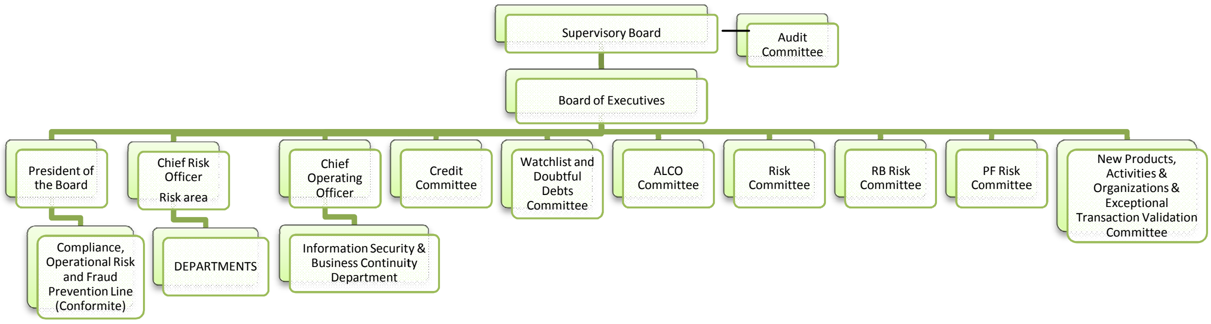
To guarantee that the above-mentioned risk categories are identified, defined, as well as appropriately controlled and managed - the Bank observes numerous internal control procedures and risk level limits, which were described in detail in *Note 31* in the *Annual Consolidated Financial Statements of BNP Paribas Bank Polska SA for 2013.*

The Bank has developed detailed procedures for all risk categories, both at the level of the Bank and at the level of individual business lines, which describe the risks and the 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 organisation of the risk management system at the Bank comprises mainly the Supervisory Board, Board of Executives, dedicated committees (Audit Committee at the Supervisory Board level, Assets and Liabilities Committee (ALCO), Risk Committee, RB Risk Committee, PF Risk Committee, Credit Committee, Watchlist and Doubtful Debts Committee, New Products, Activities and Organisations and Exceptional Transaction Validation Committee), Risk Area Departments, Compliance and Operational Risk and Fraud Prevention Line, and 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 within the predefined contractual date.

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. On all competence levels, credit decisions are made by two people (under the "four-eyes" principle) by a representative of the business line and a representative of an organisational unit responsible for an assessment, independent of the business line, of the customer and transaction risks. With respect to customers for whom the credit risk is assessed using scoring models approved by the Risk Committee or Retail Banking/Personal Finance Risk Committees, as the case may be, credit decisions can be made by one person - by business line representatives.

The risk assessment based on scoring models that use, among other things, data from the Credit Information Bureau, is applied to individuals. The creditworthiness of business entities is estimated based on a rating system that contains ten rating classes to assess entities that fulfil the payment obligations (PD < 1) and two rating classes for defaults.

In 2013, the Bank introduced changes to the credit risk management system to improve its effectiveness and align it with the BNP PARIBAS group's standards as well as regulatory requirements. The most significant changes include:

- implementation of the BNP PARIBAS rating scale;
- modification of the Bank's Credit Policy;
- adaptation of the credit risk management system to the requirements of revised Recommendations J, S and T of the Polish Financial Supervision Authority;
- 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;
- development and implementation of a new rating model for customers of the Micro segment;
- implementation of a new scoring card to support the assessment process of credit applications for consumer loans;
- introduction of new rules for approving changes and temporary deviations from terms and conditions of credit decisions/credit agreements;
- modification of the rules applied to appraisals of real properties that secure credit exposures;
- introduction of the credit decision standard "Authorisation Ticket" used in the process of granting and reviewing credit exposures of CTB and SME segment customers.

The Bank's subsidiaries

In the risk management the Bank's subsidiaries apply the assumptions and rules stipulated in the *Risk Management Strategy at BNP Paribas Bank Polska SA*. The rules of the Bank's supervision over the credit risk generated by the activity of subsidiaries were stipulated in the *Credit Policy at BNP Paribas Bank Polska SA*.

The Bank recommends, issues opinions and approves policies, rules and methodologies applied by the subsidiaries in the credit risk management.

Credit risk management methods applied at the Bank and its subsidiaries simultaneously include:

- rating system for CTB and SME customers;
- system of risk classification according to IFRS;
- credit capacity assessment of shared customers of the Bank and its subsidiaries;
- model of making credit decisions,
- system of the Bank's internal limits for concentration risk, which includes limits for receivables portfolio of subsidiaries.

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);
- differences in base rates which are the grounds for determining interest rates of positions of the same re-pricing terms (base 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. For its market risk analyses the Bank uses, among others, a scenario analysis and stress testing set. The analyses are based on both theoretical changes in market parameters and on changes that actually occurred at the market in the past.

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.

Thanks to this rule business functions have been separated from risk level control functions, operational functions from risk control functions and operational functions from business functions.

The purpose is to ensure an appropriate quality of the risk level control and operational processes, and also to ensure that the control results indicating an excessive risk level meet with an appropriate response of the Bank's management.

The Bank has developed rules on risk control and management, including the procedure in the event of crisis situations. The rules for identifying crisis phenomena, the scope of actions undertaken and responsibility scope which is indispensable to limit the risk in such cases and to undertake corrective actions have been defined.

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 sources of financing of the Bank's activity that are stable and suited to the needs;
- limiting the Bank's dependence on market conditions volatility and ensuring that in a situation of a market crisis, the Bank, within a short time, will be able to fulfil its obligations without limiting the range of the services provided and initiating changes in the core activity profile. In the case of a crisis situation lasting in a longer time horizon, the Bank's strategy assumes maintaining liquidity, however, allowing changes in the development directions and implementation of costly processes of the activity profile modification;
- limiting, actively, a probability of occurrence of unfavourable events that may affect the Bank's liquidity situation. In particular, it refers to the events that may influence the reputation risk. In such a case, the Bank will take measures to regain the confidence of customers and financial institutions as soon as possible;
- ensuring high quality standards for the liquidity management processes. The actions aimed at improving the quality of the liquidity management processes have been assigned the top priority at the Bank.

Foreign exchange risk

The Bank runs business which results in taking FX positions sensitive to market FX rate changes. At the same time, the Bank strives to limit the exposure to FX risk related to offering FX 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:

- FX position,
- global FX position,
- Value at Risk (VaR),
- daily profit/loss on the FX position management.

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

To measure the FX risk, the Bank applies the Value at Risk (VaR) method. It is a change in a market value of an asset or a portfolio of assets, with specific market parameters assumed, within a defined time frame and with a set probability. It is assumed that for the purposes of the FX risk, VaR is determined with a 99% confidence level. The calculation of VaR for FX 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 FX position is maintained (a historical review or the so-called 'back testing'). The comparative period is the last 250 business days. The VaR back-testing carried out in 2013, demonstrated no need to revise the model.

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), computed with the 99% confidence level for various periods of keeping a position for the banking and trading books;
- interest earnings at risk (EaR) - simulations of future (within the next year) net interest earnings assuming 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 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.

Counterparty credit risk assessment with respect to transactions generating counterparty risk is similar to the assessment performed for lending. It means that in the lending process, the transactions are subject to limits whose value results directly from assessment of creditworthiness of customers, carried out analogously as for the purpose of offering credit products. The assessment also takes into account a specific nature of the transactions and in particular, their changeable value over time or direct dependence on market parameters.

Rules of entering into FX and derivative transactions, likewise granting, using and monitoring credit limits for the transactions subject to limits of the counterparty risk are regulated 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 needs of the operational risk management, the Bank adopted a definition binding in the BNP PARIBAS group, according to which operational risk is understood as the risk of incurring economic loss resulting from an application of inappropriate or ineffective internal processes or from external events, irrespective of whether the events were intentional, accidental or driven by natural causes. Internal processes may 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. Operational risk includes in particular legal risk and compliance risk.

The operational risk management consists in continuous operational risk identification, analysis, monitoring, control, reporting and counteracting processes, including determination of relevant strictures, 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 regard has been stipulated in the *Operational Risk Management Policy at BNP Paribas Bank Polska SA*, approved by the Board of Executives and accepted by the Bank's Supervisory Board, which assesses the policy implementation and, if necessary, orders its revision. The Operational Risk Management Policy applies to all areas of the Bank's activity and 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.

- With respect to the operational risk management quality, the Bank's objective is to introduce and maintain a high level of operational risk management and assessment that will guarantee the safety of customers' deposits and capital and stability of the Bank's financial result.
- The Bank aims at maintaining the operational risk within the adopted appetite and tolerance for operational risk through ensuring observation of the rules for the operational risk management.
- As regards the Bank's adaptation to the legal requirements concerning operational risk, the Bank's goal is to implement and apply an operational risk management and assessment system that meets legal requirements consistent with recommendations and resolutions of the local financial supervision authority, concerning the operational risk management and assessment.

The Bank's Board of Executives periodically verifies implementation of the Bank’s operational risk management policy assumptions and, if necessary, orders introduction of adjustments indispensable to improve the system. 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.

Pursuant to the Policy, the operational risk management instruments include:

- IT software application to record operational events along with the rules of their recording, allocation and reporting;
- analysis, monitoring and daily control of operational risk,
- preventing an increased operational risk level occurrence, including risk transfer;
- calculation of a capital requirement for operational risk.

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.

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. Whereas, the business continuity management is the responsibility of the Information Security and Business Continuity Department.

As a part of legal risk management, the Legal and Organisation Department monitors, identifies, analyses changes in the common law provisions and their impact on agreements, unilateral declarations and other documentation and internal procedures of the Bank as well as pending (and expected) judicial and administrative proceedings that affect the Bank. 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. The rules applicable in this respect are included in the *Fraud Prevention Policy* at BNP Paribas Bank Polska SA. Its implementation is the responsibility of a specialised unit, the Fraud Prevention Department.

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 and also outsourcing.

Pursuant to the operational risk management policy, the operational risk analysis aims at understanding dependence between factors that generate this risk and operational events types, and its most important result is determination of an operational risk profile.

The operational risk profile, which constitutes the assessment of risk severity level, understood as the scale and structure of operational risk exposures, is used to define the level of exposure to operational risk 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. Additionally, as a part of the operational risk mapping, stress testing is carried out in the form of scenario analyses of the operational risk.

Recording operational losses facilitates an effective analysis and monitoring of operational risk. The operational losses recording process is supervised by the Operational Risk Department which verifies quality and completeness of data related to operational losses recorded in a dedicated IT application, available to all the Bank's organisational units.

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.

In its preventive actions against an increased operational risk level occurrence the Bank may decide to: reduce the risk (e.g. through a change of the existing processes or/and introduction of new ones), transfer the risk (e.g. through insurance), outsource some actions, avoid the risk (through ceasing a given business activity, withdrawal from a specific market, sale or withdrawal from an investment project) or maintain and accept the increased risk level.

Ensuring business continuity and ability to make quick decision aiming at business recovery to its usual course in crisis situations are of a decisive significance to the Bank. In order to ensure a comprehensive approach to the business continuity issues, the Bank’s Board of Executives set out the *Business Continuity Management Policy at BNP Paribas Bank Polska SA*. It specifies standards for functioning of effective solutions as regards business continuity and it is in line with the guidelines of BNP PARIBAS, likewise international standards and best practices on business continuity management.

The Business Continuity Management (BCM) is arranged in the form of a Business Continuity Management System (BCMS) that guarantees a complex approach to the business continuity through defining areas, processes and scopes of responsibility. The Business Continuity Management includes a Disaster Recovery (DR) that comprises processes, policies and procedures related to restoring operation of a technical infrastructure, critical for the organisation, as well as the issues connected with crisis management at the Bank, described in detail in the *Crisis Management at BNP Paribas Bank Polska SA*.

