The Board of Executives' Report on Business Activity of BNP Paribas Bank Polska SA in 2014

BNP PARIBAS | Bank zmieniającego się świata

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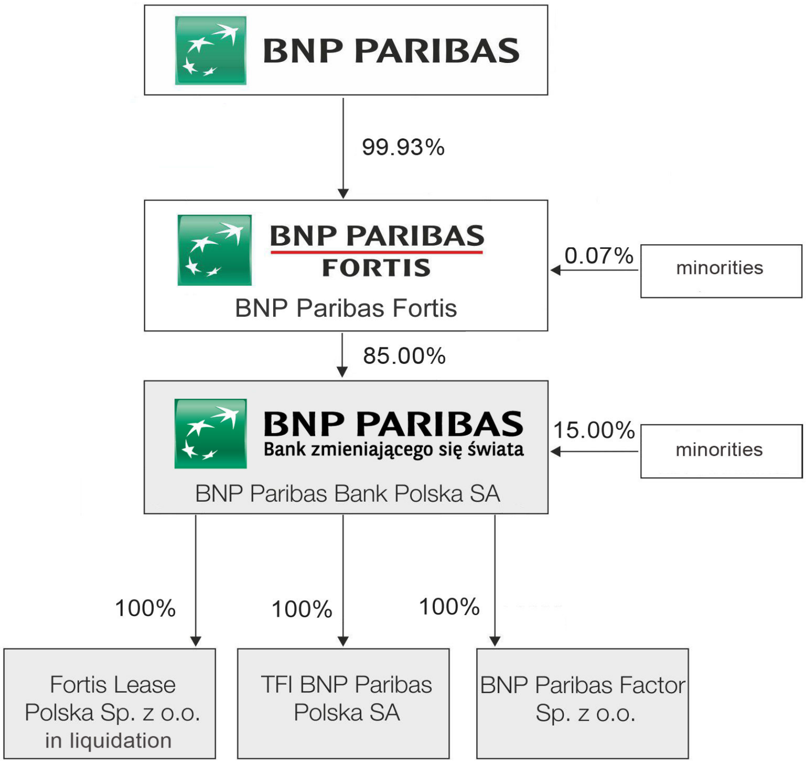
1. SUMMARY OF THE BUSINESS ACTIVITY OF BNP PARIBAS BANK POLSKA SA IN 2014

BNP Paribas Bank Polska SA is a member of BNP PARIBAS, the leading European financial institution operating at the international level.

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



1.1. Intended merger of Bank Gospodarki Żywnościowej SA with BNP Paribas Bank Polska SA

On 10 October 2014, the Management Boards of BNP Paribas Bank Polska SA and Bank Gospodarki Żywnościowej SA (BGŻ) agreed and announced the *Merger Plan* of both banks pursuant to Art. 498 and 499 of the Act of 15 September 2000 – the Code of Commercial Companies (CCC) (consolidated text: Journal of Laws of 2013, item 1030, as amended).

The Merger will be effected pursuant to Article 492 §1, item 1 of the CCC by way of transferring all property (all assets and liabilities) of BNP Paribas Bank Polska SA (the Target Bank) to BGŻ (the Bidding Bank), with a concurrent share capital increase in BGŻ from the amount of PLN 56,138,764 to the amount of PLN 84,238,318 by way of the issuance of 28,099,554 shares of BGŻ with the nominal value of PLN 1.00 (the Merger Shares), to be delivered by BGŻ to the existing shareholders of BNPP Polska. Under the *Merger Plan,* the following share exchange ratio was decided upon: in exchange for six (6) shares of BNPP Polska, shareholders of BNPP Polska will receive five (5) Merger Shares.

All property of BNPP Polska will be transferred to BGŻ on the day of the Merger registration in the register of entrepreneurs of the National Court Register maintained by the competent registration court having jurisdiction over the venue of the BGŻ's registered office. The BGŻ's share capital increase through the issuance of the Merger Shares will be registered on the same day. As a result of the Merger, BGŻ will assume all rights and obligations of the Bank, and the Bank will be wound-up without liquidation proceedings.

The merged Bank will operate under the name *Bank BGŻ BNP Paribas Spółka Akcyjna.* The legal merger is scheduled for the first half of 2015.

In November 2014, the Management Boards of BGŻ and BNPP Polska obtained the statutory auditor's opinion confirming that the Merger Plan was prepared correctly and accurately.

It is anticipated that the merger of the Bank and BGŻ will bring benefits to both banks, their customers, as well as shareholders (including minority shareholders), and will allow achieving the following objectives: capital position strengthening, liquidity improvement, sales network expansion, competitive position in the market, capturing synergies in the form of reduced operating costs, likewise strengthening and simplifying the management system.

On 17 November 2014 BNPP and BGŻ notified KNF of the intended purchase of shares of Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA by BGŻ as a result of the Merger.

The Merger of the Bank and BGŻ will be effected after all the required consents and regulatory permissions have been obtained, including: (i) the KNF's consent to the merger and modifications in the BGŻ Statute, (ii) and the KNF's decision on raising no objection to BGŻ acquiring shares in Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA, (iii) approval of Information Memorandum by the KNF with reference to the public offering of the merger shares and admitting them to trading, and (iv) decision of the relevant regulator on raising no objection to the strategic decision of BNP Paribas Fortis SA/NV which constitutes basis for the Merger, or lapse of statutory time given to the regulator to issue a decision objecting to the strategic decision. On 4 December 2014 a request was filed with the Polish Financial Supervision Authority for permission to merge the two institutions pursuant to Art. 124 of the Banking Law Act.

The BGŻ's Information Memorandum was approved by the KNF and then announced on 16 February 2015

On 25 February 2015 (after the balance sheet date) the Extraordinary Shareholders' Meetings of both banks were held, at which the shareholders adopted the merger resolutions.

1.2. Financial and business highlights

BNP Paribas Bank Polska SA closed 2014 with the **profit after taxation** of **PLN 137.1 million**, i.e. higher by PLN 50.8 million than the result earned in 2013. The incorporation of the lease business into the Bank's structures positively affected the 2014 performance. Meanwhile, the Bank incurred costs at PLN 7.4 million, related to the intended merger of Bank Gospodarki Żywnościowej SA with BNP Paribas Bank Polska SA.

Development of the Bank in 2014 and conditions underlying its growth:

- **The increase in loans to customers, gross, by 12.1%** as compared to the end of 2013, due mainly to **gross finance lease receivables** (related to the incorporation of the lease activity into the Bank's structures), **increase in the loan portfolio of large enterprises** and **active sale of consumer credits;**
- **13.3% growth of customer deposits**, as compared to the end of 2013, arising mostly from the increase of deposits held by large enterprises and individual customers;
- **Stable capital situation** - total capital adequacy ratio at 13.4%; Tier 1 ratio at 10.8%; in May 2014, the Bank finalised the public share issue project thanks to which the commitment to increase the free float on the stock exchange to 15% was fulfilled and the Bank's own funds went up by PLN 218.7 million, after factoring in the share issue costs;
- **The net banking income** increased by PLN 50.9 million, due chiefly to a higher interest income, higher income on dividends and a positive impact of incorporating the lease activity into the Bank's structures; in parallel, no one-off income items which affected the 2013 result (PLN 19.1 million) occurred in 2014;
- **Increase in costs of the Bank's operation along with depreciation costs by 4.5%** - permanent focus on stringent cost control allows the Bank to invest in its development, while avoiding a significant cost increase; a 4.5% cost increase was mainly due to incorporating the lease activity into the Bank's structures and the intended merger of Bank Gospodarki Żywnościowej SA with BNP Paribas Bank Polska SA;
- **Continuation of the prudent risk management policy** – the 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 2014.
- **Improved quality of the loan portfolio** - the share of non-performing loans in the total loan portfolio of the Bank fell from 8.3% recorded at the end of 2013 to **7.3%** at the end of December 2014.

1.3. External factors that influenced the operation and development of the Bank in 2014

1.3.1. Market and economic situation abroad

In H1 2014, leading indicators in the eurozone were heading north. It was not reflected in the GDP data, however, which remained on a softer side. During January-March, the economy in the eurozone expanded by a decent 0.5% q/q, which pushed the annual growth up to 1.1% y/y from 0.4% y/y in Q4 2013. Still, the pace of growth in Q2 and Q3 considerably decelerated as GDP increased by 0.8% y/y in both quarters. The slowdown was primarily down to deterioration in relations between European Union and Russia. The conflict was fuelled by hostilities in Eastern Ukraine and annexation of Crimea by the Russian Federation. Consequently, bilateral sanctions between EU and Russia were implemented in July and August. European Union, among others, banned long-term financing of Russian banks and oil companies. Meanwhile, Russia imposed an embargo on food imports from the EU. According to European Commission's calculations the measures implemented by the EU should dent the rate of GDP growth by 0.3pp in 2014 and 0.4pp in 2015 In the final months of last year economic growth slightly accelerated to 0.9% y/y chiefly down to robust households' consumption. Consequently economic growth in 2014 also averaged 0.9% y/y.

The US economy noted a weaker start of the year. In Q1 GDP fell 2.1% q/q (annualized). Still, the decline in GDP was primarily due to very unfavourable weather conditions in early 2014, which, among others, damped households' consumption. A soft beginning of the year was offset in Q2 and Q3 when the economy expanded by 4.6% q/q and 5% q/q (annualised) respectively. The key triggers for economic growth during April-September were private consumption and business investment. In Q4 the US economy lost some momentum and GDP grew by 2.6% q/q (annualized). In late 2014 growth was still primarily driven by robust households' spending which was propped up by a steady upturn on the labour market. Meanwhile net exports were the drag on the growth pattern. Stronger goods and services imports were consistent with robust consumption demand. Consequently, the GDP growth in US averaged 2.4% y/y in 2014.

Central banks in high developed economies continued expansionary monetary policies. Still, discernible divergence in the economic cycle in eurozone and US resulted in huge differences in conducting policy in the two biggest world economies. While the FED continued tapering asset purchases (QE) and ended QE3 programme in October, the European Central Bank delivered a number of instruments aimed at the economy stimulation and fight against stubbornly low inflation.

At its June meeting, the Governing Council lowered its main policy refi rate by 10bp to 0.15% from 0.25%. The council decided also to cut the deposit rate by 10bp, pushing it below 0% (-0.10%). Aside from tweaks in interest rates the Council decided also to launch four-year targeted long-term refinancing operations (TLTRO) worth in total EUR 400 billion. TLTRO are intended to support credit growth in the eurozone which in turn should boost economic growth and allow the inflation to get closer to the ECB target. To a similar end, the Council suspended SMP sterilization to add extra liquidity to the market.

In September, however, the Governing Council concluded that the implemented measures were insufficient to secure the retreat of inflation back to the target. To support the monetary policy transmission mechanism the Council decided to lower all main policy rates by 10bp. Separately, the Council launched an asset purchase programme which included asset backed securities and covered bonds.

In January 2015, the risk of inflation remaining below the target in the mid-term inclined the Council to launch the long awaited sovereign bond purchase programme. The Council announced that it will buy EUR 60bn assets monthly (including the assets bought under the asset purchase programme launched in September). The programme should remain in place until September 2016 at least and should expand the eurosystem's balance sheet to EUR 3.1trn (ie the balance sheet level in mid-2012). According to the Council ample monetary expansion resulting from the broad-based asset purchase programme, should secure bringing CPI inflation back to the target.

At the same time, the Bank of Japan carried on their program of doubling its balance sheet, which should allow Japan to escape the deflation trap and secure faster economic growth in the years ahead. In October the BoJ decided to increase the annual pace of monetary base expansion to JPY 80trn from JPY 60-70trn. To achieve it the BoJ stepped up its purchases of long-term government bonds.

In 2014, emerging markets economies showed signs of further weakness. The conflict between Ukraine and Russia, which resulted in the Russian annexation of Crimea, and the introduction of bilateral EU-Russia sanctions pushed Russia to the brink of recession. Although Russian GDP rose by 0.5% y/y in 2014 we expect that the economy will shrink by a hefty 6.5% y/y in 2015, as the ongoing hostilities between the Ukrainian army and pro-Russian separatists pose a risk of the conflict re-escalation. We expect that the plunge in Russian production will primarily stem from high inflation, which will harm households' real disposable income impeding private consumption.

Other emerging economies also showed symptoms of weakening. The Chinese economy, which has been based on strong investments growth for years, faces structural reforms which will translate into at least temporary deceleration in GDP growth. Meanwhile, Brazil is coping with low GDP growth which is accompanied by high inflation. Lower demand from developing economies entailed a decline in commodity prices on the global market. In November the OPEC's decision on maintaining the oil production at unchanged level prompted a tumble in oil prices. Brent oil price plunged to USD 50/bbl in early 2015 from USD 80/bbl in November. Although lower oil prices bode well for global growth, GDP dynamics in many emerging markets whose economic performance is highly reliant on oil exports (for instance Russia), will be sizably damped.

1.3.2. Polish economy in 2014

GDP – growth rate and components

In 2014 economic growth in Poland averaged 3.3% y/y. The key driver supporting the expansion was domestic demand which rose by 3.6% y/y. An exuberant 9.7% y/y growth in investment played a big role in the growth pattern. Separately, households consumption increased 3.1% y/y, chiefly due to an upturn in the labour market and low CPI inflation. Meanwhile, net exports were a drag on growth, a development which chiefly mirrored lower sales of goods to Russia. (Note, according to 2013 data, approximately 5% of Polish exports were destined for the Russian market).

In the first months of 2014, the Polish economy has been accelerating. GDP rose by 3.4% y/y in Q1 2014 well above the 3.0% y/y growth noted in the final months of 2013. The key drivers supporting economic growth in early 2014 were private consumption and investments, while net exports' growth contribution notably fell. In Q2 the pace of economic growth moderately picked up to 3.5% y/y. The deterioration in EU-Russia relations started to feed through into the activity data during July-September. Consequently Polish economy rose by 3.3% y/y in Q3. The growth structure remained similar to previous quarters, however, with domestic demand propelling the economy. In Q4 the economy expanded by 3.1% y/y. A mild deceleration in the growth dynamics reflected stronger demand for foreign goods and services, which was confirmed by the imports data.

Monthly activity data along with leading indicators suggest that pace of economic growth in Q4 remained similar to July-September and reached about 3.2% y/y. In 2014 industrial production growth averaged 3.4% y/y compared to 2.3% y/y in 2013. Meanwhile, nominal retail sales rose on average 3.1% y/y in 2014 compared to somewhat weaker 2.4% y/y growth in 2013. Construction production was on average higher by 5.3% y/y in 2014 in contrast to the 11.6% y/y fall in 2013. The numbers point to a recovery in the construction sector after a somewhat softer period following the European Championship in football EURO 2012. A stronger situation in the sector was also reflected in the investments data in the first three quarters of last year.

Chart 1. GDP and domestic demand growth rate in 2001-2014 ***(Source: Reuters EcoWin)***

Labour market

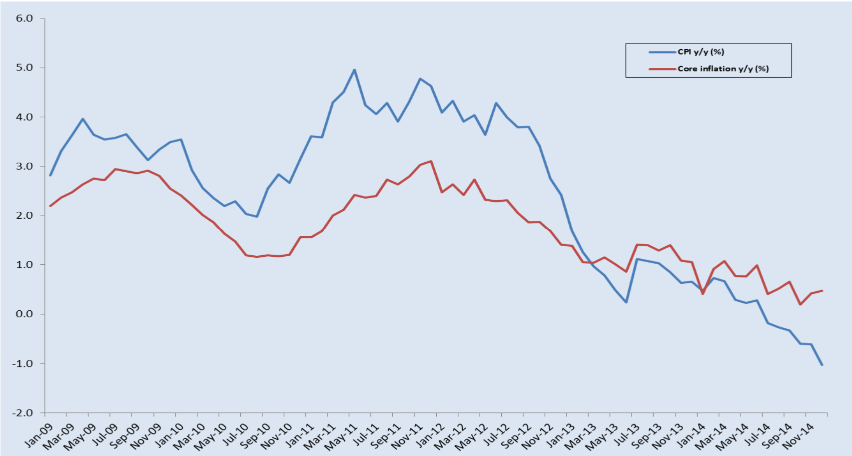
Accelerating economic growth translated into a significant upturn on the Polish labour market. After reaching last year's maximum at 13.9% in January, the unemployment rate gradually fell to 11.3% in October. In late 2014 seasonal factors pushed the rate up, however the increase was lower than in previous years. Consequently, the unemployment rate in December amounted to 11.5% and was 1.9pp lower than in December 2013. Corporate sector employment rose on average by a decent 0.6% y/y in 2014 compared to a 0.5% y/y decrease in 2013. The employment data are consistent with stronger labour demand in the corporate sector which augurs well for the economy in the coming months. According to survey data, companies report a lack of qualified workers, which suggests further growth in employment, rising employees' bargaining power and eventually larger wage pressures. In 2014 corporate sector wages growth discernibly accelerated to 3.8% y/y from an average of 2.6% y/y in 2013. Although, compared to past years nominal wages growth remained moderate, due to low (and for part of the year even negative) consumer prices growth, in real terms wages increased by

3.8% y/y which was the fastest pace of growth since 2008. As a result real earnings in the economy rose on average by 4.4% y/y, which heralds strong private consumption in the months ahead.

Inflation

In January 2014 CPI inflation stood at 0.5% y/y. After a mild pick-up to 0.7% y/y in February, inflation started to gradually decelerate reaching 0.3% y/y in June 2014. In July the dissipating base effect on waste collection costs (in July 2013 waste collection prices were hiked by about 50%) pushed headline inflation below zero. In the next few months negative inflation was gradually deepening. The downward move stemmed chiefly from steady decreases in food prices due to elevated supply. High food supply on the domestic market was primarily down to the Russian embargo and an ample harvest. In late 2014 the tumble in oil prices on global markets translated into a marked decline in fuel prices locally. As a result consumer prices deflation deepened to 1% y/y in December. At the same time, core inflation remained fairly stable and hovered around 0.5% y/y. In 2014 CPI inflation averaged 0.0% y/y compared to 0.9% y/y in 2013. In the coming months we expect headline inflation to remain negative chiefly due to very low oil prices. Nevertheless, we expect CPI prints to mark the trough in Q1 2015 and to start to head north from spring onwards. Still we expect inflation to turn positive only in mid-2015. We envisage also CPI inflation to drift towards 1% y/y in the final months of the year, being fuelled by higher food prices, due to base effects, and accelerating core inflation stemming from, among others, relatively high wages growth.

Chart 2. CPI inflation and core inflation (excluding food and energy prices) growth rate 2009-2014 (*Source: Reuters EcoWin*)



Balance of payments

In early 2014 official reserves amounted to EUR 78.5 billion. In the first half of the year they were falling and reached EUR 74.7 billion in June. In the latter half of the year, however, they started to rise again to EUR 82.6 billion in December. In 2014 the deficit on the current account amounted to EUR 5.3 billion which is similar to the negative balance noted in 2013. The modest increase stemmed chiefly from softer trade balance, reflecting the tense situation between EU and Russia on one hand and robust Polish domestic demand on the other. Consequently, the trade deficit during January-December amounted to EUR 36 million, compared to EUR 0.6 billion surplus in the corresponding period of 2013. The recovery in eurozone's activity, which is Polish key exports market, should translate into a positive trade balance in the coming months. The positive balance in services amounted to EUR 7.1 billion in 2014 and was lower than in the previous year when it amounted to EUR 8.0 billion. The balance on the primary income account was stronger than in 2013 and the deficit amounted to EUR 12.7 billion in 2014 compared to EUR 13.5 billion in 2013.
The surplus on the capital account in the first eleven months of 2014 rose to EUR 10.0 billion from EUR 9.0 billion in the corresponding period of 2013. The deficit on the financial account during January-December amounted to EUR 2.9 billion compared to EUR 5.4 billion in the corresponding period of 2013. In contrast to 2013, when the negative balance on the financial account stemmed from inflow of direct and other investments, last year the deficit resulted only from a considerable influx of foreign direct investments. The balance of foreign direct investments amounted to EUR -5.9 billion and was notably lower than in 2013 when it stood at EUR -2.9 billion. Separately, the balance of portfolio investments amounted to EUR 0.7 billion compared to EUR -0.1 billion in the corresponding period of 2013. The portfolio investment balance reflected stronger domestic entities demand for foreign debt instruments; Last year domestic entities spent EUR 2.4 billion on debt instruments compared to EUR 0.7 billion in 2013.

Public finances

Stronger economic growth resulted in a considerably lower budget deficit in 2014 than assumed in the budget law. According to tentative estimates budget deficit in 2014 amounted to less than PLN 30 billion compared to PLN 47.5 billion deficit assumed in the budget bill. Better data on the budget deficit were due to both higher revenues, mirroring the strong pace of economic growth, and lower spending. Consequently the general government deficit amounted to roughly 3.3% of GDP in 2014. In the budget bill for 2015 the authorities assumed a PLN 46.1 billion deficit which should push the general government deficit below 3% of the GDP. This should incline the European Commission to lift the excessive deficit procedure on Poland.

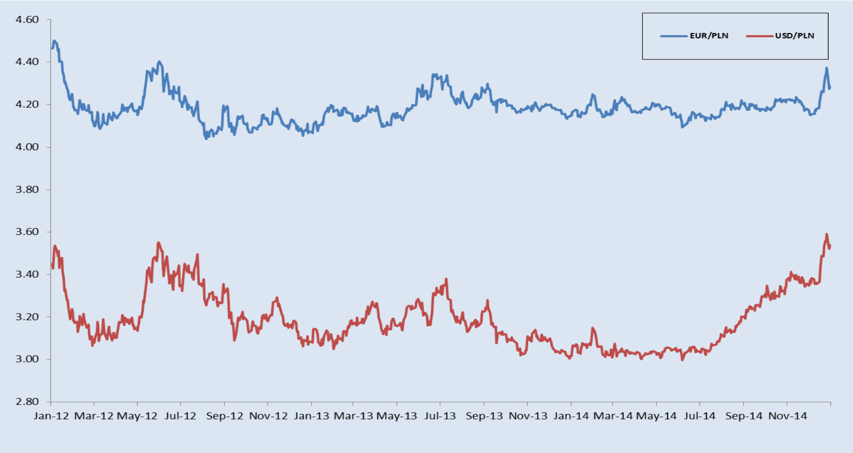
As a result of the pension system reform and phasing out of government bonds that were held by Open Pension Funds (roughly PLN 120 billion) the public debt in relation to GDP decreased by over 7pp to approx. 49.5%. The move markedly reduced the debt servicing costs. After the pension system reform, only 15% of pension contribution payers remained in the OPF which notably decreased the transfers from the social system to the OPF. The government announced that due to negative inflation it will implement a one-off tweak in the pension revaluation in 2015. The pensions will be raised by at least PLN 36. The government announced also introduction of tax breaks for families with more than two children. The overall cost of the amendments should be contained in the PLN 3-5 billion range.

