



**MANAGEMENT BOARD REPORT ON THE ACTIVITIES OF MERITUM BANK ICB  
S.A.**

**IN 2013**

**Gdańsk, 31 March 2014**

## **1. OVERVIEW OF MERITUM BANK ICB S.A.**

### **ABOUT MERITUM BANK ICB S.A.**

Meritum Bank ICB SA, formerly Bank Współpracy Europejskiej S.A., has been operating on the Polish market since the middle of 1990.

In November 2007, investment fund Innova/4 LP, advised by Innova Capital, became the Bank's majority shareholder.

In January 2008, the new Management Board was appointed. A year later, in January 2009, the name was changed to Meritum Bank, and the seat of the Bank was moved from Wrocław to Gdańsk.

The shareholders of the Bank are: Investment fund Innova/4 LP (advised by Innova Capital), the European Bank for Reconstruction and Development and WCP COOPERATIEF U.A. (a subsidiary of the private equity fund Wolfensohn Capital Partners).

Meritum Bank caters for middle-income consumers, micro and small businesses and self-employed persons. The key strengths of the Bank's offering dedicated to these client segments include: modern and client-friendly e-banking platform, competitive deposit offering as well as a very attractive offer for micro-companies.

One of the core activities of Meritum Bank is developing products in the area of consumer finance. The Bank offers a full range of loan products, including the popular cash loans, consolidation loans and credit cards. The range of products is complemented by instalment loans. In 2011, the Bank began working with Tesco, which involves offering a wide range of loan products under the brand of Tesco Finance.

The distinguishing feature of Meritum Bank is also a diverse network of distribution channels: online banking, a network of own and partner-run outlets, financial agents and the sale of instalment loans through retail stores.

### **GOVERNING BODIES OF MERITUM BANK ICB S.A.**

As at 31 December 2013, the Supervisory Board of the Bank was as follows:

<i>The Supervisory Board of Meritum Bank ICB S.A.</i>	
<i>Chairman of the Supervisory Board</i>	Krzysztof Kulig
<i>Member of the Supervisory Board</i>	Magdalena Magnuszewska
<i>Member of the Supervisory Board</i>	Steven Buckley
<i>Member of the Supervisory Board</i>	Peter Franklin
<i>Member of the Supervisory Board</i>	Asad Naqvi
<i>Member of the Supervisory Board</i>	Grzegorz Waluszewski
<i>Member of the Supervisory Board</i>	Łukasz Doktor

As at 31 December 2013, the Management Board of the Bank was as follows:

<i>Management Board of Meritum Bank ICB S.A.</i>	
<i>Acting as the President of the Management Board</i>	Bartosz Chytła
<i>First Vice-President of the Management Board</i>	Joanna Krzyżanowska
<i>Vice-President of the Management Board</i>	Piotr Urbańczyk
<i>Member of the Management Board</i>	Agnieszka Porębska-Burczyn

## **2. YEAR 2013 – ACTIVITIES OF MERITUM BANK ICB S.A.**

### **YEAR 2013 – KEY FIGURES**

The 2013 financial data presented below as well as the comparable data include the transformation associated with the change in accounting principles (policies) introduced in 2013. The Bank implemented changes in the recognition of penalty interest on loans and the method of recognising revenues and expenses related to the sale of insurance products. Details concerning the implemented changes are described in the Financial Statements of the Meritum Bank ICB S.A. prepared as at 31 December 2013.

<i>FINANCIAL HIGHLIGHTS</i>	<i>31.12.2013 IN PLN</i>	<i>31.12.2012 (restated) IN PLN</i>	<i>% Change</i>
<i>Result on interest</i>	270,383,308.00	175,751,912.75	<b>53.84%</b>
<i>Result on commissions</i>	4,020,701.46	9,890,638.66	<b>-59.35%</b>
<i>Result on financial operations</i>	-7,741,500.52	-3,162,491.07	<b>144.79%</b>
<i>Result on foreign exchange</i>	946,701.24	842,275.96	<b>12.40%</b>
<i>Result on banking activities</i>	267,609,210.18	183,322,336.30	<b>45.98%</b>
<i>Difference in value of provisions and revaluation</i>	-144,511,317.17	-94,472,553.33	<b>52.97%</b>
<i>Bank's operating expenses (including depreciation)</i>	-110,426,815.21	-103,868,574.65	<b>6.31%</b>
<i>Other operating revenues and costs</i>	1,203,443.37	11,334,495.67	<b>-89.38%</b>
<i>Gross profit / loss</i>	13,874,521.17	-3,684,296.01	<b>476.59%</b>
<i>Net profit</i>	11,678,166.78	1,819,138.25	<b>541.96%</b>
<i>Receivables from clients</i>	2,346,179,612.31	1,806,839,936.95	<b>29.85%</b>
<i>Liabilities to clients</i>	2,582,144,254.09	1,882,887,068.41	<b>37.14%</b>
<i>Equity</i>	212,549,647.05	201,991,206.71	<b>5.23%</b>
<i>Total assets</i>	2,954,161,679.16	2,204,305,018.37	<b>34.02%</b>
<i>Capital adequacy ratio</i>	13.59%	13.83%	<b>-0.24%</b>
<i>Loans/Deposits</i>	90.86%	95.96%	<b>-5.10%</b>
<i>Costs/Income</i>	41.26%	56.66%	<b>-15.40%</b>

## **BUSINESS DEVELOPMENT IN 2013**

In 2013, the Bank continued the strategy of a growing share in the market of retail clients and small and medium-sized enterprises. According to the Bank's own estimates based on the data provided by the Credit Information Bureau, the Bank's share in the sales of cash loans and instalment loans increased from 1% in 2012 to 1.6% in 2013. Based on data provided by the National Bank of Poland, the Bank estimates that its share in the portfolio of loans to micro-enterprises increased from 1.09% in 2012 to 1.26% in 2013.

The Bank's offer, as in the previous years, was addressed to three main client segments:

- I. High-income and middle-income clients seeking a favourable investment of their funds and efficient service, especially through electronic channels.
- II. A wide range of client-the borrower, both from the mass market, serviced by loan intermediaries, and borrowers from higher segments, serviced by financial advisors, branches and through the Internet.
- III. Micro-businesses, operating in the service and manufacturing sectors, whose owners seek attractive investment products, or those who make the beginning of cooperation dependent on the receipt of funding.

The Bank catered to financially conscious people with experience in handling financial products. They expect, on the one hand, a high-quality service, and on the other, friendly time-saving procedures. To meet these expectations, the Bank prepared expertly designed solutions that allow obtaining measurable benefits of maintaining relationships with the Bank. These solutions, implemented in 2013, include an online currency exchange service for individuals. Thanks to this service, clients holding a personal account can purchase foreign currency via the Internet at an attractive rate and pay off their foreign currency mortgage taken in another bank.

Innovation is one of the foundations of Meritum Bank's operating strategy, but the Bank defines it as providing practical, simple improvements rather than cost-intensive technological novelties. Knowledge of client needs which can cater to by innovative solutions is derived by the Bank directly from the sales network. The voice of the client is clearly heard thanks to a flat organisational structure and the direct involvement of employees responsible for the development of the sales network. The Bank provides clients with the following triad of values:

- the price adequate to the benefits offered;
- simplicity and speed of processes;
- functionality of products and services.

Providing clients with the above values became possible thanks to the Bank's strategic advantages based on operational excellence, low-cost platform and a culture of innovation.

In 2013, the Bank continued its strategy of sales network development – both franchise and agency outlets. The Bank also increased its market share thanks to the quick response to the changes in the business environment and at the same time adequately and quickly responding to the new regulatory environment.



-  Partner outlets
-  Financial Services Centre
-  Bank Branch
-  TESCO CLIENT SERVICE OUTLET

POMORSKIE PROVINCE	POMORSKIE
ZACHODNIO-POMORSKIE PROVINCE	ZACHODNIO-POMORSKIE
WARMIŃSKO-MAZURSKIE PROVINCE	WARMIŃSKO-MAZURSKIE
PODLASKIE PROVINCE	PODLASKIE
MAZOWIECKIE PROVINCE	MAZOWIECKIE

KUJAWSKO-POMORSKIE PROVINCE	KUJAWSKO-POMORSKIE
WIELKOPOLSKIE PROVINCE	WIELKOPOLSKIE
LUBUSKIE PROVINCE	LUBUSKIE
DOLNOŚLĄSKIE PROVINCE	DOLNOŚLĄSKIE
ŁÓDZKIE PROVINCE	ŁÓDZKIE
MAZOWIECKIE PROVINCE	MAZOWIECKIE
LUBELSKIE PROVINCE	LUBELSKIE
OPOLSKIE PROVINCE	OPOLSKIE
PODKARPACKIE PROVINCE	PODKARPACKIE
MAŁOPOLSKIE PROVINCE	MAŁOPOLSKIE
ŚLĄSKIE PROVINCE	ŚLĄSKIE

Internet banking remains one of the main fundamentals of the Bank's development. It is one of the strategic channels, as well as the primary channel of after-sales service to clients – both individuals and micro-businesses. Internet banking was and remains one of the most important distribution channels for savings products: in 2013, it generated more than 43% of the Bank's sales in the area of savings and settlement accounts. Deposits acquired through online banking at the end of 2013 accounted for about 70% of the portfolio of the entire the deposit base. The Bank also acquired 43% of corporate accounts via the Internet. At the end of 2013, over 69,000 accounts were operated through Internet banking, out of which 86% were savings and settlement accounts held by individual clients and 14% – business current accounts.

In 2013, the Bank consistently developed tools that allowed for a stable growth of sales through electronic channels, including: the effectiveness marketing tools and a new web portal, leveraging the potential of natural traffic at the Bank's page and effectively reducing the cost of client acquisition. The natural traffic is gradually increasing; in the period from January to December 2013, the page was visited by 944,000 unique users, i.e. by over 150,000 more than in 2012. The total number of visits at the website during the period amounted to 2.94 million, an increase of more than 500 thousand compared to 2012. The nature of the Bank's products, their simplicity and technological advancement of the internet banking system, help to maintain the main burden of after-sales service of Bank's clients in a low-cost Internet environment, through which 99% client transactions were completed in 2013.