The Bank periodically verifies functioning of the implemented operational risk management system and its adequacy to the Bank’s current risk profile. Reviews of the operational risk management system are carried out within periodic controls by an internal audit unit. The Audit Department does not participate directly in the operational risk management function, however, it provides professional and independent opinion to support the Bank in reaching its objectives. The Supervisory Board oversees the control of the operational risk management system and assesses its adequacy and efficiency.

Risk areas that are vital for products offered by the Bank are subject to ongoing monitoring with the view to their exposure to operational risk. To this end, the Bank monitors the operational risk level on the grounds of results of regular operational controls defined for the essential areas of the Bank's business. The efficiency and correctness of operational controls carried out is regularly assessed. Furthermore, every year operational risk mapping sessions are held to determine the 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 uses the Basic Indicator Approach to calculate the capital requirement for operational risk. The total gross operational losses recorded by the Bank in 2013 amounted to PLN 18.9 million.

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 organisational 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 Bank's subsidiaries, as companies not bound by the banking law requirements, are not obliged to calculate the capital requirement for operational risk. Nevertheless, being subsidiaries of the Bank, 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 consistent with regulatory recommendations for the capital requirement calculation on account of operational risk according to the Basic Indicator Approach.

Organisational 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, including results of the operational risk mapping process realised by them.

Financial data regarding the risk management are described in Note 31 of the Consolidated Financial Statements of BNP Paribas Bank Polska SA for 2013.

7.5. Legal, Administrative and Arbitration Proceedings

In the ordinary course of its business, the Bank 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.

As at 31 December 2013, the total value of lawsuits currently pending before the courts, which involve the Bank as a plaintiff or defendant (excluding summonses to a conciliatory settlement attempt) was PLN 175.3 million (excluding interest). As at 31 December 2013, the total value of lawsuits in which the Bank appears as a plaintiff was PLN 62.1 million (excluding interest), while the total value of lawsuits in which the Bank appears as a defendant was PLN 113.2 million (excluding interest).

As at 31 December 2013, the Bank's specific provision for legal risk was PLN 19.5 million. In the opinion of the Bank's Board of Executives, the provisions created for the legal risk as at 31 December 2013 were adequate to the risk level.

The largest category of claims are claims related to currency derivative transactions (including claims related to currency options) concluded by the Bank's customers in 2008 and 2009. Due to the decline of the PLN exchange rate at that time, most of the Bank's customers involved in currency derivative instruments and currency options recorded a significant loss. As a consequence, the Bank required that such a loss is covered by the customers in accordance with the terms and conditions of the relevant agreements concluded with the customers.

As at 31 December 2013 the nominal value of claims related to transactions in derivative instruments, including currency options, that were filed to a court or reported to the Bank, totalled PLN 70.1 million (excluding interest), including: (i) eight cases brought before courts against the Bank, with a total nominal value of approximately PLN 54.7 million (excluding interest) and (ii) three other cases in which the Bank received summonses to conciliatory settlement attempts before the court (the total nominal value of such settlements is approximately PLN 15.4 million, excluding interest) that potentially may lead to legal proceedings. Still, it should be mentioned that on 3 January 2013 (after the balance-sheet date) with respect to the summons to conciliatory settlement attempt with the highest amount of PLN 14.96 million, the customer, under the settlement agreement concluded with the Bank, waived any and all claims against the Bank.

At present, the highest nominal value claim against the Bank amounts to approx. PLN 30.5 million. A lawsuit in this case was brought to court in August 2013, but it has not been served on the Bank yet as the plaintiff has failed to pay the relevant court fees.

In the closed option case (and therefore not included in the above total amount of PLN 54.7 million) on 30 December 2013 the plaintiff withdrew the lawsuit brought on 10 June 2013 against the Bank for payment of the amount of PLN 54,422,511.00 (increased by statutory interest which, according to the plaintiff, amounted to approx. PLN 44 million) and waived any and all claims against the Bank. Withdrawal of the lawsuit was a result of reaching the out-of-court settlement with the customer by the Bank on 30 December 2013.

In two cases regarding transactions in derivative instruments, appeals in cassation were filed to the Supreme Court: one by the former customer and the other by the Bank. The appeal in cassation filed by the Bank was admitted by the Supreme Court which revoked the unfavourable decision of the appellate court and the case was remanded to the lower court. As regards the other case, the appeal in cassation filed by the customer was rejected by the Supreme Court and the court's decision, favourable for the Bank, was upheld.

As at the end of December 2013, the total amount of provisions created by the Bank for legal risk in court proceedings related to derivative instruments amounted to approx. PLN 13.9 million. The amount of provisions created for legal risk as at the end of 2013 was considerably reduced owing to successful conclusion of two option cases.

In 2013 the proceedings before the Anti-monopoly Court (the first instance) relating to the fine imposed in 2006 by the President of the Office of Competition and Consumer Protection (UOKiK) in connection with illegal anti-competitive practices consisting in joint determination of interchange fee rates on transactions performed using Visa and MasterCard systems in Poland were closed. The Bank is one of 20 Polish banks involved in these proceedings. The fine imposed on the Bank in 2006 by the President of the Office of Competition and Consumer Protection was PLN 2.9 million. Following an appeal filed 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 remanded the case back to the Anti-monopoly Court for a new trial. In case the proceedings result in an unfavourable outcome, the Bank established a specific provision of PLN 2.9 million. On 21 November 2013 the Anti-monopoly Court (the first instance), upon retrial, substantially decreased the amounts of pecuniary fines imposed on the banks, and in the case of the Bank the amount of the pecuniary fine was determined at the level of PLN 59,748. The banks' appeal against the decision of the President of the Office of Competition and Consumer Protection with respect to the remaining scope was dismissed by the Court. In December 2013 the specific provision for legal risk was reduced to the amount of the pecuniary fine imposed on the Bank by the court verdict.

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 31 December 2013, 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.

As at 10 January 2014 (after the balance sheet date), the share capital of BNP PARIBAS amounted to EUR 2,490,325,618 and was divided into 1,245,162,809 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 one of the leading banking group in the provision 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);
    - International Retail Banking that comprises all retail banks of the BNP PARIBAS group from beyond 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 Advisory & Capital Markets - investment advisory and capital markets, and Corporate Finance - corporate banking within specialised services or Structured Finance.

BNP PARIBAS group BNP Paribas is one of the best-capitalized global banking groups in the world. As at the end of December 2013, the BNP PARIBAS group's common equity Tier 1 ratio calculated in accordance with the fully implemented Basel III rules, was 10.3%, and its market capitalization as at 31 December 2013 amounted to EUR 70.5 billion.

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:

- custody services (BNP Paribas Securities Services S.K.A. - Branch in Poland);
- insurance (Towarzystwo Ubezpieczeń na Życie "Cardif Polska" S.A., Cardif Assurances Risques Divers SA - Branch in Poland);
- lease (BNP Paribas Leasing Solutions through BNP Paribas Lease Group Sp. z o.o., Claas Financial Services Sas S.A.- Branch in Poland);
- 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.).

Financial performance for 2013 based on unaudited financials:

In 2013, BNP PARIBAS generated solid results despite the challenging economic environment. The Group's operating divisions held up well in a lacklustre economic environment in Europe. Revenues were EUR 38,822 million, sightly down 0.6% compared to 2012. They include this year two exceptional items that total a net of EUR 147 million: EUR + 218 million impact of the sale of the assets of Royal Park Investments and a EUR -71 million Own Credit Adjustment (OCA) and own credit risk included in derivatives (DVA). The one-off revenue items last year totalled EUR -1,513 million (including a EUR -1,617 million impact from the OCA).

Thanks to a diversified business and geographic mix, the operating divisions confirmed the good resilience of their revenues and dropped only -1.6% compared to 2012.

Operating expenses, which totalled EUR 26,138 million, were down 1.5%. They include in 2013 the impact of the one-off Simple & Efficient transformation costs and the effect of the appreciation of the euro. The operating expenses of the operating divisions were down 0.5%, reflecting the ongoing containment of operating expenses.

Gross operating income thus rose by 1.2% during the period to EUR 12,684 million. It was down 3.4% for the operating divisions.

The Group's cost of risk was at a moderate level, at EUR 4,054 million, or 63 basis points, i.e. it rose by 2.9% compared to last year due in particular to an increase at the Italian bank BNL bc as a result of the still challenging economic environment in Italy.

The Group's financial statements also include a EUR 798 million provision (in USD), related to the retrospective review of USD payments involving parties subject to US economic sanctions.

Non operating items totalled EUR 357 million versus EUR 1,791 million in 2012 when they included in particular one-off impact of the sale of a 28.7% stake in Klépierre SA.

As a result, in 2013 the BNP PARIBAS group recorded EUR 8,189 million of pre-tax profit, which was lower by 21.1% compared to 2012. The BNP PARIBAS group thus generated EUR 4,832 million in net income attributable to equity holders (over EUR 6 billion excluding exceptional items), down 26.4% compared to 2012. Return on equity was 6.1% a and net earnings per share totalled EUR 3.69. The Board of Directors will propose to the Shareholders' Meeting to pay out a dividend of EUR 1.50 per share.

The Group's balance sheet is rock-solid. Solvency is high with a 10.3% fully loaded Basel 3 common equity Tier 1 ratio1 as at the end of 2013 and a 3.7% fully loaded Basel 3 leverage ratio1, above the minimum 3.0%regulatory threshold that will be required effective from 2018. The Group's immediately available liquidity reserve was EUR 247 billion (versus EUR 221 billion at the end of 2012. The net book value per share reached EUR 63.60.

The BNP PARIBAS group unveiled the broad outlines of its 2014-2016 business development plan with the main goal to support the group's clients in the new environment and the financial target to achieve at least 10% return on equity by 2016 and double digit annual growth of net earnings per share. The development plan defines five major strategic priorities for 2016: enhance client focus and services, simplify the organisation and how the group operates, continue improving operating efficiency, adapt certain businesses to their economic and regulatory environment and implement business and regional development initiatives by leveraging the group's expertise.

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 its subsidiary **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 representing 74.93% of the share capital and carrying the right to exercise 74.93% of votes at its general meeting. BNP Paribas Fortis shares representing 25.00% of its share capital and carrying 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 representing 81.62% of the Bank's share capital and carrying the right to exercise 81.62% of the votes at the General Meeting;
- indirectly, via Dominet, 5,243,532 shares representing 18.27% of the Bank's share capital and carrying the right to exercise 18.27% of the votes at the General Meeting (BNP Paribas Fortis is Dominet's sole shareholder, directly holding shares representing 100% of the share capital of Dominet and carrying the right to exercise 100% of votes at its general meeting).

8.1.3. Dominet SA (in liquidation)

Dominet SA in liquidation with its registered office in Warsaw (ul. Suwak 3, 02-676 Warsaw) holds share capital of PLN 2,971,340. 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 it 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 start of Dominet's liquidation. 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 participation units in investment funds, trading in shares and bonds that are not admitted to organised trading, and asset 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 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 equity level is sufficient for safely conducting current operations.

As at 31 December 2013, TFI BNP had assets totalling PLN 15.2 million and assets under management totalling PLN 239 million.

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

Fortis Lease Polska Sp. z o.o. is a lease firm which specialises in financial leasing solutions, tailored to the needs of enterprises. FLP has been in business on the Polish market since 2000. As at the end of 2013, FLP’s gross lease receivables totalled PLN 1,766 million (an increase by 3% compared to 2012).

Until the incorporation into the Bank, FLP offered 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 25% and vehicles - about 21%. 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 vehicles and machinery recorded growth, whilst the other values dropped. The described interrelations are presented in the table below.

Segment	Share in portfolio 2012 (%)	Share in portfolio 2013 (%)
Real estate	52.39%	51.17%
Machines	23.59%	25.19%
Trucks	15.02%	15.01%
Passenger cars	6.13%	6.46%
Other means of transport	2.08%	1.66%
IT and office equipment	0.79%	0.51%

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 has risen and stands at 56%, while the share of contracts in EUR has also noted a rise and now equals 38%.

