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The Management Board Report on the Operations of Raiffeisen Bank Polska S.A. in 2014

The Management Board of the Bank

presents the Report on operations of Raiffeisen Bank Polska S.A.

in 2014

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Maciej Bardan	First Vice-President of the Management Board	....
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Warsaw, 18 March 2015

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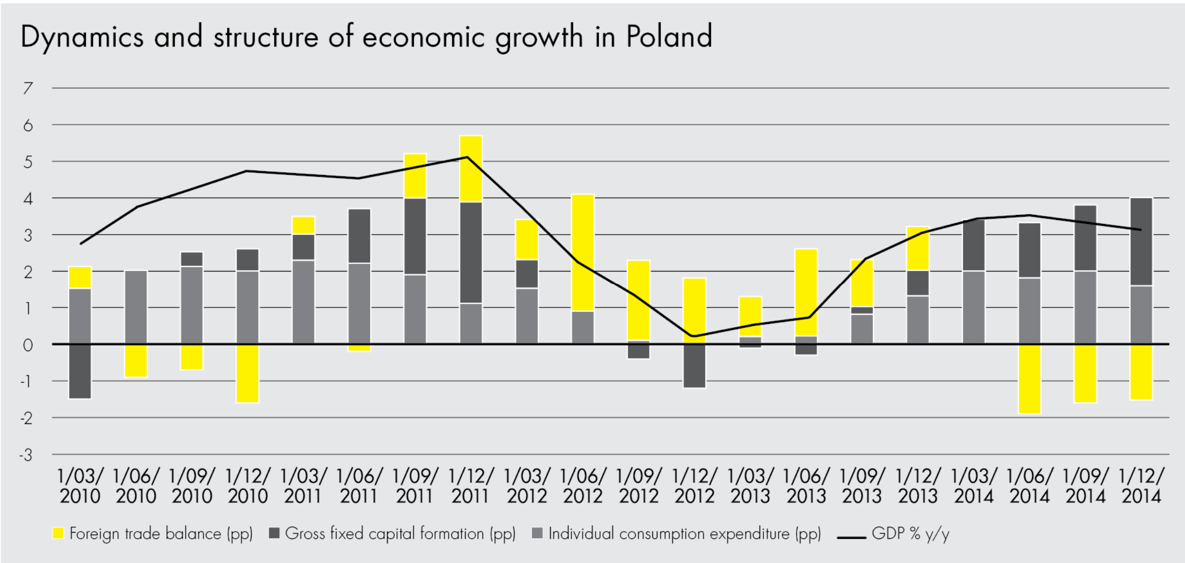
1. Macroeconomic situation in 2014

1.1. Economic growth

According to initial estimates of the Central Statistical Office (GUS), the GDP growth in 2014 in Poland amounted to 3.3% yoy, thus being significantly higher than the 1.7% yoy result reported the previous year. Improvement of the economic climate was a continuation of the trend started in H2 2013. Importantly, 2014 saw a material change in the economic growth structure. After three years of economic growth being supported by the positive contribution of net exports, starting from Q1 2014 the full burden of generating economic growth was taken over by the internal demand, and since Q2 2014 the contribution of net exports towards the increase of the GDP actually became negative.
The upturn in internal demand resulted from a combination of three positive factors. First of all, after two years of disappointing levels investment activity picked up substantially. Gross expenses on tangible assets in 2014 increased by 9.4% yoy, which represented the largest growth reported since 2007. While in the first half of the year the large increase in investments was mainly caused by an upturn in the construction sector, the second half of the year saw a pickup in investments with the purpose of maintaining or increasing production capacities in a vast group of enterprises. The upturn in investments was supported by better prospects in terms of demand, historically low interest rates and the long period of putting a substantial part of investment projects on hold.
The upturn in investments was accompanied by an increase in households consumption, which in 2014 grew by 3.0% yoy. The higher demand reported by households was mainly supported by a better situation on the labour market and historically low inflation, which led to a significant growth of income in real terms. Collective consumption was increasing at a level similar to that of private consumption upsurge, resulting in the strongest positive contribution to economic growth since 2010.
Mounting geopolitical tensions, accompanied by increased concerns for the condition of the economy in the Euro zone (including Germany) translated to a growing uncertainty among households and enterprises, reflected, amongst others, in decreased economic indices. However, as the GUS data show this only had a minor influence on economic growth, which remained above 3% yoy in spite of the slowdown.



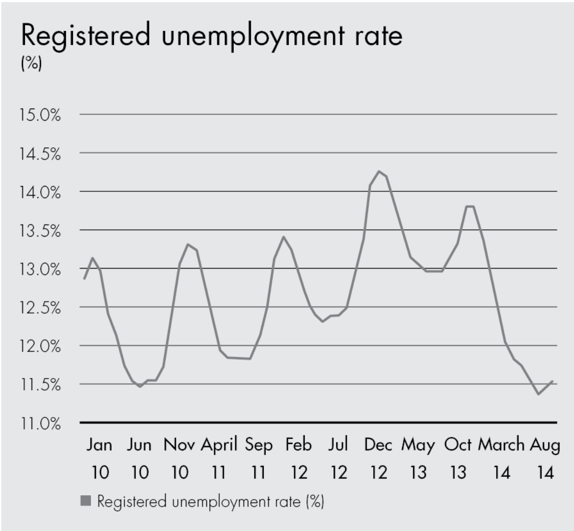
Source: GUS

1.2. Labour market

The previous year was a year of significant improvements on the labour market. The economic growth of over 3%, maintained since Q4 2013, contributed to the reduction of the unemployment rate, the scale of which exceeded market expectations. At the end of 2014, the registered unemployment rate amounted to 11.5% compared with 13.4% reported in December 2013. On average, during the entire year the unemployment rate was at 12.3% — the lowest result since 2010. Significantly reduced unemployment translated to elimination of concerns regarding loss of jobs, which constituted a factor that substantially supported the improvement of the situation among households.

The decrease in unemployment occurred faster than indicated by the monthly data on employment in the sector of businesses with over nine employees. The data showed an increase in employment of up to 1% yoy throughout 2014 (with the exception of December). The higher pace of creating new jobs in all sectors was proven by the quarterly results of the Labour Force Survey (BAEL), which indicated an increase in employment at approximately 2%.

The only factor unfavourable to mounting wage pressure was the moderate growth of demand for labour in a situation where unemployment rate remained a two-digit number. Throughout 2014, companies did not indicate any substantial growth of wage demands, and the wage dynamics amounted to 3.7% yoy.

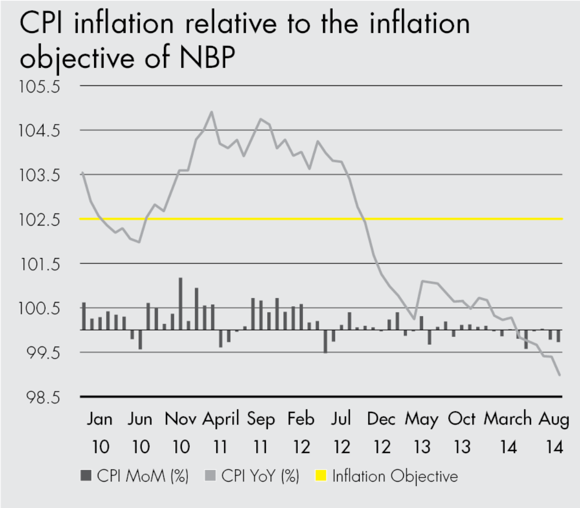


Source: GUS

1.3. Inflation

In 2014, the average annual inflation indicator amounted to 0.0% as compared with 0.9% reported a year before. The falling inflation trend dominated throughout the year and was a continuation of the process commenced already in 2012. Whereas in Q1 inflation was at 0.6% yoy on average, in July its level dropped to below 0% yoy, and at the end of the year it was at -1.0% yoy, which constituted a significant deviation from the average inflation goal of the National Bank of Poland set at 2.5%.

At the beginning of the year the main component which decreased inflation in Poland was energy (both energy carriers and fuels). Mid-year, in place of the weakening negative contribution on the part of energy, decreases in inflation were mainly generated by the dropping prices of food. The prices, basically since the beginning of 2014, were falling well below the standard seasonal levels. In Q4, in the light of marked decreases in oil prices on global markets, energy again became a significant reason for the drop of the general consumer goods index. Although falling inflation was mainly caused by the dropping prices of food and fuels, in 2014 a vast majority of the consumer price index categories indicated a lack of any inflation pressure in the economy.



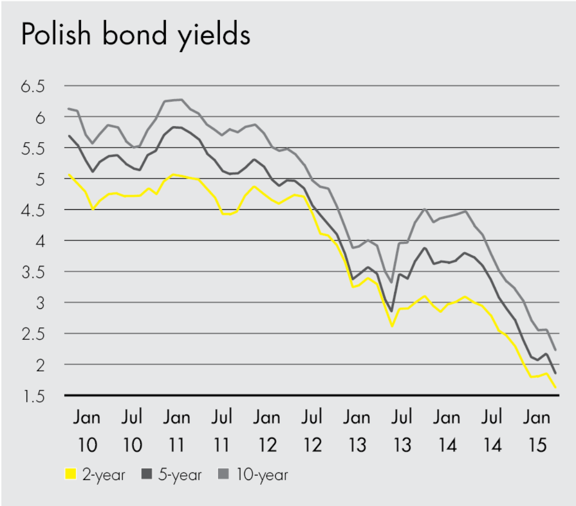
Source: GUS and NBP

1.4. Public finance and public debt securities market

The year 2014 was a good year in terms of public finance. Improvement of the economic situation contributed to a significant increase in VAT revenues, in spite of record-low inflation. As a result, according to the estimates of the Ministry of Finance, the budget deficit was below PLN 30 billion vs PLN 47.5 billion provided for the in the budget act. In the first three quarters of the year, the public debt decreased in relation to the GDP to approximately 46.5% vs 53.1% at the end of 2013. This was mainly the effect of the pension reform implemented in February, which provided for a redemption of State Treasury bonds valued at over PLN 130 billion (approximately 7.6% of the GDP). Simultaneously with the pension reform, the first and second prudence thresholds were decreased to 43% and 48% from 50% and 55%, respectively, in order to maintain the existing fiscal discipline. At the end of 2014, sovereign debt most likely remained below the second threshold (i.e. 48% in relation to the GDP).

The pension reform contributed also to the change in the structure of players on the Polish treasury securities market, excluding Open Pension Funds (OFE) from this market. Consequently, the share of foreign investors increased markedly to approximately 39% (as at the end of November 2014) from 33.1% at the end of 2013. In spite of earlier concerns, eliminating OFEs from the treasury securities market has not led to a significant reduction in the market's liquidity as yet.

The good condition of public finance was not the only factor contributing to the boom on the domestic treasury bonds market. Debt prices were supported mainly through the loosening of monetary policy by the Monetary Policy Council (RPP) and the expansionary policy of the European Central Bank, thanks to which valuations of Polish securities were attractive in comparison with securities of other European countries. Thanks to budget execution, which was better than expected, and the high level of pre-financing of borrowing needs by the Ministry of Finance, demand-related factors did not put pressure on the increase in the profitability of the Polish debt. Finally, at the end of the year, profitability of two-year bonds amounted to 1.79%, and ten-year bonds — to 2.52%.



Source: Bloomberg.

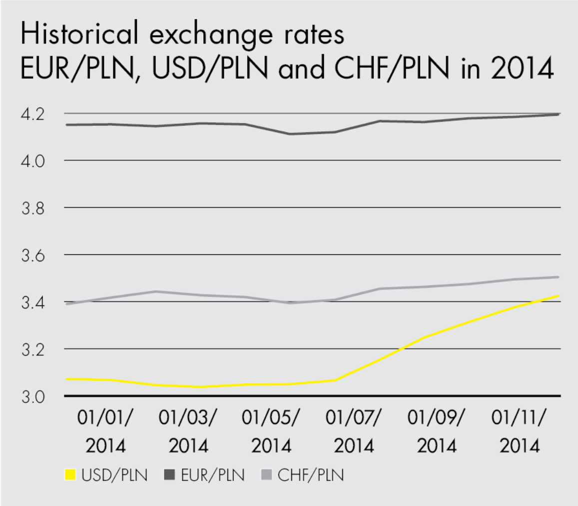
1.5. Foreign currency exchange rate

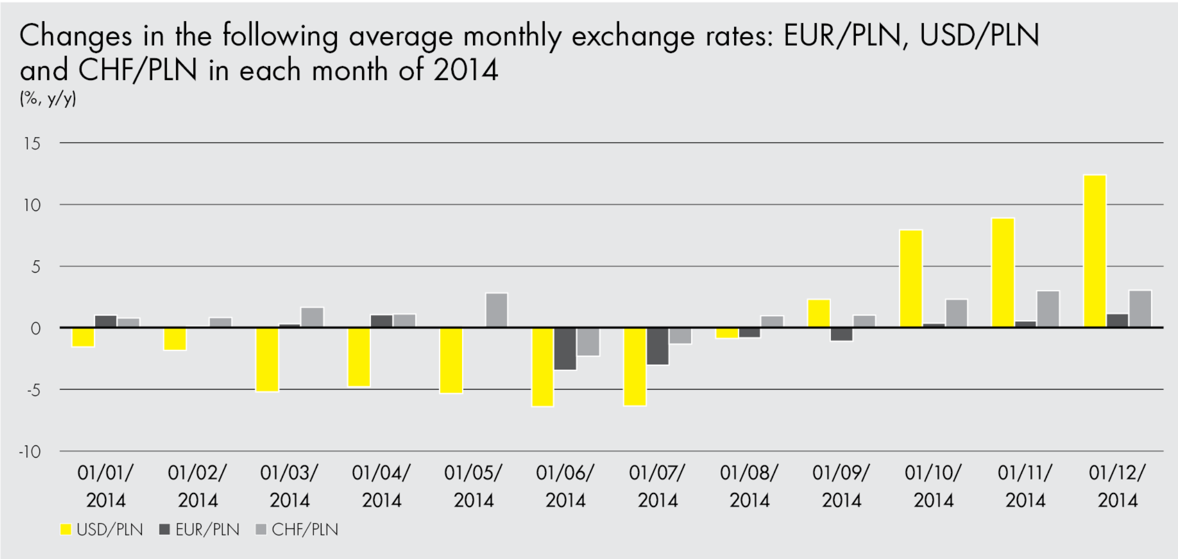
In 2014, with the exception of December, the fluctuation of the PLN/EUR exchange rate was exceptionally low. During this period, fluctuations were in the range of less than PLN 0.18 to more than PLN 0.31 in 2013 and PLN 0.77 in 2011.

The beginning of the year brought moderate increases in the EUR/PLN exchange rate to 4.25 from 4.15 at the end of 2013, which was caused by a revaluation on emerging markets, including Poland. Apart from concerns about remote markets such as Argentina, in subsequent months mainly the escalation of the conflict in Ukraine had a negative impact on the zloty. This was one of the main causes of the increase of the EUR/PLN exchange rate above 4.20 in Q1 and Q3 2014. In the second half of the year there were temporary falls in the EUR/PLN exchange rate to under 4.10, which, in turn, was affected by the loosening of the monetary policy in the Euro zone, which deepened the disparity of interest rates between this region and Poland, to the benefit of the zloty. In Q4 (October) the economic downturn in Poland, the low economic activity of its major trading partners (Germany) and the surprisingly low inflation encouraged the Monetary Policy Council to decrease the reference rate by 50 base points, which became yet another impulse for the EUR/PLN exchange rate to go back to over 4.20. This exchange rate noted an even larger increase in December, when concerns about the Ukraine-Russia conflict again became the subject public discussion and the weakening of the rouble resulted in revaluation of also other currencies in the region. Changes in the value of the currency were intensified at the time due to the low liquidity in the Christmas period. In effect, at the end of December the EUR/PLN exchange rate was just below 4.40 – the highest since June 2012. At the end of the year, it amounted to 4.26.

Due to continuing the policy of stopping the appreciation of the Swiss Franc by Switzerland's monetary authorities, in 2014 the CHF/PLN exchange rate mainly followed the EUR/PLN listings. After stabilizing throughout most of the year at 3.35-3.50, in December the CHF/PLN exchange rate rose to over 3.65 (highest since June 2012), and 3.55 at the end of the year.

The USD/PLN exchange rate, in turn, fluctuated around 3.00 in the first part of the year. In July, the zloty abruptly weakened by over 50 grosz. This took place after the dynamic drop of the Eurodollar, which in turn was caused by the growing difference in the monetary policy of the American Federal Reserve and the European Central Bank. While the Federal Reserve started to withdraw from maintaining an extremely expansionary monetary policy (ending the bond buying plan), ECB undertook further actions towards the implementation of a European version of the Quantitative Easing programme. In effect, the USD/PLN exchange rate ended the year at 3.51.



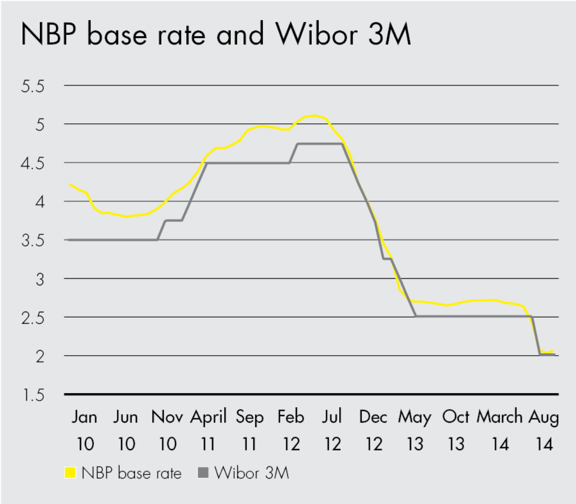


Source: NBP

1.6. Monetary policy

The Monetary Policy Council entered the year 2014 with the assurance, made a year earlier, on maintaining interest rates at an unchanged level (with a reference rate at 2.50%) at least until the end of June 2014 (so called *forward guidance*). In March, the RPP decided to prolong the *forward guidance* horizon and guaranteed that it will not change the cost of money at least until the end of Q3 2014. In mid-year, along with the decrease in inflation to approximately 0% and then below, and in the face of concerns as to the possibility for the economic upturn to continue, the approach of the Monetary Policy Council begun to soften. In June, *forward guidance* was rephrased from "*at least until the end of Q3*" to „*until the end of Q3*", and a month later the RPP resigned from this completely. Nevertheless, the RPP's declaration as presented for several months was upheld. Interest rates changed only in October, when the RPP lowered the reference rate and the rediscount on bills of exchange by 50 base points to, respectively, 2.00% and 2.25%, the lombard rate by 100 points to 3.00%, and maintained the deposit rate at the earlier level of 1.00%. Despite the increasing market expectations as to the continuation of the reduction of interest rates, these did not change until the end of 2014.

After the stabilization of market interest rates in the first months of 2014, the decreasing trend started in the summer, discounting expectations concerning the reduction of interest rates by the Monetary Policy Council. At the end of December 2014, Wibor 3M amounted to 1.86 vs 2.71 at the end of 2013.



Source: NBP and Bloomberg

1.7. Banking sector

The year 2014 was a successful period for the Polish banking sector. Its financial results improved in spite of negative market factors such as: low interest rates or the reduction of interchange fees. In addition, as a result of the difficult situation of Cooperative Savings and Credit Unions ("SKOK"), the Polish Financial Supervision Authority (PFSA) included banks in the SKOK sector restructuring plan. A direct consequence of engaging the banking sector in SKOK restructuring was the increase of the annual fee and prudence fee paid to the Bank Guarantee Fund (BFG), as applicable in 2015.