Exchange rate

In the first half of 2014 the zloty exchange rate was fairly stable and was primarily driven by the geopolitical situation. Despite the risk of an escalation of the conflict between Russia and Ukraine the zloty exchange rate remained relatively

stable, though its volatility increased. Until December 2014 EURPLN hovered in the 4.15-4.25 range. Just before the year-end Zloty depreciated more markedly against euro and was traded at 4.35. The move was prompted by low liquidity on the market during the Christmas period rather than by a fundamental change in the Polish currency outlook, however.
USDPLN dynamics followed EURUSD over the course of last year. Considerably better economic prospects in the USA resulted in a marked appreciation of euro against the US dollar, which implied a similar appreciation of USDPLN. Hence after the first half of the year when USDPLN was traded a touch above 3.00, in the latter half of 2014 Zloty steadily depreciated against the US Dollar. Consequently in late 2014 USDPLN stood at 3.50-3.60. CHFPLN oscillated in the 3.35-3.50 range for most of the year, tracking the EURPLN. In January 2014 the Swiss National Bank decision to abandon the EURCHF 1.20 floor implied an abrupt massive Zloty depreciation against Swiss Franc. Consequently, CHFPLN rose above 4.00 levels in January 2015.

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



Interest rate

After finishing the easing cycle in July 2013, during which rates were lowered by 225bp and the main policy rate reached its lowest level history (2.50%), the Monetary Policy Council (MPC) have kept the rates on hold. In March 2014, the MPC announced that rates would remain unchanged until the end of Q3. In Q2 lack of inflationary pressure coupled with a mild activity slowdown implied expectations for monetary policy easing, however. In September the Council suggested a possibility of policy easing and in October cut the main policy rate by 50bp to 2.00%. Separately the Council cut the Lombard rate by 100bp to 3.00% and kept the deposit rate on hold. During the November meeting the MPC received a new NBP's staff economic projection. Although the inflation path remained below the 2.5% inflation target over the entire forecast horizon, the MPC decided to leave the rates unchanged. The inaction was justified by upbeat prospects for economic growth. Nevertheless the deepening deflation resulted in a gradual build-up of rate cuts expectations. In light of the ECB decision to launch a broad-based asset purchase programme, which may prompt an undesirable Zloty appreciation, the MPC will decide to cut interest rates by 50bp in March, when policymakers will digest the new inflation projection, we think. Our expectations are consistent with the Council statement from the February meeting
In 2014 bond yields fell across the curve and the curve flattened out, which reflected higher expectations for interest rate cuts in Poland in the months ahead. Yields dropped also on the back of monetary policy easing delivered by the ECB. The yields on the 10y and 5y bonds fell by approximately 180bp and 150bp to 2.50% and 2.10%, respectively. The yields on the short-end of the curve declined by roughly 120bp to approximately 1.80% for 2y bonds.

1.3.3. Banking sector in 2014

In 2014 the condition of Polish banks remained solid. The non-performing loans ratio for corporate sector fell by 0.3pp to 11.2% in December from 11.5% in January. The overall ratio including households dropped by 0.5pp to 7.2% in November from 7.7% in January. The loan-to-deposit ratio declined to 110% in December from 113.7% in January.
The 275bp decrease in interest rates in conjunction with economic recovery supported stronger credit dynamics. In December corporate credits rose by 8.8% y/y compared to a modest 1.5% y/y growth in corresponding month of 2013. Meanwhile households' credits increased by 5.5% y/y compared to a 4.5% y/y growth in December 2013.
Consumer credits were up by 3.8% y/y in December while housing loans increased by 5.1% y/y. The share of FX-denominated housing loans decreased to 46.1% in December from 50.2% in January. Lower interest rates reduced the attractiveness of deposits, however the growth rate of deposits among corporates and households remained solid and hovered around 8% y/y in late 2014.

Banks' financial results

In September the capital adequacy ratio inched up to 14.9% from 14.6% in March 2014. The Tier 1 ratio amounted to 13.7% in September confirming decent capital position of banks. The liquidity conditions in the sector remained stable. The net financial result amounted to PLN 15.4 billion in November and was PLN 1.2 billion higher than in the corresponding period of 2013. At the end of Q3, ROE and ROA edged up to 11.0% and 1.19%, respectively, from 10.4% and 1.14% noted in Q3 2013.

Chart 4. Credit facilities and deposits to enterprises in the years 2009-2014 (*Source:* **Reuters EcoWin**)

Chart 5. Credit facilities and deposits to households in the years 2009-2014 (*Source:* **Reuters EcoWin**)

1.4. 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:

- Tentative economic recovery signs can be noticed in Poland, which in turn translates into more optimistic projections for the Polish GDP. The European Commission forecasts that the Polish GDP will rise by 3.2% in 2015 and 3.4% in 2016 as compared to growth by 1.7% and 2.1%, respectively, in the entire European Union.
- Yet the geopolitical instability (for instance the crisis in Ukraine) and the still uncertain prospects for the EU economy may adversely affect the macroeconomic situation, which may have in turn an adverse impact on the Bank's financial standing and results.
- Stabilisation of the NBP interest rates at low level may result in lower costs of financing of individual customers and enterprises, which should translate into growth of demand for loans. On the other hand, low interest rates may discourage households from saving in bank deposits and thus have an adverse impact on profitability of non-interest bearing deposits.
- Most banks in Poland still focus 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. This growing competition may weaken the Bank's ability to achieve the assumed targets regarding consumer loans sale, but on the other hand, a strong increase in demand for loans will favour the accomplishment of the Bank's targets.
- It is expected that as a result of the economic recovery, lending will grow in the entire sector, which will also affect the increase of liquidity requirements towards banks, which may result in more fierce competition in deposit acquisition and margin decline.
- Increase in fees for the Bank Guarantee Fund in 2015 as compared to 2014. The annual fee has increased from 0.1% to 0.189%, whereas the prudential fee from 0.037% to 0.05%, which will affect the cost level in 2015. Costs of the above fees will continue to be recognized on an accrual basis.
- As a consequence of the decision of the Swiss National Bank dated 15 January 2015 to no longer maintain the fixed minimum CHF-EUR exchange rate at 1.20, the exchange rate of the Swiss franc substantially appreciated against all main currencies, including the Polish zloty. The NBP mid-rate as at 14 January 2015 stood at PLN 3.5715 for 1 CHF, whilst on 30 January 2015 the NBP mid-rate amounted to PLN 4.0179 for 1 CHF. A portion of the portfolio of mortgage loans held by the Bank is denominated in CHF, yet depreciation of PLN against CHF has a limited impact on the exchange rate risk or liquidity risk due to acquiring a stable long-term financing matched to the loan portfolio characteristics. An increase in CHF mortgage loans value as converted to PLN, with the unchanged collateral value, made it necessary to create additional provisions at the end of January 2015 amounting to PLN 10.4 million, of which PLN 8.6 million was for provisions for impairment and PLN 1.8 million for IBNR provisions. However, conversion of mortgage loans at the rate valid on the loan granting day or at another

rate could have material adverse impact on the operations, performance, financial standing or development prospects of the Bank.

- On 29 January 2015, another amendment to the *Payment Services Act* (passed by the Sejm, the lower chamber of the Polish Parliament, on 28 November 2014) became effective. Its main purpose is to further lower the interchange fee from 0.5% of the turnover for all types of cards to: 0.2% of a domestic transaction made by a debit card, or 0.3% of a domestic transaction made by a credit card, or a payment card other than a debit or credit card. The above changes will lower the profitability of cards (interchange fee is one of the key components of card-related income). Nonetheless, they will have negligible impact on the Bank as card-related fees and commissions do not play a substantial role in the Bank's revenues.
- On 31 March 2015, *Recommendation U* issued by KNF to regulate bancassurance activities, will enter into force. One of the main assumptions of Recommendation U is to limit opportunities for banks to earn income on offering insurance products in the form of group insurance agreements. The Bank has been working on alignment of the bancassurance activity pursued with the requirements set by the Recommendation U, in particular with respect to changing the model under which insurance products are offered into an agent model where the Bank will act as a multi-agent.

2. STOCK PERFORMANCE ON THE WARSAW STOCK EXCHANGE

The Bank's stock labelled with the ISIN code: PLPPAB000011 has been listed on the Warsaw Stock Exchange SA in Warsaw (WSE) since 9 November 1994. The Bank's stock listed under an abbreviated name: BNPPL and a ticker symbol: BNP - is classified in the 250 PLUS segment. They are included in the following indices: WIG, WIG-Poland, WIG-BANKI, sWIG80 and InvestorMS.

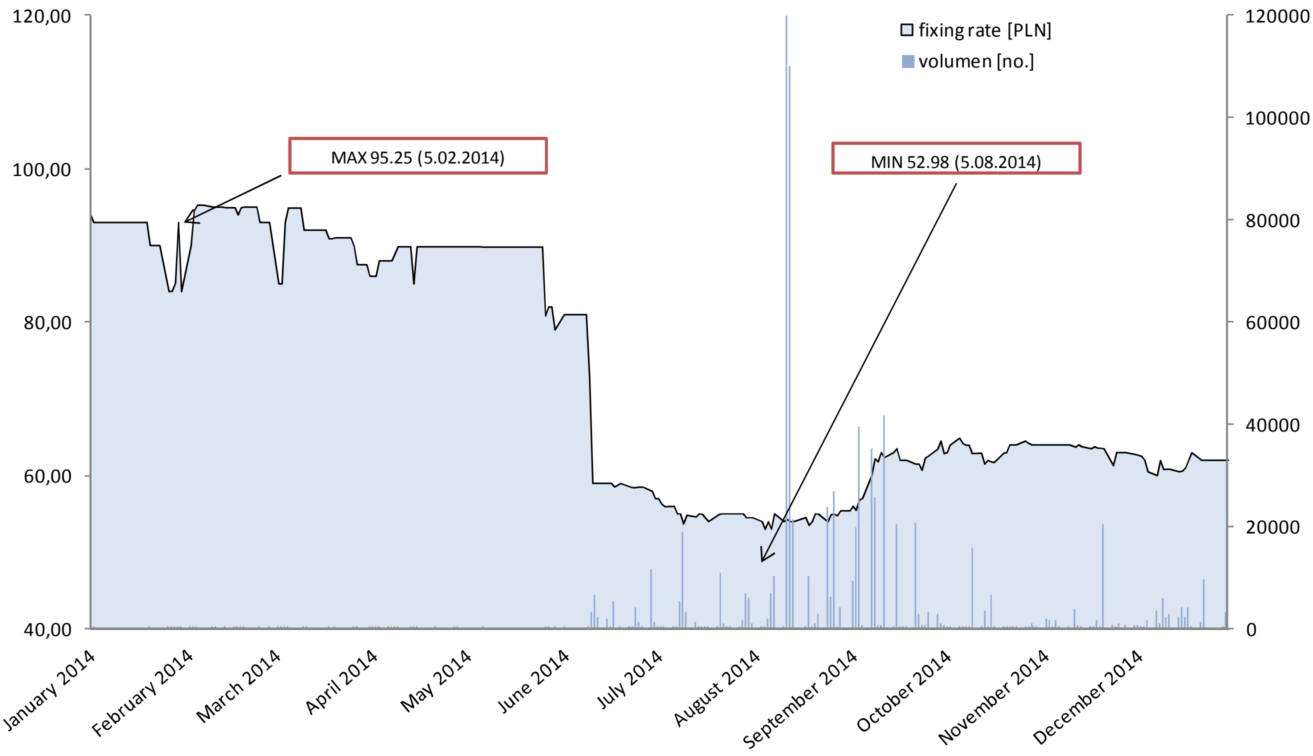
Since 11 June 2014 the free float of shares has significantly increased, alike liquidity of the Bank's stock. As many as 5,026,539 shares of new series "O" issue were introduced to public trading and acquired by retail and institutional investors, as well as shares of series "L", "M" and "N" of previous issues owned by BNP PARIBAS group.

At the first session in January 2014, the Bank's stock was traded at PLN 94.00. The Bank's share price fell to PLN 59.00 on 11 June 2014 after change in valuation due to an increase in free float shares from 0.11% to 15%. At the end of 2014 the share price amounted to PLN 62.00.

The highest Bank's share price in 2014 was recorded on 5 February 2014, when it stood at PLN 95.25 and the lowest on 5 August 2014 at PLN 52.98. The average share price in 2014 amounted to PLN 73.00, and was lower compared to the average share price of PLN 84.45 in 2013.

An average turnover in the Bank's stock was 3,166 shares per session in 2014 and was higher in comparison to the average turnover recorded in 2013 (almost 41 shares per session). An average value of the turnover in the Bank's stock per session was PLN 179 thousand in 2014, and was higher than the average value of the stock turnover of PLN 3.9 thousand per session in 2013.

Chart 6. Quotations of the Bank's stock from 3 January 2014 until 30 Dec 2014



WIG, a stock exchange index, rose from 51,865.89 points noted on 2 January 2014 up to 51,416.08 points recorded on 30 December 2014 (increase by 0.9%).

WIG-Banks, a sector sub-index, recorded an increase from 8,052.27 points noted on 2 January 2014 to 7,960.97 points recorded on 30 December 2014 (i.e. by 1.1%).

3. SHARE CAPITAL AND SHAREHOLDER STRUCTURE

3.1. Share capital of BNP Paribas Bank Polska SA

As at 31 December 2014 and as at the publication date of the annual report for 2014, i.e. 06 March 2015:

the share capital of the Bank amounts to PLN 1,532,886,878.90 - registered and fully paid up;

total number of shares: 33,719,465 ordinary bearer shares (series A to O), which entitle their holders to 33,719,465 votes at the Bank's general meeting of shareholders, all shares are dematerialised and quoted on the regulated market operated by the WSE.

Nominal value of one share - PLN 45.46.

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. Issue of series O shares and changes in the share capital structure

Within the fulfilment of BNP PARIBAS group’s commitment to the Polish Financial Supervision Authority ("KNF") to increase the free float of the Bank’s shares to at least 15%, the Bank conducted a public offering of shares in 2014.

On 7 April 2014, the Bank's Annual General Meeting resolved to increase the share capital by the amount not higher than PLN 228.5 million through a new issue of up to 5,026,539 series O shares, with pre-emptive rights of the existing shareholders excluded.

On 11 April 2014, the Bank confirmed its intention to increase the share capital through a public offering of shares, and to increase the free float of the Bank's shares at the Warsaw Stock Exchange.

On 22 April 2014, 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.

After disclosing the issue prospectus on 23 April 2014, the Bank initiated the public offering brought to a close by allotment of shares on 6 May 2014. The offering included up to 5,026,539 shares of new series O shares issue. Under the public offering the Bank issued the maximum number of offered shares i.e. 5,026,539 shares at an issue price of PLN 46 each. The gross proceeds from the share issue were PLN 231.2 million. Under the subscription in the public offering, all the offered shares were allotted, of which 166,093 shares were allotted to retail investors and 4,860,446 shares - to institutional investors.

On 27 May 2014, the District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register registered the Bank's share capital increase from the amount of PLN 1,304,380,415.96 up to PLN 1,532,886,878.90, i.e. by PLN 228,506,462.94 as a result of the issue of 5,026,539 ordinary bearer series O shares.

In addition to the issue of series O shares, on 11 June 2014 the Bank's shares of the previous issues were introduced to public trading on the primary market: 5,243,532 series L shares, 2,108,794 series M shares and 4,569,420 series N shares.

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 the shareholders’ structure specifying the major shareholders with at least 5% of the total number of votes at the General Meeting of Shareholders 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 indirectly through:	**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 Fortis SA/NV based in Brussels was the parent entity (100% shares) of Dominet Spółka Akcyjna w likwidacji (in liquidation).

On 27 May 2014, following registration of the series O shares, issued with pre-emptive rights excluded and subscribed by investors in the public offering, the share of BNP Paribas Group decreased from 99.89% to 85.00% of the total number of votes at the Bank's general meeting, while the free float of shares held by minority shareholders increased to 15.00%.

As a result of a division of the liquidation property of Dominet SA, the former shareholder of the Bank holding directly 5,243,532 shares accounting for 15.55% of the Bank's share capital, which entitled Dominet SA to exercise 5,243,532 votes at the Bank's general meeting - on 25 June 2014 all these 5,243,532 shares were acquired directly by BNP Paribas Fortis SA/NV based in Brussels, while the stake of Dominet SA in liquidation in the total number of votes in the Bank went down to zero.

As at 31 December 2014 and the 2014 annual report publication date, i.e. 06 March 2015, the 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 indirectly through:	28,661,545	85.00%	1,302,953,835.70	28,661,545	85.00%
BNP Paribas Fortis SA/NV directly	*28,661.545*	*85.00%*	*1.302.953.835.70*	*28,661,545*	*85.00%*
Minority shareholders	5,057,920	15.00%	229,933,043.20	5,057,920	15.00%
Total:	**33,719,465**	**100.00%**	**1,532,886,878.90**	**33,719,465**	**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.

4. THE BANK'S PRODUCTS AND SERVICES AND DEVELOPMENT OF BANKING BUSINESS IN 2014

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

- Retail Banking (RB), including Personal Finance dedicated to consumers loans;
- Corporate and Transaction Banking (CTB);
- other banking activity.

4.1. Retail Banking (RB)

- provides services to individuals and small and medium enterprises that generate a turnover up to PLN 60 million;
- 221 own and franchise branches and 27 SME financial centres;
- 379,833 individual customers as at 31 December 2014 compared to 365,689 as at 31 December 2013;
- Personal Finance (PF) provides its services to 157 Retail Banking customers (PF has been offering retail and wholesale financing to car dealers since June 2014);
- 39,184 enterprises (SME & Micro) as at 31 December 2014 compared to 33,810 as at 31 December 2013.
- 1,361 FTEs as at 31 December 2014.

The Retail Banking segment specialises in providing financial services to individual customers, private banking services, likewise services intended for small and micro 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 2014, the Bank developed its product offering for individual customers in order to enhance the activity of existing customers and acquire new ones. New customers were acquired mainly based on cash loans under preferential terms and a new offer for a personal account.

In Q1 2014 the Bank launched a new personal account named "Konto Dobrze Dobrane" (Well Suited Account) that replaced the previous offer of S, M, L and XL packages. The respective offer reflects the current market trends and customer requirements, rewarding active use of a personal account. Great flexibility is a distinctive feature of the offer that enables any customer to fine-tune a personal account to his/her personal needs. Under the offer of *Konto Dobrze Dobrane*, in addition to a savings and checking account (ROR), customers may choose from the following products and services:

- free-of-charge savings account with a promotional interest rate of up to PLN 50 thousand, representing an interesting alternative to term deposits;
- *MasterCard* debit card
- access to the *Pl@net* internet banking system;

and in addition:

- overdraft for ROR account with the option of 0% interest rate in exchange for a fixed monthly fee;
- variants of assistance insurance packages;

- *Money Back* programme dedicated to a debit card.

In June 2014, a new personal account was made available for sale through the Internet under the name *iKonto* with a dedicated debit card and the Money Back programme for online payments. The process of opening the account is fully remote and does not require a customer's visit to the branch. This step is part of the Digital Banking development at the Bank.

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

- credit cards: *MasterCard Classic, MasterCard Sport, MasterCard Gold* and *MasterCard World Elite* for customers of Private Banking and individual customers of the Prestige segment;
- *MasterCard* pre-paid cards.

Card sales were supported by the following promotional campaigns:

- starting June 2014 the Bank run the campaign under the slogan *"Płać kartą – wygraj rower" (Pay With a Card - Win a Bike)* promoting active use of BNP Paribas payment cards, and the campaign *"Prezent za kartę kredytową MasterCard" (A Gift for MasterCard Credit Card)* to boost sales of credit cards to the existing customers.
- in September 2014 the campaign advertising lower interest rates for credit cards was launched to promote active use of the credit limit;
- since December 2014 the Bank's customers could benefit from the campaign "Zapłać kartą–odbierz nagrodę" (Pay With a Card - Get Your Price) inciting customers to actively use payments cards.

Since April 2014, payment cards issued by BNP PARIBAS have a 4-year validity term. In addition, the Bank has lowered the required minimum repayment for credit cards to 3% (i.e. PLN 30).

Persistently low market interest rates, and hence low interest rates of term deposits, fuelled customers' interest in earning a higher level of profits on their savings. In order to satisfy the above need, the Bank offered to its customers the following investment products:

- in February 2014, foreign sub-fund *Global Partners PL KBC Point Capped 4*. The sub-fund is based on a basket of companies which operate in the most developed regions of the world, and its strategy is to protect the principal amount at the level of 95% at maturity, with a chance to gain 25% within one year and a half of the investment term,
- in April 2014, in collaboration with Open Life Towarzystwo Ubezpieczeń Życie S.A. - the Bank sold a two-year structured product in the form of a group life insurance and endowment with Insurance Capital Fund WiborProfit 2014, where profits of investors are dependent on the WIBOR 3M index.
- in July and August 2014 customers could buy units of *Global Partners Zabezpieczenia Aktywów Sierpień 90* - foreign subfund of the open-end fund following the CPPI strategy. The subfund invests assets in monetary funds, bonds and equity funds managed by entities in the KBC Group. The subfund strategy assumes protection of the principal amount at 90% of the net asset value on each anniversary of the subfund operation.
- in October 2014, in collaboration with TUnŻycie Warta S.A. - the Bank offered a two-and-a-half-year structured product in the form of a group life insurance with Insurance Capital Fund GlobarStars II, where profits of investors are dependent on the BNP Paribas Income Star Funds Index.

Investment products are complementary to the deposit offer. The Bank in 2014 promoted deposits for customers who chose to deposit new funds in the Bank using the following deposit products:

- *Prosta Lokata* - 1-month renewable deposit, with promotional interest rate for the first interest period;
- *Naj Lokata* - 3-month renewable deposit, with promotional interest rate for the first interest period; this product is also available through the Call Centre;
- *Lokata Dobrze Procentująca* - 3-month non-renewable deposit, which at maturity is transferred into a customer's savings account.

The above-mentioned deposits were on offer until December 2014, fuelling further growth of the deposit base.

In 2014, a further increase in sales of bank products for individual customers could be observed:

- sales of cash loans in 2014 totalled PLN 1,016.8 million compared to PLN 976.2 in 2013, which means 4.2% growth;
- sale of credit cards significantly increased. In 2014 it amounted to 20,590 cards with credit limits exceeding PLN 56.8 million, which represents an increase of over 15% compared to 2013, when the Bank sold 16,980 cards with credit limits of PLN 49.4 million;
- the number of newly concluded agreements on overdraft facility in ROR accounts in 2014 amounted to 19,140 for the total amount of PLN 53.2 million, compared to 17,553 agreements, signed in the same period of 2013, for the total amount of PLN 46.6 million, which accounts for over 14% growth in the value of credit limits granted;
- as at the end of 2014, the balance of total deposits from individual customers of the following segments: Mass Market, Aspiring, Affluent and Prestige - rose by 26.9% compared to the balance as at the end of 2013;
- in 2014, sales of investment products increased by 13% and exceeded PLN 269 million, while at the end of 2013 the sales amounted to PLN 237.5 million.