Currency	Share in portfolio 2012 (%)	Share in portfolio 2013 (%)
PLN	54.26%	55.95%
EUR	38.65%	38.37%
CHF	7.08%	5.68%

FLP has provided services mainly to the Bank's customers - currently about 1,610 customers. Customers of the CTB line - 68% and RB line - 24% constitute the majority of the entire portfolio.

As at the end of December 2013, FLP held share capital of PLN 115 million, which was divided into 11,500 shares. Assets of FLP amounted to PLN 1.8 billion.

Consolidation of the lease activity

In 2014 (after the balance-sheet date) the Bank incorporated the business and operating activity of Fortis Lease Polska Sp. z o.o. into the Bank’s structure.

On 15 October 2013 the Extraordinary Shareholders' Meeting of FLP passed resolutions on compulsory redemption of 99.98% of the Bank’s shares in FLP and on related amendments to the deed of incorporation of FLP. In relation to the share redemption, the Extraordinary Shareholder’s Meeting of FLP decided to decrease the share capital of FLP accordingly. As required under the Code of Commercial Companies and Partnerships, the share capital decrease in FLP was preceded by a convocation procedure (*postępowanie konwokacyjne*).

After the redemption of shares FLP’ share capital totals PLN 20,000 divided into 2 shares.

On 15 February 2014 (after the balance-sheet date) FLP concluded with the Bank the enterprise sale and the debt takeover agreement. Under the Agreement, the FLP’s enterprise was transferred to the Bank as in-kind remuneration for the redeemed shares. The remuneration due for the FLP’s redeemed shares amounted to PLN 114,980,000.

The incorporation of the lease business into the Bank’s structure is intended to improve the business and cost efficiency, additionally it should simplify the service for the clients.

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

BNP Paribas Factor Sp. z o.o. has been operating on the Polish market since 2006. BNP Paribas Factor supports financing of business activities of enterprises, including the BNP PARIBAS group’s 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 offering is addressed to small, medium and large manufacturing and trade enterprises as well as service providers, which sell their goods or services on deferred payment terms. The company specializes in the service of 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 31 December 2013, assets of BNP Paribas Factor amounted to PLN 169.3 million.

8.3. Minority interest

As at 31 December 2013, the BNP Paribas Bank Polska SA Group held interest exceeding 5% of the share capital in 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 BANK'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. The repayment schedule of the loan of CHF 230 million was also modified (replacement with three loans with different maturities).
- 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.
- Under a loan agreement concluded by and between the Bank and BNP PARIBAS, in July 2013 another loan tranche was disbursed in the amount of EUR 30 million, which matures on 5 January 2015. The Bank repaid a tranche of CHF 25 million.
- In October 2013, the Bank repaid the maturing credit line of CHF 250 million. At the same time, the Bank drew down funds under subsequent tranches, in the aggregate amount of CHF 200 million, to mature by July 2016.
- In December 2013, the Bank was granted renewal of funding in the amount of EUR 90 million (the Bank repaid the maturing credit line of EUR 90 million, while receiving funds in the same amount and with maturity in June 2015).

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.
- On 9 May 2013, the Bank and Fortis Lease concluded annex no. 2 to the Uncommitted Credit Facility Agreement of 23 March 2012 under which the maximum credit facility amount was increased to PLN 345 million.

Details regarding agreements and transactions with affiliated entities for 2013 and comparative data for 2012 are presented in Note 28 of the Interim Abbreviated Consolidated Financial Statements of the Group of BNP Paribas Bank Polska SA for 2013.

9.1.3. Annex to agreement with TFI BNP Paribas

- On 1 October 2013 the Bank and TFI BNP Paribas signed an annex to the agreement they concluded on 29 June 2012. Under the annex, the cooperation rules concerning distribution by the Bank of participation units in investment funds managed by TFI BNP Paribas were changed, as a result of which the Bank's distribution offering has been extended by participation units in investment funds managed by KBC TFI S.A.

9.2. 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 dated 31 January 2013 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, 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 the terms and conditions specified in the Annex until 1 December 2013, of the credit limit from EUR 42 million up 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 until the end of the current credit term, i.e. until 11 January 2014, the aforesaid limit will be reduced to EUR 20 million. As specified in the Annex, the financing term lasts until 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 and conditions of financing and issuing guarantees and L/Cs determined in the Annex correspond to market conditions.
- On 16 December 2013, the Bank and a customer not affiliated with the Bank signed an annex to the multi-option credit line, which provided for an increase of the credit limit from PLN 180 million up to PLN 230 million. As specified in the Annex, the current credit term shall last until 16 December 2014. 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 credit lines provided under the Annex are connected with the Customer's current business activity. Interest rate of the overdraft facility was determined based on a WIBOR rate increased by a margin; guarantee and L/C credit lines are provided to the Customer upon payment of a commission. Terms of financing and 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.

In addition, the conditional agreement on sale of the Bank's and BNP Paribas Fortis' receivables due from Vistula Group

S.A. has been recognized as an essential agreement, due to its significant impact on the Bank's financial standing and operating result:

- On 26 July 2013, BNP Paribas Bank Polska SA ("the Bank") and BNP Paribas Fortis SA/NV ("BNP Paribas Fortis") concluded with Raport 5 Non-Standard Closed-End Securitization Investment Fund and Forum XI Closed-End Investment Fund ("Funds"), managed by FORUM Towarzystwo Funduszy Inwestycyjnych SA - the conditional agreement on sale of the Bank's and BNP Paribas Fortis' receivables due from Vistula Group SA ("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 Agreement implementation within the scope pertinent to the Bank was conditional upon the satisfaction of a number of conditions precedent, including in particular the payment by the Funds of the price in the amount of approx. PLN 103 million in favour of the Bank. The last condition precedent of the agreement, including the payment of the agreed sale price in favour of the Bank, was satisfied on 13 August 2013.

9.3. 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 may reuse EUR 7 million, derived from repayment of loans, to continue financing investment projects undertaken by small and medium enterprises under the Polish Sustainable Energy Financing Facility Programme (PolSEFF).
- The agreement concluded with the European Investment Fund (EIF) on providing by EFI guarantees to secure loans offered by the Bank for small and medium-sized enterprises expired on 12 June 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. Insurance agreements

Mandatory insurance		
risk / insurance cover	legal grounds	insurance period
Multi-agent insurance ("OC multiagenta") - third party liability insurance on account of agency services.	Finance Minister's Ordinance dated 23 June 2005 regarding obligatory third party liability insurance on account of agency services (Journal of Laws No. 122, item 1027 of 2005)	20 February 2013 - 19 February 2014
General Agreement on Motor Insurance /third party liability (OC)/ - compulsory third party liability insurance of motor vehicle owners in case of damage related to the participation of these vehicles in the traffic.	Act dated 22 May 2003 on obligatory insurance, Insurance Guarantee Fund and Polish Motor Insurers' Bureau (Journal of Laws no. 124 item 1152, as amended)	1 July 2013 - 30 June 2014 /own fleet/ 7 January 2013 - 31 January 2014 /fleet of seized vehicles/

Voluntary insurance	
risk / insurance cover	insurance period
Insurance against the risk of financial losses of BNP Paribas Bank Polska SA on account of the Bank's liability as the payment card issuer -the insurance covers the Bank's liability defined in Payment Services Act dated 19 August 2011 (Journal of Laws no. 199, item 1175).	1 April 2013 - 31 March 2014
General insurance agreement regarding property, electronic equipment and professional indemnity - the insurance covers property (including pecuniary values) and electronic equipment owned by BNP Paribas Bank Polska SA. The scope of the insurance programme is based on the so-called *All Risk insurance*. Moreover, the insurance programme covers the Bank's professional indemnity under property owned and business activity pursued.	26 April 2013 - 25 April 2014
General Professional Indemnity Insurance of Franchise Branches of BNP Paribas Bank Polska SA - the insurance covers professional indemnity of franchise branches of BNP Paribas Bank Polska SA against third parties on account of office activity and the property held. Furthermore, the insurance coverage includes harm inflicted on employees of franchise branches, as well as the liability for damage made to immovable and movable property of third parties.	26 April 2013 - 25 April 2014
BBB /Financial Institution Banker's Blanket Bond/ - BNP Paribas Bank Polska SA is covered by the corporate insurance programme of the BNP PARIBAS group and its entities worldwide. The corporate programme provides insurance of the banking activity against the Bank's losses arising from electronic and computer crime, both internal and external.	1 May 2013 - 30 April 2014
PL /Professional Liability/ - BNP Paribas Bank Polska SA is covered by the corporate insurance programme of BNP PARIBAS group and its subsidiaries worldwide. The insurance covers financial consequences of professional liability that may be incurred by BNP Paribas Bank Polska SA as result of errors, omissions or mistakes committed during performance of professional duties.	1 May 2013 - 30 April 2014
D&O /Directors and Officers Liability/ - BNP Paribas Bank Polska SA, as a member of the BNP PARIBAS group, is covered by the corporate Directors and Officers Liability Insurance Programme.	1 May 2013 - 30 April 2014
General Agreement on Motor Insurance (all-risk insurance /AC/) - vehicle damage, destruction or theft (Auto-Casco) insurance of motor vehicles owned by BNP Paribas Bank Polska SA.	1 July 2013 - 30 June 2014
Programme of group insurance coverage against personal injury accidents (NNW) of BNP Paribas Bank Polska SA employees - the group insurance covers death of the insured and permanent personal injury resulting from accidents.	1 December 2013 - 30 November 2014
Programme of group life insurance of BNP Paribas Bank Polska SA employees - the group life insurance programme covers life and health of the Bank's employees and their families.	1 December 2013 - 30 November 2014
International SOS - BNP Paribas worldwide programme provides medical assistance insurance and help in emergency situations during foreign business travels of the employees of BNP Paribas Bank Polska SA.	1 July 2013 - 30 June 2016

BI /Business Interruption/ - BNP Paribas Bank Polska SA is covered by the corporate insurance programme of the BNP PARIBAS group and its subsidiaries worldwide. The insurance covers a loss of income from banking operations, likewise additional operating costs incurred due to damage affecting the business.	1 January 2014 - 31 December 2014
GL /General Liability/ - BNP Paribas Bank Polska SA, as a member of the BNP PARIBAS group, is covered by the corporate General Civil Liability Insurance Programme.	1 January 2014 - 31 December 2014

9.6. 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, which specifies the total remuneration of the statutory auditor for reviews and audits of semi-annual and annual financial statements, including consolidated packages for 2013, in the amount of PLN 597 thousand (VAT excluded).

In connection with work on a public offering and placing quarterly reports in the issue prospectus, the Bank's Supervisory Board selected Mazars Audyt Sp. z o.o. as the entity authorised to review financial statements of BNP Paribas Bank Polska SA and its Group for Q1 and Q3 of 2013.

The Bank concluded agreements with Mazars Audyt Sp. z o.o. related to a review of abbreviated interim consolidated financial statements:

- on 28 March 2013 an agreement concerning the financial statements as at 31 March 2013. The remuneration on account of the aforesaid agreement amounted to PLN 100 thousand (VAT excluded);
- on 10 October 2013 an agreement concerning the financial statements as at 30 September 2013. The remuneration on account of the aforesaid agreement amounted to PLN 100 thousand (VAT excluded).

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 shares' public offering and admitting to trading on the Warsaw Stock Exchange. The remuneration specified in the agreement, amounted to PLN 100 thousand (VAT excluded). 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.

The table below shows the auditor's net remuneration broken by service type (in PLN thousand):

Remuneration (in PLN thousand):	2011	2012	2013
Audit of annual financial statements for the previous year	261	267	368
Audit of annual financial statements for the current year	-	230	-
Review of interim financial statements for the first half year (in 2013 also for Q1 and Q3 for the shares issue purposes)	172	-	437
Other services (consolidated reviews, work on the shares issue in 2013)	270	77	197*
In total (net, exclusive of VAT)	**703**	**574**	**1,002***

**including PLN 70 thousand paid out in 2014*

Selection of an entity authorised to audit the financial statements for 2014-2017

According to the adopted rule on changing an auditor at least once in five years, on 29 October 2013 the Bank's Supervisory Board selected a new auditor. The Supervisory Board chose Deloitte Polska Spółka z o.o. Spółka Komandytowa based in Warsaw as the entity authorised to audit consolidated financial statements of the Group and separate financial statements of the Bank for the years 2014-2017, and also to review consolidated financial statements of the Group and separate financial statements of the Bank for the first halves of the years 2014-2017.