The net profit of the banking sector in 2014 amounted to PLN 16.2 billion and was higher by 7.0% than in the previous year. Thus, after the drop of the net profit in 2013 by 1.9% yoy, profits in the sector grew again in 2014. The net profit was affected by the following factors[1]:

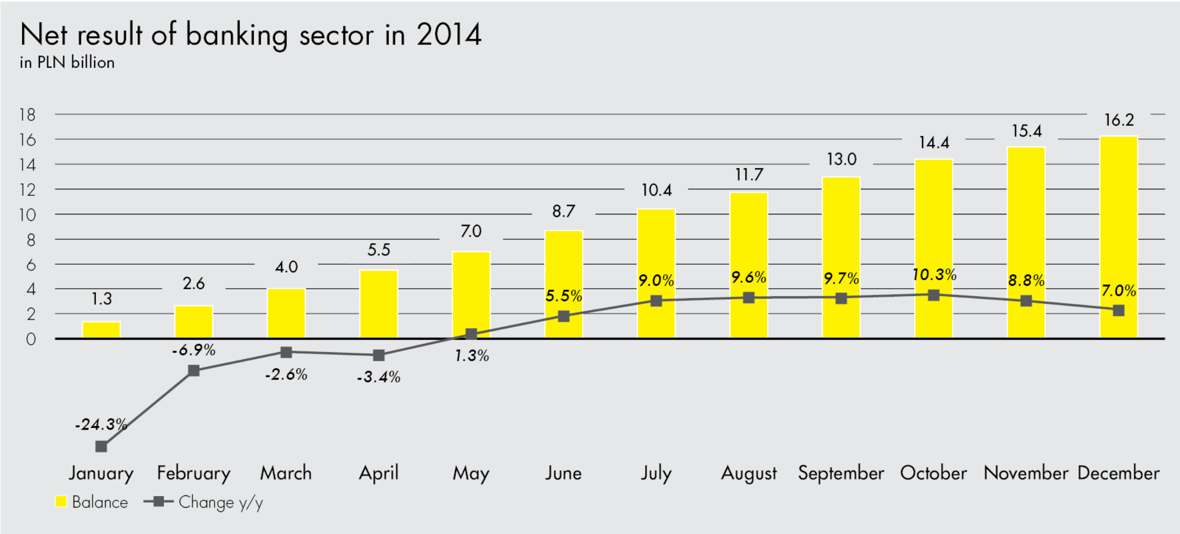
The result on interest was at PLN 37.2 billion and was 7.1% higher than in 2013 (2013 saw a decrease by 2.2% yoy);

The result on fees and charges was at PLN 13.5 billion and increased slightly by 0.7% yoy (in 2013: a decrease by 6.3% yoy);

Costs of activity in banks amounted to PLN 30.0 billion and decreased in comparison with 2013 by 0.9% (in 2013, the decrease amounted to 0.4% yoy),

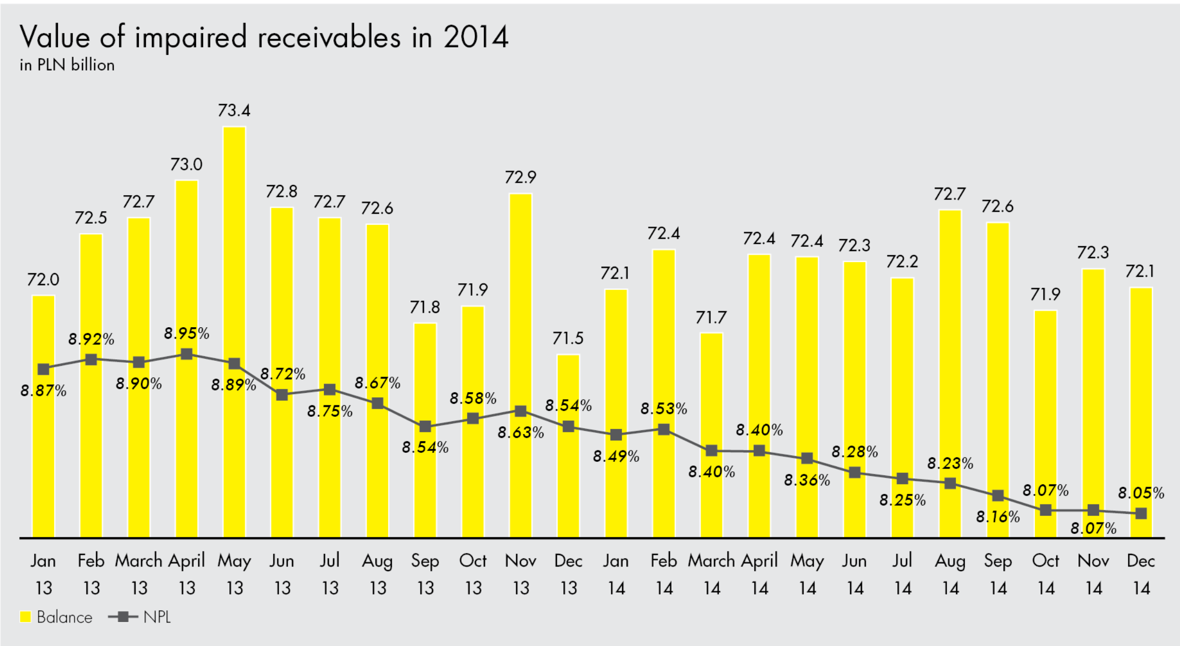
The result on write-downs created by banks was at PLN 8.8 billion and was 10.9% higher than at the end of December previous year (2013: an increase by 1.0% yoy).

[1] Source: PFSA and own calculations



Source: Own document based on PFSA data

At the end of 2014, the basic performance indicators of the banking sector were the following[2]:
At the end of December, the ROE was at 9.75% and was slightly lower than at the end of 2013, when it amounted to 9.92%. At the same time, the ROA did not change in comparison to December 2013 and amounted to 1.09%.
The cost/income ratio decreased by 2.05 percentage points, reaching 50.99% at the end of December. This result, on the one hand, is an effect of an increase in revenues, and on the other hand — a reduction in the costs of operation of banks in 2014.
The share of impaired receivables in all receivables from the non-financial sector (NPL) decreased by 0.49 percentage points to 8.05%. The improvement concerned both households and enterprises (both SME and large enterprises). The reported decrease results from the economic recovery, increase in wages, and the improving standing of enterprises. Due to the loosened monetary policy, the cost of debt service also decreased.
The interest margin remained at a similar level yoy and amounted to 2.50% (+0.02 percentage points) at the end of December 2014.



Source: Own document based on PFSA data

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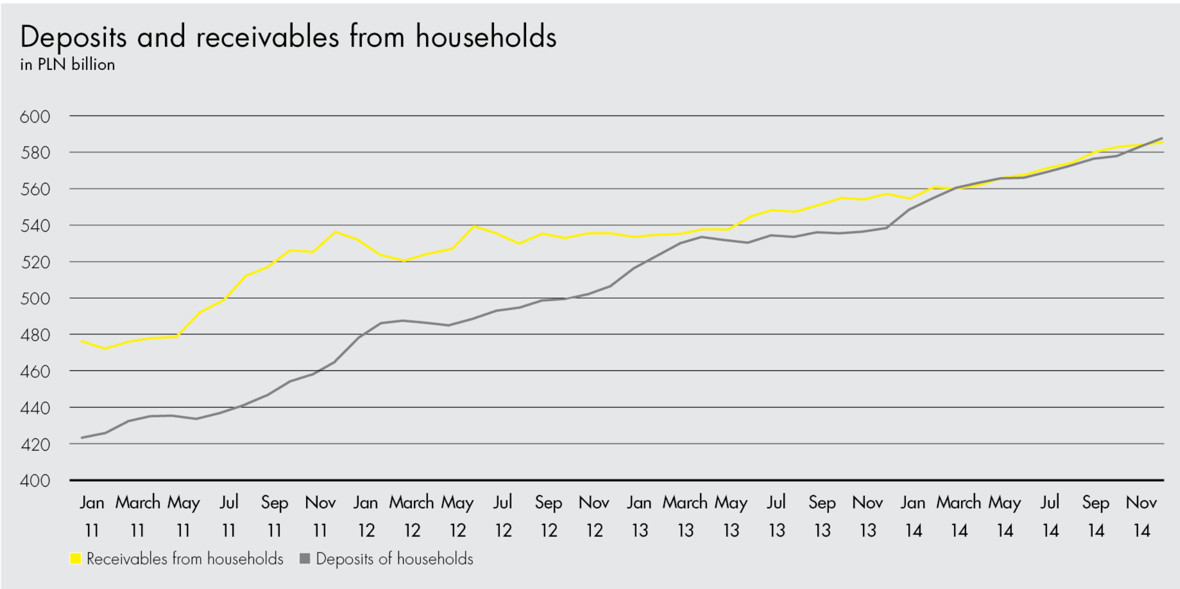
2 Source: PFSA and own calculations

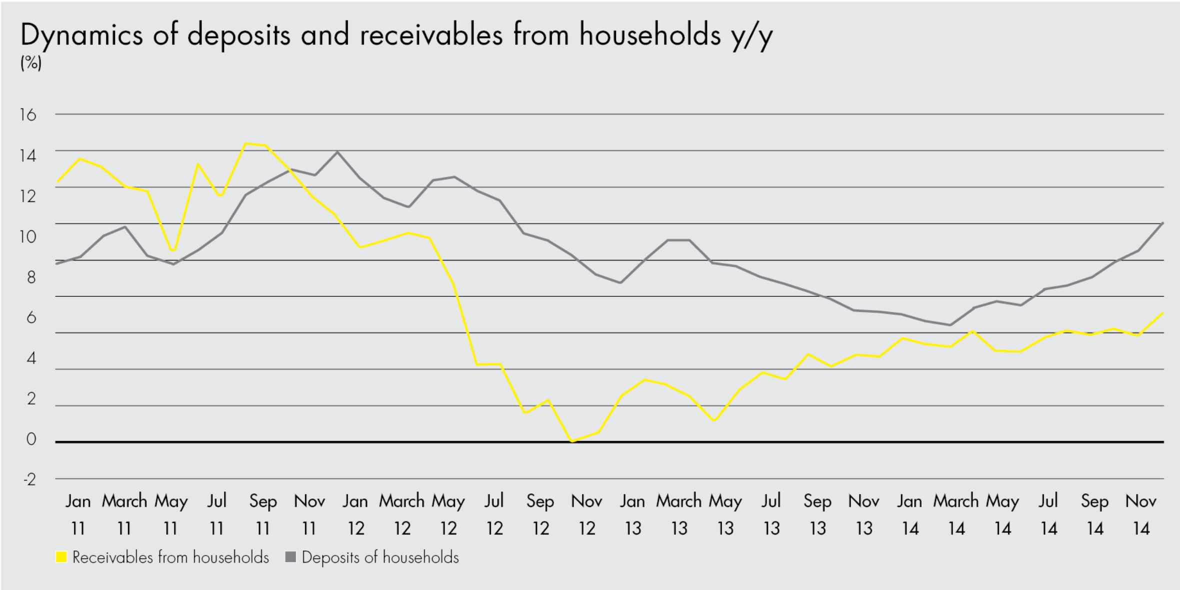
At the end of 2014, the basic monetary categories in the Polish banking sector were as follows[3]:
Deposits of households at the end of December 2014 reached PLN 606.4 billion. This result is 10.6% higher than at the end of 2013. During the entire 2014, deposits of households were increasing systematically mom – the annual increase amounted to over PLN 58.2 billion. The dynamics of the increase in deposits in 2014 was significantly higher than a year before, when the growth amounted to 6.2% yoy. As usually, the highest increase in the balance was in December, due to the payment of end-of-year bonuses and allowances, amounting to PLN 18.7 billion. Therefore, low interest rates did not negatively affect the willingness to deposit funds in banks, and the improvement of the situation on the labour market, higher wages, and low inflation contributed in a positive manner.

The balance of receivables from households at the end of December 2014 reached PLN 588.5 billion, which constitutes a growth by 6.1% yoy. (PLN +34.0 billion). The pace of growth in 2014 was by one half faster than in 2013, when the growth of receivables from households reached 4.0% yoy. Housing loans, which constitute 60% of all receivables from households increased by 6.0% yoy, reaching PLN 355.8 billion at the end of December 2014. The value of loans denominated in PLN increased during this period by 14.0% yoy, reaching PLN 190.3 billion, whereas the volume of loans in foreign currency fell by 1.9% yoy to PLN 165.5 billion. Therefore, the share of these loans in the general value of housing loans dropped by 3.8 percentage points to 46.5%. This is caused by a successive repayment of loans and a simultaneous low new sale of currency loans, as a result of applying Recommendation S of the Polish Financial Supervision Authority. The share of consumer loans in the total volume of loans of households remains at approximately 22%, and their value at the end of December 2014 amounted to PLN 131.4 billion (increase by 4.0% yoy). The value of the car loans portfolio dropped by 14.0% yoy (long-term decreasing trend), whereas the value of other types of consumer loans increased (including credit cards and instalment loans) – by 4.7-4.8% yoy. The favourable situation in terms of consumer loans is a result of the banks loosening the requirements concerning granting loans since the implementation of the amended Recommendation T, and the increasing household incomes. In the first three quarters of 2014, the sale of new consumer loans totalled PLN 57.7 billion, thus exceeding the historically high levels recorded in 2008 and 2009[4]. This is not fully reflected in the increase of the volume of consumer loans, among other reasons due to the selling of receivables portfolios by some banks.



Source: Own document based on PFSA data.

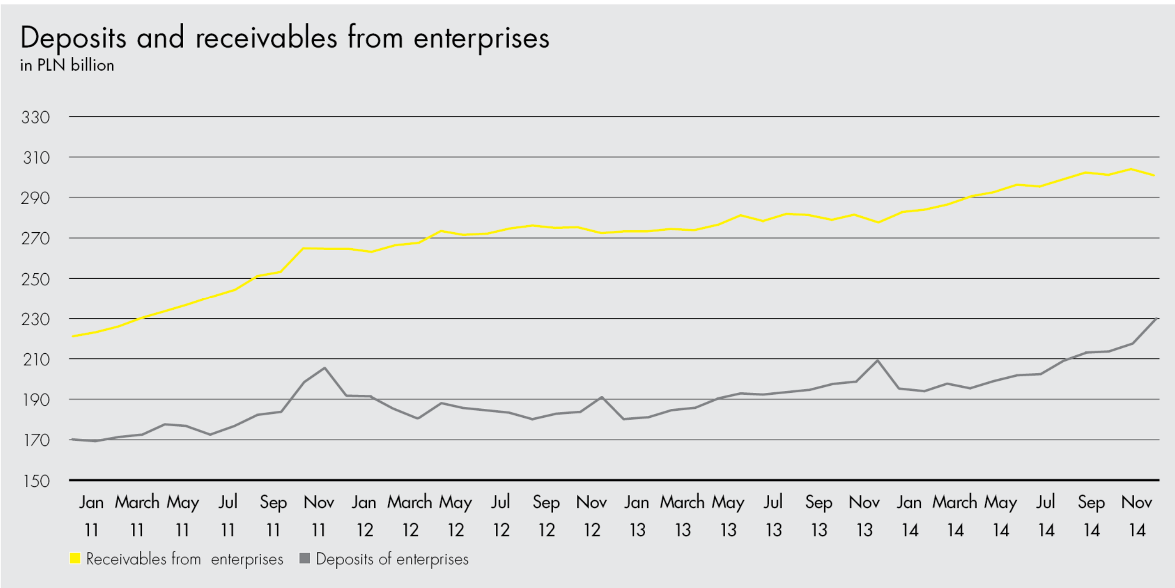
[3] Source: Polish Financial Supervision Authority (PFSA)
[4] Source: BIK and own calculations



Source: Own document based on PFSA data.

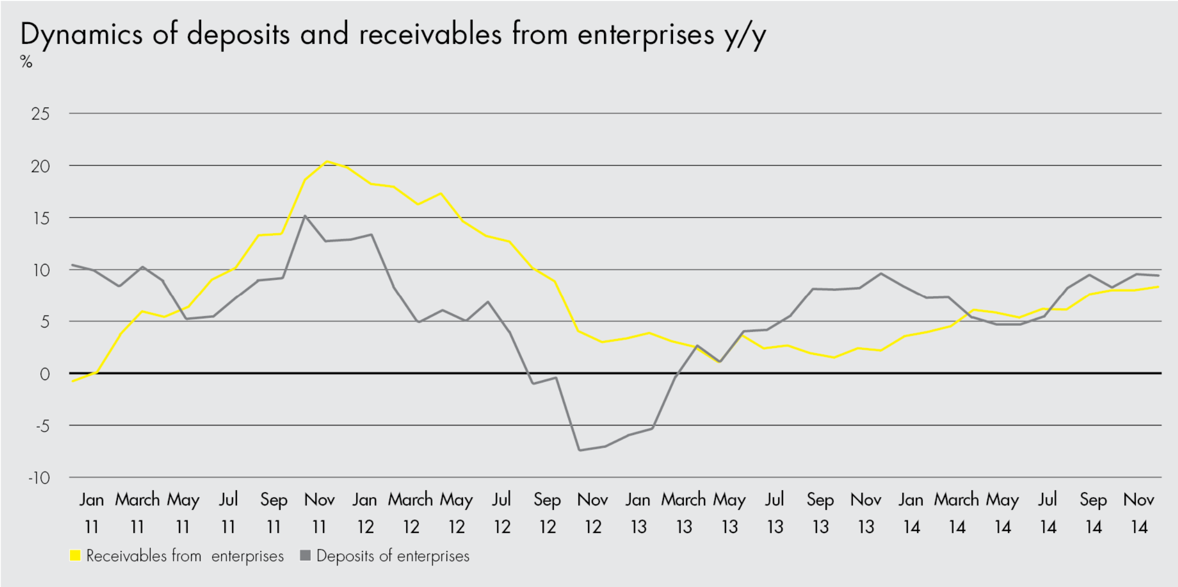
Deposits of enterprises at the end of December 2014 reached PLN 229.4 billion, which constitutes a growth by 9.4% yoy. (PLN +19.7 billion). The increase in 2014 was close to the increase in 2013, when deposits of enterprises grew by 9.7% yoy i.e. by PLN 18.5 billion. This indicates that the business sector was in a relatively good condition. Despite the fact that businesses did not record an impressive revenue growth in 2014 (3.1% yoy), while applying cost discipline, they were able to achieve an increase in profits of 4.4% yoy without limiting investments and without detriment to wage growth[5].

The balance of receivables from the sector of enterprises at the end of December 2014 reached PLN 301.0 billion, which constitutes a growth by 8.3% yoy. Receivables from SME increased less than receivables from large enterprises – by 7.2% yoy, to PLN 175.7 billion, in comparison with 9.9% yoy to PLN 125.3 billion in case of large enterprises. The largest growth in SME took place in terms of operating loans (+6.2% yoy), whereas investment loans grew at a bit slower pace (+5.6% yoy). In the case of large enterprises, the increase in 2014 was driven by investment receivables, which increased by 17.2% yoy reaching PLN 42.8 billion at the end of December. At the same time, the volume of operating loans fell slightly (-0.3% yoy).



Source: Own document based on PFSA data.

[5] Source: GUS and own calculations

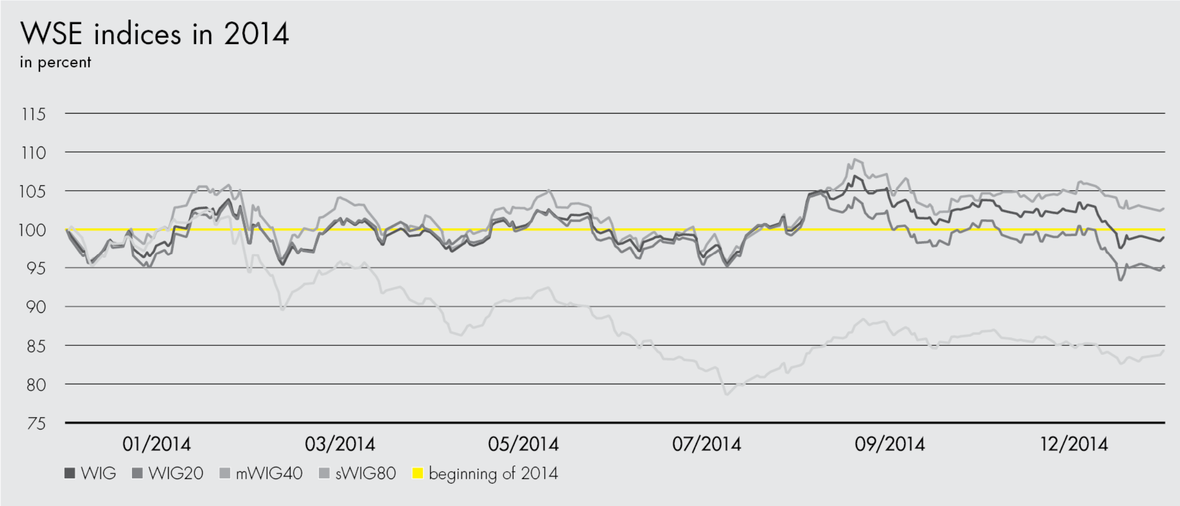


Source: Own document based on PFSA data.

The capital base of the banking sector in Poland grew significantly, reaching PLN 166.5 billion at the end of December – increase by 8.8% yoy.

1.8. Capital market

In 2014, indices fluctuations on the Warsaw Stock Exchange were relatively small. WIG, the main index, varied from -5% to +7% in relation to its level at the beginning of the year, which constituted one of the most stable periods in the history of the GPW. WIG ended the year with a decrease of 1%. In 2014, the blue chip index and the medium enterprises index showed stability similar to that of WIG. WIG20 and mWIG40 ended the year with a decrease of 5% and an increase of 3% respectively. Among stock exchange indices, the small enterprises index (sWIG80) was markedly weaker recording a slump by 16% during the year. Weaker results of the small enterprises segment were a consequence of the change of sentiment towards this sector after a very good 2013, when the index grew by 37%. WIG-Banks was as stable as WIG and ended the year at 1% lower than in the beginning of January 2014.
The number of debuts at the GPW amounted to 28 vs 23 in 2013, while the falling interest rates encouraged obtaining financing through debt instruments. The value of issues on the Catalyst debt instruments market amounted to PLN 64.1 billion and increased by 8.6% yoy. The growth in the value of bonds issue was accompanied by a decrease in turnover by 28% to PLN 3.1 billion.
The drop in the volume of turnover also affected the market of index futures (-26.1% yoy) and largely resulted from the change of the multiplier from PLN 10.00 to PLN 20.00 for each change of the contract.
The capital market segment of structured products that was experiencing a rapid growth with a turnover of PLN 561 million (an increase of 99.7% yoy).



2. The most important events and achievements at Raiffeisen Bank Polska S.A. in 2014

In 2014, Raiffeisen Bank Polska S.A. ("Bank", "Raiffeisen Bank Polska", "Raiffeisen Polbank") delivered a significantly improved financial result as compared with the previous year. The Bank's net profit for 2014 was PLN 314.1, which represented an increase of 143% yoy compared to that of PLN 129.3 million in the previous year. The main factors contributing to the improved financial performance of the Bank were the following: a 73% decrease in impairment losses on a year-to-year basis, which was mainly due to the sale of three portfolios of doubtful receivables (including the portfolio of unsecured retail receivables with a capital balance of PLN 1.1 billion, sold under one of the largest unsecured debt transactions in the Polish market, described in detail on p. 40 of this Report), and a 11% decrease in the Bank's operating costs on a year-to-year basis, being the result of the restructuring measures taken and the full integration of information systems completed in the first half of 2014.

The aforementioned integration of IT systems was one of the most important events at the Bank in 2014. Customer migration into a single IT system progressed smoothly and as planned over the period between 16 and 18 of May, thus completing the unification process of Raiffeisen Bank Polska S.A. and Polbank EFG SA. Due to the efficient execution of this process, in less than a year and a half after the merger of the two entities, the effect of cost synergy and savings related to the use of a smaller number of IT systems could be obtained in a shorter time, thus contributing to improved Bank's operational capabilities. System integration turned out to be crucial for the achievement of business goals in the Retail Banking segment. The products offer could be unified and simplified, all clients of the Bank could be provided with access to modern services and offered services based on one standard.

