MANAGEMENT'S BOARD REPORT ON THE ACTIVITIES OF BANK GOSPODARKI ŻYWNOŚCIOWEJ S.A. FOR THE END OF 2014

Warsaw, 2 March 2015

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1.1. MACROECONOMIC SITUATION

In the first half of 2014 Polish economy continued its improvement which had lasted since 2013 and had been based on domestic demand (i.e. investments in fixed assets and stock). However, in the second half of 2014 the growth became slower due to deterioration in foreign trade balance. As a result, GDP increased by 3.3% y/y in 2014 (the increase in the first half of 2014 amounted to 3.5% y/y), comparing to 1.7% y/y increase in 2013. In 2014, in comparison to previous year, all components of GDP, except for trade balance, improved (in particular gross expenditures on fixed assets and, to less extent, consumption in households sector). Deterioration in contribution of trade balance was a result of significant slowdown of export dynamics in the second half of 2014 (most probably due to continuing economic downturn of eastern trade partners, Russian embargo set on EU exporters of food, and difficult situation in euro zone), in conjunction with relatively lower slowdown of import dynamics (supported by domestic investments). High dynamics of domestic demand was stimulated by the good situation of domestic labour market (in particular by high real wage dynamics).

Chart 1. GDP growth (y/y)

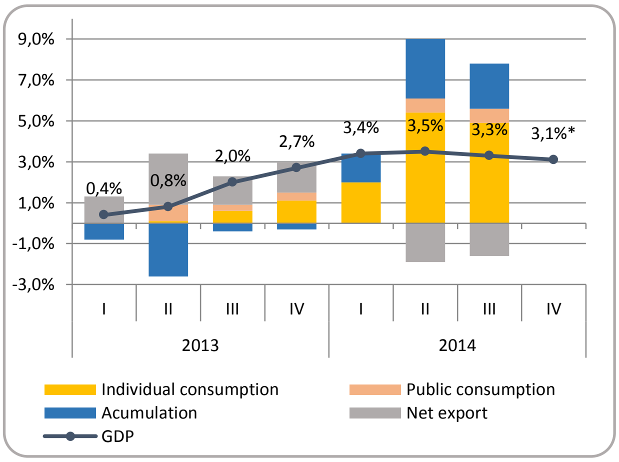
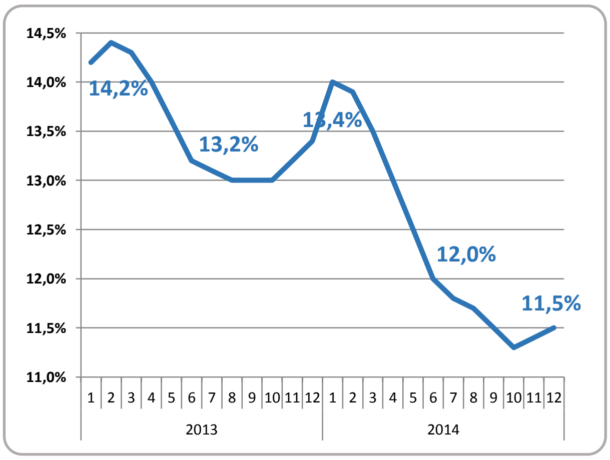


Chart 2. Registered unemployment rate



** BGŻ S.A. forecast*
Source: GUS, own estimations

In 2014, there was a further increase employment in the national economy reaching 1.0% y/y (compared to 0.0% in 2013), despite an increase of number of employers employed on so called junk contracts, i.e. not-included in official data on employment (as indicate the data on labour market activity). Moreover, there was a substantial increase of real wages, which in enterprise sector increased on average by 3.8% y/y (compared to 0.8% y/y in 2013). Decrease of registered unemployment rate to 11.5% as at the end of 2014 (compared to 13.4% as at the end of 2013) confirmed an improvement on the labour market (however, it is partially a result of very good weather at the end of the previous year, what supported employment, for example in the construction industry).

During 2014 the inflationary pressure steadily decreased, despite continued good economic situation. In the first half of the year, this trend was supported by decrease of prices of several agricultural commodities, for example due to imposed constraints on export of pork meat after few ASF cases were revealed. In the second half of the year, inflation decrease mainly resulted from Russian embargo on export of other food categories including fruits and vegetables, but also by substantial decrease of oil prices on the global markets. During 2014, despite supply factors, inflation decrease also resulted from slight decrease of GDP dynamics, resulting from, for example a Ukrainian crisis. As a result of the above mentioned factors the deflation was noted for the first time in the transformation period. Consumer prices dynamics decreased from 0.7% y/y as at the end of 2013 to minus 1.0% y/y as at the end of 2014. On average, during the whole year, CPI inflation amounted to 0.0%, i.e. average price level remained unchanged year to year.

Despite already visible risk of economic slowdown and further inflation decrease in second quarter of 2014, Monetary Policy Council kept interest rates unchanged until October, when they decided to cut reference interest rate by 50 bps to 2.00%. Higher reduction scale concerned the lombard rate which was cut by 100 bps to 3.00%, what was aimed to reduce costs of loans and loans on credit cards. Despite liberal approach of the Monetary Policy Council in the next months, they decided not to cut interest rate, due to high, over 3.00% y/y, economic growth and increase of financial markets' risk.

For the most of 2014, the volatility in the foreign exchange market was very low. Positive image of domestic economy discouraged international entities to play on PLN depreciation, despite growing international tensions. Moreover, keeping interventionist CHF/EUR exchange rate by Swiss Central Bank, decreased the volatility of CHF/PLN pair. For the most part of 2014 EUR/PLN exchange rate hovered around 4.20 and CHF/PLN around 3.45. Decrease of trust to Eurozone economies caused appreciation of USD against EUR and PLN in the second half of the year. At the end of 2014 cumulated strong international tensions (among others Ukrainian crisis) and low liquidity on domestic market resulted in strong depreciation of PLN and significant increase on volatility. Depreciation of PLN was particularly visible against dollar. At the end of 2014 USD/PLN exchange rate reached the peaks from 2012.

Chart 3. Inflation and interest rate

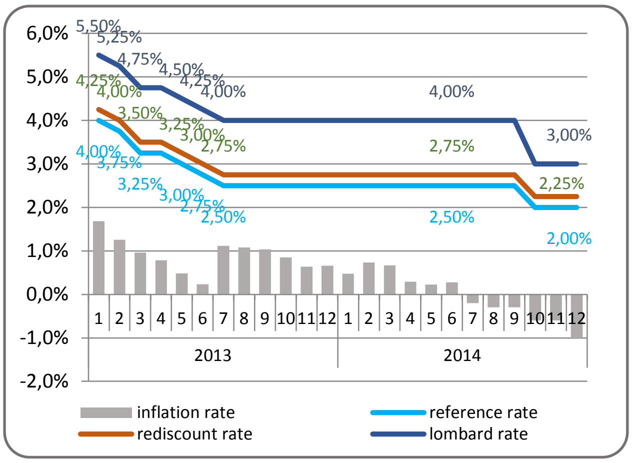
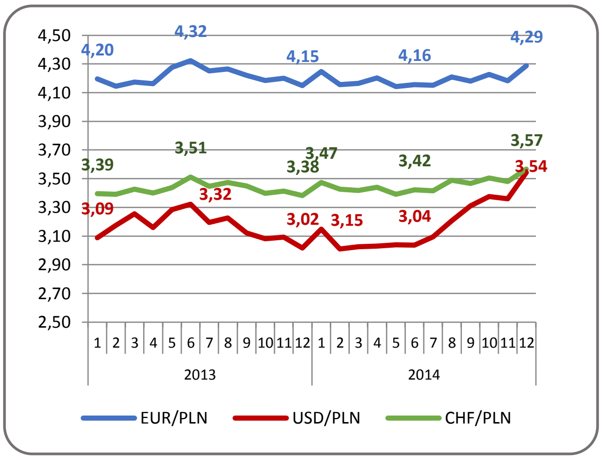


Chart 4. PLN FX Rate



Source: GUS and NBP

1.2. BANKING SECTOR RESULTS

According to the Polish Financial Supervision Authority preliminary data, in the 2014 the net financial result of the Polish banking sector increased by 7.0% y/y and reached the level of PLN 16.2 billion (compared to PLN 15.2 billion in 2013). The main growth factor of the net financial result of banking sector was an increase in result on banking activity (by 4.0% y/y). Relatively smaller, but significant impact on the result had also a reduction of total costs (by 0.9% y/y) which applied only for the bank operating costs and overhead costs (and occurred despite higher prudential fee paid by banks). The improvement of the banking sector would be even more impressive unless high (in terms of volume) deterioration in other operating result (decrease by 32.3% y/y) and small increase of impairments and other provisions (by 2.5% y/y), most probably related to assets quality review (AQR) conducted by the Polish Financial Supervision Authority.

The improvement in result on banking activity in 2014 was settled by a high increase in net interest income (7.2% y/y). It was connected with the improvement on consumer loans market, along with growth of lending activities for enterprises and increase of deposit margins on an annual basis. Positive, but relatively smaller impact on financial result had increase on dividend income (54.2% y/y) and minimal increase of net fee and commission income (0.7% y/y). The last one occurred despite the rapid reduction in interchange fee, which entered into force in the mid-2014. Moderate, but significant in term of volume decline in other elements of the net income from banking activity (minus 11.5% y/y) contributed negatively to the change in result on banking activity.

Table 1. Selected elements of banking sector's statement of profit and loss

PLN million	31.12.2014	31.12.2013	Change	
			PLN million	%
Net interest income	37 180	34 699	2 481	7.2%
Net fee and commission income	13 532	13 434	98	0.7%
Dividend income	1 170	759	411	54.2%
Other elements of the net income from banking	5 822	6 576	(754)	(11.5%)
Result on banking activity (total)	**57 704**	**55 468**	**2 236**	**4.0%**
Other operating result	1 047	1 547	(500)	(32.3%)
Employment expenses	(15 082)	(15 343)	261	(1.7%)
Overhead costs	(12 146)	(12 245)	99	(0.8%)
Amortization	(2 727)	(2 654)	(73)	2.8%
Expenses (total)	**(29 955)**	**(30 242)**	**287**	**(0.9%)**
Net impairment losses on assets and other provisions	(8 472)	(8 264)	(208)	2.5%
Extraordinary activities	(68)	224	(292)	(130.4%)
Profit (loss) before income tax	**20 256**	**18 733**	**1 523**	**8.1%**
Income tax and other mandatory expenses	(4 025)	(3 558)	(467)	13.1%
Net profit (loss for the period)	**16 231**	**15 175**	**1 056**	**7.0%**

Source: PFSA

In 2014 lending activity of the banking sector, measured with the rate of growth in deposit and credit volumes for non-banking clients, was significantly higher, but remained moderate. At the end of 2014 total loans increased by 7.1% y/y, compared to 3.6% y/y as at the end of 2013. Their nominal growth would be lower, unless the depreciation of PLN against base market currencies (EUR, CHF and USD). Acceleration was also noted in case of growth rate of deposits from non-financial clients (from 5.7% y/y as at the end of 2013 to 9.3% as at the end of 2014).

Debt under loans to private individuals increased by 5.5% y/y at the end of 2014. It was a result of a stable, but lower than expected trend in housing loans and increasing sales of consumer credits. Continued stable demand on housing loans is related to lowest in history interest rates and liberalization of part of supervisory regulations. Significant were in particular: at the beginning of 2014 extension to 30 years of maximal period taken for the calculation of creditworthiness and earlier liquidation fixed debt-to-income indicator. It has resulted in higher formal and factual availability of housing loans in PLN. Parallel, continued stable demand on housing loans was supported by: steady improvement on labour market, better situation on real-estate market (with sale of apartments on the primary market higher than during economic boom) and launch of "Mieszkanie dla Młodych" (Apartment for Young) program. It shall be noted that those factors generated significantly lower than expected demand impulse. On the other hand, availability and sale of housing loans could be slowed down by more strict requirements concerning own contribution (due to implementation of revised S-Recommendation) at the beginning of 2014 and slow increase of loan margins.

The currency structure of newly granted housing loans, according to The Polish Bank Association (ZBP), in 2013 was dominated by the housing loans in PLN. The sale of currency housing loans was marginal. Additionally, it was formally limited by implementation of last recommendation from revised S-recommendation, imposing new rule of granting the loans in salary currency. Debt dynamics of housing loans in foreign currencies – with gradual payments of loans from previous and despite significant depreciation of PLN – remained negative.

Additionally, there was a further improvement of consumer loans denominated in PLN due to an earlier liberalization of T Recommendation regarding granting cash loans and installment loans by the Polish Financial Supervision Authority. It was settled by persisting banks pressure on cash loan sales as high margin products and was reflected by high advertising activity and easing of lending policy in this segment. The latter was possible due to further improvement of consumer credit portfolio and prospects of advancement in economic and financial situation of households. Increased supply of consumer loans was accompanied by gradual increase in demand on the consumer loans caused among other by improved consumer sentiments. As a result loans granted to individuals regarding consumer loans increased by 4.5% y/y and reached the level slightly lower than peak level in 2010.

Table 2. Loan volume in banking sector

PLN billion, as at the end of the period	**31.12.2014**	**31.12.2013**	**31.12.2012**	**Change y/y**	
				2014 vs 2013	**2013 vs 2012**
Loans for the individual clients	**492.3**	**466.8**	**449.5**	**5.5%**	**3.8%**
- housing	353.7	334.2	319.8	5.8%	4.5%
- PLN loans	191.0	168.2	144.3	13.6%	16.6%
- currency loans	162.7	166.0	175.5	(2.0%)	(5.4%)
- consumer loans	138.6	132.6	129.7	4.5%	2.2%
Loans for corporate clients	**506.8**	**466.3**	**451.1**	**8.7%**	**3.4%**
- non-banking financial sector	51.5	39.9	32.1	29.1%	24.3%
- loans for business entities	376.0	347.9	339.4	8.1%	2.5%
Enterprises	278.2	259.0	257.0	7.4%	0,8%
Indiviudal entrepreneurs	62.8	57.4	53.5	9.4%	7,3%
Individual farmers	29.3	26.2	24.1	11.8%	8,7%
Non-proft insitutions	5.7	5.3	4.8	7.5%	10,4%
- loans for government sector	79.3	78.5	79.6	1.0%	(1.4%)
Loans for non-banking clients	**999.1**	**933.1**	**900.6**	**7.1%**	**3.6%**

Source: NBP, data for monetary financial institutions, excluding Central Bank and SKOK, only residents

In 2014 there was also an improvement in corporate lending. It was caused by the improvement of corporate clients' activity and their investment tendencies, which was accompanied by moderate easing of credit policy by the banks. As a result, in 2014 volume of overdrafts and investments loans increased significantly. This growth was accelerated by an extension of de minimis guarantee program for SME with investment loans. Significantly higher annual dynamics of corporate loans than in 2013 was a result of depreciation on PLN, in particular against USD. It should be mentioned that even after elimination of the impact of this factor growth dynamics of currency corporate loans was higher than dynamics of PLN loans for this group of clients in 2014.

The savings of individual clients remained the main source of increase in banks' deposits. Despite the lowest in history NBP interest rates, their growth rate significantly accelerated in 2014, possibly due to improvement in the labor market situation reflected in fast decrease in unemployment rate and high dynamics of gross real wages as well as lack of clear trend on Warsaw Stock Exchange. Increase in deposits from individual clients was caused by the increase in volume of term deposits. It was related to the appearance of attractive, special offers of classic term deposits and increasing popularity of high interest deposits linked with investment fund. It could be also a reflection of factual increase of willingness of individuals to save with parallel actual improvement of their economic and financial situation. Significant increase in volume of term deposits was accompanied by lower by half increase in volume of current deposits.

In 2014 moderately high deposit activity of enterprises was continued and noted despite mentioned before significant increase in company investments annualized as well as escalation of Ukrainian conflict and imposing a Russian embargo on selected agricultural products, what was reflected in decrease of export volume to Eastern Europe. Increase of enterprises' deposits could have been supported by an increase of income from sales on domestic market, reflected in at least moderate annual dynamics of real retail sales. This factor could also have contributed to significantly higher increase of deposits from individual entrepreneurs than in previous year.

Table 3. Deposit volume of the banking sector

PLN billion, as at the end of the period	31.12.2014	31.12.2013	31.12.2012	Change y/y	
				2014 vs 2013	2013 vs 2012
Deposits from individual clients	**549.4**	**498.8**	**471.0**	**10.1%**	**5.9%**
- current	260.6	242.9	205.6	7.3%	18.1%
- term	288.8	255.9	265.4	12.9%	(3.6%)
Deposits from corporate clients	**407.1**	**376.6**	**357.5**	**8.1%**	**5.3%**
- non-banking financial institutions	57.5	56.9	56.2	1.1%	1.2%
- deposits of business entities	288.0	263.1	239.6	9.5%	9.8%
Enterprises	226.7	208.0	189.8	9.0%	9,6%
Individual entrepreneurs	33.2	28.3	25.4	17.3%	11,4%
Individual farmers	9.9	9.4	7.8	5.3%	20,5%
Non-profit institutions	18.2	17.4	16.6	4.6%	4,8%
- deposits from budget sector	61.6	56.6	61.7	8.8%	(8.3%)
Deposits from non-banking clients	**956.5**	**875.4**	**828.5**	**9.3%**	**5.7%**

Source: NBP, data for monetary financial institutions, excluding Central Bank and SKOK, only residents.

1.3. STOCK EXCHANGE TRENDS AND INVESTMENT TRENDS

Year 2014 did not bring any significant changes in the main stock market index representing all companies listed on the Warsaw Stock Exchange (WSE), noting an increase of only 0.26%. Nevertheless, difference in tendencies between stock quotations of the largest companies, and small and medium enterprises (SME) was recorded and reflected in respective indices. WIG20, index of the largest companies, decreased during 2014 by 3.54%, while sWIG80, the index of small companies, decreased by 15.55% and only index which ended a year with an increase of 4.13% was mWIG40.

Impact on the performance of the WSE in the second half of 2014 had among others the two following factors: an increase in tension in Ukraine which increased an expected risk premium on investments in our region and still present risk of significant reduction in pension funds (OFE) demand for shares.

On the market of Polish treasury bonds 2014 brought a return of the bull market that dominated the entire 2012 and the first half of 2013. As a result, the yields on Polish 10-year bonds dropped from the level of 4.36% as at the end of 2013 to the level of 2.53% as at the end of 2014.

Table 4. Value of main Stock Exchange indices

Index	31.12.2014	31.12.2013	31.12.2012	change 2014 vs 2013	change 2013 vs 2012
WIG	51 416	51 284	47 461	0.3%	8.1%
WIG20	2 316	2 401	2 583	(3.5%)	(7.0%)
mWIG40	3 483	3 345	2 553	(4.1%)	31.0%
sWIG80	12 108	14 337	10 444	(15.5%)	37.3%

Source: stooq.pl

In the first half of 2014, 28 new companies joined the main floor of the WSE, including 10 whose quotations were transferred from NewConnect. The number of WSE-listed companies increased from 450 as at the end of 2013 to 471 as at the end of 2014. The organized NewConnect market had 22 new issuers in 2014 (compared to 42 IPOs in 2013).

Table 5. Number of companies, capitalization and turnover on the WSE

	31.12.2014	31.12.2013	31.12.2012	Change in 2014	Change in 2013
Number of companies	471	450	438	4.7%	2.7%
Capitalization of domestic companies (million PLN)	591 164	593 464	523 390	(0.4%)	13.4%
Shares turnover value (million PLN)	232 846	256 147	202 880	(9.1%)	26.3%
Futures turnover volume (thousand pcs.)	9 002	11 807	10 592	(23.8%)	11.5%

Source: WSE

At the end of 2014, the Catalyst bond market quoted a total of 526 bond issues with the value of issues exceeding PLN 544 billion.

2. IMPORTANT EVENTS IN BGŻ S.A. IN 2014

30.05.2014	The Ordinary General Meeting disclosed a resolution regarding merger with Rabobank Polska S.A., increase of share capital of BGŻ Bank and amendments to the Statute of BGŻ Bank.
18.06.2014	Registry Court for the Capital City of Warsaw, XII Commercial Division of the National Court Register registered the merger of Bank BGŻ with Rabobank Polska S.A. ("Rabobank Polska") (the "Merger") on 18 June 2014. The Merger was executed in compliance with Article 492 §1.1 of the Commercial Companies Code through the transfer of the entire estate (all assets and liabilities) of Rabobank Polska as the target company in favour of Bank BGŻ as the surviving entity (merger by acquisition) in exchange for the new series H shares in Bank BGŻ which will be allotted to the existing shareholder of Rabobank Polska.
25.08.2014	BNP Paribas SA announced a tender offer for the BGŻ Bank shares.
2.09.2014	Management Board adopted a resolution including a decision to start a procedure that will result in a merger of the Issuer and BNP Paribas Bank Polska S.A. according to article 492(1)(1) of the Code of Commercial Companies (merger by acquisition).
3.09.2014	General Meeting adopted a conditional resolution regarding nomination of four new member of Supervisory Board (Michel Vial, Jean-Paul Sabet, Jean Lemierre oraz Jarosław Bauc) as a replacement for four member who resigned from membership in Supervisory Board (Jan Alexander Pruijs, Evert Derks Drok, Tanja Cuppen oraz Jarosław Iwanicki).
9.09.2014	The management board announced statement regarding tender offer for BGZ Bank shares announced by BNP Paribas on 25 August 2014. Management Board disclosed the fairness opinion of external entity PwC Polska Sp. Z o.o.
10.09.2014	BGŻ and De Lage Landen International B.V. signed a sale agreement of shares of BGŻ Leasing Sp. z o.o. with headquarter in Warsaw. By agreement BGŻ disposed 42 373 of shares with total net nominal value of PLN 42 373 000 (nominal value of one share amounts to PLN 1 000) which accounted for 49% of share capital of BGŻ Leasing. The sale price amounted to PLN 35 005 thousand. The transfer of ownership of shares occurred on 11 September 2014 as a result of signing an agreement of termination of cooperation between BGŻ S.A., BGŻ Leasing and De Lage Landen International.
15.09.2014	In response to the tender offer for the sale of shares in the Bank, announced by BNP Paribas SA, Rabobank International Holding B.V. and Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. had placed today subscriptions covering 41,763,109 shares of the Bank, representing 74.39% of the share capital of the Bank This means that the condition precedent on the resignation of Jan Alexander Pruijs, Evert Derks Drok, Tanja Cuppen and Jarosław Iwanicki has been satisfied and that these persons ceased to be members of the Supervisory Board of the Bank.