In 2013, the Bank continued a strategic project offering financial services to clients visiting Tesco hypermarkets. The model of the business relationship between the Bank and Tesco is based on the principles of joint venture. As part of its business, the Bank sells its products through 70 outlets branded Tesco Finance, located in the largest Tesco hypermarkets in Poland. As in the previous year, the key products offered include: instalment loans for the goods available at Tesco, cash loans, debt consolidation loan and the Visa Clubcard credit card, which is a part of the Clubcard loyalty programme. The products offered in the Tesco distribution channel are dedicated products, which means they have specific features and functionality tailored to the expectations of both the partner and its clients. As regards the development of its product offering, the Bank carried out in 2013 at Tesco Finance outlets a pilot sale project for its savings and settlement account with a debit card. The results of the pilot project proved to be very promising: a high demand for such products is a basis for launching the product on a full-scale planned in 2014. In order to optimise the management and operating expenses of the sales network in 2013, the Bank also carried out a restructuring of employment of its Tesco Finance outlet sales staff, as a result of which the sales staff operate as Bank's agents.

In the second quarter of 2013, another issue of corporate bonds was successfully sold to the total amount of over 67 million which was counted towards the Bank's equity. In December 2013, the majority shareholders of the Bank contributed additional capital in the amount of PLN 10 million. On 9 January 2014, the District Court in Gdansk registered the capital increase of Meritum Bank ICB S.A. by the amount of PLN 10,000,020. In addition, the Bank continued the measures initiated in previous years to ensure its stable sources of financing through the implementation of innovative methods of obtaining deposits from the public. The result of these actions was building a stable deposit base and lowering the Bank's cost of financing at a rate faster than the decline in the market interest rates. The modern process of establishing online deposits (without a courier's visit required), active selling of the new savings account and a growing client base with personal accounts (more than 50% increase in the number of accounts in 2013) combined with a competitive pricing and innovative products (such as long-term WIBOR-tied investments, a promotion deposit combined with investment in investment fund units, an account recommendation programme, a new offering of the personal and savings account) resulted in an increase in the market share of retail deposits from 0.37% at the end of 2012 to 0.49% at the end of 2013.

### **3. MACROECONOMIC SITUATION IN 2013**

After a slump at the beginning of 2013, the Polish economy experienced better results in the subsequent quarters. Throughout 2013, the gross domestic product increased by 1.6%, which was less than in 2012, when the increase was 1.9%, but in the fourth quarter of 2013 it increased to 2.2% year-on-year. The deepest decline in the economic activity occurred in the first quarter of 2013 and was recorded in all the areas affecting the economic growth. Then, from the second quarter, a marked improvement in these indicators can be discerned, which contributed to a significant improvement in the economic situation. The situation was mostly improved by exports growing in the first quarter of 2013 by 3.2% year-on-year, while in the third quarter of 2013 year they rose to 5.6% year-on-year. The improvement was also boosted by an increase in consumption: although private consumption in the first quarter of 2013 did not change compared to the previous year, throughout the 2013 the increase was 0.8% year-on-year. Throughout 2013, a decline in capital expenditure was noted with the gross year-on-year fixed asset spending lower by 0.4%, although the biggest drop of -3.2% year-on-year was noted in the second quarter, whereas in the fourth quarter it increased by 1.3 % year-on-year.

Along with the slowdown in 2012–2013, the socio-economic situation of households did not change: the average monthly real wages rose by 0.1% year-on-year in 2012 and accelerated to about 3% in 2013, the registered unemployment rate was 13.4% at the end of 2013, and was the same as at the end of 2012. Decline in inflation, which was 0.9% in 2103 (3.7% in 2012), was a positive development. As the inflation was falling, the National Bank of Poland changed the approach to the interest rate policy and began a series of cuts, which caused a decline in the reference rate from 4.75% at the end of second quarter 2012 to 2.5% at the end of 2013.

The slowdown in economic growth experienced in the years 2012–2013 was reflected in the performance of the banking sector with an increase in the domestic assets of the banking sector by 3.4% year-on-year in 2013 (4.1% in 2012), an increase in loans by 3.6% year-on-year in 2013 (1.8% in 2012). The increase in the retail loan portfolio in 2013 was 4% year-on-year (0% in 2012). This included a mortgage loan portfolio increase in 2013 by 4.4% year-on-year (0.8% in 2012), while the portfolio of consumer loans in 2013 changed by 2.7% y/y (-5.1% in 2012). In 2013, loans to businesses increased by 0.4% year-on-year (3.3% in 2012). The result of the banking sector in 2013 amounted to PLN 14.5 billion and was higher by 1.2% than in the previous year. In 2013, the net interest income of the domestic banking sector decreased by 3.2%, while commission income decreased by 2.3%. Although the net income on banking



operations decreased by 5.4%, the operating expenses were lower by 1.1% year-on-year and impairment loss revaluation write-off were lower by 7.6% year-on-year, which offset the operating profit decline to the level of -1.5% year-on-year.

The beginning of 2013 was the time of the deepest slump of the Polish economy, whereas from the second quarter, the economy has been growing faster and faster with exports being the initial driving force, gaining further momentum in the second half of the year with the support from the increasing private consumption and capital spending. Forecasts for 2014 indicate a consolidation of the positive trends in the economy and the socio-economic situation of households is also expected to improve, mainly in terms of real income growth and falling unemployment. All the abovementioned factors should have a favourable effect on the banking sector, in particular the growth of consumer loans.

#### **4. FINANCIAL RESULTS OF MERITUM BANK ICB S.A.**

##### **BALANCE SHEET**

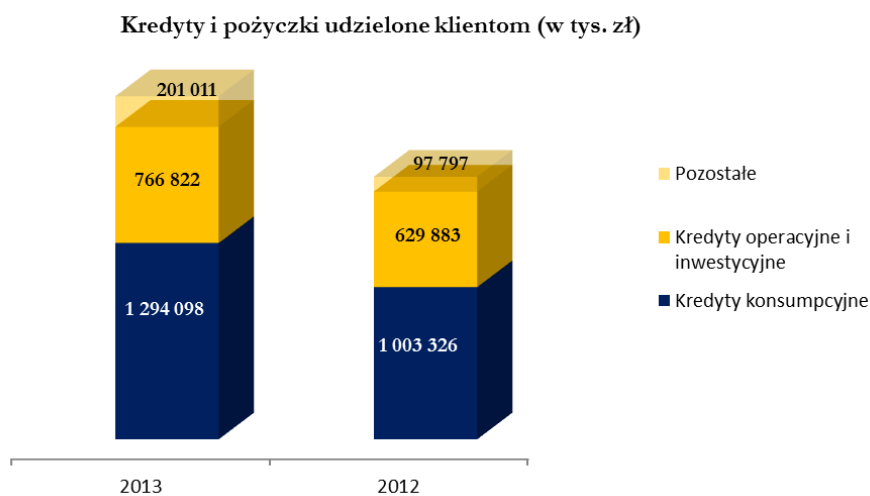
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At the end of 2013, total assets of the Bank amounted to PLN 2,954,200,000, after an increase of 34.02% compared to 2012. The increase in total assets amounted to PLN 750,000 and was lower than in the previous year, when the figure was PLN 836,000.

<i>In PLN '000</i>	<b>2013</b>	<b>2012</b>	<b>Change</b>	<b>Change</b>
Cash, operations with the central bank	33,203	64,978	-31,775	-48.90%
Receivables from the financial sector	84,248	75,834	8,414	11.10%
Receivables from the non-financial sector	2,261,931	1,731,006	530,925	30.67%
Commercial papers	481,178	238,419	242,759	101.82%
Fixed assets	36,033	31,142	4,891	15.71%
- <i>shares</i>	569	569	0	0.00%
- <i>Intangible assets and goodwill</i>	26,375	21,125	5,250	24.85
- <i>Tangible fixed assets</i>	9,089	9,448	-359	-3.80%
Other assets	57,569	62,926	-5,357	-8.51%
<b>Total assets</b>	<b>2,954,162</b>	<b>2,204,305</b>	<b>749,857</b>	<b>34.02%</b>

The main item affecting the changes in assets in 2013 was financial assets available for sale, whose share in Bank's assets amounted to 101.82%, and results from the volume of the deposit portfolio. The Bank's policy to invest surplus funds remained unchanged, with the range of purchased instruments limited to treasury bills and bonds issued by the State Treasury, the bills of National Bank of Poland and short-term deposits in other banks. This approach provides a balance between profitability and liquidity, allowing instant access to cash in case of increasing demand for funds. Based on these instruments, the Bank can borrow the cash through repo transactions, sell/buy-back or a simple sale on the market, depending on the requirements.

The second significant assets item in 2013 was receivables from the non-financial sector which increased in the reporting period by 30.67%. At the end of 2013, the portfolio was dominated by receivables from individuals, which accounted for 66.05% of total loan portfolio. In the previous year, the share of receivables from individuals in the loan portfolio was 63.26%. Consumer loans were the main item in the loan portfolio from individuals. Operating and capital expenditure loans accounted for 33.95% of total loan portfolio.