Executing the strategy of maintaining and developing long-term relations with clients, the Bank constantly aims at increasing cross-selling while ensuring that operating costs are rational. During the integration project, the clients' potential was assessed and rated along with accompanying activities (change in the table of fees and charges); it was decided to demarket mono-product clients, who do not generate sufficient revenues for the Bank, and simultaneously constitute a source of additional service-related costs. At the end of 2014, the number of active clients of Retail Banking amounted to 634 thousand. At the same time, the Bank undertakes many initiatives to ensure acquisition of new individual clients. In 2014, one of them was the commencement of cooperation with WizzAir, the low-cost airline operating in Central and Eastern Europe, to develop a loyalty programme for the airline's clients. Additionally, while aiming at expanding the investment offer for clients, the Bank commenced distribution of investment funds under its own Raiffeisen brand, but managed by an external entity ('white label' formula). The sale of Raiffeisen Specialist Open Investment Umbrella Fund, consisting of four sub-funds with different investment strategies and risk levels was launched in July 2014. In 2014, the Bank confirmed its leading position in the Polish market of private banking services – Private Banking Friedrich Wilhelm Raiffeisen was awarded a five-star rating by "Forbes" magazine for its innovative approach to individual strategies.

In 2014, the Bank strengthened its position in the Corporate Banking segment, increasing the number of clients by 6% as compared with the previous year. At the same time, the Bank continued its strategic concentration on services for the sector of small and medium enterprises, which – with the higher potential of development in the present stage of economic trends – generate higher income for the financial sector, while also ensuring risk dispersion. This translated to a two-digit increase of the lending; the value of loans for small enterprises increased by 19% yoy and by 10% yoy for medium enterprises. The Bank, while remaining one of the largest lenders to businesses, also maintained a leading position in providing other types of funding for Polish businesses, including factoring. Factoring turnover generated in 2014 reached a record level for the Bank and increased by 10% yoy. Thus, the Bank achieved over 14% of market share and placed itself on the second position among entities associated in the Polish Factors Association.

To diversify the funds obtained for the purpose of financing the lending and the business, in 2014 the Bank introduced the Bonds Issue Plan with nominal value of bonds at PLN 2 billion. The goal of the Plan is to issue debt securities in numerous tranches and currencies, with various interest rate structures. The first tranche of bonds amounting to PLN 500 million was issued on 19 November 2014. The issue included 3-year unsecured, non-subordinated, PLN-denominated bonds. These are bonds with a variable rate, determined based on WIBOR6M rate plus interest margin equal to 1.3%. Bonds were introduced to the Alternative Trading System and are now listed on the Catalyst market.

One of the Bank's strategic goals is systematic strengthening of the capital base, mainly through maintaining a high share of highest quality capital (CET1). In the 1st half of 2014, the Bank included the entire profit for 2013 in the stated capital in the amount of PLN 129 million, while in the 2nd half of 2014 the Tier 1 (CET1) capital was increased by PLN 123 million, thanks to which the share of CET1 capital as at the end of 2014 remained at a very high level of 95%. The total capital ratio of the Bank was 13.9%, an increase of 1.4 percentage point compared to the previous year.

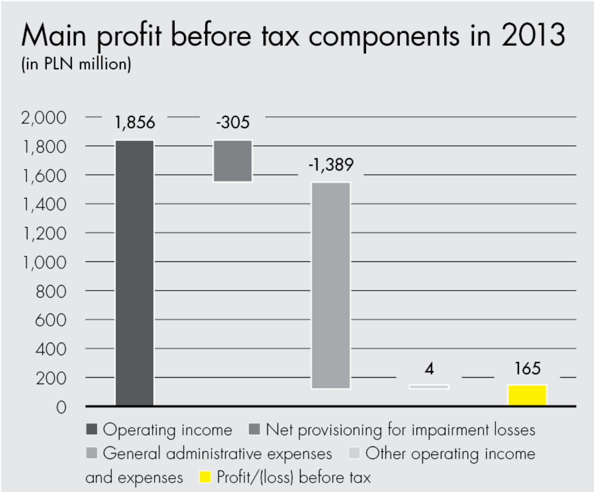
At the same time, the results of the quality review of the assets and stress tests published on 26 October 2014 by the Office of Polish Financial Supervision Authority confirmed that the Bank was in a very good position in terms of capital and liquidity. In the baseline scenario considered envisaged for 2014–2016, the Bank reached the capital ratio of the highest quality (CET1), i.e. of 12.68%, and under stress conditions – 10.93%. These ratios are maintained above minimum levels defined for the baseline scenario and the adverse scenario, which amount to 8.0% and 5.5% respectively.

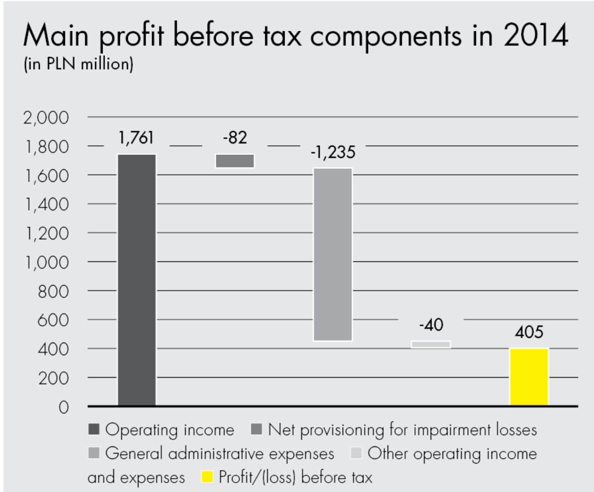
In December 2014, the Supervisory Board of the Bank adopted the Strategy for Raiffeisen Polbank for 2015–2017. In accordance with the Strategy, the Bank will focus on strengthening its position as a mid-market leader specialising in corporate banking and providing services to the segment of SMEs, micro-enterprises and Polish middle class. At the same time, the Bank will seek to achieve the best financial results and the optimal shareholder value, while ensuring the safety of its business operations.

3. The financial situation of Raiffeisen Bank Polska in 2014

3.1. Profit and loss statement

In 2014, Raiffeisen Bank Polska S.A. reached a profit before tax of EUR 404.5 million compared to the previous year's PLN 165.4 million. The net profit amounted to PLN 314.1 million and was 143% higher than in the previous year.





Main profit before tax components (in PLN million)

	Operating income	Net provisioning for impairment losses	General administrative expenses	Other operating income and expenses	Profit/(loss) before tax
2013	1,856	(305)	(1,389)	4	**165**
2014	1,761	(82)	(1,235)	(40)	**405**
Change yoy	(95)	223	155	(44)	**239**
Change yoy in %	(5.1%)	73.0%	11.1%	(1,084.6%)	**144.5%**

The main factors affecting the results of Raiffeisen Bank Polska S.A. for 2014 were:

- A 5% decrease in operating income compared to the previous year, caused by a drop in non-interest income. The operating income amounted to PLN 1,761 million in 2014;
- A decrease in net provisioning for impairment losses by 73% in comparison to 2013, to PLN 82 million. In 2014, the Group sold portfolios of non-performing loans, obtaining profit of PLN 262 million, in comparison with profit of PLN 37 million on sale of such portfolios in the previous year;
- A decrease in general administrative expenses to PLN 1,235 million i.e. 11% lower than in 2013;
- Other operating result amounted to PLN -40 million compared to PLN 4 million in net profit from such income and expenses in the previous year. The drop resulted from a one-off release of the provision for disputable receivables in 2013 and single events in 2014 relating, amongst others, to creating the provision in the amount of PLN 10.6 million for the penalty imposed on the Bank by the Office of Competition and Consumer Protection (UOKiK) in connection with the sale of so-called policy-investments (polisolokata) by Polbank EFG S.A. in previous years. (this product was withdrawn before the initiation of proceedings by UOKiK), writing-off intangible assets, and tangible assets withdrawn from use;
- The Bank's profit before tax, excluding other operating result, has increased by 175% in comparison to 2013.

Selected items of the statement of profit or loss

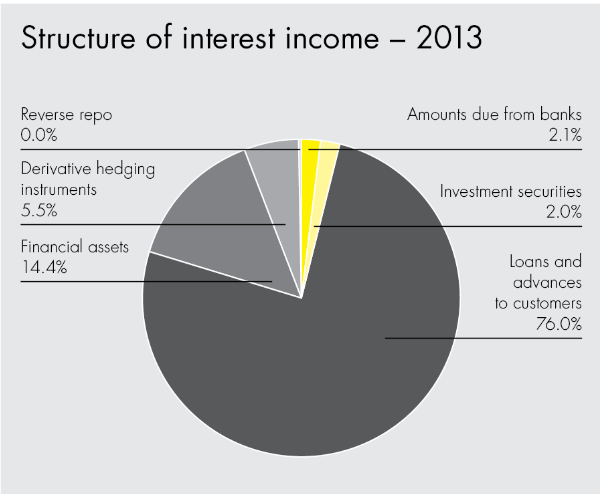
	2013 (PLN '000)	2014 (PLN '000)	Change (PLN '000)	Change in %
Interest income	2,058,737	1,864,715	(194,022)	(9.4%)
Interest expense	(983,312)	(780,053)	203,259	(20.7%)
Net interest income	1,075,425	1,084,662	9,237	0.9%
Non-interest income	780,791	676,553	(104,238)	(13.4%)
Operating income	1,856,216	1,761,215	(95,001)	(5.1%)
Net provisioning for impairment losses	(305,375)	(82,388)	222,987	(73.0%)
General administrative expenses	(1,389,424)	(1,234,693)	154,731	(11.1%)
Other operating income and expenses	4,026	(39,646)	(43,672)	(1,084.6%)
Profit/(loss) before tax	**165,443**	**404,488**	**239,045**	**144.5%**
Income tax	(36,095)	(90,350)	(54,255)	150.3%
Net profit (loss)	**129,348**	**314,138**	**184,790**	**142.9%**

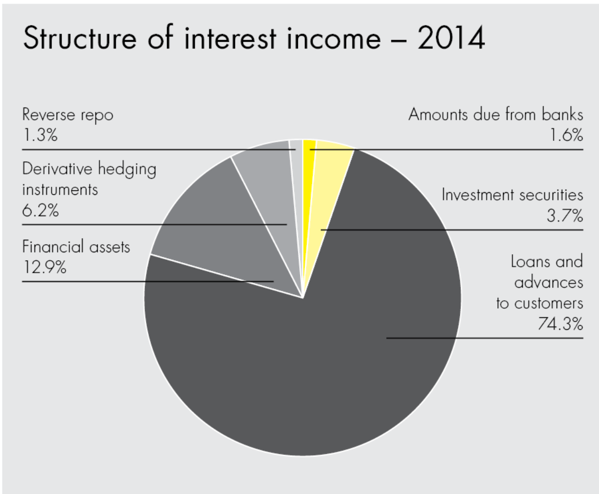
3.1.1. Net interest income

In 2014, the net interest income of Raiffeisen Bank Polska SA amounted to PLN 1,085 million was 1% higher in comparison to previous year. As a result of interest rate reductions by the Polish Monetary Policy Council in October 2014, the Bank recorded a decline in interest income in the Q4 2014. The net interest margin, which in the first three quarters of 2014 stood at 2.24%, fell to 2.13% at the end of 2014. In 2013, net interest margin amounted to 2.17%.

Structure of interest income

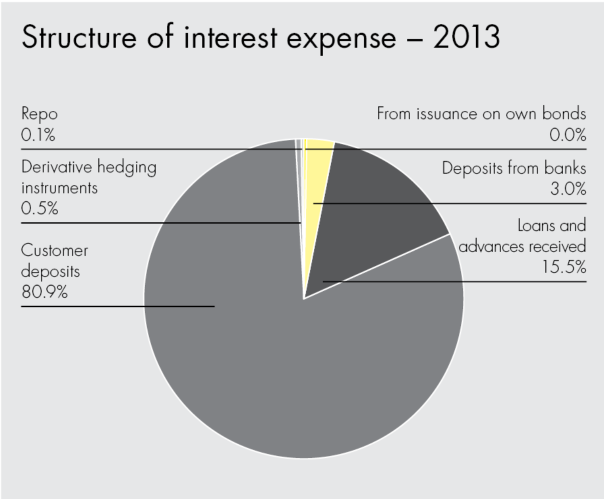
In 2014, interest income fell by 9% compared to the previous year, which was largely affected by the cut of reference and lombard rates.
The structure of interest income remained substantially unchanged in comparison to 2013. The dominating item, accounting for 74% of the total interest income, were revenues from loans and advances to customers, which fell by 12% year-on-year.
Another significant item, accounting for 13% of total interest income were interest revenues from financial assets designated at fair value.

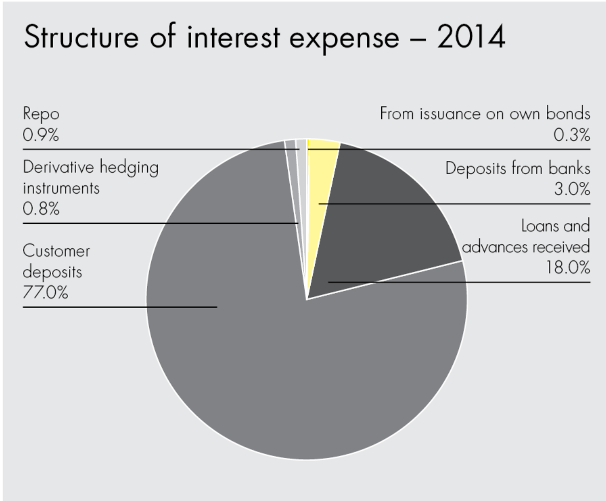




Structure of interest expense

Interest expenses in 2014 were 21% lower in comparison to the previous year, which mainly resulted from the lower reference rate (from January to July 2013 it decreased by 150 base points to 2.5%). For the first 9 months of 2014, the reference rate amounted to 2.5%, and it dropped to 2.0% in the last quarter of 2014.
Interest expenses from customer deposits decreased by 24% year-on-year. Additionally, the share of these expenses in total interest expense fell from 81% in 2013 to 77% in 2014, in spite of the increase of customer deposits' volume by PLN 3.3 billion in comparison to December 2013. The decrease was caused by a significantly lower level of PLN interest rates, in particular in comparison with the first half of 2013, and the effective management of the pricing policy in regard to obtained deposits. The lower level of PLN interest rates did not substantially affect interest expenses from long-term funding, as it is denominated in foreign currency. The share of expenses from loans and advances received increased from 16% in 2013 to 18% in 2014.
In 2014, a new category of interest expense was established due to the issue of own bonds in the amount of PLN 500 million.





3.1.2. Non-interest income

Non-interest income in 2014 amounted to PLN 677 million and was 13% lower than in previous year. A dominating item in non-interest income was the result from fees and commissions, which decreased by 8% in 2014 in comparison with the previous year. This decrease was mainly caused by a fall in revenues from margin transaction on clients' foreign exchange dealings by 5% in comparison with 2013.
Substantial negative deviations of the result on fees and commissions are also visible in regard to the commissions on sale of insurances. This item is PLN 24 million lower than the result achieved in 2013.
In 2014 the result on financial instruments measured at fair value was PLN 58 million and was lower by PLN 81 million, i.e. 58%, compared to the previous year. The decrease was caused by a drop in PLN interest rates and a fall in income on swap transactions concluded to hedge the Bank's balance sheet items but not designated to hedge accounting.
In 2014 the Bank recognized PLN 43 million in respect of dividend income compared to PLN 18 million in 2013. PLN 23 million of income from dividends in 2014 was related to the dividend payout by the Bank's distribution company – Raiffeisen Financial Services Polska. As a result of this transaction, the valuation of the Bank's participation in the company was reduced to PLN 15 million, which was reflected in the result from net provisioning for impairment losses.

3.1.3. Net provisioning for impairment losses

Net provisioning for impairment losses amounted to PLN 82 million in 2014 relative to PLN 305 million in 2013, representing a decrease of 73% year-on-year.

In 2014, the Bank recognized PLN 262 million of revenues from sale of non-performing loans portfolios vs. PLN 37 million of revenues from analogical transactions in the previous year. After the exclusion of one-off revenues from sales of non-performing loans and redemption of shares at Raiffeisen Financial Services Polska in 2014, net result from provisioning for impairment losses amounted to 329 million in 2014, compared to PLN 342 million in the previous year, representing a decrease of 4% year-on-year.

3.1.4. General administrative expenses

In 2014, the Bank continued activities to optimize costs in order to improve the its effectiveness.
In 2014, general administrative expenses of Raiffeisen Bank Polska amounted to PLN 1,235 million and were lower by 155 million, i.e. 11%, than in the previous year. Lower expenses resulted from:

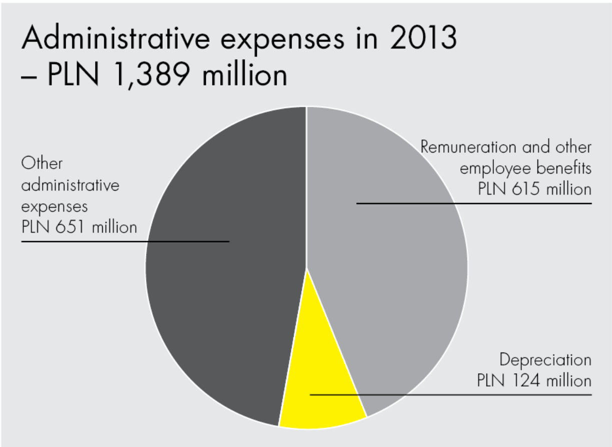
- achievement of the expected synergies,
- additional activities in the area of cost optimization;
- full operational integration of IT systems, completed in H1.

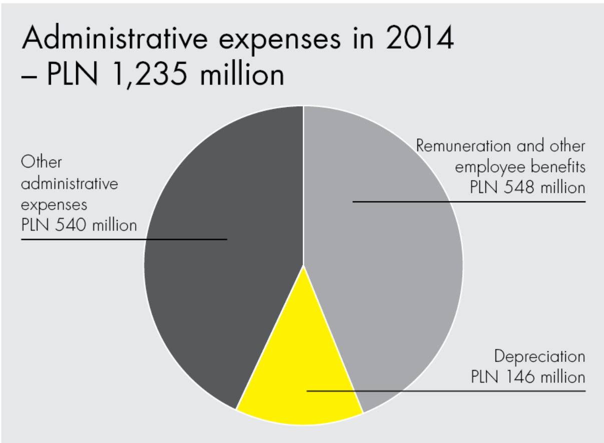
Pursuant to the synergy programme, largest savings were executed in the following areas:

- wages and other employee benefits – a 11% decrease in costs on an annual basis (savings of PLN 67 million), reduction by 10.5% y/y in the number of FTE (from 5,600 at the end of 2013 to 5,000 thousand at the end of 2014.) – mainly in the following areas:
  - retail banking sales network – optimization of the network of branches;
  - sales support;
  - operations and IT; and
  - risk area;
- IT costs – reduction of expenses by 17% in 2014 in comparison to the previous year, as account of optimization of the IT infrastructure;
- administrative expenses - activities relating to negotiating service contracts, real estate costs, and reduction of the network of branches.

Additional activities supporting optimization of expenses included, amongst others, the marketing activity area, optimization of processes using the Lean methodology.

In 2014, amortization costs increased by PLN 22 million i.e. 18% in comparison to the previous year, as result of expenses incurred on developing an integrated IT system for merged banks and a change of the method of amortizing relations with customers (change from line method to declining balance method). Moreover, the Bank Guarantee Fund (BFG) fees increased by PLN 8 million, which resulted from introducing an additional prudence fee for the BFG Stabilization Fund.





3.2. Segment results

The Bank manages its business based on four operating segments: "Corporate Banking", "Retail Banking", "Financial Institutions and Capital Markets", and "Asset and Liability Management and Other Operations".

Profit/loss before tax by segment (in PLN million)

	2013		2014		Change	
	Result	Share	Result	Share	in PLN million	in %
Corporate banking	302	182.8%	306	75.6%	3	1.1%
Retail banking	(172)	(104.1%)	35	8.8%	208	–
Financial institutions and capital markets	83	50.1%	92	22.7%	9	10.8%
Asset and liability management and other operations	(48)	(28.8%)	(29)	(7.1%)	19	(39.9%)
Bank total	**165**	**100.0%**	**404**	**100.0%**	**239**	**144.5%**

Corporate Banking segment

In 2014, the Corporate Banking segment generated a profit before tax of PLN 305.8 million, an increase of 1% compared to 2013. The segment result was similar to that of the previous year, despite the lower operating income (a decrease of PLN 27.1 million, i.e. 4%), mainly due to lower general administrative expenses (by 18.4 million, i.e. 6%) and lower net provisioning for impairment losses (by 12.0 million, i.e. 8%).

Operating income of the segment in 2014 decreased by 9% as account of a lower net interest income resulting from lower interest rates, which was reflected in particular, in the interest income from current accounts. Non-interest results also decreased in 2014, by 6%, in comparison to the previous year, which mainly resulted from lower revenues from the margin transaction on clients' foreign exchange dealings.

Retail Banking segment

In 2014, the profit before tax of the Retail Banking Segment increased to PLN 35.5 million, representing an increase of PLN 208 million compared to the previous year, which was largely due to the sale of non-performing loans. In 2014, Retail Banking achieved a result on sale of such assets in the amount of PLN 261 million in comparison with PLN 37 million the previous year.

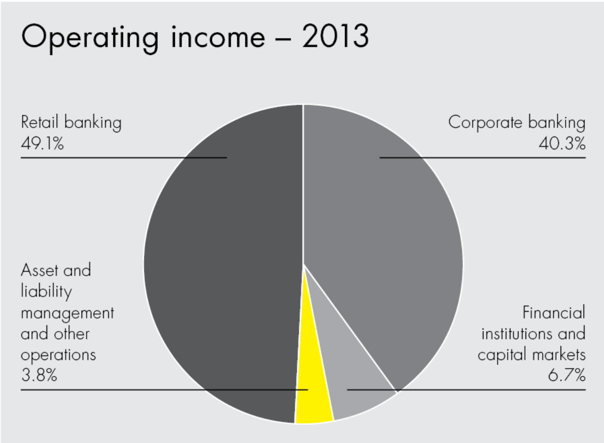
The decrease of the profit before tax after excluding one-off transactions of the Retail Banking Segment year-on-year, resulted from a decreasing volume of retail assets, in particular consumer loans. The decision of the Monetary Policy Council from October 2014 on cut of both lombard rate and the reference rate also adversely affected the result of the segment. In particular the non-symmetrical high reduction of the lombard rate forced Bank to significantly decrease the interest rate and the margin on credit products.