23.09.2014	BNP Paribas SA Bank informed the Bank about embracing total amount 41 872 248 of shares representing 74.59% of funding capital and equal number of votes on the Bank's General Meeting.
26.09.2014	Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland) and Rabobank International Holding B.V announced disposal of 41 763 109 shares in favour of BNP Paribas S.A. As a result of transaction Rabobank International Holding B.V owned 13 613 875 (24.25%) of shares representing the same number of votes on the Bank's General Meeting.
10.10.2014	Management Board of BGŻ and the Management Board of BNPP Polska agreed and executed the merger plan of BGŻ and BNPP Polska which was prepared in compliance with Articles 498 and 499 of the Act of 15 September 2000 on Commercial Companies Code. 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 BNPP Polska (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, 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 6 shares of BNPP Polska, the shareholders of BNPP Polska will receive 5 Merger Shares.
26.10.2014	Management Board of Bank Gospodarki Żywnościowej hereby discloses the information obtained from the Polish Financial Supervision Authority (PFSA) on the results of the review and evaluation of the Asset Quality Review (AQR) in respect of loan portfolios selected for the review by PFSA. The AQR results are above the minimum thresholds envisioned by the European Banking Authority (EBA) in terms of Tier 1, CET1 and Capital Requirements. The results confirm that Bank BGŻ has stable financial condition and is resilient to adverse economic conditions.
27.10.2014	Notification by BNP Paribas S.A. about the purchase of 49 952 737 shares BGŻ constituting 88.98% shares and representing same number of votes. After the conclusion of the tender offer Rabobank International, and indirectly by this entity Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), own 5 613 875 dematerialized shares on bank bearer corresponding to 5 613 875 (9.99%) of shares and vesting the right of votes at the Bank's General Meeting.
3.12.2014	BNP PARIBAS and Rabobank International Holding B.V concluded the agreement, referred to in the Article 87 Section 1 Item 5 of the Public Offering Act (the "Agreement"), concerning the acquisition of the shares in Bank, by requiring all other shareholders of the Bank to sell all their shares in the Bank in accordance with the Article 82 of the Public Offering Act (the "Squeeze out").

3. AUTHORITIES OF THE BANK

3.1. CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD

The composition of the Supervisory Board in the period from 1 January to 30 September 2014 was as follows:

- Jan Alexander Pruijs – President of the Supervisory Board,
- Dariusz Filar – Vice-President of the Supervisory Board,
- Tanja Cuppen – Member of the Supervisory Board,
- Evert Derks Drok – Member of the Supervisory Board,
- Jarosław Iwanicki – Member of the Supervisory Board,
- Mariusz Warych – Member of the Supervisory Board.

The composition of the Supervisory Board in the period from 30 September to 31 December 2014 was as follows:

- Jean-Paul Sabet – President of the Supervisory Board,
- Jean Lemierre – Vice-President of the Supervisory Board,
- Jarosław Bauc – Member of the Supervisory Board,
- Dariusz Filar – Member of the Supervisory Board,
- Mariusz Warych – Member of the Supervisory Board,
- Michel Vial – Member of the Supervisory Board.

3.2. CHANGES IN MANAGEMENT BOARD

The composition of the Bank's Management Board in the period between 1 January and 31 December 2014 was as follows:

- Józef Wancer – President of the Management Board,
- Gerardus Cornelis Embrechts – First Vice-President of the Management Board,
- Monika Nachyła – Vice-President of the Management Board,
- Magdalena Legęć – Vice-President of the Management Board,
- Johannes Gerardus Beuming – Vice-President of the Management Board (resignation on 30 June 2014),
- Dariusz Odzioba – Vice-President of the Management Board,
- Witold Okarma – Vice-President of the Management Board,
- Wojciech Sass – Vice-President of the Management Board,
- Andrzej Sieradz –Vice-President of the Management Board.

4. EXTERNAL RATING OF THE BANK

4.1. RATINGS

The Bank was rated by the Moody's Investors Service rating agency.

On 28 October 2014 the Agency confirmed the rating for the long-term and short-term deposits of the Bank on the level of Baa3/Prime-3 due to transfer of Bank's ownership from Rabobank Nederland to BNP Paribas.

Simultaneously the Bank's Financial Strength Rating („BFSR") remained at the level „D" what is an equivalent of basic rating on the level of ba2, taking under consideration an expectation of the Agency that during the next 12-18 months financial result of the Bank will remain proportional to the actual level of rating. Perspective for all ratings remains stable.

4.2. AWARDS AND DISTINCTIONS

In 2014, the Bank received the following awards and honours:

January 2014	The President Józef Wancer received statuette "Wektor 2013" for outstanding long-term achievements in banking during the Polish transformation. Award, since 2002, is given by the Organization of Employers in Poland. It is received by eminent Poles, whose activities bring on exceptional benefits to polish economy.
February 2014	The National Chamber of Commerce and the Polish-American Foundation of Small Enterprise awarded BGŻ Bank with Golden Statue and the title of Business Friendly Bank with 7 Golden Stars. The Bank received the title for their commitment in supporting the development of small and medium enterprises, for establishing a team with broad expertise and for creating product offer which support fast business development.
February 2014	Banking Newspaper („Gazeta Bankowa") in cooperation with ESG prepared ranking of the most socially responsible bank. BGŻ Bank took first place in both, overall and social ranking.
April 2014	BGŻ Bank was awarded in prestigious Ranking of Responsible Companied published by Dziennik Gazeta Prawna
September 2014	BGŻ Bank was awarded first price in main category „Bank for Kowalski" in the ranking "Newsweek's friendly Bank" prepared by the redaction of Newsweek magazine in cooperation with Millward Brown.
December 2014	BGŻ Bank was awarded during 16th edition of Gala Bank friendly for entrepreneurs. BGŻ Bank was given an honor award with Promotional Emblem with seven Golden Stars in category universal bank. The award was granted for activity towards small and medium enterprises, wide availability of an offer and high quality of service for SME sector.

5. SHAREHOLDERS'S STRUCTURE OF THE BANK

Between 1 January and 31 December changes in shareholders structure occurred due to:

- merger of BGŻ Bank with Rabobank Polska by an emission of H-series merger shares in amount of 5 002 000 on 18 June 2014,
- BNP Paribas' tender offer for Bank shares.

Table 6. Shareholders' structure of the Bank.

Shareholder	31.12.2014		31.12.2013	
	Number of shares	Share (%)	Number of shares	Share (%)
BNP Paribas SA	49 952 737	88.98	-	-
Rabobank International Holding B.V.*	5 613 875	9.99	45 942 004	89.84
Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A.*	-	-	4 303 695	8.42
Other shareholders	572 152	1.03	891 065	1.74
Total	**56 138 764**	**100.00**	**51 136 764**	**100.00**

*Rabobank Group

6. FINANCIAL POSITION OF BGŻ S.A.

On 18 June 2014 merger of BGŻ Bank with Rabobank Polska S.A. was executed through the transfer of the entire entity of Rabobank Polska S.A. The book value of assets of Rabobank Polska S.A. on the merger date amounted to PLN 3 328 619 thousand as at 30 June 2014, which represents almost 9% of total assets of the combined Bank.

Further as at 18 June 2014 transferred loans in amount of PLN 2 097 157 thousand, and deposits in amount of PLN 339 034 thousand accounted to 7% and 1% of respectively loans and deposits of combined Bank as at 30 June 2014.

Financial result of Rabobank Polska S.A. was recognized in the separate financial statements of the Bank prospectively i.e. starting from 18 June 2014.

Since the day of the merger both institutions operate as one bank with name and logo BGŻ Bank. Operations of Rabobank Polska are continued in the structures of BGŻ Bank in selected Global Corporate Clients and Products division.

Comparable data of the Bank for previous periods were not restated and analysis in further part of section is conducted on basis of reported numbers.

6.1. STATEMENT OF PROFIT AND LOSS

In 2014, the Bank generated net profit of PLN 137 730 thousand i.e. PLN 24 673 thousand lower than in 2013 (15.2%). Main factors impacting the net result were single one-offs. In IV quarter 2014 the Bank created higher allowances for impairment of assets, mostly due to review of loan portfolio by BNP Paribas Group, review of assets quality of (AQR) by the PFSA and creating of additional provisions for potential impact of Russian embargo. Additionally, integration costs related to the upcoming merger resulted in higher administrative costs. Above mentioned negative factors were partially off-set by higher net interest income as well as net fee and commission income.

Table 7. Statement of profit and loss

PLN thousand	**31.12.2014**	**31.12.2013**	**Change y/y**	
			PLN thousand	**%**
Net interest income	1 120 337	1 006 053	114 284	11.4%
Net fee and commission income	310 499	287 930	22 569	7.8%
Dividend income	3 303	2 848	455	16.0%
Net trading income	63 723	80 424	(16 701)	(20.8%)
Result on investing activities	24 465	31 902	(7 437)	(23.3%)
Result on hedge accounting	(156)	(1 077)	921	(85.5%)
Other operating income	36 402	49 613	(13 211)	(26.6%)
Net impairment losses on financial assets and contingent liabilities	(318 503)	(252 246)	(66 257)	26.3%
General administrative expenses	(930 209)	(880 647)	(49 562)	5.6%
Depreciation and amortization	(100 995)	(99 217)	(1 778)	1.8%
Other operating expenses	(29 490)	(21 146)	(8 344)	39.5%
Operating results	**179 376**	**204 437**	**(25 061)**	**(12.3%)**
Profit before income tax	**179 376**	**204 437**	**(25 061)**	**(12.3%)**
Income tax	(41 646)	(42 034)	388	(0.9%)
Net profit	**137 730**	**162 403**	**(24 673)**	**(15.2%)**

If impact of mentioned above one-off events and integration costs were eliminated, net profit would amount to PLN 237 400 thousand and would be by 46% higher than in 2013.

Net interest income

In 2014, net interest income, being the main source of income, increased by PLN 114 284 thousand, i.e. 11.4%, what was an effect of reducing interest expenses by PLN 218 924 thousand, i.e. 24.4% y/y, off-setting decrease of interest income of PLN 104 640 thousand, i.e. 5.5% y/y. Both external factors and growth rate of commercial volumes had impact on the level of interest income and expense.

Among the external factors should be mentioned policy of the Polish National Bank regarding shaping of basic interest rates. In 2013, occurred six interest rates cuts of total value of 1.75 p.p. Another cut in October 2014 pushed the interest rates to the record low level (reference rate was set at 2%).

Interest income from loans and advances to customers is the biggest position in the structure of interest income (67%). However, their value decreased by PLN 28 190 thousand (2.3%) in comparison to 2013, mostly due to interest rate cuts combined with the fact that significant part of loan volume is based on the variable rate.

Growth dynamics of loan volume (gross) amounted to 12.9% y/y.

In case of preferential loans with Agency for Restructuring and Modernization of Agriculture subsidies the NBP interest rates reduction effect on decrease of interest income was further impacted by a multiplier effect (the interest rate is determined as the product of NBP rediscount rate and a multiplier of 1.5 or 1.6). The total value of the portfolio amounted to PLN 4.71 billion as at 31 December 2014 In order to hedge volatility of interest rate flows of above mentioned loans and reduce the multiplier effect, the Bank had been using hedge accounting till April 2014, which covered substantial part of preferential loans portfolio.

What is more, in the group of interest income was noted a significant decrease of PLN 84 591 thousand (27.7%) interest income from debt securities.

Table 8. Net interest income

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Loans and advances to banks	28 790	32 290	(3 500)	(10.8%)
Loans and advances to customers in current accounts	285 181	275 191	9 990	3.6%
Loans and advances to customers	1 196 952	1 225 142	(28 190)	(2.3%)
Hedging instruments	9 024	24 424	(15 400)	(63.1%)
Reverse repo securities	55 797	38 746	17 051	44.0%
Debt securities	221 248	305 839	(84 591)	(27.7%)
Interest income	**1 796 992**	**1 901 632**	**(104 640)**	**(5.5%)**
Amounts due to banks	(59 251)	(66 144)	6 893	(10.4%)
Debt securities issued	(32 269)	(79 598)	47 329	(59.5%)
Amounts due to customers	(529 140)	(676 383)	147 243	(21.8%)
Repo securities	(55 995)	(73 454)	17 459	(23.8%)
Interest expense	**(676 655)**	**(895 579)**	**218 924**	**(24.4%)**
Net interest income	**1 120 337**	**1 006 053**	**114 284**	**11.4%**

The decrease in interest expense was caused mainly by the reduction of interest expense on amounts due to customers by PLN 147 243 thousand (i.e. 21.8% y/y), mainly due to cuts in interest rates on deposits following NBP reference rate cuts. Price adjustments of deposits to the low interest rate level, which started in the second half of 2013, had positive impact on net interest result in 2014.

Net fee and commissions income

Net fee and commission income in 2014 was higher by PLN 22 569 thousand, i.e. 7.8% y/y in comparison to 2013. This was mainly due to the increase in fee and commission income by PLN 23 532 thousand (i.e.7.1% y/y) and simultaneous increase in fee and commission expense by PLN 963 thousand (i.e. 2.1% y/y).

Increase in the net fee and commission income was a result of higher income on:

- account maintenance – thanks to the increase in the number of accounts and the effect of changes to the Fees and Commissions Table,
- loans and advances - primarily in small business and retail loans,
- brokerage operation – due to focusing on retail services and selected institutional clients, constant increase of distributed investment funds, higher activity on primary market and service of tender offer for BGŻ shares, the Bank recorded good results of the Brokerage Office, which resulted in 57.9% increase of fees and commissions from brokerage operations.

Interchange fee cut since 1 July 2014 and lower income from card organizations due to transactional bonuses resulted in decrease of PLN 2 114 thousand (i.e. 2.6%) of net fee and commission income from payment cards in comparison to 2013.

Table 9. Net fee and commission income

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Fee and commission income				
– loans and advances	103 939	95 877	8 062	8.4%
– settlements	16 921	17 563	(642)	(3.7%)
– account maintenance	105 790	91 803	13 987	15.2%
– guarantee commitments	7 914	10 557	(2 643)	(25.0%)
– brokerage operations	23 383	14 810	8 573	57.9%
– payment cards	79 993	82 107	(2 114)	(2.6%)
– insurance activity	11 600	15 101	(3 501)	(23.2%)
– other	7 704	5 894	1 810	30.7%
Fee and commission income	**357 244**	**333 712**	**23 532**	**7.1%**
Fee and commission expense				
– loans and advances	(4 383)	(735)	(3 648)	496.3%
– payment cards	(33 944)	(33 300)	(644)	1.9%
– insurance activity	(269)	(2 160)	1 891	(87.5%)
– other	(8 149)	(9 587)	1 438	(15.0%)
Fee and commission expense	**(46 745)**	**(45 782)**	**(963)**	**2.1%**
Net fee and commission income	**310 499**	**287 930**	**22 569**	**7.8%**

The increase of fee and commission expense was mainly caused higher costs of loans and advances, partially off-set by lower insurance activity costs.

Dividend income

Dividend income in 2014 increased by PLN 455 thousand, i.e. 16.0%. Dividends originated from the redistribution of profits for 2013 of companies in which the Bank has minority interests i.e. National Clearing House S.A. (KIR) and Credit Information Bureau S.A. (BIK), which were accepted by their General Meetings.

Net trading income and results from investment activities

Net trading income in 2014, was lower by PLN 16 701 (i.e. 20.8%) thousand than in 2013. The level and volatility of this result is shaped mainly by the valuation of the Bank's position in the instruments of interest rate swaps (IRS) as a hedge against interest rate risk, and trading activity on debt securities whose profitability is dependent on the accuracy of predicted changes on the market.

The most significant impact on the net trading income had the negative valuation of derivatives in the 1st, 2nd and 4rt quarter of 2014, which was partially off-set by positive result generated in the period from August to September.

Result on investing activities in 2014 fell by PLN 7 437 thousand (i.e. 23.3% y/y) compared to 2013. The main component of the result of investment activity remained realized gains on the portfolio of securities available for sale, even though it was lower by PLN 14 671 thousand than in 2013. The decrease was partially off-set by low allowances for impairment on investments in subsidiary (PLN 47 thousand compared to PLN 7 321 thousand as at the end of 2013 created due to financial net loss of BGŻ Leasing Sp. z o.o.).

Other operating income

Other operating income decreased by PLN 13 211 thousand (i.e. 26.6%) as at the end of 2014 compared to the analogical period of the previous year, mostly due to decreased income from recovery of overdue, amortized and uncollectable debts, and repayment of debts excluded from statement of financial position, in which in 3Q 2013 the Bank recognized a substantial income from payment of receivable from a corporate client from agricultural sector, which was earlier written off from the Bank's balance sheet.

Moreover, in 4Q 2013, the Bank partially (PLN 7 788 thousand) released provision for penalty imposed on the Bank by the President of the Office of Competition and Consumer Protection in 2006 regarding fees from credit cards – due to decision of court about decrease of penalty.

Table 10. Other operating income

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Sale and liquidation of fixed and intangible assets	3 060	-	3 060	-
Gain on sale of goods and services	8 163	9 076	(913)	(10.1%)
Release of provisions for litigation and claims as well as other liabilities	5 669	9 251	(3 582)	(38.7%)
Recovery of debt collection costs	2 624	2 114	510	24.1%
Recovery of overdue, amortized and uncollectable debts, and repayment of debts excluded from statement of financial position	5 502	17 531	(12 029)	(68.6%)
Other	11 384	11 641	(257)	(2.2%)
Total other operating income	**36 402**	**49 613**	**(13 211)**	**(26.6%)**

Net impairment losses on financial assets and contingent liabilities

Net impairment losses on financial assets and provisions for contingent liabilities increased by PLN 66 257 thousand (i.e. 26.3%) in 2014 compared to 2013, what was mainly a result of:

- review of loan portfolio by BNP Group and more conservative approach to individually significant exposures;
- asset quality review regarding selected loan portfolios by the PFSA (AQR);
- detailed review of individually significant exposures portfolio and of collective methodology in a response to PSFA recommendation after AQR;
- review of annual backtests and analysis of PD, LIP, LGD parameters;
- creating additional provision for potential impact of Russian embargo.

Modification of methodology and model parameters of calculating write-offs in 2013

In November 2013, the Bank made methodology review and in consequence another modification of the model parameters of calculating write-offs took place. The purpose was to reduce the historical observation period for the calculation of the parameter PD (probability of default) for corporate customers subject to the provisions of the Accounting Act, for the period of 5.5 years to 2 years, to modify the parameters of the CCF (Credit Conversion Factor) for off-balance sheet exposures and to extend the LIP (loss Identification Period) from 6 months to 9 months for selected portfolios defined under the impairment of financial assets. The combined effect of these changes was additional PLN 22.6 million write-offs.

Modification of model parameters of calculating write-offs in 2014

In December 2014, the Bank reviewed methodology of calculating write-offs and as a result introduced modifications of model parameters. Modifications included: (i) shortening of historical observation period used to calculate PD parameter (probability of default) for clients with cash loans from period between two years and one year; (ii) extension of LIP (Loss Identification Period) up to 12 months for farmers and to 7 months for clients with integrated accounting; and increase of conservatism regarding estimation of recovery parameter for clients with integrated accounting. Total effect of these changes resulted in creation of additional write-offs in amount of PLN 30.7 million.

General administrative expenses, staff costs and depreciation/amortization

General administrative expenses, staff costs and depreciation/amortization increased by PLN 51 340 thousand (i.e. 5.2%) compared to 2013, primarily due to increase in personnel expenses, external services, the Bank Guarantee Fund fee (new prudential fee), combined with lower marketing costs.

The increase in personnel expenses by PLN 46 965 thousand, i.e., 9.9%, was mainly due to increase in wages and salaries by PLN 58 213 as a result of:

- higher bonuses and awards by PLN 24 503 thousand than in 2013, due to agreements of Bank's motivational system,
- raise of salaries (for best employees) launched since 1 July 2014 and increase of salaries in Bank since 1 July 2013,
- acquisition on Rabobank Polska employees due to merger since 18 June 2014.

Simultaneously, in 2014 provisions for costs of severance pays due to employment restructuration were released in amount of PLN 1 886 thousand, compared to PLN 7 746 thousand in 2013.

Costs' restructuring included also material costs, where optimization of use of selected resources and renegotiation of several contracts with suppliers was executed, what resulted in savings in external service costs (decrease of PLN 6 593 thousand y/y, excluding merger costs) and IT costs (decrease of PLN 3 181 thousand). In 2014 consulting and external law firm costs due to merger amounted to PLN 24 260 thousand.