On 29 October 2013, the Bank's Supervisory Board selected Deloitte Polska Sp z o.o. Spółka Komandytowa, based in Warsaw [address: Al. Jana Pawła II nr 19, 00-854 Warszawa, KIBR (Polish National Chamber of Statutory Auditors) register number: 73, "the Auditor"] as the entity authorized to audit financial statements of the Bank and the Group, with which an agreement is to be concluded for:

auditing the consolidated financial statements of the Group and separate financial statements of the Bank for the years 2014-2017; and

reviewing the consolidated financial statements of the Group and separate financial statements of the Bank for the first halves of the years 2014-2017.

The Agreement with the Auditor will be concluded for the term of the respective assignment, i.e. conducting the above-mentioned audits and reviews of the financial statements for the years 2014-2017.

Previously, the Bank did not use services of the Auditor, including such as auditing financial statements, although used its advisory services, including tax consultancy services provided by other companies of the Deloitte group.

10. CORPORATE SOCIAL RESPONSIBILITY (CSR)

BNP Paribas Bank Polska SA 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 Bank, while pursuing its statutory activity and business objectives, being aware of its environmental impact, accommodates social, ethical and ecological aspects of its operations in the business strategy and strives to strike a balance between effectiveness and profitability of its organisation and social interest. Our activities are guided by adherence to binding laws and regulations, and by broadly-understood public welfare.

Therefore, the Bank 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.

Since 2012, there has been a CSR Correspondent appointed in the Bank, who is tasked with improving the quality of CSR management and reporting, increasing awareness of the CSR role in responsible business, setting objectives and trends for actions consistent with the established standards and reporting to BNP Paribas.

In 2013, the *Corporate Social Responsibility (CSR) Policy* was adopted in the Bank.The purpose of the CSR policy is to point out and structurize the key aspects of corporate social responsibility and sustainable development of the Bank. All the issues presented therein are reflected in the Bank's internal regulations and comply with the CSR management principles applied by the BNP PARIBAS group.

The policy describes tasks and responsibilities of participants of specific processes with regard to the corporate social responsibility. All employees of the Bank are required to abide by the CSR Policy.

ECONOMIC responsibility: financing the economy in an ethical manner, offering products that meet the responsible business criteria and prioritising customer satisfaction.
The purpose is to satisfy needs of customers by building a durable relationship with them, to provide them with the best and competitive financial solutions underpinned by modern technologies and security, likewise to grant financing in line with the responsible business principles.

Quality and customer service

In the first half of 2013, the "Quality is US" programme was launched under the Quality Management to improve the customer service quality.
"Book of Customer Service Standards" was also implemented. The defined standards include daily duties of a branch manager, phone conversations and correspondence as well as rules applied to meetings with customers.
Furthermore, the basic dress code for employees of the Bank's branches was described.
The entire sales network underwent training in new service standards. During 135 training sessions, 1,301 people were trained.

Customer satisfaction surveys

Customer satisfaction with services and products offered is regularly checked. Under the "Quality is Us" programme, an annual Mystery Shopping survey was initiated to assess the service quality level in Branches and to check customer satisfaction.

In 2013, an individual customer satisfaction survey using the Net Promoter Score (NPS) method was also implemented. The survey is conducted by telephone and addressed to customers who have been serviced in branches.

Complaints

The Bank treasures good relations with its customers, whose opinions and recommendations on how to improve customer service, are always taken into account. While making a complaint, customers point out what needs improvement and more intensive focus to meet their expectations. This is a very important hint for the organisation that helps avoid the same mistakes in future. A complaint may be made in writing or orally via all communication channels used between a customer and the Bank.

Customers can lodge claims in any form that they find convenient. Customers can contact the Bank 24 hours a day, 7 days a week, using various channels. Complaints can be made via electronic banking, by telephone, using a website form, personally in the Bank's branches or in writing, or even through a fanpage on Facebook. All complaints are recorded in the Electronic Register of Complaints.

The complaints are managed in line with the *Complaints Management Policy* and taking into consideration Principles of Good Banking Practice set by the Polish Banks Association.

The Bank also measures customer satisfaction with a complaint handling manner, by a telephone survey.

Innovative solutions

The Bank adapts itself to customer needs, by introducing new technologies and perfecting operating processes.

In 2013, a mobile banking system and *iGotówka* (online credit facility) were implemented.

Innovations are primarily internal solutions which translate into attractive products and convenient services, therefore the Bank's structures include the Innovation Centre established in 2013, which is responsible for creating solutions consistent with customer needs and expectations.

SOCIAL responsibility: observing a committed and fair personnel policy

Employment structure of BNP Paribas Bank Polska SA

As at the end of December 2013, the employment amounted to 2,754 FTEs, of which women accounted for 65%. The Bank's staff is relatively young as the average age of an employee is just under 36 years, whilst the share of employees aged 36 and below stands at 58%. As much as 80% of the staff have higher education. The share of managerial staff is 16%, of which more than half are women.

Staff recruitment and remuneration policy

The Bank abides by a transparent recruitment policy. The list of recruitments underway with specification of duties as well as required qualifications and skills is available at the Bank's website.

Furthermore, the Bank participates in "Ace Manager," an international competition which is a strategic business game for university students all over the world.

A trainee programme "Generation Young Bank Forces" is organised locally to recruit trainees, most of whom find employment at the Bank after the programme completion. During the programme, trainees undergo a cycle of training sessions that prepare them for a specific job position, which facilitates their rapid adaptation in the organisation.

Training strategy

The Bank applies and develops effective and modern training methods and tools to enhance development, distribution and use of knowledge necessary for achieving business goals.

The following training forms are available: introductory, general banking (closed), specialist external domestic training, e-learning, post-graduate studies, language courses.

Training activities are carried out based on the results of training needs analyses and the Bank's strategy. Training budget and plan for the next year are formulated on an annual basis. The purpose of the development policy accepted by the Bank's Board of Executives is to:

- adequately prepare employees to perform tasks assigned to a given position;
- make investing in employees' know-how and skills compliant with the values adopted by the Bank and the BNP PARIBAS group;
- ensure competitive edge of the Bank through investing in knowledge and competences of employees;
- provide employees with the environment that would encourage their professional development.

Training and development activities are carried out in line with the compliance assumptions. Furthermore, the purpose of the training system is to improve effectiveness of the organisation management, taking into account the social interest and respecting all stakeholders and ethical principles.

Occupational health and safety

The primary duty of the Bank as an employer is to respect occupational health and safety regulations and rules, likewise to protect health and life of employees. The Bank actively develops an efficiently functioning system of occupational health and safety in all its organisational units.

Employees of the Occupational Health and Safety Group (OHS) systematically monitor and control the work conditions and notify the employer, on a current basis, of any irregularities that are gradually eliminated. All the Bank's employees are required to abide by the Occupational Health and Safety Instructions.

Employees are provided with training sessions on occupational health and safety issues that help them acquire and broaden necessary knowledge. Introductory training is carried out during direct meetings of the Group's employees with newly hired employees. Periodic training sessions are available as e-learning courses via the Internet platform.

Medical care

All the Bank's employees are covered by a health care plan. In 2009 the Bank signed a contract with LuxMed company, under which employees have access to cost-free occupational health care. The scope of health care services may be expanded for an additional fee.

CITIZENSHIP responsibility: fight against exclusion, promotion of education and culture;

The community involvement programme is implemented by the entity dedicated to undertake pro-social actions, the BNP Paribas Foundation ("the Foundation").

Basic information and objectives of the Foundation activity

The Foundation's aim is to prevent social exclusion especially among children and youth. The objective is accomplished through initiation, support and performance of programmes aimed at financial and material aid for institutions of similar goals, likewise support and promotion of volunteer work and charity ideas.

Main pillars of the Foundation actions

Foundation programmes		
strategic partnerships and scholarship programmes with organisations that help children and the youth: Towarzystwo Przyjaciół Dzieci, Caritas Polska, Fundacja Dzieło Nowego Tysiąclecia	**coalitions with local organisations** to aid children and the youth in local environment	**volunteer activities** promoting charity and community involvement for the benefit of local communities

Strategic partnerships and grant programmes

The Foundation is a partner of nationwide non-governmental organisations. These are: *Towarzystwo Przyjaciół Dzieci* (Children's Friends Association, TPD) with which the Foundation has been running programmes to support daily care centres for children and youth for several years. In the years 2011 through 2013, the Foundation cooperated with *Caritas Polska* (Caritas) in the implementation of *Skrzydła* (Wings) programme. Since 2012, the Foundation has supported *Fundacja Dzieło Nowego Tysiąclecia* (New Millennium's Work Foundation).

In cooperation with TPD, in 2013 the Foundation carried out

- a grant programme "*Biwak pod chmurką*" (Camp under the cloud) addressed to TPD day care centres for children and youth. The task of the centres which participated in the programme was to prepare an interesting idea for at least two-day trip for children with a night spent in tents. Five winning projects were awarded grants for the purchase of tourist equipment;
- In addition to the above, the TPD charges took part in the "*Sprzątanie lasu*" (Clean the forest) projects in Krakow and Warsaw, combined with building campfires, barbecuing sausages and learning nature, together with volunteers from the BNP PARIBAS group;
- A group of children from TPD centres in Częstochowa participated in the WTA BNP Paribas Katowice Open in April 2013. They watched exhibition match, met tennis stars and attended recreational workshops.
- Funds donated by Arval Service Lease were used for refurbishment of and purchase of additional equipment for the TPD centre in Małkinia Górna.

In the years 2011-2013 (2011/2012 and 2012/2013 school years), the Foundation supported the *Skrzydła* (Wings) scholarship programme implemented by Caritas Polska. The programme is addressed to children and youth at risk of exclusion. Under the programme, the Foundation supported 68 students of primary, middle and secondary schools of seven dioceses. The students covered by the programme were provided with funds to buy their school supplies, sets of textbooks and workbooks for school as well as clothes, and financing for their private lessons, journey to school and meals.

The Foundation also joined the group supporting the "*Tornister pełen uśmiechów*" (A Schoolbag full of Smiles) project carried out by Caritas, by buying 300 sets of school supplies for the poorest children.

In 2013, the BNP Paribas Foundation continued cooperation with the New Millennium's Work Foundation in implementation of the scholarship programme addressed to talented youth from low-income families in rural areas and small villages. More than 200 scholarship holders used the support of the BNP Paribas Foundation.

Coalitions with local organisations

In 2013, under the cooperation developed with local organisations, the Foundation implemented projects in regions of Lower Silesia, Łódź, Silesia, Małopolska and Mazovia.

- In effect of cooperation with the Wrocław Chamber of Commerce, a donation was given to refurbish and buy additional equipment for the *Centrum Przyjaźni Dziecięcej* in Świdnica (Children Friendship Centre - a specialist day care centre for children affected by social exclusion) run by *Fundacja Serce* (Heart Foundation);
- The Foundation supported a project called *Szczęśliwe podwórka* (Happy courtyards) carried out in Łódź for charges of community day rooms. The grant will be spent for an acting workshop with students of the Łódź Film School ended with a production of a film to be screened in the Charlie cinema in Łódź;

Furthermore, the BNP Paribas Foundation supported initiatives in local communities in which representatives of business circles were involved, including:

- Special Olympics *Przełam bariery* (Break down barriers) for disabled children and youth organised by the Municipal Sport and Recreation Centre in Częstochowa;
- organisation of a sports event for children and youth from MKS Zabrze sports club;
- organisation of a Santa Claus event for special care and handicapped children chosen by specialised social care centres in Małopolska.