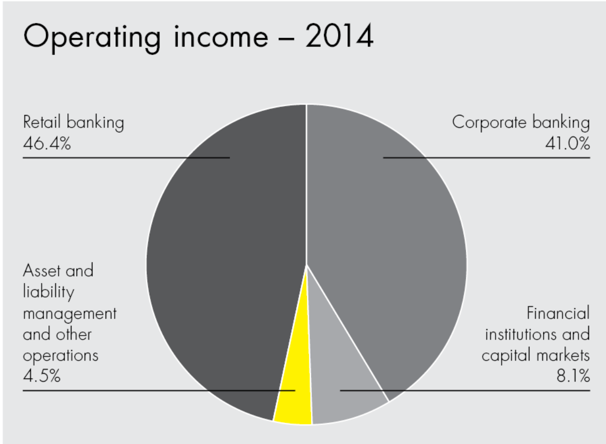
Financial Institutions and Capital Markets Segment

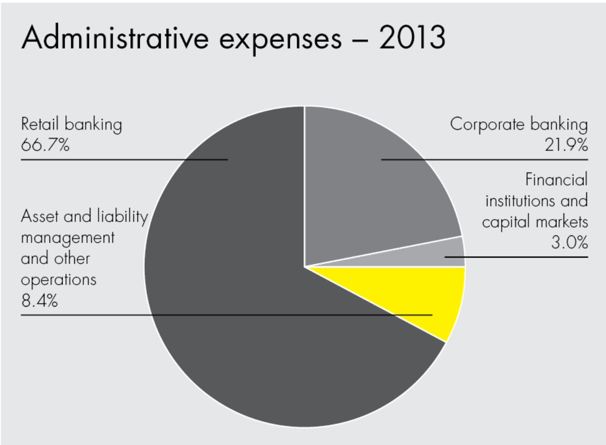
In 2014, the Financial Institutions and Capital Markets sector generated a profit before tax of PLN 91.9 million, an increase of 9% compared to the year before. The main factor contributing to the profit growth in this sector was the improved operating income (an increase of PLN 17.9 million).

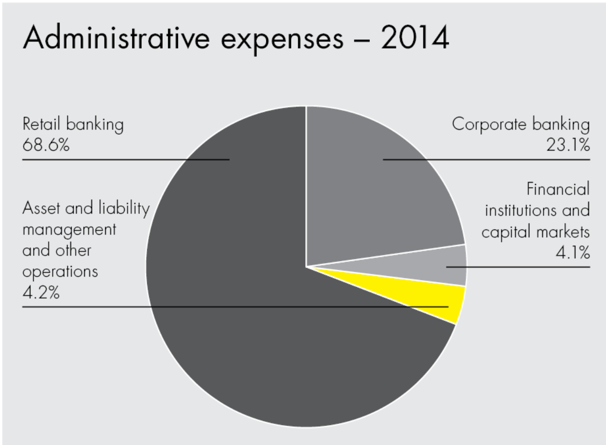
Asset and Liability Management and Other Operations

The result of the Assets and Liabilities Management and Other Activities Segment for 2014 has improved by PLN 19 million compared to the previous year, while the loss generated by this segment fell to PLN 28.7 million. This improvement in segment result was due to lower general administrative expenses (a decrease of PLN 65.3 million, i.e. 56%, compared to 2013.) and higher revenues (an increase of PLN 8.7 million). The reduction in general administrative expenses resulted from lower integration expenses relating to the operating merger, which are presented in this segment in entirety. On the revenue side, there was an increase of PLN 37.2 million in interest income, which was due to lower costs of obtaining liquidity and due to the conclusion of balance sheet hedging transactions under hedge accounting procedures, leading to the result of such transactions being recognized as interest income. A fall in non-interest income by PLN 28 million compared to 2013 was caused by lower level of PLN interest rates and reduced income from swap transactions hedging the balance sheet, but not designated to hedge accounting, and to the above mentioned balance sheet hedging transactions designated to hedge accounting procedures, leading to the result of such transactions being recognized as interest income.









In operating income structure in 2014, the contribution of Retail Banking amounted to 46%, and 41% on the part of Corporate Banking. However, due to proportionally higher general administrative expenses of the retail segment (67% of costs is assigned to this segment, in comparison to 22% of costs on the part of Corporate Banking), 76% of profit before tax in 2014 was generated by Corporate Banking, 23% by Financial Institutions and Capital Markets, and 9% by Retail Banking.
Due to the restructuring measures being continued in 2014 with respect to the Bank as a result of the merger between Raiffeisen Bank Polska S.A. and Polbank EFG S.A., the Assets and Liabilities Management and the Other Activities Segment shows a loss before tax.

3.3. Statement of financial position

3.3.1. Assets of Raiffeisen Bank Polska

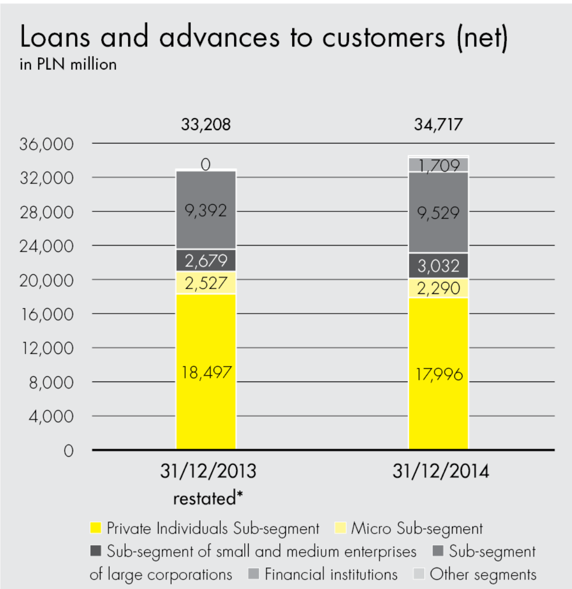
In 2014, the Bank's assets increased by PLN 4,876 million, i.e. 10.0%, compared to the end of 2013. As of 31 December 2014 assets volume amounted to PLN 53,521 million.
Asstes volume grew as account of an increase in the securities balance (the balance of financial assets held for trading and investment securities) by PLN 2,345 million and the increase by PLN 366 million in the balance of participations in subsidiaries, which was mainly due to the acquisition of 50% stake in Raiffeisen Leasing Polska S.A. from Raiffeisen-Leasing International.
As at the end of 2014 loans and advances to customers accounted for the largest share in the balance structure. Their net balance accounted for 64.9% of total assets as compared to 68.3% at the end of 2013.

Assets of Raiffeisen Bank Polska S.A.

	31 December 2013 restated*		31 December 2014		Change	
	in PLN million	in %	in PLN million	in %	in PLN million	in %
Cash and balances with the central bank	2,422	5.0%	2,684	5.0%	262	10.8%
Amounts due from banks	354	0.7%	628	1.2%	274	77.5%
Financial assets held for trading	8,771	18.0%	362	0.7%	(8,409)	(95.9%)
Derivative financial instruments	533	1.1%	900	1.7%	367	68.9%
Investment securities	1,760	3.6%	12,514	23.4%	10,754	611.1%
Loans and advances to customers	**33,208**	**68.3%**	**34,717**	**64.9%**	**1,509**	**4.5%**
Investments in subsidiaries	155	0.3%	521	1.0%	366	235.5%
Intangible assets	610	1.3%	572	1.1%	(38)	(6.2%)
Property, plant and equipment	200	0.4%	156	0.3%	(43)	(21.8%)
Other assets	633	1.3%	466	0.9%	(167)	(26.3%)
Total assets	**48,645**	**100.0%**	**53,521**	**100.0%**	**4,876**	**10.0%**

* See note 3 to the consolidated financial statements.

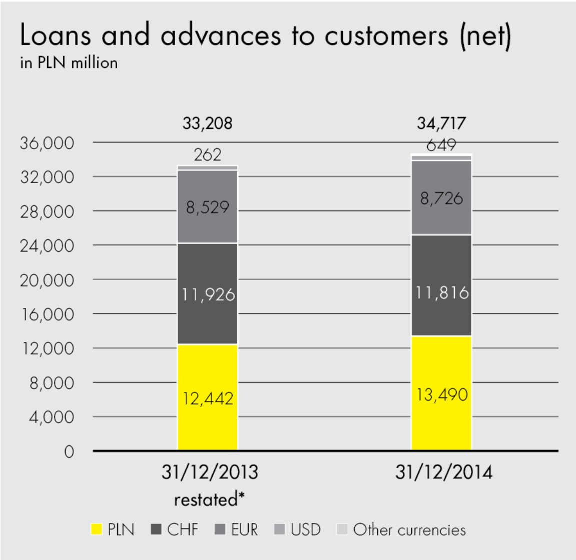
In 2014, the value of loans and advances to customers rose by PLN 1,509 million, i.e. 4.5%, compared to the end of 2013, however, this increase was to a large extent a result of recognizing buy-sell-back transactions with customers other than banks in the amount of PLN 1,651 million in this category in the Financial Institutions segment. There were no buy-sell-back transactions in the Bank's balance sheet in 2013.



* See note 3 to the consolidated financial statements.

The volume of loans and advances to customers decreased by PLN 501 million, i.e. 2.7%, for the private individuals sub-segment, and – by PLN 237 million, i.e. 9.4%, for the micro-enterprise sub-segment. At the same time, an increase in the balance of net loans was recorded for the corporate banking sector and the sector of small and medium-sized enterprises.

At the end of 2014, the most significant item in the category of net loans were loans denominated in PLN, which accounted for 39% total net loans and loans, whereas loans in CHF accounted for 34%, and in EUR for 25%.
As compared to the end of 2013, there was a decrease of PLN 110 million in the PLN equivalent of loans denominated in CHF, whereas the volume of loans denominated in EUR rose by PLN 197 million.
As for the original currency, a decline in loans for both currencies (EUR and CHF) could be seen, with their balance, as expressed in PLN, being affected by depreciation of PLN compared to the end of 2013: the CHF exchange rate rose by 4.8%, while the EUR exchange rate – by 2.8%.
Another significant asset items were accounted for by liquidity and investment securities. The balance of financial assets held for trading decreased by PLN 8,409 million, while the balance of investment securities increased by PLN 10,754 million, accounting for an increase of PLN 2,345 million in total.



* See note 3 to the consolidated financial statements.

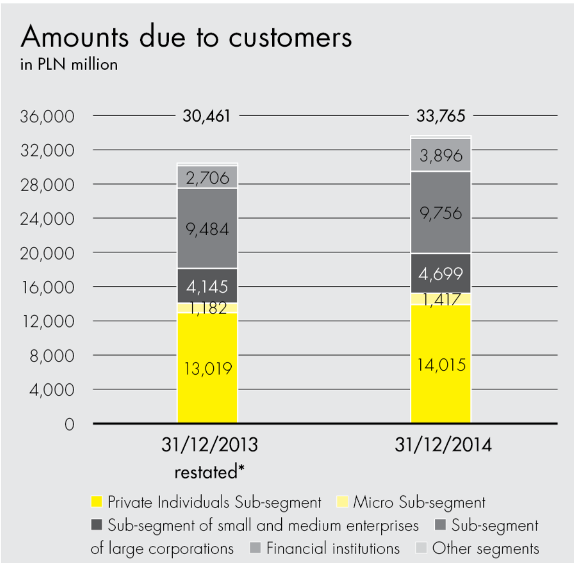
3.3.2. Liabilities and equity of Raiffeisen Bank Polska

Liabilities due to customers remained the Bank's primary source of funding. At the end of 2014, they accounted for 63% of the balance-sheet total.
An important item in liabilities were also liabilities due to banks and other monetary institutions, with the share of 21% of the balance-sheet total.
In 2014, the Bank issued own bonds for PLN 500 million. Their volume, as at the end of 2014, accounted for 1% of the balance-sheet total.

Liabilities and Equity of Raiffeisen Bank Polska S.A.	31 December 2013 restated*		31 December 2014		Change	
	in PLN million	in %	in PLN million	in %	in PLN million	in %
Amounts due to banks and other monetary institutions	**11,408**	**23.5%**	**11,243**	**21.0%**	**(166)**	**(1.5%)**
Derivative financial instruments	454	0.9%	1,124	2.1%	670	147.7%
Amounts due to customers	**30,461**	**62.6%**	**33,765**	**63.1%**	**3,304**	**10.8%**
Subordinated liabilities	104	0.2%	320	0.6%	216	207.7%
Liabilities from debt securities issued	0	0.0%	502	0.9%	502	0.0%
Other liabilities	582	1.2%	531	1.0%	(51)	(8.7%)
Total liabilities	**43,009**	**88.4%**	**47,485**	**88.7%**	**4,476**	**10.4%**
Total equity	**5,636**	**11.6%**	**6,036**	**11.3%**	**400**	**7.1%**
Total liabilities and equity	**48,645**	**100.0%**	**53,521**	**100.0%**	**4,876**	**10.0%**

* See note 3 to the consolidated financial statements.

At the end of 2014, the balance of due to customers increased by PLN 3,304 million y/y.



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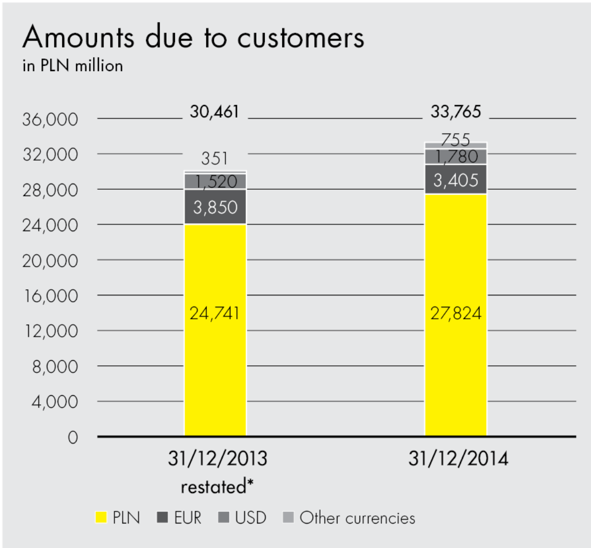


* See note 3 to the consolidated financial statements.

Liabilities in all sub-segments increased within the period in question. The highest increase, of PLN 1,190 million, is reported in the sub-segment of financial institutions..
The share of equity in the balance-sheet total was to 11.3% at the end of 2014 and remained unchanged compared to the end of 2013.

3.4. Key performance indicators

The following table shows the key performance indicators of the Bank.

Key performance indicator

	2013	2014
Net ROA	0.3%	0.6%
Net ROE	2.3%	5.4%
Net interest margin	2.2%	2.1%
Cost to income ratio	74.7%	71.7%
Net Loans to Deposits	109.0%	102.9%
Capital Adequacy Ratio	12.6%	13.9%

Net ROA – profit attributable to shareholders of the parent company/average assets
Net ROE – profit attributable to shareholders of the parent company/average equity
Net interest margin – net interest income/ average assets
Cost to income – general administrative expenses, including depreciation/ operating income including other operating result

4. Operations of Raiffeisen Bank Polska in 2014

4.1. Retail Banking

Retail banking includes products and services for individual clients and microenterprises. The segment is divided into the following sub-segments: mass clients, affluent clients, private banking and microenterprises.
For the purpose of achieving all business targets in Retail Banking it was essential to perform on 16–18 May 2014 a successful operational migration that consisted in integrating into one functional IT system the systems of the merged banks: Raiffeisen Bank Polska SA and Polbank EFG S.A. This made it possible to standardise a customer offer for retail products and to provide customers with standardised services.
After the merging of the systems was completed, the Bank focused on rejuvenating its deposit offer, both in terms of prices and service channels, thanks to which it was possible to acquire new clients and new deposits. As a result, the balance of deposits made by clients of Retail Banking increased by over PLN 1 billion at the end of 2014, and the loans to deposits ratio dropped by 17 percentage points.
Moreover, in 2014, the Bank continued improving is financial advisory models and client service standards by focusing on affluent clients and private banking clients. At the same time, the Bank focused on developing electronic channels and solutions enabling clients to use products without visiting a branch in person. Additionally, the distribution network was expanded by the cooperation with several financial brokers operating throughout the country.
At the end of 2014 the number of active clients in Retail Banking was 634 thousand.

4.1.1. Deposit products

In 2014, the Bank carried out client acquisition activities in respect of personal accounts, which resulted in acquiring 88.5 thousand accounts, i.e. 17% more than in 2013. The activities included among others a campaign for the “Wygodne zarabianie” (Comfortable Saving) promotion, seasonal campaigns and cross-sell campaigns designed specifically for employees and owners of companies using the Bank’ services.
The "Wygodne zarabianie" long-term promotion, introduced in 2014 and unique on the national market, is an action to reward clients’ loyalty and their treating the Bank as their first choice institution. As a part of such promotion related to the “Wygodne” (Comfortable) personal account, clients were offered special conditions, including moneyback (return of some part of their expenses paid with a debit card) as well as an increase in remuneration (a bonus being a part of remuneration credited to the account). Both current and new clients could take advantage of these terms and conditions.
Since mid-May 2014, it has become possible to open personal accounts with a debit card and electronic access channels entirely online due to an identity authentication procedure based on a bank transfer from another bank. In November 2014, the procedure was fully automated and the time of waiting for opening the account was limited to a few minutes. In November 2014, the Bank also launched its SMS notification

service, R-Alerts, which ensures comfort and better control over finance, and enhances security of deposited funds as SMS notifications are sent after each operation and a message stating the balance is sent at the end of each day.
To meet expectations of our clients, in December 2014 changes were introduced to the Table of Fees and Commissions and a fee for the "Wygodne" personal account, being a basic acquisition product, was abolished without any additional requirements to be satisfied.
Among saving products, the most popular was R-Deposit (R-Lokata) for new funds in PLN, USD and EUR (earlier known as "Lokata Unikalna"). The deposit posted a record high in sales in Q4 with the sales value of PLN 1 billion.
The Mobile Deposit (Lokata Mobilna) for mobile banking clients was the deposit with the highest interest rate and it ranked 2nd in the November ranking of 3-month deposits compiled by the Money.pl website. The aim of Mobile Deposit was to promote mobile banking. Thanks to the offer, the volume of deposits opened through this channel increased by 532% yoy.
Clients seeking higher profits and with a higher risk appetite were offered so-called bundled products, in which some part of funds was invested into a term deposit and some part was invested in an investment product, in compliance with requirements under the MIFID. An example of such product was "Perfekcyjny Duet" ("Perfect Duo") with a deposit with interest of even 9% p.a.
In spite of interest rates being at historical lows in 2014, the Bank recorded an increase in volumes of saving products (current accounts and deposits) by PLN 795.9 million.

4.1.2. Debit cards

In 2014, the Bank carried out actions to increase clients' activity in terms of debit cards. As a result, the number of active debit cards increased by 15% yoy, the volume of debit card payments increased by 19% yoy and the average volume of debit card payment increased by 14% yoy.
In 2014, the Bank started its cooperation with Wizz Air, one of the leading budget airlines in Central Europe. As a part of the cooperation, the Bank offers, among others, a MasterCard Debit Wizz Air debit card, which may be issued for any personal account maintained with the Bank. The card has all features of a payment card and additionally clients are granted discounts when buying Wizz Air plane tickets and other services. In 2014, the cooperation with Wizz Air contributed to almost 3.8 thousand new debit cards, out of which 88% were cards sold to new clients.
A popular choice among clients in 2014 was the MasterCard debit card issued for a currency account in EUR that provided access to the R-Dealer online exchange platform, where clients may enter into online currency transactions. These cards recorded a 10% increase in sales in comparison with 2013.

4.1.3. Lending products

Mortgage loans contribute significantly to the Bank's assets and at the end of 2014 they accounted for 78% of loans granted to individual clients. In terms of currency structure, the share of foreign currency loans in the portfolio of mortgage loans was over 92%. In 2014, the Bank continued to implement the strategy of the previous two years of limiting long-term financing with secured loans. Still, the total of assets yoy remained comparable. The effect of portfolio amortization was balanced to a large extent by the increasing weakness of PLN against CHF, USD and EUR.
In the first half-year of 2014, the Bank focused on migrating the mortgage portfolio of Polbank EFG S.A. into Raiffeisen Bank Polska systems. In the second half of 2014 a retail strategy changed and the offer, tools and processes applicable to mortgage credit services were reconstructed to develop further this part of business activity.

Activities undertaken by the Bank in the field of consumer loans were focused not only on the integration of systems, but also on optimization of credit procedures and new acquisitions. Improvement of credit procedures was reflected by the implementation of many automated solutions and readjustment of risk parameters, which resulted in reduction of waiting time for the payout of funds to 1.5 day on average, or in many cases to no more than 15 minutes. Actions related to integrating systems and improving procedures were the main factors that contributed to the increase in consumer loans sales. Other factors included marketing actions, appropriate targeting of the sales network and development of a new sales channel, i.e.

a channel of brokers operating across the country. With this solution, the new value of consumer loans acquisition in December was almost two times higher than in December 2013. Throughout the year, there was an increase of 5% yoy in consumer loans sales.

At the end of 2014, the portfolio of consumer loans, including credit cards receivables, was PLN 1.7 billion vs. PLN 2.8 billion at the end of 2013. The changes occurred as a result of natural repayments as a consequence of selling a portfolio or non-performing loans in October. Within last two months, the portfolio value remained stable, with a slight increase in the segment of cash loans.

As far as credit cards are concerned, an important part of the offer was the introduction of an innovative credit card "Karta abonamentowa" ("Subscription Card") a unique interest-free card with no pay-out fee and no annual payment. The only fee to be covered by the client is a monthly fee of PLN 29.
Due to integration of systems, the number of card products offered was reduced to seven. At the same time new sales channels were opened: contextual sale by brokers, the Internet and the external Call Center. Cooperation was started with three agents offering credit cards of Raiffeisen Polbank, among others, in shopping centres and at the airports.
As a result of cooperation with WizzAir, the Bank expanded its offer with a WizzAir credit card that allows clients to collect points to buy cheaper WizzAir plane tickets or other services offered by the airline.
Despite negative changes in market parameters, i.e. a decrease in interchange rates and reduction in the Lombard rate, average profitability per card in 2014 in comparison to the previous year remained at a similar level. This occurred to large extent due to stepping up actions within the portfolio, including the implemented procedure of offering clients an option of adjusting credit limits to their needs and capacities. The Bank carried out several marketing actions aimed at encouraging clients to use credit cards regularly. This resulted in a regular increase in cash and non-cash transaction value in specific quarters of 2014 and average monthly expenses per credit card, with its highest value in December higher by 27% than the one recorded in the same period in 2013.
The title of the most transaction-generating credit card in the portfolio went to the WizzAir card, which in December generated almost 9% of total turnover of credit cards for individual clients, even though its share in the number of credit cards is 3%. An average amount of monthly expenses paid via a WizzAir credit card in December was three times higher than the average amount in the portfolio.