Other material costs increased by PLN 1 333 thousand (i.e. 3.0%), primarily due to higher costs of services relating to banking cards (increase of PLN 2 491 thousand), what was a result of: replacement of debit cards with PayPass functionality (contactless card is more expensive by approximately 30% than ordinary card), bearing the yearly authorization costs for Mastercard authorization, which replaced BGŻ's authorization system in mid-2013, and queries to credit databases (increase of PLN 1 532 thousand). Decrease of PLN 2 399 thousand occurred in positions regarding cash processing and cash transport (reduction of processing costs).

The increase in fees for the Bank Guarantee Fund of PLN 8 299 thousand was caused by new prudential charge introduced in November 2013. Total in 2014, the Bank has booked provision for the fee in amount of PLN 10 215 thousand (compared to PLN 2 437 thousand in 2013).

Marketing costs decreased by PLN 17 619 thousand, i.e. 27.0% due to limited number of advertising campaign - especially on retail, compared to 2013.

Table 11. General administrative expenses, staff costs and depreciation/amortization

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Personnel expenses in this	(522 094)	(475 129)	(46 965)	9.9%
Wages ans salaries	(434 179)	(379 323)	(54 856)	14.5%
Salary overhead	(61 819)	(56 482)	(5 337)	9.4%
Social benefits and other fringe benefits	(4 515)	(5 446)	931	(17.1%)
Cost of provision for restructuring	1 886	(7 746)	9 632	(124.3%)
Cost of provision for future liabilities due to unused holiday and retirement severance pays	(4 852)	(8 271)	3 419	(41.3%)
Write-off for ZFŚS	(6 291)	(6 072)	(219)	3.6%
Other	(12 324)	(11 789)	(535)	4.5%
Marketing	(47 558)	(65 177)	17 619	(27.0%)
IT	(81 811)	(84 992)	3 181	(3.7%)
Rent	(90 430)	(94 054)	3 624	(3.9%)
Other material costs	(45 297)	(43 964)	(1 333)	3.0%
External services	(101 462)	(83 795)	(17 667)	21.1%
Bank Guarantee Fund fee	(37 731)	(29 432)	(8 299)	28.2%
Polish Financial Supervision Authority fee	(3 826)	(4 104)	278	(6.8%)
Total general administrative expenses	**(930 209)**	**(880 647)**	**(49 562)**	**5.6%**
Fixed assets	(51 230)	(51 715)	485	(0.9%)
Intangible assets	(49 765)	(47 502)	(2 263)	4.8%
Depreciation and amortization	**(100 995)**	**(99 217)**	**(1 778)**	**1.8%**
Total[1]	**(1 031 204)**	**(979 864)**	**(51 340)**	**5.2%**

[1] *for measurement of ratio costs/ income*

Depreciation and amortization for 2014 increased by PLN 1 778 thousand, i.e. 1.8%, compared to 2013. It was due to increase in amortization of intangible assets (as a result of investment in IT systems) and computer devices in conjunction with decrease in depreciation of property, plant and equipment.

Other operating expenses

In 2014, other operating expenses increased by PLN 8 344 thousand (i.e. 39.5%) in comparison to 2013, primarily due to higher debt collection costs by PLN 3 193 thousand (i.e. 42.3%) being a result of increased engagement of external law firms in servicing debt collection process and higher by PLN 1 626 thousand costs of impairment charges on other receivables.

Table 12. Other operating expenses

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Loss on sale or liquidation of property, plant and equipment, intangible assets	(3 368)	(2 083)	(1 285)	61.7%
Impairment charges on other receivables	(4 177)	(2 551)	(1 626)	63.7%
Provisions for litigation and claims, and other liabilities	(2 866)	(2 658)	(208)	7.8%
Debt collection	(10 749)	(7 556)	(3 193)	42.3%
Donations made	(3 105)	(3 200)	95	(3.0%)
Other	(5 225)	(3 098)	(2 127)	68.7%
Total other operating expenses	**(29 490)**	**(21 146)**	**(8 344)**	**39.5%**

6.2. STATEMENT OF OTHER COMPREHENSIVE INCOME

In 2014, total comprehensive income of the Bank in 2014 increased by PLN 263 115 thousand, compared to 2013. This was mainly due to positive revaluation of financial assets available for sale (i.e. portfolio of long-term treasury bonds), while in 2013 those securities had negative valuation. The negative valuation of the available for sale financial assets in 2013 was a result of changes in market expectations referring to long-term interest rates (increase of interest rates for longer maturities).

Table 13. Statement of other comprehensive income

PLN thousand	**31.12.2014**	**31.12.2013**	**Change y/y**	
			PLN thousand	**%**
Net profit (loss) for the period	**137 730**	**162 403**	**(24 673)**	**(15,2%)**
Other comprehensive income				
Items that will be subsequently reclassified to profit or loss under certain conditions	***167 795***	***(123 888)***	***291 683***	***(235.4%)***
Net change in valuation of financial assets available for sale	215 554	(139 491)	355 045	(254.5%)
Net change in valuation of cash flow hedges	(8 400)	(13 457)	5 057	(37.6%)
Income tax expense on other comprehensive income	(39 359)	29 060	(68 419)	(235.4%)
Items that will not be reclassified to profit or loss	***(3 895)***	**-**	***(3 895)***	**-**
Actuarial valuation of employee benefits	(4 808)	-	(4 808)	-
Deferred tax	913	-	913	-
Other comprehensive income (net of tax)	**163 900**	**(123 888)**	**287 788**	**(232.3%)**
Total comprehensive income for the period	**301 630**	**38 515**	**263 115**	**683.1%**

In the analyzed period, also negative effects of valuation of derivatives instruments securing future cash flows were demonstrated, what occurred in connection to applied hedge accounting, since the second quarter of 2012. In particular, the Bank entered into IRS float-to-fix transaction for the period until April 2014, in order to hedge interest rate risk regarding future interest cash-flows from preferential loans granted with interest rates based on the NBP rediscount rate (with multiplier of 1.5 and 1.6). After termination of the above mentioned agreement in April 2014 hedging was no longer continued and the Bank ceased to apply hedge accounting in April 2014.

6.3. STATEMENT OF FINANCIAL POSITION

Assets

As at the end of 2014 the total value of the Bank's assets amounted to PLN 40 484 204 thousand and was by PLN 4 720 712 thousand, i.e. by 13.2% higher than at the end of 2013.

Asset structure was dominated by loans and advances to customers which share decreased by 0.4 p.p. compared to 31 December 2013. In terms of volume it increased by PLN 3 327 163 thousand, i.e. 12.6% and was the main factor of assets increase. Increased loan activity was a result of, among others, acquisition of Rabobank loans portfolio amounting to PLN 1.9 billion in 18 June 2014 (PLN 1.2 billion as at 31 December 2014).

Additionally financial assets available for sale increased by PLN 2 257 944 thousand, i.e. 46.8% due to increase of PLN 1 849 916 thousand of NBP bills and treasury bonds (of PLN 418 176 thousand).

Table 14. Assets

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Cash and balances with the Central Bank	1 790 160	1 617 713	172 447	10.7%
Loans and advances to banks	404 724	269 757	134 967	50.0%
Reverse repo transactions	100 668	309 255	(208 587)	(67.4%)
Debt securities held for trading	199 404	1 018 701	(819 297)	(80.4%)
Derivative financial instruments	420 152	363 260	56 892	15.7%
Hedging instruments	-	57 387	(57 387)	(100.0%)
Loans and advances to customers	29 657 523	26 330 360	3 327 163	12.6%
Available for sale financial assets	7 084 017	4 826 073	2 257 944	46.8%
Investment properties	-	-	-	-
Investments in associates	16 732	51 645	(34 913)	(67.6%)
Intangible assets	165 307	158 589	6 718	4.2%
Property, plant and equipment	411 063	449 139	(38 076)	(8.5%)
Deferred tax assets	173 828	142 792	31 036	21.7%
Current tax assets	-	12 519	(12 519)	(100.0%)
Other assets	60 626	156 302	(95 676)	(61.2%)
TOTAL ASSETS	**40 484 204**	**35 763 492**	**4 720 712**	**13.2%**

Cash remained at similar level, but balances with Central Bank fluctuated and was followed by the current needs of the Bank to settle the obligatory reserve requirements. Declared obligatory reserve in December 2014 amounted to PLN 1 086 490 thousand (compared to PLN 896 724 thousand in December 2013).

As at 31 December 2014 investment in associates includes only shares in Bankowy Fundusz Nieruchomościowy Actus Sp. z o.o. On 10 September 2014 BGŻ and De Lage Landen International B.V. signed a sale agreement of shares of BGŻ Leasing Sp. z o.o. with headquarter in Warsaw. By agreement BGŻ disposed 42 373 shares of total net nominal value of PLN 42 373 000 (nominal value of one share amounts to PLN 1 000) which accounted for 49% of share capital of BGŻ Leasing. The sale price amounted to PLN 35 005 thousand. The transfer of ownership of shares occurred on 11 September 2014 as a result of termination of cooperation agreement between BGŻ S.A., BGŻ Leasing and De Lage Landen International

Liabilities and equity

As at the end of 2014 total value of Bank's liabilities amounted to PLN 36 332 329 thousand and was by PLN 4 073 899 thousand (i.e. 12.6%) higher than at the end of 2013.

Main increase factor were amounts due to customers. Increase was mainly a result of:

- increase of liabilities due to other financial entities by PLN 3 175 167 thousand, primarily due to acquisition of Rabobank's liabilities under the agreement signed by Societe Anonyme De Gestion D'Investissements Et De Participations ("Sagip"), BNP Paribas SA and Rabobank on 19 September 2014. As at 31 December 2014 state of the loan capital amounted to PLN 2 286 332 thousand. The transaction also impacted liabilities due to banks (detailed information described in note 30 of the separate financial statements of the Bank),
- increase of amounts due to corporate clients and budget entities by total PLN 974 565 thousand (i.e. 10.7%). In analyzed period amounts due to farmers decreased in the volume of current accounts by PLN 158 578 thousand, what was partially off-set by increase of volume of term deposits (increase of 101.2%),
- increase of amounts due to retail customers by PLN 2 162 246 thousand (i.e. 13.2%), resulting mainly from increase of volume of term deposits by PLN 2 603 559 thousand, what increased their share by 10 p.p. in liabilities of this segment. Volume of deposits collected by BGŻOptima increased by 22% in this period.

Table 15. Total Liabilities and Equity

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Amounts due to other banks	1 546 739	3 271 414	(1 724 675)	(52.7%)
Repo transactions	45 364	-	45 364	-
Financial liabilities held for trading	-	271 288	(271 288)	(100.0%)
Derivative financial instruments	448 908	336 950	111 958	33.2%
Amounts due to customers	32 804 752	26 492 774	6 311 978	23.8%
Debt securities issued	762 142	1 191 157	(429 015)	(36.0%)
Subordinated liabilities	320 951	304 817	16 134	5.3%
Other liabilities	325 722	326 015	(293)	(0.1%)
Current tax liabilities	9 639	-	9 639	-
Provisions	68 112	64 015	4 097	6.4%
TOTAL LIABILITIES	**36 332 329**	**32 258 430**	**4 073 899**	**12.6%**
Share capital	56 139	51 137	5 002	9.8%
Other supplementary capital	3 430 785	3 085 059	345 726	11.2%
Other reserve capital	527 221	206 463	320 758	155.4%
Retained earnings	137 730	162 403	(24 673)	(15.2%)
- net profit from previous years	-	-	-	-
- net profit for the period	137 730	162 403	(24 673)	(15.2%)
TOTAL EQUITY	**4 151 875**	**3 505 062**	**646 813**	**18.5%**
TOTAL LIABILITIES AND EQUITY	**40 484 204**	**35 763 492**	**4 720 712**	**13.2%**

Liabilities from debt securities issuance have been reduced by PLN 429 015 thousand (i.e. 36.0%) as a result of non-renewal of expiring portion of securities in a situation of Bank's reduced demand for funding. As at 31 December 2014 state of issuance of deposit certificates amounted to PLN 755 000 thousand (nominal value) compared to 1 184 000 (nominal value) as at 31 December 2013.

By the end of 2014 Bank's equity amounted to PLN 4 151 875 thousand and was by PLN 646 813 thousand higher than at the end of 2013. The change in equity during the period was the result of merger with Rabobank Polska. There was an increase of other supplementary capital by PLN 345 726 thousand (i.e. 11.2%) and other reserve capital by PLN 320 758 thousand (i.e. 155.4%), which covered lower financial result generated in 2014, compared to 2013 (decrease by PLN 24 673 thousand).

6.4. LOAN PORTFOLIO QUALITY

As at 31 December 2014 the share of loans with identified impairment, in the portfolio of loans and advances granted to customers amounted to 8.0% in comparison to 8.1% as at 31 December 2013.

Table 16. Credit portfolio quality ratios

PLN thousand	**31.12.2014**	**31.12.2013**	**Change y/y**	
			PLN thousand	**%**
Loans and advances to customers (gross)	31 099 045	27 549 925	3 549 120	12.9%
Impairment allowances (negative value)	(1 441 522)	(1 219 565)	(221 957)	18.2%
Loans and advances to customers (net)	**29 657 523**	**26 330 360**	**3 327 163**	**12.6%**
Losses incurred but not reported (IBNR)				
Gross exposure	28 609 345	25 313 766	3 295 579	13.0%
Impairment allowances on receivables assessed collectively with no impairment identified (IBNR provision)	(151 524)	(100 217)	(51 307)	51.2%
Net exposure	**28 457 821**	**25 213 549**	**3 244 272**	**12.9%**
Impaired exposures*				
Gross exposure	2 489 700	2 236 159	253 541	11.3%
Impairment allowances on receivables assessed collectively and individually	(1 289 998)	(1 119 348)	(170 650)	15.2%
Net exposure	**1 199 702**	**1 116 811**	**82 891**	**7.4%**
Ratios:				
Share of exposures with identified impairment in loan portfolio, gross	**8.0%**	**8.1%**	**-**	**(0.1 p.p.)**
Impairment coverage	**(51.8%)**	**(50.1%)**	**-**	**(1.7 p.p.)**

*including exposures with identified impairment trigger, but not impaired

Comment regarding credit portfolio quality is presented in sub-section Structure and quality of credit portfolio (Section. 8.1 Credit risk).

6.5. CAPITAL ADEQUACY RATIO

The capital adequacy ratio increased from 13.22% at the end of 2013 to 13.78% at the end of the 2014.

Own funds increased by PLN 371 103 thousand, which was the result of the merger with Rabobank Polska and in particular of following factors:

- increase of equity by PLN 5 002 thousand – due to issuance of H series shares;
- increase of supplementary capital, of which: (i) retained Bank's net profit from 2013 in amount higher by PLN 28 060 thousand than in 2012, (ii) capital created as a result of merger – PLN 183 323 thousand;
- increase of supplementary capital and general risk fund by total PLN 156 859 thousand due to merger.

Table 17. Own funds and capital adequacy ratio

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Total own funds	**3 912 315**	**3 541 212**	**371 103**	**10.5%**
Total capital requirements	**2 271 568**	**2 143 655**	**127 913**	**6.0%**
Capital adequacy ratio (%)	**13.78%**	**13.22%**		**0.56 p.p.**

Since 1 January 2014 in terms of own funds and capital adequacy binding are agreements of European Parliament and EU Council act no 575/2013 from 26 June 2013 (CRR)

Capital adequacy ratio as at 31 December 2014 was calculated in accordance to guidance of CRR standards. Capital adequacy ratio as at 31 December 2013 is presented in accordance to rules of PSFA Act no. 76/2010 regarding scope and detailed rules of calculation of capital requirements due to particular risks.

6.6. FINANCIAL RATIOS

In 2014, the Bank noted a deterioration of return on equity ratio y/y (resulted from decline of net profit with simultaneous increase of yearly average equity) and maintenance of return on assets ratio compared to previous year.

Net interest margin slightly increased compared to previous year, when it had decreased due to six-time reduction of interest rates and delayed possibility of prices adjustments to some deposit products according to the Act on Payment Services. The lowest level of net interest margin was noted in the first and second quarter of 2013, while in second half of 2014 the significant improvement occurred, under influence of price adjustment and balance structure optimization which continued in 2014.

The ratio of cost effectiveness (Costs/Income) improved due to slower increase of costs than income.

The increase in credit risk costs ratio corresponded with higher net impairment losses on loans and advances when compared to the 2013.

The financial ratios as loans to deposits and loans to total sources of funding decreased compared to the end of 2013, which reflects the increase of excess liquidity on the balance sheet of the Bank (increase of sources of funding is faster than loan activity y/y).

Table 18. Financial Ratios

	31.12.2014	31.12.2013	Change y/y
Return on Equity (1)	3.5%	4.7%	(1.2 p.p.)
Return on Assets (2)	0.4%	0.4%	0.0 p.p.
Net interest margin (3)	2.9%	2.7%	0.2 p.p.
Costs / Revenues (4)	67.4%	68.2%	(0.8 p.p.)
Credit Risk Costs (5)	(1.1%)	(1.0%)	(0.1 p.p.)
Loans / Deposits (6)	101.9%	104.0%	(2.1 p.p.)
Loans / Total sources of funding (7)	88.3%	89.3%	(1.0 p.p.)

(1) Relation of the net profit to average shareholders' capital based on the balances at the end of the quarters (annualized).
(2) Relation of the net profit to average assets based on the balances at the end of the quarters (annualized).
(3) Relation of the net interest income to average assets based on the balances at the end of the quarters (annualized).
(4) Relation of the total of general administrative expenses, and depreciation and amortization to the total result on banking activities and other operating income and costs.
(5) Relation of net impairment losses on loans and advances to the average balance of loans and advances to customers based on the balances at the end of the quarters (annualized).
(6) Relation of gross loans and advances to customers to amounts due to customers based on the balances at the end of the period.
(7) Relation of gross loans and advances to customers to the total amounts due to customers, debt securities issued and loans from other banks. Balances at the end of the period.

7. BANK OPERATIONS IN 2014

7.1. DISTRIBUTION CHANNELS

7.1.1. TRADITIONAL CHANNELS

Branches

As at 31 December 2014, the Bank had 390 branches of retail and business banking, of which 115 were operating branches and 275 subordinated branches (compared to 116 operating branches and 281 subordinated branches as at 31 December 2013). The network of branches was supplemented by 12 external cash desks, which service cash transactions and 10 Centers of Investment Products Service (COPI), which provide full service of investment products offered by The Brokerage Office of BGŻ.

In 2014, due to financial results and local market potential analysis, the decision was made to liquidate 7 subordinated branches and to transform 2 operating branches into subordinated and 1 subordinated branch into an operating one. Moreover, 1 external cash desk was liquidated.

Tasks from the scope of the sale of products and banking facilities offered to corporate customers are performed by 44 Business Centers of Small and Medium Enterprises, 6 Business Centers of Large Enterprises(LE) and 1 International Desk Warsaw Business Centre.

In March 2014 the Bank launched Corporate Services Center – the new unit to support corporate customers in the area of current IT operating services. The Corporate Services Center is the first centralized unit in the Bank which performs operating tasks, which were so far in the scope of operating branches and advisers.

ATM Network

As at 31 December 2014 all ATMs located at Bank's branches were owned by IT Card. Bank did not possess its own ATM chain. ATMs had both BGŻ and Planet Cash logo.

As at 31 December 2014 there were 413 ATMs at the Bank's branches.

Retail clients could use all ATMs in Poland free of charge. Depending on the type of personal account owned, there were all or only 4 free transactions in a month. Additionally the customers with personal account *Plan Aktywny*, Plan 3 and *Konto bardzo osobiste* were allowed to free of charge withdrawals from all ATMs in Poland and abroad.

The institutional customers (Micro segment) had the possibility to freely use ATMs located at Bank's branches and selected ATMs of Planet Cash4You (70 ATMs). Moreover the customers with *Plan Agro Lider*, *Agro Lider Prestiż* and *Plan Agro* were allowed to freely use ATMs of BPS S.A Group and SGBBank S.A.

The corporate customers with *Standardowy* and *e-Biznes Lider Prestiż* were allowed to freely use ATMs located at the Bank's branches, selected ATMs of Planet Cash4You (70 ATMs) and also Euronet ATMs (5 813 ATMs). The customers with *Agro Lider Prestiż* were allowed to freely use all ATMs in Poland.

7.1.2. ON LINE AND OTHER DISTRIBUTION CHANNELS

Internet banking

In 2014, the Bank recorded a growth in the number of customers using internet service eBGŻ (retail clients) and eBGŻ Firma (institutional clients). The number of operations executed using the internet channel increased systematically.

Table 19. Data related to eBGŻ and eBGŻ Firma

		31.12.2014	31.12.2013	Change y/y	
Number of clients with access	eBGŻ/eBGŻ Lite	453 610	416 514	37 096	8.9%
	eBGŻ Firma	95 280	83 606	11 674	14.0%
Number of clients actively logging in	eBGŻ	281 887	264 534	17 353	6.6%
	eBGŻ Lite	77 969	-	77 969	-
	eBGŻ Firma	57 442	51 860	5 582	10.8%
Average number of transactions	eBGŻ	1 210 571	1 172 192	38 379	3.3%
	eBGŻ Lite	28 526	-	28 526	-
	eBGŻ Firma	1 193 868	1 038 694	155 174	14.9%

In May 2014, the Bank launched the mobile banking for retail customers – eBGŻ Lite service. It allows, among others, current control over the amount of money in account, transfer of money to all parties and between customer's own accounts, recharge of mobile phone, restriction of cards, checking exchange rates or location of the nearest branch.

The functionality of downloading bank statements in PDF was enabled for eBGŻ users in October 2014.

In addition, along with changing the Bank's offer, the functionality of internet banking service eBGŻ was supplemented and adjusted to the current offer.