In line with the idea of culture promotion, in 2013 for the first time the BNP Paribas Foundation supported "*Szalone Dni Muzyki*" (Crazy Days of Music) organised by the Sinfonia Varsovia orchestra in September 2013 in Warsaw. It was a three days' long cycle of concerts aimed at popularisation of French and Spanish classical music.

Support of the volunteer work idea

In 2013, the Foundation implemented three grant programs for employees of the BNP PARIBAS group companies in Poland:

- "*Podaruj dzieciom gwiazdkę*" (Give Children a Star), a grant programme initiated in December 2012 was continued. Its purpose was to support an organisation of a Christmas or carnival-theme event for needy and disadvantaged children, who remain in care of facilities counteracting social exclusion of children and youth. Under the contest, grants were awarded to the Bank's employees to implement eleven social projects by the end of February 2013.
- Then another grant program called "*Porozmawiajmy o przyjaźni*" (Let's talk about friendship) was carried out, to support projects referring to the idea of kindness and friendship, co-organised by institutions counteracting social exclusion of children and youth. The Foundation supported financially eight projects run until the end of September 2013.
- The "*Białe szaleństwo*" (Winter sports) grant programme addressed to employees who wish to aid social organisations in preparations of events for socially excluded children and youth during Christmas and winter holidays, has started to be implemented. By the end of February 2014, nine projects will be carried out.

The Bank's employees were also involved in the "*Biegiem na pomoc*" (Run for help) project by participating in a charity run. For each kilometre covered, the Foundation gave funds to support the children's early autism detection programme of the Synapsis Foundation.

In December 2013, a collection of financial means was organised in favour of the *Małopolskie Hospicjum dla Dzieci* (Małopolska hospice for children) under the "*Słodka pomoc*" (Sweet help) event. Funds collected in boxes by the hospice volunteers were earmarked for buying necessary medical equipment for the hospice patients.

A large group of employees actively support charity activities and get also involved in preparation of Christmas gifts and packages for children.

Altogether, 160 volunteers - employees of the Bank and other companies of the BNP PARIBAS group in Poland, took part in projects completed in 2013.

Awards for the Foundation

In October 2013, the Foundation was honoured by the UBI CARITAS distinction in the "Donor" category for sensitivity to the needs of the poor in Poland and active participation in charity work.

Responsibility for **NATURAL ENVIRONMENT**: counteracting climate changes.

In everyday operations, the Bank strives to minimise negative impact of its business on the natural environment. Therefore, projects aimed at implementation of ecological standards and supporting ecological activities are successively carried out.

The principal objectives of our environmental policy include limiting the greenhouse gas emission by reducing the use of energy and business travels, paper usage reduction and effective waste management.

Reduction of the carbon dioxide emission

Energy savings

Measures to decrease the use of electricity include modifications continually introduced by the Bank, for example:

- the Bank's branch signage systems, by replacing the existing fluorescent lamps with more environmentally friendly LED diodes;
- in the Bank's head office buildings, time-controlled lighting, ventilation and air-conditioning systems were introduced;
- outdoor advertisements, steered by astronomical time switches, are lit from dusk to 11 p.m. and from 5 a.m. to dawn.

Business travel

Employees rationally and carefully plan business travels, use tele- and video-conference solutions and e-learning.

Paper savings

Tasks related to paper use include measures implemented by the Bank to decrease paper consumption.

In the Bank, there is a modern "Follow Me Printing" system which enables collecting one's printed documents from any printer, equipped with a card reader, installed in the Bank's buildings in Warsaw and Krakow. Thanks to this solution, the number of prints and electricity consumption has decreased which translates into fewer trees cut and less industrial waste.

As part of the task implementation, the Bank encourages also its employees and customers to use documents in electronic form.

In 2013, EKO paper was implemented, i.e. a traditional paper was replaced by the Discovery ecological paper of a lower basis weight.

Waste reduction

The aim of the environment policy is also to reduce the waste quantity by system actions and especially growth of awareness and own actions of employees.

Recycling programmes

Similarly as in previous years, the Bank cooperated with Rhenus Data Office.

Under the cooperation, the Bank returns used print cartridges to be recycled, and gives all documents in paper and recorded on electronic carriers to the above firm, following appropriate procedures that ensure data confidentiality.

Providing second-hand equipment to public benefit institutions

The Bank supports public benefit institutions, such as foundations, community day rooms for children, hospitals or schools by providing them with equipment which is no longer used by the Bank but considering its good condition it may prove useful for the needy (e.g. furniture from relocated branches). In 2013, the Bank gave 701 computers and monitors and 49 of pieces of furniture as in-kind donations to social and non-governmental organisations.

CSR sector policies

Under the Corporate Social Responsibility Policy, in 2013 BNP Paribas Bank Polska SA implemented policies regarding activities in sensitive sectors which can adversely affect the natural environment, including the nuclear sector, forest industry (palm oil and wood pulp sector), mining industry (mines) and coal-fired power generation.

To meet the commitments contained in sector policies, the Bank has formulated and implemented principles with the purpose to define, analyse and identify potential or existing customers that operate in sensitive sectors.

The binding documents also set forth the principles regarding companies and goods excluded by the Bank.

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 customers 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 bodies 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 is made up of:

- Head Office;
- operating units.

The Bank's business and organization is structured along customer service lines (business lines) providing comprehensive service to specific customer segment and/or service market. As at 31 December 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) businesses with the annual sales revenues not exceeding PLN 60 million (PLN 40 million till the end of December 2013, but in the range between PLN 40 million and PLN 60 million, the customer assignment is mutually agreed by RB and CTB business lines), and also provides brokerage services;
- Personal Finance Business Line – a business line involved in particular in preparation of product offering and management of consumer loans offered via external distribution channels and the RB branch network;
- Corporate and Transaction Banking - CTB Business Line, providing comprehensive bank services to large and medium-sized companies, based among other things on the criterion of annual turnover over PLN 60 million (PLN 40 million till the end of 2013, but in the range between PLN 40 million and PLN 60 million, the customer assignment is mutually agreed by RB and CTB business lines), and to companies that are a part of international groups, irrespective of their annual turnover.

Within the RB sales network, organised in 7 regions, operate the following branch types:

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

The type of customer segment is a criterion according to which the branch type is determined. Branches are represented by Relationship Managers dedicated to the relevant customers. 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 December 2013, 72 branches organised according to the new branch concept (NBC). The concept is based on five key elements: communication of all values the Bank's brand stands for, promotion of products and services offered in branches, interior designed as a customer-friendly place, welcoming to customers, well-organized waiting area, and round-the-clock access to the self-service area.

As at 31 December 2013, the Bank had 224 branches. Number of branches with a breakdown into particular regions:

	Financial centres	Other own branches	Franchise branches	Total
Centre Region	6	37	6	**49**
South Region	5	24	6	**35**
Silesia Region	4	22	4	**30**
West Region	3	20	4	**27**
North Region	5	21	5	**31**
Łódź Region	2	21	2	**25**
Lower Silesia Region	3	14	10	**27**
Total	**28**	**159**	**37**	**224**

Moreover, there are Business Centres within the CTB business line, which are operating units dedicated to servicing large and medium-sized companies.

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 31 December 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 31 December 2013, the employment level at BNP Paribas Bank Polska SA, expressed in full-time equivalents (including employees on maternity and parental leaves and on long sick leaves) amounted to 2,754 as compared to 2,773 as at 31 December 2012, which means a net decrease by 19 FTEs.

The table below presents information on the number of employees expressed in full-time equivalents as at the dates specified below.

	As at 31 December 2012	As at 31 December 2013
Head Office	1,479	1,401
Branches	1,205	1,262
Mobile relationship managers	89	91
Total Bank	**2,773**	**2,754**

As at 31 December 2013, about 80% of employees in the Bank had a higher education degree, whereas about 20% had secondary education.

The majority of the Bank's staff are employed on the basis of an employment contract. The Bank applies standard models of employment contracts. Contracts are signed for a probationary period and for a definite or indefinite period.

The Bank has established a Company Social Benefit Fund, from which additional benefits are paid to employees in amounts depending on an employee's individual financial situation.

As at 31 December 2013, the current value of provisions for retirement severance pay, disability benefits and post-death benefits, and provisions for unused holidays for the Bank staff amounted to PLN 8.7 million.

The Bank employees are entitled to health insurance in the form of medical-care packages. Furthermore, the Bank provides its employees with personal accident insurance and group life insurance. A portion of the costs of such benefits are covered by employees.

The Bank offers its employees a variety of programs to enhance their qualifications and skills. Training policy focuses on developing selling skills and customer service standards, and on sharing expertise necessary in various areas of the Bank's activity. With a view to optimising costs related to training programs, the Bank has opened its own training centre in Piaseczno.

The majority of the Bank's staff are employed on the basis of employment contracts. However, certain services, especially those related to IT support, marketing campaigns and acquisition of selected Personal Finance products, are provided in favour of the Bank under civil-law agreements, signed mostly for a definite period of time. As at 31 December 2013, the total of 160 persons provided services in favour of the Bank under civil law agreements, whereas as at 31 December 2012, it was 121 persons.

Restructuring project

Under the Triathlon programme, on 9 May 2012 the Bank announced that a restructuring plan was established to optimise its operating activity. The plan included among other things a redundancy programme involving 355 FTEs, mainly in the Bank's head office and the back office. On 22 May 2012, the Bank and the trade union NSZZ „Solidarność" Region Mazowsze signed an agreement governing the redundancy rules. As specified in the agreement, the downsizing under the redundancy programme was carried out in the period from 30 June 2012 to 30 June 2013. By the end of 2013, the employment level was reduced by the total of 303 FTEs and 60 employees were transferred to other internal positions under the restructuring plan. Furthermore, the Bank simplified and optimised its organisational structure (by reducing the number of managerial positions) and renegotiated the terms and conditions of the agreement with the external entity providing medical care services in favour of the Bank.

In addition to severance pay required under the law, employees affected by the redundancy programme received additional cash severance compensation and non-cash benefits, such as support to find another employment. Employees affected by the redundancy programme in years 2012-2013, were entitled to obtain an additional reward (to compensate for lost bonus, if any) and a severance pay in the event the employment contract was terminated by mutual agreement.

Bonus systems

The Bank applies a bonus system for employees that includes: (i) an annual bonus system (as a percentage of one's base salary) for employees performing support functions in key segments of the Bank's activity, analysts and managers in various lines; and (ii) a quarterly bonus system (depending on sales performance) for employees of the Retail Banking distribution network.

Furthermore, the Bank applies a commission-based system for sales employees in the Personal Finance business line and a commercial bonus system for loan processing employees, based on the rules specified in the employment contract signed with such employees.

The bonus systems include no provisions regarding employee participation in the Bank's share capital.

Under the Polish Financial Supervision Authority's Resolution No. 258/2011, the Bank has adopted separate bonus systems for the Bank's management.

As at 31 December 2013, provision for employee bonuses amounted to PLN 19.9 million. Additionally, the Bank's provision for deferred bonuses payable in cash amounted to PLN 0.8 million and the provision for deferred bonuses payable in the form of financial instruments and other deferred bonuses totalled PLN 0.8 million, whereas the value of funds within the Company Social Benefit Fund equalled PLN 1.3 million.

12. BANK AUTHORITIES

12.1. As at 31 December 2013, the composition of the Bank's Board of Executives was as follows:

	Name and surname	Position in the Bank's Board of Executives	Area
1.	Frédéric Amoudru	President of the Board of Executives	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.	Stephane 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 2013, no changes as regards the 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 31 December 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.; Chairman of the Supervisory Board of BNP Paribas Factor sp. z o.o.; Member of the Board of Executives 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 the Supervisory Board of Dominet SA in liquidation;
- 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. As at 31 December 2013, the composition of the Supervisory Board of BNP Paribas Bank Polska SA was as follows:

	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

On 04 April 2013 the Annual General Meeting of Shareholders appointed to the Supervisory Board two new members:

- Jean-Paul Sabet, 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 group, resigned from his function of the Chairman and membership in the Bank's Supervisory Board effective the date of holding the Annual General Meeting. Camille Fohl 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 shares of the Bank held by members of the Board of Executives and the Supervisory Board

As at 31 December 2013 and as at the publication date of the 2013 report, i.e. 11 March 2014, 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:

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	1 Jan 2013 - 31 Dec 2013	1 Jan 2012 - 31 Dec 2012
Board of Executives, including:	8,420	8,546
- remuneration	6,670	5,936
- other*	1,750	2,610
Supervisory Board	903	771
Managing Directors**	17,063	15,260

** 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 providing for any compensation in the event such people resign or are dismissed from their job position without any important reason, or when they are discharged or dismissed due to the Bank's integration by acquisition.