<b>Facilities and loans granted to clients (in PLN '000)</b>	<b>Kredyty i pożyczki udzielone klientom (w tys. zł)</b>
<b>Other</b>	<b>Pozostałe</b>
<b>Operating and investment loans</b>	<b>Kredyty operacyjne i inwestycyjne</b>
<b>Consumer loans</b>	<b>Kredyty konsumpcyjne</b>

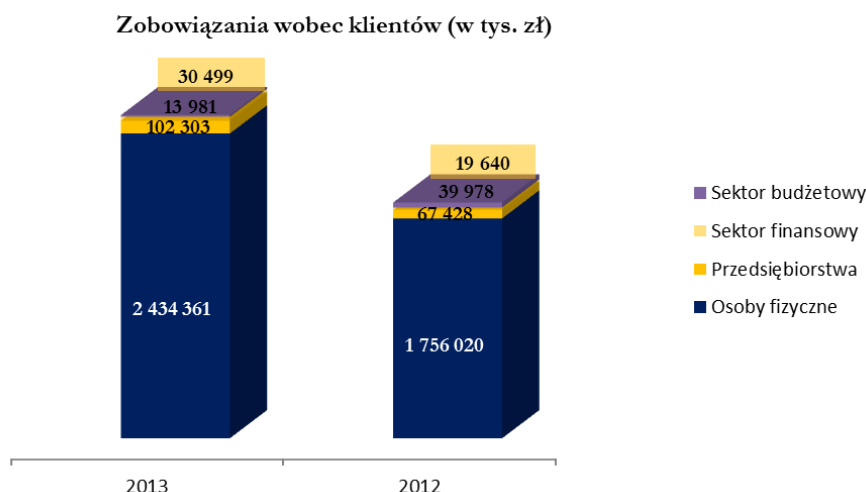
**Meritum Bank ICB S.A.****Management Board report on the activities of Meritum Bank ICB S.A. in 2013**

Maintaining a high rate of growth of assets was due, among others, to a higher lending than in the previous year where the increase was made possible by a further development of distribution channels and the loan offer itself. The volume of new loans increased in 2013 by 18.5%.

<i>In PLN '000</i>	2013	2012*	Change	Change
Liabilities to the Central Bank	0	0	0	
Liabilities to the financial sector	30,499	19,640	10,859	55.29%
Liabilities to the non-financial sector	2,537,664	1,823,449	714,215	39.17%
Amounts due to the public sector	13,981	39,798	-25,817	-64.87%
Other liabilities	65,968	93,127	-27,159	-29.16%
Subordinated liabilities	93,500	26,300	67,200	255.51%
Equity, including:	212,550	201,991	10,559	5.23%
<i>share capital, revaluation reserve and profit (loss)</i>	<i>200,871</i>	<i>200,172</i>	<i>699</i>	<i>0.35%</i>
<i>from previous years</i>				
<i>- current year's (net) result</i>	<i>11,678</i>	<i>1,819</i>	<i>9,859</i>	<i>542.00%</i>
<b>Total liabilities and equity</b>	<b>2,954,162</b>	<b>2,204,305</b>	<b>749,857</b>	<b>34.02%</b>

In 2013, the fastest growing item of liabilities and equity was liabilities to the financial sector and the subordinated liabilities arising from issuing on 29 April 2013 series B subordinated bonds, to the nominal amount of PLN 10,000 each. The bonds have a redemption date on 29 April 2021.

Another rapidly growing item in 2013 was payables to clients, which increased by PLN 699,257,000 and amounted to PLN 2,582,100,000 at the end of 2013. Non-financial sector clients accounted for the largest increase, with the liabilities increased by PLN 714,215,000, i.e. 39.17% and amounted to PLN 2,537,700,000 at the end of 2013. Liabilities towards the financial sector increased by 10,859, i.e. 55.29%, and amounted to PLN 30,499,000 at the end of 2013. The decrease in liabilities was noted in the state budget sector, where liabilities at the end of 2013 amounted to PLN 13,981,000 and were lower by PLN 25,817,000 compared to the previous year. Average interest rates on new deposits received in 2013 was 3.91% pa, while the rate of deposits/loans at the end of 2013 was 0.94. The main item in the deposit base of the Bank was liabilities to individuals, which accounted for 94.28% of total deposits and amounted to PLN 2,434,400,000. In the previous year, liabilities to individuals accounted for 93.26% of the total deposit base. The amount of liabilities to businesses in the financial sector amounted to PLN 102,303,000.



<b>Liabilities to clients (in PLN '000)</b>	<b>Zobowiązania wobec klientów (w tys. zł)</b>
<b>Budget sector</b>	<b>Sektor budżetowy</b>
<b>Financial sector</b>	<b>Sektor finansowy</b>
<b>Enterprises</b>	<b>Przedsiębiorstwa</b>
<b>Natural persons</b>	<b>Osoby fizyczne</b>

Throughout the 2013, all the liquidity measures were above the required levels.

### **Bank's Capitals / Capital Adequacy**

At the end of 2013, the value of the Bank's share capital amounted to PLN 359,300. The amount of the share capital does not include the increase in the Bank's share capital, due to the fact that it was registered on 9 January 2014.

In 2013, the Bank modified its accounting principles (policy), which resulted in increased previous years' losses by the total amount of PLN 24,200. As a result of the adjustment, the Bank equity, including the current result, the result pending approval and the profit (loss) from previous years amounted to PLN 212,550,000 as at 31 December 2013. At the end of 2012, the Bank's equity amounted to 201,991.

In April 2013, the Bank issued subordinated bonds, which two months later, after the approval by the Financial Supervision Commission, were included in the supplementary capital in the amount of PLN 67,200.

The Bank's equity, in accordance with Article 127 of the Banking Law and Resolution No 76/2010 of the Financial Supervision Commission of 10 March 2010 concerning the detailed

## Meritum Bank ICB S.A.

### Management Board report on the activities of Meritum Bank ICB S.A. in 2013

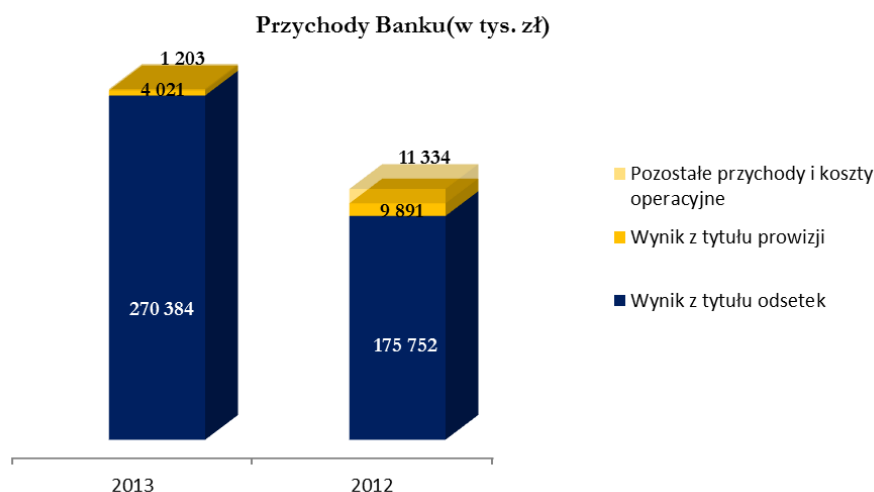
rules for determining capital requirements for particular types of risk, as amended, amounted to PLN 271,689,000 and PLN 205,344,000 at the end of 2012. The capital adequacy ratio at the end of 2013 was 13.59%. The capital adequacy ratio at the end of 2013 does not include the increase in the share capital of the Bank in the amount of PLN 10,000. On 9 January 2014, the District Court in Gdansk registered the capital increase of Meritum Bank ICB S.A.

## INCOME STATEMENT

<i>In PLN '000</i>	2013	2012	Change	Change
Result on interest	270,384	175,752	94,632	53.84%
Result on commissions	4,021	9,891	-5,870	-59.35%
Net profit or net loss on financial operations	-6,795	-2,320	-4,475	192.89%
<b>Result on banking activities</b>	<b>267,610</b>	<b>183,323</b>	<b>84,287</b>	<b>45.98%</b>
Other operating revenues and costs	1,203	11,334	-10,131	-89.39%
Bank's overhead expenses	-102,585	-95,148	-7,437	7.82%
Depreciation	-7,842	-8,721	879	-10.08%
Difference in value of provisions	-144,511	-94,473	-50,038	52.97%
<b>Gross profit (loss)</b>	<b>13,875</b>	<b>-3,685</b>	<b>17,560</b>	<b>476.53%</b>
Income tax	-2,197	5,504	-7,701	-139.92%
<b>Net profit (loss)</b>	<b>11,678</b>	<b>1,819</b>	<b>9,859</b>	<b>542.00%</b>

The net financial result of Meritum Bank ICB S.A. for 2013 was PLN 11,678,000 and was higher than the net financial result for 2012 by PLN 9,859,000 i.e. by 542.00%.

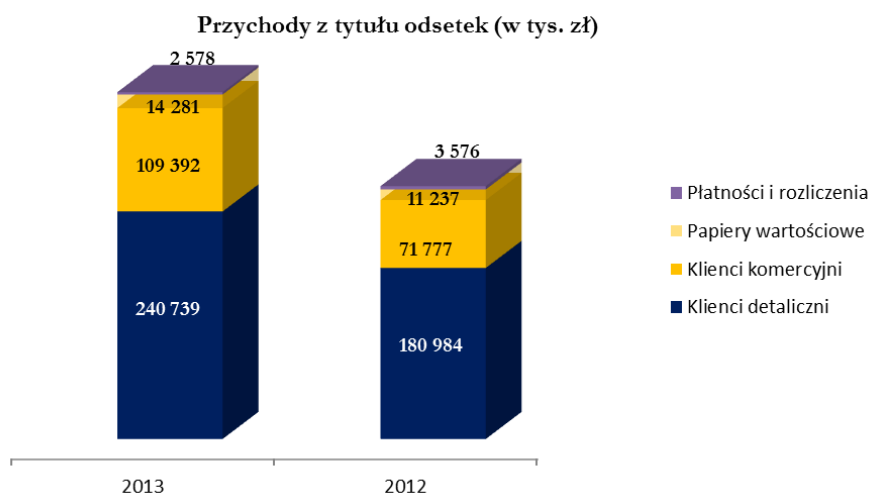
The greatest impact on the growth of the financial result generated in 2013 belonged to the net interest income. It amounted to PLN 270,384,000 and was higher by PLN 94,632,000, i.e. 53.84%, than in 2012.