Phone-banking

In 2014, a further increase in the number of Tele-banking retail and institutional users by 52 708 clients i.e. 9% was recorded in comparison to 2013.

Table 20. Data related to TeleBGŻ

		31.12.2014	13.12.2013	Change y/y	
Number of customers with access to TeleBGŻ	Retail customers	489 921	452 702	37 219	8.2%
	Institutional customers	148 078	132 589	15 489	11.7%

In 2014 the process of quality improvement of services offered to customers using phonebanking was continued. The modification of automatic IVR service was made, the availability of TeleBGŻ service for all customers was improved, the standards of customer's services were changed and the IT and quality monitoring tools were implemented. Additionally in the course of courier process for personal accounts the time to deliver files with the card to customers was shortened.

Implemented in 2014 changes in the area of quality of customers service were positively assessed in ranking „Przyjazny Bank Newsweeka 2014", where BGŻ was ranked first in the category "Bank for a retail customer".

For clients using the TeleBGŻ service the range of services available via phone-channel was expanded with:

- bank transfer and setting a standing order at credit card account,
- activation of dual currency card between PLN and EUR accounts,
- transfer of card's limit to personal account,
- activation of VISA card,
- issuance of new token.

The further development in the area of activating and retention process was made.

As a part of improvement of sell processes via alternative distribution channels a remote sale of the revolving loan with personal account via courier was launched as well as the process of receiving applications for the credit card by phone.

The consultants of Call Centre took actively part in the after-sale process services and offered help and support to users of internet banking.

Banking cards

As far as issuance and cards servicing is concerned, the Bank cooperates with MasterCard and Visa. The portfolio of cards contains debit cards, credit cards and cards with deferred payment. As at 31 December 2014, the number of cards issued to clients amounted to 642 thousand and was nearly by 19 thousand, i.e. 3.0%, higher than in the previous year. In this period, increase concerned mainly credit cards granted to retail clients (an increase of 20.9 thousand, i.e. by 4.1%) and to institutional clients (an increase of 1.7 thousand, i.e. 2.9%).

Table 21. Number of banking cards issued by BGŻ S.A.

Cards in thousand	**31.12.2014**	**31.12.2013**	**Change y/y**	
Debit cards retail	525.6	504.7	20.9	4.1%
Credit cards retail	54.7	58.1	(3.4)	(5.9%)
Debit cards business	60.5	58.8	1.7	2.9%
Business cards with deferred payment	1.2	1.4	(0.2)	(14.3%)
Total number of cards issued	**642.0**	**623.0**	**19.0**	**3.0%**

In the first half of 2014 contactless payment functionality (MasterCard PayPass) was introduced to all types of cards enabling transactions below PLN 50 without typing the PIN or signature.

In November 2014 an offer of debit contactless cards was extended by contactless sticker, which can be placed on random handy item and allows paying by approaching to terminal servicing contactless payments.

The Bank kept in offer cards without contactless payments functionality, offering freedom of choice to its clients.

As part of enhancing the cashless payments with debit cards the following offer was introduced: „Płać kartą i odbierz voucher" promoting contactless payments and „Płać kartą i wypłacaj" supporting Cashback service, i.e. the possibility to withdraw cash along with paying with card for purchase.

In January 2014 the Bank widened the credit card offer with Visa Gold, designed for wealthy customers. The card is equipped with contactless functionality (activated on request), the attractive insurance package for unauthorized transactions and travel insurance, and also discounts prepared by Visa. The card is unique because of its attractive interest rate, lower by 2 percentage points than rates offered with other cards.

In August, the Bank started offering to selected owners of credit cards an extenstion of credit limit, executed by Centre of Communication. The offer met high interest from clients – as a result almost 2000 limits were extended till the end of 2014. Such good result was reached by use of simple and comfortable conditions for clients conditions of applying for the service – the whole process was executed basing on one phone call.

By the end of September expired the offer of *Program Nagradzanie za wydawanie,* involving a payback of 1% of purchase value in the selected category of trade points, paid with Bank's card. As a replacement Bank offered its clients 5% moneyback from purchase value in Biedronka chain. The offer was valid till the end of 2014, but further similar actions are planned for 2015.

Cooperation with intermediaries

At the end of June 2014, the Bank actively cooperated with 24 network intermediaries, such as Open Finance, Notus and Expander and also with 24 local agents. The cooperation was based on the active sale of banking products. Direct supervision over all cooperation agreements (both with network-based and local intermediaries) is performed by the Bank's Head Office.

In the first half of 2014 the Bank introduced the changes in the area of cooperation with financial intermediaries:

- resignation from offering by financial intermediaries housing loan for retail customers,
- decrease of remuneration for the biggest chain intermediaries.

In 2014, the policy of central monitoring was continued regarding how the intermediaries meet their agreement obligations. The evaluation concerned sale effects, as well as a quality of the credit portfolio provided by intermediaries. These actions resulted, among others, in the termination of 31 intermediary contracts during this period.

7.2. RETAIL BANKING

7.2.1. PRODUCT OFFER DEVELOPMENT

After multiple interest rate cuts by the Monetary Policy Council in 2013 and further cut in October 2014 interest rates reached the lowest level in history. As a result, the systematic drop of rates on the interbank market occurred, what had direct impact on price offer of deposits for retail customers. In these circumstances the main target of the Banks' deposit activity was stabilization of retail customer's savings portfolio, along with deposit margin optimization. In this period, the Bank offered its clients attractive saving products, which pricelist supported acquisition of new sources and in almost every month offered new subscriptions of investment deposits, thanks to which clients have an opportunity of higher return compared to traditional saving deposits.

In the first quarter of 2014 the Bank's account offer was simplified to 3 basic types. New acquisition account with tariff plan Konto Nr 1 was introduced. Moreover in the offer remained *Plan Aktywny* and *Konto bardzo osobiste* (dedicated to affluent clients). Other tariff plans were transferred to service, i.e. they will not be available in new sales offer, but will be maintained for current clients.

In the same time Bank undertook certain actions in order to maintain profitability of accounts' offer, threatened by decrease of deposit margins and substantial decrease of interchange fee. The Bank implemented changes in the price list of personal accounts (particularly in the area of activities regarding the functioning of cards assigned to accounts) and terminated Program Premia+, which allowed the owners of personal accounts with Konto Plus to be granted cash bonus, when certain conditions from the regulations of Program are met.

The changes in the offer concerned also debit cards issued to personal accounts. For the owners of personal accounts the contactless payment functionality (MasterCard PayPass) was introduced and in November the contactless sticker, which could be placed on the random handy item and enables payments by approaching to the terminal servicing contactless transactions, was added to the offer.

1) „Płać kartą i odbierz voucher", allowing to collect, in return for contactless payments, a voucher for PLN 100 or PLN 200 valid in "Empik" or "Smyk" stores (the promotion was available until 16/05/2014),

2) „Płać kartą i wypłacaj", promoting cash-back, i.e. the possibility to withdraw cash while paying with the card (the promotion was available in the period of 1/03/2014 – 31/08/2014),

3) Activation campaign for new card owners, rewarding clients (among others with 50 PLN voucher to Empik and Smyk chains) beginning cashless payments with card,

4) Exemption for owners of personal accounts, who acquired a contactless card or sticker between 1 December 2015 and 28 February 2015, from monthly fee for the service of card or sticker for 6 month period.

Since April 2014 the Bank, to meet customer's expectations, has widen the insurance offer with new product - Terminowe Ubezpieczenie na Życie, which is an individual insurance with very wide scope. This insurance is dedicated to personal banking customers.

7.2.2. BGŻOPTIMA

The BGŻOptima serves as a supplement to the Bank's offer with regards to saving and investment products, and is dedicated to clients who wish to use Internet-based services. The BGŻOptima offer comprises term deposits, saving accounts and distribution of open-end investment funds participation units.

In 2014, the Bank's offer has been consistently expanded in the area of deposit and investment products – the offer was extended to include new Investment Fund Managing Companies (TFI) and investment deposits (structured). As at 31 December 2014, the number of clients serviced by BGŻOptima amounted to 145.0 thousand, which means that from the beginning of 2014, 32.9 thousand new clients were acquired. In 2014, the Bank concentrated on increase of the volume along with improving the average margin.

7.2.3. DEPOSIT ACTIVITIES

In 2014 the Bank was offering products allowing customers to reach higher profits than on standard deposit products, and offers rewarding new funds.

The clients of BGŻ Bank, beside standard deposit offer, had an opportunity to use 5 new offers for term investment deposit rewarding new funds, 4 special offers for the new saving account "*Konto z Zyskiem*", 4 new offers of progressive investment deposits popular among clients and 11 subscriptions of investment deposits in 2014. Regularly introduced were the offers of retention nature, including eBGŻ deposits for selected maturity and promotional interest rate on the "Eskalacja" savings account.

The Bank was actively developing the cooperation with the customers of Personal Banking, offering competitive price conditions for the given tenors of Lokata bardzo osobista and introducing Lokata Urodzinowa, dedicated to the customers involved in other Bank's products.

As at 31 December 2014 the number of retail deposits amounted to PLN 18 539 420 thousand, which was an increase of 2 162 246 thousand y/y (13.2%). The main growth factor was the increase of term deposits volume (both standard and negotiable) at Bank's branches.

Table 22. Volume of retail deposits

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Current and savings accounts	9 670 397	10 100 652	(430 255)	(4.3%)
Term deposits	8 811 831	6 208 272	2 603 559	41.9%
Other liabilities	57 192	68 250	(11 058)	(16.2%)
Total amounts owed to retail customers	**18 539 420**	**16 377 174**	**2 162 246**	**13.2%**
including: BGŻOptima	**5 100 748**	**4 181 477**	**919 271**	**22.0%**

The number of deposit accounts increases systematically: as at the end of December 2014 there were 1 276.3 thousand of accounts, which is an increase by 85.8 thousand accounts y/y (7.2%).

Table 23. Number of retail deposits accounts

Number of items (in thousand)	31.12.2014	31.12.2013	Change y/y	
			Items (in thousands)	%
Number of deposits* accounts in branches, including	**1 276.3**	**1 190.5**	**85.8**	**7.2%**
Personal accounts	664.7	646.9	17.8	2.8%
Saving accounts	354.4	288.7	65.7	22.8%
Number of savings accounts in BGŻOptima	**166.7**	**129.1**	**37.6**	**29.1%**

** excluding technical deposits*

7.2.4. LENDING ACTIVITIES

In 2014, lending activities of the Bank in the area of retail loans were focused on building Bank's share in the retail lending market along with maintaining the profitability of credit products.

As at the end of 2014, the volume of the retail gross loan portfolio amounted to PLN 10 194 147 thousand and was by PLN 624 952 thousand, i.e. 6.5% higher than as at the end of 2013. The main growth factors included: sale of cash loans and housing loans in PLN.

In 2014, the Bank continued dynamic growth of cash loans. The total sale of this product amounted to PLN 1 366 177 thousand and was by 34.1% higher than in the prior year. It was caused by the nationwide marketing campaigns organized by the Bank (in TV, on the Internet and radio), as well as the implementation of new product functionality.

In the same period, there was a number of promoting activities performed, which were dedicated to the wide range of customers among others the owners of mortgage loans and people who are the leaders of their communities. According to the Bank's motto „Bank BGŻ - Dobrze służy ludziom" (Bank BGŻ – serves people well) and in order to increase the economic awareness of customers in the area of the positive credit history, the Bank is involved in cooperation with Credit Information Bureau S.A. (BIK). Thanks to this cooperation, customers with very good history in BIK and a BIK Pass certificate were offered a cash loan. The most popular among customers was the offer "Kredyt za darmo", which does not implicate any costs for the customers in relation to the granted loan. The offer allowed the Bank to acquire new portfolio of customers (over 11 thousand of new customers), which were then offered another loans as a part of preapproved action. The new functionality of flexible choice of the payment date at the stage of applying for cash loan increased attractiveness of the product.

Promotion „Drugi rok gratis" met high interest as well. The clients who will pay the installments in time during first year will be exempted from interests in the second year.

The new product introduced to clients of BGŻ Bank in the second half of 2014, was consolidation loan aimed to VIP segment clients. In that period volume of collected cash loans increased additionally by PLN 12 million.

The basic loan parameters were also changed i.e. the extension of credit maturity period to 96 months and the increase of cash loan to PLN 150 000 without extra collaterals. The customers could also decide if they are interested in payment insurance or not. The implemented changes allowed the sale of bigger volumes of cash loans for longer periods, while customer's burden remains low.

In the February 2014 the Bank began to accept credit applications with financial subsidy of state budget as part of "Mieszkanie dla Młodych" program (MdM). The Bank decided to join the program in order to widen the housing product's offer and to meet expectations of customers, who treat MdM loan as very attractive way to buy the first real estate. Additionally the activities were intensified to increase interest and non-interest income, especially by change of Schedule of Fees and Charges, resignation from some discounts offered while granting housing or construction loan, and also increase of the margin for consolidation or housing loan. Additionally, due to execution of S-Recommendation of the PFSA, modified were the rules of settling the own contribution by the client and approach to rules of valuation of agricultural properties (for example decrease of LTV indicator), being a collateral for a loan.

Table 24. Volume of retail loans

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Current account loans	106 328	103 674	2 654	2.6%
Housing loans	8 340 820	8 038 380	302 440	3.8%
– in PLN	5 438 868	5 035 855	403 013	8.0%
– in foreign currencies	2 901 952	3 002 525	(100 573)	(3.3%)
Cash loans	1 366 177	1 018 435	347 742	34.1%
Credit card limits	91 118	82 295	8 823	10.7%
Other loans to retail clients	289 704	326 411	(36 707)	(11.2%)
Total loans to retail clients	**10 194 147**	**9 569 195**	**624 952**	**6.5%**

Unfortunately the slowdown on the housing loan market which has continued for a few years now, caused not only by decreasing propensity to long-term indebtedness of individuals, but also by financing of mortgage purchase from their own savings, affected the level of sales of mortgage loans in PLN in 2014, which amounted PLN 889 million and was by 12% lower than in 2013. That tendency affects most of banks and even joining the MdM program did not change the situation on the market. The portfolio of foreign currency mortgage loans (withdrawn from the Bank offer in 2009) is systematically decreasing.

Table 25. Number of retail credit accounts

Number of items (in thousand)	31.12.2014	31.12.2013	Change y/y	
Housing construction and consolidation loans	57.6	56.1	1.5	2.7%
Cash loans	129.5	104.1	25.4	24.4%

7.3. BROKERAGE SERVICES AND DISTRIBUTION OF PARTICIPATION UNITS IN INVESTMENT FUND MANAGING COMPANIES (TFI)

The Brokerage Office of the Bank („BM BGŻ" or the "Brokerage Office") focuses on retail client services. The offer of rendered services supplements the Bank's offer in the area of investment products. The Brokerage Office also provides services to selected institutional clients such as open-end pension funds (OFE), investment fund managing companies (TFI) and other entities managing entrusted assets.

Brokerage fees and commissions income amounted to PLN 8 136 thousand in 2014.

In analyzed period the fees from TFI units sold in Centers of Investment Products Service (COPI) and the Bank's branches dynamically increased. In 2014, the above mentioned fees amounted to PLN 15 247 thousand and were by 53.5% higher than in the prior year.

Brokerage Office offers wide range of investment funds managed by renowned Polish investment fund managing companies. Current offer allows the Bank clients for effective diversification of invested savings. As at the end of December 2014, BM BGŻ was offering 119 funds managed by 9 TFIs. As at 31 December 2014 the value of TFI assets sold by BGŻ amounted to PLN 1 480 million and was by 46% higher than in the prior year.

In the first half of 2014 BM BGŻ took part in 13 Initial Public Offerings. In 7 cases BM BGŻ was acting as an offering agent, taking part in every stage, both in preparing and conducting an offer as its organizer.

Table 26. Fee and commission income of the Brokerage Office of Bank BGŻ

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Brokerage fees and commissions	8 136	4 874	3 262	66.9%
Commissions from the sale of units in investment funds	15 247	9 936	5 311	53.5%
Fee and commission income from brokerage operations	**23 383**	**14 810**	**8 573**	**57.9%**

Table 6. Share of Brokerage Office of Bank BGŻ in trading on the WSE

		31.12.2014		31.12.2013	
		Market share	Volume	Market share	volume
Stock	PLN million	0.28%	1 138.81	0.22%	954.70
Bonds	PLN million	3.60%	69.53	1.41%	45.07
Futures	Number of contracts	0.50%	86 727	0.61%	138 909
Investment certificates	PLN million	1.81%	2.61	2.34%	2.20
Options	Number of contracts	0.73%	6 834	0.33%	5 161

The improvement of results of BM BGŻ is an effect of consequently realized Growth Strategy emphasizing the quality of human resources and also the development of products offer.

In order to meet customers' expectations and to simplify investment decision making, BM BGŻ introduced investment advice and the investment fund branded BGŻ.

The investment advice was introduced in October 2014 and is available in COPI and Bank's branches for the clients of Personal Banking. As at 31 December 2014 361 Agreements of Investment Advisory were signed. The BM BGŻ offers three types of the service; investment fund's portfolio, stock exchange portfolio and mixed portfolio. There are also 4 investment strategies available: conservative, stable, balanced and dynamic.

In May 2014 BM BGŻ jointly with Ipopema TFI created BGŻ Specjalistyczny Fundusz Inwestycyjny Otwarty (BGŻ SFIO), which collected assets of total value of PLN 204.68 million as at 31 December 2014. There are 4 subfunds available for customers included in BGŻ SFIO offer and diversified in terms of investment risk and expected rate of return: conservative, stable, balanced and dynamic. The offer is available both in Bank's branches and via internet-based service BGŻOptima.

7.4. INSTITUTIONAL BANKING

7.4.1. CLIENT SEGMENTATION

In 2013 new rules of Client segmentation were introduced. The criteria of Institutional client classification for LE, SME and Micro segments have changed. According to the new Client segmentation:

- **Large Enterprises** (LE) – the entrepreneurs who conduct the full financial reporting according to Polish Accounting Act (this condition doesn't have to be met in case of farmers), with annual net revenues for the previous financial year of PLN 60 million or more, or with credit exposure to the Bank of PLN 25 million or more.
- **Small and Medium-Sized Enterprises** (SME) – the entrepreneurs who conduct the full financial reporting according to Polish Accounting Act (this condition doesn't have to be met in case of farmers), with annual net revenues for the previous financial year ranging from PLN 10 million to PLN 60 million, or with credit exposure to the Bank ranging from PLN 2 million to PLN 25 million (in case of farmers ranging from PLN 1 million to PLN 25 million).
- **Microenterprises** (Micro) – the entrepreneurs who do not conduct the full financial reporting according to Polish Accounting Act and the entrepreneurs who conduct the full financial reporting according to Polish Accounting Act with annual net revenues for the previous financial year of less than PLN 10 million or with credit exposure to the Bank of less than PLN 2 million.

As part of those segments, there are separated sub-segments for agro and non-agro clients, including farmers, non-profit organizations and financial institutions.

In the moment of merger with Rabobank Polska additional division of **Global Corporate Clients and Products** was created. Its task was to provide services to global clients of Rabobank Polska, as well as to large Polish enterprises focusing on agri-food sector (enterprises with revenues over PLN 500 million) and key entities in energy, telecommunication, media and Internet segments.

7.4.2. PRODUCT OFFER DEVELOPMENT

Product packages and transaction products

Micro segment

In 2014 not a single new deposit or transaction products were launched for customers from Micro segment and no change was made in the rules on products already offered by the Bank

In the second half of 2014 the offer for Micro clients remained unchanged.

SME and LE segments

In 2014 the Bank continued the process launched in 2013 of opening a bank account along with the comprehensive agreement on transaction banking products for corporate clients (SME and LE). The purpose of the implementation of this process is to reduce the time to prepare the agreement and simplify the agreement documents. The comprehensive agreement provides the client within one framework agreement, access to basic transaction banking products, such as settlement accounts, deposits, access to electronic banking, the ability to conduct foreign exchange transactions, access to payer identification services (IDEN), and the ability to use debit cards. Additional products are launched after the customer files the relevant application, without the need to sign an annex. At the same time, along with the comprehensive agreement, the Schedule of Fees and Charges for corporate clients was introduced. The schedule apart from simplified content includes only an offer for corporate segment. The new Schedule introduces 3 new tariff plans:

- *Standard* – plan dedicated to SME and LE segments, it enables, among others, the individual pricing decisions;
- *e-Biznes Lider Prestiż* – plan dedicated to SME segment as Internet package i.e. cheap operations conducted via electronic channel, and more expensive operations conducted in branches;
- *Agro Lider Prestiż* – plan dedicated to farmers, offering among others the cheap operations in branches.

Initiated in the last year process of customer migration to the above mentioned comprehensive agreements is almost completed; as at the end of 2014 there were almost 95% of corporate customers' agreements migrated (excluding customers from a group of local government units whose contracts cannot be exchanged). The strategic objective of these activities is to increase fee income and to maintain interest income on the current level.

Loans

Micro segment

Since 17 March 2014, subjective scope of uncollateralized loan was extended with customers from Micro segment who conduct the full financial reporting and their business is other than farming.

The offer for customers from Micro segment who conduct the simplified financial reporting did not change significantly in the second half of 2014.

SME and LE segments

Bank offers wide range of loans aimed for current and investment funding.

Products are targeted to SME and LE segment clients and are highly flexible, what allows for adjusting optimal financing to individual need of every client.

In 2014 the Bank introduced actions aiming to improve effectiveness of loan process.

Agrobusiness financing

Guarantee line "de minimis"

On 28 May 2014, the Bank signed an annex which increased granted de minimis guarantee line of the portfolio.