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 via the internet and call centre;
- car loans for new and used cars; financing is mainly initiated by used car dealers and authorised dealers;
- credit cards - offered to customers who signed a cash loan or a car loan agreement paired with a credit card.

Personal Finance is the driving force behind acquisition of individual customers, income earning and boosting profitability.

Since June 2014 PF has been the provider of retail and wholesale financing for car dealers.

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

- signing-off applications for loans to consumers and micro-businesses, approving loans based on certain acceptance criteria;
- receivables recovery;
- telephone customer service provided by the Contact Centre, CRM (cross-selling) actions and loan sales by phone.

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

Cash loans

In 2014, a promotional offer for cash loans *Wiosna 2014 with the Guarantee of the lowest total cost of a loan* was launched, with attractive financial conditions dependent on opening a personal account at the Bank (*Konto Dobrze Dobrane*) along with life insurance for a borrower or job loss insurance. The promotional offer guarantees obtaining by a customer a cash loan offer with a lower total cost of the loan compared to the loan offer received from another bank, for identical parameters of the loan (amount, currency, financing term, borrower's identity).

In the second half of 2014, the financing conditions for cash loans on offer were modified owing to the interest rate changes brought by the Monetary Policy Council.

Car loans

In 2014 the Bank expanded car loan offer to include:

- a promotional offer *"Wiosna 2014 with the Guarantee of the lowest total cost of a loan"* for financing a car purchase or refinancing of car loans or vehicle purchase;
- in the second half of 2014 customers could benefit from a promotional offer for car loans financing a purchase of new and used cars up to 19 years old, including vehicles with total allowable weight above 3.5 tonnes;
- agreements concluded with Hyundai Motor Poland Sp. z o.o. and Kia Motors Polska Sp. z o.o. in June 2014 enabled the Bank to introduce the financing scheme for dealership showrooms of the above car makes in Poland. The next step was to launch promotional credit offers for specific Kia cars (available from authorised dealerships); a promotional offer for car loans for employees of Kia and Hyundai authorised dealerships as well as new product *Kredyt niski procent (Low interest rate loan)* with an importer subsidy for the key Kia dealers;
- a new offer with lower interest rate for all authorised car dealers,
- new products for Volvo dealer showrooms;
- financing for a purchase of Triumph and Ducati motorcycles based on importer subsidies.

Car lease

In addition to car loans, the Bank's offer also entails operating lease and finance lease (in the amount from PLN 20,000 to PLN 500,000) available for passenger cars and trucks up to 3.5 tons, scooters, motorcycles and quads.

Credit Cards

Credit cards are provided to customers who signed a cash loan or a car loan agreement paired with a credit card. Available limits vary between PLN 2,000, 3,000, 4,000 and 6,000.

4.1.3. Private Banking Segment

The Private Banking business line serves the Bank’s most affluent individual customers (or their investment entities), with liquid assets exceeding PLN 600,000, 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,
- investment products and also investment and insurance solutions;
- wealth planning,
- credit facilities,
- 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 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 card offer encompasses MasterCard BNP Paribas World Elite and American Express Centurion charge card.

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.

Thanks to the services of the Brokerage Office, Private Banking customers receive recommendations and analyses that take into account individual needs and risk profile of the customers, in line with the global strategy of the BNP Paribas and the rules for selection of financial instruments applied by the BNP Paribas Wealth Management business line. 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 the 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 Paribas Polska SA.

The service is rendered on the basis of an estimated customer risk profile (conservative, defensive, balanced or dynamic) and the following investment strategies may be pursued: participatory portfolio, domestic and foreign funds portfolios, likewise portfolios of domestic financial instruments.

On 10 June 2014, the Financial Supervision Authority granted a permit to the Brokerage Office for management of portfolios, which include one or more financial instruments. The service was launched at the beginning of 2015, which contributed to expanding the offer targeted at the Private Banking customers.

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

In January 2014, the offering of foreign funds was expanded by Parvest funds, managed by BNP Paribas Investment Partners, and in March 2014 by BlackRock funds.

The Private Banking customers have access to bank experts on wealth and inheritance planning.

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

4.1.4. SME and MICRO Enterprises Segments

The Retail Banking business line provides products and services to Micro and SME customers with an annual turnover below PLN 60 million. The Bank's offering for these segments includes:

- accounts and packages;
- deposits and placement account;
- payment cards;
- credit products;
- liquidity management - cash management;
- trade finance;
- currency 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.

With regard to the customers of the Micro segment, in 2014:

- to entice the Micro segment customers, the Bank conceived a promotional offer of a cash loan with a variable interest rate and highly attractive margin (starting at 1.95%), available with compulsory life and serious illness insurance. The promotion is accompanied by seasonal marketing campaigns (spring, summer 2014);
- maximum financing terms for unsecured cash loans for Mass Micro and Upper Micro segments were extended up to 7 years (for selected customer groups and loan amount brackets);
- a series of measures were taken to support the sale of loans in the Micro segment: cooperation with *Practical Medicine* (a prominent organizer of medical conferences and publisher of medical magazines), the action "Sąsiad" (Neighbour) - special price offering for companies operating within a radius of 8 km from the Bank's location), „Rekomendujesz-zyskujesz” (You Recommend-You Gain) programme (tablets for recommending customers and special pricing terms to recommended customers);
- sales via credit intermediaries was resumed with respect to an unsecured cash loan for the *Professionals* segment;
- the Bank promoted *Model 7.0* available under *Biznes Przelew* package that gives a wide range of cost-free services to the Micro segment customers. The distinctive features of the package are cost-free maintenance of a bank account for active customers that maintain a predefined average monthly balance of funds in the account, payments and withdrawals in branches, transfers to Social Security and Tax Office, extended version of the electronic banking systems, a cost-free savings account as well as withdrawals from BNP and Euronet ATMs.

In addition, with regard to the SME segment customers, in 2014:

- A new regional division (5 SME regions) and 27 Branches - SME Financial Centres serving solely SME customers, were introduced in 2014. FX experts were appointed for each SME region and central expert support for GTS products was provided. SME customers are now provided with support offered by specialists in lease facilities, factoring, FX, GTS and cash management.
- customers may buy currency options and interest rate options where a premium is paid on a transaction conclusion date;
- FX spot transactions (up to a determined amount) may be concluded with no need for the Bank to grant a transaction limit;
- a credit process has been simplified to shorten the time needed to take a credit decision and disburse funds; collateral monitoring system has been enhanced;
- sales process time and quality is now measured (SLA);
- Bank's customers may now benefit from guarantees under the governmental programme: Portfolio Guarantee Line *De minimis* that secure payment up to 60% of the working capital loan or investment loan under a state aid; guarantee (up to PLN 3.5 million) is granted for the maximum period of 27 months for working capital loans and 99 months for investment loans. The guarantee amount is also limited by the maximum allowable 3-year aid limit;
- a guarantee electronic module was activated in the Biznes Pl@net banking system, via which customers may electronically issue instructions and service their own guarantees. In addition, the eGwrancje application was launched to streamline and speed up customer service.
- SME network management processes have been reinforced;

- The Bank introduced a series of marketing and relation-building measures, including: continuation of the Business Academy programme for managers selected in the Ranking of 500 Managers by Puls Biznesu, Skrzydła Biznesu (Business Wings) programme, "Rekomendujesz-zyskujesz" (You Recommend-You Gain) programme (tablets for recommending customers and special pricing terms to recommended customers), a series of press publications (ads and experts' opinions) (Gazeta Prawna daily), a series of meetings "Biznes na śniadanie" (Business for breakfast) with participation of the Bank's experts in factoring, cash management, Treasury, GTS and EU.

Polseff 2

- The *Polseff 2 Programme* was implemented in August 2014 as the continuation of the *Polseff 1 Programme* launched under the initiative of the European Bank for Reconstruction and Development (EBRD) available between June 2013 and June 2014. The new *Programme*, similarly to its previous release, is devoted mostly to energy savings and energy efficiency in small and medium enterprises. Financing is to be used for projects aimed at energy consumption reduction in enterprises, including thermomodernisation of buildings, modernization of machinery and implementation of new technologies that are significantly more energy efficient.

  Under the agreement with the EBRD, the Bank provides entrepreneurs with a possibility of a cost-free investment audit performed by engineers appointed to this *Programme*. Companies that will undergo an audit will obtain additionally a 15% bonus to a loan amount, whilst a 10% bonus is awarded to projects financed under the LEME list

Energo Leasing GI

- In May 2014 a new product supporting sustainable growth was added to the offer for enterprises. In cooperation with the European Investment Bank (EIB), under the *Green Initiative Programme (GI)*, lease facilities aimed at improving energy efficiency have been made available to SME customers. An investment incentive makes it possible for entrepreneurs to obtain a refund of up to 12% of disbursed financing.

4.2. Corporate and Transaction Banking (CTB)

- provides comprehensive financial services to large and medium-size companies generating annual turnover exceeding PLN 60 million, and to companies that belong to international groups;
- 9 Business Centres;
- 3,802 corporate customers as at 31 December 2014 compared to 2,975 ones as at 31 December 2013;
- 219.5 FTE as at 31 December 2014.

The activity of the **Corporate and Transaction Banking** segment focuses on medium and large enterprises, offering them a wide array of financial solutions. The Corporate and Transaction Banking customers are corporate entities and institutions whose annual sales revenues exceed PLN 60 million.

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 business 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 corporations accounted for 5%, Polish mid caps - 33%, and multinationals - 53%, while the remaining group included public sector companies and institutional customers.

In 2014, an initiative to increase the Bank's share in the market of Polish enterprises was continued. Effects of the strategy to intensively acquire customers in this segment are noticeable through increase of such enterprises' share in the entire CTB loan portfolio.

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 (BC): three in Warsaw, and one each in Kraków, Gdańsk, Katowice, Poznań, Wrocław and Łódź. In addition to the existing BCs, new CTB relationship managers were appointed in Szczecin, Bydgoszcz, Toruń, Lublin, Kielce, Rzeszów to serve customers locally.

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 (CTB and SME). "*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 2013 a new innovative model of transaction communication for corporate customers was implemented that integrates the customer's financial and accounting system with the Bank's servers ("host to host"). 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 services** offered, respectively, through FLP (from 15 February 2014 by the Leasing Department of the Bank) and BNP Paribas Factor.

In 2014, prepaid MasterCard business cards intended for business customers were introduced to the Bank's offering. The cards allow, among others, making cash and non-cash payments at all points of sale worldwide marked with the MasterCard logo, without the need to have foreign currency funds on the respective account, likewise making contactless payments using the *PayPass* technology. It is also possible to issue any number of cards to employees within one business account. In addition, prepaid cards may be issued to beneficiaries of municipalities, offices and public institutions in order to provide social benefits, as well as provide a convenient tool for making benefit payments to employees. These cards are also available for the SME segment customers.

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 funding to enable running the banking business in a secure manner while adhering to legal norms.

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 activity of the ALM/Treasury Line is pursued within three profit centres: the Treasury Department, Assets and Liabilities Management (ALM) and Corporate Centre.

The main responsibilities of the Treasury Department 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, likewise 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 State Treasury 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 the Corporate Centre. Financial result of the Corporate Centre reflects transfer for management of own equity (at the internal reference price).

4.4. Clearing activity

Outgoing PLN payments to domestic banks are settled electronically only, through the ELIXIR and SORBNET2 systems.

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.

5. ANALYSIS OF BNP PARIBAS BANK POLSKA SA PERFORMANCE IN 2014[1]

5.1. Income Statement

The Bank's profit after taxation stood at PLN 137.1 million, which was by PLN 50.8 million higher as compared to the result in 2013. The incorporation of the lease business into the Bank's structures positively affected the 2014 performance. Meanwhile, the Bank incurred costs at PLN 7.4 million, related to the intended merger of Bank Gospodarki Żywnościowej SA with BNP Paribas Bank Polska SA.

in PLN thousand	2013	2014	2014 vs 2013
Net banking income	796 033	846 925	6.4%
Total operating expenses	-549 919	-574 771	4.5%
Cost of risk	-105 011	-111 700	6.4%
Net result on provisions	-21 769	10 674	-149.0%
Net operating profit/loss	**119 334**	**171 128**	**43.4%**
Net profit/loss from disposal of assets, shares and interest	-4 951	-1 629	-67.1%
Profit/loss before taxation	**114 383**	**169 499**	**48.2%**
Income tax	-28 112	-32 387	15.2%
Profit/loss after taxation	**86 271**	**137 112**	**58.9%**

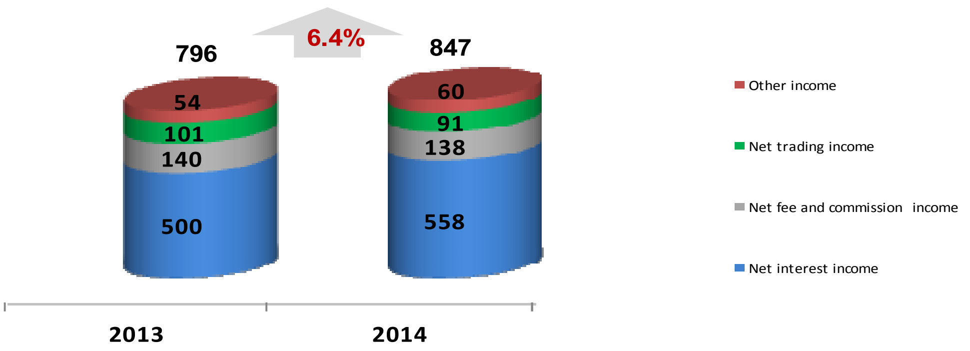
In 2014, the Bank did not record any material one-off items. In 2013, the Bank recorded the following one-off items:

- PLN 19.1 million of 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 of the provision 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 PLN 13.4 million in Corporate and Transaction Banking.

5.1.1. Net banking income

The chart below shows the structure of basic items of the net banking income in the periods compared. Excluding the impact of the one-off income item, which significantly increased the income of 2013, the NBI would be higher by PLN 70.0 million (9.0%).

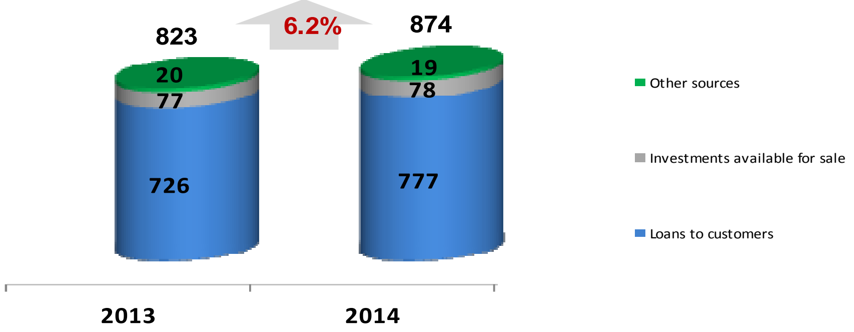
Chart 7. Net banking income structure (in PLN million)



5.1.1.1. Net interest income

Net interest income, accounting for 65.8% of the total net banking income in 2014, prevails in the income statement structure. The net interest income was by PLN 57.3 million (11.5%) higher as compared to the previous year (after excluding the impact of the one-off item, the net interest income would rise by 15.9%); however, both the Group's interest income and expense were affected by materially lower market interest rates.

Chart 8. Interest income structure (in PLN million)

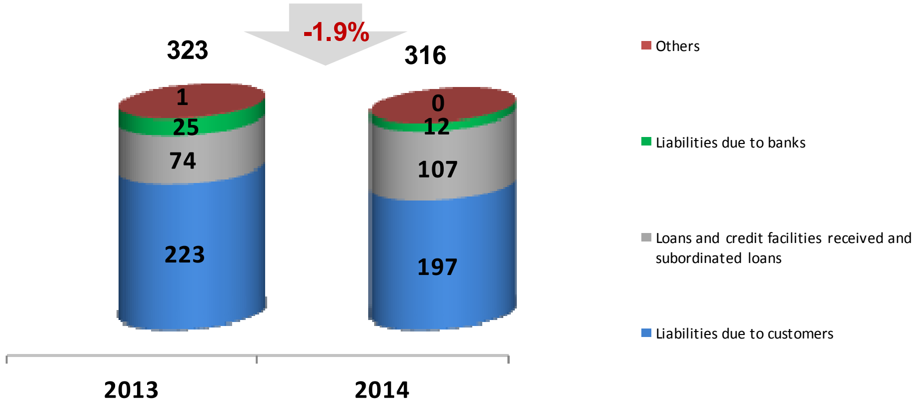


[1] *Some financial data have been rounded and presented in PLN million or PLN billion, not in PLN thousand as in the Financial Statements. Accordingly, in certain instances the sum of numbers in charts may not conform exactly to the total figure. Some percentages in the tables and in charts have also been rounded and therefore they may not add up to 100%. Percentage changes between the periods compared have been calculated on the basis of original amounts, not the rounded ones.*

Interest income in 2014 amounted to PLN 874.1 million, which represents a rise by 6.2% (PLN 51.1 million) compared to 2013. The interest income increase was driven chiefly by growth of interest on loans to customers by PLN 50.6 million (7%), mainly due to higher loan portfolio value, including the increase resulting from the incorporation of the lease business into the Bank's structures.

Interest expense went down by PLN 6.27 million as compared to 2013. The interest expense structure in the periods compared was the following:

Chart 9. Interest expense structure (in PLN million)



The interest expense decrease was attributable chiefly to the following:

- lower interest expense on customer deposits (by PLN 25.8 million or 11.6%), despite higher average volumes of such deposits, mainly as a result of cutting interest rates of savings accounts and term deposits following the market interest rate decrease;
- lower interest expense on liabilities due to banks (by PLN 12.4 million or 50.2%) mainly in connection with the market interest rate fall.

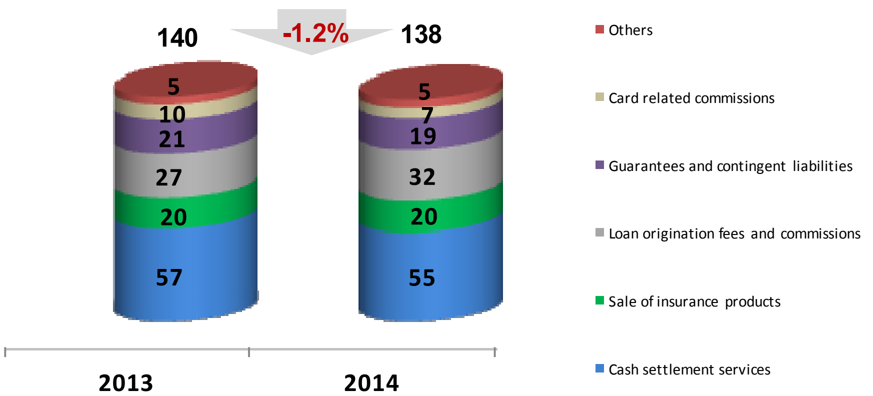
At the same time, interest expense related to subordinated loans as well as loans and credit facilities received increased in total by PLN 32.9 million. The above growth resulted mainly from the impact on interest expense in 2013 exerted by the net income received by the Bank on account of the settlement of a prepayment of some credit lines granted by the BNP Paribas group with the positive mark to market in the amount of PLN 19.1 million and growth of the average balance of loans and credit facilities due to the incorporation of the lease business into the Bank's structures. On the other hand, the fall of market interest rates contributed to the decrease in expenses on PLN loans and credit facilities received.

The net interest margin was 2.8% both in 2014 and 2013. In 2013, the interest margin amount was affected by the one-off income item 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%.

5.1.1.2. Net fee and commission income

The second largest item in the Bank's net income was the fee and commission income which accounted for 16.3% of the net banking income in 2014.

Chart 10. Net fee and commission income structure (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.

In 2014, the Bank recorded a decrease by 1.2% or PLN 1.7 million in the net fee and commission income, as compared to 2013.

The item went down mainly due to the following:

- drop of fees and commissions related to cards (by PLN 3.1 million, or 31.3%);
- fall in net fees and commissions for cash settlement services that include primarily account maintenance, cash transactions and bank transfer fees (by PLN 2.0 million or 3.5%);
- decrease in the income on guarantees and contingent liabilities (by PLN 1.9 million or 9.1%).

The decrease was counterbalanced chiefly by higher net fees and commissions related to granting loans (by PLN 4.5 million or 16.4%) and growth of income on account of agency in customer acquisition by PLN 1.3 million.

5.1.1.3. Net trading income

In 2014, the net trading income amounted to PLN 91.3 million, which in comparison to the result generated in 2013 represents a decrease by PLN 10.1 million (10.0%). The net income on derivative transactions dropped by PLN 1.6 million to reach PLN 1.4 million in 2014. The decrease resulted chiefly from a recognition of the Credit Value Adjustment (CVA) at PLN 2.9 million in the market valuation. CVA recognised in 2014 concerned derivative transactions entered into with customers for which no impairment was recognised. The net FX income dropped as compared to 2013 by PLN 8.5 million or 8.7% mainly as a result of a lower margin realised on FX transactions made by the Bank's customers (with a parallel increase in the average volume of those transactions).

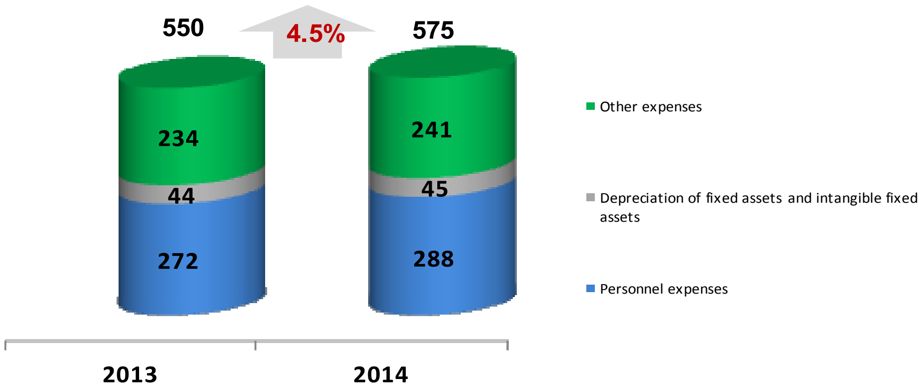
5.1.1.4. Other income[2]

Other income in 2014 stood at PLN 59.9 million and was by PLN 5.4 million higher than in the previous year. This growth was primarily attributable to higher dividends received from subsidiaries: FLP (by PLN 14.0 million) and TFI (by PLN 0.8 million). Concurrently, the value of other operating income and expenses, net, was lower than the year before by PLN 7.4 million, predominantly due to higher net BGF costs, especially as regards the prudential fee introduction. The net investment income was lower by PLN 2.0 million than the year before, due to lower gains earned on the sale of securities.

5.1.2. Expenses

Specific cost categories in the periods compared were the following:

Chart 11. Cost structure (in PLN million)



In 2013, the Bank completed implementation of the cost optimisation programme called *Triathlon* that created savings at the assumed level. Apart from the Triathlon programme, the Bank participates in "Simple & Efficient", the global cost-efficiency project of the BNP Paribas group, which aims at reaching additional annual savings of PLN 26 million. The "Simple & Efficient" project will be carried out till the end of 2015. The combined effects of both projects and a strict cost control allow the Bank to invest in the activity development while avoiding a significant expense increase. Meanwhile, in 2014 the Bank incurred costs at PLN 7.4 million, related to the intention to merge with Bank Gospodarki Żywnościowej SA.