Bank's revenues (in PLN '000)	Przychody Banku (w tys. zł)
Other operating revenues and costs	Pozostałe przychody i koszty operacyjne
Net commission income	Wynik z tytułu prowizji
Net interest income	Wynik z tytułu odsetek

### **Result on interest**

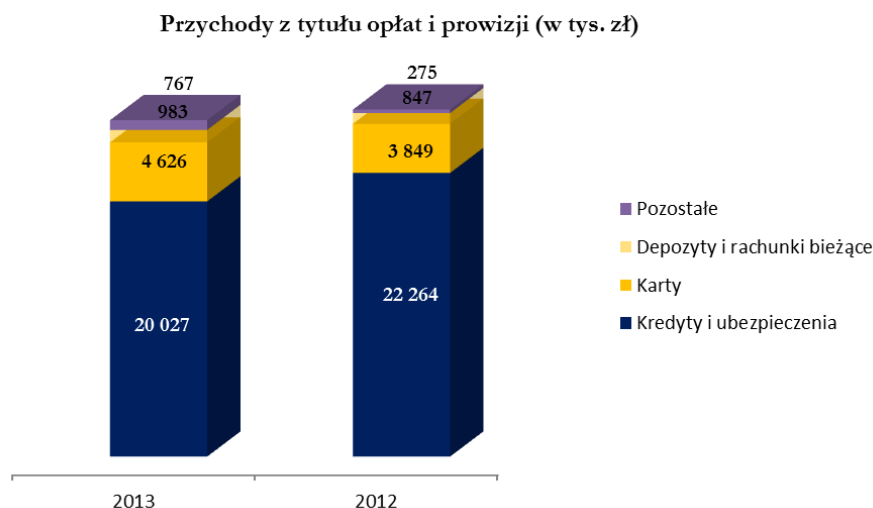
The net interest income is the main item in the Bank's revenues. In the entire 2013, the net interest income amounted to PLN 366,990,000. Despite the reduction in market interest rates for the loan portfolio, the Bank managed to achieve more than 37% growth in interest income as compared to 2012. The main source of interest income consisted in loans and borrowings. The interest costs amounted to PLN 96,606,000 and were 5.21% higher than in the previous year. In 2012, the increase in interest costs stood at 110.83%. This considerable drop in interest costs was primarily affected by lower cost of acquiring new deposits. The net interest income increased by PLN 94,632,000 in 2013, reaching the level of PLN 270,384,000.



<b>Net interest income (in PLN '000)</b>	<b>Przychody z tytułu odsetek (w tys. zł)</b>
<b>Payments and settlements</b>	<b>Płatności i rozliczenia</b>
<b>Securities</b>	<b>Papiery wartościowe</b>
<b>Commercial clients</b>	<b>Klienci komercyjni</b>
<b>Retail clients</b>	<b>Klienci detaliczni</b>

### **Result on commissions**

The net commission income amounted to PLN 4,021,000 in 2013 and was 59% lower than in the previous year. In 2012, the net commission income amounted to PLN 9,891,000. The commission costs in turn amounted to PLN 22,382,000 and were 29.03% higher than in the previous year. In 2012, the commission costs amounted to PLN 17,345,000. The drop in the commission income is a result of the Bank's implementation of changes in its accounting policy with respect to the recognition of income and costs related to the sale of bancassurance products.



Net fee and commission income (in PLN '000)	Przychody z tytułu opłat i prowizji (w tys. zł)
Other	Pozostałe
Deposits and current accounts	Depozyty i rachunki bieżące
Cards	Karty
Loans and insurance	Kredyty i ubezpieczenia

### Net profit or net loss on financial operations and FX positions

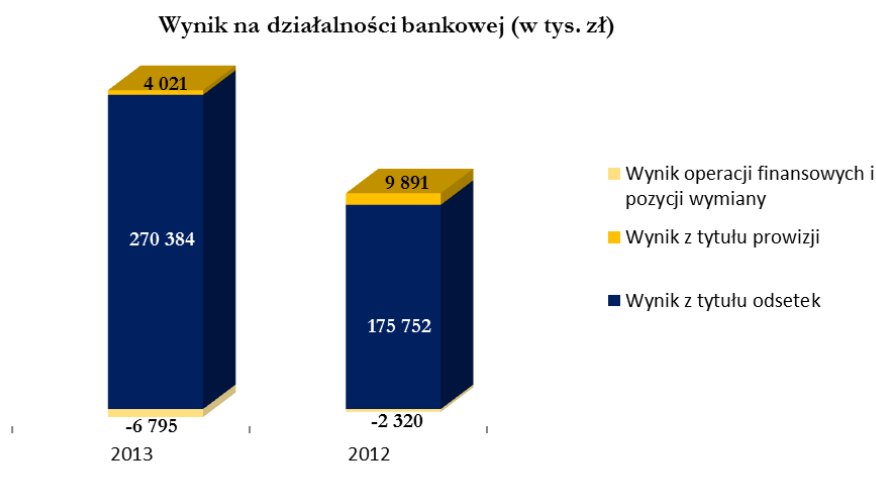
The total net profit or loss on financial operations and FX positions in 2013 amounted to - PLN 6, 795,000. Interest costs related to the service of subordinated bonds remain to be the biggest element charged to this item in the income statement.

### Result on banking activities

The result of banking activities was PLN 267,610,000. In comparison with 2012, it has increased by PLN 84,287,000. The income growth was higher than the year before.

The income structure continued to change in 2013, although with less dynamics than in the previous year. The net interest income corresponded to 101%, and the net commission income – to 1.5% of the result of banking activities. In 2012, those values were 96% and 5%, respectively.





Result of banking activities	Wynik na działalności bankowej (w tys. zł)
Net profit or net loss on financial operations and FX positions	Wynik operacji finansowych i pozycji wymiany
Net commission income	Wynik z tytułu prowizji
Net interest income	Wynik z tytułu odsetek

### Other operating revenues and costs

In 2013, other operating revenues stood at PLN 18,772,000. This result was considerably affected by the settlement of the mutual undertaking with Tesco Polska Sp. z o.o. and the reimbursement for costs incurred by the Bank in connection with the operating and financial service thereof amounted to PLN 4,157,000, while in 2012 it was PLN 4,712,000. Those services are sold in 70 client service outlets, while as at 31 December 2012 it was 66 outlets – located within Tesco hypermarkets.

### Bank's overhead costs and depreciation of fixed assets

Bank's overhead expenses (excl. depreciation) in 2013 equalled PLN 102,585,000. Compared to 2012, those costs increased by PLN 7,437,000 – this was, to a great extent, affected by the

## Meritum Bank ICB S.A.

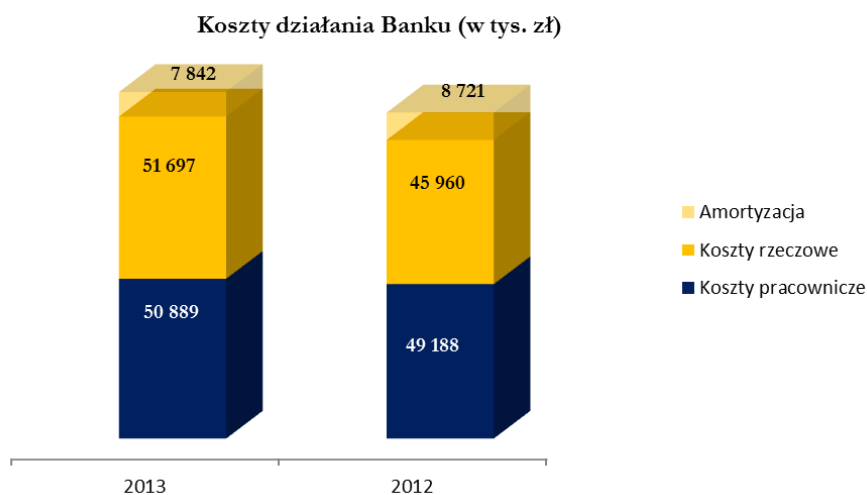
### Management Board report on the activities of Meritum Bank ICB S.A. in 2013

development of sale channels as well as promotion and marketing activities. However, the growth of costs was lower than the year before when it stood at PLN 20,155,000.

In 2013, the employment costs remained stable and stood at PLN 50,889,000. As at the end of 2013, we had 740 FTEs, and this number was smaller than in 2012. The operating costs (excl. promotion expenses) amounted to PLN 43,464,000. In the entire 2013, the promotion costs amounted to PLN 8,233,000. Those costs were incurred in connection with the promotion of the Bank's deposit and credit products as well as the development of the network of Bank's own branches and franchise outposts.

In 2013, the Bank continued activities aimed at rationalising the expenses and increasing the effectiveness of employment. This gave us the ability to introduce new products to the Bank's offer, offer new sales channels to the clients and expand the new loans campaign, while the Bank's overhead costs increased only slightly. In that period, the gross loan portfolio increased by 30%, while the costs only by 7.8%. The depreciation of fixed assets and intangible assets in 2013 amounted to PLN 7,842,000.

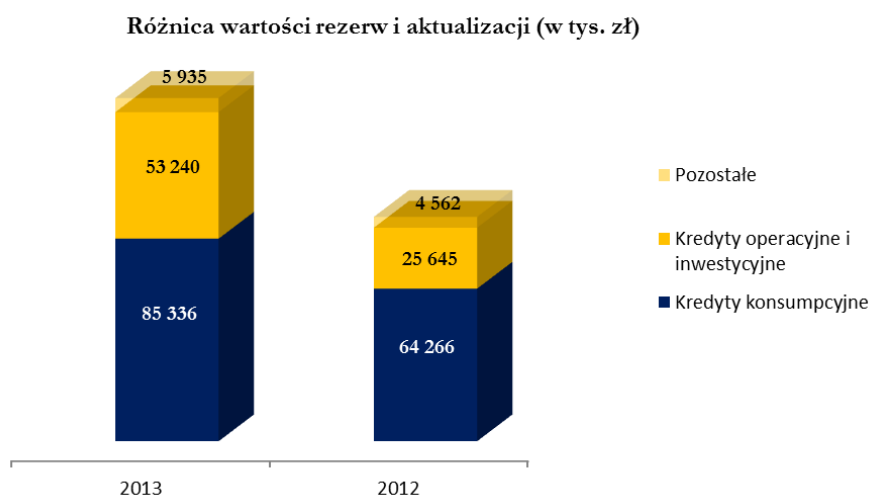
The ratio of costs (incl. depreciation) to the result of banking activities was 41%, dropping by 10.9 p.p. in comparison with 2012.