The next annex signed on 27 June 2014 refers to the change of rules on granting de minimis guarantee and prolongation of the period of program availability until the end of 2015.

In December 2014 the Bank signed another annex increasing limit granted to BGŻ and period of program availability was extended till the end of 2016.

Polseff Program

In April 2014 the Bank signed the last credit agreement as part of program of Sustainable Energy Financing in Poland (Polseff) realized together with the European Bank for Reconstruction and Development and fully used the EUR 50 million limit dedicated to micro, small and medium-sized enterprises which are customers of the Bank.

„Planning of actions in SME and refundable financing"

In October 2014 BGŻ Bank signed an Agreement on cooperation with Polish Agency of Entrepreneurship Development (PARP) under system project "Planning of actions in SME and refundable financing".

Under the agreement Bank presented modified financing offer for companies. Companies are offered the advisory-training service, by selected providers who signed contracts with PARP, available in whole Poland.

Under the service, the provider researches the company's need, advises how to achieve intended business goal, chooses the most appropriate financial product and helps to execute the project as well as manage company's finances. The service is free of charge for the enterprise.

Agro Progres

In 2014, the Bank continued the sale of investment loan Agro Progres, which is intended to finance farms. The loan is an alternative to preferential loans, giving the possibility of a much wider and more flexible range of funding at a comparable cost. It is dedicated to persons engaged in agricultural activities, who want to enlarge and modernize their farm, especially by the purchase of land.

The loan may be granted up to 30 years, and the Bank BGŻ on request issues a promissory note of credit, valid for 12 months. Thanks to this a borrower can fulfil all of their investment plans during the year. Possibility of choice of fixed interest rate makes payments equal, and the change in interest rates does not affect the household budget. In the case of a temporary deterioration of the situation on the farm, it is possible to suspend the repayment of capital by using so-called "credit vacation".

Unlike preferential loans, loan Agro Progres gives the freedom to establish the scope and scale of planned investment and a flexible repayment schedule, tailored to the specifics of the business. In individual cases it is possible to determine the annual repayments of capital. The Bank does not require a high own contribution, and the procedure for granting the loan is friendly and has been kept to a minimum. The customer does not need to present a business plan - assessment of creditworthiness can be carried out on the basis of the currently conducted production.

In the first quarter of 2014 the minimal value of Agro Progres loan which could be granted for more than 15 years, decreased from PLN 200 thousand to PLN 100 thousand. Moreover the regulation from BGŻ S.A. referring to compliance with Recommendation S enters into force starting from 1 July 2014.

The events that have an impact on the market of preferential loans in 2014:

- Due to overruling the Council of the European Union decision of 20 November 2010 on the granting of a State aid by the authorities of the Republic of Poland for the purchase of agricultural land between 1 January 2010 and 31 December 2013 (2010/10/EC) based on which the state subsidized the purchase of agricultural land, significant restrictions in respect of financing land purchases were introduced in the first half of 2014. Since 1 January 2014 to 8 May 2014 the purchase of agriculture land was possible only to the amount of 10% of the eligible investment costs.
- Since 9 May 2014 as a result of amendment of domestic legislation (Regulation of the Council of Ministers and Decree of the President of ARiMR) the new possibility to purchase agricultural land with preferential loan was reintroduced:
  - the new form of help as part of nKZ and nGR lines and within the CSK line was introduced - with subsidies to interests as de minimis (subsidies to interest payments or subsidies to nominal of up to EUR 15 thousand for the entire loan term);
  - introduced at the beginning of 2014 help within nIP, nMR, nBR15 and CSK line with possibility of financing of up to 10 % of eligible investment costs, for example purchase of agricultural land for construction or modernization of farm buildings purposes was maintained.

<u>The modification of rules of granting disaster revolving loans</u>

As a result of amendment to European Committee regulations and domestic legislation since 9 May 2014 rules regarding calculation of the amount of de minimis subsidy in the form of subsidy to disaster revolving loans were changed. This kind of help is granted in cases when losses incurred due to natural disasters in given farm do not exceed 30%. The amount of the subsidy to interest was increased from EUR 7.5 thousand to EUR 15 thousand. The amount of the subsidy is calculated once for entire loan term and is not recalculated during the period of repayment of the loan.

The financing of processing of agricultural products for all entities

Since 9 May 2014 the possibility to finance investments was restored for all entities regardless of the form of the business and the size of the entity. In case of large enterprises (according to EU classification),which are allowed to be granted state aid only in the form of de minimis, the amount of aid remained at the same level of EUR 200 thousand. However, the amount is calculated once for entire loan term and is not recalculated during the period of repayment of the loan.

For other preferential credit lines the Bank continued the rules for granting investment loans from previous years.

Insurance for farmers

With the cooperation of Concordia Polska TUW, the Bank offers insurance products for farmers (voluntary and compulsory insurance). In 2014 there were no new products introduced into the offer, and no significant changes were made to rules regarding already offered products.

Global Corporate Clients and Products division (GKKiP)

Due to the new business model, GKKiP division offers its products and services only through highly specialized account managers located directly in Bank's Head Office in Warsaw. The cooperation model assumes development of close and long-term relations with clients and provision of services basing on wide knowledge about particular industry/sector.

Product offer of GKKiP division is distinctive in comparison to other Banks operating on Polish market. GKKiP division provides highly specialized and advanced solutions in terms of cash management, including among others modern online banking, domestic and foreign transfers (including SEPA), service of mass transactions: Collect, Direct Debit, Cash Pooling, Zero Balancing, which meet the needs of most demanding clients. Bank is also a partner providing Global Finance Markets (GFM) services – 100% of clients who received loans is using GFM services for currency settlements.

7.4.3. LENDING ACTIVITY

In 2014 the Bank recorded an increase in lending to institutional clients. As at 31 December 2014 value of gross loan portfolio amounted to PLN 20 904 898 thousand and increased by PLN 2 924 168 thousand, i.e. 16.3% compared to 31 December 2013.

The following factors influenced the increase of volume of loans in 2014:

- the growing credit activity towards microenterprises,
- acquisition of the portfolio of Rabobank Polska with value of PLN 1.9 billion as at 18 June 2014 (PLN 1.2 billion as at 31 December 2014).

In the group of loans for institutional clients the highest growth dynamics recorded the revolving loans by 26.9% (volume increase of PLN 470 873 thousand), respectively overdrafts by 23.8% (i.e. by PLN 993 462 thousand) and loans and advances to farmers by 15.6% (i.e. PLN 813 791 thousand). Share of particular groups of products in gross loan portfolio for this segment remained on the unchanged level compared to 2013.

Table 7. Loans and advances to institutional customers

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Overdraft facilities, including:	**5 162 324**	**4 168 862**	**993 462**	**23.8%**
– businesses	2 118 862	1 907 354	211 508	11.1%
– individual entrepreneurs	375 241	313 552	61 689	19.7%
– farmers	2 663 228	1 926 116	737 112	38.3%
Loans and advances to Customers:	**15 742 574**	**13 811 868**	**1 930 706**	**14.0%**
– businesses, including:	8 007 542	6 928 236	1 079 306	15.6%
- investment loans	4 622 665	4 238 097	384 568	9.1%
- operating loans	2 222 940	1 752 067	470 873	26.9%
– individual entrepreneurs	1 414 479	1 259 146	155 333	12.3%
– farmers	6 031 272	5 217 481	813 791	15.6%
– public sector institutions	215 802	251 572	(35 770)	(14.2%)
– other entities	73 479	155 433	(81 954)	(52.7%)
Total	**20 904 898**	**17 980 730**	**2 924 168**	**16.3%**
of which:				
preferential loans	*4 704 907*	*4 657 474*	*47 433*	*1.0%*

7.4.4. DEPOSIT ACTIVITIES

In 2014 the Bank pursued a conservative pricing policy in case of deposits for institutional clients that aimed at obtaining better interest margins and securing the required liquidity levels. Other goal was to increase balances on the current accounts in all segments.

Deposits from corporate clients increased by PLN 4 149 732 thousand (i.e. 41%) in the period from 31 December 2013 to 31 December 2014. The increase was a result of:

- increase of liabilities due to other financial entities by PLN 3 175 167 thousand, primarily due to acquisition of Rabobank's liabilities under the agreement signed by Societe Anonyme De Gestion D'Investissements Et De Participations ("Sagip"), BNP Paribas SA and Rabobank on 19 September 2014. As at 31 December 2014 state of the loans capital amounted to PLN 2 286 332 thousand. The transaction impacted on liabilities due to banks (detailed information described in note 30 of Separate Financial Statement);
- increase of amounts due to corporate clients by PLN 982 499 thousand (i.e. 11.6%), mainly due to increase of volume of term deposits by PLN 960 739 thousand. In analyzed period amounts due to farmers decreased in the volume of current accounts by PLN 158 578 thousand, what was partially off-set by increase of volume of term deposits (increase of 101.2%).

Amounts due to budget entities decreased by PLN 7 934 thousand, but decrease of volume of current accounts was partially off-set by higher volume collected on term investment accounts.

In the deposit base of the Bank included were also deposits transferred from Rabobank Polska, which amounted to PLN 0.3 billion as at the end of June 2014.

Table 8. Amounts due to institutional customers

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Other financial Institutions	**4 222 120**	**1 046 953**	**3 175 167**	**303.3%**
Current accounts	24 015	9 894	14 121	142.7%
Term deposits	1 906 525	1 037 048	869 477	83.8%
Other liabilities	11	11	-	-
Loans and advances received	2 291 569	-	2 291 569	-
Corporate customers	**9 449 080**	**8 466 581**	**982 499**	**11.6%**
Current accounts	4 847 839	4 891 096	(43 257)	(0.9%)
Term deposits	4 471 599	3 510 860	960 739	27.4%
Other liabilities	129 642	64 625	65 017	100.6%
of which: farmers	**1 195 840**	**1 200 404**	**(4 564)**	**(0.4%)**
Current accounts	882 206	1 040 784	(158 578)	(15.2%)
Term deposits	307 626	152 923	154 703	101.2%
Other liabilities	6 008	6 697	(689)	(10.3%)
Public sector customers	**594 132**	**602 066**	**(7 934)**	**(1.3%)**
Current accounts	384 526	458 346	(73 820)	(16.1%)
Term deposits	209 475	143 593	65 882	45.9%
Other liabilities	131	127	4	3.1%
Total	**14 265 332**	**10 115 600**	**4 149 732**	**41.0%**

7.4.5. TRADING BUSINESS FINANCING

The product offer dedicated to finance foreign trade operations comprises of: export and import letters of credit, export and import documentary collection, letter of credit discount, Nostro and Loro guarantees, avals and guarantees, factoring, payment orders and foreign exchange payment orders.

Factoring

As part of providing factoring services, in 2014 the Bank acquired 127 530 invoices with a total value of PLN 2 396 million compared to 145 739 invoices acquired in 2013 with a value of PLN 2 976 million.

The Bank adjusted the internal regulations regarding factoring in order to meet the requirements (for example regarding deposits) arising from other internal regulations and requirements regarding the VAT from providing factoring services. The Bank added „vendor financing” product consisting of repayment by the Bank of trade receivables owed to suppliers of goods/services from the Bank's customers, simultaneously implementing automatic transfers to vendors' accounts in other banks.

In order to meet the General Inspector of Information requirements, automatic transfer of data to DIMON system (system analyzing related and suspicious transactions) was introduced. Implemented automation regarding generating calls for payment and balance confirmation has an impact on improvement of punctuality and quality of payments realized by factoring counterparties.

Bank guarantees and letters of credit

As at the end of 2014 the total value of guarantees granted to clients amounted to PLN 478.3 million (compared to PLN 447.3 million in 2013). The Bank's portfolio included 1 501 granted guarantees (compared to 1 522 in 2013).

In 2014, the Bank issued 163 import letters of credit with a total value of PLN 49.4 million (compared to 261 import letters of credit with a total value of PLN 83.3 million in 2013) and processed 121 export letters of credit with a total value of PLN 60.7 million (compared to 89 export letters of credit with a total value of PLN 58.7 million in 2013).

The Bank adjusted rules of guarantees and document letters of credit processing to new requirements regarding sanctions and embargos.

Transaction statistics

In 2014, the upward trend was maintained in respect of foreign trade transfers. The share of SEPA Credit Transfer in the total import and export transfers in 2014 increased to the level of 76.69% compared to 67.64% in 2013. The share of SEPA transfers in total import transfers in 2014 slightly decreased compared to 2013 and amounted to 68.64% (compared to 69.60% in 2013).

Table 30. Statistics of operations handled by BGŻ S.A.

Transaction type	Quantity/value	31.12.2014	31.12.2013	Change y/y
Transactions using the nostro accounts (commercial banks and NBP)	Number of transactions	880 425	782 250	12.6%
	Value in PLN billion	2 944	3 193	(7.8%)
Transactions using the loro accounts	Number of transactions	73 605	101 860	(27.7%)
	Value in PLN billion	945	750	26.0%
Export transfers	Number of transactions	535 291	488 319	9.6%
	Value in PLN million	50 798	21 140	140.3%
including: SEPA Credit Transfer	Number of transactions	*410 489*	*330 314*	*24.3%*
	Value in PLN million	*9 689*	*8 628*	*12.3%*
Import transfers	Number of transactions	240 452	201 401	19.4%
	Value in PLN million	17 293	12 265	41.0%
including: SEPA Credit Transfer	Number of transactions	*165 044*	*140 181*	*17.7%*
	Value in PLN million	*6 246*	*5 896*	*5.9%*
Own letters of credit and own documentary collection (newly opened)	Number of transactions	232	298	(22.1%)
	Value in PLN million	90	120	(25.0%)
Guarantees and own promissory notes granted	Number of transactions	1 189	1 174	1.3%
	Value in PLN million	332	283	17.3%
Third party letters of credit and third party guarantees	Number of transactions	599	507	18.1%
	Value in PLN million	822	183	349.2%

7.5. ACTIVITIES IN DEBT SECURITIES MARKETS

In 2014, the Bank serviced two non-public debt securities issuance programs, including one program of municipal bonds issue. The Bank acted with the corporate bonds issues as an issuing agent, paying agent, calculation agent, dealer and custodian.

7.6. ACTIVITIES IN MONEY AND FOREIGN EXCHANGE MARKET

In 2014, the activities of the Bank in money and foreign exchange markets were influenced by the following factors:

- end of the quantitative easing by the Federal Reserve,
- maintaining a low rate of economic growth in the Euro zone combined with a further decline in CPI inflation below zero as at the end 2014,
- reduction of interest rate by the European Central Bank to 0.05%, combined with expected quantitative easing in 2015,
- maintaining economic growth rate in Poland above 3.0% associated with strong decrease of CPI inflation to minus 1.0% an annual basis as at the end of the year, primarily due to decreasing oil and food prices,
- reduction of the NBP interest rates (the reference rate at 2.0%), along with market expectations of interest rate cuts in 2015,

- stabilization of PLN against primary foreign currencies during the year, despite increase of political risk due to Ukrainian crisis,
- systematic decline in yields of domestic and Eurozone countries T-bonds.

Since 14 July 2014, the Bank participates in fixing of reference rates of WIBID and WIBOR organized by Association of Financial Markets ACI Polska.

Activities on own account

FX Market

In 2014, activities of BGŻ S.A. in the interbank market focused on PLN and currencies of the G7 countries. The turnover achieved by the Bank in the interbank FX market decreased compared to the last year. The decrease was the result of the very low volatility of foreign exchange rates in relation to the PLN, which limited the hedging of the Bank's customers and decreased volume of transactions conducted on their own account. The highest volume of FX transactions was achieved by EUR/PLN, followed by USD/PLN and GBP/PLN. Due to the small customers' interest in currency options, the activity of the Bank in the interbank market in this segment remained at a low level.

Interest rate market

The Bank's trading activities on interest rate market concentrated on PLN yield curve, mainly on the Polish T-bonds. These instruments were the most popular among clients and had also dominant position in the trading portfolio of the Bank. Among other instruments the most popular were those denominated in Euro that resulted from a higher interest of the Bank's customers in hedging interest rate risk in that currency. Just as in previous years, the Bank did not conduct commercial activity on the market of non-treasury debt securities.

Short-term liquidity management

The purpose of the Bank's activity on the uncollateralized interbank deposit market was to manage immediate and short-term liquidity. The main instrument for placing short-term liquidity surpluses were NBP bills. The Bank did not use neither the interbank market nor resources from non-bank financial institutions as sources of financing for its credit activities. Market risk relating to short-term liquidity management and to customers' transactions on the money market, was actively managed by such transaction as: OIS, FRA, IRS and FX Swap.

Assets and liabilities management

Asset and liability management is shaping the Bank's balance sheet in a way that minimizes the negative impact of variability of external factors - such as interest rates, exchange rates and the cost of financing - on the Bank's financial stability. At the same time it shall enable - within the assigned risk limits - generating additional income from the Bank's risk position adjustment to medium-term and long-term market trends.

Financing Bank activities

In 2014, the Bank's credit loan assets development is characterized by two trends: a very dynamic and steady growth of loan portfolio in retail and micro segments (respectively by over PLN 0.65 billion and by PLN 1.4 billion compared to the end of 2013) and a slower growth in loans granted to corporate customers, combined with change in structure. The exposure to SME and Large Enterprises has increased by PLN 0.28 billion, however it includes PLN 0.55 billion of new exposures in agro segment, off-set by non-renewal or repayment of PLN 0.28 billion in non-agro segment. The merger of BGŻ and Rabobank Polska resulted also in an increase of loan commitments by PLN 1.9 billion in the first half of 2014, however within the next 6 months the portfolio has decreased to the level of PLN 1.24 billion. In total, during 12 months of 2014, the Bank's loan portfolio increased by PLN 3.55 billion.

The Bank has continued the policy of creating a stable deposit base that financed the growth of assets in a diversified manner – almost half of the new deposits, i.e. PLN 2.15 billion, was collected from retail customers, including PLN 0.9 billion from the BGŻOptima Internet channel, despite the constantly conservative pricing and marketing policy). The immanent feature of retail deposits is longer average term (min. 3 months, usually 6-12 months), hence, in particular in third quarter, higher emphasis was put on collection of short-term (up to 3 months) sources from enterprises and non-banking financial institutions, which will allow the faster reduction of costs in case of still anticipated interest rate cuts. As a result the balances of sources from large enterprises grew by almost PLN 0.9 billion and from non-banking financial institutions by PLN 0.74 billion, while the liabilities to SME and Micro customers remained on the unchanged level. The Bank decided not to reissue maturing Certificates of Deposits, the value of which decreased in 2014 by PLN 0.43 billion to the level of PLN 0.76 billion and did not take any new credit lines[1]. As a result of the merger of BGŻ and Rabobank Polska, the Bank acquired the financing of Rabobank Polska. As at the 31 December 2014 it amounted to PLN 0.94 billion of term deposits and deposits on current accounts, primarily of large enterprises, as well as financing from Rabobank's credit line (under the agreement from June 2014) matched in respect of the amount, currency, date, and interest rates type for Rabobank Polska loans, launched till the date of purchase of BGŻ by BNP Paribas. The amount of financing is PLN 1.04 billion as at the end of 2014.

As a result, an increase in the Bank's assets resulting from BGŻ's lending activities, as well as the acquisition of assets of Rabobank Polska, was entirely covered with new financing sources, in particular customers deposits.

Due to the record-low interest rates since the beginning of the year, reduction of interest rates by 50 bps in October and expected further cuts resulting from deflation and sustained global slowdown, the Bank aggressively lowered interest rates on term deposits, current accounts and reduced the benefits of current accounts. Relatively more attractive offer of short-term deposits (3-4 month retail deposits in the fourth quarter) and emphasis on short-term financing from corporate clients and non-banking financial institutions resulted in increase of balance mostly in 3 month terms (90% of total increase of deposits), what eased the control of interest cost in case of further interest rate cuts.

At the end of 2014, 17% of the Bank's assets were loans in foreign currencies, mainly CHF, EUR and to a lesser extent USD. In order to make the liquidity situation and financial result independent of currency exchange rates, the Bank seeks to balance the assets and liabilities in the same currency: in 2014 loans in EUR and USD were financed by funds collected from customers on current accounts and term deposits, and (in the case of EUR) of EBRD credit line. The remaining in-use portfolio of mortgage loans in CHF is financed by the CHF credit line acquired in September 2014 by a company from the BNP Paribas Group and currency loans are financed from multi-currency credit line of Rabobank. The remaining open currency position is managed on an ongoing basis using short-term FX swaps, where the Bank exchanges deposit surpluses in PLN and USD into CHF and EUR.

Interest rate risk, investment portfolio and hedging transactions

Bank's natural exposure on interest rate risk – i.e. the sensitivity of net interest income, on the scope and direction of interest rates changes – is directed to increase of interest rates, i.e. assets incomes are changing faster than costs of liabilities. This profile is partially reduced by hedging transactions using derivative instruments, in which the Bank "lengthens" assets and "shortens" liabilities reversing the natural position, but considering potential variability of valuation of those transactions their amount usually does not exceed 10% of balance value and is adjusted to expected market situation and in order to maintain risk profile in specified limits.

As a result, the Bank's net interest income sensitivity to changes in interest rates during the period of one year – the so-called Interest at Risk for scenarios +/- 200bps – increased by approx. 15%, compared to 2013, but decreased compared to middle of 2014, due to appearance of further expectations of interest rates cuts. The sensitivity of the net fair value of balance to changes in interest rates (the so-called Earnings at Risk) is systematically decreasing as a result of "shortening" of debt securities investment portfolio.