4.1.4. Insurance

Since May 2014 the Bank has adjusted unit-linked life insurance to the Recommendations on good information practices related to unit-linked life insurance published by the Polish Insurance Association. At the same time, in cooperation with UNIQUA Towarzystwo Ubezpieczeń na Życie S.A., certain solutions were introduced to increase quality of sale in the field of unit-linked life insurance.
In 2014, the Bank increased the level of sales of insurance to the level of consumer loans.
In connection with the U Recommendation announced by the Polish Financial Supervision Authority (PFSA) in June 2014 related to good practices in bancassurance intensive work has been commenced to adjust the Bank's operations to the recommendation. In 2015 the Bank will offer insurance within an agency model and apply guidelines included in the recommendation.

4.1.5. Investment products

In 2014, the Bank made a whole range of investment products available to its retail clients. It offered investment deposits and structured insurance as well as guaranteed certificates on a subscription basis. Within last 12 months, the Bank prepared 11 subscriptions for structured insurance, in cooperation with insurance companies, for the total of PLN 177 million, and 21 subscriptions for investment deposits for the total of PLN 445 million.
In order to expand its investment offer and to make it more attractive for clients, the Bank strengthened its presence in the field of investment funds through the distribution of funds sold under the Raiffeisen brand but managed by an external entity, i.e. Altus TFI (within a "white label" formula). In July 2014, the Bank launched the sale of Raiffeisen SFIO Umbrella Fund and entered therefore a new area of activity related to creating and selling its own investment fund offer.

Raiffeisen SFIO Umbrella Fund consisted of four sub-funds with different investment strategies and risk levels:
- Raiffeisen of Active Saving,
- Raiffeisen of Corporate Bonds,
- Raiffeisen of Global Opportunities,
- Raiffeisen of Active Investing.

Three sub-funds of the Raiffeisen SFIO Umbrella Fund are managed by ALTUS TFI as commissioned by the Bank, while the Raiffeisen of Global Opportunities Fund is managed by Raiffeisen Capital Management, an asset management company from the RBI Group. Funds are actively managed and asset allocation is very flexible so that effective responses to the market situation is possible. The basic rule is to avoid loss and at the same time to generate a positive rate of return, irrespective of market conditions.
The product is available in the retail banking network and via online banking system. At the end of 2014, the number of investment unit holders reached 10 thousand and assets in the Raiffeisen SFIO Umbrella Fund exceeded PLN 260 million. If calculated together with the close-end fund called "FWR Selektywny FIZ", which is addressed only to Friedrich Wilhelm Raiffeisen Private Banking clients, assets of the Bank's funds exceeded PLN 300 million. The structure of assets in specific sub-funds is as follows:

Assets of the Bank's investment funds

Fund	Managing authority	Assets as at 31 December 2014 (in PLN million)
Raiffeisen SFIO Parasolowy Fund		
Raiffeisen of Active Saving	Altus TFI S.A.	157.3
Raiffeisen of Corporate Bonds	Altus TFI S.A.	39.6
Raiffeisen of Global Opportunities	Raiffeisen Capital Management	5.8
Raiffeisen of Active Investing	Altus TFI S.A.	58.4
FWR Selektywny FIZ	Altus TFI S.A.	45.1
Funds total		**306.2**

The Raiffeisen SFIO Umbrella Fund may be purchased also within Regular Savings Programme called "Małe Wielkie Oszczędności" (Little Big Savings) and within the "Kapitalny Zysk" (Capital Profit) Package with a 3-month or 6-month deposit with an attractive interest rate. In these two products the client chooses one of four portfolios composed of Raiffeisen Polbank sub-funds. Shares of sub-funds in portfolios were designed to maintain the level of risk accepted by clients in any market situation. Raiffeisen Funds are available also within the UFK Uniqa "Fundusz i Perspektywa" and the UFK Europa "FWR Optymalny Portfel" offers.

4.1.6. Brokerage house

In 2014, Raiffeisen Brokers successfully continued its activity in the domain of offering Raiffeisen Centrobank AG structured products on the public market, being a leading issuer of certificates at the Warsaw Stock Exchange. Certificates worth PLN 140 million were sold.
Moreover, Raiffeisen Brokers participated in the public offering of Altus TFI S.A. shares, in retail and institutional tranches, as the co-issuer.
The number of investment accounts in 2014 increased by nearly 28% in comparison to the previous year and amounted to 8.7 thousand as of 31 December.

4.1.7. Friedrich Wilhelm Raiffeisen Private Banking

Friedrich Wilhelm Raiffeisen Private Banking is designed for clients with assets exceeding PLN 1 million.
Year 2014 was a period of dynamic growth, among others in terms of acquiring clients' assets understood as volumes of deposit and investment products (growth by 17% yoy to the level of PLN 6.2 billion).

2014 witnessed the commencement of implementing the "Integrated FWR Advisory Model", a standard of service provision in the field of financial and investment advisory services that introduces elements of behavioral portfolio theory to the model of customer service. Individual investment consulting offered in the second half of 2014 was based on the same theory.
As for products offered, the first fund of alternative funds on the Polish market was created with the opening of the "FWR Selektywny FIZ" close-end investment fund, which is a sort of asset management platform. Within the platform, selection of best solution is made with respect to: absolute return, global macro, private equity, debt or real estate.

4.1.8. Microenterprises

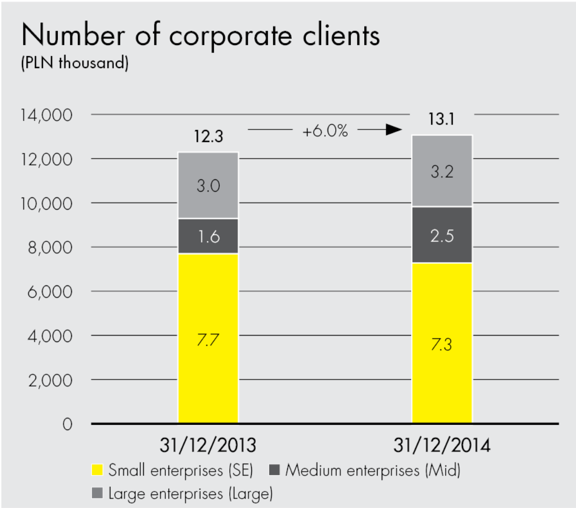
In 2014, the sub-segment of microenterprises acquired 9.3 thousand companies and achieved dynamics at the level of 19% yoy. This result was achieved, *inter alia*, through the continuation and development of cooperation with the Bank's subsidiary – Raiffeisen-Leasing Polska S.A. As part of their joint banking and leasing offer, clients applying for leasing financing were offered preferential financing conditions and a bank account on special terms. Additionally, the offer of accounts for microenterprises was simplified to four packages for various segments, reflecting subsequent stages of development in terms of relationship with the bank and own business development.
In 2014, the Bank granted almost PLN 320 million new loans to Microenterprises, which means an increase of 46% in comparison to 2013. Clients responded very positively to the continuation of the secured loan called "Gwarancja BGK de minimis" with the available limit of PLN 400 thousand. The Bank has also introduced a fast credit process for amounts up to PLN 50,000 under the name "Easy-to-get Corporate Loan". A final decision is issued within 15 minutes and an agreement is signed during the same single visit to the Bank's branch. Both new and current clients with no credit products may apply for the loan. To support the sale "Szybki Kredyt Firmowy", the Bank launched a marketing campaign throughout Poland. Following the improvement of the credit process in October 2014, appropriate measures have been taken to simplify *inter alia* the documentary requirements, resulting in a faster process of granting loans.

4.2. Corporate banking

Corporate Banking includes the sale of products and services delivered to enterprises and other entities, such as: companies and co-operatives, non-commercial institutions, public sector units and individual enterprises which do not fall into the category of microenterprises due to classification criteria. The segment is divided into sub-segments of large, medium and small enterprises.

4.2.1. Increase in client base

In 2014, the Bank was consistently strengthening its position in the segment of corporate services, leading to an increase in the number of clients served. At the end of December 2014, the Bank had 13.1 thousand corporate clients, which was a 6% increase in comparison to the end of 2013.
The figure by business segments:
- 3.2 thousand large companies,
- 2.5 thousand medium companies,
- 7.3 thousand small companies.



Customer classification:
SE – clients of annual turnover from PLN 4 million to PLN 25 million
Mid – clients of annual turnover from PLN 25 million to PLN 100 million
Large – clients of annual turnover over PLN 100 million

In January 2014, following the verification of companies' allocation to specific business lines based on actual generated revenues, 565 clients were transferred from small to medium enterprises.

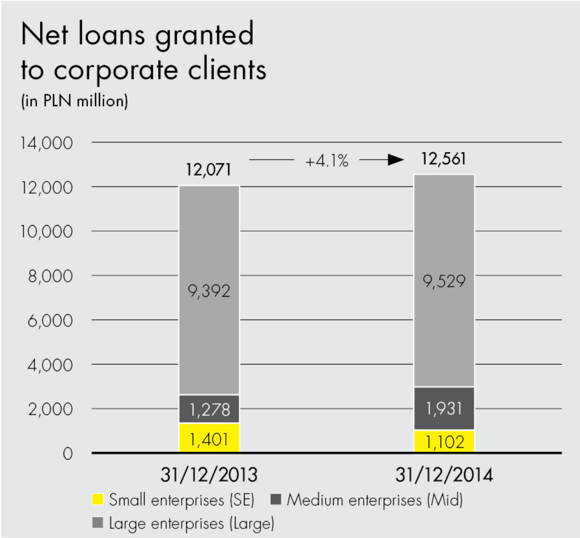
4.2.2. Small and medium enterprises

Small and medium enterprises (SME) are one of priorities on which the Bank focuses in accordance with the adopted strategy with a view to develop further the area of corporate banking. According to the data of the Polish Central Statistical Office (*Główny Urząd Statystyczny, GUS*), the group, numbering (within the Polish territory) about 72.5 thousand [6]companies (excluding microenterprises), due to its important role in the national economy – SMEs (excluding microenterprises) generate almost 18% of national GDP[7], 35% of the revenue of non-financial corporations[6], and provide as much as 41% of jobs in non-financial corporations[6], in addition to providing other development prospects – represents a very important source of revenue for banks. It also provides an excellent alternative to the large enterprises segment, where competition, and consequently price pressure, is very strong.
Steps taken in 2014 were aimed at improving clients' satisfaction, e.g. by reducing the time of waiting for credit decisions and disbursement, by developing modern factoring solutions, transaction banking or by improving and simplifying internal processes. Such actions resulted in even better specialization and effective analysis of SME clients' needs in order to provide adequate solutions quickly and efficiently.

4.2.3. Lending activity

In 2014, the volume of the net loans granted to corporate clients increased by PLN 490 million, i.e. 4%, reaching the level of PLN 12.6 billion at the end of December.

[6]Data for 2012 from the publication "Activities of non-financial enterprises in 2012", GUS, 29 January 2014.
[7]Data for 2012 from the publication "Report on small and medium-sized enterprises in Poland in 2012–2013", PARP, 2014.

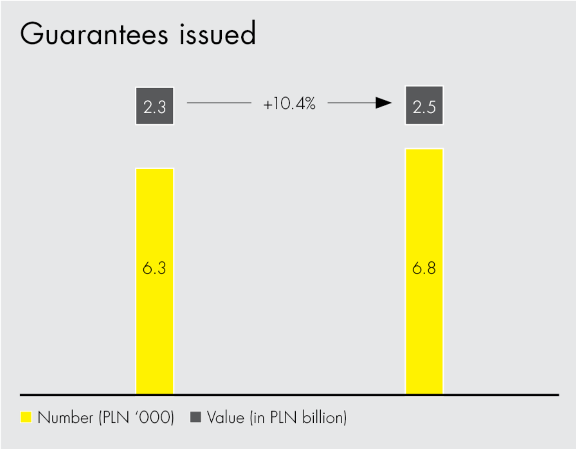


In January 2014, the relationship with several clients of the corporate banking sector was moved to Financial Markets division and the total volume of loans for this group of clients was PLN 195 million. Resegmentation of 565 clients from the small to mid-sized companies, which took place in January 2014, also led to a step change in loan volumes in these groups, which amounted to PLN 476.2 million.
Excluding the two effects of the transfer and the client portfolio re-segmentation described above, the highest rate of increase in loan volumes was recorded in small enterprises, where the increase was 19% in comparison to 2013, and in medium enterprises with the increase of PLN 177 million, i.e. 10% yoy. Significant increases in both segments were caused by a consistent implementation of the strategy aimed at strengthening the Bank's position in rendering services for small and medium enterprises in Poland. As far as corporate banking sector is concerned, the volume of loans increased in 2014 by PLN 332 million, i.e. 4%.
The net loans to deposit ratio for corporate banking as at the end of December 2014 was at the level of 86.9%.

In 2014, the Bank continued its activity as an active player on the lending market with de minimis guarantee under the governmental scheme on supporting micro-, small and medium enterprises by enhancing liquidity of such entities. Under the de minimis agreement on portfolio guarantee facility entered into by and between the Bank and Bank Gospodarstwa Krajowego, Raiffeisen Bank Polska S.A. had access to a guarantee limit of PLN 700 million. At the end of December, the value of the guarantee ceiling used under the agreement amounted to PLN 555 million (of which PLN 388 million related to contracts for corporate clients, and PLN 167 million – to micro-clients), thus providing the Bank with the ninth position in terms of the amount of the guarantee ceiling used.

4.2.4. Commercial transactions financing

In 2014 the Bank issued 6.8 thousand guarantees, which is an increase by 8% yoy. The value of issued guarantees was over PLN 2.5 billion, i.e. it increased by 10% in comparison to 2013.



As per the list prepared by the Polish Bank Association the Bank's share in all letters of credit, both issued and advised, by all banks reporting to the Polish Bank Association after Q3 2014 was 12%. In contrast, throughout the entire 2014, the Bank issued and delivered three thousand letters of credit with a total value of more than PLN 1.3 billion.

4.2.5. Factoring

In 2014 the Bank was the most often selected by Polish businesses provider of factoring solutions, every fourth factoring client in Poland used the Bank's services and the Bank purchased 562.3 invoices throughout the year.

Factoring turnover generated in 2014 reached a record level for the Bank and amounted to PLN 16.5 billion, i.e. an increase by 10% yoy. Thus, as per the data of the Polish Factors Association, the Bank achieved over 14% market share and placed itself on the second position among entities associated in the Polish Factors Association.

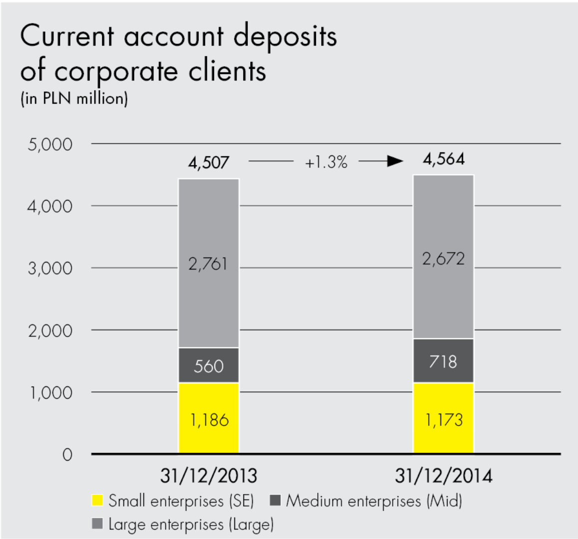
In 2014, the Bank introduced new products to the offer on factoring PLUS market, which combines the attributes of financing and insuring. It is a type of non-recourse factoring, where the contract is concluded exclusively by and between the bank and the client without the participation of the insurer, and the bank insures the financed invoices for the client. As opposed to products previously offered on the market, factoring PLUS guarantees free of charge initial analysis of business partners, assumption of the risk by the Bank is case of the debtor's insolvency and the absence of collection costs. The competitiveness of services is also enhanced by the possibility of on-line filing of an application for invoice financing via R-Faktor system, which ensures the access to information and reports on the services, the repurchase of the invoice within 1 hour, which means that during that time the client's bank account is credited with funds due under the invoice.

The factoring services are rendered via electronic means. The factoring offered by the Bank also means a fast contract parameters modification process and adjustment of services to individual needs of the client.

4.2.6. Transaction banking

In 2014 the Bank introduced a number of improvements to Transaction Banking products including, *inter alia*, the implementation of electronic signature, client support within mass services and modifications to cash service related processes. As a part of the offer improvement marketing activities were also performed with a special price for clients in demand for specialized products, such as full access to bank account via Web Service or multi-level identification of payment transactions.
As a result of these activities, there was an increase of 13% yoy in payment transactions in domestic trade and an increase of 18% yoy in payment transactions in foreign trade.

The year 2014 also saw continuous strengthening of the relationship-based cooperation model. The multidimensional approach to the needs of recipients manifested itself in e.g. the development of the offer by including collaboration with third party entities providing basic collection and legal services to the Bank. Joining, by the end of 2014, the New Settlement Model developed by Izba Rozliczeniowa Giełd Towarowych S.A. (Warsaw Commodity Clearing House) was another action of such type. Within its function as the Payer Bank the Bank, as one of eight entities on the Polish market, participates in settling transactions made on all POLPX markets. When deciding to join the IRGIT model the Bank focused on supporting clients with narrow business profiles related to power trading and ultimately also gas trading. Integrated product offers aimed at SME of specified business profiles e.g. exporters also proved a big success.
The above-presented actions resulted in the increase in funds collected on clients' bank accounts, the value of which as at the end of December 2014 amounted almost to PLN 4.6 billion, i.e. 1% more than as at the end of 2013. At the same time the value of average annual balance of corporate clients' current accounts increased in 2014 by almost 16% yoy.



The implementation, as part of the Internet banking for corporate clients, of a payment card module is an example of adjusting the offer to a broad spectrum of clients. The module enables free access to necessary information, such as current account balance, current blockages for transaction purposes and viewing and exporting bank account statements, but also placing instructions for card cancellation or limit change. Including such functions in the Internet banking system puts the Bank in the first row as regards the card service. In the field of non-cash transactions using payment terminals an increase in the value by 56% yoy was noted. The Bank offer included a compact, portable terminal with a self-install functionality without merchants, which is a response to the needs of SME.

4.2.7. Treasury banking and deposits

In 2014 the Bank, via the Department of Financial Markets Sales, entered into FX Spot, FX Forward and FX Options transactions as well as IRS transactions with corporate clients. In 2014 the number of clients actively using the Treasury products increased by 10% in comparison to 2013.

The total volume of FX transactions in 2014 increased by 5% vs 2013, which strengthened the Bank's position as one of top players on the market. At the same time, due to the very strong market competition from other banks and expanding on-line cantors, there was a drop in the average margin on foreign exchange transactions. The decrease was significant enough so as to lead to the fall in revenues from this product in comparison to the previous year, despite the growing volume of FX transactions.
One of the channels through which FX Spot transactions were made is R-Dealer transaction platform. The tool was updated last year with new graphic design and functionalities, including the expansion of the range of automatically quoted currency pairs. Among the clients from SME sector R-Dealer was the basic

channel for entering into spot FX transaction, in 2014 almost 77% of FX SPOT transactions was effected using this tool.

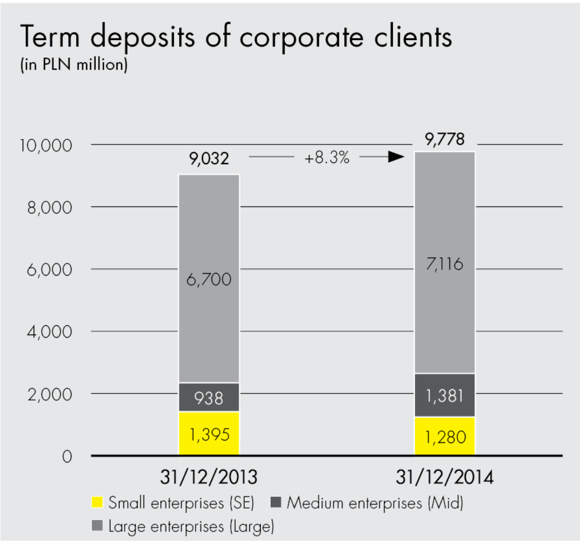
The Bank supported the clients in hedging their currency position using a range of derivatives through its currency dealers and derivative transaction experts. The number of clients actively using the derivative transactions increased by 11% yoy. FX Forward transaction was the most often used product. The volume of transactions increased by 4% as compared to the previous year.

In 2014, the Bank provided the clients with FX Manager services — an innovative tool facilitating the management of a company's currency position. The PC application integrates with the company's financial and accounting system and ensures transmission of data on currency invoices to the Bank's server. The client, using the FX Manager, receives the possibility of fast identification of foreign currency risk exposure and of its mitigation using FX Forward. The transaction may be made by a currency dealer, who is informed, on an ongoing basis, about the client's exposure or via R-Dealer, where the client itself selects invoices to be secured.

In connection with the introduction, in February 2014, of the obligation to report derivative transactions to the trade repository (EMIR regulation) the Bank decided to introduce a free of charge service intended for clients dealing in such transactions consisting in reporting such transactions to the repository at the National Depository for Securities.

In 2014, the Bank offered structured deposits — dual currency deposit (Lokata Dwuwalutowa) and investment deposit (Lokata Inwestycyjna). The dual currency deposit enabled the clients to generate higher interest than a standard deposit and provided for an additional option of conversion at an attractive rate. The Investment Deposit was used as a tool to diversify methods for businesses to invest their financial surpluses, offering a higher return than traditional deposits.