<b>Bank's overhead costs (in PLN '000)</b>	<b>Koszty działania Banku (w tys. zł)</b>
<b>Depreciation</b>	<b>Amortyzacja</b>
<b>Material costs</b>	<b>Koszty rzeczowe</b>
<b>Staff costs</b>	<b>Koszty pracownicze</b>

### Difference in value of provisions and revaluation

In 2013, the difference in the value of provisions and their revaluation stood at PLN 144,511,000 against PLN 94,473,000 in 2012 – this means an increase by PLN 50,038,000. The result of valuation allowance went up by 52.97% in comparison with the previous year. The Bank's clients' weak financial condition was affected by the opening of the year when the Polish economy witnessed the greatest slowdown in growth rate.



Difference in value of provisions and revaluation (in PLN '000)	Różnica wartości rezerw i aktualizacji (w tys. zł)
Other	Pozostałe
Operating and investment loans	Kredyty operacyjne i inwestycyjne
Consumer loans	Kredyty konsumpcyjne

With dynamic growth of the value of new loans and the loan portfolio, the ration of provision costs to the achieved result of banking activities was retained at the level similar to the previous year.

	2013	2012*	Change
Value of provision revaluation** to the result of banking activities	54.00%	47.83%	6.17 pp.

\*converted data

\*\* The value of provisions revaluation for 2012, presented in the foregoing ratio, was adjusted for the effect of the sale of a portion of the loan portfolio. The cost of provisions was reduced by PLN 6,790,000.

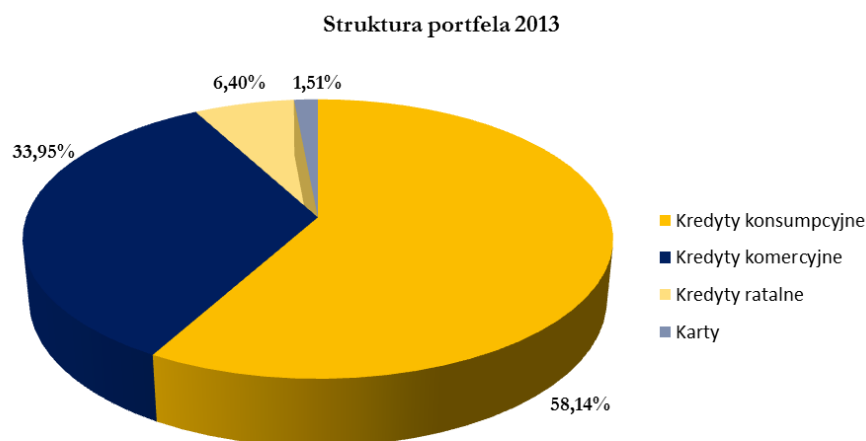
**Gross profit / loss**

The changes described above, which have occurred in 2013 in the income statement, in particular the improvement of the ratio of costs to the result of banking activities and the increase in the Bank's portfolio of receivables allowed the Bank to achieve a positive gross financial result for the entire year, in the amount of PLN 13,875,000. The income tax due in 2013 amounted to PLN 2,197,000.

**5. OPERATIONS OF MERITUM BANK ICB S.A**

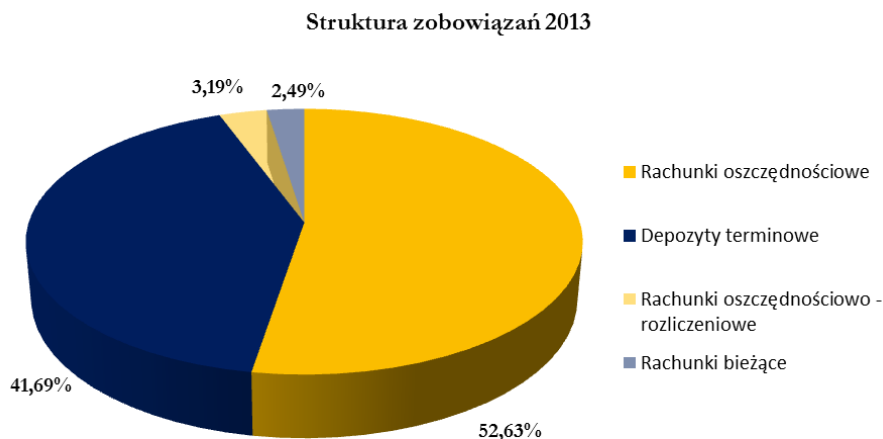
**AREA OF RETAIL BANKING AND SME OFFER**

The same of banking products for individual clients in 2013 encompassed: credit products (cash and consolidation loans, hire-purchase loans, credit cards and mortgage loans),



2013 portfolio structure	Struktura portfela 2013
Consumer loans	Kredyty konsumpcyjne
Commercial loans	Kredyty komercyjne
Hire-purchase loans	Kredyty ratalne
Cards	Karty

as well as term deposits, current accounts, saving accounts and investment fund participation units (sold as linked with a term deposit).



2013 structure of liabilities	Struktura zobowiązań 2013
Saving accounts	Rachunki oszczędnościowe
Term deposits	Depozyty terminowe
Saving and settlement accounts	Rachunki oszczędnościowo-rozliczeniowe
Current accounts	Rachunki bieżące

## CASH AND CONSOLIDATION LOANS

In 2013, the Bank offered cash and consolidation loans via its own branches, franchise outposts, in Tesco Finanse outlets, via Internet and through the network of financial intermediaries who cooperate in the framework of agency agreements signed by the Bank.

As at the end of December 2013, the retail portfolio of gross cash and consolidation loans was worth PLN 1,464,400,000. The new loans campaign in 2013 was PLN 1,025,700,000. As compared to the action in 2012, with PLN 849,400, the sales growth in 2013 reached 21%. The main distribution channel for distribution of cash loans in 2013 was that of credit intermediaries, whose share in the entire crediting acting was 59%. The average credit duration increased – this resulted from a high share of consolidation loans, which – in turn – affected the high average amount of loan (PLN 25,000), increased in comparison with 2012 by 14%.

In 2013, as a result of dropping interest rates of the National Bank of Poland, the Bank has successively adjusted its pricing strategy. The limitations resulting from maximum interest (four times the lombard rate) caused the need to shift the income weight from interest to fees. The changes in pricing offer have the greatest impact on those client segments where the risk profile is weaker. As a consequence, the average weighted interest rate for cash and consolidation loans for new loans campaign decreased in 2013 from 17.5% in January to 15.0% in December. The average front-end fee increased from 5.6% in January 2013 to 10.3% in December 2013. The modification of the pricing strategy covered also the insurance offer – to make this offer more flexible, the Bank implemented shorter coverage periods in relation to the crediting period, with an option to extend.

### **HIRE-PURCHASE LOANS**

In 2013, the Bank continued to sell hire-purchase loans through the intermediaries' channel and via individual contracts with large shopping chains and distribution companies. As at the end of 2013, the Bank worked with more than 9 thousand stores in Poland. Furthermore, the Bank conducted the sale via 9 large distributors and over 162 agents for the hire-purchase sale. As at the end of December 2013, the portfolio of gross hire-purchase loans stood at PLN 151,793,000, while the new loans campaign – at PLN 183,200.

### **CREDIT CARDS**

In 2013, the Bank continued selling credit cards for its own client base and for new clients in Bank's own outposts and franchise outposts. However, the greatest distribution channel for credit cards is still Tesco hypermarket chain, within which 70 outposts offer the Bank's financial products. In those outposts, Meritum Bank issues credit cards with Tesco chain logo, and those cards are linked to the Clubcard loyalty programme, offering the holders many functionalities and privileges in the framework of strict cooperation with the partner. As at the end of December 2013, the total number of issued credit cards was more than 38 thousand, and the debt in those cards stood at approx. PLN 37,682,000.

### **SECURED LOANS**

In 2013, the Bank continued to sell the mortgage loan and mortgage consolidation. The Bank introduced a dedicated loan offer for selected mortgage intermediaries and Bank's own branches. This offer was addressed to clients who demonstrate a significantly lower credit risk and offer, as

loan collateral, residential properties of higher liquidity. This allowed us to offer the clients favourable price terms, while maintaining a satisfactory level of profitability. The product garnered many positive assessments in the rankings prepared by independent experts, and in 2013 alone it was three times listed in various lists (among them: rankings of Open Finance, TotalMoney.pl and Comperia.pl).

In parallel, the product was offered via franchise outposts and selected cash intermediaries. In total, 2013 witnessed a 68% increase in the new loans campaign as compared to the year before: from PLN 11,500 in 2012 to PLN 19,400 in 2013.

## **FACILITIES AND LOANS FOR ENTERPRISES**

In 2013, the Bank offered business facilities and loans via its own branches, franchise outposts, financial intermediaries who cooperate in the framework of agency agreements signed by the Bank.

As at the end of 2013, the portfolio of gross facilities and loans for enterprises stood at PLN 816,226,000 and was 23.78% higher than in December 2012, when the portfolio of gross facilities and loans for enterprises amounted to PLN 659,391,000. The new loans campaign in 2013 amounted to PLN 394,000, renewed loans not included. As a result of economic slow-down and reduction of the Bank's appetite for risk, the executed new loans campaign in 2013 was 8% less year-on-year, in relation to the new loans campaign in 2012, executed at PLN 428,500. The main distribution channel for distribution of facilities and loans for enterprise in 2013 was that of financial intermediaries, whose share in the entire new loans campaign was 65%.