In 2014, the Bank's general expenses and depreciation were by PLN 24.9 million (4.5%) higher than in 2013.

Personnel expenses of the Bank stood at PLN 288.3 million in 2014 and were higher by PLN 16.3 million or 6.0% than in 2013. The above increase was attributable to the incorporation of the lease business into the Bank's structures, higher costs of provisions on severance pay related to retirement, unused vacation leaves and other employee benefits, higher costs of basic salaries with surcharges, and also costs related to the intended merger of Bank Gospodarki Żywnościowej SA with BNP Paribas Bank Polska SA amounting to PLN 4.1 million. As at the end of 2014, the headcount in the Bank was 2,775 FTE as compared to 2,754 FTE as at the end of 2013.

Depreciation of fixed and intangible assets amounted to PLN 45.3 million in 2014 and was lower by 2.1% than in 2013.

Other expenses of the Bank in 2014 amounted to PLN 241.2 million and were by PLN 7.6 million (3.2%) higher than in 2013. Excluding the impact of expenses related to the intended merger of Bank Gospodarki Żywnościowej SA and BNP Paribas Bank Polska SA in the amount of PLN 3.3 million, other operating expense would be higher by 1.8% than in 2013, chiefly due to the incorporation of the lease business into the Bank's structures.

5.1.3. Cost of risk

Continuation of a prudent risk management policy remains the Bank's priority. In 2014, cost of risk amounted to PLN 111.7 million, which represents an increase by PLN 6.7 million or 6.4% as compared to 2013. In parallel, the cost of risk ratio stood at 0.6% in both periods compared with.

As compared to 2013, the cost of risk increase was attributable to higher provisions for receivables due from corporate customers (in 2013, thanks to an effective debt restructuring and recovery in this segment, a positive cost of risk was recorded), and for consumer credits of private individuals, while provisions for receivables due from small and medium enterprises were materially lower than the year before.

5.1.4. Net result on provisions

In 2014, net result on provisions stood at PLN 10.7 million as compared to PLN -21.8 million in 2013. The result is attributable to the following:

- release of provisions for legal risk related to litigation with the Bank's customers involving financial instruments, in the amount of PLN 7.0 million as compared to costs of such provisions of PLN 20.7 million incurred in 2013;
- net release of other provisions for legal risk related chiefly to claims of contractors in the amount PLN 3.7 million as compared to the costs of creating those provisions of PLN 1.1 million in 2013.

[2] *Other income includes: 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 operating expenses*

5.1.5. Contribution of specific segments to the financial result

in PLN thousand	Retail Banking			Corporate and Transaction Banking			Other Banking Activity		
	2013	2014	Δ	2013	2014	Δ	2013	2014	Δ
Net banking income	393 462	443 628	12.7%	275 012	292 977	6.5%	127 559	110 320	-13.5%
Total operating expenses	-454 619	-459 629	1.1%	-83 282	-99 248	19.2%	-12 018	-15 894	32.3%
Cost of risk	-130 212	-86 671	-33.4%	24 718	-24 598	-199.5%	483	-431	n/a
Net result on provisions	-8 517	11 046	n/a	-13 251	-372	n/a	-1	0	-100.0%
Net operating profit/loss	**-199 886**	**-91 626**	**-54.2%**	**203 197**	**168 759**	**-16.9%**	**116 023**	**93 995**	**-19.0%**
Net profit/loss from disposal of assets, shares and interest	-5 555	-1 530	-72.5%	604	-99	-116.4%	0	0	-
Profit/loss before taxation	**-205 441**	**-93 156**	**-54.7%**	**203 801**	**168 660**	**-17.2%**	**116 023**	**93 995**	**-19.0%**

Retail Banking

Net banking income in Retail Banking reached PLN 443.6 million and was higher by 12.7% as compared to 2013. The above result accounts for 52.4% of the Bank's total net banking income.

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

- increase in the net interest income by 19.4%, mainly thanks to the growing consumer credit production and a better margin on such facilities, an improved margin on savings accounts and term deposits held by individual customers, and the incorporation of the lease business into the Bank's structures;
- income on dividend from subsidiaries higher by 109.1%;
- decrease of the net fee and commission income by 8.0%.

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 459.6 million and were by 1.1% higher than the cost level in 2013. Retail Banking personnel expenses, which accounted for 49.5% of the Bank's total personnel expenses, decreased by 0.5% as compared to 2013.

The cost of risk stood at PLN 86.7 million in 2014, down by PLN 43.5 million as compared to 2013, mainly because provisions for receivables due from small and medium enterprises were significantly lower than the year before.

In 2014, net result on provisions stood at PLN 11.0 million as compared to PLN -8.5 million in 2013. The above result includes the income on the release 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, and net releases of other provisions for legal risk amounting to PLN 3.7 million.

Gross loss in the Retail Banking segment in 2014 amounted to PLN 93.2 million as compared to the loss of PLN 205.4 million in 2013.

Corporate and Transaction Banking

Net banking income in the Corporate and Transaction Banking reached PLN 293.0 million and was higher by 6.5% than in 2013. The above result accounts for 34.6% of the Bank's total net banking income.

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

- net interest income higher by 13.6% (PLN 16.5 million), attributable mainly to the incorporation of the lease business into the Bank's structures;
- net fee and commission income higher by 8.2% (PLN 4.8 million);
- dividend income from Fortis Lease Polska, a subsidiary, higher by 39.2% (PLN 6.7 million);
- decrease of other operating income and expenses by PLN 4.0 million caused chiefly by a positive impact on the last year's net profit of the reimbursement of costs by the BNP Paribas group on account of expenses previously incurred by the Bank for the project carried out in favour of the BNP Paribas group, and higher net costs on account of the BGF;
- net profit/loss on available-for-sale financial assets down by PLN 4.5 million (in 2013, CTB earned revenues of PLN 4.5 million from the sale of shares in Vistula Group SA in relation to debt restructuring);
- net trading income lower by 2.2% or PLN 1.5 million, which was attributable, among other things, to the Credit Value Adjustment (CVA) of derivative transactions in the amount of PLN -2.3 million;

General expenses and depreciation and the "cost allocation" item, which is the value of costs allocated from support units to the Corporate and Transaction Banking, amounted to PLN 99.2 million in 2014, compared to PLN 83.3 million in 2013. Personnel expenses which accounted for 12.4% of the Bank's total personnel expenses, increased by PLN 4.1 million.

In 2014, cost of risk in the Corporate and Transaction Banking segment amounted to PLN 24.6 million as compared to the positive cost of risk in 2013 of PLN 24.7 million (related to the income on the release of provisions for customer loan receivables).

In 2014, net result on provisions stood at PLN -0.4 million as compared to PLN -13.3 million of the costs of provisions created for legal risk in 2013.

The Corporate and Transaction Banking segment's pre-tax profit stood at PLN 168.7 million in 2014, compared to the pre-tax profit of PLN 203.8 million in 2013.

Other Banking Activity

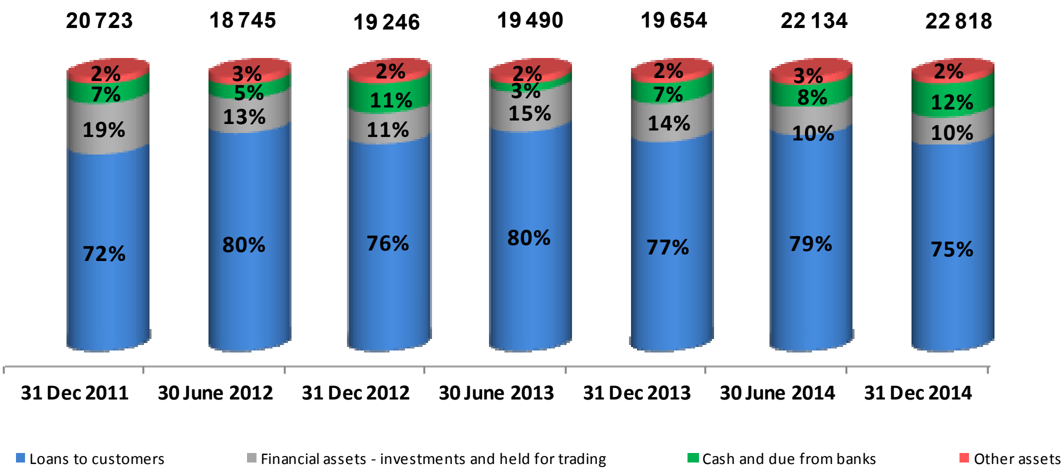
The Other Banking Activity is operationally managed by the ALM/Treasury line. In 2014, the net banking income of the Other Banking Activity segment amounted to PLN 110.3 million as compared to PLN 127.6 million in 2013. The above was attributable mainly to a decrease in the net interest income by PLN 12.7 million, resulting chiefly from the impact of the one-off item related to the prepayment of the debt due to the BNP Paribas group, at the positive mark-to-market, on the net profit of 2013 (at PLN 19.1 million), and to the net trading income which was lower by PLN 6.9 million.

5.2. Balance Sheet

5.2.1. Assets

The Bank’s total assets as at 31 December 2014 were higher than the total assets as at the end of December 2013 by PLN 3,164.5 million, or 16.1%. The balance sheet total increase pertained mostly to loans to customers as well as cash and cash equivalents, the growth of which counterbalanced the fall in the value of available-for-sale investments.

Chart 12. The Bank's assets structure as compared to previous periods (in PLN million)



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

in PLN thousand	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)	31 Dec 2014 vs 31 Dec 2013
ASSETS					
Loans to customers	15 074 082	76.7%	17 162 317	75.2%	13.9%
Non-impaired loans to customers, gross	14 716 938		16 859 052		14.6%
Impaired loans to customers, gross	1 329 725		1 321 893		-0.6%
Provisions	-972 581		-1 018 628		4.7%
Investments – available for sale and others	2 720 205	13.8%	2 196 007	9.6%	-19.3%
Cash and cash equivalents	1 290 203	6.6%	2 714 490	11.9%	110.4%
Due from banks	79 201	0.4%	95 862	0.4%	21.0%
Financial assets held for trading	70 118	0.4%	139 584	0.6%	99.1%
assets	162 616	0.8%	172 360	0.8%	6.0%
Other assets *	257 189	1.3%	337 540	1.5%	31.2%
TOTAL ASSETS	**19 653 614**	**100.0%**	**22 818 160**	**100.0%**	**16.1%**

**Other assets include: assets and settlements on account of income tax, hedging instruments and other assets*

5.2.1.1. Loans to customers - the Bank's loan portfolio profile

Net loans to customers, which increased by PLN 2,088.2 million (13.9%) over the level noted as at the end of December 2013, constitute the primary item of the assets structure. This increase was driven by:

- incorporation of the leasing business into the Bank’s structures;
- increase in the loan portfolio of large enterprises;
- active sale of consumer credits to individual customers, and car loans for enterprises, thanks to an attractive offering and marketing actions undertaken,
- improved quality of the loan portfolio resulting in lower provisions for impairment.

Owing to prudent 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 2014, both the value and share of non-performing receivables in the Bank's loan portfolio have been systematically decreasing.

Gross loans to customers went up from PLN 16,046.7 million at the end of December 2013 (of which PLN 10,970.5 million were gross loans to Retail Banking customers and PLN 5,076.2 million gross loans to Corporate and Transaction Banking customers) to PLN 18,180.9 million (including PLN 11,820.3 million of gross loans to Retail Banking customers and PLN 6,360.7 million of gross loans to Corporate and Transaction Banking customers). Loan portfolio evolution and structure are the following:

in PLN thousand	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)	31 Dec 2014 vs 31 Dec 2013
Commercial loans	7 883 210	49%	7 924 691	44%	0.5%
Mortgage loans in PLN	1 792 944	11%	1 759 973	10%	-1.8%
Mortgage loans in foreign currencies	3 906 769	24%	3 838 078	21%	-1.8%
Consumer loans and credit facilities	2 457 174	15%	2 680 821	15%	9.1%
Finance lease receivables	0	0%	1 940 071	11%	n/a
Other receivables*	6 566	0%	37 311	0%	468.2%
Total loans to customers, gross	**16 046 663**	**100%**	**18 180 945**	**100%**	**13.3%**
Provisions for impairment and IBNR	-972 581		-1 018 628		4.7%
Total loans to customers, net	**15 074 082**		**17 162 317**		**13.9%**

*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

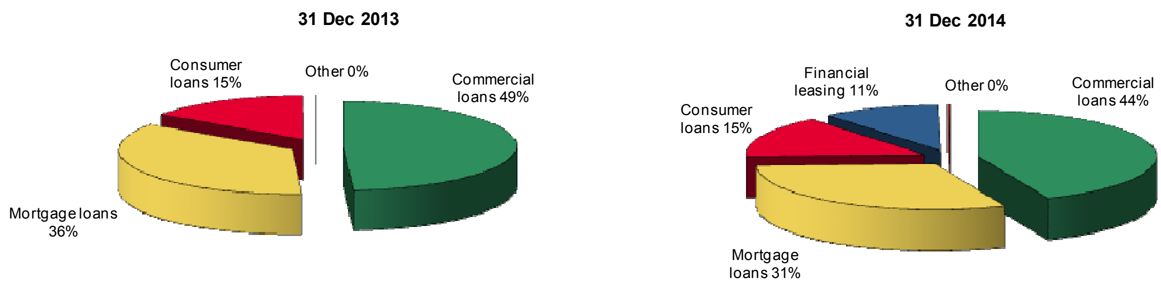
The highest increase in comparison to December 2013 (by PLN 1,940.1 million) was recorded in the **finance lease receivables**. The above category appeared in the Bank's receivables in connection with the incorporation of the lease business into the Bank's structures in February 2014.

The share of **commercial loans for business entities** in the structure of gross loans to customers remains the highest (43.6%). Growth of the balance in this area amounted to PLN 41.5 million as compared to 2013.

The portfolio of **consumer credits and facilities** for individuals as at the end of December 2014 grew by PLN 223.6 million (9.1%) in comparison to the end of December 2013. Thanks to a continued attractive offering of cash loans and their promotion campaign, the sale of cash loans in 2014 was by 4.2% higher than the year before and reached PLN 1,016.8 million as compared to PLN 976.2 million in 2013.

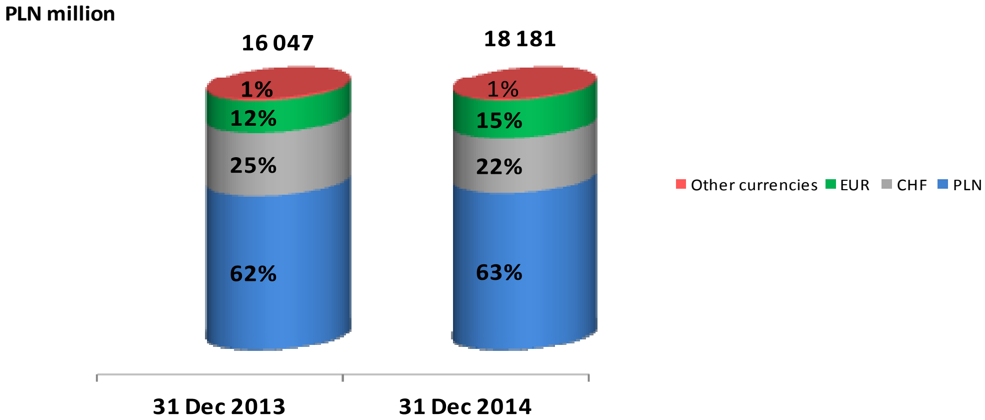
The decrease in the **mortgage loans** balance by PLN 101.7 million (1.8%) pertained mainly to the portfolio of foreign currency mortgage loans whose value was reduced by PLN 68.7 million (or 1.8%) versus the level recorded as at the end of December 2013. The decrease in foreign currency balances resulting from discontinuation of granting new foreign currency mortgage loans was partly counterbalanced by a positive impact of depreciating PLN towards CHF. CHF mortgage loans in the amount of PLN 3,763.6 million as at the end of 2014 accounted for 98.1% of the total balance of foreign currency mortgage loans. At present, the Bank does not focus on the sale of PLN mortgage loans. As a consequence, the balance of such loans was lower by 1.8% than as at the end of December 2013.

Chart 13. Structure of the Bank's gross loans to customers



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

Chart 14. Currency structure of gross loans to customers (in PLN million)



As at 31 December 2014, foreign currency loans accounted for 37.3% of the gross loans to customers portfolio, with the biggest share of CHF loans in the amount of PLN 3,985.2 million, representing 21.9% of the total portfolio of gross loans to customers. The value of the foreign currency loan portfolio expressed in PLN increased by 10.1% as compared to December 2013.

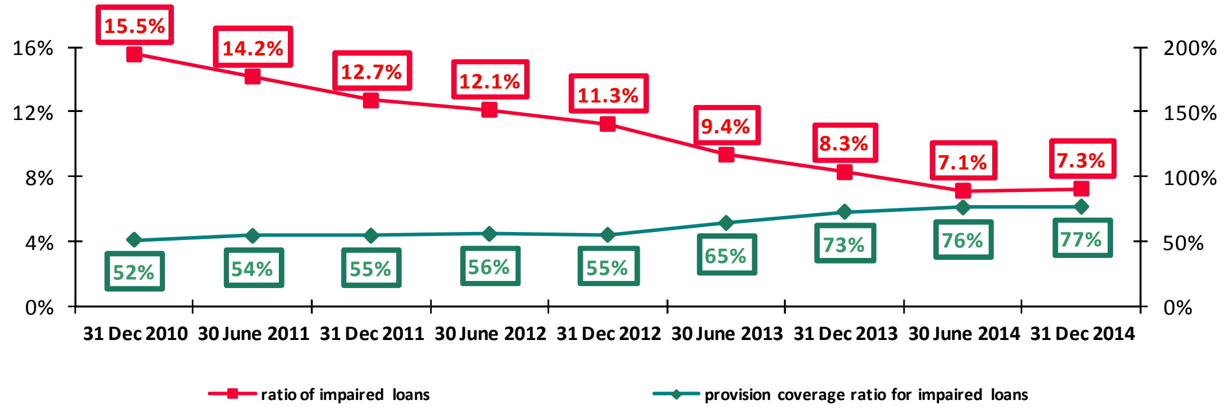
5.2.1.2. Loan portfolio quality

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

As at the end of December 2014, the gross value of the portfolio of impaired loans to customers amounted to PLN 1,321.9 million, hence it decreased by PLN 7.8 million (0.6%) as compared to December 2013. A downward trend observed with respect to the ratio of impaired (non-performing) loans in the total portfolio results from:

- keeping a high quality of the new loan production thanks to the consistently pursued prudent credit policy;
- effective debt restructuring and recovery with respect to the non-performing portfolio;
- sale of a portion of the uncollectible receivables portfolio.

Chart 15. Evolution of the ratios of impaired loans and of the related provisioning 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 2013	31 Dec 2014
Corporate and Transaction Banking (CTB)	9.0%	7.0%
SME and Micro*	14.4%	12.2%
Consumer credits*	13.2%	10.8%
Mortgage loans	2.6%	2.9%
Total loans to customers	**8.3%**	**7.3%**

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

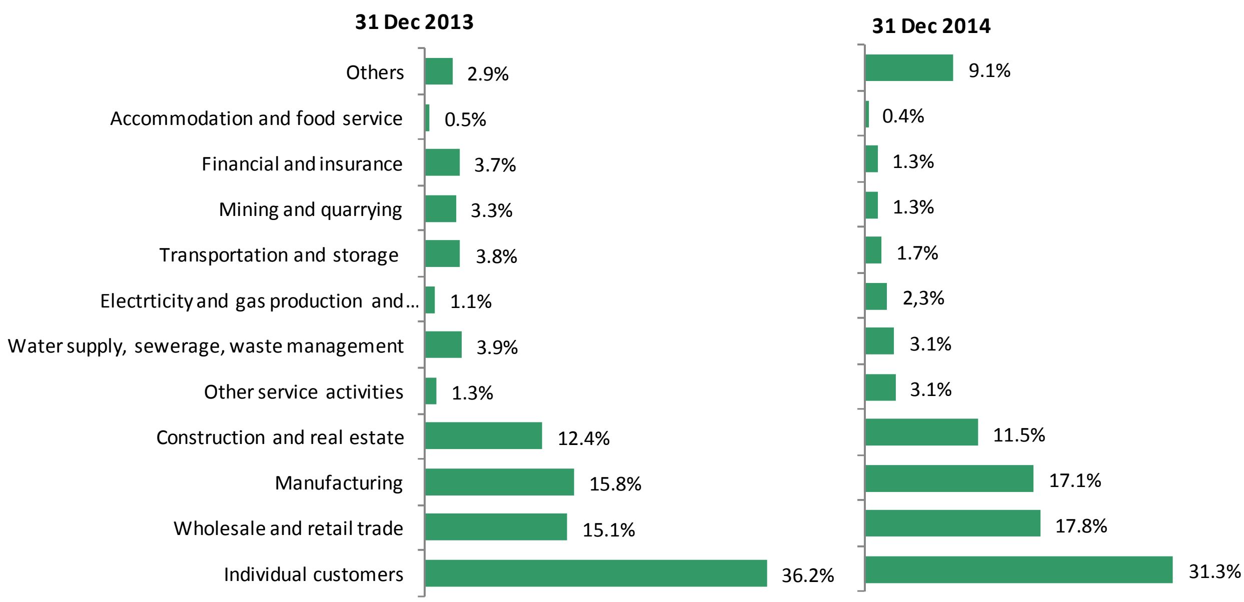
Provisions for impairment and IBNR increased by 4.2%, i.e. PLN 46.1 million as compared to the balance noted as at the end of 2013.

5.2.1.3. Loan portfolio by sectors under statistical classification

As at the end of December 2014, the Bank's exposure (balance sheet and off-balance sheet credit exposures) stood at PLN 27.1 billion and was concentrated mainly on the financing for individuals and the following sectors: wholesale and retail trade, manufacturing, construction and real estate activities, water supply, sewerage, waste management, other services, and production and distribution of electricity and gas.