Investment portfolio of debt securities plays a key role in shaping the exposure to interest rate risk – in particular EaR – and stabilization of the Bank's result. Its value in 2014 increased from PLN 3.23 billion to PLN 3.46 billion, i.e. by 7% (PLN 0.23 billion), wherein in this period the Bank sold PLN 0.39 billion of securities maturing mostly in 2015 and years 2020-22, realizing an additional revenue of PLN 23.3 million; and purchased PLN 0.7 billion of securities, including PLN 0.5 billion of floating coupon securities based on WIBOR 6M, and PLN 0.2 billion of short- and long-term fixed coupon bonds.

[1] Due to the sale of BGŻ shares by Rabobank to BNP Paribas, the CHF credit line financing mortgage loans portfolio (PLN 670 million as at 23 September 2014) and subordinated loan of PLN 90 million CHF were acquired by companies of BNP Paribas Group.

Monthly interest income remained at a level of about PLN 13-14 million, and amounted to total PLN 168 million in 2014.

As at the end of December 2014, the positive valuation of the portfolio, taking into account revaluation reserve amounted to PLN 304 million (PLN 90 million more than in June 2014 and more than 200 million more than at the end of 2013) – it represents the discounted difference between the interest income generated in the future by the portfolio, and the revenue from a theoretical portfolio of the same structure acquired at the valuation date at market prices.

Fund's transfer price

The historically low interest rates in Poland and around the world, stable situation on the financial market regarding risk in Poland, sustained global slowdown and the reluctant withdrawal of central banks' from quantitative easing resulted in further reduction of financing costs. Due to that fact, the Bank performed successively reduction of liquidity margins, particularly in the long end of the yield curve – over 12 months, respectively: minus 8bps (6M), minus 19bps (1 year), minus 33bps (5 years) and 37 bps (10 years), which on the one hand supports the Bank's competitive position in the credit market (pressure on margins), while maintaining the integrity of the system, i.e. differentiating the charge depending on the tenor of loan/deposit.

At the same time starting from the beginning of 2014 there was an adjustment of liquidity margins for deposits introduced, based on stability of funding sources that helps form the Bank's pricing policy in accordance with the expectations of supervisory authorities (Resolution no. 386/2008 of PFSA, CRD4), and differentiate interest rates adequately to the contribution of a type of financing to the stability of the Bank's deposit base.

Sale of treasury products to clients

In 2014, the dynamics of sale of treasury products in all segments of institutional clients portfolio were comparable to the results in 2013.

The leading treasury products having impact on the income level were still mainly spot and forward foreign currency transactions, available also via the eBGŻ Treasury Internet platform.

In 2014, the sale of hedging instruments remained at similar diversification level, as in 2013.

7.7. COOPERATION WITH FINANCIAL INSTITUTIONS

As at 31 December 2014, the Bank maintained correspondent contacts with approximately 860 banks keeping 25 Nostro accounts in foreign banks and 1 in domestic bank in 16 main currencies.

As at 30 June 2014, the Bank maintained 28 Loro accounts in 6 currencies for 19 foreign banks, 1 domestic bank and 1 foreign non-banking financial institution. The Loro accounts maintained in books of the BGŻ S.A. represent an external source of free working capital funds at no cost, which serve to satisfy the operating needs of the Bank. Using these accounts, the Bank executes primarily client transfers and bank-to-bank transfers.

The Bank serviced cooperative banking sector, both in transactional banking and treasury.

In 2014, BGŻ S.A. collaborated with one foreign non-banking financial institution offering cheap and fast electronic money transfer services – MoneyGram (USA). The subject of collaboration was both cash transfers as well as transfers to bank accounts. Transactions were executed in both directions.

The Bank also continued collaboration with other domestic and foreign financial institutions, mainly with investment funds, insurance companies, pension funds, brokers and banks. This collaboration enabled the Bank to offer a wide range of treasury and deposit transactions. Moreover, the Bank has entered into many agreements with new partners from those segments, which will enable the Bank to settle transactions for old and new products in the future.

7.8. BANK ORGANIZATION AND HUMAN RESOURCES

7.8.1. ORGANIZATIONAL STRUCTURE

The most significant change in the Bank's organizational structure made in the first half of 2014 was the merger of BGŻ S.A. and Rabobank Polska S.A. into one universal bank with a wide range of products and services to customers, including specialized products, targeted to customers operating on the global market.

Organizational units responsible for maintaining and developing stable business relationships with existing clients of Rabobank Polska S.A. acquired after the merger and new customers with similar profile. The so called global corporate customers were grouped into the Head Office structure of BGŻ S.A. under the new Global Corporate Clients and Products Division.

According to the accepted model of merge of the two banks, the activities of this Department are supported by the existing organization units of Head Office performing the various functions of the Bank and new units dedicated exclusively to support this area, i.e. analyzing and assessing the credit risk, operational support, financial reporting.

In addition to changes associated with the merger of BGŻ S.A. with Rabobank Polska S.A., a significant organizational change in Bank in 2014, was the reorganization of corporate clients' service, by excluding in Head Office and corporate banking regions two business lines, i.e. dedicated separately to segment of Large Enterprises and separately to SME and Agrobusiness

Those changes are aimed to enhance the market position of BFŻ Bank in agro sector, which is a source of a significant part of income in SME segment and other segments. New segment of Agrobusiness and SME in Head Office of BGŻ Bank became the Competency Centre for all business lines servicing clients in Agro segment, allowing wider and more consistent approach to innovative actions and products supported by external financing as well as allowing focusing and better use of expert knowledge about products for Agro clients, credit processes, insurances and marketing.

7.8.2. HUMAN RESOURCES

As at the end of December 2014, BGŻ S.A. had 5 265 employees (5 209.2 FTEs), i.e. by 5.7% less than in the previous year. The decrease of employment in the Bank was a result of optimization of employment.

The Head Office employment increased by 10.8%. The main reasons for the increase are the centralization of certain functions that has contributed to the organizational changes of employees allocation from the Network to Head Office and the acquisition of Rabobank Polska employees as a result of the merger (+204 FTEs in total).

In addition, the Bank executed the sale of training resort in Rajgród in 2014. Under the agreement, new owner acquired (under art. 23') employees hired in the resort (13 FTEs).

Table 9. Bank's employment in employees and FTEs

Employees	31.12.2014	31.12.2013	Change y/y	
Branch network	3 614	4 061	(447)	(11.0%)
Head Office	1 531	1 382	149	10.8%
Brokerage Office	54	58	(4)	(6.9%)
BGŻOptima	49	52	(3)	(5.8%)
Holiday resorts	14	30	(16)	(53.3%)
Trade unions	3	3	0	0.0%
Total (employees)	**5 265**	**5 586**	**(321)**	**(5.7%)**

FTEs	31.12.2014	31.12.2013	Cange y/y	
Branch network	3 590.5	4 030.2	(439.7)	(10.9%)
Head Office	1 507.3	1 362.6	144.7	10.6%
Brokerage Office	53.4	58.0	(4.6)	(7.9%)
BGŻOptima	41.5	43.6	(2.1)	(4.8%)
Holiday resorts	13.5	29.5	(16.0)	(54.2%)
Trade unions	3	3.0	0.0	0.0%
Total (FTEs)	**5 209.2**	**5 526.9**	**(317.7)**	**(5.7%)**

The level of the cost of salaries in the Bank in 2014 was influenced by the basis salary increases for the best employees, started since 1 July 2014, salary increases started since 1 July 2013 (full year cost), acquisition of employees of Rabobank Polska due to merger as well as implemented process of employment optimization.

Variable remuneration in the Bank is related to the Bank's net profit. Due to the higher level of objectives achieved in 2014 compared to the level achieved in 2013, the provision charged for variable components of remuneration in 2014 was higher compared to 2013.

Provision for future liabilities for personnel costs includes in 2013 mainly release of provision for previous years bonuses, while in 2014:

- provision for bonuses for previous year (PLN 1 678 thousand),
- provision related to the prize fund of the President (PLN 948 thousand),
- decreases due to return of costs of Rabobank in 2012 related to delegation of employees of Rabobank to BGŻ (PLN 584 thousand).

Increase of the costs in position Other components of salaries and wages in 2014 is a result of creating a provisions and payments due to retention program.

Table 10. Personnel expenses

PLN thousand	31.12.2014	31.12.2013	Change y/y	
			PLN thousand	%
Wages and salaries including:	**(434 179)**	**(379 323)**	**(54 856)**	**14.5%**
- base remuneration	(348 550)	(338 572)	(9 978)	2.9%
- other components of salaries and wages	(19 933)	(10 195)	(9 738)	95.5%
- awards and bonuses	(65 742)	(41 239)	(24 503)	59.4%
- non-employment contracts	(3 311)	(3 395)	84	(2.5%)
- provisions for future liabilities*	3 357	14 079	(10 722)	(76.2%)
Social benefits and other fringe benefits	**(87 915)**	**(95 806)**	**7 891**	**(8.2%)**
- salary overheads	(61 819)	(56 482)	(5 337)	9.4%
- employee benefits	(4 515)	(5 446)	931	(17.1%)
- employment restructuring provision	1 886	(7 746)	9 632	(124.3%)
- contributions to the Social Fund	(6 291)	(6 072)	(219)	3.6%
- other	(12 324)	(11 789)	(535)	4.5%
- provisions for future liabilities*	(4 852)	(8 271)	3 419	(41.3%)
Total	**(522 094)**	**(475 129)**	**(46 965)**	**9.9%**
Awards and bonuses as % of base remuneration	***18.86%***	***12.18%***	-	***6.68 p.p.***

** Refers to provisions for unused holiday, retirement, disability and health benefits for the current year and previous years and provision for bonuses and awards.*

Information about salaries of the members of the Management Board and Supervisory Boards is presented in section 10 Salaries of Management Board and Supervisory Board.

Information about the amount of the Bank's shares directly owned by the members of the Management Board and Supervisory Board is presented in BGŻ standalone financial statements in Note 44 Shareholders of the Bank.

Remuneration policy

The Bank has pursued a reasonable and balanced remuneration policy which reflects its client-oriented approach, accounts for the long-term Bank's interests and supports reasonable and effective risk management.

The remuneration policy supports the implementation of the Bank's business strategy. The principles set out in the remuneration policy are in line with the standards and values of the Bank and the relevant laws and regulations.

The Bank participates in salary market research and thus has regularly monitored competitiveness of its remuneration package (of fixed and variable part) against the market.

The Bank's remuneration policy also includes detailed rewarding regulations for these employees at managerial posts who have a considerable impact on the Bank's risk profile (as per the PFSA Resolution No. 258/2011). In 2014, remuneration policy became adjusted to requirements of Directive CRD4.

Motivation systems

There are incentive schemes in the Bank that combine three elements: goals relating to priorities set in the Bank's strategy and financial plans, results which are the work output of the Bank's employees, and the amount of bonus.

The incentive schemes, adjusted to the specific character of tasks performed in the area of sales, sales support and risk and support, are based primarily on the Management by Objects (MbO) formula, which means that an individual bonus is related to the level and quality of the objectives achievement.

The system (MbO) focuses on defining tasks or goals that set the development direction of the entire organisation which are then divided into the objectives of individual organisational units and individual employees. The combination of individual and collective objectives illustrates the employee expected results taking into consideration the risk profile of the Bank and attention for actions consistent with the client's interests.

There is also a separate bonus system in the Bank for variable remuneration, including bonuses for employees holding managerial positions who have a significant impact on the Bank's risk profile.

Training and career development

Similar as in the last year, in 2014, training program supported the implementation of the Bank's business objectives by closely cooperation with business in developing the skills and competencies of employees. Total number of participants in classroom training and e-learning amounted to 56 677, including: 46 714 participants of e-learning training programs.

The main areas of trainings conducted in 2014 were as follows:

- Training to improve the level of product knowledge for sales network Staff, including in the area of investment funds and insurance sales.
- Training to support the development of sales skills and building partnership with customers and enhancing customer service quality standards among the employees of the sales network.
- Training to support development of competences of manager, including in particular competences concerning change management.
- Training programs to support the development of knowledge and competence in the field of F&A, in relation to the implemented business strategy of the organization.
- Training to support the design of the Bank's risk culture and pro-active attitude and behavior of employees, particularly in the areas of credit and operational risk, compliance and crisis management.

- Training to support development of knowledge and credit competences, including certified programs in terms of credit authorization.

Completed development programs:

- Potential Development Program „The Prestige" – launched the third edition of the Program that aims to identify and develop employees with the highest potential in the fields of management and expertise. Execution of workshops and individual development actions was as expected.
- Sales Talent Development program – the continuation and completion of the program dedicated to the best advisors of retail banking and business customers. The program implemented in three development paths, consistent with the needs of employees: managerial, sales and expert as well as competence of an individual.

Internship programs

Bank offers internship programs to students, graduates and high school students.

As in previous years, the Bank continues the implementation of the summer internship program targeted to students and graduates. In 2014 380 students participated in internships.

The construction of the image of the institution as a desirable employer (employer branding)

In 2014, the Bank carried out activities related to the construction of the image as employer and the cooperation with external labor market, i.e. through collaboration with job portals and magazines, and participation in job fairs. The main goal was to create a consistent and distinctive set of Bank's image features – based on the keynote: „Deal with what's important, as you like."

Social welfare and medical care

The social fund is intended for the implementation of benefit payments (awarded on the basis of social criteria) for employees (approximately 5 500 persons) and pensioners of the Bank (approximately 3 700 persons).

In 2014 there were granted 5 562 social benefits.

The largest share had:

- subsidies for holiday for employees and their children (4 605 subsidies),
- financial assistance (676 benefits),
- housing loans (281 loans).

Also funds from Employee Benefit Fund are intended for financing: sports and recreation events, tourist trips, sport tickets – Multisport, purchase of tickets/vouchers to the theatres/cinemas, events for children of employees.

The Bank's employees have the option of profiting from private medical care. Around 75% of employees are covered by such medical care. The employees have a choice of two package of care (including one package with a surcharge paid by the employee). There is also the opportunity to take medical care of family members fully paid by the employee.

7.9. IT

In 2014, the IT Department spent PLN 64.79 million on its investment projects. During this period, 9 projects were completed and 6 projects are in progress.

Due to acquisition of BGZ Bank by BNP Paribas Group the program of integration of BGŻ Bank and BNP Paribas Bank Polska was launched. The program includes the package of projects, execution of which was divided in stages. The first stage is being executed and will be ended at the day of legal merger. An objective of another stage is the preparation of one common brand.

The most significant IT initiatives undertaken are as follows:

- Integration with Rabobank Polska systems in the areas of treasury, back office, risk management, payments and reporting.

- Implementation of changes in IT systems to enable the introduction of a dedicated offer for Personal Banking with support for cross-currency cards.
- Implementation of access to online banking through mobile devices.
- Implementation of mechanisms that mitigate operational risk in the Bank's main transactional system.
- Implementation of the system to support enforcement activities and queries of enforcement authorities.
- Implementation of preapproved campaign service in an electronic distribution channel - personalized product offers for the existing customers.
- Implementation of mechanisms for data quality in the Bank's main transactional system and the online banking system.
- Implementation of customer retention process based on the CRM system.
- Implementation of a new channel for the data exchange with Credit Information Bureau (BIK).
- Implementation of the requirements of Recommendation D of FSA and recommendations of the Dutch central bank DNB (De Nederlandsche Bank) in terms of raising the level of maturity of IT processes supporting the delivery of IT services to the business departments. The project also includes the implementation of IT service management processes.
- Sale of ATMs to IT Card and switch of devices to purchasing system.
- Implementation of the requirements arising from the regulation of EMIR (European Market Infrastructure Regulation) regarding regulation of derivate trading.
- Implementation of data archiving in the main Bank's transactional system.
- Implementation of centralized management process for user identification and their authorization in IT System
- Implementation of the requirements of FATCA regulations (Foreign Account Tax Compliance Act) issued by the U.S. IRS (Internal Revenue Service, the equivalent of polish tax office in the U.S.) relating to disclosure of financial information about foreign accounts for the taxation purposes.
- Implementation of a new reporting platform to replace existing management information system.
- Establishing a central repository of documents in the Bank.
- Establishing the Bank's Data Corporate Model, that is the first stage of the project of establishing the Bank's Data Architecture – basis of data quality management process. The project meets the requirements of Recommendation D of FSA in terms of architecture and data quality.
- Change in customers' identification and authorization method via TeleBGŻ electronic banking platform that facilitate customers an access to account and services offered by the Bank.
- Implementation of IT system to support the electronic archive of loan applications and monitoring of loan agreements.
- Establishing of a central repository to archive and manage information about Bank's collaterals. The central repository will support credit, restructuring and collection processes.
- Implementation of the processes automation for retail clients monitoring and retail and institutional clients debt collection.
- Implementation of an IT tool type Fraud Detection System, which aims to strengthen anti-fraud control in lending process and monitoring of suspicious transactions in the existing portfolio of retail and institutional loans.
- Implementation of investment advisory services to retail customers of the Bank.
- Implementation of Pay-By-Link payment service that will enable electronic banking customers to perform fast, safe and convenient transfers for Internet shopping.

- Implementation of a system to automate event campaigns, i.e. offer presentation to the client tailored to the context and characteristics of the client at the optimal time and communication channel in response to the specific events relating to this client.
- Implementation of electronic banking system adaptation for corporate customers, so that it was possible to service customers with Home Banking system.
- Implementation of a system at the Bank's Head Office to protect against access to resources from unauthorized computers.
- Implementation of new technologies in the IT infrastructure – to give dynamic addresses to the computers, access to the 10 Gb/s network.

8. RISK MANAGEMENT

8.1. CREDIT RISK

Credit risk management

Credit risk is defined as the risk of default of financial liabilities by debtor in specified term, being – in particular – the risk of non - payment of loan as well as the risk of worsening of the financial situation of debtor, which both affect valuation and quality of the Bank's assets.

Credit risk is included in the basic and essential financial activities of the Bank, including both lending activity, as well as the financing of capital market products. As a result, credit risk is identified as having the greatest risk of potential impact on current as well as future, profits and equity of the Bank. The significance of credit risk confirms its 70% share in the total amount of economic capital estimated by the Bank to cover the significant risks involved in the activities of the Bank, as well as 90% of the total amount of regulatory capital.

The primary objective of credit risk management is the implementation of the Bank's strategy through steady growth of the loan portfolio while maintaining an acceptable level of credit risk appetite.

The main activities in respect to credit risk realized by the Bank are as follows:

- each credit transaction requires a comprehensive assessment of credit risk, which is reflected by internal rating or scoring,
- thorough and careful financial analysis provides a basis for recognition of customer financial data and information about the value of the collateral as reliable; careful analysis of the Bank always includes the necessary safety margin,
- basis for financing of the client is - as a rule - its ability to generate cash flows to ensure repayment of financial obligations to the Bank,
- credit risk assessment is additionally verified by independent of the business units, credit risk assessment units,
- price terms of credit transactions must cover the risks of the transaction,
- credit risk is diversified in terms of geographical areas, sectors, products and customers,
- credit decisions can be made only by authorized persons,
- the Bank enters into credit transactions only with known customers, and the basis for cooperation with clients are long-term relationships,
- client and transactions are monitored in a manner transparent to the client and strengthening customer relationships.

Collaterals

Established by the Bank means of legal protection of loan transactions are monitored by assessing the value of any collateral on the basis of documents submitted by borrowers. In addition, during the evaluation of collateral, the Bank uses internal databases that contain historical information about statistics of realization of rights from collateral.

The Bank recognizes that the primary protection of the Bank's interest is good financial standing of a customer, while the acceptance of the material or personal collateral is an additional aspect of mitigating risk in the event of insolvency of the customer.

The key principles of hedging the Bank's credit exposure, including special rules for mortgages, are described by credit handbook of institutional clients and management policy for retail credit exposures of BGŻ S.A., adopted by the Management Board.

As a rule, the Bank requires that the collateral was established prior to release of funds relating to loan transaction, and the form, nature and value of the security was adequate for the identified risk of hedged transaction. When choosing the form and the collateral the Bank takes into account particularly:

- nature, amount and duration of the credit transaction,
- requirements for establishing a specific form of collateral for specific product,
- economic and financial situation of the debtor in respect of a collateral in case of personal security and the value of the collateral for material security,
- liquidity of the collateral, understood as a real opportunity to meet the Bank's claims on security in the shortest possible time, and without a significant decrease in the value of the collateral due to the price fluctuation of the collateral,
- costs incurred by the customer associated with the establishment of collateral,
- availability and the ability to control the collateral and time needed for monitoring by the Bank,
- place in ranking for claiming collateral.

Bank's internal regulations specify the procedures for the establishment, measurement and monitoring of collateral, including requirements for assessment of the financial standing of the personal security issuer, and with respect to the collateral - the principles of valuation of assets that the Bank accepts as a collateral. With respect to the mortgage collateral, the Bank determines the value of the property based on valuations prepared by professional appraisers, and for selected types of real estate Bank accepts internal valuations based on statistical data and transaction prices. In the case of other physical collateral (pledge registration, transfer of ownership) the Bank calculates the value of the collateral, in particular, on the basis of actual transaction prices.

Update of the value of collateral, the evaluation of the technical condition of the collateral and the control of LTV ratio for transactions secured by mortgages, are elements of monitoring customer credit risk, including transactions. In the process of mortgage valuation, Bank use internal indicators, rely on valuations made by Bank's professional appraisers and external data bases.

Reducing the risk of changes in the collateral value is carried out, inter alia, through including relevant provisions in the loan agreements, including contractual clauses regarding inability to satisfy from fixed asset collateral pledged as security - without consent or notification to the Bank - or a lack of possibility of disposal fixed assets - without consent or notification to the Bank.