As part of the work on credit product offer for enterprises, the Bank primarily continued to develop "Biznes Pożyczka" (Business Loan) – an unsecured cash loan intended for natural persons who are sole traders, partnerships under civil law and agricultural farms. The Bank's activity in the area of crediting for micro-enterprises was possible, among others, owing to consequently expanded distribution network, work on the network's activation and changes made in the loan terms i.e., among others:

- increase of the maximum loan amount from PLN 300,000 to PLN 350,000 as part of special offer for selected professionals i.e. doctors, dentists, veterinarians and owners of non-public health care units,
- expansion of the target group of Clients to include partnerships under civil law and agricultural farms,

- adjustment of the pricing strategy of “Biznes Pożyczka” product to the assessment of the Client’s creditworthiness.

As regards the distribution of secured loans, the Bank took actions aimed at increasing the effectiveness of cooperation with key intermediaries, among others through systematic training programme as well as support in substance-related matters and processes for the dedicated employees of the Bank.

## **DEPOSITS AND ACCOUNTS FOR ENTERPRISES**

In 2013, the Bank offered deposit products and accounts for enterprises and other entities via its own branches, franchise outposts, financial intermediaries who cooperate in the framework of agency agreements signed by the Bank and via Internet.

As at the end of December 2013, the balance of deposits and funds accumulated in business accounts amounted to PLN 122,200,000, out of which PLN 63,700,000 was the balance of funds accumulated in business accounts, constituting 460% of the funds accumulated in business accounts at the end of December 2012. In the discussed period, the Bank opened 4,520 accounts for enterprises and other entities, and the number of maintained accounts at the end of December 2013 was 9,588. In comparison with 2012 sales, standing at 3,987, the sale carried out was 13.4% higher year-on-year.

As part of work on the offer in the discussed scope, the Bank focused on developing competition edge for business settlement accounts, *inter alia*, by introducing an innovative process of opening an account “100% on-line”, continued offering of deposits with negotiated interest rates, and exchange of foreign currencies conducted by enterprises.

## **AREA OF MARKETING AND PUBLIC RELATIONS**

### **ACTIVITIES IN THE AREA OF PUBLIC RELATIONS**

In 2013, the Bank conducted activities in the area of corporate PR, product PR and expert positioning, to build the image of a stable and credible financial entity.

As part of the corporate PR, we organised briefings for journalists, published press releases presenting the Bank’s financial results, and arranged interviews with the Members of Management Board about the Bank’s strategy and directions of development.

The product PR was carried out through press releases informing about implementation of new products and changes in the current offer as well as Bank’s participation in numerous rankings that assess offer of financial products available on the market.



The positioning of Bank's experts served to provide the mass media with expert-authored analyses and statements commenting the current market situation.

## **PROMOTION ACTIVITIES**

In 2013, the Bank conducted promoting activities aimed at raising the financing (personal accounts, deposits) and developing the new loans campaign (cash loan, loan for micro-entrepreneurs).

The support for sale of personal accounts and deposits for individual clients was carried out in the Internet channel, through a campaign in all major horizontal portals, Internet search engines and hundreds of websites of the so-called affiliation networks, which took place in the first half of 2013.

As part of support for the sale of cash loans, the Bank has conducted, in May and June 2013, a TV campaign the main message of which was the quick initial credit decision. The Bank guaranteed that the initial decision would be made in 5 minutes and offered compensation to those clients who waited longer for a positive reply. The advertising spot was broadcast in largest nationwide TV stations (TVP1, TVP2, TVN and Polsat) and in theme channels.

In autumn, we have carried out a campaign promoting the loan for micro-entrepreneurs via radio, industrial press, Internet and conventional mailing.

Throughout the year, the Bank supported the sale of loans in the network of its own outposts and partner outposts, conducting advertising activities in the local press and radio and using outside advertisement carriers, available in the neighbourhood of the outposts.

## **IT SYSTEMS AREA**

### **CHANGES IN IT SYSTEMS**

During 2013, the Bank continued to make changes in the IT systems, with special emphasis on Consumer Finance products, saving products and with respect to the electronic banking and mobile banking systems.

Among the most important changes we have carried out, the following deserve a special mention:

### **CHANGES REGARDING CONSUMER FINANCE**

During 2013, we have added new products to the offer for entrepreneurs i.e. "Biznes Raty" (Business Instalments) and a product for farmers – entrepreneurs. We have also modified, for clients' purposes, the product: "Biznes Hipoteka" (Business Mortgage).

We have implemented changes concerning the reasons for cancellation of applications and changes in the rules for offering the product "Biznes Pożyczka" (Business Loan) as well as small,

but important changes in the product sale process such as e.g. automation of financial data handling

on the basis of data from Accounting Offices, or the option to launch products for more than one bank account.

We have implemented and made available the product “UNIT LINKED”, prepared in cooperation with TU Generali, which supplements our offer of saving products. The bank’s insurance offer has changed too. We have implemented changes that make insurance products more attractive, in particular we enabled the sale of those products for periods shorter than the provided loan; there were also changes with respect to the low-amount product for the entrepreneurs.

In 2013, the Bank implemented changes related to the inclusion of data from the National Debt Register in the process of automatic verification of creditworthiness, and soon after a similar solution, drawing data from the Entrepreneur database of BIK (Credit Information Bureau), for SME products.

### **PROJECTS FOR TESCO FINANCE PARTNER**

As a result of continued cooperation with the Bank’s key partner – Tesco Finance – we implemented changes in 2013, among others, regarding the accrual of Club Card, the linking of the numbers of several Club Cards, and changes resulting from the alteration in the settlements of Tesco’s sale structures.

We have also prepared a technical solution permitting us to launch the option to open the account for Tesco clients in a “100% on-line” process i.e. confirmed

via a transfer or e-payment.

There were also changes carried out that adjust the structure of Tesco’s network to the amended model of TOK point keeping. The functionality of statements sent to the clients by mail was also improved, by the option to add leaflets to the statements.

We have also implemented changes in the e-banking system that adjust the visual side of this solution to Tesco Finance, thus customising its appearance for this group of clients.

### **CHANGES IN THE HANDLING OF FOREIGN TRANSFERS**

There were changes implemented that automate the handling of foreign transfers in the Treasury Department – this will permit us to handle a greater expected influx of e-banking clients who are interested in using the attractive offer of currency conversion. The implemented solution includes opening currency accounts for clients who are interested in conversion of funds’ currency using an e-banking solution, in a fully automated process.

### **CHANGES REGARDING THE MAIN BANKING SYSTEM**

During 2013, we have performed the upgrade of the main banking system to a new version provided by the supplier and we have launched new system modules such as:

- communication with the SORBNET2 system;
- registration of over-limit and suspect transactions (AML);
- to handle debt enforcement replies and block funds in clients' accounts.

## **MOBILE BANKING**

During the last year, the Bank worked intensively on a solution that would permit our clients to use Mobile Banking with the use of mobile devices (mobile phones and tablets). In this solution, the clients will be able to request access to the Bank and open accounts as well as use other banking products. The solution is at the stage of production pilot for a selected group of clients.

## **RECOMMENDATION T**

In July 2013, we have implemented the changes resulting from the Bank's adjustment to the amended Recommendation T, in particular with respect to the analysis of products of the Bank's current client.

## **CREDIT LINE IN CURRENT ACCOUNT FOR E-BANKING CLIENTS**

We have implemented a solution that will permit us to grant credit in current account for our e-banking clients in a simplified, automated offering process.

## **INQUIRY AUTOMATION**

We have implemented a functionality permitting the automation of inquiries sent in the OGNIVO system.

## **CHANGES IN THE TELE-MARKETING AREA**

We have implemented changes in the Bank's Back Office system, permitting the handling of lead processes in the Tele-marketing Section and management of the queue.

## **CHANGES IN THE SAVING PRODUCTS AREA**

In cooperation with two investment funds, we have prepared the technical side of a new deposit product for our clients i.e. a fund-linked deposit.

## **INFRASTRUCTURE PROJECTS**

During 2013, we have implemented a number of technical solutions that augment the security and optimise the bank's operations, such as e.g.:

- Central Backup System project, based on IBM's solution Tivoli Storage Manager – now the backup will be managed and verified automatically;
- modification of e-mail and provision of shared calendars;
- implementation of a new solution to protect access from Internet (Web Gateway).

## **AREA OF PROVIDED IT SERVICES**

Throughout 2013, most parameters of the provided IT services stayed higher than expected.

## **AVAILABILITY OF IT SYSTEMS**

During the entire 2013, the year average availability of the systems was higher than expected and stood at 99.93%, which is an improvement in comparison with the years past: 99.73% in 2012 and 98.81% in 2011, respectively.

Full availability during the entire year was observed for 10 systems, and the biggest interruptions in the operation continuity were present in the management reporting system.

## **EFFICIENCY OF IT SYSTEMS**

In 2013, the infrastructure of production servers still did not show any structural deficiency of resources that would result in lower efficiency, but problems were noticeable in the operation of the Bank Office System, in particular during Q1 2013. The most important optimisation changes occurring in the area of this system were aimed at improving both the time of night-time data feeding and the speed of users' transaction-related operations.

The implemented changes concerned, among others, such areas as the improvement of work effectiveness in:

- Collection Section;
- Call Centre cooperation using the Autodialer tool;
- Changes related to cooperation with partners and intermediaries;

- Changes related to cooperation with the external archive, such as e.g. document import or collective dispatch handling.

There were also optimisation changes made to the Internet Banking System, in particular aimed at adjusting that system to handle greater volumes.

In Q4 2013, we have implemented major changes that optimise the size of disk resources used, by removing excess data and compression in a number of the systems used.

## **IT SECURITY AREA**

During 2013, the Bank again has not recorded any major attempts at hacking and breaching security, and the level of unauthorised access attempts remained on stable level, which posed no threat to operating activities.