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

Chart 16. Credit portfolio by sectors



5.2.1.4. Investments available for sale

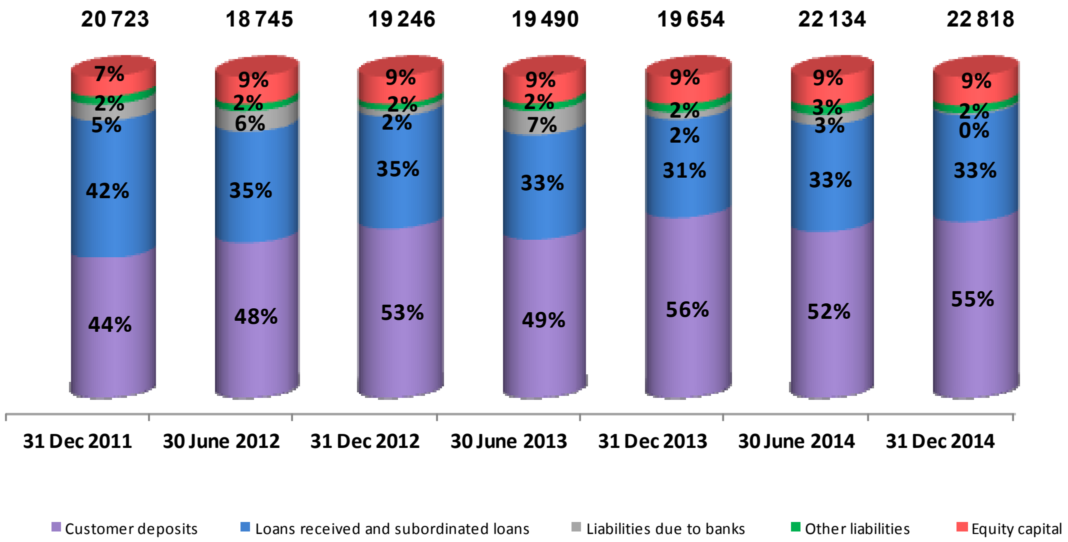
Investments available for sale decreased by PLN 429.4 million (16.5%) as compared to the end of December 2013, chiefly as a result of selling the NBP bills.

As at the end of December 2014, Treasury bonds and bonds issued by non-financial entities accounted for the biggest share in the Bank's investment portfolio (96.0% and 3.2%, respectively).

5.2.2. Liabilities

The Bank's liabilities structure is as follows:

Chart 17. The Bank's liabilities structure as compared to previous periods



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

in PLN thousand	31 Dec 2013	Share (%)	31 Dec 2014	Share (%)	31 Dec 2014 vs 31 Dec 2013
LIABILITIES					
Due to customers	11 008 192	56.0%	12 473 715	54.7%	13.3%
Loans and credit facilities received	5 586 978	28.4%	7 143 268	31.3%	27.9%
Due to banks	424 273	2.2%	112 204	0.5%	-73.6%
Subordinated liabilities	452 192	2.3%	468 801	2.1%	3.7%
Financial liabilities held for trading	69 790	0.4%	134 549	0.6%	92.8%
Other liabilities *	355 952	1.8%	371 972	1.6%	4.5%
Total equity	**1 756 237**	**8.9%**	**2 113 651**	**9.3%**	**20.4%**
TOTAL LIABILITIES	**19 653 614**	**100.0%**	**22 818 160**	**100.0%**	**16.1%**

**Other liabilities include: provisions, differences from hedging fair value of hedged items against interest rate risk, deferred tax provision and deferred tax liabilities, and other liabilities*

5.2.2.1. Liabilities

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

The balance of **loans and credit facilities** received as at the end of December 2014 amounted to PLN 7,143.3 million and accounted for 34.5% in the Bank's structure of liabilities. As compared to the end of December 2013, the value of loans and credit facilities received increased by PLN 1,556.3 million or 27.9% in connection with the incorporation of the lease business into the Bank's structures and the Bank's business development.

Furthermore, considering the conclusion of a collateralised loan facility agreement (uncommitted) up to the amount of CHF 810 million between BNP Paribas and the Bank in January 2014, BNP Paribas has made available to the Bank a credit line, which replaced the previous financing for the majority of the portfolio of CHF mortgage loans granted by the Bank, under the terms and conditions that ensure a better maturity match in relation to the previous financing.

The principal component of loans and credit facilities received are credit facilities granted by the BNP PARIBAS group; as at the end of December 2014 they constituted 89.3% 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 loans taken with the BNP Paribas group whose balance as at the end of December 2014 amounted to PLN 468.8 million, remain also the stable source of financing. A slight increase in their value (by PLN 16.6 million as compared to December 2013) was a consequence of the FX rates rise.

The balance of **liabilities due to banks** as at the end of December 2014 stood at PLN 112.2 million, which accounted for 0.5% of the Bank's total liabilities. A drop in their value (by PLN 312.1 million) as compared to the balance as at the end of December 2013 resulted chiefly from a decrease in the value of term deposits and cash collateral.

The balance of **liabilities due to the Bank's customers** as at the end of December 2014 was PLN 12,473.7 million which represents an increase by 13.3% or PLN 1,465.5 million as compared to the balance noted as at the end of December 2013.

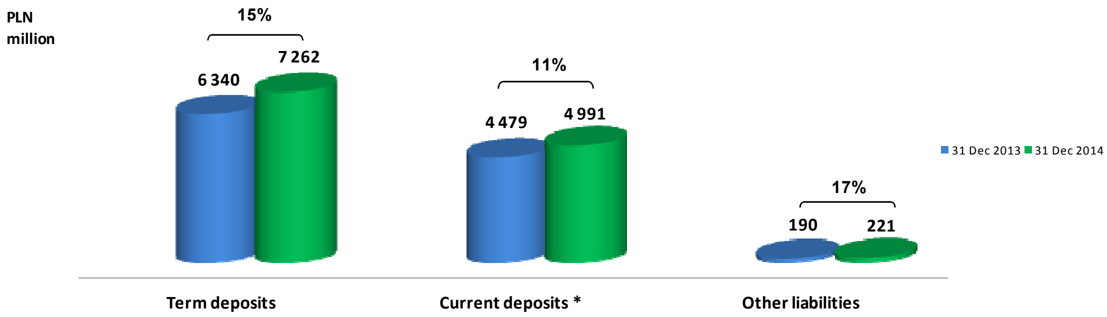
The increase resulted from an active deposit base management and its adjustment to the current liquidity needs, and concerned mostly the following:

- core deposits on current accounts of large enterprises;
- term deposits and core deposits on current accounts of individual customers.

The above increase was partly offset by a decrease in term deposits held by large enterprises and core deposits on savings accounts held by individual customers.

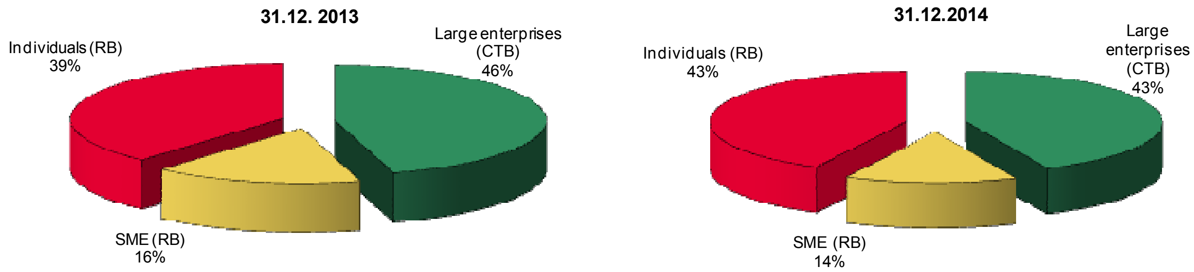
Deposits denominated in foreign currencies account for 13.8% of total customer deposits. Their balances went up in comparison to the end of December 2013 by 9.4%.

Chart 18. Structure of liabilities due to customers, by deposit type



**inclusive of savings accounts, which at the end of December 2013 accounted for 35.2% of total current deposits*

Chart 19. Structure of liabilities due to customers, by segments



5.2.2.2. Equity capital

As at the end of December 2014, the Bank's equity capital amounted to PLN 2,113.7 million which represents growth by 20.4% or PLN 357.4 million over the end of December 2013.

The increase mainly stemmed from the finalisation of activities aimed at the free float increase. In May 2014, the Bank issued 5,026,539 ordinary bearer shares with the nominal value of PLN 45.46 and issue price of PLN 46.00. The share capital increase by PLN 228,5 million was registered on 27 May 2014. Increase in the equity on account of the share issue, after factoring in the issue costs, stood at PLN 218.7 million. The equity growth was also affected by the net profit earned by the Bank in 2014.

5.2.3. Capital Ratios

The stable capital situation of BNP Paribas Bank Polska SA as at the end of 2014 allowed the Bank to safely continue its business activity and carry out plans. As at 31 December 2014 the Bank's **total capital adequacy ratio** stood at 13.4% (pursuant to Basel 3 rules) in comparison to 12.9% recorded at the end of December 2013 (pursuant to Basel 2 rules). As at 31 December 2014 the **Tier 1 ratio** stood at 10.8% (pursuant to Basel 3 rules) in comparison to 10.3% recorded at the end of December 2013 (pursuant to Basel 2 rules).

As at the end of December 2014, own funds for the needs of the capital adequacy ratio calculation amounted to PLN 2,445.7 million, up by PLN 20.6% as compared to the end of December 2013.

The total capital requirement as at the end of December 2014 stood at PLN 1,459.1 million and was by 15.7% higher than as at the end of December 2013.

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 2013	31 Dec 2014	31 Dec 2014 vs 31 Dec
Total contingent liabilities granted			
- items related to financing	5 320 506	6 405 829	20.4%
- guarantees	2 008 975	2 841 117	41.4%
Total contingent liabilities granted	**7 329 481**	**9 246 946**	**26.2%**
Contingent liabilities received			
- items related to financing	2 125 000	1 763 410	-17.0%
- guarantees	514 690	931 560	81.0%
Total contingent liabilities received	**2 639 690**	**2 694 970**	**2.1%**
Total contingent liabilities	**9 969 171**	**11 941 916**	**19.8%**

Contingent financial commitments increased (by PLN 1,085.3 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 2013 referred in particular to guarantees issued by the order of the Bank's business customers.

The decrease in the contingent financial commitments obtained by the Bank resulted mainly from reduction of unused funds under the limit made available to the Bank by the NBP.

Off-balance sheet guarantee commitments obtained by the Bank encompass mainly guarantees, counter-guarantees and sureties that secure the granted loans. Their growth noted in comparison to December 2013 concerned primarily guarantees received from other banks.

5.4. Basic ratios

The Bank's ratios are presented below:

Ratio	31 Dec 2013	31 Dec 2014
Profitability Ratios		
Net interest margin (NIM)*	2.8%	2.8%
Cost / Income*	69.1%	67.9%
Return on assets (ROA)*	0.4%	0.6%
Return on Equity (ROE)*	5.0%	6.8%
Net fee and commission income / Net banking income	17.6%	16.3%
Equity ratios		
Tier 1 ratio *	10.3%	10.8%
Total capital adequacy ratio	12.9%	13.4%
Loan portfolio quality		
NPL ratio *	8.3%	7.3%
Provisioning coverage ratio *	65.7%	67.4%
Cost of risk ratio *	0.6%	0.6%
Liquidity ratios		
Net loans to deposits ratio	136.9%	137.6%
Net PLN loans to PLN deposits ratio	96.1%	98.4%
Stock ratios		
Earnings (loss) per share	3.01	4.32
Book value per share	61.21	62.68

*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 2014, as compared to the average interest rate 2013, was the following:

- PLN deposits: 2.02%, compared to 2.63%;
- FC deposits: 0.20%, compared to 0.52%;

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

- PLN loans: 5.83% versus 6.74% in 2013;
- EUR loans: 2.52% versus 2.63% in 2013;
- USD loans: 2.16% versus 1.96% in 2013;
- CHF loans: 1.16% - no change as compared to 2013.

5.6. Enforcement titles and value of collateral

In 2014, the Bank issued 202 enforcement titles in the enterprises and affluent individual customer segments for the total amount of PLN 209,685 thousand as at 31 December 2014 in comparison to 183 enforcement titles issued in those segments as at 31 December 2013 for the amount of PLN 196,236 thousand.

Moreover, in 2014 the Bank issued 4,750 enforcement titles and lawsuits in electronic writ of payment proceedings in the individual customers segment, valued in total at PLN 58,843 thousand as compared to 6,978 enforcement titles and lawsuits in electronic writ of payment proceedings in the exposure value of PLN 100,895 thousand issued in 2013.

The nominal value of collateral established on borrowers' accounts and assets totalled PLN 88,604,910 thousand as at 31 December 2014, as compared to PLN 70,820,574 thousand as at 31 December 2013.

5.7. Management of financing sources

The basic sources of financing for the Bank's lending activity include customer deposits accepted by 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 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 2013 in PLN thousand	31 Dec 2014 in PLN thousand	Δ 2014/2013
Customer deposits	11,008,192	12,473,715	13%
Credit lines and subordinated loans	6,039,170	7,612,069	26%
Equity capital	1,756,237	2,113,651	20%

As at the end of 2014, the balance of customer deposits increased, predominantly in PLN. The balance of the medium and long-term credit lines and subordinated loans went up.

In January 2014, the Bank and BNP PARIBAS signed an uncommitted secured credit facility agreement. The funds acquired under the new agreement totalled CHF 790 million, and the debt arising from the existing agreement (unsecured facility) was reduced. The total outstanding debt in CHF remained unchanged, only the nature of financing has been altered. On 04 February 2014, a credit line of PLN 800 million was renewed. The new maturity is set for August 2015. In May 2014, the Bank obtained PLN 300 million under the existing agreements. In June 2014, the following tranches were repaid at maturity: CHF 40 million, EUR 6 million and PLN 32 million. Additionally, as the tranche of CHF 275 million matured in July, its funds were replaced by tranches of longer maturity and the total funds adding to the same amount. Tranches of EUR 7.7 million and PLN 8 million were repaid in the second half of 2014.

Growth of the balance of credit lines and subordinated loans resulted predominantly from the incorporation of the lease business into the Bank's structures. Financing granted to the Bank by the BNP Paribas group (including leasing) increased by PLN 168 million in 2014. The total value of medium and long-term financing by the BNP Paribas group (including subordinated loans) as at the end of December 2014 amounted to PLN 6,846 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. On 24 June 2014, the Bank signed another agreement with the European Bank for Reconstruction and Development, under which the Bank can receive funds up to EUR 50 million for financing investment projects of small and medium-sized enterprises within the Sustainable Energy Financing Facility Programme (PolSEFF 2). Under this agreement, the Bank received EUR 30 million in September 2014. As at the end of December 2014, the disbursed financing made available by these institutions totalled PLN 766 million.

In May 2014, the public share issue was completed which bolstered the equity capital by 219 million. The equity capital balance as at the end of 2014 increased by PLN 357 million in total, in comparison to 2013.

Pursuant to Art. 25 item 2 of the Regulation of the European Parliament and Council (EU) No. 575/2013 dated 26 June 2013 regarding prudential requirements for credit institutions and investment firms (the CRR Regulation), on 2 December 2014 the Bank obtained a consent of the Financial Supervision Authority (KNF) to include the after-tax profit earned in the period from 1 January 2014 to 30 June 2014 into the Common Equity Tier 1 capital, to calculate capital ratios. The Board of Executives of the Bank will recommend to the Annual General Meeting approving the Bank's financial statements for 2014 to adopt a resolution regarding the retention of the entire after-tax profit earned by the Bank in the period from 1 January 2014 to 30 June 2014 in the amount of PLN 85,505,178.17, in the Bank's equity capital, and on earmarking this profit to increase the Bank's own funds, and on the related no dividend payment from the profit for that period,

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

According to the *Mission, Vision and Strategy for the years 2013-2016,* reviewed in 2014, the long-term ambition of the Bank is to 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 intend to develop their presence and share in the market in all main areas of activity, that is retail banking (including private banking), service of micro-, small and medium enterprises, and national and international corporations, with a special emphasis on a steady, sustainable and profit-yielding growth, while preserving a prudent approach to the risk profile. The adoption of the strategic plan of organic growth does not exclude development through mergers and acquisitions on the Polish market at the same time.

Pursuant to the strategy of business development and reinforcement of the BNP PARIBAS group's position in Poland, in December 2013, the BNP PARIBAS group concluded an agreement with the Rabobank group regarding the purchase by BNP Paribas Fortis of the majority stake held by the Rabobank group in Bank Gospodarki Żywnościowej S.A. ("BGŻ"). As a result of further arrangements, including talks of the parties with the Polish Financial Supervision Authority ("KNF"), in June 2014 the parties eventually signed an agreement.

The takeover of 74.39% of BGŻ shares by BNP Paribas SA from the Rabobank Group was finalised in September 2014, i.e. upon the receipt of the KNF's decision confirming no grounds to lodge any objections against the transaction. A procedure to merge BNP Paribas Bank Polska S.A. and BGŻ was thereby initiated (the Merger).

The next step was to agree on and sign the Merger Plan by the Boards of Executives of both banks on 10 October. The assumption behind the Plan is that the Merger will bring together two complementary organizations and will create a larger, medium-sized and operationally optimized bank with a critical mass which will enable a better performance and allow to reach an improved market position to face the high level of competition in the Polish banking sector and in the long run - to consolidate the banking activity of the BNP PARIBAS Group in Poland within one entity.

The Merged Bank will reach approximately 4% market share, positioning it as the 7th largest bank in Poland in terms of assets level. The target organization, which should deliver assumed synergies and value added by the year 2017, will be headquartered in Warsaw with optimized support functions managed in Warsaw and Krakow.

The objective of the Merger is to preserve both Banks' strengths and expertise, and to develop further a fully-fledged universal bank with activities well balanced between retail and corporate businesses. In order to achieve that objective, the scope of business activity shall be re-organized into five business lines: a) retail and micro, b) personal finance specializing in consumer loans, c) small and medium businesses (SME) with an emphasis on Agro service, d) corporate banking with factoring and leasing activities and e) corporate investment banking (CIB). This new organization shall encourage more focused cooperation with clients, better selection of sales, marketing and technology tools.

The Merged Bank will enjoy a large but optimized nationwide network of branches and business centres servicing corporate clients, with a strong presence in medium-sized and small cities currently well covered by BGŻ, as well as in larger cities, where BNPP Polska has a strong footprint today. A digital platform, currently managed by BGŻ Optima and targeting more affluent clients, shall add one more dimension to the wide offer and develop more technologically sophisticated service.

In retail banking, the Merged Bank will leverage its market position on a comprehensive product offer addressed to all segments, recognized strong client service practices and modern front-line tools supporting both clients as well as employees of the Merged Bank. Retail business growth will be supported by strong consumer finance expertise, the specialized digital platform and also through external partnerships providing complementary non-banking products like insurance or leasing solutions. Furthermore, the expertise of BNP PARIBAS Group in wealth management will reinforce the development of this activity.

In corporate area, the Merged Bank will benefit from a deeper re-organization based on separating business lines with different clients characteristics like corporate banking and SME activity, as well as different product specificity like CIB. This modified approach should guarantee a well-structured sales offer and improved relationship with clients through better understanding of their needs. The Merged Bank will offer a wide range of transactional and financing solutions of the highest standards, leveraging on the global capabilities of BNP PARIBAS Group and its unique worldwide network of corporate centres.

Preserving and developing the leading role in the food and agro segment is counted among the most important strategic objectives for the Merged Bank. Due to the Merger and the enlarged scale of operations, the Merged Bank will gain a possibility to reach out to a larger group of clients in the whole country. More specialized and focused sales approach as well as a larger team with experience in the Agro sector will support a better targeted message, especially in the SME area. Agro expertise and teams, present in the BNP PARIBAS Group in different geographies like Turkey or the USA, will be used for knowledge sharing, clients' networking and new product initiatives.

In addition, the Merger will enable further advancement of the Banks' current market position through sustainable, enhanced growth as well as continuous improvement of the Merged Bank's profitability thanks to the expected synergies driven by complementarity, scale and process excellence enabled by the Merger. The synergies will be realized in both cost and revenue areas with the clear objective to improve the efficiency translated into cost-to-income ratio of the Merged Bank as well as accelerate its business growth measured by market share overall and in targeted segments.]

Considerable improvement of cost/income ratio nearing the market average for medium sized banks is expected, due to the Merged Bank's structure optimization and income growth thanks to complementarity of both banks. At the current stage, the purpose of BNP PARIBAS for the Merged Bank is to achieve total income synergies at 5% of accumulated income basis and gross cost synergies between 10% and 15% of the accumulated cost basis, within 3 to 4 years after the merger, provided that market conditions remain stable. In consequence, once the total synergies have been achieved, the ROE ratio for the Merged Bank will go up to a two-digit value.

Both BGŻ and BNPP Polska are now implementing their expansion plans to improve profitability.

The legal merger is scheduled for the first half of 2015.

The Bank's results for 2014 are as expected, considering the impact of a one-off item recognized in 2013. The Bank has maintained its strong capital position and liquidity, largely due to issuance of new shares in May 2014.

Yet the plans' successful implementation will depend to a large extent on macroeconomic situation development, regulatory changes and their impact on the banking sector and availability of sources of financing. The key external factors that may affect the Group's performance in 2015 are presented in Chapter 1.3. of this Report.

The end of 2014 will mark completion of the *Recovery Programme of BNP Paribas Bank Polska SA*, pursued under Art. 142 of the Banking Law Act, upon the consent of the Polish Financial Authority Supervision (KNF). The purpose of full implementation of the Recovery Programme was to allow the Bank to permanently achieve positive financial results and improve the main economic and financial ratios. The recovery procedure will be formally completed once the KNF has assessed the Bank's economic and financial standing on the basis of audited financial statements of the Bank made as at 31 December 2014. Until then, the Bank will remain subject to the recovery regime.

Similarly as in 2014, the Supervisory Board and Board of Executives do not publish the financial performance projections for 2015 or the following years.

7. BASIC RISK TYPES AND RISK MANAGEMENT

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

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

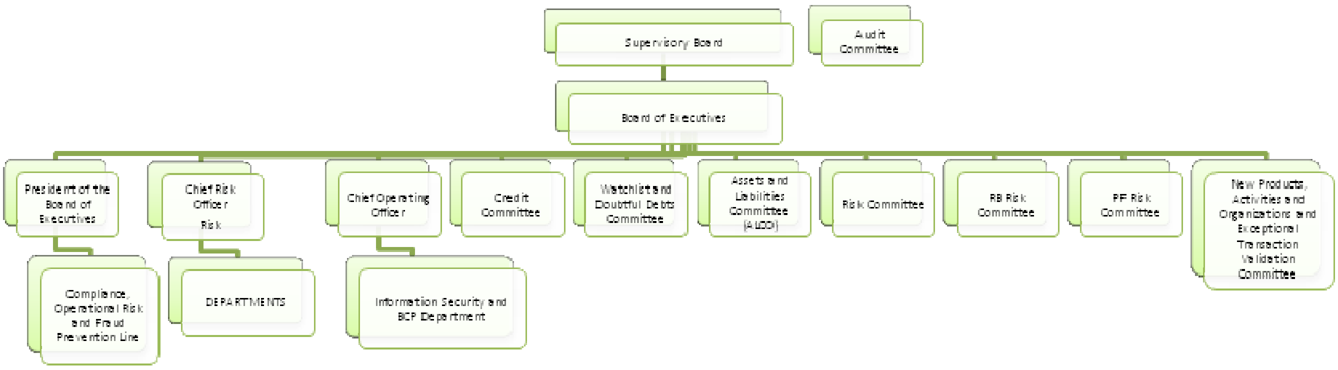
To guarantee that the above-mentioned risk categories are identified, defined, as well as appropriately controlled and managed - the Bank observes numerous internal control procedures and risk level limits, which were described in detail in Note 31 in the *Annual Separate Financial Statements of BNP Paribas Bank Polska SA for 2014.*

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 the risk of losses incurred by the Bank on account of the customer inability to meet its obligations within the predefined contractual date due to a deterioration or loss of creditworthiness.