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

The table below presents detailed information in remuneration paid to members of the Board of Executives in 2013, and comparative data for 2012.

Remuneration of the Bank's Board of Executives 1 Jan 2013 - 31 Dec 2013 (in PLN thousand)		Remuneration	Other	Total
Frédéric Amoudru	President of the Board of Executives Country Manager	1,054	669	1,723
Jan Bujak	Senior Vice President of the Board of Executives	1,028	114	1,142
Jaromir Pelczarski	Vice President of the Board of Executives	1,021	114	1,135
Michel Thebault	Vice President of the Board of Executives	805	348	1,153
Wojciech Kembłowski	Member of the Board of Executives	720	109	829
Marta Oracz	Member of the Board of Executives	625	113	738
Adam Parfiniewicz	Member of the Board of Executives	708	49	757
Stephane Rodes	Member of the Board of Executives	709	234	943
Total		6,670	1,750	**8,420**

Remuneration of the Bank's Board of Executives 1 Jan 2012 - 31 Dec 2012 (in PLN thousand)		Remuneration	Other	Total
Frédéric Amoudru	President of the Board of Executives Country Manager	1,008	932	1,940
Jan Bujak	Senior Vice President of the Board of Executives	827	256	1,083
Jaromir Pelczarski	Vice President of the Board of Executives	827	254	1,081
Michel Thebault	Vice President of the Board of Executives	793	414	1,207
Wojciech Kembłowski	Member of the Board of Executives	720	176	896
Marta Oracz	Member of the Board of Executives	600	192	792
Adam Parfiniewicz	Member of the Board of Executives since 1 May 2012	457	-	457
Stephane Rodes	Member of the Board of Executives	704	386	1,090
Total		5,936	2,610	**8,546**

The table below presents detailed information on remuneration paid to members of the Supervisory Board in 2012, and comparative data for 2011.

Remuneration of the Bank's Supervisory Board 1 Jan 2013 - 31 Dec 2013 (in PLN thousand)		**Total**
Jean-Paul Sabet	Chairman from 4 April 2013	134
Camille Fohl	until 3 April 2013	47
Jarosław Bauc	Vice Chairman	120
Filip Dierckx	Vice Chairman	120
Yvan De Cock	Supervisory Board Member from 4 April 2013	62
Monika Bednarek	Supervisory Board Member	84
Francois Benaroya	Supervisory Board Member	84
Jean Deullin	Supervisory Board Member	84
Helene Dubourg	Supervisory Board Member	84
Andrzej Wojtyna	Supervisory Board Member	84
Total		**903**

Remuneration of the Bank's Supervisory Board 1 Jan 2012 - 31 Dec 2012 (in PLN thousand)		**Total**
Camille Fohl	Chairman	180
Jarosław Bauc	Vice Chairman	120
Filip Dierckx	Vice Chairman from 23 May 2012	74
Lars Machenil	Vice Chairman until 22 May 2012	10
Mark Selles	Supervisory Board Member until 22 May 2012	33
Monika Bednarek	Supervisory Board Member	84
Francois Benaroya	Supervisory Board Member from 23 May 2012	51
Jean Deullin	Supervisory Board Member	84
Helene Dubourg	Supervisory Board Member from 23 May 2012	51
Andrzej Wojtyna	Supervisory Board Member	84
Total		**771**

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

Details regarding values of remuneration and other benefits of the members of the Bank's Board of Executives and Supervisory Board in 2013 and comparative data for 2012 are presented in Note 29 of the Annual Consolidated Financial Statements of the Bank for 2013.

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.

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 Annual General Meeting of the Bank on 4 April 2013. All of the Bank's existing Corporate Governance Reports are published on the Bank's website.

This report:

- was prepared pursuant to §91 para. 5 item 4) of the *Minister of Finance Ordinance dated 19 February 2009 regarding current and periodical information submitted by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2009 No. 33, item 259, as amended),* and
- includes all information stipulated under §1 of *Resolution No. 1013/2007 of the Warsaw Stock Exchange (WSE) Management Board dated 11 December 2007 regarding the scope and structure of a report on corporate governance rules application by listed companies,*
- and as a consequence, a disclosure of this report is equivalent to submitting the report mentioned under §29 item 5 of the *Warsaw Stock Exchange Regulations.*

13.1. Indication of corporate governance rules that the Bank is subject to

In 2013 BNP Paribas Bank Polska SA, as a listed company, was subject to corporate governance rules defined in the Code of Best Practice for WSE Listed Companies (hereinafter "Best Practice") that constitutes an appendix to Resolution No. 19/1307/2012 adopted by the WSE Supervisory Board on 21 November 2012. The contents of the binding *Best Practice* is available on the Stock Exchange official website dedicated to corporate governance issues http://corp-gov.gpw.pl and on the Bank's website in the Investor Relations tab http://www.bnpparibas.pl/english/corporate-governance.htm

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.

13.2. Corporate governance rules that have not been applied by the Bank, with explanations

In 2013, the Bank applied all the rules specified under Parts II, III and IV of the Best Practices, except for:

- Rule IV.10 which concern providing shareholders with an option to participate in the general meeting using electronic means of communication, by real-life broadcast of general meeting sessions and real-time bilateral communication where shareholders may take the floor during a general meeting session from a location other than the session place, and
- Rule II item 1 section 9a: neither audio nor video recordings of the general meeting sessions will be published on the Bank's corporate website.

Neither the Bank's Statute nor the Rules of Procedure of the General Meeting currently provide shareholders with an option to participate in the general meeting using electronic means of communication. In the Bank's opinion, given the present structure of shareholders where parent entities hold jointly 99.89% votes in the total number of votes at the general meeting, and usually personally attend the general meeting, likewise considering the existing Bank's experience with respect to the interest in attending the general meeting, the current traditional form of participation and manner of exercising voting rights seem to optimally satisfy the execution of shareholders' rights. In the Bank's opinion, legal risk and costs related to the application of new solutions would be incommensurate to the current needs of shareholders. The Bank states that in the future it may apply rules related to broadcasting and remote participation in general meetings when attendance grows or shareholders express their wish in this regard.

- In connection with the above, the Bank does not apply recommendation I.12, either, which concerns providing shareholders with an option to exercise their voting rights in person or through a proxy during a general meeting, outside of the general meeting's location, using electronic means of communication.

At the same time, the Bank represents that other rules regarding the organisation and course of the general meetings are applied. The Bank observes the binding provisions of law and makes every effort to carry out a transparent and effective information policy.

- With reference to *Recommendation I.9*, on ensuring a balanced proportion of women and men in management and supervisory functions in companies, as at the end of 2013 the Bank's Board of Executives was made up of one woman and seven men, which remained unchanged as compared to the end of 2012. The Bank's Supervisory Board was composed of two women and seven men as compared to one woman and six men as at the end of 2012. The share of women in the Bank's managerial positions is 52%.

13.3. Basic features of internal controls and risk management systems applied in the Bank, with respect to the process of preparation of financial statements and consolidated financial statements.

In BNP Paribas Bank Polska SA, *the system of internal controls* operates under requirements of the Polish supervision authorities and is adjusted to the BNP Paribas standards. The purpose of internal controls is to support decision processes in the manner that enables prevention of risks or their early detection, in particular by ensuring the following:

- effectiveness and efficiency of the Bank's business;
- reliability of financial reporting;
- compliance of the Bank's business with law provisions and internal regulations;
- security of transactions and assets.

The internal controls at the Bank include two categories:

- permanent control (1st and 2nd level, including functional and operational control);
- institutional control (3rd level, including internal audit).

Functional control and a permanent operational control are performed in line with the internal regulations binding at the Bank and approved by the Board of Executives and the Supervisory Board. The Internal Control Coordination Committee was created as an advisory body to support the Board of Executives in an effective management of internal controls at the Bank, and assist the Audit Committee in monitoring the effectiveness of internal controls.

Pursuant to the Compliance Risk Management Policy and the local law, at least once a year the Compliance and Control Line (Conformité) submits a report to the Board of Executives and Supervisory Board, including a summary of the key aspects of the line activity and incidents of non-compliance essential for the compliance risk monitoring at the Bank.

The Audit Department activity (the 3rd level of control) satisfies the independence and objectivity requirements, which is ensured by the Audit Charter approved by the Bank's Board of Executives and Supervisory Board. Pursuant to the internal audit regulations binding in the BNP PARIBAS group, the Audit Department activity is supervised by the Audit Committee and is performed within the Inspection Generale, the internal audit of the BNP PARIBAS group. The Audit Department applies the audit methodology likewise the risk analysis, planning and reporting methodology adopted in the group, and it operates in compliance with Polish law.

The Audit Department regularly notifies the Audit Committee, and at least once a year, the Supervisory Board, of weaknesses identified together with conclusions resulting from the internal audit assignments conducted, likewise any actions undertaken to rectify these weaknesses or fulfil recommendations.

The objective of the *risk management system* is to identify, measure or estimate and monitor the risk inherent in the Bank's activity. The risk management system serves to ensure that detailed objectives for the Bank's business activity are correctly determined and accomplished.

In the risk management system, the Bank:

- applies formalised rules to determine the level of risk assumed and risk management rules, likewise formalised procedures aimed at identification, measurement or estimation and monitoring of the risk existing in the Bank's business, including also the expected risk level in the future, limits to mitigate the risk and rules applicable in the case the limits are exceeded,
- has adopted a system of management reporting which enables the risk level to be monitored, and an organisational structure which is adjusted to the level and profile of the risk assumed by the Bank.

The Bank supervises also the risk related to the activity of subsidiaries.

The process of drafting separate and consolidated financial statements is described in the Bank's internal regulations adopted under an Order of the President of the Board of Executives. Designated units of the Bank and the Group participate in that process, which is coordinated by the Reporting Department in the finance and legal area managed by the Senior Vice President of the Board of Executives, Chief Financial Officer. The Reporting Department verifies correctness of the information submitted, and is responsible for the final form of the reports. Financial statements are forwarded to the Board of Executives, Reporting Department Director, Accounting Line Director and Director of the Accounting Information System, Accounting Policy and Capital Reporting Department, for their opinion and approval. Semi-annual and annual financial statements are subject, respectively, to a review or audit by the statutory auditor.

The Audit Committee plays a key role in the process of approval of the Bank's financial statements, because it monitors the financial reporting process and the independence of the statutory auditor and entity authorised to audit financial statements, likewise it issues recommendations to the Supervisory Board regarding acceptance or rejection of financial statements.

Upon their positive recommendation by the Audit Committee and the Supervisory Board, reports are published and annual financial statements are presented to the General Meeting for approval.

13.4. Description of activity of the General Meeting and its basic authority, likewise rights of shareholders along with the manner of rights exercise

The General Meeting of BNP Paribas Bank Polska SA acts under provisions of the Code of Commercial Companies and Partnerships, the Bank's Statute and the Rules of Procedure of the General Meeting. The Statute and Regulations' wording is available at the Bank's website http://www.bnpparibas.pl/english/legal-documents.htm

An Annual General Meeting (AGM) shall take place within six months of the end of each fiscal year. The General Meeting may be held in Warsaw or Krakow.

AGM shall be convened by the Bank's Board of Executives. The Supervisory Board has the right to convene AGM if the Board of Executives fails to convene it on the date determined in the Statute. The Supervisory Board has also the right to convene an Extraordinary General Meeting (EGM) if it deems fit to do so. EGM may be also convened by shareholders who represent at least one half of the Bank's share capital, or at least one half of the overall number of votes in the Bank.