Implementing the provisions of the rules and supervisory recommendations, the Bank introduced internal rules complying with the regulations of the Polish Financial Supervision Authority, in particular with Recommendation S concerning the mortgage collateral. In compliance with agreements of F-Recommendation of PFSA regarding collection and processing data about properties, the Bank collects data on properties which are a collateral in mortgage transaction, in Central Collateral Database.

Structure and quality of credit portfolio

The Bank's credit portfolio is characterized by a high share, with increasing tendency, of loans with relatively safer risk profile i.e. housing loans and loans granted to farmers. Their share in the structure of loan portfolio exceeds 45%. The share of cash loans with higher risk of default is relatively low, however systematically increases. In the structure of mortgage loans, loans in foreign currencies account for 34.8% (PLN 2 901 952 thousand), of which 99% loans granted in CHF.

Table 33. Structure of loan portfolio

PLN thousand	31.12.2014		31.12.2013	
	PLN thousand	share %	PLN thousand	share %
Loans and advances gross	**31 099 045**	**100.0%**	**27 549 925**	**100.0%**
Mortgage loans	8 340 820	26.8%	8 038 380	29.2%
– in PLN	5 438 868	17.5%	5 035 855	18.3%
– in foreign currencies	2 901 952	9.3%	3 002 525	10.9%
Cash loans	1 366 177	4.4%	1 018 435	3.7%
Other loans to retail clients	487 150	1.6%	512 380	1.9%
Individual entrepreneurs	1 789 720	5.8%	1 572 698	5.7%
Farmers	8 694 500	28.0%	7 143 597	25.9%
Corporates	10 126 404	32.6%	8 835 590	32.1%
Public sector	216 419	0.7%	252 979	0.9%
Other receivables	77 855	0.3%	175 866	0.6%

Share of cash loans, characterized with higher risk of credit losses is relatively low, however is systematically growing. In 2014, highest growth of volume noted loans to farmers (by PLN 1 550 903 thousand) and to entrepreneurs (by PLN 1 290 814 thousand), mainly due to acquisition of loan portfolio of Rabobank Polska.

Share of exposures with identified impairment in loans and advances (gross) to customers slightly improved and amounted to 8% as at the end of December 2014, compared to 8.1% as at the end of 2013.

Change of this indicator was mainly a result of lower share of impaired exposures in the cash loans portfolio; (9.8% as at 31 December 2014 compared to 13.2% in 2013), what was a result of dynamic growth of this portfolio (increase of volume by 34% y/y) and of decrease of share of impaired exposures in the portfolio of mortgage loans decreased from 5.2% to 4.2%.

Table 11. Quality of the loan portfolio

PLN thousand	31.12.2014			31.12.2013		
	Gross Total	including: impaired*	share %	Gross Total	including: impaired	share %
Loans and advances, gross	**31 099 045**	**2 489 700**	**8.0%**	**27 549 925**	**2 236 159**	**8.1%**
Housing loans	8 340 820	351 924	4.2%	8 038 380	420 367	5.2%
– in PLN	5 438 868	181 052	3.3%	5 035 855	226 555	4.5%
– in foreign currencies	2 901 952	170 872	5.9%	3 002 525	193 812	6.5%
Cash loans	1 366 177	134 286	9.8%	1 018 435	134 397	13.2%
Other loans to retail clients	487 150	55 790	11.5%	512 380	63 572	12.4%
Farmers	8 694 500	305 001	3.5%	7 143 597	248 724	3.5%
Corporate clients excluding farmers	12 210 398	1 642 699	13.5%	10 837 133	1 369 099	12.6%

*including exposures with identified impairment trigger, but not impaired

Restructuring and recovery of high risk debt

The policy of restructuring and debt recovery, conducted in 2014, was a continuation of activities conducted in the area of:

- identification, negotiation and implementation of activities aimed at maximizing repayments by debtors or – where possible – implementation and monitoring of debtor corporate recovery proceedings leading to improvement of debtor financial and economic position, with the overall view to return debtors for servicing by their original sales units,
- providing a support for business units in handling loans at risk,
- business units support in recovery of overdue debts,
- active monitoring of execution and bankruptcy proceedings,
- disposal of part of non – performing loans,
- tax optimization of executed strategies,
- identification of early warning signals and taking appropriate actions (where possible, in collaboration with sales units) limiting the risk of potential losses,
- appropriate training for business units personnel and credit area personnel in order to increase efficiency in identifying warning signals, helping with proper granting of loans (particularly in the collateral establishment, which apart from the repayments are the main source of recovery),
- improvement of the Bank's organizational structure, procedures and tools to enhance the efficiency of the tasks carried out,
- implementation of IT tools to streamline activities regarding restructuring and debt recovery.

Debts recovered in 2014 in the amount of PLN 477.2 million (principal), including PLN 36.5 million from selling the retail loans portfolio (capital), were the result of the conducted court executive procedures, bankruptcy proceedings in progress, civil-legal agreements with debtors and composition proceedings in process.

The number of enforceable titles issued by the Bank in the first half of 2013 amounted to 652 for corporate loans and 1 737 for retail loans.

The value of collaterals in the portfolio, which is recovered or restructured, is as follows (in the context of the LTV ratio for mortgage loans and loans secured by mortgages):

- institutional in PLN – 53.2% and in foreign currency 79.7%,
- retail in PLN – 76.8% and in foreign currency 112.3%.

The above information reflects a relatively adequate level of collateralization with the concurrent limitation of risk of debt non-recovery. A high LTV ratio for retail loans results mainly from currency appreciation (CHF).

8.2. FINANCIAL RISK

8.2.1. MARKET RISK

The Bank's operations are recorded in the trading and banking books. Fluctuations in market interest rates, currency exchange rates, prices of securities or in the implied volatility of option instruments cause changes in present values of these books. The risk of unfavorable fluctuations in value due to the above risk factors is recognized by the Bank as market risk, and due to the different nature of these books, this risk is monitored and managed separately for each book. In addition, the Bank resigned from conducting own investment activities on the stock market by the Brokerage Office.

Market risk in the banking book

The banking book of the Bank consists of two elements – ALM, which aims to manage the interest rate risk and long-term liquidity of the Bank. The second part is Money Market Portfolio, which functions as a short term liquidity management centre.

ALM consists of deposits and loans, strategic positions (long-term investments and debt securities issue), financial market transactions hedging the banking book (derivatives) and non-interest items (i.e. equity, tangible assets, intangible assets, taxes and provisions, result for the period). Management over all these elements is transferred to Bank's Headquarters through Funds' Transfer Pricing (TCF) system.

Money Market encompasses liquid assets including among others portfolio of debt securities and NOSTRO/LORO accounts. This portfolio consists of derivatives instruments, whose goal is to stabilize the cost of financing, to meet the needs of ALM portfolio through market operations.

The Bank's policy with respect to the banking book is to earn additional income above the product margin, while avoiding the risk of instability of deposits placed by clients, equity or financial result. The Bank achieves this goal by keeping or adjusting the natural risk exposure resulting from deposit and lending activities within current risk limits or middle- and long-term financial market trends.

The main measures of the market risk applied by the Bank in the ALM portfolio are:

- interest rate revaluation gap,
- the weighted average duration of assets/liabilities and equity known as 'duration',
- sensitivity measures – defining sensitivity of the financial item – valuation, interest income, net economic value of equity – to changes in risk factors,
- IaR (Interest-at-Risk – sensitivity of interest result),
- EaR (Equity-at-Risk – sensitivity of the current value of net capital),
- In the Money Market portfolio, according to its nature and purpose, equivalent measures to those used for the trading book are applied,
- VaR – Value-at-Risk – showing maximum acceptable level of loss on the given item in normal market conditions in a defined time period that can be exceeded with a defined probability; The Bank applies the parametric model with modified variance – covariance matrix and exponential weighting of historical observations; the accepted confidence level is 99%, and the period of position holding for the banking book is 1 month,
- scenario analysis and stress tests – supplement VaR to include statistically unpredictable market events: historical economic and political crises, theoretical scenarios,
- BpV (basis point value) – price sensitivity to a parallel shift of the yield curve.

The Bank manages the banking book risk by limiting risk measures and monitoring the risk on an ongoing basis.

Banking book – situation in 2014

As at the end of June 2014, the value of the „duration" measure, i.e. the average weighted period to repricing of interest rate for assets remained at the level of 3.3 months (at the end of December 2013 – 3.8 months), whereas for liabilities – equaled to 2.7 months (at the end of December 2013 - 3.3 months). The duration of net principal decreased from 11.9 months at the end of 2013 to 7.8 months at the end of December 2014. The repricing period for almost 89% of assets and liabilities was lower than 6 months (at the end of 2013 - 90%), however almost 52% of assets and liabilities are to be re-valued within one month (at the end of 2013 - 53%).

In 2014, the interest rate risk (measured IaR) increased from PLN 35.8 million to PLN 44.4 million in a scenario of 200 bps increase in interest rates (change deferred on 12 months) and from PLN 38.7 million to PLN 42.5 million in a scenario of 200 bps decrease in interest rates. Decrease in interest income in both 2013 and 2014 would occur in case of decrease of interest rates scenario.

The merger of Bank BGŻ with Rabobank Polska, on 18 June 2014, had marginal effect on the Bank interest rate risk profile, due to effective structure of repricing assets and liabilities of Rabobank Polska.

The sensitivity of net interest income (IaR) was as follows as at the end of 2014 (in brackets: values as at the end of 2013):

- an immediate increase in interest rates by 50 bps would result in increase in net interest income during one year by PLN 23.5 million (+ PLN 14.1 million),
- an immediate decrease in interest rates by 50 bps would result in decrease in net interest income during one year by PLN 22.2 million (- PLN 15.6 million).

The exposure of Money Market portfolio was dominated by positions in NBP bills and in less 1 year treasury bonds. Additionally, Interest Rate Swaps transactions (OIS and IRS – exposure adjusting, hedging the price risk) and FX Swap (the financing of the Group in foreign currencies) were used in the portfolio. In 2014 the average utilization of VaR limits reached the level of 32% compared to 45% in 2013. In terms of the currency structure, the biggest share had exposures in PLN and USD, EUR, CHF.

Trading book – situation in 2014.

In 2014 the VaR limit in trading portfolio was utilized at low level (27% compared to 70% 2013) and risk profile was determined mainly by interest rate risk exposures (IR_TRADING portfolio with average utilization of VaR limit at the level of 28% compared to 73% in 2013). The increased fluctuation of risk factors in the first quarter (intensified outflow of capital from emerging markets and escalation of conflict in the Ukraine) had influenced value at risk in trading portfolio in limited extent, because of low positions of treasury bonds (only Polish treasury bonds). Transfer from Money Market portfolio to IR_TRADING portfolio of positions unbounded with securitization of ALM portfolio and positions securing client activity occurred in December. It has increased utilization of VaR limit (61% as at the end of 2014). As at the end of 2014, the trade portfolio was exposed on multifactor scenario: increase of interest rates for PLN and simultaneous depreciation of PLN against major currencies. The currency risk remained at the low level (VaR limit of FX_TRADING portfolio was utilized in average at 18% in 2014, unchanged in comparison to 2013), the activity was focused on EUR and, in lower extent, on USD. Mainly as a result of customers' activity, the currency exposure of the Bank during most of the quarter was significantly limited at the end of the day.

In 2014 there was one limit excess in the trade portfolio: gross position for CZK. The excess was qualified as insignificant. Changes of market risk profile resulted from the merger of BGŻ and Rabobank Polska were insignificant and were caused by the increased volume of debt securities in trade portfolio.

Liquidity risk and assessment of finance sources stability

In 2014 the Bank was selectively accumulating resources in order to finance current credit activity. It is worth to mention that the most significant growth referred to the most stable resources i.e. segment of retail customers and internet business line BGŻOptima. The most dynamic growth in credit activity was reported for segments of: retail customers and Microenterprises. The stable growth of funding along with growth of credit activity, provided the liquidity safety and remaining the liquidity risk indicators at safe level below limits.

The maintenance of high-stable resources to finance Global Corporate Clients, combined with growth of CDs stability, and remaining high stability of retail resources and BGŻOptima (at level of 93.3%) resulted in maintenance of stability of funding on the level of 89.6% at the end of December 2014 (from 89.4% at the end of 2013).

Possessed financial resources allowed for timely payment of all liabilities of the Bank. The portfolio of the most liquid securities was maintained at a level fully securing potential outflow of the largest depositors. The surplus of liquid assets over the minimum required limit at the end of December 2014 amounted to PLN 1.13 billion, despite the increase of the minimum by 0.5 billion after the merger.

As at the end of 2014 the surplus of funding sources from outside the interbank market over the balance of loans amounted to PLN 3.78 billion, i.e. increase by 28% compared to December 2013. Due to an increase of those sources, the surplus over the loan portfolio amounted to PLN 286 million.

8.3. OPERATING RISK

In accordance with the regulations in force, the Bank defines operating risk as a risk of loss or unjustified costs resulted from inadequacy or failure of internal processes, people, systems or external factors. The Bank includes also the risk of non-compliance, including legal risk.

The purpose of operating risk management is to limit losses and costs arising from the risk, ensure rendering services of the highest quality as well as the security and compliance of Bank's activities with binding laws and regulations.

In 2014, bank continued its activities focused on strengthening operating risk infrastructure in both Head Office and branches. Moreover Bank undertook actions in area of internal control focused on improving reaction process responsible for identifying inefficiency of control environment. As a part of actions mitigating operating risk in 2014, executed were several incentives, among other in the area of control mechanisms in the systems, tools of identification and management of operating risk in regions, and counteractions against frauds.

Bank actively identified operating risk and took action to mitigate this risk, through including Subcommittee of Operational Risk, Compliance and Fraud Prevention.

8.4. LEGAL RISK

The litigation situation in2014 within compensation and employment claims was stable and did not generate material legal risk for the Bank.

There were no court or administrative proceedings held by public administration bodies in relation to liabilities or receivables of the Bank, with the claim amount for at least 10% of the Bank's equity as at 31 December 2014.

9. INFORMATION ABOUT THE AUDITOR

On 28 January 2013, the Supervisory Board appointed an entity authorized to audit of financial statements - KPMG Audit Sp. z o.o. Sp.k. ("KPMG") with its registered office in Warsaw at Chłodna 51 Street, entered on the list of entities authorized to audit financial statements under the number 3546, which is entrusted with the audit of the annual and semi-annual review of the financial statements of the Bank and the Bank's Group for the years 2013-2015. The corresponding contract for the provision of audit services was concluded on 10 May 2013.

Selection of KPMG has been made in accordance with applicable regulations and professional standards. The company has also reviewed the interim financial statements of the Capital Group of the Bank in 2013.

Table 35. Auditor's remuneration divided by types of services (in thousand PLN)

PLN thousand (including: VAT)	**Year ended 31 December 2014**	**Year ended 31 December 2013**
Mandatory audit /review of financial statements	812	480
Other attestation services	440	108
Other services	99	194
Total	**1 351**	**782**

Increase of Auditor's remuneration is among others a result of additional costs regarding review of financial statements of Rabobank Polska at the day of acquisition.

10. SALARY OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

Personal data on wages paid in a given year for individual members of the Management Board are as follows:

Table 36. Salaries paid to the members of the Management Board in 2014

PLN thousand Name and Surname	Work period since	Work period to	Base Salary	Annual bonus	Phantom shares purchase	Other benefits	Total
Jacek Bartkiewicz	01.01.2013	31.03.2013	0	53	309	0	362
Józef Wancer	16.09.2013	31.12.2014	2 608	28	0	57	2 693
Johannes Gerardus Beuming	01.01.2013	30.06.2014	403	29	73	998	1 503
Gerardus Cornelis Embrechts	01.01.2013	31.12.2014	873	88	90	1 672	2 723
Magdalena Legęć	01.01.2013	31.12.2014	735	72	91	96	994
Monika Nachyła	01.04.2013	31.12.2014	1 320	124	0	117	1 561
Dariusz Odzioba	01.01.2013	31.12.2014	1 058	166	213	96	1 533
Witold Okarma	01.01.2013	31.12.2014	909	89	113	86	1 197
Wojciech Sass	01.01.2013	31.12.2014	1 339	202	243	97	1 881
Andrzej Sieradz	01.01.2013	31.12.2014	794	78	99	91	1 062
Total			**10 039**	**929**	**1 231**	**3 310**	**15 509**

Table 37. Salaries paid to the members of the Management Board in 2013

PLN thousand Imię i nazwisko	Work period since	Work period to	Base Salary	Annual bonus	Other benefits	Total
Jacek Bartkiewicz	01.01.2013	31.03.2013	309	237	3 437	**3 983**
Józef Wancer	16.09.2013	31.12.2013	624	-	13	**637**
Johannes Gerardus Beuming	01.01.2013	31.12.2013	601	56	515	**1 172**
Gerardus Cornelis Embrechts	01.01.2013	31.12.2013	780	69	853	**1 702**
Magdalena Legęć	01.01.2013	31.12.2013	718	70	136	**924**
Monika Nachyła	01.04.2013	31.12.2013	990	-	106	**1 096**
Dariusz Odzioba	01.01.2013	31.12.2013	1 038	163	496	**1 697**
Witold Okarma	01.01.2013	31.12.2013	891	86	87	**1 064**
Wojciech Sass	01.01.2013	31.12.2013	1 315	186	97	**1 598**
Andrzej Sieradz	01.01.2013	31.12.2013	779	76	91	**946**
Total			**8 045**	**943**	**5 831**	**14 819**

Provisions for bonuses of the Management Board members amounted to PLN 2 912 thousand in 2014 and PLN 2 111 thousand in 2013. Moreover, six members of BGŻ Management Board active as at 5 September 2013, were included in retention program granting them right to the additional remuneration in the amount of 12 base salaries, which will be paid in two tranches. Till 30 September 2014 remuneration due to retention program paid to members of Management Board amounted to PLN 3 030 thousand.

According to the individual contracts of employment members of the Management Board are entitled to life insurance and medical care package as well as compensatory bonus.

Additionally benefits available to members of the Management Board (on the basis of individual contracts of employment) include:

- Housing allowance specified in employment contract,
- Coverage or reimbursement of the expenses incurred due to delegation to work in Poland,
- Once a year private travel expense coverage for the delegated member of the Management Board and members of his or her family living in Poland,

- Coverage of the school expenses for the children of the members of the Management Board,
- One time addition to the salary due to change of work place.

Personal data on wages paid in a given year for individual members of the Supervisory Board are as follows:

Table 38. Salaries paid to the members of the Supervisory Board in 2014

PLN thousand Name and Surname	Work period Since	to	Base Salary
Evert Derks Drok	01.01.2014	15.09.2014	76
Jan Aleksander Pruijs	01.01.2014	15.09.2014	114
Tanja Cuppen	01.01.2014	15.09.2014	76
Dariusz Filar	01.01.2014	31.12.2014	116
Jarosław Iwanicki	01.01.2014	15.09.2014	76
Mariusz Warych	01.01.2014	31.12.2014	96
Jarosław Bauc	15.09.2014	31.12.2014	20
Jean-Paul Sabet	15.09.2014	31.12.2014	0
Jean Lemierre	15.09.2014	31.12.2014	0
Michel Vial	15.09.2014	31.12.2014	0
Total			**574**

Table 39. Salaries paid to the members of the Supervisory Board in 2013

PLN thousand Name and Surname	Work period Since	to	Base Salary
Evert Derks Drok	01.01.2013	31.12.2013	93
Jan Aleksander Pruijs	01.01.2013	31.12.2013	139
Johannes Henricus De Roo	01.01.2013	28.06.2013	54
Dariusz Filar	01.01.2013	31.12.2013	116
Jarosław Iwanicki	01.01.2013	31.12.2013	93
Monika Nachyła	01.01.2013	01.03.2013	23
Tanja Cuppen	28.06.2013	31.12.2013	39
Mariusz Warych	28.06.2013	31.12.2013	39
Total			**596**

11. BASIC AVERAGE INTEREST RATES USED DURING THE YEAR

Table 40. Average interest rates in the Bank in 2014, based on compulsory reporting to the NBP Department of Statistics

Product	PLN	EUR	CHF
Deposits	**1.58%**	**0.10%**	
Households and non-profit institutions	**1.77%**	**0.10%**	
Current	1.32%	0.10%	
term	2.56%		
enterprises	**0.88%**	**0.10%**	
Current	0.35%	0.10%	
term	1.86%		
Loans	**7.39%**	**1.30%**	**1.76%**
Households and non-profit institutions	**7.76%**	**2.07%**	**1.76%**
credit cards	17.85%		
consumer	15.69%		
mortgages	4.65%		1.76%
other purposes	6.98%		
Enterprises	**6.56%**	**1.24%**	
in current account	7.20%	1.24%	
in credit account	6.09%		

12. REPORT OF APPLICATION OF CORPORATE GOVERNANCE STANDARDS IN 2014 BY BGŻ S.A.

Statement on application of Corporate Governance Standards

In accordance with § 91 section 5 paragraph 4 of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognizing as equivalent information required by the law of non-member state (Journal of Laws 2014 No. 133), the Management Board presents the following information on the application of the principles of corporate governance in 2014.

Corporate governance principles, which were subject to the Bank and places where principles are publicly available

Corporate governance principles, which were subject to the Bank in 2014 is contained in the "Code of Best Practice for WSE Listed Companies" being an annex to Resolution No. 19/1307/2012 of the WSE Supervisory Board dated 21 November 2012. The document is publicly available on the website at http://corp-gov.gpw.pl/publications.asp., which is the official website of the Warsaw Stock Exchange devoted to issues of corporate governance of listed companies.