The credit risk management system at the Bank has been defined in the *Credit Policy of BNP Paribas Bank Polska SA* 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's 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 model takes into consideration the business lines' structure, determines 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 risk assessment 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 and micro companies. 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.

The material changes introduced into the credit risk management system in 2014 include:

- determination of a credit decision-making model related to lease facilities, as regards financing of business entities in the form of lease, earlier performed by a subsidiary, Fortis Lease Polska Sp. z o.o., was incorporated into the Bank's activity;
- enhancement of the MARS IT system, which supports risk management at the Bank, with processes of monitoring collateral establishment/ renewal and providing the Bank with financial data by borrowers;
- introduction of a new simplified credit process for SME segment customers in the WENUS application, using qualifiers that take into account an assessment of the customer position in a given sector through a comparison of the customer's financial ratios in the economic sectors in the database of the PONT Info System – Economy – Medium and Big Enterprises Sector.

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.

FX risk is the risk of adverse changes in the Bank's financial result caused by changes in market FX 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 fair value of the Bank's open positions (interest rate volatility risk), or
- exercise by customers of options built in the bank products which may be exercised as a result of changes in market interest rates (customer option risk).

The Bank monitors the liquidity risk, FX 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:

- keep 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 and long-term expertise and theoretical knowledge required for such duties. The procedures implemented allow to control the correct performance of their tasks.

In its policy, the Bank has adopted a rule that business functions (direct transaction conclusion), operating functions (e.g. transaction posting, transaction 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. These units have a clearly defined scope of duties specifying their place and responsibility in the risk management process.

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:

- settle its payment obligations timely,
- acquire funds alternative to the funds currently held,
- generate positive cash flow balance within a specified time horizon.

The Bank’s strategy consists in the following:

- sustainable organic balance growth, that is an increase in assets must be coupled with a corresponding increase in financing of these assets,
- 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 span, 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, the latter 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.

The main sources of financing are liabilities due to customers, medium and long term credit lines received and capital. Medium and long term credit lines received, including subordinated loans, originate mainly from the BNP PARIBAS group, the European Bank for Reconstruction and Development and European Investment Bank.

BNP PARIBAS ensures stable financing in foreign currencies (e.g. CHF, EUR) but also in PLN. The Bank's policy provides for other sources of financing such as debt issue or structured transactions (securitization).

Foreign Exchange Risk

The Bank runs business which results in taking FX positions sensitive to market FX rate fluctuations. 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 Capital Market Risk 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 2014, 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 (KNF).

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 can change over time depending on such factors as the level of interest rates or FX 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.

As at the end of December 2014, the counterparty risk calculation included the following transactions recognised in the Bank's trading book: FX transactions, interest rate swap transactions, FX options and interest rate options.

Counterparty credit risk assessment with respect to transactions generating counterparty risk is similar to the assessment performed for credit granting. 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.

The Bank calculates the fair value by discounting all contract-related transaction flows using interest rates curves characteristic for each group of transactions. Prepayments are not included in the fair value calculation. In the case of products with no repayment schedule, it is assumed that the fair value is equal to the transaction balance sheet value.

An interest rate curve used to calculate the fair value of the Bank's liabilities (e.g. customer deposits, interbank deposits) and receivables (e.g. loans to customers, interbank placements) consists of:

- interest rate curve free of credit risk
- cost of acquisition of financing sources above an interest rate curve free of credit risk
- market margin reflecting credit risk in the case of receivables.

In order to structure the yield curve for determining fair value of loans, loans are divided into sub-portfolios depending on product type and currency and customer type. For each separated sub-portfolio, a margin is set that takes into account the credit risk. The margin is established on the basis of margins applied to loans of a given type that were granted within the past three months, and if no such loans were granted in this period, then a six-month period is analysed. In the event no new transactions have been concluded for the past six months, the margin for the entire portfolio of the relevant loan type is taken as the basis. In particular, with respect to mortgage loans denominated in foreign currencies, due to the lack of new transactions, the margin for the entire portfolio of the given mortgage loan type shall be the basis for setting a margin that reflects credit risk.

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 an organisation, systems applied likewise products and services offered. Operational risk includes in particular legal risk and compliance risk.

<u>Operational Risk Management Strategy.</u> The operational risk management consists in continuous operational risk identification, analysis, monitoring, control, reporting and counteracting processes, including determination of relevant structures, processes, resources and scopes of responsibility for the above processes at various organisational levels of the Bank. A cause-and-effect analysis of an event is the basis for operational risk management.

The Bank's policy in this regard has been determined 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. The Policy covers all areas of the Bank's business operations. It defines the Bank's objectives and methods of their accomplishment with respect to the operational risk management quality and adjustment to legal requirements resulting from recommendations and resolutions issued by local banking supervision authorities, i.e. keeping high operational risk management and assessment standards to guarantee security of customer deposits and capital as well as stability of the Bank's financial result, by applying the operational risk management and assessment system that meets legal requirements consistent with recommendations and resolutions of the local financial supervision, and keeping operational risk within the appetite and tolerance assumed for the operational risk.

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'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.

Internal Environment. The Bank precisely defines the division of duties regarding the operational risk management, adjusted to the existing organisational structure. The ongoing analysis of the operational risk along with development and improvement of adequate risk control techniques are tasks of the Operational Risk Department. The Real-Estate Contracts and Insurance Group in the Facility Management and Administration Department is responsible for the definition and implementation of the Bank's strategy in terms of Bank insurance as a risk mitigation method. The business continuity management is in turn 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 general 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 Compliance Department.

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

Risk Identification and Assessment. 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. It 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 key areas of the Bank's key process areas. Additionally, as a part of the operational risk mapping, stress testing is carried out in the form of scenario analyses of the operational risk.

Operational losses recording 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.

Risk Prevention. 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.

Business Continuity Management. Ensuring business continuity and ability to make quick decisions 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 business continuity solutions 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 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.

Control and Monitoring. 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 the Audit Department, which 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, likewise assesses its adequacy and efficiency.

Reporting and Transparency of Operation. To compute the capital requirement for operational risk, the Bank uses a standardized approach for BNP Paribas Bank Polska SA and a basic indicator approach for the Bank's subsidiaries.

The total gross operational losses recorded by the Bank and subsidiaries in 2014 amounted to approx. PLN 19 million.

The highest operational losses were noted in the following categories of events:

External fraud (65.6%) - in this category of operational events 93.2% of the loss amount is attributable to loans obtained by fraud in the Retail Banking area, including:

- 58.2% of the loss amount is attributable to the area of small and medium enterprises (a majority of the loss was recovered from the insurance via risk transfer mechanism);
- the remaining 41.8% of the loss amount is attributable to the individual customer and includes credit facilities with loss of an average value of PLN 20 thousand.

In the Bank, necessary measures are undertaken to prevent, detect and analyse fraud cases and suspicions, in order to protect the Bank's assets and income as well as the Bank's customers. Implementation of such tasks includes collection and analysis of information on fraud commitment mechanisms and schemes, best practices in the fraud risk management, signals of potential threats and market trends, in order to undertake prevention and/or detection activities at an appropriately early stage. IT tools and databases are maintained to support the process. Whenever required, formal explanatory proceedings are conducted to disclose the fraudster(s) and the fraud mechanism. In this respect, the Fraud Protection Department plays the key role as it supervises and coordinates all operational activities of the Bank's units performed under the fraud risk management.

Customers, products and business practices (29.4% of total losses) - the value of losses in this category results from settlement agreements signed by the Bank with customers, which ended court disputes regarding transactions in derivative instruments entered into in the years 2008-2009. A potential exposure of the Bank to operational loss in this respect was mitigated by the implementation of MiFID in the Polish environment and the internal reorganisation of the process by the Bank, taking into account changes with respect to required documentation needed to enter into such transactions. Also, the Bank considerably limited its activity in this area.

Financial data regarding the risk management are described in Note 31 of the Annual Separate Financial Statements of BNP Paribas Bank Polska SA for 2014.

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 does the value in dispute exceed 10% of the Bank's equity capital.

As at 31 December 2014, the total value of disputes currently pending before the courts, which involve the Bank as a plaintiff or defendant was PLN 483.1 million (excluding interest). As at 31 December 2014, the total value of lawsuits in which the Bank appears as a plaintiff was PLN 351.7 million (excluding interest), while the total value of lawsuits in which the Bank appears as a defendant was PLN 131.4 million (excluding interest).

As at 31 December 2014, the Bank's provision for legal risk was PLN 3.3 million. In the opinion of the Bank's Board of Executives, the provisions created for the legal risk as at 31 December 2014 were adequate to the risk level.

The largest category of claims are the ones related to currency derivative transactions (including claims concerning 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 at 31 December 2014 the nominal value of claims related to transactions in derivative instruments, including currency options, that were filed to a court, totalled PLN 48.9 million (excluding interest), the total of which constitutes the value in dispute of nine cases brought before courts against the Bank. As at 31 December 2014, the highest nominal value claim against the Bank amounted to approx. PLN 24 million. The lawsuit in this case was served on the Bank on 5 June 2014. On 5 August 2014, the Bank submitted a statement of response to the statement of claim, submitting at the same time a counterclaim against the customer for PLN 4.3 million regarding the amounts of the transactions still not settled by the customer. In the Bank's opinion there are very strong arguments to effectively resist the claim. The case is now in the course of the proceedings at first instance. The court referred the case to the mediation proceedings.

As at the end of December 2014, the total amount of provisions created by the Bank for legal risk in court proceedings related to derivative instruments (concerning transactions entered into with customers in the years 2007-2008) was approximately PLN 1.4 million.

In 2013 the proceedings before the Anti-monopoly Court relating to the fine imposed in 2006 by the President of the Office of Competition and Consumer Protection (UOKiK) in connection with anticompetitive practices consisting in 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 to the Anti-monopoly Court for a new trial. In case the proceedings result in an unfavourable outcome, the Bank established a 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 provision for legal risk was reduced to the amount of the pecuniary fine imposed on the Bank by the court verdict. The decision in the aforementioned case is not final and enforceable.

As a result of the proceedings, ended in June 2014, initiated by the General Inspector of Financial Information (GIIF) for non-fulfilment of the obligation to register transactions the equivalent of which exceeds EUR 15,000, discovered during the inspection conducted by the Polish Financial Supervision Authority in August 2012, a financial penalty was imposed on the Bank in the amount of PLN 10,000. The maximum amount of penalty that could be imposed by GIIF for this kind of infringement is PLN 750,000. The Bank has not exercised its right to appeal against the GIIF decision.

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 at present holds indirectly 28,661,545 of the Bank's shares, which represent 85% of the Bank's share capital and carry the right to 85% 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 2014, the share capital of BNP Paribas amounted to EUR 2,491,633,562 and was divided into 1,245,816 fully paid up shares, with a nominal value of EUR 2 each. The market capitalisation amounted to EUR 61.4 billion.

From 12 January 2015 (after the balance sheet date), the share capital of BNP Paribas has amounted to EUR 2,491,915,350 and has been divided into 1,245,957,675 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 groups in the provision of banking and financial services in Europe that operates in 75 countries worldwide and employs over 185,000 employees, including 145,000 in Europe. It ranks highly in its two core activities:

- *Retail Banking & Services* – an international network of retail banking and international financial services which comprises two segments:
  - *Domestic Markets* which include French Retail Banking, Retail Banking in Italy, Retail Banking in Belgium and Retail Banking in Luxembourg, Equipment Solutions (including Arval, BNP Paribas Leasing Solutions); Online Saving &Trading (BNP Paribas Personal Investors);
  - *International Financial Services,* which comprise all retail banks of the BNP Paribas group outside the eurozone, including BNP Paribas Bank Polska SA, Personal Finance, Insurance, Asset Management, Real Estate and Private Banking.
- *Corporate & Institutional Banking, CIB* – provides customers with financing, advisory and capital market services. It is a globally recognised leader in many areas of expertise including among others structured financing and derivatives across a variety of asset classes. CIB encompasses Securities Services, Fixed Income, Corporate Finance, Global Equities and Commodity Derivatives as well as Corporate Banking.

In Poland, the BNP Paribas group operates not only through the Bank and its subsidiaries, i.e. TFI BNP Paribas Polska SA, Fortis Lease Polska in liquidation and BNP Paribas Factor, but also via 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 estate management (BNP Paribas Real Estate Advisory & Property Management Poland Sp. z o.o.).

In July 2014, BNP Paribas Personal Finance became an owner of 100% of shares in the LaSer Group. In Poland, the LaSer group has been present since 1999. It owns *Sygma Bank*, a branch of French Sygma Banque Societe Anonyme. Sygma Bank specialises in an active support of retail sales networks through financial and non-financial services earmarked for their clients, in particular credit cards, instalment loans and cash loans. In Poland, Sygma Bank supports such retail networks as Praktiker, REAL or RTV EuroAGD. Sygma Bank is the leader on the Polish market of credit cards, with almost one million cards.

Pursuant to the strategy of business development and reinforcement of the BNP Paribas group's position in Poland, in December 2013, the BNP Paribas group concluded an agreement with the Rabobank group regarding the purchase by BNP Paribas Fortis of the majority stake held by the Rabobank group in Bank Gospodarki Żywnościowej S.A. ("BGŻ") ("*Investment Agreement*"). Upon the conclusion of the *Investment Agreement*, as a result of further arrangements, including talks of the parties with the Polish Financial Supervision Authority ("*KNF*"), in June 2014 the parties signed an agreement amending the *Investment Agreement*, taking into account additional terms and conditions, including: (i) the merger of BGŻ and Rabobank Polska S.A. by a takeover of all assets and liabilities of Rabobank Polska S.A. by BGŻ (the merger was registered on 18 June 2014) and (ii) an agreement under which the Rabobank group will retain 5,613,875 of BGŻ shares. Furthermore, in July 2014 BNP Paribas Fortis designated its parent entity, i.e. BNP Paribas SA, to perform the role of the buyer of BGŻ shares pursuant to the terms and conditions of the *Investment Agreement*, and transferred all its rights and responsibilities under the *Investment Agreement* to BNP Paribas SA.

The takeover of BGŻ shares by BNP Paribas SA from the Rabobank group was finalised in September 2014, i.e. upon the receipt of KNF's decision confirming no grounds to lodge any objections against the transaction.

2014 financial performance of the BNP Paribas group

The BNP Paribas group's results in 2014 reflect this year the negative impact of significant one-off items. Excluding these items, the BNP Paribas group delivered a good operating performance thanks to its diversified business model and to the trust of its institutional, corporate and individual clients. The BNP Paribas group made three bolt-on acquisitions this year with the buyout of the remaining 50% equity interest in LaSer, as well as the acquisitions of Bank BGŻ in Poland and of DAB Bank in Germany.

Revenues of the BNP Paribas group totalled EUR 39,168 million, up 2.0% compared to 2013. They included this year one-off items that totalled EUR -324 million (EUR +147 million in 2013): a EUR -459 million of Own Credit Adjustment (OCA) and own credit risk included in derivatives (DVA), EUR -166 million as a result of the introduction of the Funding Valuation Adjustment (FVA) at Fixed Income and EUR +301 million in capital gains from the one-off sale of securities. Excluding one-off items, revenues rose by 3.2%.

The revenues of the operating divisions of the BNP Paribas group rose by 1.9% compared to 2013, with in particular a very good performance by the specialised businesses. Revenues were up in all the operating divisions: 2.0% at Retail Banking , 3.7% at Investment Solutions and 2.1% for Corporate and Investment Banking.

Operating expenses of the BNP Paribas group, which amounted to EUR 26,526 million, were up by 2.1%. They included the one-off impact of EUR 717 million in *Simple & Efficient* transformation costs (EUR 661 million in 2013).

The operating expenses of the operating divisions were up 1.7%. The increase related to the business development plans is limited thanks to the effects of *Simple & Efficient*. Operating expenses were up by 1.2% at Retail Banking, 2.9% at Investment Solutions and 2.2% for CIB.

Gross operating income was up 1.6% at EUR 12,642 million (+5.6% excluding exceptional items). It was up by 2.2% for the operating divisions.

The Group's cost of risk was down 2.5%, at EUR 3,705 million (57 basis points of outstanding customer loans), reflecting the group's good risk control. It includes a one-off EUR 100 million provision due to the situation in Eastern Europe.

The BNP Paribas group booked the impact of the comprehensive settlement with the U.S. authorities regarding the review of certain USD transactions which included, among other things, the payment by BNP Paribas of a total of USD 8.97 billion in penalties (EUR 6.6 billion). Given the amounts already provisioned, the group booked this year a one-off charge for a total amount of EUR 6 billion, of which EUR 5,750 million in penalties, and EUR 250 million corresponding to the future costs of the remediation plan announced as part of the comprehensive settlement.

Non operating items totalled EUR 212 million. They included in particular this year a EUR -297 million impairment of BNL bc's goodwill. Non operating items totalled EUR +397 million in 2013 and included in particular EUR -171 million in one-off items.

Pre-tax income thus came to EUR 3,149 million compared to EUR 8,239 million in 2013. Excluding one-off items , it was up by 8.9%.

The BNP Paribas group generated EUR 157 million in net income attributable to equity holders (EUR 4,818 million in 2013). Excluding one-off items, it totalled EUR 7,049 million.

The balance sheet of the BNP Paribas group is rock-solid. At 31 December 2014, Tier 1 ratio which factors in the results of the banks' Asset Quality Review (AQR) performed by the European Central Bank (ECB) and the early introduction of Prudent Valuation Adjustment (PVA), was 10.3%. The leverage ratio came to 3.6%. The Liquidity Coverage Ratio was 114%. The group's immediately available liquidity reserve was EUR 291 billion (EUR 247 billion as at 31 December 2013), equivalent to over one year of room to manoeuvre in terms of wholesale funding.

The net book value per share was EUR 61.70, or a compounded annualised growth rate of 4.5% since 31 December 2008.

The Board of Directors of the BNP Paribas group will propose to shareholders at the Shareholders' Meeting to pay out the same amount of dividend paid last year, i.e. EUR 1.50 per share to be paid in cash.

Lastly, the group is actively implementing the remediation plan agreed as part of the comprehensive settlement with the U.S. authorities and is reinforcing its internal control and compliance setup.

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 99.93% of the share capital and carrying the right to exercise 99.93% of votes at its general meeting.

Currently BNP Paribas Fortis holds 28,661,545 shares representing 85% of the Bank's share capital and carrying the right to exercise 85% of the votes at the General Meeting.

As a result of a division of the liquidation property of Dominet SA, on 25 June 2014 all 5,243,532 shares held by Dominet SA in liquidation were acquired directly by BNP Paribas Fortis, while the share of Dominet SA in liquidation in the total number of votes in the Bank went down to zero.

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. in liquidation 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, earlier functioning on the Polish capital market as a brokerage house. 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 launched on the Polish market in 2005. BNP Paribas FIO is the first umbrella fund on the Polish market with separated sub-funds. As at the end of June 2014, the fund comprised the following sub-funds: BNP

Paribas Akcji (stock sub-fund), BNP Paribas Stabilnego Wzrostu (stable-growth sub-fund) and BNP Paribas Papierów Dłużnych (debt securities sub-fund). Within the BNP Paribas FIO, the Individual Pension Account - IKE BNP Paribas FIO and Individual Pension Security Account - IKZE BNP Paribas FIO are also available. On 30 April 2014, BNP Paribas Commercial Debt Securities Sub-Fund, separated under BNP Paribas FIO Fund, was merged with BNP Paribas Debt Securities 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.

The present product offering includes:

- portfolios of domestic financial instruments adjusted to five risk profiles that a customer may represent;
- portfolios of Polish funds and foreign funds in stable, balanced or dynamic variants that are based on funds which invest in clear asset classes;
- participation portfolios that realise a co-management idea.

TFI BNP also offers individual investment solutions.

Under the agreement of 5 November 2007, the Bank cooperates with TFI BNP as an agent 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 2014, TFI BNP had assets totalling PLN 15.6 million and assets under management totalling PLN 210.3 million.

On 17 November 2014 BNPP and BGŻ notified KNF of the intended purchase of shares of Towarzystwo Funduszy Inwestycyjnych BNP Paribas Polska SA by BGŻ as a result of the Merger.

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

On 15 February 2014, under an agreement signed by and between Fortis Lease Polska Sp. z o.o. (FLP) and the Bank, the FLP enterprise was transferred to the Bank in exchange of FLP redeemed shares which accounted for 99.98% of FLP share capital. Thus, the FLP lease activity was incorporated into the Bank's structures.

The lease enterprise transfer in favour of the Bank is an element of consolidating and reducing the number of the BNP Paribas group entities in Poland. The integration of the lease business is primarily intended to improve the business and cost efficiency.

As at 31 December 2014, after the redemption of shares, the FLP share capital amounted to PLN 20 thousand and was divided into 2 shares. The value of FLP assets stood at PLN 5.1 million.

On 1 July 2014, FLP liquidation was initiated upon a resolution on FLP liquidation taken by the FLP extraordinary meeting of shareholders on 30 June 2014. The resolution became effective on 1 July 2014.

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. It 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 as well as reverse 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.

On 31 March 2014, BNP Paribas Factor changed the address of its registered office The address of the company's new registered office is ul. Suwak 3, 02-676 Warszawa.

BNP Paribas Factor holds share capital of PLN 10.4 million, which is divided into 20,820 shares. As at 31 December 2014, assets of BNP Paribas Factor amounted to PLN 432.9 million.

8.3. Minority interest

As at 31 December 2014, 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, accounting 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.*

The Bank has also shares of non-public companies held for sale.

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

- On 22 January 2014, the Bank and BNP PARIBAS group concluded a collateralised uncommitted loan facility agreement. Under the agreement, BNP PARIBAS provided the Bank with a credit line to replace the existing financing of a large part of the portfolio of CHF mortgage loans granted by the Bank, under the terms and conditions that ensure a better maturity match in relation to the existing financing.

  Total funds acquired under the new agreement amounted to CHF 790 million. The funds from the new credit line were earmarked for repayment of the current funding, and simultaneously ensured new funding for those loans. The total outstanding debt amount in CHF remained unchanged.

  In order to secure the credit line, the conditional receivables assignment agreement was concluded with BNP PARIBAS on the same day. The object of the conditional assignment agreement are receivables under the portfolio of CHF-denominated mortgage loans granted by the Bank.

  The Bank may be obligated to transfer certain receivables as collateral securing receivables of the BNP PARIBAS group arising from the collateralised credit line (uncommitted), in the event of considerable deterioration of the Bank's particular economic indicators related to the loan portfolio quality, capital adequacy or assets.
- On 4 February 2014, under the EUR 1,800 million credit line, the PLN 800 million line was renewed. The new maturity is set for August 2015.
- On 2 June 2014, a tranche of CHF 40 million was repaid at maturity.