The General Meeting shall be convened by an announcement published on the Bank's website and in the manner appropriate for passing current information by public companies at least twenty six days before the GM's date.

GM may be cancelled by a person or body by which it has been convened. GM is cancelled in the same manner as it is convened, immediately after the cancelling person or body obtains information about an obstacle that would hinder holding GM at the date for which it has been convened.

Pursuant to the Bank's Statute, reserved for the competence of the General Meeting shall be in particular the following issues:

- consideration and approval of a report on the Bank's activity and financial statements, as well as consolidated statements, if their creation and approval is required, likewise discharge of the members of the Bank's bodies of their duties;
- adoption of resolutions regarding profit allocation or loss coverage, and if needed, a resolution setting the date of establishing the right to dividend (dividend date) and the dividend payment date;
- all decisions pertaining to claims for losses incurred during establishment of the Bank, its management or supervision,
- amendments to the Statute of the Bank,
- election and recall of the Supervisory Board and its specific members,

- determination of remuneration of the Supervisory Board members,
- redemption of shares and determination of detailed conditions governing the redemption,
- establishment and liquidation of capital types and funds, and defining their purposes, subject to the ones stipulated under the Bank's Statute,
- merger or liquidation of the Bank and selection of liquidators,
- approval of the Regulations of the Supervisory Board,
- consideration of issues presented by the Supervisory Board or the Board of Executives,
- adoption of resolutions regarding other matters which by virtue of binding regulations require a resolution to be adopted by the General Meeting.

The most important rights of shareholders related to exercising their powers at the General Meeting are specified in the *Rules of Procedure of the General Meeting* and arise under the applicable law. A shareholder shall have the right to participate in the General Meeting and exercise voting rights in person or by a proxy. In connection with his/her participation in the General Meeting a shareholder has the right to:

- contact the Bank using electronic means of communication, the shareholders' communication with the Bank via electronic means is carried out using an electronic mail and specially dedicated e-mail address: *walnezgromadzenie@bnpparibas.pl*, in particular, the Bank's shareholders may submit motions and demands concerning the agenda, likewise ask questions and send notifications and documents,
- the Bank's shareholder or shareholders representing at least one twentieth of the Bank's share capital may demand that specific issues are added to the agenda and submit draft resolutions to the Bank regarding issues on the GM agenda, or issues that are to be put on the agenda,
- notify the Bank about granting a power of attorney in an electronic form using a specially dedicated e-mail address: *walnezgromadzenie@bnpparibas.pl*,
- demand sending him/her, free of charge, a list of shareholders authorised to participate in GM via electronic mail.

However, neither the *Statute* nor the *Rules of Procedure of the General M*eeting provide for a possibility of participation of a shareholder in the General Meeting or expressing one's views during the General Meeting using electronic means of communication, nor exercising voting rights at the General Meeting by post.

The full text of documentation to be presented during GM along with draft resolutions is published at the Bank's website *http://www.bnpparibas.pl/english/general-meeting.htm* starting from the GM convening date, and is also available at the Company's registered office in 02-676 Warsaw, at ul. Suwak 3.

In 2013, there was one Annual General Meeting of BNP Paribas Bank Polska SA held on 4 April 2013 and two Extraordinary General Meetings of the Bank held on 3 June 2013 and 9 October 2013.

13.5. Indication of shareholders holding substantial share packages, and authorisation rights and limitations related to the Bank's securities

Shareholder structure of BNP Paribas Bank Polska SA

As at 31 December 2012, the structure of shareholders of BNP Paribas Bank Polska SA, specifying the major shareholders with at least 5% of the total number of votes at the Bank's General Meeting was as follows:

Entity 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%**	**1,433,077,250**	**28,661,545**	**99.89%**
BNP Paribas Fortis SA/NV	*23,418,013*	*81.62%*	*1,170,900,650*	*23,418,013*	*81.62%*
Dominet SA (in liquidation)	*5,243,532*	*18.27%*	*262,176,600*	*5,243,532*	*18.27%*
Minority shareholders	**31,381**	**0.11%**	**1,569,050**	**31,381**	**0.11%**
Total:	**28,692,926**	**100.00%**	**1,434,646,300**	**28,692,926**	**100.00%**

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.

As at 31 December 2013 and the 2013 annual report publication date, i.e. 11 March 2014, shareholders' structure specifying the shareholders with at least 5% of the total number of votes at the General Meeting was as follows:

Entity 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 based in Paris is the parent entity (holder of 99.93% shares) of BNP Paribas Fortis SA/NV based in Brussels. On 14 November 2013, BNP PARIBAS acquired, through an investment vehicle SFPI/FPIM, a 25% shareholding in BNP Paribas Fortis SA/NV, owned by the Belgian state.

BNP Paribas Fortis SA/NV based in Brussels is the parent entity (100% shares) of Dominet Spółka Akcyjna w likwidacji.

Share capital of BNP Paribas Bank Polska SA

As at 31 December 2013 and as at the publication date of the annual report for 2013, i.e. 11 March 2014:

- 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.

Series A to K shares were admitted and introduced to public trading. In August 2013, the Management Board of the National Depository for Securities (KDPW) adopted resolution no. 644/13 regarding a conditional registration of series L, M and N shares in KDPW under the PLPPAB000011 code, subject to the decision of WSE to introduce these shares into trading on the same regulated market as the market where all the other Bank's shares were traded. The Bank's intention is to introduce the series L, M and N shares into trading simultaneously with the shares of the new series O issue.

13.6. Description of the Bank's Statute amendment rules

Any amendments to the Bank's Statute are made pursuant to the law provisions. Amendments to the Statute are introduced by a resolution of the General Meeting requiring the qualified majority of 3/4 (75%) votes cast. Then, the Statute's amendments are registered in the National Court Register. The consolidated text of the amended Statute is determined by the Bank’s Supervisory Board.

Pursuant to *Article 34 para. 2 of the Banking Law*, BNP Paribas Bank Polska SA shall obtain consent of the Polish Financial Supervision Authority for amendments to the Bank’s Statute if they refer to issues specified in *Article 31 para. 3 of the Banking Law* and broadening or restricting voting rights on shares.

On 21 October 2013, amendments to the Bank's Statute on transferring the scope of competence between the Bank's authorities, as resolved in June 2013, were entered into the National Court Register. Article 9 of the Bank's Statute was amended to confirm an 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 Article 15, para. 3, item 10 of the Bank's Statute). Additionally, Article 15 item 3 of the Bank's Statute has been amended as to the Supervisory Board's right to grant consent to investments in shares and stock of companies within the capital development. The Supervisory Board, acting on the basis of authorisation derived from the Bank’s Statute (Article 15 para. 3 item 12), determined the consolidated text of the Statute including the aforesaid amendments.

13.7. Composition and rules of activity of management and supervisory authorities and their committees

13.7.1. The composition of the Board of Executives of BNP Paribas Bank Polska SA and its rules of activity as at 31 December 2013

The composition of the Board of Executives of BNP Paribas Bank Polska SA and the membership of the Board of Executives members in the authorities of affiliated entities as at 31 December 2013, are described in *Chapter 12 of this Report*.

Rules of appointment and discharge of members of the Board of Executives and the scope of their authority

Members of the Board of Executives of BNP Paribas Bank Polska SA are appointed and discharged pursuant to the provisions of the Code of Commercial Companies and Partnerships and the Banking Law Act. The activity of the Bank's Board of Executives is governed in detail by the Bank's Statute and the Regulations of the Board of Executives, approved by the Supervisory Board, which are available at the Bank's website http://www.bnpparibas.pl/english/legal-documents.htm

The Board of Executives (the Board) shall be composed of three to ten members, including the President of the Board of Executives, one or a number of Vice Presidents of the Board and other members of the Board in the number that is to be defined by the Bank’s Supervisory Board. Appointment of two Members of the Board of Executives, including the President of the Board, is made with a consent of the Polish Financial Supervision Authority, given upon a request of the Supervisory Board.

Members of the Board of Executives are appointed by the Supervisory Board for the period of a joint five-year tenure. A mandate of the Board member appointed prior to the expiry of specific tenure of the Board shall expire at the same time as mandates of the remaining members of the Board.

The Board of Executives manages the Bank’s operational activity and represents the Bank before external parties. The scope of tasks of the Board includes primarily all the issues that are not reserved for the competence of other bodies of the Bank.

Individual Members of the Board of Executives have no specific authority to take decisions on share issue or redemption.

In 2013, the Board of Executives of BNP Paribas Bank Polska SA held 22 meetings and adopted 115 resolutions. The Board of Executives met at least once a month.

13.7.2. The composition of the Supervisory Board of BNP Paribas Bank Polska SA and its rules of activity as at 31 December 2013

Changes in the composition of the Supervisory Board of BNP Paribas Bank Polska SA in 2013, are described in *Chapter 12 of this Report*.

Rules of appointment and discharge of members of the Supervisory Board and the scope of their authority

The Bank's Board of Executives operates on the basis of the Bank's Statute and the Regulations of the Supervisory Board, approved by the General Meeting, which are available at the Bank's website http://www.bnpparibas.pl/english/legal-documents.htm

The Regulations of the Bank's Supervisory Board define composition of the Supervisory Board and criteria for its independent members, rights and duties of the Supervisory Board's member and the description of the Supervisory Board's competences, including description of duties of committees that function within the Supervisory Board. The Regulations contain also some practical rules for organising Supervisory Board's meetings, including the ones convened and managed using direct telecommunication means, e.g. participation in a meeting over the phone or via Internet, or meetings between members of the Supervisory Board staying in different places at the same time using telecommunication or audio-visual means.

The Bank's Supervisory Board shall comprise from five to ten members. The Supervisory Board shall elect a Chairman and two Vice-Chairmen from among its members. The Supervisory Board consists of at least two independent members.

Members of the Supervisory Board are appointed by the General Meeting of the Bank for the period of joint five-year tenure. A mandate of the Supervisory Board member appointed prior to the expiry of specific tenure of the Board shall expire at the same time as mandates of the remaining members of the Supervisory Board.

The Supervisory Board shall proceed with constant, general supervision over all activities of the Bank, and in particular, shall mind whether the activities of the Board of Executives are consistent with the interest of the shareholders, welfare of the Bank, and whether they are in line with rules of law and the Statute.

The duties of the Supervisory Board shall include in particular the following issues:

- supervision over the implementation of the management system, including the risk management system and internal controls, and the assessment of its adequacy and effectiveness,
- supervision over the consistency of the Bank’s policy with respect to risk assumption with the Bank’s strategy and financial plan,
- supervision over the compliance risk management and annual assessment of the compliance risk management effectiveness by the Bank,
- notifying KNF about the Board of Executives' composition and any changes thereto, immediately after the formation of the Board of Executives or making any changes to its composition,
- notifying KNF about the Board of Executives' members who, according to the division of the scope of competence, supervise credit risk management and the internal audit.