As at the end of 2014, the total value of deposits from corporate clients reached PLN 14.6 bn, i.e. a 7% increase as compared to the end of December 2013.



4.2.8. Investment Banking

The bank has been continuously developing its investment banking operations. In the second half of 2014, some internal organisational changes were introduced in that area following which the Bank's clients could be provided services within a single organisational unit offering a comprehensive range of products and services for the clients from those sectors.

In 2014, the Bank worked as arrangers or co-arrangers of a number of bond issues on the domestic market for corporate clients as well as banks, including but not limited to:

- INTEGER.PL S.A. – five series of bond issues for the total of PLN 196 million (the Bank's role: Arranger and Dealer, Payment Agent and Depositary for certain series),
- BBI Development S.A. – bond issue for PLN 53 million (the Bank's role: Arranger and Dealer),
- Magellan S.A. – short-term bond issue programme for PLN 90 million (the Bank's role: Arranger, Payment Agent, Depositary and Dealer),
- ATAL S.A – issue programme for PLN 30 million (the Bank's role: Arranger and Dealer),
- OT LOGISTICS S.A. – bond issue for PLN 100 million (the Bank's role: Arranger and Dealer),
- Meritum Bank ICB S.A. – bond issue for PLN 80 million (the Bank's role: Co-Arranger and Dealer);
- Raiffeisen Bank Polska S.A. – bond issue for PLN 500 million (the Bank's role: Co-Arranger and Dealer).

In 2014, the Bank participated in medium- and long-term bond placements with the value of PLN 1.1 bn.
The total nominal value of outstanding debt securities of corporate issuers and banks (without local government units) issued through the Bank amounted to almost PLN 2.0 bn, including PLN 0.2 bn in the form of short-term securities issues.

4.2.9. The Bank's own bond issues

In order to diversify funding sources to finance lending and operations, in 2014 the Bank launched its own Bond Issue Programme with the nominal value of PLN 2 bn. The goal of the Plan is to issue debt securities in numerous tranches and currencies, with various interest rate structures.
The first tranche of bonds amounting to PLN 500 million was issued on 19 November 2014 under Art. 9 sec. 1 of the Bonds Act as a public offering addressed to institutional investors and ended up with a 29% oversubscription.
The issue included 3-year unsecured, non-subordinated, PLN-denominated bonds. These are bonds with a variable rate, determined based on WIBOR6M rate plus interest margin equal to 1.30%. Interest will be paid semi-annually on dates specified in the issue terms. Final maturity date is 19 November 2017.
Raiffeisen Bank Polska S.A. bonds were introduced to the Alternative Trading System and are listed on the Catalyst market. The Bank provided detailed information about the issue in its current reports available at the Catalyst market website.

4.3. Financial institutions and capital markets

In line with its strategy, the Bank has been an active player on the domestic financial market, acting as an intermediary in FX, derivative and bond trading. The Bank has been a market maker for the electronic bond trading platform BondSpot, and is aspiring to be the Treasury Securities Dealer. As the system bank, Raiffeisen Bank Polska S.A. plays the role of the Money Market Dealer and the WIBOR quoting bank.

In the first half of 2014, regulatory events took place which significantly affected the operations of financial institutions and the area of trustee services. An effective implementation of legal changes, pertaining to the Open Pension Funds, weighed on the activity of investors on the WSE as well as on the over-the-counter market, in particular in terms of transactions in the State Treasury bonds. The bank was also obliged to introduce operating adjustments to comply with reporting requirements resulting from the Regulation of the European Parliament and of the Council on over-the-counter derivatives, central partners and trade repositories (EMIR).

In addition, the bank introduced unique solutions for reporting EMIR transactions to the repository (KDPW CCP), by starting to provide (since February 2014) – as one of a few only – non-banking financial institutions with agency services aimed at reporting the aforementioned contracts entered into with the Bank as well as with other entities. It also commenced works in order to implement the possibility to clear transactions through the Central Clearing Counterparty.

As regards the depositary services, the Bank has been one of the largest institutions on the market in terms of the number of fund clients. As at the end of 2014, the Bank kept accounts and supervised valuation procedures for 249 investment funds. The Bank has specialised in services for closed-end funds, but consistently has been developing its offer for open-end funds too. In the area of trustee services, the Bank recorded a growth in the number of clients by over 25% yoy which was attributable to extending its client base by 51 new investment funds and taking over the services for one of the largest insurance player on the market. A rising number of clients translated into a 40% increase in assets covered by trustee services.
The Bank records any entrusted assets on securities accounts and in the registers of financial instruments and stores them electronically at the Custodian Institutions such as Krajowy Depozyt Papierów Wartościowych S.A., and in a physical form in the Bank's vault or through the network of trusted partners – sub-custodian banks in Poland and abroad.
The Bank has been successively expanding its trustee services, introducing among others partial clearing services and trade netting services.

4.4. Awards

In 2014, the Bank was awarded prestigious titles and prizes:

- The first prize for Friedrich Wilhelm Raiffeisen Private Banking services from Forbes monthly;
- Diamentowa Statuetka (Diamond Statue) and Godło Bank Przyjazny dla Przedsiębiorców (Business Friendly Bank Award) in the category of universal banks in the Business Friendly Bank competition;
- Bankowiec Polskiego Biznesu (Polish Business Best Banker) for the President of Raiffeisen Polbank in the 15th edition of the Business Friendly Bank competition;
- Laur Klienta Lider Dekady (Leader of the Decade Clients' Award) for factoring services;
- In 2014, the Premium personal account the second time in a row won in the ranking of Money.pl web portal as the best personal account for wealthy clients;
- Najlepszy Partner w Biznesie (Best Business Partner) in the factoring category from Home&Market magazine;
- Raiffeisen Brokers in the rankings of brokerage houses:
    - first place in the ranking of Wirtualna Polska (October 2014)
    - third place in the ranking of bankier.pl (1, 2 and 4 quarter 2014)
    - fourth place in the ranking of brokerage houses from Forbes (October 2014);
- Złote Szpalty (Golden Column) in the Column of the Year competition in the employee communication category.

5. Managing key risks

5.1. Credit risk management

Credit risk refers to a potential failure of the Bank's debtor to timely settle its cash contractual liabilities (granted credit). The Bank's credit risk exposure results mainly from its lending operations and to a lesser extent from sales and operations within its trading portfolio, derivatives and its participation in payment and securities clearing transactions for the Bank's and its clients' account.

The Bank applies its own internal procedures to measure credit risk related to providing a given client with a credit or other services which are subject to credit risk and a degree of acceptability of such risk. Related implemented and modified procedures are aimed at increasing the efficiency and effectiveness when identifying threats and at determining actions to be undertaken in the case of risk level changes.

Credit risk management is supposed to increase security of the Bank's lending operations by assuring the highest quality of credit risk assessments and efficiency of any credit decision-making procedures, as well as an effective process for monitoring credit commitments for individual clients and the entire credit portfolio.

The monitoring of credit risk at the portfolio level includes performing regular, periodic analyses of the credit portfolio ensuring identification of adverse trends and concentrations as well as performing ad-hoc reviews of the portfolio relating primarily to changes in the external environment.

In order to control credit portfolio risk in terms of expected and unexpected losses (capital and impairments write-offs), the Bank establishes credit risk concentration limits for internal control purposes and manages risk exposure within such limits through a regular monitoring system.

Information about the Bank's credit risk exposure as well as its implemented methods to manage such risks are described in the Bank's financial statements for 2014 in the section related to credit risk management. In that area there were no significant changes as compared to the previous period. In 2014, the Bank did not exceed any of its accepted concentration limits.

As at the end of each reporting period the Bank assesses whether there are objective reasons for impairments resulting from one or more events having taken place after the initial recognition of the credit exposure in question in the accounting books. An asset or a group of assets can be possibly impaired only if the loss event (or events) affect(s) the expected future cash flows from the credit exposure or from the group of credit exposures and such cash flows can be reliably estimated.

All categories of financial assets disclosed in the consolidated statement of financial position are periodically tested against impairment (individually or collectively). For reporting purposes they are classified under one of the three categories: non-impaired non-overdue receivables, overdue non-impaired receivables, impaired receivables. Information about receivables tested against impairment by different category and client segment are presented in the Bank's financial statements for 2014 in the section related to credit risk.

5.2. Capital adequacy

The key objective of the capital management process is to consistently maintain the Bank's long-term capital adequacy by assuring a proper process for capital risk identification, measurement, monitoring, limitation and reporting.

The Bank has been regularly strengthening its capital base with a particular focus on keeping a high share of the highest quality capitals (CET1). In the 1st half of 2014, the Bank transferred to the Tier 1 capital the entire profit for 2013 amounting to PLN 129 million, whereas in the 2nd half of 2014 the Tier 1 (CET1) capital was raised by PLN 123 million. The share of CET1 capitals as at the end of 2014 remained very high at 95%.

Since 1 January 2014, equity and capital adequacy calculations have been based on the provisions of the Regulation of the European Parliament and of the Council No 575/2013 of 26 June 2013. (CRR). Capital ratio calculations as at the end of 2014 were made in compliance with CRR guidelines taking into consideration the position of the PFSA on risk weighs for commercial and residential mortgages.

In 2014, the Bank satisfied capital adequacy-related regulatory requirements. Tier 1 core capital (CET1) and total capital (TCR) ratios amounted respectively to 13.2% and 13.9% at the end of 2014.

5.3. Liquidity risk

The Bank's liquidity risk results from mismatches between maturities of assets and liabilities, i.e. originates predominantly from the need to finance long-term loans with shorter maturity deposits. The risk can be materialised through the lack of possibility to settle its current liabilities or through losses resulting from a rising cost of financing which does not derive from variability of market interest rates.

The basic objective of the liquidity risk management system is such a definition of the structure of the balance sheet of the Bank which will make it possible to attain the income targets defined in the financial plan with concomitant maintenance of the continuous ability to timely pay the liabilities and to attain the imposed internal as well as external (regulatory) liquidity risk limits.

Liquidity risk management in the Bank is centralised, and the process itself is owned by units which are clearly defined in formalised internal procedures and which are assigned respective competences provided that there is a general rule of separation of units managing risk in business terms and units measuring such risk.

As part of the liquidity risk management process:

- the Management Board of the Bank defines its liquidity risk appetite,
- the Assets and Liabilities Committee (ALCO) transposes the risk appetite established by the Management Board into the system of internal limits and exercises supervision over the entire risk management process,
- the Risk Management Department monitors risk exposures on a daily basis and reports them to appropriate authorities,
- the Assets and Liabilities Management Department manages the Bank's liquidity risk on a current basis, maintaining the established limits and at the same time optimising the structure of income and expenses.

To measure the Bank's liquidity risk exposure among others the following are used:

- marked-to market liquidity gap, including modeling renewals of term deposits, balances of current accounts, probability of off-balance sheet liabilities, considering adjustments to receivables following any identified impairments, level of liquid assets, results of concentration analyses for financing sources, etc.,
- set of emergency scenarios, including internal crisis emergency scenario, financial market crisis scenario and a scenario combining both the previous ones.
- set of supervision liquidity measures.

In 2014, as part of the liquidity risk management process, the Bank, among others: actively managed the balance and cost of deposit products by using its internal system of transfer prices considering the cost of interest rate risk and the cost of liquidity to control the balance sheet. The Bank hedged its balance sheet items and their liquidity cost using derivatives (FX Swaps, Cross-Currency Interest Rate Swaps) a large volume of which was subject to hedge accounting processes in the Bank.

5.4. Market risk

Market risk stems from the fact that possible changes in foreign exchange rates and interest rates on the market may affect the fair value of financial instruments held by the Bank, and thus its financial result.

To identify areas where the Bank is exposed to the foregoing risks, i.e. interest rate and foreign exchange risks, and to shape the structure of the balance sheet in a manner that maximises the financial results while keeping the imposed risk appetite level, are the main objectives of market risk management.

In order to manage market risk the Bank put in place the system of limits. As part of the risk management process there is a division of competences where:

- the Management Board of the Bank defines its market risk appetite,
- the Assets and Liabilities Committee (ALCO) transposes the risk appetite established by the Management Board into the system of internal limits and exercises supervision over the entire risk management process,
- the Risk Management Department monitors risk exposures on a daily basis and reports them to appropriate authorities,
- the Assets and Liabilities Management Department and the Financial Markets Department manages the Bank's market risk on a current basis, maintaining the established limits and at the same time optimising the financial result.

To measure the Bank's market risk exposure among others the following are used:

- limits of the maximum open interest rate position as the value by which the fair value changes when market interest rates increase by 1 basis point. The values of limits are diversified in terms of

exposure sources (bank book and trading book), currency and time interval, in accordance with the Bank's remeasurement schedule,
- limits of the maximum open FX position per currency and in aggregate for all the currencies,
- limits of the value-at-risk, for foreign exchange as well as interest rate risks, with 1-day holding period and 99% confidence level. The value-at-risk is determined using variance-covariance method,
- monthly, quarterly and annual limits of maximum loss,
- Earnings-at-Risk measure which presents sensitivity of the interest result in a year horizon assuming an immediate and identical change of the market interest rates for all the currencies by 100 basis points, prevailing for the entire modeling period. Such a measurement as at the end of 2014 showed an impact on the interest result in the amount of PLN 83,319,000 which equals 1.5% of the equity included in the calculation of the solvency ratio as against to PLN 101,901,000 for the previous year which amounted to 2.1% of the equity.

The table below presents value-at-risk statistics as a measure synthetically describing risk exposure levels for the period preceding the reporting date:

Value-at-risk (PLN'000)

		Min.	Max.	Average	As at 31/12/2014	As at 31/12/2013
Interest rate risk	Banking book	1,791	5,328	3,363	3,140	1,291
	Trading Book	483	3,290	1,425	1,638	715
Foreign exchange risk		4	272	63	174	28

5.5. Operating risk

In 2014, having in mind the security of funds entrusted by the clients and limitation of the possibility of operating as well as reputation losses, the Bank continued its efforts aimed at improving operating risk management quality and implemented new regulatory requirements in that area.

The most important actions in that respect included:
- reviewing and updating the Bank's target operating risk profile based on the analyses of the value of the Bank's current risk parameters, its operating losses, key risks prevailing in the Bank's environment, planned changes in the strategy of business operations as well as evaluation of adequacy of its organisational structure and efficiency of the risk management system implemented in the Bank,
- verification of the Bank's operating risk appetite expressed as the limit of actual financial losses from operating risk and making decisions on keeping the limit on its hitherto existing level,
- introducing a number of actions to limit operating risk in the Bank's operating processes and systems which contributed to keeping at a low level any events related to execution of transactions and IT system failures,
- further actions limiting the risk of frauds, including in particular in relation to the security of IT systems which enabled to efficiently prevent criminal threats and to assure the security of transactions carried out by the clients,
- independent operating risk monitoring under the integration project terminated with a successful operating merger of the Banks in May 2014,
- pursuing actions necessary to assure compliance with the requirements of the Recommendation D of the Polish Financial Supervision Authority by the end of 2014,
- continuing training and awareness sessions for the Bank's employees dedicated to effective operating risk management with particular focus on aspects related to the security of data and protection of IT systems,
- launching a project aimed at preparing the Bank for the implementation of advanced methods to calculate operating risk capital requirements (AMA – Advanced Measurement Approach).

During 2014, the extent of use of the operating risk limits in the Bank was kept within an area below the risk tolerance value approved by the Management Board and the Supervisory Board.

5.6. Record-high sales of retail non-performing receivables

On 8 October 2014, Raiffeisen Bank Polska entered with Open Finance Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych into a receivables portfolio transfer agreement. The portfolio included retail unsecured receivables whose outstanding balance was declared due and payable. Those receivables were products granted to individuals and micro-businesses.

The capital balance of the transferred portfolio amounted to PLN 1,164 million. It was one of the largest transactions to transfer unsecured receivables on the Polish market. The sales price for the portfolio equalled PLN 311 million. 48,000 contracts were transferred of which 43,000 were products granted to individuals, and almost 6,000 products for micro-businesses.

5.7. Compliance risk management

The Bank defines a compliance risk as possible effects of non-compliance of the Bank's operations with applicable laws, internal regulations and standards of conduct accepted by the Bank. Consequences of such risk might include: deterioration of the Bank's reputation or exposing the Bank to losses resulting from legal claims, financial penalties or any other kind of sanctions, imposed by regulatory or control authorities. The Bank's principal objectives in the area of compliance risk management are: securing the clients' and stakeholders' trust and protection of the Bank's reputation.

The Bank's Supervisory Board exercises a general oversight over the compliance function in the Bank and assesses the effectiveness of the compliance function by accepting and approving the Bank's annual report, describing actions undertaken and tasks pursued within the given year, underlying assumptions of the Bank's compliance policy, its compliance strategy together with the information on key areas and objectives to be reached in the subsequent years.

The Bank's Management Board is responsible for effective management over the compliance risk in the Bank and for following the Bank's policy applicable in that area.

In the event that any irregularities in practical application of the compliance policy are discovered, the Bank's Board implements appropriate remedies and disciplinary actions. The Bank's Management Board guarantees independence and autonomy of the compliance function and assures actual implementation of any compliance-related decisions and arrangements.

The Bank's compliance policy is based on laws, good practices, recommendations and guidelines from supervision authorities, regulations of Raiffeisen Zentralbank Oesterreich Group – unless they are in conflict with generally applicable laws – related to the compliance function, including in particular:

- Act on trading in financial instruments and any MIFID-related regulations issued on its basis,
- Act - Banking Law,
- Act on counteracting money laundering and financing terrorism,
- resolution of PFSA No. 258/2011 on detailed operating rules for the risk management and internal control systems as well as detailed conditions for estimating internal capitals by the banks and for reviewing internal capital estimation and compliance processes and rules for adopting the policy of variable components of remuneration for management staff in the bank,
- recommendation M of PFSA on operating risk management in the banks,
- guidelines of the European Securities and Markets Authority (ESMA) related to the compliance function and offering investment products (MIFID),
- guidelines and good practices included in the document Compliance and the compliance function in the banks prepared by the Basel Committee on Banking Supervision.
- RZB Group directive – Group Compliance Manual.

The compliance function guarantees compliance – to the extent of any pursued tasks – in particular in the following areas:

- code of conduct and accepted business ethics standards,
- preventing corruption,
- conflict of interests,
- MIFID,
- confidential information and inside trading,
- offering investment-type products,
- counteracting money laundering,
- counteracting financing terrorism,
- preventing abuses and banking crime,
- FATCA,
- outsourcing,
- environment and social risk management system (E&S Management System),
- launching new products by the Bank.

The compliance function, being responsible for the implementation of certain tasks in the areas presented above, is authorised to plan and pursue mainly the following actions:

- preparing and implementing the applicable regulations related to any pursued tasks and monitoring the compliance,
- giving opinions about drafts of new and amendments to existing internal regulations in the Bank,
- participating in the process of designing new products in the Bank by assessing the risk of non-compliance,
- issuing guidelines and recommendations and supervising their implementation,
- carrying out the relevant audits to the extent adapted to specifics of the given area, issuing the relevant recommendations and supervising their implementation,
- carrying out internal investigations, issuing the relevant recommendations and supervising their implementation,
- identifying, estimating and monitoring the risk of non-compliance,
- cooperating with the Bank's organisational units, including the provision of consulting and advisory services, as well as interpreting the applicable laws and accepted standards for the Bank's organisational units,
- explaining any existing violations and incidents, issuing the relevant recommendations and supervising their implementation,
- preparing reports and statistics, including for the management and reporting purposes, for the Bank's governing bodies, the Group and supervision authorities,
- preparing and holding training activities for the Bank's employees,
- assuring compliance-related communication with the supervision authorities.

In 2014, the Bank pursued training programs aimed at improving the employees' knowledge and awareness in the area of compliance with principles of business ethics and standards of conduct, related among others to preventing frauds and corruption, protection of confidential data, counteracting money laundering and financing terrorism and implementation of requirements related to financial sanctions.

6. Development of Raiffeisen Bank Polska organisation and infrastructure in 2014

6.1. IT and Operations

In 2014, in the IT area works were continued on the operating and technology merger after the acquisition of Polbank EFG S.A. and migration of data. IT works included in particular:

- defining a target catalogue of products for the post-merger bank,
- defining and implementing a target application architecture based on the systems of two merging banks,

- changes in applications aimed at their adaptation to the product range offered by the post-merger bank,
- migration of data from source systems to the target architecture,
- adapting IT services and integration and optimisation of IT organisational structures.

Integration in the Operations and IT areas took place as scheduled in May 2014 without any impact on the Bank's operating continuity and clients.

In the second half of 2014, IT tasks were concentrated around the following projects:
- upgrade of T24 core system (scheduled for the 1st quarter 2015),
- adapting the Bank's systems to requirements of the advanced risk management method (IRB-A),
- changes within the electronic banking system for institutional clients and R-Dealer foreign currency exchange platform,
- providing system support for the partner program with Wizz Air airlines,
- development of oCRM platform for institutional clients.

In 2014, the following works were also completed in the area of management, internal processes and optimisation of IT architecture:
- implementation of a new IT operating model based on RBI group standards,
- adapting processes, documentation and IT area management methods to the requirements of the Recommendation D,
- preparing for consolidation of data centres scheduled for the 4th quarter 2015,
- optimisation of telecommunications and IT environment, including in particular further consolidation and virtualisation of available IT hardware resources,
- selective use of innovative methods to implement IT solutions based on agile methodologies.

Those actions translated into a higher availability of IT services, shortened times for delivery of new solutions, improved effectiveness of user service processes. Optimisation actions will contribute to future savings in IT operating costs and optimisation of investments in new IT solutions.

The projects aimed at operating cost optimisation are also implemented in the area of Operations:
- establishment of the Operations Centre in Ruda Śląska, integration and centralisation of corporate and retail operations
- relocation and consolidation of headquarter offices in a new building in Warsaw – scheduled for the first quarter of 2016,
- Lean Transformation – bank process optimisation, including the operating processes, using the Lean Methodologies.