  As the tranche of CHF 275 million matured in July, on 30 June its funds were replaced with tranches of longer maturity (from 2015 to 2024), with CHF 260 million under the collateralised credit line (uncommitted) and CHF 15 million under the EUR 1,800 million credit line.
- On 5 January 2015 (after the balance sheet date) a tranche of EUR 30 million was repaid at maturity. In addition, as the balance of the CHF loan portfolio was decreasing, the Bank prepaid CHF 30 million of the credit line.

9.1.2. Enterprise sale and debt takeover agreement concluded with Fortis Lease Polska Sp. z o.o.

- On 15 February 2014, under an agreement signed by and between Fortis Lease Polska Sp. z o.o. and the Bank, the FLP enterprise was transferred to the Bank in exchange of FLP redeemed shares which accounted for 99.98% of FLP share capital. Thus, the FLP lease activity was incorporated into the Bank's structures.

  The lease enterprise transfer in favour of the Bank is an element of consolidating and reducing the number of the BNP PARIBAS group entities in Poland. The integration of the lease business is primarily intended to improve the business and cost efficiency.
- On 1 July 2014, FLP liquidation was initiated upon a resolution on FLP liquidation taken by the FLP extraordinary meeting of shareholders on 30 June 2014.

9.1.3. Financing agreements signed by Fortis Lease Polska Sp. z o.o.

On 15 February 2014, following the incorporation of the lease business into the Bank (enterprise sale and debt takeover agreement, referred to in item 9.1.2), the Bank entered into rights and obligations of agreements signed by Fortis Lease Polska Sp. z o.o. with BNP PARIBAS group. The agreements include:

  - agreement with BNP Paribas SA dated 1 August 2011;
  - agreement with BNP Paribas SA Branch in Warsaw dated 4 October 2012;
  - agreement with BGL BNP Paribas SA dated 19 September 2012;

The total debt under the aforesaid agreements as at 15 February 2014 totalled the equivalent of PLN 1,092 million and as at 31 December 2014 it was higher by PLN 168 million.

In May 2014, the Bank obtained PLN 300 million under the above agreements.

In May 2014, the Bank obtained PLN 300 million under the above agreements. In June 2014 the Bank repaid the disbursements in the amount of EUR 6 million and PLN 32 million at maturity and in December 2014 a tranche of EUR 3 million was repaid. In addition, some lines are repaid gradually, according to the schedule.

In 2015 (after the balance sheet date) under the above agreements the amounts of EUR 7 million and PLN 250 million according to maturity.

9.1.4. Financing agreements of BNP Paribas Factor Sp. z o.o.

On 22 April 2014 BNP Paribas Fortis increased the amount of available funds for BNP Paribas Factor by EUR 70 million to the total of EUR 120 million.

9.1.5. Services Agreement

On 15 February 2014, BNPP Polska concluded a services agreement with BNP Paribas Lease Group Sp. z o.o. ("BPLG"). Under the Services Agreement BPLG undertook to provide support for BNPP Polska in the following areas related to lease services: (i) sale support and management services; (ii) posting and related financial services (current posting, preparing tax declarations and administrative services) and (iii) other services. BPLG shall be remunerated for its services on a quarterly basis, as specified in the annex to the Services Agreement. The Services Agreement was concluded for an indefinite period of time and may be terminated in cases and conditions specified therein.

9.1.6. Cooperation Agreement

On 2 July 2014, the BNP PARIBAS group (i.e. BNP Paribas SA and BNP Paribas Fortis SA/NV), BNP Paribas Bank Polska SA, Bank Gospodarki Żywnościowej SA (BGŻ) and the Rabobank Group signed an agreement on cooperation and information exchange in connection with the project regarding a potential integration between BGŻ and the Bank. Preparations for the integration process included setting up an Integration Office.

9.2. Agreements with international institutions

- On 15 February 2014, following the incorporation of the lease business into the Bank (enterprise sale and debt takeover agreement signed by and between Fortis Lease Polska Sp. z o.o. and BNP Paribas Bank Polska SA), the Bank entered into rights and obligations of the loan agreement dated 30 November 2009 signed by European Investment Bank ("EIB") and Fortis Lease Polska Sp. z o.o. As at 15 February 2014, the outstanding debt under the agreement equalled the equivalent of PLN 137.5 million.
- On 23 May 2014, the Bank and EIB signed an annex to the agreement concluded on 16 December 2011. Under the annex, the Bank can provide additional financing to energy efficiency projects (*SME FF EE Window*) under which enterprises can receive a non-refundable grant. The amount of grants that can be provided with the additional funds received, total EUR 720 thousand.
- On 24 June 2014, the Bank concluded a loan agreement with the European Bank for Reconstruction and Development ("EBRD"), under which the Bank would obtain funds from the EBRD earmarked for financing investment projects of small *and medium-sized enterprises within the Sustainable Energy Financing Facility Programme (PolSEFF 2).* Under the agreement, the Bank may receive the total of up to EUR 50 million in two tranches. On 2 July 2014, BNP PARIBAS issued a guarantee for the performance of the Bank's obligations under the said loan agreement. The tranche of EUR 30 million was disbursed by the EBRD under this agreement on 30 September 2014.
- On 11 August 2014, a cooperation agreement was concluded under PoLSEFF II Programme by and between the National Fund for Environmental Protection and Water Management (NFOŚiGW) and four banks, including BNP Paribas Bank Polska SA. NFOŚiGW shall cover non-repayable subsidies for partial repayment of the bank loan principal - the budget shall amount to PLN 60 million.

Details regarding agreements and transactions with affiliated entities for 2014 and comparative data for 2013 are presented in Note 29 of the Annual Consolidated Financial Statements of the Group of BNP Paribas Bank Polska SA for 2014.

9.3. Significant agreements with customers not affiliated with the Bank

9.3.1. Guarantee credit line agreement of 20 January 2014

On 20 January 2014, the Bank signed a guarantee credit line agreement with not affiliated entities (the Ordering Party and Surety) and annex no. 1 to the guarantee credit line agreement ("the Guarantee Credit Line Agreement").

Under the Guarantee Credit Line Agreement, the Bank made available to the Ordering Party a guarantee limit up to PLN 424.8 million ("the Guarantee Limit") for the period of 67 months from the conclusion date of the Guarantee Credit Line Agreement, and the Guarantee Limit will be systematically reduced whenever the total amount of the guaranteed obligation of the Ordering Party is decreased. The Guarantee Credit Line Agreement provides for granting by the Bank of an irrevocable and unconditional payment guarantee up to PLN 216.7 million ("Guarantee I") (Guarantee I within the limit set was granted on 28 January 2014 up to the amount of PLN 216,7 million), likewise an irrevocable and unconditional payment guarantee up to PLN 424.8 million ("Guarantee II"). If Guarantee II is granted, Guarantee I will automatically expire on the date of the Guarantee II. As of 28 February 2014, the reduced Guarantee Limit amounted to approx. PLN 398.8 million.

9.3.2. Multi-option credit line agreement of 27 February 2014

On 27 February 2014, the Bank concluded an agreement on a multi-option credit line up to the maximum amount of PLN 200 million with customers not affiliated with the Bank.

Under the agreement, the Bank provides customers with an L/C line and grants an uncommitted overdraft facility, likewise a revolving working capital loan. The financing term is 12 months.

9.3.3. Multi-option credit line agreement of 5 March 2014

On 5 March 2014, the Bank concluded an agreement on a multi-option credit line up to the maximum amount of PLN 250 million with customers not affiliated with the Bank.

Under the agreement, the Bank grants to customers an overdraft facility in PLN or EUR, likewise a revolving working capital loan in PLN or EUR. The financing term lasts until 30 March 2016.

9.3.4. Non-revolving loan agreement of 21 May 2014

On 21 May 2014, the Bank concluded an agreement on a non-revolving loan up to the maximum amount of PLN 200 million with a customer not affiliated with the Bank. The financing term lasts until 19 May 2017.

9.3.5. Cooperation agreement of 3 June 2014 with Hyundai Motor Poland sp. z o.o.

On 3 June 2014, the Bank signed a cooperation agreement with Hyundai Motor Poland sp. z o.o. ("HYUNDAI"). The agreement sets out rules of a long-term and exclusive cooperation with respect to provision by the Bank of retail and wholesale financing for the Polish HYUNDAI network consisting of 56 authorised dealers, which comprises 65 points of sale.

The strategic partnership established between HYUNDAI and the Bank is based on the rules of long-term and mutually advantageous cooperation. It aims at creating conditions for a sustainable growth of sales of HYUNDAI vehicles thanks to competitive wholesale and retail financing (with credit and lease facilities).

9.3.6. Cooperation agreement of 3 June 2014 with Kia Motors Polska sp. z o.o.

On 4 June 2014, the Bank signed a cooperation agreement with Kia Motors Polska sp. z o.o. ("KIA"). The agreement sets out rules of a long-term and exclusive cooperation with respect to provision by the Bank of retail and wholesale financing for the Polish KIA network consisting of 63 authorised dealers, which comprises 75 points of sale.

The strategic partnership established between KIA and the Bank is based on the rules of long-term and mutually advantageous cooperation. It aims at creating conditions for a sustainable growth of sales of KIA vehicles thanks to competitive wholesale and retail financing (with credit and lease facilities).

9.3.7. Annex to multi-option credit line agreement of 30 December 2014

On 30 December 2014, 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 230 million up to PLN 280 million. As specified in the Annex, the current credit term shall last until 16 December 2015.

Under the Annex, the Bank grants the Customer an overdraft facility, a guarantee credit line and a letter of credit line.

9.3.8. Guarantee credit line agreement of 17 February 2015 (after the balance sheet date)

On 17 February 2015 (after the balance sheet date), the Bank concluded an agreement on a multi-option credit line ("the Agreement") up to the maximum amount of PLN 240 million with customers not affiliated with the Bank.

Under the Agreement, the Bank provides the Customers with an L/C line and grants an uncommitted overdraft facility. The financing term is 12 months.

9.4. Agreements with the central bank and the regulators

Agreements with the National Bank of Poland

In 2014 the Bank concluded five annexes to the agreement on terms and conditions of opening and maintaining an account under Sorbnet2 system with the National Bank of Poland.

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)	20/02/2014 - 19/02/2015
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)	01/07/2014 - 30/06/2015 /own fleet/ 01/02/2014 - 31/01/2015 /fleet of seized vehicles/

Voluntary insurance	
risk / insurance cover	insurance period
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.	26/04/2014 - 25/04/2015
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.	26/04/2014 - 25/04/2015
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.	01/05/2014 - 30/04/2015
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.	01/05/2014 - 30/04/2015
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.	01/05/2014 - 30/04/2015
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.	01/07/2014 - 30/06/2015
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.	01/12/2014 - 30/11/2015
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.	01/12/2014 - 30/11/2015
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.	01/07/2013 – 30/06/2016
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.	01/01/2015 – 31/12/2015
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.	01/01/2015 – 31/12/2015

9.6. Agreements with auditor

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 9 May 2014, the Bank and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa based in Warsaw, signed

- an agreement regarding an audit of consolidated financial statements of the Group for the years 2014-2017 and a review of the consolidated financial statements of the Group and separate financial statements of the Bank for the first halves of the years 2014-2017;
- agreement regarding an audit of consolidation packages for the years 2014-2017 and a review of consolidation packages for the first halves of the years 2014-2017.

The remuneration defined in the agreement for the entity authorised to audit financial statements, for the audit and review of the semi-annual and annual financial statements and consolidation packages for the year 2014 amounts to PLN 600 thousand plus VAT. Under the agreements, the remuneration for the above work in the years 2015-2017 will be determined in annexes to the agreements.

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

Remuneration (in PLN thousand):	**2013**	**2014***	**2014****
Audit of annual financial statements for the previous year	368	262	-
Audit of annual financial statements for the current year	-	-	201
Review of mid-year financial statements for the first half (for the needs of work on the shares issue for Q1 2013 and Q3 2013 and for review of selected data at the end of Q3 2014)	437	-	165
Other services (consolidated reviews, work on the shares issue)	127	253	200.5*
In total (net, exclusive of VAT)	**932**	**516**	**566.5**

* net remuneration for Mazars
** net remuneration for Deloitte

10. ORGANISATIONAL STRUCTURE

10.1. 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;
- Nomination Committee,

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

10.2. 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 and/or service market segments. As at 30 June 2014 the following customer service/ business lines were operating at the Bank:

- Retail Banking Business Line - offers comprehensive services to two customer groups: i) individuals, ii) corporate customers with the annual sales revenues not exceeding PLN 60 million, and also provides brokerage services;
- With regard to customers with annual revenues ranging from PLN 40 million to PLN 60 million, exceptions are possible in assignment of existing customers under mutual arrangements between the RB and CTB business lines;
- Personal Finance Business Line – a business line that deals in particular with 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 medium-size companies and corporate businesses, based among other things on the criterion of annual turnover over PLN 60 million, and to companies that are a part of international groups, irrespective of their annual turnover.

On 1 April 2014 the branch network was reorganised. A new division of the Poland's territory into 5 Macroregions (instead of 7 Regions) was introduced and the Bank set up:

- 16 Regions dedicated to Individual Customers and Microcompanies (to replace the existing 22 Microregions);
- 5 SME Regions;
- 5 Private Banking Regions.

The number of branches within respective Macroregions and Regions was optimised, primarily in terms of a number of branches, number of customers, NBI generated, number of employees and average Cost to Income ratio. The purpose of the change is to increase focus on sales targets and their achievement.

Furthermore, on 1 April 2014, the Bank singled out 27 Financial Centres dedicated to the SME segment (cashier services excluded). In consequence, 27 new branches were created - SME Financial Centres, managed by SME Financial Centrer Directors, answerable directly to the SME Region Directors.

The above modification put greater emphasis on effectiveness of operations in the SME segment, introduced clear subordination (reporting) principles and full responsibility for fulfilment of financial plans in all the branches of the RB sales network.

Within the RB sales network, organised in 5 regions, operate the following branch types:

- own branches and sub-branches;
- SME Financial Centres;
- franchised branches operating under a franchise agreement.

The type of customer segment serviced is a criterion according to which the branch type is determined. The customer segment is represented by Relationship Managers dedicated to it. Consequently, Financial Centres serve RB BL customers of the SME segment, whilst branches and sub-branches provide services to all RB BL customers, except for the SME segment that is served in these branches only at the operating level.

As a result of new branches opening, relocating and revamping, the Bank's branch network comprised, as at the end of June 2014, 83 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 2014, the Bank had 248 branches. Number of branches with a breakdown into particular regions:

	SME Financial Centres	Other own branches	Franchise branches	In total
Centre Region	6	46	7	**59**
South Region	5	34	7	**46**
Silesia Region	7	38	6	**51**
West Region	4	35	7	**46**
North Region	5	32	9	**46**
Total	**27**	**185**	**36**	**248**

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

As at 31 December 2014 there were 9 Business Centres: three in Warsaw and one in Krakow, Gdańsk, Katowice, Poznań, Wrocław and Łódź each.

The number of ATMs as at the end of 2014 amounted to 220.

10.3. Staff

As at 31 December 2014, 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 2,775 as compared to 2,754 as at 31 December 2013, which means a net increase by 21 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 2013	As at 31 December 2014
The Bank, including:		
Head Office	1,401	1,437
Branches	1,262	1,240
Mobile relationship managers	91	98
Total	**2,754**	**2,775**

As at 31 December 2014, about 83% of employees in the Bank had a higher education degree, whereas about 17% had secondary education.

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

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

As at 31 December 2014, the current value of provisions for retirement severance pay, disability benefits and post-death benefits, and provisions for unused holidays for the Bank's staff amounted to PLN 10.9 million.

The Bank's 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 programmes, the Bank has opened its own training centre in Piaseczno, available to all employees of the Bank.

The majority of the Bank's staff are employed on the basis of employment contracts. However, certain services, especially those related to 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 2014, the total of 384 persons provided services in favour of the Bank under civil law agreements, whereas as at 31 December 2013, it was 160 persons.

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 2014, provision for employee bonuses amounted to PLN 21.8 million. Additionally, the Bank's provision for deferred bonuses payable in cash amounted to PLN 1.2 million and the provision for deferred bonuses payable in the form of financial instruments and other deferred bonuses totalled PLN 0.8 million. The Bank's provision for other deferred employee benefits at at the end of 2014 amounted to PLN 2.7 million. The value of funds within the Company Social Benefit Fund equalled PLN 1.0 million.

Information on the Collective Dispute with Employees and Agreement with One of Trade Unions operating at BNP Paribas Bank Polska S.A.

Since 10 February 2015 the negotiations have been held with the trade unions on planned staff reductions linked to the merger of the Bank with Bank Gospodarki Żywnościowej S.A. ("BGŻ").

On 27 February 2015, two trade unions operating at the Bank formally submitted their demands to the Bank with regards to this matter. The trade unions demand (i) the right to additional severance payments for employees whose employment is to be terminated as part of collective redundancies or if the employer needs to terminate the employment on an individual basis for reasons not attributable to employees, and (ii) restructuring bonuses for all employees.

On 2 March 2015, the Bank informed trade unions operating at the Bank that it was not going to meet their demands as submitted and as a result, pursuant to Article 7 Section 1 of the Act of 23 May 1991 on Collective Bargaining (Journa of Laws of 1991, No. 55, item 236, as amended), a collective dispute between the Bank and its employees was initiated (with the effect as of the day the trade unions operating at the Bank submitted their demands towards the Bank).

On 4 March 2015 the Bank and BGŻ, on the one hand, and the Komisja Międzyzakładowa NSZZ „Solidarność" Pracowników Bankowości w Banku Gospodarki Żywnościowej S.A., Związek Zawodowy Pracowników Banku Gospodarki Żywnościowej S.A. i Banków Spółdzielczych (two trade unions operating at BGŻ) and Organizacja Zakładowa NSZZ „Solidarność" No. 3254 at BNP Paribas Bank Polska S.A. (one of the two trade unions operating at the Bank) on the other hand, entered into an agreement defining the method of proceeding on employee issues relating to group lay-offs (the "Agreement"). The parties to the Agreement agreed that group lay-offs would be conducted in the period of 24 months from the day of the planned merger of BGŻ with the Bank and would cover no more than 1,800 employees.

The parties to the Agreement also agreed, among other things, the selection criteria for employees whose employment contracts will be terminated under group lay-offs, terms of employees' participation in voluntary redundancy programs, terms of severance payments and additional compensation payable to employees, as wells as the conditions of relocation (changing workplace) and the conditions of so-called outplacement program.

Furthermore, as a result of entering into the Agreement the collective dispute between the Bank and Organizacja Zakładowa NSZZ "Solidarność" No. 3254 at BNP Paribas Bank Polska S.A., initiated on 27 February 2015, has been resolved. Considering that Organizacja Międzyzakładowa Pracowników Banków No. 001 NSZZ PBiU "Dialog 2005" (the second trade union operating at the Bank) is not a party to the Agreement, the collective dispute between the Bank and this trade union, initiated on 27 February 2015, has not been resolved.

11. BANK AUTHORITIES

11.1. The composition of the Bank's Board of Executives as at 31 December 2014

	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
8.	Stéphane Rodes	Member of the Board of Executives	Corporate and Transaction Banking (CTB)

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

In 2014, no changes as regards the composition of the Board of Executives took place.

Presence of the Board of Executives' members in the governing bodies of affiliated entities as at 31 December 2014

- 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. (till 30 June 2014); Chairman of the Supervisory Board of BNP Paribas Factor sp. z o.o.; Member of the Supervisory Board of Arval Service Lease Polska Sp. z o.o., Member of the Management Board of BNP Paribas Real Estate Poland sp. z o.o., Deputy Chairman of the BNP Paribas Foundation Council;
- Jan Bujak held the position of a Member of the Supervisory Board of TFI BNP Paribas Polska SA, Member of the Supervisory Board of Fortis Lease Polska sp. z o.o. in liquidation (from 1 July 2014) and Member of the BNP Paribas Foundation Council;
- Stephane Rodes performed the function of the Deputy Chairman of the Supervisory Board of Fortis Lease Polska Sp. z o.o. (till 30 June 2014), 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; on 6 February 2015 (after the balance sheet date) he was appointed General Director of Sygma Bank in Poland;
- Wojciech Kembłowski performed the function of a Member of the Supervisory Board of BNP Paribas Factor Sp. z o.o.; on 26 January 2015 (after the balance sheet date) he was appointed Vice President of Bank BGŻ, responsible for risk management, effective the merger date of Bank BGŻ and BNP Paribas Bank Polska SA and subject to consent of the Polish Financial Supervision Authority to the appointment.
- Marta Oracz performed the function of Chairperson of the BNP Paribas Foundation Council.

11.2. The composition of the Bank's Supervisory Board as at 31 December 2014

	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.	Jean-Marc Buresi	Supervisory Board's member
6.	Yvan De Cock	Supervisory Board's member
7.	Andrzej Wojtyna	Supervisory Board's member, independent

Changes in the composition of the Bank's Supervisory Board in 2014

On 7 April 2014, the Annual General Meeting of the Bank appointed a new member of the Supervisory Board, Mr. Jean-Marc Buresi, representing the BNP Paribas group, CEO of the Personal Finance Inside (France).

Concurrently, on the day of the Annual General Meeting, Mr Jean Deullin and Ms Helene Dubourg resigned from their functions in the Bank's Supervisory Board, effective at the date of the Annual General Meeting. The reason for the resignation was the appointment of Mr Jean Deullin and Ms Helene Dubourg to other positions in the BNP Paribas group.

On 26 June 2014, Mr Francois Benaroya resigned from his membership in the Bank's Supervisory Board, effective from 30 June 2014. The resignation resulted from the fact Mr Francois Benaroya was employed at the Bank.

11.3. Information on shares of the Bank held by members of the Board of Executives and the

Supervisory Board

As at 31 December 2014 and as at this 2014 report publication date, i.e. 6 March 2015, 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.

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

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

in PLN thousand	1 Jan 2013 - 31 Dec 2013	1 Jan 2014 - 31 Dec 2014
Board of Executives, including:	8,420	8,614
- remuneration	6,670	6,427
- other*	1,750	2,187
Supervisory Board	903	821
Managing Directors**	17,063	20,108

** 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 2014, a portion of variable compensation awarded for 2012 and deferred for payment in future periods, 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 settled for the first time.

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 an important reason, or when they are discharged or dismissed due to the Bank's merger 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 2014 or 2013.

The table below presents detailed information in remuneration paid to members of the Board of Executives in 2014, and comparative data for 2013.

Remuneration of the Bank's Board of Executives 1 Jan 2014 - 31 Dec 2014 (in PLN thousand)		Remuneration	Other	Total
Frédéric Amoudru	President of the Board of Executives Country Manager	1,052	631	1,683
Jan Bujak	Senior Vice President of the Board of Executives	838	179	1,017
Jaromir Pelczarski	Vice President of the Board of Executives	838	179	1,017
Michel Thebault	Vice President of the Board of Executives	848	424	1,272
Wojciech Kembłowski	Member of the Board of Executives	740	178	918
Marta Oracz	Member of the Board of Executives	645	143	788
Adam Parfiniewicz	Member of the Board of Executives	740	133	873
Stephane Rodes	Member of the Board of Executives	726	320	1046
Total		6,427	2,187	**8,614**
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**

The table below presents detailed information on remuneration paid to members of the Supervisory Board in 2014, and comparative data for 2013.