Most attack attempts are still the re-occurring, rather trivial attempts at interfering with the Bank's infrastructure, which are easy to catch by protection layer devices.

The number of "malware" infections was at such level that did not disturb the Bank's operating work.

As mentioned in "infrastructure projects" above, a modified version of the system filtering the content of Internet website was launched for the employees in the office environment. This will also increase the Bank's security against "malware" infections from the outside.

## **REGULATORY CHANGES**

In March 2013, work was started on adjusting the Bank to the requirements of the amended Recommendation "D", by carrying out the gap analysis in May and June last year – the analysis identified 138 tasks to be carried out.

By the end of 2013, the Bank has 29 (21%) tasks completed, and another 42 were in progress. The adjustment work will be continued in 2014, in accordance with the schedule presented to the Regulatory Authority.

## **AREA OF ORGANISATIONAL ACTIVITIES**

### **AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION**

On 21 February 2012, the General Meeting of Shareholders of Meritum Bank ICB S.A. adopted the resolution concerning the amendment to the Bank's Articles of Association, which consists in adding Article 29 c to the Bank's Articles of Association, whereby the Bank's Management Board was authorised to increase the share capital by no more than 226,177,170 (authorised capital) on or before 24 October 2014.

Within the limits of this authorised capital, the Bank's Management Board, on 17 December 2013, adopted the resolution to increase the share capital within the limits of the authorised capital up to the amount of PLN 369,341,580, by the issue of 333,334 shares of Gg series.

## **ORGANISATIONAL ACTIVITIES**

In 2013, due to termination of the lease agreement for the building at al. Jana Pawła II 20 in Gdańsk, the decision was made to lease office space in Gdańsk at ul. Piastowska 7.

As a result of development and expansion of the Bank's scale of operations, there was a number of changes in the organisational structure:

- in the Risk Division, the Fraud Prevention Office gained two new units: Section for Monitoring Business Continuity Transactions and Section of Abuse Legal Service ;
- in the Risk Division, a new organisational unit was created: Division Director;
- in the Support Division, the name of the organisational unit formerly known as Legal Office was changed to Legal Department;
- in the IT Division, the name of the organisational unit formerly known as Systems Security Manager was changed to Systems Security Team;
- in the Organisation Division, the Settlement Operations Department gained new organisational units: Section for Transaction Monitoring and Analysis and Credit Process Support Manager;
- in the Commercial Division, the Partner Network Management Department gained new organisational units: Sales Team, Sales Support Team, Partner Network Development Team, Partner Network Team for Operating Matters;
- in the Internet Banking Division, an organisational unit was liquidated: Division Director;
- The Promotion Office was moved from the Commercial Division to the Support Division;
- the Monitoring and Collection Department was moved from the Operations Division to the Risk Division, and now the following units operate within this Department: Initial Collection Section, Legal Collection Section, Field Collection Section, Collection Strategy Section;
- in the Risk Division, in Commercial Loans Risk Management Department, the Collection Section was liquidated;
- the Internet Banking Division was renamed to: Own Sales Division;
- in the Own Sales Division, the Sales Department was created;
- in the Own Sales Division, the Investment Products Department was created;
- in the Own Sales Division, the name of the Deposit and Investment Products Department was changed to Transaction and Deposit Products Department;
- in the Own Sales Division, in Sales Department, the TESCO Project Management Section was created, composed of Regions and the Sales Support Team;
- in the Own Sales Division, the TESCO Project Management Department was liquidated;

- in the Commercial Division, the Branch and Business Banking Department was renamed to: Business Banking Department;
- the Sales Support Team was moved from the Business Banking Department within the Commercial Division to the Sales Department within the Own Sales Division;
- in the Own Sales Division, in Sales Department, the Branch Sales Section was created;
- the following organisational units were moved: Regions and Branches, Offices – “Financial Services Centres”, Direct Sales Teams from the Business Banking Department within the Commercial Division to the Branch Sales Section in the Sales Department within the Own Sales Department;
- in the Commercial Division, in Business Banking Department, the name of the Team for Support in Brokerage Channel was changed to Sales Support Team;
- in the Commercial Division, the Hire-Purchase Loans Department was created;
- in the Commercial Division, in the Sales Development and Support Department, the Hire-Purchase Sales Section was liquidated.

## **6. RISK MANAGEMENT**

The main objective of the risk management in the Bank is to ensure the security of funds entrusted to the Bank and to achieve a stable growth of income.

Risk management in the Bank is based on regulatory requirements and applicable internal regulations approved by the Bank's Management Board.

### **OPERATIONAL RISK**

In 2013, the Bank continued its policy adopted in the area of operational risk management and did not observe a significant change in its profile.

In the past year, an important element of operational risk management in the Bank was to adjust risk management processes to the requirements of the revised Recommendation M and D. For this purpose, the Bank performed much work to improve processes and procedures which allowed to improve the operational risk management at the Bank.

In the area of business continuity management, a key issue was to develop individual Business Continuity Plans for Critical and Key processes on the basis of the Business Continuity Strategy of Meritum Bank ICB S.A. adopted by the Management Board and to test Business Continuity Plans adopted. In the next stage, the work schedule for 2014 and the schedule for the second stage of tests of Business Continuity Plans were approved. In the last quarter of 2013, work was also started on re-performing the BIA in all organisational units of the Bank, and based on analyses received the list of Critical and Key processes will be revised.

In the previous year, the Bank exceeded the threshold value of one of Key Risk Indicators (KRI); however, this excess did not result in an increase of the Bank's exposure to operational risk and did not translate into an increase in operational risk losses. The threshold value of the indicator was exceeded as a result of a business decision regarding the change of the management model in the area of one of the sales network channels. The process that led to the change of the indicator was fully controlled by the Bank and did not affect the nature of the Bank's activities undertaken in the area of operational risk management.

## **CREDIT RISK**

### **COMMERCIAL LOANS**

In 2013, in the area of the financing of clients' business activities, the Bank continued the process of developing tools that support credit risk management in this area.

The Bank in particular increased the efficiency of the verification of loan applications and systematically optimised the credit policy, expanding the offer addressed to clients from the best risk segments, including clients operating in the so-called "favoured industries", while diversifying the risk of concentration of credit exposures through the implementation of the offering for civil law partnerships and farmers.

In addition, in order to improve the quality of the portfolio, the Bank introduced a number of changes in debt collection strategies, resulting in the improved efficiency of operations and an increase in recoveries that limit the losses. In particular, the Bank organised the process of internal local debt collection.

### **RETAIL LOANS**

In 2013, the Bank continued the development of the lending policy criteria by means of a cyclical analysis of their effectiveness and adjustment to the macroeconomic situation and the regulatory environment. The credit policy was optimised owing to which it was possible to increase the share of clients with the best risk profile in the new lending. Simultaneously, the Bank developed a wide access to the collections of information, including commercial information agencies, which are of key importance to the loan approval process.

The new lending generated is characterised by a stable level of risk indicators which are decreasing over a long period of time. In addition, the Bank significantly expanded operational processes related to debt collection and enforcement. The regular monitoring of the clients'



liquidity allowing to adjust activities to their current economic and financial standing played an important role.

### **FOREIGN EXCHANGE RISK**

The Bank keeps the exposure to foreign exchange risk at a low level by maintaining a low foreign exchange position. Throughout 2013, there was no capital requirement for foreign exchange risk. The Bank still does not extend foreign currency loans or loans denominated in foreign currencies. In the near future, the Bank does not intend to change its foreign exchange risk policy.

### **INTEREST RATE RISK**

The Bank continues a regular (weekly) measurement of the cost of financing. In 2013, this cost followed market rates – throughout this period, the cost recorded a strong decrease.

The Bank maintains a positive interest rate gap resulting from the financing of variable interest rate loans with fixed rate medium and long-term deposits. In order to reduce the mismatch in interest rates, the Bank offered long-term deposits based on a variable interest rate (WIBOR) and also supported the growth of funds in interest bearing current accounts and savings accounts, also earning a variable interest rate.

### **LIQUIDITY RISK**

In 2013, the Bank focused on maintaining a stable and diversified deposit portfolio which is the main source of funding of the Bank's operations. The Bank changed significantly the product structure of the deposit base by introducing and actively promoting the savings account. The Bank consequently maintained the concentration of deposits at a low level – the "TOP10" indicator (the share of ten largest depositors) remained during the year in the range of 4%–7%. The percentage of deposits of individuals, demonstrating the highest stability, in the whole base was over 90%.

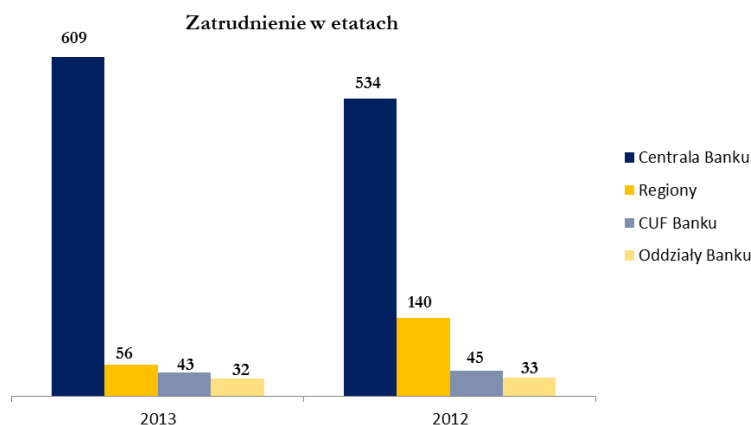
The Bank supported the sale of medium and long term products owing to which the average duration of a term deposit was 7–8 months.

Throughout 2013, the M1 and M2 short-term measures and M3 and M4 long-term measures were above the limits.

## 7. HUMAN RESOURCES MANAGEMENT

### HEADCOUNT

As at 31 December 2013, the headcount in Meritum Bank ICB S.A was 740 FTEs and 746 employees. In comparison with 2012, the headcount in FTEs was lower by 1.60%.