In 2014, the Operations Transformation Project was launched in order to implement a nearshoring concept in the operating units by centralising the functions in the Operating Centre located in Ruda Śląska. It is expected to reduce costs by simplifying the organisational structure, optimising processes, consolidating functions and assuring lower building rental costs.

6.2. Development of electronic service channels

Migration of Web banking users
One of the principal aspects of the merger between Raiffeisen Bank Polska S.A. and Polbank EFG S.A. was to ensure consistency of the systems used in the post-merger Bank. On 19 May 2014 Polbank24 users were migrated into Raiffeisen Bank Polska systems.
Mobilny Bank (Mobile Bank)
The Bank, as the first one in the market, prepared a mobile banking application for its clients (in 2004). Since then, the application has been continuously extended and developed to satisfy expectations of the clients. In 2014, many new functionalities were added, for example: possibility to select items visible after logging in to the application (personalisation of the home screen), Mobilny Token (secure and convenient method to authorise transactions) or the possibility to download transaction receipts in the form of PDFs and

repeating transfers from the transaction history level. Mobilny Bank application permits to execute all the basic banking operations: checking transfer amounts, executing transfers (between the clients' own accounts, to pre-defined recipients and domestic transfers), opening deposits, recharging mobile phones.

R-Online Biznes

Under R-Online Biznes system for companies from all corporate banking lines and for some Micro segment clients, the following new functionalities were implemented in 2014:

- card module – extending the hitherto existing support for debit cards, charge cards and credit cards by the option to activate and block cards and to change PINs; possibility to view transactions on-line, download statements (including in mt940 format); in addition, card holder functions were separated from functions of the card coordinator who has more information and rights,
- SMS passwords – providing the possibility to sign all orders using SMS passwords. It is an alternative method for USB Token currently used. The new authorisation method is free of charge.
- New component – in response to recurrent problems with access to R-Online Biznes through certain Web browsers, a new signature component was introduced; the new technology is not based on browser plug-ins and therefore it is independent of their versions and types.

Activities

As at 31 December 2014, R-Online Web banking system was made available to over 484,000 users, i.e. 152% more than as at the end of 2013. Moreover 2014 was marked by a twofold increase in the number of loggings to the system and the number of active users.

R-Online Biznes Web banking system as at the end of 2014 has 5,200 new users, including 2,700 more active users as compared to 2013.

The number of users of Mobilny Banku mobile banking rose equally significantly. As at 31 December 2014, the application was held by 49,500 users, i.e. 113% more than a year earlier. The users were logging in to the application three times more frequently, and the number of active users reached the level of 27,500 (growth by 156% as compared to 2013).

Number of active* users of internet and mobile banking at the Bank (PLN '000)

	31/12/14	31/12/13
Mobilny Bank (Mobile Bank)	28	11
R-Online	187	84
R-Online Biznes	25	22

* At least 1 login per month.

Number of users of internet and mobile banking at the Bank (PLN '000)

	31/12/14	31/12/13
Mobilny Bank (Mobile Bank)	50	23
R-Online	484	192
R-Online Biznes	48	43

6.3. Network of bank branches

As at 31 December 2014, the Bank had 326 branches, including:
- Retail Branches – 318 (including 17 partner branches),
- Corporate Banking Centres (CBK) operating outside the retail branches – 1,
- Private Banking Centres operating outside the retail branches – 7.

In 34 of 318 retail branches the Bank was providing services to corporate clients, and 9 offered services to private banking clients (so called „mix" outlets).

Having in mind the clients' needs, changes in the banking market, costs incurred and revenues generated, the Bank analyses the network of branches on a current basis in terms of their profitability, surroundings and attractiveness of their location. In 2014, 5 retails branches were moved, and 21 outlets were closed (following network optimisation and restructuring efforts).

6.4. Personnel management

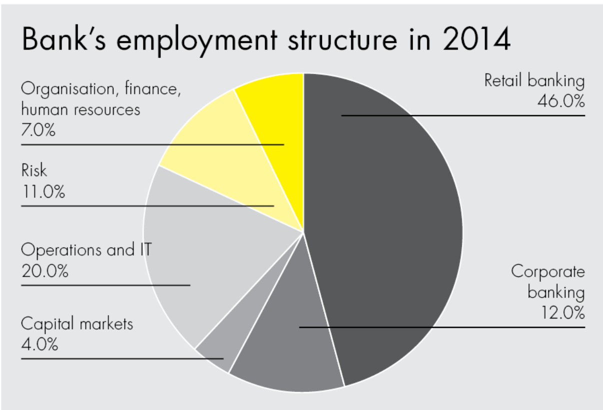
6.4.1. Headcount

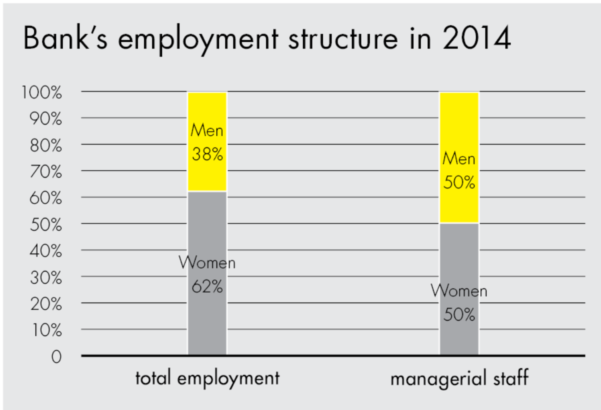
As at the end of December 2014, Raiffeisen Bank Polska employed 5,569 persons as against 6,122 persons a year before.
Headcount on the FTE-basis amounted to 4,987 as at the end of 2014. As against the end of the previous year, the number of full-time jobs decreased by 582 jobs (i.e. by 11%). The change results from restructuring efforts initiated in 2013 after the merger of Raiffeisen Bank Polska S.A. with Polbank EFG S.A.

Presented below is the employment structure in 2013–2014 expressed in full-time jobs:

Bank's employment structure in 2013–2014 expressed in full-time jobs

	31/12/2014	31/12/2013
Retail banking	2,307	2,593
Corporate banking	595	650
Capital Markets	181	172
IT and Operations	1,023	1,147
Risk	525	604
Organisation, Finance, HR	356	403
Bank total	**4,987**	**5,569**





Women are a prevailing group of employees (62% of the total number of employees). Women hold a half of management positions in the Bank.

6.4.2. Policy of remuneration and benefits

In 2014, the Bank consistently, just like in previous years, pursued its remuneration policy aimed at:

- providing employees with the best motivation to reach the Bank's strategic objectives,
- keeping the employees with the highest competences and best-performing employees,
- attracting the best candidates while at the same time using the budget of personnel costs in the most optimal way.

The structure of remuneration includes fixed (basic) remuneration and variable remuneration, reflected in the system of rewards attainable after employees reach their individual targets and objectives as part of the Performance Management system in place in the Bank based on target-driven management. In addition, the Bank offers incentive systems whose underlying assumption is to recognise and reward employees who have outstanding achievements – attitude, involvement and excellent performance – and who make a real difference. The Bank pays bonuses in accordance with regulations on variable pay components.

One of flagship programmes is R-Stars in-house competition rewarding employees whose outstanding performance and attitude and behaviour consistent with the Bank's values make them role models for the others. Besides prestige stemming from the reward, the winners participate in a special conference prepared for the occasion.

An important part of the employer's total employment package, which constitutes an essence of the personnel policy *"Raiffeisen Polbank is our place!"*, is Grades&Benefits system. Under the system, each work position in the bank has a defined so called Job Grade which implies certain related non-pay benefits such as: private medical care with the possibility to extend the package onto family members, group insurance for employees, work tools (e.g. company cars). Employees also have the right to select benefits, according to their own needs, using MultikafeteRia solution implemented in 2014. The solution permits each employee to select from the list of offered benefits the ones which correspond to his/her current needs such as: Multisport card, cinema tickets, theatre vouchers, weekend trip vouchers. In addition, the Bank promotes and supports sports activities of its employees, co-financing different kinds and sports classes and activities – sports teams, clubs, etc.

Raiffeisen Polbank, as the family friendly employer, for many years now has been supporting families, pregnant women, mothers and fathers during the first year of their child's life through the programme Dbamy o R-odzinę (We care for the family) as part of which the employees are authorised to use:

- additional days off,
- additional medical care package paid by the Bank,
- life insurance,
- privileges at work, e.g. specially prepared rooms in the headquarters' building for pregnant women.

As part of its social activities the Bank supports employees in a difficult life situation. They can receive aids and they can apply for allowances to co-finance holidays.

The Bank values employees with long years of service in the Bank. The objective of the programme RAIF'fajne LATA is to promote loyalty of employees and to convince them to pursue their professional career in the Bank in long term. As part of the programme, after exceeding certain years of service levels employees are authorised to use attractive privileges. A significant element is the very moment of celebration of the work anniversary together with colleagues.

6.4.3. Training and development

The Bank's training and development policy is tightly connected with its mission and strategy. Development actions directly result from business objectives and plans of individual organisational units and different groups of employees. The principal objective of development actions is to support employees and managers in the most effective way in pursuing the accepted strategy while providing forms of development which are optimal for employees considering their potential and preferences. The Bank focuses on development of over-performing employees with a large development potential.

In 2014, development priorities for subsequent years were defined. On their basis, agreed training and development actions were being precisely carried out for different areas: retail banking, corporate banking, private banking, capital markets, risk. In support units, individual development actions were predominantly pursued.

In the retail banking area, intensive training actions were continued as part of the process of integration of the operating systems after the merger aimed at reaching a high level of specialist competences, full operating consistency as well as uniform organisational culture among the employees. In addition, under a project dedicated to advanced models of cooperation with clients oriented towards work efficiency improvements, training and implementation actions were completed for managerial staff and employees as well as mentoring and coaching initiatives based on tools already in place.
It is worth noting development actions successfully terminating with certificate recognised in the market. In the private banking area, the number of employees with Certified Financial Advisor titles following successful exams completing EFA courses as well as prestigious Certified Financial Planner titles following successful exams completing Executive Financial Planning EFP course rose. Both certificates are guarantees of advisors' competences widely appreciated in the market.

An essential development area is development of corporate banking competences in terms of advanced sales techniques, advanced financial analysis, products and processes.

The risk area is intensively supported by development actions focused on further development of specialist competences and soft skills. Strategic leadership competences of risk managers are worked out during Harvard Business Review training sessions.

Capital markets employees were intensively developing their skills and continued to improve their qualifications during Financial Market Dealers Courses. They received financial markets dealer certificate co-signed by the Financial Markets Association ACI Polska and the Warsaw Banking Institute. This certificate, as acknowledged by WIB experts' opinion, obtained a level 5 recommendation in the eight-grade European Qualification Framework EQF.

The Bank creates conditions contributing to professional development and to pursuing career paths by employees who are the most valuable assets of the Bank, supports employees in qualification and knowledge improvement actions and in acquiring new skills through a wide range of individual and group training offered. The Bank co-finances postgraduate studies, supports additional education possibilities, promotes efforts towards qualifications and certificates or foreign language learning initiatives. In 2014, over 500 individual development actions were completed (specialist, interpersonal, language). As part of internal training, 347 sessions were held for 3,700 attendees. In 2014, 96% of employees took part in at least one training actions of which 65% in at least one classroom training session.

The Bank promotes knowledge sharing within the organisation by involving specialist experts in creating and holding internal training sessions and in processes to develop e-learning materials. Different development forms, state-of-the-art technologies as well as traditional solutions, are used. In 2014, e-learning programmes were used by more than 4,500 employees.

Raiffeisen Bank Polska S.A. is the bank of enterprising people – it encourages employees to participate in projects and various initiatives, promotes development-oriented attitudes and stimulates employees' responsibility for planning their own development. Managers are actively involved in developing their subordinate employees.

In 2014, the Bank continued its development programme for managers "Lead-R Przywództwo na poważnie". That is a comprehensive programme for development of leadership competences for managers of all levels, created from scratch and considering the bank's values, mission, vision and strategy, actively supported by the Bank's Management Board. Under the programme, managers take part in consecutive training modules and leadership style analyses following which, supported by their coach, managers are able to design their own development actions. In 2014, almost each manager in the Bank was covered by development actions as part of the programme.

The Bank, jointly with two companies from other sectors, was pursuing a unique Cross Company Mentoring. It was addressed to a selected group of employees and it opened possibilities to benefit from knowledge, experience and inspiration of leaders from outside of the banking industry. That is an exceptional opportunity to see the perspective of persons with a completely different view not biased by any limitations and restrictions associated with the specific nature of the given market or sector. Special relations between mentors and mentees contribute to significant progress in knowledge, thinking methods and experience.

In 2014, an important element of work effectiveness improvement initiatives was Gemba Challenge, i.e. programme for development of leaders' Gemba skills in accordance with underlying assumptions of Lean culture. The programme was attended by ca. 100 managers who actively promote Lean culture now.

As part of development actions, the Bank's employees and managers participate in RBI Group development programmes too. These are among others youth talent exchange programmes, traineeships in the Group banks from other countries, elite development leadership programmes or specialist training sessions in certain areas.

The Bank propagates knowledge among students and graduates from universities by organising Academies for students on partner universities, lectures given for students, yearly Summe-R traineeships. The Bank's offer for graduates includes a traineeship R-Trainee programme pursued for many years.

6.4.4. Personnel policy

In 2014, Raiffeisen Polbank focused on intensive employee communication dedicated to its personnel policy "*Raiffeisen Polbank is our place!*". The personnel policy based on the Bank's core values is implemented with a particular care for involvement from employees. Each year, employee involvement and satisfactions surveys allow to monitor the climate in the organisation in the period of difficult market challenges. Those actions aimed at building an engaging work environment are carried out not only by managers but also by Involvement Ambassadors selected from among employees. A huge importance is placed on ambience at work and mutual respect as well as, on equal terms, on reaching business results and innovative methods.

7. Corporate social responsibility (CSR) in Raiffeisen Bank Polska

Raiffeisen Bank Polska S.A. acts and works towards attaining business objectives while considering expectations of its stakeholders, building transparent and ethical relations with clients, investors, business partners and employees and not forgetting about social interest and need to take care about the natural environment.
The Bank's strategy is always centered around the client so the best service quality and building long lasting relations based on trust are its *modus operandi*.

In order to ensure the highest standards and to define and satisfy financial expectations of the clients, in 2014 the Bank continued satisfaction surveys in all client segments and practically all areas of operations: service quality, access channels, products and services, claims handling, image and recommendation probability using the Net Promoter Score (NPS) method.

Social responsibility is one of the most crucial instruments to build social solidarity. By pursuing that mission, the Bank undertook exchange-based initiatives, known as modern philanthropy. These are carefully planned, long-term projects in the area of e.g. business education that bring measurable benefits to the participating individual clients and enterprises as well as support for cultural and social institutions.

The Bank undertakes activities aiming at entrepreneurs education, e.g. by actions organised in cooperation with the national media and local meetings with representatives of the business world. In 2014, the Bank, among others, continued educational workshops which permitted entrepreneurs to get acquainted with their operating risks and business processes and referred to employees' soft skills.

Since the first half of 2013 the Bank has been publishing a special supplement with one of the Polish magazines "Bank & Biznes" which discusses the issues of finance market operation and banking products and services for SME segment.

The Bank supports cultural, charity and social initiatives by engaging in the undertakings aiming at public interest and supports the initiatives for the local communities where it has its branches.

In 2014, a subsequent time in a row, the Bank was awarded the Patron of the Year of the National Philharmonics title and also supported other cultural initiatives including but not limited to Poznań Philharmonics, Krystyna Janda Foundation for Culture, Austrian Culture Forum, Musical Frederic Chopin University, Transatlantyk Foundation as well as numerous local culture-promoting initiatives.
As part of its social initiatives, once again the Bank has been the sponsor of the grant programme "My Future", organised in cooperation with the Towarzystwo Nasz Dom ("Our Home" Association). The aim of the grant programme is to provide assistance in covering the costs of re-education, catch-up lessons and additional lessons to expand knowledge and assist children from orphanages in attempting to enter the next stage of education (education in a high school, university studies, etc.) or preparing for a career. The Bank also supported statutory objectives of the Association SOS Children's Villages SOS, providing help and assistance to orphans and abandoned children by placing them in replacement families. In cooperation with the network of Cinema City cinemas, the Bank organised special film sessions, including meals and gifts for children from orphanages belonging to Our Home Association and to terminally ill patients from the Children's Fantasy Foundation for the Children's Day and the St. Nicholas' Day. The Bank also worked with many local public interest institutions, supporting education and charity objectives for disadvantaged and ill children and youth.

In 2014, the Bank's employees, for a subsequent year in a row, were involved in the project *Bankers for Financial Education of Youth BAKCYL* where volunteers from the banks teach the secondary school youth the basics of finance management. The project is carried out by the Warsaw Banking Institute and is aimed at getting young people acquainted with practical banking principles they should use when entering the adult world and when making conscious decisions about their finances.

The Bank's employees were active in charities, e.g. carried out the collection of school supplies, the Children's Day gifts and Christmas presents for children from the Children's Fantasy Foundation, orphanages belonging to the Association Our Home, residents of the Maternity House and children from the Orphanage for the Blind and from the Foundation of Fulfilled Dreams.

8. Subsequent events

Subsequent events are described under Note 41 "Subsequent events" to the Financial statements of Raiffeisen Bank Polska S.A. for the financial year ended 31 December 2014.

9. The development prospects for Raiffeisen Bank Polska

9.1. Macroeconomic factors which may affect the Bank's results

The Bank expects that in 2015 economic growth dynamics in Poland will remain above 3%. After a slight slowdown in GDP growth which was visible in the 2nd half of 2014 and which may be still there in early 2015, subsequent quarters should bring gradual acceleration of the growth momentum. The Bank believes that, similar to the year before, the economic growth will be entirely driven by domestic demand with a slight negative contribution from net exports. Continuing improvement on the labour market understood as a further decrease of the unemployment rate, and a slightly stronger, than in 2014, employment growth as well as a stable pay growth dynamics should still support the consumption demand of households. Solid demand prospects and subsequent EU funds flowing to Poland as part of the new budget perspective should contribute to maintaining high investment activity and should result in higher gross expenditures for tangible assets to the extent at least comparable to the level observed in 2014. A favourable impact on the economic activities in Poland should continue to come from monetary policy, all the more that according to the Bank's forecasts in 2015 the Monetary Policy Council would continue interest rate cuts.

In 2015, the following factors may become a challenge for the banking sector in Poland:

- rising volatility on the financial markets as compared to previous years, especially on the FX market which, early in 2015, was represented by a sudden weakening of Polish zloty against Swiss franc and which in the case of further depreciation of the Polish currency may create additional burdens for borrowers with loans denominated in foreign currencies. Following this event, the Financial Stability Committee in agreement with commercial banks started works on actions aimed at supporting beneficiaries of CHF-denominated loans. In February, all the banks decided to accept a negative LIBOR for that currency, many of them also permitted to suspend loan repayments or to extend financing periods. Some offered the option to switch to zlotys at the exchange rates lower than prevailing sell rates. The industry still works on further solutions which, in combination with the already implemented ones, must adversely affect its general situation. As at the end of 2014, the value of CHF-denominated loans amounted to over PLN 132 bn which constituted more than 37% of all mortgage loans of households.

- deteriorating condition of the global economy in the case of a further escalation of tensions to the East of Poland or a political turmoil in the euro zone (new negotiations with Greece, elections in the EU countries scheduled for 2015),
- possible strong capital flows in response to already initiated interest rate hikes in the US which may result in some investors exiting the Polish market in search for higher yields in the US. That could provoke a weakening of the Polish zloty and a sell-off on the market of domestic treasury bonds,
- performance of the Polish economy being worse than expected which might adversely translate into the quality of the Bank's credit portfolio,
- rising uncertainty as to geopolitical (especially considering the conflict in Ukraine), economic and market environments which might limit demand for loans from households and businesses,
- uncertainty as to changes in the financial and economic policy of the state in the light of presidential and parliamentary elections scheduled respectively for May and autumn this year, which on the one hand may translate into falling prices of Polish assets following an escape of the foreign investors, and on the other hand may provoke a risk of new, and unexpected by the Bank, conditions for its operations.

The foregoing factors may affect financial results of the Bank in periods to come.

9.2. Development prospects for the Bank

In December 2014, the Bank's Supervisory Board adopted the Bank's Strategy for 2015–2017. In accordance with the Strategy, the Bank will focus on strengthening its position as a centre market leader specialising in corporate banking and providing services to the segment of SMEs, micro-enterprises and Polish middle class. At the same time, the Bank will seek to achieve the best financial results and the optimal shareholder value, while ensuring the safety of its business operations. Those actions will be based on three strategic pillars:

I. Reaching sustainable growth in all business lines

In that area the Bank's efforts will be focused on:

- Raising the Bank's operating scale in all client segments – by offering a wide range of products, with particular attention to high margin and low capital intensity products,
- Raising the number of the Bank's clients – by attracting new clients (through its own network of branches and owing to cooperation with third party partners oriented on mass client acquisition) as well as by increasing the retention of the existing ones, in particular in the retail banking area, in the mass segment,
- Raising the number of products used by clients – by using possibilities stemming from a larger base of clients and by cross-selling additional products and services using the Bank's past experience and skills in that area.

Growth in the operating scale will be supported by a proper selection of distribution channels depending on client segment needs and products.

II. Adapting the structure and the level of costs to the Bank's operating scale

In 2015, the Bank continued actions aimed at improving cost efficiency despite rising fixed costs of the banks' operations as a result of regulatory changes, including but not limited to higher rates of mandatory annual fees and prudence fees contributed to the Bank Guarantee Fund. In 2015, full financial integration synergies following the acquisition of Polbank EFG will finally come to fruition.

In addition, in 2015 the Operations functions will be migrated from Warsaw to the low-cost Operations Centre in Silesia. Efforts will be also continued to reach operating excellence and improve the efficiency of processes, including actions aimed at introducing the Lean culture in the Bank. Establishing a self-perfecting

organisation will translate in a longer term into a better effectiveness of sales, after-sales and support processes as well as into improved client satisfaction with the Bank's services.
In addition, the Bank expects further actions to restructure employment and savings on the consolidation of IT infrastructure.