Remuneration of the Bank's Supervisory Board 1 Jan 2014 - 31 Dec 2014 (in PLN thousand)		Total
Jean-Paul Sabet	Chairman	180
Jarosław Bauc	Vice Chairman	120
Filip Dierckx	Vice Chairman	120
Monika Bednarek	Supervisory Board Member	84
Francois Benaroya	Supervisory Board Member until 30 June 2014	42
Jean-Marc Buresi	Supervisory Board Member from 7 April 2014	61
Yvan De Cock	Supervisory Board Member	84
Jean Deullin	Supervisory Board Member until 7 April 2014	23
Helene Dubourg	Supervisory Board Member until 7 April 2014	23
Andrzej Wojtyna	Supervisory Board Member	84
Total		**821**

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
Monika Bednarek	Supervisory Board Member	84
Francois Benaroya	Supervisory Board Member	84
Yvan De Cock	Supervisory Board Member from 4 April 2013	62
Jean Deullin	Supervisory Board Member	84
Helene Dubourg	Supervisory Board Member	84
Andrzej Wojtyna	Supervisory Board Member	84
Total		**903**

Members of the Bank's Board of Executives who are members of Supervisory Boards of subsidiaries, received no remuneration on that account, either in 2014 or 2013.

Details regarding values of remuneration and other benefits of the members of the Bank's Board of Executives and Supervisory Board in 2014 and comparative data for 2013 are presented in Note 29 of the Annual Consolidated Financial Statements of the BNP Paribas Bank Polska SA Group for 2014.

12. 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.

The *Corporate Social Responsibility (CSR) Policy* has been binding in the Bank since 2013. 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. There is a CSR Correspondent appointed in the Bank.

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.

Bank products and services

The Bank products are addressed to all market segments: individual customers, small and medium enterprises, corporate customers and private banking customers. Answering to expectations of various customer groups, the Bank offers diversified products customised to the needs of each segment. The direction of changes and innovations implemented results directly from the feedback provided by customers during quality research carried out regularly by the Bank.

Quality and customer service

In 2014, the "Quality is US" programme was continued in the Bank. It included an analysis of customer opinions obtained through satisfaction surveys, observations of customer behaviour and a review of market trends in customer service. The programme aimed at perfecting the service quality and its adjustment to the growing expectations of the Bank's customers. The major activities carried out under the programme included:

- implementation of modified customer service standards;
- training employees of the entire retail network as regards the standards;
- broadening the employee knowledge about products offered.

Customer satisfaction and service quality surveys

Satisfaction of the Bank's customer is cyclically surveyed to enable permanent monitoring of the satisfaction level and recommendations. To ensure high customer service quality level, consistent with the standards applied, the Bank conducts a Mystery Shopping survey in cooperation with external firms. Professional auditors assess the service quality level in all the Bank's branches.

Management of complaints

In the Bank, the complaint handling process is formalised and customers can lodge complaints 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.

There are regular internal reviews of complaints lodged. The review results are used to introduce improvements into banking processes.

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.

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

SOCIAL responsibility: observing a committed and fair personnel policy.

As part of activities addressed to employees, the Bank focuses primarily on the implementation of the sustainable human resources policy and providing an effective internal communication.

In 2014, the Bank was awarded the Highest Quality HR Certificate. It is granted by the Polish Association of Human Resources Management to companies which apply human resource management practices and tools consistent with the highest standards.

Employment structure of BNP Paribas Bank Polska SA

As at the end of December 2014, the employment in the Bank amounted to 2,775 FTEs, of which women accounted for 65%. The Bank's staff is relatively young as the average age of an employee is just above 36 years, whilst the share of employees aged 36 and below stands at 57%. As much as 83% 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.

The Bank participates in *Ace Manage*r, an international competition which is a strategic business game for university students all over the world.

Young Sales Forces, a trainee programme 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. The Foundation objectives cover also other areas, including health protection and promotion, science and education, support for and propagation of culture and arts or protection of cultural objects.

Main pillars of the Foundation actions

Foundation programmes		
strategic partnerships and grant programmes with organisations that help children and the youth: Towarzystwo Przyjaciół Dzieci 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 communitiesci

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 daycare centres for children and youth for several years. Since 2012, the Foundation has supported *Fundacja Dzieło Nowego Tysiąclecia*

(New Millennium's Work Foundation).

In cooperation with TPD, in 2014 the Foundation carried out the following:

- summer grant contest called *Poznajemy legendy* (We learn legends) related to local legends as part of the cultural heritage. The projects concerned an organisation of free time for children and the youth in summer. The programme had a form of a grant contest addressed to TPD day care centres for children and youth of the West Pomerania, Łódź, Mazovia and Wielkopolska provinces. Five projects were selected and awarded grants worth PLN 6,000 each.
- a visit of TPD charges from the social care centre in Pszczyna at the *WTA BNP Paribas Katowice Open* tournament, combined with a meeting with tennis stars and an opportunity to attend recreational workshops.
- Funds donated by Arval Service Lease Polska Sp. z o.o. were used to refurbish bathrooms in the TPD Centre of Rehabilitation, Education and Care in Helenów.
- Additionally, charges of the TPD social care centres took part in a variety of other employee voluntary initiatives, including *Sprzątanie lasu* (Clean the forest) projects in Krakow and Warsaw, initiatives taken by Personal Finance employees to celebrate the Children's Day (*Bananowe uśmiechy* [Banana smiles], *Dzień Małego Bankowca* [Small Banker's Day], etc.)

In 2014, the BNP Paribas Foundation again joined the project called *Tornister pełen uśmiechów* (School bag full of smiles), carried out by Caritas Poland and Caritas Przemyśl Archdiocese, by financing 750 school bags for sets of school supplies. In addition to the above, the Foundation supported educational classes C*zy można polubić Einsteina?* (Can you like Einstein?) conducted in the children's home in Bielsko-Biała.

The BNP Paribas Foundation continued support for a scholarship programme of the New Millennium's Work Foundation, addressed to talented youth from low-income families in rural areas and small villages.

Coalitions with local organisations and institutions

In 2014, under the cooperation developed with local organisations, in which representatives of business circles were involved, the Foundation supported initiatives in regions of Pomerania, Łódź, Małopolska and Mazovia, including:

- on 22 February 2014, a donation was given to the *Hospice Foundation* for the Orphaned Children's Fund, at *Bal z Sercem* (Ball with a Heart) charitable event. The donation was earmarked for funding scholarships for children whose parents or siblings had remained under palliative care of a hospice.
- The BNP Paribas Foundation supported a project called *Szczęśliwe podwórka* (Happy courtyards) carried out in Łódź by the Virako Foundation for children of Łódź community day rooms. A project named *Królestwo Sztuk Wszelakich* (Kingdom of All Arts) was chosen, prepared by the Integracja JP II Foundation.
- support for Special Olympics *Przełam bariery* for disabled children and youth organised by the Municipal Sport and Recreation Centre in Częstochowa, in cooperation with local business circles;
- support for a Santa Claus event for special care and handicapped children chosen by specialised social care centres in Małopolska;
- donation made in favour of the Synapsis Foundation to support the children's early autism detection programme, under the *Dobre kilometry* (Good kilometres) project (see below).

Support of the volunteer work idea

In 2014, the Foundation ended one grant programme and implemented two subsequent grant programmes for employees of companies of the BNP Paribas group in Poland:

- The "*Białe szaleństwo*" (Winter sports) grant programme for employees who wish to aid social organisations in preparations of projects for socially excluded children and the youth during Christmas and winter holidays, was continued. By the end of February 2014, nine projects were carried out.
- then, from May to September, a grant programme called *Weź pomoc na warsztat* (Workshop for help) was carried out for employees to organise musical, art, sports, cooking, etc. workshops for disadvantaged children and the youth who remain in care of facilities counteracting social exclusion. The Foundation awarded 16 grants.
- at the end of the year, a grant programmed called *Pomoc niejedno ma imię* (Help has many names) was started. It is addressed to employees to implement projects for disabled children and the youth, who are charges of care centres, children's homes and community day rooms. The Foundation awarded 24 grants. The project will be run till the end of February 2015.

Other programmes, in which employees of the Bank and other companies of the BNP Paribas group in Poland were involved in, included:

- *Sprzątanie lasu* (Clean the forest) – employees were involved in a forest cleaning event together with charges of TPD community day rooms in Krakow and Warsaw, combined with contests and a talk on nature, visit in a forest tree nursery, bonfire and barbecue;
- *Dobre kilometry* (Good kilometres) - under the programme, employees participated in street runs in various towns. For each kilometre they run, the Foundation donated funds for the implementation of projects in favour of children in need. In 2014, donations were provided to the Synapsis Foundation and the FDNT scholarship programme;
- *Słodka pomoc* (Sweet aid) - two charity events, whereby funds were collected by volunteers of the Gajusz Foundation in Warsaw and volunteers of the Małopolskie Children Hospice in Krakow. The events were combined with a Christmas meeting prepared by the Bank's employees. The funds collected were earmarked for the purchase of indispensable medical equipment for the hospices.
- *Dzień dziecka, czyli bananowe uśmiechy* (Children's day, or banana smiles) – a project of Personal Finance employees. The charges of the TPD community day room in Praga-Południe attended an off-road race and a picnic organised by Personal Finance employees in cooperation with the 4x4 Foundation and 4x4 Tourists portal.

Culture

- In line with the idea of culture promotion, the BNP Paribas Foundation supported *Szalone Dni Muzyki* (Crazy Music

Days) organised by the Sinfonia Varsovia orchestra on 26-28 September 2014 in Warsaw. In 2014, the American music of the 20th century was the festival leitmotif. It was the fifth edition in Poland of *La Folle Journée*, an international festival aimed at popularisation of classical music around the world.

- Under the BNP Paribas for Art programme, BNP Paribas Foundation in France and BNP Paribas Foundation joined the project of the National Museum in Krakow, regarding conservation of *The Girl with Chrysanthemums,* a painting by Olga Boznańska, and exhibition of the artist's works to celebrate the 150th anniversary of her birth and 75th anniversary of her death, from 24 October 2014 to 1 February 2015.

Awards for the Foundation

In December 2014, the Foundation received a special badge, called *Przyjaciel Dziecka* (Child's friend). It is awarded by the Main Management Board of the Association of Children Friends for a kind heart shown to children and help provided in creating conditions for their successful development and dignified life.

In addition, in line with the social responsibility principle, in 2014 the Bank accomplished the following CSR projects:

- **Volunteer activities of employees**

  The Bank introduced the *Employee Volunteer Day*, which gives each employee of the Bank one calendar day that may be used for volunteer assistance initiative.

- **Financial education**

  The Bank joined, as a partner, the *Bankers for Financial Education for Youth - BAKCYL* scheme in 2014, organised by the Warsaw Banking Institute. The purpose of the scheme is to provide pupils of lower secondary schools with practical and necessary knowledge about banking and to build the positive image of banks as public trust institutions.

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, effective waste management and addressing educational events to employees.

Reduction of the carbon dioxide emission

Energy savings

Measures to decrease the use of electricity include modifications 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 less wood used 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 the Bank, EKO - ecological paper of a lower basis weight is used.

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 2014, the Bank gave 199 computers and monitors and 278 of pieces of furniture as in-kind donations to social and non-governmental organisations.

Earth Hour

In 2014, the Bank took part in the Polish edition of the global *Earth Hour* project organised by the WWF Poland Foundation. It was primarily an educational action aimed at pointing the attention of decision-makers, media and the public opinion to the issue of climate changes on the Earth resulting especially from continually progressing warming and wasteful treatment of natural resources. The action consisted in a voluntary switch-off of lighting in the Head Office buildings in Krakow and Warsaw on 29 March 2014. The Bank's participation in the action was an opportunity to provide employees with information on the project subject and objectives.

CSR sector policies

Under the Corporate Social Responsibility Policy, BNP Paribas Bank Polska SA follows principles of sustainable and responsible business by applying sector 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 applies 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.

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 11 March 2014, the Bank published the *Corporate Governance Report 2013* which constituted a part of the 2013 annual report, approved by the General Meeting of the Bank on 07 April 2014. All of the Bank's existing Corporate Governance Reports are published on the Bank's website.

This report:

- *was drawn up pursuant to Art. 91 item 5 section 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 (consolidated text: Journal of Laws of 2013, item 1030), and*
- includes all information stipulated under Art. 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 Art. 29 item 5 of the *Warsaw Stock Exchange Regulations.*

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

In 2014 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 2014, 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:* no audio or 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. The above is the consequence of the existing (until the share capital increase in May 2014) capital structure of the Bank (concentrated ownership) and no request put forward by the shareholders to implement such solutions. The Bank does not exclude the possibility of implementing such solutions in future, including broadcasting general meetings and active participation in meetings by electronic means if the number of participants increases or if shareholders make such a request.
- 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 included in part I of the *Best Practice*, on ensuring a balanced proportion of women and men in management and supervisory functions in companies, as at the end of 2014 the Bank's Board of Executives was made up of one woman and seven men, which remained unchanged as compared to the end of 2013. The Bank's Supervisory Board was composed of one woman and six men as compared to two women and seven men as at the end of 2013.

13.3. Implementation of *the Corporate Governance Principles for Supervised Institutions* issued by the Polish Financial Supervision Authority

On 22 July 2014, the Polish Financial Supervision Authority published the *Corporate Governance Principles for Supervised Institutions*, hereinafter "*KNF Corporate Governance Principles*" that are a set of rules outlining internal and external relations of supervised institutions, including relations with shareholders and customers, their organisation, operation of internal control, key systems and internal functions, as well as statutory bodies and rules of their collaboration. KNF expects supervised institution to adopt the KNF Corporate Governance Principles which should become the essential document shaping the strategic corporate policy and influencing the conduct of the supervised institutions. A supervised institution should strive to abide by the *Corporate Governance Principles* to the greatest extent, taking into account the principle of proportionality resulting from the scale, type of activity and specific nature of this institution. *The Corporate Governance Principles* also apply to supervised institutions that have the status of a public company.

The Bank's Board of Executives, as recommended by the KNF, implemented the guidelines set forth in the *KNF Corporate Governance Principles*, excluding:

- principles for which the decision to apply them exceeded the authority of the Bank's Board of Executives, including principles with respect to the supervision performed by the Bank's Supervisory Board, shareholders and Bank's General Meeting, and whose scope goes beyond the regulations set forth by generally applicable law and the Bank's Statute;
- principles pointed out in the *Statement of the Bank's Board of Executives* adopted by BoE Resolution no 110/2014 dated 18 December 2014 and disclosed on the Bank's website as the principles that are either not applied or only partially followed.

The Bank's Supervisory Board by Resolution no 44/2014 dated 22 December 2014 positively assessed the manner in which the principles were implemented by the Bank and approved the standpoint of the Bank's BoE with respect to refraining from adherence to specific principles (in full scope or partially) and to the planned manner of alignment.

The Supervisory Board agreed to follow the guidelines outlined in the *KNF Corporate Governance Principles* in respect of supervision organisation and its performance by the Supervisory Board.

The Supervisory Board approved the motion of the Bank's Board of Executives to file at the next General Meeting a motion to adopt a resolution on acknowledgement of the information on issuance of the *KNF Corporate Governance Principles* and their implementation by BNP Paribas Bank Polska SA as well as adoption of the *Principles* by the General Meeting in respect of shareholders and the Bank's General Meeting.

13.4. 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 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, Operational Risk and Fraud Prevention Line 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 Group:

- 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, reports are published and annual financial statements are presented to the General Meeting for approval.

13.5. 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.

On 07 April 2014, the Bank's Annual General Meeting of Shareholders was held, which adopted resolutions concerning the approval of separate and consolidated financial statements for 2013, the Board of Executives' Report on the business activity in 2013 and the Supervisory Board's Report for 2013, the approval of the discharge of duties of the Bank's authorities for 2013 and distribution of the 2013 profit. The Bank's net profit for the fiscal year 2013 which amounted to nearly PLN 86.3 million, was earmarked in full for the increase of the Bank's own capital funds in the following manner: the profit portion of nearly PLN 79.2 million was allocated to the general risk fund, PLN 7 million to the additional capital, and the remainder to the retained earnings.

The Annual General Meeting of the Bank has decided to increase the share capital by issuing the series "O" shares with pre-emptive rights of the existing shareholders excluded, and to amendment the Bank's Statute accordingly.

13.6. 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 2014 and the 2014 annual report publication date, i.e. 06 March 2015, the 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 indirectly through:	28,661,545	85.00%	1,302,953,835.70	28,661,545	85.00%
BNP Paribas Fortis SA/NV directly	*28,661,545*	*85.00%*	*1,302,953,835.70*	*28,661,545*	*85.00%*
Minority shareholders	5,057,920	15.00%	229,933,043.20	5,057,920	15.00%
Total:	**33,719,465**	**100.00%**	**1,532,886,878.90**	**33,719,465**	**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.*

Share capital of BNP Paribas Bank Polska SA

As at 31 December 2014 and as at the publication date of the annual report for 2014, i.e. 06 March 2015:

- the share capital of the Bank amounts to PLN 1,532,886,878.90 - registered and fully paid up;
- total number of shares: 33,719,465 ordinary bearer shares (series A to O), which entitle their holders to 33,719,465 votes at the Bank's general meeting of shareholders, all shares are dematerialised and quoted on the regulated market operated by the WSE.
- Nominal value of one share - PLN 45.46.

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.

13.7. 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.

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

13.8.1. As at 31 December 2014, the composition of the Board of Executives of BNP Paribas Bank Polska SA and its rules of activity were as follows:

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 2014, 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 2014, the Board of Executives of BNP Paribas Bank Polska SA held 26 meetings and adopted 112 resolutions. The Board of Executives met at least once a month.

13.8.2. As at 31 December 2014, the composition of the Supervisory Board of BNP Paribas Bank Polska SA and its rules of activity were as follows:

Composition of the Supervisory Board of BNP Paribas Bank Polska SA as at 31 December 2014 and changes in the composition of the Supervisory Board of BNP Paribas Bank Polska SA in 2014, 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 determines in particular: 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 2014, the Supervisory Board of BNP Paribas Bank Polska SA held 7 meetings and adopted 44 resolutions.

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

- Compensation Committee,
- Audit Committee,
- Nomination Committee,

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 13.8.3, 13.8.4 and 13.8.5).

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

As at 31 December 2014, the Audit Committee composition was as follows:

Filip Dierckx	Chairman
Jarosław Bauc	Committee Member, independent
Yvan De Cock	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.

In 2014 the Audit Committee held 4 meetings.

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

As at 31 December 2014, 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 *Regulations of the Compensation Committee at BNP Paribas Bank Polska SA* approved by the Supervisory Board in 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.

13.8.5. Composition and rules of activity of the Nomination Committee of BNP Paribas Bank Polska SA.

As at 31 December 2014, the Nomination Committee of BNP Paribas Bank Polska SA was composed of:

Jean-Paul Sabet	Chairman
Jarosław Bauc	Committee Member, independent

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

The Nomination 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 Nomination Committee may hold decision-making powers. As Mr Francois Benaroya stepped down from his position of the Supervisory Board's member, he also ceased to be the member of the Nomination Committee.

The Nomination Committee assigned to the Supervisory Board of BNP Paribas Bank Polska SA was appointed to meet the following purposes: to support the Supervisory Board in monitoring of the process of appointing members of the Board of Executives and Supervisory Board; to monitor observance of the *Policy of BNP Paribas Bank Polska SA pertaining to appointment and assessment of members of the board of executives and supervisory board and key function holders*; oversee the structure, size, composition, competences and effective operation of the Board of Executives and Supervisory Board, including representation of sexes (share of women and men) in these bodies.

The competences of the Nomination Committee are to:

- determine and recommend candidates to vacant positions at the Supervisory Board and Board of Executives, who require a subsequent approval by the Supervisory Board or general meeting,
- assess equilibrium in terms of knowledge, skills, diversity and experience of the Board of Executives and Supervisory Board and to prepare the description of necessary duties and skills with respect to a relevant appointment, likewise to assess projected commitment in terms of time that must be devoted;
- take a decision on target representation of the under-represented sex in a governing body and prepare a policy for increasing the presence of the under-represented sex in the Bank's bodies, to achieve the target value as prescribed by the relevant regulations;
- to assess periodically, at least once a year, the structure, size, composition and effectiveness of the Board of Executives and Supervisory Board and submit to the Supervisory Board any recommendations for the changes to be made;
- to assess periodically, at least every year, knowledge, skills and experience of respective members of the Board of Executives and Supervisory Board based on performance appraisal reports and of the Board of Executives and Supervisory Board as the whole body, and to provide the Supervisory Board with relevant reports on such assessment;
- to periodically review the *Policy of BNP Paribas Bank Polska SA pertaining to appointment and assessment of members of the board of executives, supervisory board and key function holders* with respect to selection and appointment of senior executive staff, and to submit recommendations to the Supervisory Board;
- to draw up an annual report on the Committee activities, factoring in assessment of processes and areas overseen by the Committee as well as measures taken and their effects. The report should be submitted to the Supervisory Board.

13.9. 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.

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 2014, 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 least 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 *Polic*y, excluding the obligatory assurances arising from specific law provisions.

Pursuant to the Policy, the Bank's Board of Executives appointed the Financial Risk and Compliance Committee. 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.

In 2014, *the Policy* was amended with the criteria for identifying executives and other individuals who have significant influence on the risk profile at BNP Paribas Bank Polska SA.

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 separate financial statements of BNP Paribas Bank Polska SA for 2014 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 and its net profit in all material aspects.
- The Board of Executives' report on the activity of BNP Paribas Bank Polska SA in 2014 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 Deloitte Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa based in Warsaw, an entity authorised to audit financial statements, was chosen, under Article 15, item 3, section 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. 41/2013 of 29 October 2013), pursuant to the provisions of law, as the entity to review the annual separate financial statements of BNP Paribas Bank Polska SA for 2014, and that the above entity and statutory auditors employed to perform the review, meet the conditions to issue an impartial and independent audit report, in accordance with the respective provisions of Polish law.

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

4 March 2015	Frédéric Amoudru President of the Board of Executives	.... signature
4 March 2015	Jan Bujak Senior Vice President of the Board of Executives Chief Financial Officer	.... signature
4 March 2015	Jaromir Pelczarski Vice President of the Board of Executives	.... signature
4 March 2015	Michel Thebault Vice President of the Board of Executives	.... signature
4 March 2015	Wojciech Kembłowski Member of the Board of Executives	.... signature
4 March 2015	Marta Oracz Member of the Board of Executives	.... signature
4 March 2015	Adam Parfiniewicz Member of the Board of Executives	.... signature
4 March 2015	Stephane Rodes Member of the Board of Executives	.... signature