Additionally, in December 2014 Bank's Management Board and Supervisory Board accepted most of the practices and defined exceptions together with explanations to "Corporate governance principles in supervises institutions" (Corporate governance principles) from 22 July 2014, published by Polish Financial Supervisory Authority. Principles are publicly available on the website of Polish Financial Supervisory Board: http://www.knf.gov.pl/dla_rynku/zasady_ladu_korporacyjnego/index.html.

Bank is obliged to follow the rules since the beginning of 2015.

Information concerning the provisions of the corporate governance principles, which the issuer has departed from and explanation of the reasons of non-compliance

The Bank has adopted the application of the principles of corporate governance resulting from the "Best Practices of WSE Listed Companies ("Best Practices") amended by update of these rules made by the WSE Supervisory Board's Resolution No. 19/1307/2012 on 21 November 2012 concerning the adoption of changes in the "Best Practices of WSE Listed Companies". Best Practices in the above mentioned form have been adopted for use by the Management Board by Resolution No. 189/BZ/55/2012 adopted on 18 December 2012.The Bank has decided that:

1 / principle laid down in part. II, paragraph 9a of Best Practices on the conduct of the Company's corporate website and posting on it, in addition to the information required by law - records of the proceedings of the general meeting, in the form of audio or video, and

2 / the principle laid down in part. IV, paragraph 10 of Best Practices concerning the provision by the Company to participate in the General Meeting by means of electronic communication

- will not be applied by the Bank

<u>Explanation:</u>

- For point 1 above – in 2014 the number of shared held by minority shareholders continually decreased due to announced tender offer by BNP Paribas S.A. and a "squeeze out" in December. Currently shares belong to two shareholders - BNP Paribas SA and Rabobank International Holding B.V. Thus, the Bank does not expect registration of the general meeting in the form of audio or video, and publishing the proceedings of the Bank's website. Management believes that the publishing of current reports and information relating to the conduct of the General Meeting on the Bank's website ensures transparency and fully protects the rights of minority shareholders,

- For point 2 above – Regarding the above, in the opinion of the Management Board solutions in force at the Bank for shareholders' participation in General Meetings allow adequate implementation of the rights arising from shares held and fully protect the interests of minority shareholders.

<u>The Management Board declares that the Bank and its authorities complied with adopted by the Bank principles of corporate governance set out in the Code of Best Practice in 2014</u>. In the period covered by this report there were no violations of the corporate governance rules adopted by the Bank.

Corporate Governance Practices for supervised institutions published by PSFA

Detailed information about applied principles and Management's Board and Supervisory Board exemptions to „Corporate Governance Practices for supervised institutions" can be found on the Bank's website:

https://www.bgz.pl/downloads/relacje_inwestorskie/ZASADY-LADU-KORPORACYJNEGO-WWW.pdf

Below presented are Management Board and Supervisory exemptions to the principles

<u>Principle:</u>

§ 8 point 4 - A supervised institution, when justified by the number of shareholders, should strive for facilitating the participation of all shareholders in the meeting of the General Meeting of the supervised institution, among others, through ensuring the possibility of electronic active participation in the meetings of the General Meeting.

<u>Explanation:</u>

The Bank's Statute does not foresee the possibility of participating during the GM via electronic means. Due to the fact that majority of shares at 31 December 2014 was held in the hands of the two shareholders, the Bank will not be decided to withhold from the possibility of allowing shareholders to participate in the GM via electronic means.

<u>Principle:</u>

§ 30 point 5 - Remuneration of a management body member or key personnel should be financial and paid from the funds of the supervised institution.

<u>Explanation:</u>

Due to special factual situation (ownership transition process) faced by the Bank – the members of the management body and some of the personnel responsible for key duties in the Bank have signed contracts upon which they obtain additional remuneration from another source than the Bank. The contracts will expire on 15 March 2015.

Simultaneously the Bank partially agrees with following principles

<u>Principle:</u>

§ 29 point 1 - Remuneration of the members of the supervisory body shall be established adequately to the fulfilled function, as well as adequately to the scale of operations of the supervised institution. Supervisory body members appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks performed within a given committee.

<u>Explanation:</u>

The principle is carried out only for the Supervisory Board members and only for persons not employed in BNP Paribas SA or its subsidiaries. The general principles of remuneration and the level of remuneration of members of the supervising body were set by the EGM resolution No. 24 dated 10 January 2005, as amended (EGM Resolution No. 4 dated 17 November 2014), which states that the remuneration shall not be due and payable to the Members of the Supervisory Board, who are concurrently employed by BNP Pariabs S.A. or subsidiares of BNP Paribas S.A. The principle that The Supervisory Board conducts the assessment whether the adopted remuneration policy ensures the development and safety of operations of the supervised entity. The Bank plans to present an appropriate solution during the next General Meeting of the Bank "Supervisory body members appointed to work in committees, including the audit committee, should be remunerated adequately to the additional tasks performed within a given committee." - is not specified in the resolution.

Principle:

§ 31 point 1 - A supervised institution should maintain a transparent communication policy, taking into account the needs of its shareholders and clients, made available on the institution's website.

Explanation:

Since the Bank does not have a single document describing the Bank's communication policy, such document is not placed of the internet page of the Bank. The Bank applies a transparent information policy. Information important for clients and shareholders is published on internet pages of the Bank. In regard to confidential information, the Bank applies the principle of equal access. The Information Policy will be prepared in publish on the internet pages of the Bank in Q3 2015.

Moreover, all the rules that are in the hands of the shareholders will be subject to the decision of the Extraordinary General Meeting on 25 February 2015.

Due to the application of the Principles at the end of 2014 and period of validity beginning in 2015, Management of the Bank will assess "Corporate governance principles in supervised institutions" abidance after year 2015.

The description of Key Features of the Bank's internal control and risk management systems related to the preparation of financial statements and consolidated financial statements

The Bank has a system of internal control and internal audit tailored to the organizational structure, which includes the organizational units and the basic organizational units of the Bank and a subsidiary of the Bank.

The purpose of the internal control system of the Bank is to support decision-making processes to ensure:

- the effectiveness and efficiency of the Bank's operations,
- reliability of financial reporting,
- the Bank's compliance with laws and internal regulations.

The Bank's internal control system includes:

- mechanics of risk control
- reviewing of the Bank's compliance with internal law and regulations
- internal audit
- functional control

In the Bank there is functioning, organizational unit conducting internal audit, whose task is to examine and assess, in an independent and objective way, adequacy and effectiveness of internal controls and creating opinions of the Bank's management system, including the effectiveness of the risk management of the Bank's operations. Detailed rules for the internal control system are defined by internal regulations of the Bank. Director of Internal Audit Department reports directly to the President of the Management Board.

The Bank has adopted accounting policy, in accordance with the International Financial Reporting Standards. Preparation of financial statements, interim financial reporting as well as providing management information is the responsibility of the Finance and Reporting Division and Controlling Department, supervised by the First Vice-President of the Management Board.

Information on shareholders owning directly or indirectly a significant block of shares together with identification of number of shares owned by those shareholders, percentage of shareholders share in share capital, number and percentage of votes at the Bank's General Meeting resulting from owned shares

The main shareholders of the Bank are the following entities:

- BNP Paribas based in Paris Boulevard des Italiens, 1675009 Paris, France) holding directly 49 952 737 shares of the Bank, which represents 88.98% of the share capital in the Bank. BNP Paribas SA deals primarily with banking operations and the provision of banking services;
- Rabobank International Holding B.V. based in Utrecht, (Croeselaan 18, 3521 CB Utrecht, The Netherlands) [RIH], holding directly 5 613 875 shares of the Bank, which represents 9.99% of the

share capital of the Bank. RIH is a holding company of Rabobank Group, which deal primarily with banking operations and the provision of banking services.

Detailed information on the shareholding structure of the Bank is located in Table 6 Shareholding structure of the BGŻ S.A. in the Section 6 "Shareholder Structure". Detailed information on shareholder structure and significant events in 2015 are presented in Section 14.

Information on the holders of securities that confer special control rights with description of these rights

The Bank's shares are ordinary bearer shares and registered shares (as at 31 December 2014 – 13 024 915 were registered shares, including four shares of series B).

Ordinary bearer shares do not have any special rights of control.

However, registered shares of series B (as at 31 December 2014 - four shares) are preference shares with the right to obtain payment of the full nominal amount per share in the event of liquidation of the Bank after satisfying creditors, firstly before payments attributable to ordinary shares, which due to the implementation of the privilege may not cover the total nominal value of these shares.

Information on any restrictions of voting rights, such as restriction of voting rights of holders of given number or percentage of votes, temporary restrictions of voting or provisions according to which, with cooperation of a company, rights resulting from securities are separated from the fact of holding those securities

The Statute of the Bank does not establish any restrictions on voting rights and it does not contain any provisions under which financial rights attached to securities are separated from the ownership of securities. In accordance with § 10 section 4 of the Bank's Statute, each share gives right to one vote at the General Meeting.

Information on any restrictions of ownership transfer of securities issued by the Bank

The Bank's Statute does not introduce restrictions on the transfer of ownership of securities issued by the Bank.

Description of rules governing appointment and dismissal of members of managerial bodies and their rights, in particular right to decide whether to issue or repurchase shares

According to § 21 section 1 of the Bank's Statute, the Bank's Management Board consists of four to eight members, appointed for a joint term of office of three years.

The Board consists of the President, First Vice President, Vice Presidents and/or members of the Board who are appointed, dismissed and suspended from office by the Supervisory Board. At least two of the members of the Management Board, including the Chairman of the Board, should have knowledge and experience enabling sound and prudent management of the Bank. At least half of the members of the Management Board are people who are familiar with the Polish banking market, i.e. they are permanently domiciled in Poland, have command of Polish language and have relevant professional experience gained on the Polish market (§ 21 of the Bank' Statute).

The Management Board runs the business and represents the Bank. The Bank's Statute does not grant to the Bank's Management Board any special powers to issue or buy back shares. A detailed description of the operation, including rights of the Board, is included in § 22 paragraph 2 of the Statute of the Bank.

Description of rules for issuer's change of Statute

Any amendment to the Bank' Statute requires adoption by way of resolution of the Bank's General Shareholders Meeting and registering the amendment in the National Court Register. To the extent specified in paragraph 34 section 2 of the Banking Act from 29 August 1997 (consolidated text. Journal of Laws of 2002 No. 72, item 665, as amended) amendment of the Statute requires approval of the Financial Supervisory Commission.

Conclusions of the Management Board on amendments to the Bank' Statute, as well as other cases brought by the Board for consideration by the General Meeting, shall be presented to the Supervisory Board for review.

The issues concerning, among others, amendments to the Statute, in particular with regard to the change of the Bank's firm, its registered office, business profile, referred to in § 5 paragraph 2 of the Bank's Statute, increase or reduction of the share capital of the Bank, the resolutions of the General Meeting shall be passed by a majority of three fourths of the votes. (§ 13 paragraph 2 of the Bank's Statute).

Referring to the provisions of § 20 paragraph 1 point ł of the Bank's Statute, immediately upon completion of the General Meeting enforcing amendments to the Bank's Statute, the Supervisory Board is responsible for determining the consolidated text of the Statute and introducing other amendments to the Statute of the nature specified in the resolution of the General Meeting.

Operations of the General Meeting and its basic rights and the rights of shareholders and the manner of their execution, in particular those arising from the regulations of the General Meeting, to the extent not resulting directly from the law

In accordance with the provisions of § 8 paragraph 6 of the Statute of the Bank, the General Assembly shall be called by the announcement made on the Bank's website and in the manner specified for providing current information, in accordance with the rules, about public offering and conditions governing introduction of financial instruments to organized trading and about public entities for at least 26 days before the General Meeting.

General Meetings are held at the headquarters of the Bank, which is located in Warsaw. The General Meeting shall be convened as ordinary and extraordinary. The General Meeting is convened by the Management Board. The Annual General Meeting is held once a year, not later than 6 months after the end of each fiscal year (§ 8 paragraph 2 of the Statute of the Bank).

The Extraordinary General Meeting shall be called as it is necessary by the Management Board on its own initiative or at the request of the Supervisory Board, or at the request of a shareholder or shareholders representing a total of at least 1/20 of the share capital (§ 8 paragraph 3 of the Statute of the Bank).

A shareholder or shareholders representing at least one twentieth of the share capital of the Bank may request the convening of an Extraordinary General Meeting, as well as the inclusion of certain issues on the agenda of the General Meeting. Shareholders representing at least half of the share capital of the Bank, or at least half of the total votes in the Board may convene an Extraordinary General Meeting. Shareholders appoint the chairman of the meeting (§ 8. 5 of the Statute of the Bank).

In accordance with § 9 of the Statute of the Bank, all matters submitted by the Board to the General Meeting shall be first submitted to the Supervisory Board for consideration.

A shareholder or shareholders representing in aggregate at least one twentieth of the share capital of the Bank may request that certain items on the agenda of the next General Meeting, should be submitted in writing or in electronic form to the Management Board, which in turn will present it with its opinion to the Supervisory Board. The application of the shareholder containing justification or a draft resolution concerning the proposed agenda shall be submitted to the Management Board no later than 21 days before the scheduled date of the General Meeting (§ 9 paragraph 1 second sentence of the Statute of the Bank).

Removal from the agenda or abandonment of review of an issue placed on agenda on shareholders' request requires the resolution of the General Meeting of the Bank and the consent of all shareholders of the Bank, who submitted a proposal to place a particular issue on the agenda of the General Meeting.

General Meeting of the Bank shall be valid regardless of the number of shares represented. In addition to the Commercial Companies Code issues related to the calling and functioning of the General Meeting are set out in the Bank's Statute, Regulations of the General Meeting and the notice convening the General Meeting.

On 21 July 2011, the Extraordinary General Meeting approved the new Regulations of the General Assembly, in accordance to which the General Meeting should be held in accordance with the provisions of the Commercial Code, the Banking Law, the Bank's Statute, the Rules, including the Code of Best Practice. In accordance with § 10 of the Rules of Procedure of the General Meeting, in the General Meeting participate members of Supervisory Board and Management Board in the composition that can give essential answers to the questions asked during the General Meeting. If the financial affairs shall be the subject of the General Meeting, general auditor should be present during the meeting. Regulations of the General Meeting shall include in particular provisions concerning elections, including elections to the Supervisory Board by voting in separate groups.

In accordance with the provisions of the Commercial Companies Code, the Banking Law and the Statute of the Bank the basic (core) competences of the General Meeting include:

- consideration and approval of the Management Board Report on the activities of the Bank and financial statements for the previous financial year,
- consideration and approval of the Management Board Report on the activities of the Group and consolidated financial statements of the Group for the previous financial year,
- adopting a resolution on profit distribution or coverage of loss,
- granting discharge to members of the Supervisory Board and Management Board in respect of their duties.

Apart from the above, the General Meetings may also adopt resolutions in regard of:

- change of the Banks Statute
- appointment and dismissal of the Supervisory Board's members
- increase/decrease of the Bank's share capital
- issuing of convertible bonds and bonds with pre-emptive right to acquire shares of the Bank, as well as warrants
- redemption of shares and determination of the specific conditions of such redemption,
- merger or liquidation of the Bank, the choice of liquidators and the conduct of the liquidation,
- determining the remuneration rules and remuneration for members of the Supervisory Board,
- submitted by the Supervisory Board or the Management Board,
- brought by shareholders in accordance with applicable regulations and Statute of the Bank,
- other restricted under the law and Statute of the Bank.

The personal composition and the changes that occurred during the last financial year, and a description of management, supervisory or administrative bodies of the issuer and its committees

Composition of the Management Board and the Supervisory Board is in Chapter 4 - The authorities of the parent company.

During 2014, the Supervisory Board supervised the activities of the Bank including: monitoring the implementation of the Bank's strategy, approving financial plans, policies and strategies of the Bank's audit plans, changes in the Management Board and plan of merger with BNP Paribas Polska S.A.The Board was acquainted with information on significant issues in the Bank's operations, including the implementation of the financial plan, the implementation of projects, risk occurring in the Bank, capital adequacy and rules for cooperation with the auditor of the Bank, statement regarding complaints .

The work of the Supervisory Board was supported by two committees appointed from among the members of the Supervisory Board:

- Internal Audit Committee of the Bank,
- Commission for Human Resources and Remuneration Committee.

Internal Audit Committee of the Bank became acquainted with the results of both internal and external monitoring, information on the implementation of audit recommendations and the recommendations of the Financial Supervision Authority, the reports of the risks, compliance activity reports, information on the review of risks present in the Bank, documents concerning risk appetite, reports on the complaints lodged, reports on the activities of the restructuring and debt collection, reports on operational risk, the most significant correspondence with the Financial Supervision Authority.

Member of the Committee till 15 September 2014:

- Tanja Cuppen – Chairwoman
- Dariusz Filar – Member
- Mariusz Warych – Member
- Evert Derks Drok – Member.

Member of the Committee after 15 September 2014:

- Jarosław Bauc – Chairman
- Dariusz Filar – Member
- Jean-Paul Sabet – Member
- Michel Vial – Member
- Mariusz Warych – Member.

The Commission on Human Resources and Remuneration discussed among others the List of leadership positions in BGŻ S.A., under Resolution No. 258/2011 of the Financial Supervision Commission of 4 October 2011, execution of objectives of the members of Management Board in 2013, proposals of objectives for member of management Board in 2014, and changes regarding Remuneration Policy of the Management Board, Remuneration Policy of the Bank's employees, and information produced by audit regarding remuneration policy. Also it became acquainted with information on employment and wages in 2013, and with information regarding implementation of EBA guidelines on the assessment of the qualifications of members of the management body, and persons holding key functions and information.

Members of the Committee till 15 September 2014

- Sander Pruijs – Chairman
- Jarosław Iwanicki – Member

Members of the Committee till 15 September 2014

- Jean Lemierre – Chairman
- Jean-Paul Sabet – Member

13. DEVELOPMENT PERSPECTIVES FOR BGŻ S.A.

In line with its strategy, Bank BGŻ is universal and first choice bank for companies from agri-food sector and for retail clients from small and medium towns and rural area.

Process of integration with BNP Paribas Bank Polska will result in appearance of stronger and more competitive financial institution on the market. A universal bank will come to existence: sixth in terms of income and seventh in terms of assets value. New bank will provide service to all segments of clients will lead position on agri-food market with developed distribution network including large agglomerations, developed on-line banking, and strong position in personal finance and corporate banking. Complementarity of both entities will ensure that universal banking model will be developed through an offer for all: large corporations, small- and medium enterprises, and retail clients.

Primary areas of bank expansion in short- and medium term include: maintenance and enhancement of lead position in agri-food sector, pursue to achieve lead position in consumer loans segment and status of first choice institution for large and multinational corporations operating in Poland.

To meet customer needs BGŻ wants to be an open Bank, communicating in understandable and professional manner, sharing its experience and professional knowledge, treating customers as partners in business and providing expected value.

Sustainable development will be based on four pillars: economic, social, citizen and environment responsibility. The mission for newly existent through merger institution will be also an efficient execution of objectives in area of corporate social responsibility.

Bank BGŻ, in order to become significant bank whose scale and share of the market assure positively permanent and profitable growth with parallel maintenance of conservative profile risk, has to constantly increase its potential. The stability and scale of operations of BNP Paribas Group will significantly increase the probability of execution of extraordinary growth of Bank's value in next years. The highest standards and consequence in process of implementing innovations and constant renewal in "changing world", will result in development of solid fundaments of effective functioning of Bank; to meet shareholders, clients and employees expectations.

14. EVENTS AFTER THE REPORTING PERIOD

13.01.2015	Notification on the change in the share over 33% of the total number of votes at the general meeting of Bank Gospodarki Żywnościowej S.A. held jointly by BNP PARIBAS SA and Rabobank International Holding B.V. acting in agreement by at least 1% of the total number of votes at the general meeting.
23.01.2015	Bank was informed about squeeze-out tarnation. As a result BNP PARIBAS held 50 524 889 shares in the Bank, representing 50 524 889 votes at the Bank's general meeting, accounting for approximately 90.0000025% of the Bank's share capital and vesting the right to exercise approximately 90.0000025% of the total number of votes at the Bank's general meeting. Rabobank held 5 613 875 dematerialized bearer shares in the Bank, representing 5 613 875 votes at the Bank's general meeting, accounting for approximately 9.9999975% of the Bank's share capital and vesting the right to exercise approximately 9.9999975% of the total number of votes at the Bank's general meeting.
16.02.2015	Polish Financial Supervision Authority approved the information memorandum of BGŻ on Public Offering and the Conditions for Introducing Financial Instruments to Organized Trading, and Public Companies in connection with a public offering of 28 099 554 ordinary series I bearer shares of BGŻ with a nominal value of PLN 1 each (the "Merger Shares"), carried out by BGŻ in connection with the merger of BGŻ with BNP Paribas Bank Polska S.A. with its registered office in Warsaw, as well as in connection with the application for the admission and introduction of 28 099 554 Merger Shares to trading on the regulated market (main market) operated by the Warsaw Stock Exchange.
25.02.2015	The Extraordinary General Meeting adopted the resolutions concerning merger of Bank Gospodarki Żywnościowej S.A. and BNP Paribas S.A., the increase of share capital of Bank Gospodarki Żywnościowej S.A. and agreed on the change of the Bank's statute.

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Józef Wancer
President of the Management Board

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Gerardus Cornelis Embrechts
First Vice-President of the Management Board

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Witold Okarma
Vice-President of the Management Board

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Andrzej Sieradz
Vice-President of the Management Board

....
Dariusz Odzioba
Vice-President of the Management Board

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

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

....
Monika Nachyła
Vice-President of the Management Board

....
Katarzyna Romaszewska-Rosiak
Managing Director for the Finance and Reporting Chief Accountant

Warsaw, 2 March 2015.