III. Adequate and business-oriented risk management
In that area the Bank will strive for assuring stable sources to finance its activities and a stable capital base. Sufficient liquidity will be maintained too. In terms of credit risk, the Bank will continue the automation of credit decision making processes, thus supporting client satisfaction improvement strategies, and it will pursue actions aimed at improving the quality of its credit portfolio.
Simultaneously with the activities in the aforementioned areas, the Bank will undertake best efforts to provide its employees with stable work environment where they would have the possibility to succeed and where they would feel recognised and appreciated. In our opinion, high involvement of employees and their motivation to work will help the Bank in facing the challenges of the nearest future.

9.2.1. **Retail Banking development prospects**

In line with the underlying assumptions of the strategy for the Retail Banking segment, the Bank will try to extend the client base by offering advisory products and services adapted to their needs. Activities in that area will be carried out by the Bank based on four key value factors for the clients:

- Credibility,
- Partnership,
- Convenience,
- Loyalty.

The Bank will build its position as a relational bank providing Partnership and Loyalty to clients actively using its services. The Bank will also attract new clients owing to Convenient and Credible products and services with quality well above the market average.
The Bank's medium-term operating strategy in the retail banking area is focused on:

- Creating and implementing new positioning of the bank in the market centered around the clients' experiences,
- Building the Bank oriented towards aggressive client acquisition,
- Developing and implementing a new distribution model and improving the quality of the current sales channels,
- Making the product range more attractive and concentration of selected acquisition products,
- Optimising operating costs.

9.2.2. **Corporate Banking development prospects**

The Bank's target vision, as updated in 2014, for the corporate area is: *We are effective as we continuously improve.*
The mission the Bank intends to follow, when developing activities in the area of services for businesses, is defined as: *We help businesses develop. Bank of enterprising people.*
The Bank's medium-term operating strategy in the corporate banking area is focused on:

- improving efficiency and quality of key business processes: sales, credit and after-sales processes which will contribute to better cost effectiveness of operations,
- growth of the client satisfaction and loyalty owing to strengthening and developing long-term relations with the clients based on comprehensive knowledge of the clients and their businesses,
- continued autonomous growth and raising the scale of business based on the current wide range of offered products and services,
- focus on streamlining the Bank's offer for SMEs in order to increase the Bank's share in that client segment, perceived as a strategic area for development of the corporate banking,
- keeping the leading position in the factoring market in Poland,
- launching innovative products and solutions for financing, trade banking, treasury products using electronic communication channels,

- reaching the leader's position in handling advanced commercial transactions such as supply chain financing.

9.3. Involvement of the Bank's shareholder

On 9 February 2015, Raiffeisen Bank International AG ("RBI"), the 100% shareholder in the Bank, announced actions undertaken in order to increase capital buffers and, as a consequence, to improve the capital ratio CET1 to 12% by the end of 2017. Among its intended actions, RBI mentioned selling the Bank's shares.

The statement from RBI does not have any impact on pursuing the Bank's strategy. The Bank continues its operations on the hitherto existing terms, striving for reaching strategic objectives and developing its range of products and services.

10. Corporate governance in Raiffeisen Bank Polska

10.1. Corporate governance principles and the scope of their application

Since the beginning of 2015, the Bank, as a financial institution, is subject to "Corporate governance principles for regulated institutions" (hereinafter referred to as the Principles) issued by PFSA, available at the Bank's website and at www.knf.gov.pl.
In line with the regulator's expectations the principles were accepted and approved by the Bank's authorities before the end of the year.
The Bank's Management Board, in its resolution of 22 December 2014, adopted the Principles for application to the extent related to liability of the Bank's Management Board with the following provisos:

- as to the Principle described in Clause 11.2, the Bank requests an opinion of the supervision authority on transactions with related entities which may largely affect the Bank's financial or legal position or which lead to acquiring or selling or otherwise disposing of significant assets. Anyway, the Bank does not have in place any regulations defining criteria used for such types of transactions. The Bank agrees to draft appropriate regulations in that area;
- as to the Principle described in Clause 31.4, the Bank has in place the Information Policy published on the Bank's website however it requires to be supplemented by provisions defining conditions and time frames for responding to shareholders and clients. The Bank agrees to update the Bank's Information Policy.

The Supervisory Board, in its resolution of 23 December 2014, adopted for application the Principles, to the extent related to activities of the Supervisory Board, but excluding in particular those principles and recommendations which refer to shareholders' actions with the proviso that to the extent of Clauses 28.1, 29.1 and 29.3 of the Principles the Bank has no remuneration policy for members of the Supervisory Board. An applicable comprehensive remuneration policy for members of the Supervisory Board, taking into account additional remuneration payable to members of the Supervisory Board committees, will be drafted and presented for approval to the General Meeting during one of the first meetings in 2015.

10.2. Shareholding and the General Meeting of Shareholders

As at 31 December 2014, the Bank's share capital consisted of 248,260 shares with a nominal value of PLN 9,090 each.
According to year-end data, the only shareholder of Raiffeisen Bank Polska S.A. is Raiffeisen Bank International AG (RBI).

The General Meeting is the supreme governing body of the company through which the shareholder exercises its rights and adopts key decisions as to the Bank's operations.
The General Meeting (GM) is subject to generally applicable laws, including in particular the Commercial Companies Code and the Banking Law.

In line with its accepted practice the General Meeting meets at the registered office of the Company, in Warsaw. The Ordinary General Meeting is called by the Bank's Management Board on a date falling within six months from the end of each financial year. If the Bank's Management Board fails to call GM within the period specified in the Articles of Association, then respective authorisations are vested in the Supervisory Board.
The Extraordinary General Meeting (EGM) is called under the circumstances stipulated in generally applicable laws, articles of association of Raiffeisen Bank Polska S.A. as well as in the event that governing bodies or persons authorised to call general meetings consider it justified.
Members of the Management Board and the Supervisory Board have the right to attend the General Meeting. A respective entity authorised to audit financial statements should be invited to take part in the General Meeting if its presence is justified or necessary due to contents of the agenda. However, the absence of members of the Management Board or of the Supervisory Board or of the entity authorised to audit financial statements does not affect validity of the General Meeting.
Resolutions of the General Meeting, besides the matters listed in the Commercial Companies Code, shall be required in the following matters: defining remuneration principles for members of the Supervisory Board, creating and releasing special funds, except the funds the obligation to create which is provided for in the Act, appointment of the Bank's liquidator in the event of liquidation due to reasons other than the ones stipulated in Chapter 12 of the Act - Banking Law, other matters regulated as such in generally applicable laws, the Bank's articles of association or submitted by the Supervisory Board, the Management Board or shareholders representing at least one twentieth of the share capital.

10.3. Supervisory Board

The Supervisory Board continuously exercises supervision over the Bank's operations and the scope of its activities is regulated in the Act - Banking Law, the Commercial Companies Code, the Bank's articles of association and its By-laws.
Pursuant to the Bank's Articles of Association, competences of the Supervisory Board include in particular: supervision over the Bank's operations, approving the Bank's economic and financial plan, adopting bylaws for the Supervisory Board and bylaws for the Management Board, assessment of the Management Report on the operations of the capital group and audited financial statements, approving the risk management policy and essential amendments to such policy, defining terms and conditions for the Bank establishing companies in Poland and abroad, representing the Bank in disputes with members of the Management Board, appointing, suspending and dismissing members of the Management Board, defining remuneration for members of the Management Board, appointing the entity authorised to audit financial statements of the Bank.
Pursuant to the provisions of the Bank's Articles of Association (Art. 27 sec. 1) the Supervisory Board is also empowered to approve resolutions of the Management Board in the following matters:

- purchasing assets or undertakings or committing to purchase them if the estimated value of the given transaction or a series of related transactions exceeds in aggregate EUR 20 million and if the transaction is not provided for in the economic and financial plan,
- selling, transferring, leasing, assigning or otherwise disposing of the whole or a part of any property or assets if the estimated value of the given transaction or a series of related transactions exceeds in aggregate EUR 20 million and if the transaction is not provided for in the economic and financial plan,
- acceding any joint venture or profit sharing agreement if the annual value of the given contract or agreement exceeds EUR 20 million,
- establishing new branches or making any capital expenditures otherwise than as provided in the economic and financial plan if the annual value of respectively such branches or such expenditures exceeds EUR 5 million,
- entering into transactions or agreements with a shareholder or a shareholder's related entity not on an arms' length basis,
- amending the accounting policy or principles or rules for preparing audited financial statements,

- granting any guarantees or establishing or granting consent for establishing any mortgages, encumbrances or any other kind of security on any asset in a manner going beyond the Bank's core operations,
- entering into or terminating consortium agreements and other understandings with the Bank's non-related entities, for options and other similar contracts which may affect the value of the Bank's shares in related entities or subsidiaries or which may restrict their trading,
- decisions on exercising voting rights on the general meeting of shareholders as to the distribution of profits in subsidiaries and related entities if such subsidiary or related entity is a bank or credit institution within the meaning of relevant directives of the European Union,
- issuing bonds, except convertible bonds or preference bonds, contracting subordinated loans and other liabilities whose contracting may affect the control over the Bank's management or profit distribution between the Bank's shareholders,
- purchasing and selling tangible assets if the transaction value exceeds the limits specified by the Supervisory Board,
- purchasing and selling real estates and encumbering real estates owned by the Bank as well as entering into any agreements related to real estates owned by the Bank, excluding purchasing real estates under recovery proceedings as well as selling or encumbering real estates acquired under such proceedings,
- entering into agreement for real estate lease or rent for the benefit of the Bank and any other agreements related to the aforementioned lease or rent agreements if their value exceeds the limits specified by the Supervisory Board,
- defining limits for domestic risk, FX risk, risk of interest rate fluctuations,
- entering into employment contracts and employment understandings including acquisition of additional rights after termination of the period of employment in the Bank such as damages or compensations, bonuses, pays, commissions, stock options, pension rights or any other form of consideration or rights,
- defining general terms for granting bonuses to employees,
- approving candidates for supervisory boards and management boards in the Bank's subsidiaries and related entities.

The composition of the Supervisory Board in Raiffeisen Bank Polska S.A. as at 31 December 2014 was as follows:

- Dr Karl Sevelda – Chairman of the Supervisory Board
- Martin Grüll – Vice Chairman of the Supervisory Board
- Dr Johann Strobl – Member of the Supervisory Board
- Aris Bogdaneris – Member of the Supervisory Board
- Klemens Breuer – Member of the Supervisory Board
- Peter Lennkh – Member of the Supervisory Board
- Dr Herbert Stepic – Member of the Supervisory Board
- Władysław Gołębiewski – Member of the Supervisory Board
- Selcuk Sari – Member of the Supervisory Board

There are the following Committees operating within the Supervisory Board: Executive Committee, Audit Committee, Remuneration Committee.

The composition of the Committees of the Supervisory Board as at 31 December 2014 was as follows:

Members of the Supervisory Board	Executive Committee	Audit Committee	Remuneration Committee
Dr Karl SEVELDA	-	-	Chairman
Martin GRÜLL	Chairman	Chairman	Member

Members of the Supervisory Board	Executive Committee	Audit Committee	Remuneration Committee
Dr Johann STROBL	Member	Member	-
Aris BOGDANERIS	-	-	Member
Klemens BREUER	-	-	-
Peter LENNKH	Member	-	-
Dr Herbert STEPIC	-	-	-
Władysław GOŁĘBIEWSKI	-	Member	-
Selcuk SARI	-	-	-

Executive Committee

Pursuant to the provisions of the Bank's Articles of Association, the Executive Committee makes decisions in the following matters:

- approving granted loans, including credit lines and conditional commitments for a single borrower,
- approving restructuring limits and credit opinions,
- approving write-offs for non-performing exposures for a single borrower,
- reporting and drafting reports on its operations to the Supervisory Board.

The Executive Committee is made up of three persons elected by the Supervisory Board from among its members for the term of five years, however no longer than the term of the Supervisory Board. The Executive Committee is chaired by the Chairman appointed by the Supervisory Board. Meetings of the Executive Committee are called by the Chairman depending the Bank's needs and current situation.

Before adopting a certain decision related to the Bank's lending activities the Supervisory Board must obtain a prior consent from the Executive Committee.

Audit Committee

According to the Bylaws approved by the Supervisory Board, tasks of the Audit Committee include:

- monitoring the process of financial reporting,
- monitoring the efficiency of internal control, internal audit and risk management systems,
- monitoring financial revision activities,
- monitoring the independence of the certified auditors and of the entity authorised to audit financial statements, including also in the event that those entities provide services other than financial revision.

The Audit Committee is made up of persons appointed by the Supervisory Board for the period of its term from among its members. At least one member of the Committee should satisfy the independence condition and should have knowledge and experience in accounting, bookkeeping and financial reporting. The Committee is chaired by the Chairman of the Supervisory Board, if appointed to the composition of the Committee. The foregoing also applies to the Vice-Chairman of the Supervisory Board if the Chairman of the Supervisory Board is not appointed to the Committee.

Meetings of the Audit Committee should be called whenever due to current developments the Chairman of the Committee or, in his/her absence, the vice-chairman considers it necessary, however at least four times a year.

Remuneration Committee

Pursuant to its Bylaws, principal tasks and objectives of the Remuneration Committee include:

- giving opinions on the policy of variable pay components and defining their rates,
- regulating any matters related to conditions of remuneration for executive managers (in particular remuneration limits, bonuses and other allowances)

- examining and recommending to the Supervisory Board any modifications to terms and conditions of contracts for executive managers in the Bank.

The Remuneration Committee includes three to five persons elected by the Supervisory Board from among its members for the term of 5 years, however no longer than the term of the Supervisory Board.

The Committee is made up of the Chairman, the Vice-Chairman and other members. Meetings of the Committee are held depending on needs, however at least four times a year.

10.4. Management Board

The Management Board works pursuant to the Bylaws adopted by the Supervisory Board, to the provisions of the Bank's Articles of Association and under applicable laws.

The Management Board is made up at least three members appointed by the Supervisory Board for a joint five-year term. The Management Board includes: the President of the Management Board, the Vice-President or Vice-Presidents of the Management Board and other Members of the Management Board. The Vice-President of the Management Board or one of the Vice-Presidents of the Management Board may be appointed by the Supervisory Board to the position of the First Vice-President of the Management Board who particularly supervises the Bank's operations in the retail banking area.

The Member of the Management Board appointed with approval of the relevant banking supervision authorities mainly supervises the risk management area.

The composition of the Management Board of Raiffeisen Bank Polska S.A. as at 31 December 2014 was as follows:

- Piotr Czarnecki – President of the Management Board, CEO
- Maciej Bardan – First Vice-President of the Management Board
- Jan Czeremcha – Vice-President of the Management Board
- Ryszard Drużyński – Vice-President of the Management Board, COO
- Łukasz Januszewski – Member of the Management Board
- Piotr Konieczny – Member of the Management Board, CFO
- Marek Patuła – Member of the Management Board, CRO

The Management Board is the Bank's executive body and is jointly responsible for the entire operations of the Bank. Members of the Management Board work collectively and report about the most important matters of the Bank subject to competences of individual members of the Management Board.

Decisions are made in the form of resolutions taken by an absolute majority of votes. Resolutions of the Management Board may be adopted using distant direct communication measures. Resolutions adopted that way are valid only if all members of the Management Board are notified about the draft resolution and express consent for such voting procedure.

After obtaining the Supervisory Board's opinion, the Management Board may adopt a decision on establishing and liquidation of organisational units in the Headquarters, local organisational units and on the Bank's internal organisation indicated in the Bank's Organisation Rules.

The Management Board adopts in the form of the Management Board's orders in particular general conditions and regulations as to the scope of the Bank's operations as well as interest rates applicable for bank accounts, loans and advances, rates of commissions and fees, interest capitalisation dates.

Members of the Management Board in the form of orders of the Members of the Management Board adopt operating instructions and general product handling instructions, rules for implementing tasks of organisational units subordinated to individual Members of the Management Board, organisational regulations of subordinated units, rules and procedures for controls in subordinated organisational units.

10.5. The principles of sound and prudent management of the Bank as part of the risk management system

The Management Board of the Bank exercises best efforts to make sure that the risk function is organised in a way permitting to implement the risk strategy and to keep the risk appetite at the level accepted by the Supervisory Board. For that purpose there are specialised Committees supporting respective objectives established in the Bank.

As part of the risk management system the Bank applies:

- formalised rules aimed at defining the magnitude of accepted risk and risk management principles,
- formalised procedures aimed at identifying, measuring or estimating and monitoring the risk existing in the Bank's operations, taking into account the expected level of risk existing in the past analyses based on among others stress tests,
- formalised limits mitigating the risk and principles of conduct if the limits are exceeded,
- management reporting system accepted by the Management Board of the Bank enabling to monitor the level of risk.

10.6. The principles of sound and prudent management of the Bank as part of the internal control system

The Bank has implemented the internal control system constituting management supporting control processes in their entirety. Its objective is to support the decision-making processes and thus contributing to assuring: implementation of the Bank's strategic assumptions, operating effectiveness and efficiency, reliability of financial reporting, keeping the risk on acceptable levels, safety and security of assets, compliance with applicable laws, internal regulations and good banking practices.

The Supervisory Board and the Management Board of the Bank put special emphasis on the implementation of the effective and comprehensive system of internal control in all operating areas of the Bank. Implementation and maintaining on an appropriate level the adequate internal control system is aimed at assuring solutions leading to effective fulfilment of the Bank's objectives and ensuring its security.

The Supervisory Board and the Management Board of the Bank are responsible for the effectiveness of the internal control system including but not limited to: control exercised by the Bank's organisational units in terms of identified risks, assuring continuous monitoring of internal control mechanisms (functional control) and operations of the Internal Audit Department together with mechanisms guaranteeing its independence (institutional control).

For that purpose in order to avoid conflicts of interest and to ensure separation of functions a division of duties is implemented. The internal control system in place in the Bank covers all areas of its operations. It includes functional controls (control mechanisms incorporated in procedures, processes) as well as institutional controls (internal audit). Detailed rules for the internal control system are described in the Internal Control Policy.

Internal audit functions in the Bank carried out by the Internal Audit Department provide the Management Board and the Supervisory Board of the Bank with assurance as to the quality of the internal control system, its effectiveness and sufficiency.

Internal audit independence mechanisms, its mission and operating methods are regulated in relevant documents: Audit Card, Regulations of the Internal Audit Department, Regulations of the Audit Committee.

10.7. The principles of sound and prudent management of the Bank as part of the compliance system

The Bank's Management Board is responsible for assuring compliance of the Bank's operations with the applicable laws, taking into account the Bank's relations with other entities which could adversely affect sound and prudent management of the Bank, including the entities which carry out functions entrusted by the Bank (outsourcing). Compliance process management is based on regulations approved by the Bank's governing bodies.

The Bank's Management Board is responsible for effectiveness of the compliance system including but not limited to:

- maintaining and coordinating an appropriate effective system of internal processes and controls aimed at mitigating the risk of non-compliance,
- preparing and implementing internal rules and procedures in compliance with applicable laws and regulations,

- identifying, analysing, mitigating and monitoring the risk of non-compliance, particularly in such areas as counteracting money laundering and financing terrorism, MiFiD Directive and internal codes of conduct,
- mechanisms assuring operating independence of the Department of Compliance with Standards and Security.

The Bank's Management Board also strives for respecting the highest professional and ethical standards in the Bank. While pursuing those objectives, the Bank implemented procedures in that area, including the Code of Conduct for Employees, as part of the system "Transparent Bank", regulating among others: the issues of conflicts of interests, gifts, employees reporting violations of the code and organisational governance

10.8. The principles of sound and prudent management of the Bank as part of the capital management system.

Capital management is the function of sound and prudent management of the Bank. The Bank's Management Board implements the Capital Management Policy approved by the Supervisory Board, defining the internal process for assessment of the Bank's capital adequacy, and in particular the processes of:

- estimating internal capital
- capital management
- capital planning

The Bank prepares general rules for identification and measurement of essential risks existing in the Bank's operations and rules for estimating capital to cover them. The Bank calculates and allocates regulatory and risk-adjusted capitals which constitutes a part of the Bank's and the Group's capital management, oriented towards optimisation of its use.

10.9. The entity authorised to audit financial statements

The entity authorised to audit financial statements, auditing the annual financial statements of the Bank, was appointed in compliance with applicable laws. That entity as well as certified auditors auditing the financial statements satisfy conditions required to issue an impartial and independent opinion from the audit of the annual financial statements in compliance with the applicable Polish laws.

For purposes of the audit of the financial statements Raiffeisen Bank Polska S.A. uses the services of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

The auditor's remuneration in respect of the services to Raiffeisen Bank Polska S.A is as follows:

Auditor's remuneration (PLN '000)		
Concerning the year	**2014**	**2013**
Remuneration for the audit of the annual financial statements	447	447
Remuneration for other certification services	0	0
Total	**447**	**447**

11. Statement of the Management Board of Raiffeisen Bank Polska

11.1. Truthfulness and fairness of the presented financial statements

The Management Board of Raiffeisen Bank Polska whose members are: Piotr Czarnecki – President of the Management Board, Maciej Bardan – First Vice-President of the Management Board, Jan Czeremcha – Vice-President of the Management Board, Ryszard Drużyński – Vice-President of the Management Board, Łukasz Januszewski – Member of the Management Board, Piotr Konieczny – Member of the Management Board, Marek Patuła – Member of the Management Board, represents that to the best of its knowledge:

- the annual separate financial statements for the financial year ended 31 December 2014 and comparable data were prepared in compliance with applicable accounting principles and truly, fairly and clearly reflect assets and financial position of Raiffeisen Bank Polska and its financial result,
- the Management Report on the operations of Raiffeisen Bank Polska Capital Group in 2014 provides a true and fair representation of the developments and achievements of Raiffeisen Bank Polska, including the description of principal risks and threats.

11.2. Appointment of the entity authorised to audit financial statements

The Management Board of Raiffeisen Bank Polska S.A. represents that the entity authorised to audit financial statements, KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., auditing the annual financial statements of Raiffeisen Bank Polska S.A. for 2014, was appointed in compliance with the applicable laws. That entity as well as certified auditors satisfied conditions required to issue an impartial and independent audit opinion in compliance with the applicable laws and professional standards.