Pursuant to the Bank’s Statute, the competence of the Supervisory Board shall include in particular the following:

- assessment of the Bank’s financial statements,
- assessment of the report of the Bank's Board of Executives and its proposals pertaining to allocation of profit and covering losses, as well as presentation of annual reports with the results of the said assessments to the General Meeting,
- approval of the draft annual budget, long-term programmes of the Bank's development and the Bank’s business strategy, likewise rules of the Bank’s prudent and stable management,
- approval of annual economic and financial plans of the Bank,
- approval of motions of the Bank's Board of Executives with respect to opening or liquidation of branches, sub-branches and representative offices of the Bank outside Poland,
- approval of the Board of Executives' motions regarding participation as a member/partner (shareholder) in another bank, company or another commercial organisation, with the exclusion of: (i) Stock Exchange investments concluded for a term no longer than 6 months; and (ii) investments in shares or holdings of companies in order to generate mid- and long-term profits from capital value growth, with the intention of reselling them in the future (under capital development), within the limits (for a single investment and for all investments) set up by the Supervisory Board,
- appointment and recalling of the President of the Board of Executives of the Bank, Vice Presidents and Members of the Board of Executives as well as determination of their remuneration; the Supervisory Board may delegate one or more of its members to a committee empowered to make decisions on remuneration of members of the Board of Executives,
- selection, upon the Board of Executives’ motion, of a statutory auditor to carry out an audit of the Bank’s financial statements,
- approval of general rules of making credit decisions, including regulations of the credit committees which are the authorised bodies to reach decisions related to loans and credits under the regulations,
- adoption of resolutions regarding purchase or sale of real estate or a stake in such real estate and also regarding the purchase or sale of the right of perpetual usufruct,
- adoption of resolutions on issuing bonds,
- drawing up a consolidated text of the Bank’s amended Statute and editorial changes according to the resolution of the General Meeting,
- appointment of an internal audit committee composed of the Supervisory Board members basically to supervise the Audit Department activity,
- approval of the Bank’s compliance risk policy assumptions,
- approval of internal procedures regarding internal capital estimation, capital management and capital planning processes,
- approval of the internal control rules.

In 2013, the Supervisory Board of BNP Paribas Bank Polska SA held 11 meetings and adopted 48 resolutions.

The Supervisory Board establishes the following committees out of its members:

- Compensation Committee,
- Audit Committee,

each composed of at least three members. Should a need arise, the Supervisory Board can establish also other committees. The Supervisory Board determines the scope, manner of activity and composition of the committees, provided that each committee should include at least one independent member of the Supervisory Board (see chapters 13.7.3 and 13.7.4).

13.7.3. Composition and rules of activity of the Audit Committee:

As at 31 December 2013, the Audit Committee composition was as follows:

Filip Dierckx	Chairman
Jarosław Bauc	Committee Member, independent
Yvan De Cock	Committee Member
Helene Dubourg	Committee Member
Andrzej Wojtyna	Committee Member, independent

The composition and rules of operation of the Audit Committee are determined in the *Regulations of the Supervisory Board* and the *Audit Committee Regulations* approved by the Supervisory Board.

The Audit Committee is composed of at least three and maximum five Supervisory Board Members, including two independent Members. Within the scope defined in the Supervisory Board Resolution, the Audit Committee may hold decision-making powers.

The scope of the Audit Committee competence includes in particular:

- monitoring the financial reporting process and recommending acceptance or rejection of the financial statements to the Supervisory Board;
- monitoring the adequacy and efficiency of the internal controls, internal audit and risk management, including the compliance risk;
- periodical review of internal controls in the Bank and in particular risk management systems, with a view to ensuring that the main risks including those related to compliance with existing legislation and corporate governance standards, are properly identified, managed and disclosed;
- monitoring the effectiveness of the internal audit activity, in particular through supervision of the Bank's Audit Department and issuing recommendations for the Supervisory Board with respect to approval of an annual audit plan presented by the Audit Department upon obtaining a positive opinion of the President of the Bank's Board of Executives, and also issuing recommendations on the Audit Department budget and on an appointment or dismissal of the Audit Department director;
- monitoring the external audit process, in particular through:
  - issuing recommendations to the Supervisory Board on choosing, appointing or re-appointing an external auditor (statutory auditor) and the amount of the auditor's remuneration;
  - supervision of the work performed by statutory auditors;
  - providing opinion on the audit plan submitted by the statutory auditors;
  - formal assessment of the external auditor's activity at least once every three years on the grounds of determined criteria, and also monitoring whether the rule of the external auditor’s independence and objectivity is followed or not, including a proper implementation of a procedure of an initial approval of other services rendered by the auditor (unrelated to the audit);
  - monitoring the executives' response to the recommendations presented by an external auditor (statutory auditor) in a management letter;
- ensuring good communication and cooperation between the external auditor (statutory auditor), internal audit and the Supervisory Board.

The Audit Committee issues recommendations and provides opinions based on a consensus. The recommendations and opinions are presented to the Supervisory Board by the Committee Chairman. The Audit Committee submits annual reports on its activity to the Supervisory Board. The Audit Committee Chairman forwards the Audit Committee recommendations and opinions to the President of the Board of Executives of the Bank.

13.7.4. Composition and rules of activity of the Compensation Committee of BNP Paribas Bank Polska SA.

As at 31 December 2013, the Compensation Committee of BNP Paribas Bank Polska SA was composed of:

Jean-Paul Sabet	Chairman
Filip Dierckx	Committee Member
Monika Bednarek	Committee Member, independent

The composition and rules of operation of the Compensation Committee are determined in the *Regulations of the Supervisory Board* and the *Regulations of the Compensation Committee of BNP Paribas Bank Polska SA* approved by the Supervisory Board.

The Compensation Committee is composed of three members: Chairman of the Supervisory Board, and Vice Chairman of the Supervisory Board and the Supervisory Board Member appointed by the Supervisory Board's resolution. At least one member of the Committee should be an independent Supervisory Board Member. Within the scope defined in the Supervisory Board Resolution, the Compensation Committee may hold decision-making powers. The Committee takes decisions based on a consensus. Should there be no consensus, a given issue is submitted to the Supervisory Board to be decided upon. Any decisions made by the Compensation Committee within the scope of its authorisation are immediately enforceable. The Chairman forwards the Compensation Committee’s decisions to the President of the Board of Executives who undertakes appropriate actions to implement them.

The role and tasks of the Committee changed with the implementation of the *Variable Compensation Policy for Executives and Other Individuals Who Have a Significant Influence on the Risk Profile at BNP Paribas Bank Polska SA* at the Bank.

Pursuant to the new *Regulations of the Compensation Committee at BNP Paribas Bank Polska SA* approved by the Supervisory Board in March 2012, the extended scope of the Committee activity encompasses the following:

- providing opinions on and designing the rules of remuneration of members of the Board of Executives and managers referred to in the *Variable Compensation Policy*, and specifically giving opinions on the variable compensation policy, including the remuneration amount and components;
- monitoring and issuing opinions on variable compensation of managers responsible for risk management and for compliance of the Bank's activity with the law and internal regulations;
- setting the terms and conditions of remuneration of members of the Board of Executives determined in their contracts of employment, manager's contracts or other agreements;
- making formal decisions in terms of semi-annual adaptation of the compensation package to costs of living indexes and/or to foreign exchange rates, including expatriation premiums paid to expatriates, members of the Board of Executives.
- preparing recommendations for the Board in all other matters related to the employment and compensation package of the members of the Board of Executives, which would require a resolution of the Supervisory Board.

13.8. Information on Variable Compensation Policy for Executives and Other Individuals Who Have a Significant Influence on the Risk Profile at BNP Paribas Bank Polska SA

The *Variable Compensation Policy for Executives and Other Individuals Who Have a Significant Influence on the Risk Profile at BNP Paribas Bank Polska SA* (hereinafter, *the Variable Compensation Policy*) implemented at the Bank, is a document superior to other documents applied at the Bank with reference to the policy and rules of remunerating employees whose professional activity has a material impact on the Bank's risk profile.

The Bank publishes information concerning *the Variable Compensation Policy* pursuant to KNF Resolution no. 259/2011, including specifically the following:

- information on the *Policy* determination process;
- information on the remuneration evolution;
- information on the performance appraisal criteria, which constitute the basis for rights to compensation components;
- the key parameters and rules of determination of remuneration for individuals holding positions covered by the *Policy*;
- aggregate quantitative information on the amount of remuneration of individuals covered by the *Policy*, broken by business lines;
- aggregate quantitative information on the amount of remuneration of individuals holding positions covered by the *Policy*, broken by members of the Board of Executives, individuals directly reporting to a given member of the Board of Executives and other employees covered by the *Policy*.

The information referred to above is updated at least once a year. It was published for the first time following the 2012 financial statements approval by the General Meeting.

Once a year, until 31 January, the Bank provides the Polish Financial Supervision Authority with data on the number of the Bank's employees whose aggregate remuneration in the previous year exceeded the equivalent of EUR 1,000,000, along with the information on the positions held by such individuals and the value of the main remuneration items, bonuses and long-term prizes awarded as well as the amount of pension contributions paid. In 2013, there were no such individuals at the Bank.

The basic assumptions of the *Policy* include:

- *The Policy* supports an appropriate and effective risk management, discourages from assuming excessive risk beyond the Bank's risk appetite accepted by the Supervisory Board, supports the implementation of the business strategy and mitigates the conflict of interest;
- The Compensation Committee within the Bank's Supervisory Board issues opinions on the *Policy* functioning, including in particular the remuneration amount and components, and it monitors and issues opinions about variable components of remuneration paid to managers responsible for risk management and compliance of the Bank's activity with law provisions and internal regulations, including determination of the terms and conditions of remuneration for members of the Bank's Board of Executives. The compensation amounts for the Supervisory Board members are verified on an annual basis and resolved by the General Meeting.
- The variable compensation is settled in a transparent manner, which means that its amount is determined on the basis of a performance appraisal of every individual covered by the *Policy* and of the given organisational unit, as well as the financial results of the Bank. The Bank's results accepted for determination of variable compensation components take into consideration the Bank's cost of risk, capital cost and liquidity risk in the long-term horizon. The individual work performance is assessed using financial and non-financial criteria, considering the level of risk arising from that performance.
- The payment of variable compensation depends on approval by the Supervisory Board of the Bank's results for a given period, which the benefit refers to, and the appraisal grade obtained by the employee. The payment of the cumulative variable compensation of individuals covered by the *Policy* is reduced or withheld in the situation referred to in Article 142 item 1 of the *Banking Law Act.*
- At least 50% of the variable compensation constitutes an incentive to pay special attention to the long-term welfare of the Bank. At lease 40% of the variable compensation is paid after the period of evaluation for which the compensation is due, whereas the payment is effected not earlier than within three years in equal annual instalments payable in arrears. If the level of variable compensation, determined every year by the Compensation Committee, is exceptionally high, 60% of that compensation amount may be paid in accordance with the rules set out herein.
- The Individuals covered by the *Policy* are obliged not to use their own hedging strategies or assurances with respect to their compensation and responsibility which would neutralise the measures taken with respect to the individuals under the *Policy*, excluding the obligatory assurances arising from specific law provisions.

According to *the Policy*, the Board of Executives established the *Financial Risk and Compliance Committee* at the Bank. This Committee advises the Board of Executives and compensation Committee as regards compliance of the compensation policy for experts of a given field with the applicable laws and professional standards, adequacy of this Policy and its implementation for the corporate risk policy, consistency between the variable compensation practices and maintenance of an adequate level of equity capital, all and any decisions which require its opinion hereunder.

14. BOARD OF EXECUTIVES' REPRESENTATIONS

Correctness and reliability of reports presented

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

- The consolidated financial statements of BNP Paribas Bank Polska SA for 2013 and the comparative data were prepared pursuant to the binding accounting policies and they accurately, reliably and clearly reflect the property and financial situation of the Bank's and its net profit in all material aspects.
- The Board of Executives' report on the activity of BNP Paribas Bank Polska SA in 2013 contains the true picture of the Bank'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 dated 23 May 2012 as amended by Resolution no. 41/2012 of 31 August 2012), pursuant to the provisions of law, as the entity to audit the consolidated financial statements of BNP Paribas Bank Polska SA for 2013 and that the above entity and statutory auditors employed to perform the audit meet the conditions to issue an impartial and independent audit report, in accordance with the respective provisions of Polish law.

On behalf of BNP Paribas Bank Polska SA:

Frédéric Amoudru
President of the Board of Executives

Jan Bujak
Senior Vice President of the Board of Executives

Jaromir Pelczarski
Vice President of the Board of Executives

Michel Thebault
Vice President of the Board of Executives

Wojciech Kembłowski
Member of the Board of Executives

Marta Oracz
Member of the Board of Executives

Adam Parfiniewicz
Member of the Board of Executives

Stephane Rodes
Member of the Board of Executives

Warsaw, 11 March 2014