Employment in FTEs	Zatrudnienie w etatach
Bank Headquarters	Centrala Banku
Regions	Regiony
Bank's CUF	CUF Banku
Bank's branches	Oddziały Banku

### EMPLOYEE TRAINING AND EMPLOYEE DEVELOPMENT

As part of the development policy, the Bank implements a number of training courses aimed at improving the qualifications of Bank employees. Employees had the opportunity to participate in the following training courses:

- managerial staff development programme aimed at increasing the level of knowledge and skills in the area of human resources management,
- training for employees of branches and affiliated branches which covered: systemic and product training as well as training improving sales skills,
- recruitment training for own network managers,
- internal training conducted by dedicated Bank employees and external instructors,
- external training conducted by consulting firms, covering legal and financial issues.

## **8. ACTIVITIES FOR THE COMMUNITY**

### **WE SUPPORT STUDENTS AND GRADUATES**

Meritum Bank helps in making first steps on the career path. We offer an opportunity to gain experience, increase skills and develop interests in the professional sphere. Internships and practical placements in Meritum Bank created the opportunity for students and graduates to actively participate in interesting projects. The individual tasks were performed by the internship participant under the tutelage of the supervisor. Owing to properly selected tasks, persons on the practical placement/ internship in our Bank became familiar with the nature of the work of not only individual organisational units but also the whole organisation.

In 2013, university students participated in free IT workshops conducted by the IT Meritum Academy. The workshops were conducted by experienced programmers who implement innovative projects in the IT Division of Meritum Bank on a daily basis. During the lectures, Academy participants had a chance to gain not only a theoretical knowledge but above all a valuable practical knowledge. Meetings with representatives of the IT Division of Meritum Bank constituted an excellent opportunity to get familiar with the specificity of the daily work at the Bank, which will certainly make it easier for future young employees in the IT area to make first steps in the career path. In addition, workshop participants could take advantage of paid internships in Meritum Bank ICB S.A.

In 2013, Meritum Bank participated actively in the Job Fair and meetings with employers conducted in Higher Education Institutions.

### **EMPLOYEE VOLUNTARY WORK**

In 2013, Bank employees together with Municipal Social Welfare Centres supported the neediest families of the Tri-City as part of the "Noble Box" and "School Equipment" campaigns. Owing to the commitment and enthusiasm of the employees, many families in a difficult situation received the assistance.

## **9. STATEMENT ON THE APPLICATION OF CORPORATE GOVERNANCE**

### **RULES AND SCOPE OF APPLICATION OF CORPORATE GOVERNANCE**

The Meritum Bank ICB S.A. operates a system of corporate governance rules which consists of internal regulations in numerous areas of the Bank's operations. The corporate governance rules originate primarily from the provisions of relevant laws, in particular the Code of Commercial Partnerships and Companies and the Banking Law.

The Bank, in accordance with the requirements of the law, has in place the Articles of Association which define, among other things, the internal organisation of the Bank, the objectives of its existence and the mode of operation. The corporate governance system in

Meritum Bank consists also of the rules of procedure relating to the activities of its bodies, i.e. the Supervisory Board and the Management Board of the Bank. The rules of procedure of the Supervisory Board determine the organisation and manner of performing the activities by the Supervisory Board, including but not limited to the method of adopting resolutions. In addition, the rules of procedure refine the provisions of the Code of Commercial Partnerships and Companies, other laws and the Bank's Articles of Association. The rules of procedure of the Bank's Management Board is a document which organises the functioning of this body. This document specifies, among other things, the method and scope of resolutions adopted by the Management Board and refines the activities and functions performed by the Members of the Management Board. The Internal Instruction related to the preparation and circulation of the Management information in the Bank is important for the proper functioning of the corporate governance system in the Bank. As far as the management information is concerned, the Bank's organisational units designated in the instruction submit reports specified in the instruction to the Bank's Supervisory Board and Management Board.

Another element of the corporate governance system functioning in the Bank is the Policy of variable components of remuneration of persons holding managerial positions. This regulation includes within its scope persons holding managerial positions in the Bank whose impact on the risk profile is essential. The purpose of this Policy is to promote the proper and effective management of the Bank and not to encourage managers to assume excessive risk above the risk appetite approved by the Supervisory Board. In addition, the aim of the Policy is to support the implementation of the Bank's business strategy.

The Bank's regulations ensuring the corporate governance also include internal regulations related to maintaining proper relationships with affiliates and third parties. In order to ensure more efficient implementation of corporate governance principles in the said area, the Bank introduced an internal instruction specifying the procedure and rules of conduct of individual organisational units of the Bank at the fulfilment of the disclosure obligation to the Supervisory Board with regard to Bank's operations as well as the procedures for obtaining by the Bank the consent of the Supervisory Board at the conclusion of transactions and regulations on the manner of providing the information to the Supervisory Board and shareholders of the Bank resulting from the Shareholders' Agreement to which the Bank is a party.

In addition, in order to guarantee a proper fulfilment of the obligations borne by the Bank as the issuer of subordinated bonds, the Bank has in place an instruction that establishes the procedures and rules of conduct of organisational units in the fulfilment of the disclosure obligation in terms of the implementation of the provisions of: the Rules of the Alternative Trading System organised by BondSpot S.A. and GPW S.A., the Bank's Dealer Agreement and the provisions of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognising as equivalent the information required by the law of a non-Member State.

The corporate governance principles are also included in the Compliance Risk Management Policy which sets out the basic principles of conduct of employees of Meritum Bank ICB S.A. and explains the main processes identifying the compliance risk and allowing to manage this area

at all levels of the Bank's organisation. As part of this Policy, the Bank follows the policy of full compliance with the law and the rules of integrity and business ethics in all areas of its operations. Owing to this approach, Meritum Bank builds a reputation of an organisation acting fairly and in accordance with high standards, which helps in creating a high degree of trust and loyalty on the part of clients and counterparties.

Meritum Bank also has in place an adequate and effective system of internal control designed to ensure the correctness of administrative and accounting procedures and compliance with laws and regulatory recommendations as well as internal legal acts, subject to the risk management regulations. The rules of the internal control system in the Bank are an important element of the Bank management process, and the purpose of the internal control system is to improve the execution of tasks and ensure the security and stability of the Bank.

The Bank ensures that relations with its shareholders and clients are proper. In order to maintain proper relations, the Bank pursues a transparent Information Policy which defines the scope of information subject to disclosure, in accordance with the provisions of the Banking Law and the guidelines of the Polish Financial Supervision Authority. The Bank fulfils in this way its obligation to provide correct and complete information to current and potential clients of the Bank. The purpose of the Bank's Information Policy is also to enable clients to assess products and services offered by the Bank against alternative solutions, including services of other banks, by publishing the information on products and services.

As part of the compliance with the principles of corporate governance, the Bank publishes a range of information relating to its activities, including the information on various types of corporate events and the product offering, in, among other things, the system of the Electronic Information Database (EBI) on the WSE Catalyst website and on the Bank's website. In addition to the information which must be published, the Bank's Information Policy also specifies: the frequency of publication, appropriate to the scale of Bank's operations, the form and place of publication, the principles of approving and verifying the disclosed information which is not covered by the audit of the financial statements by the auditor and the principles of Policy review.

Meritum Bank ICB S.A, also has in place the principles of limiting conflicts of interest that are defined in the Policy for Preventing Conflicts of Interest. The abovementioned policy defines rules for preventing conflicts of interest in the Bank, including in respect of the provision of Investment Services and the procedure for accepting and giving gifts by Bank employees as well as the principles on which Bank employees may participate in sports, recreational or entertainment events and in training courses and conferences organised or sponsored by Clients or Counterparties of the Bank. The provisions of this Policy also apply to services performed for the benefit of employees of the Bank by its Clients or Counterparties. The Bank takes necessary steps to avoid conflicts of interest in its operations, and if a conflict of interests is identified, the Bank manages it so as to minimise the risk of damage to the interests of the Bank as well as its Clients and Counterparties.

## **INTERNAL CONTROL SYSTEM IN THE PROCESS OF PREPARATION OF FINANCIAL STATEMENTS**

Financial statements are prepared in the Accounting Department in accordance with the accounting policy adopted by the Bank's Management Board in the version constituting an appendix to resolution No 434/2013. The most important accounting principles are described in the Financial Statements of Meritum Bank ICB S.A. prepared as at 31 December 2013. Accounting records are kept according to the Chart of Accounts of Meritum Bank ICB S.A. whose administration is the responsibility of the Accounting Department.

The responsibility for the preparation of financial statements and interim financial reporting rests with the Accounting Department which reports to the Vice-President of the Bank's Management Board. Interim financial reporting is prepared in accordance with the Resolution of the Management Board No 36/2012 which sets out rules and procedures for financial reporting. Financial statements are prepared on the basis of properly and fairly kept books of account. Financial statements are prepared as at the date of closing the books of account after entering a full list of adjustments approved by the Director of the Accounting Department in consultation with other Bank's organisational units.

The process of preparing financial statements is subject to functional and institutional control whose frameworks are defined in the Rules of internal control system in Meritum Bank ICB S.A. introduced by Resolution No 223/2013. The purpose of the control is to ensure the reliability of the management information and financial reporting, monitor compliance with generally applicable laws and internal regulations and to identify and assess the level of risks arising from the operations.

Functional control consists of the following components:

1. ex ante audit involving an analysis of tasks/activities ordered to be performed in terms of their compliance with the applicable internal legislation still before starting their implementation,
2. interim audit consisting in examining the appropriateness, correctness and completeness of the performance of the tasks during their implementation, in accordance with applicable laws,
3. ex post audit consisting of checks performed after an operation is completed. Ex post audit consists in checking the correctness and completeness of tasks already performed and the status of the security of Bank's assets and property. Ex post audit also aims to demonstrate the existence and proper functioning of ex ante and interim control.

Key risks and controls of the process of preparing the financial statements are also subject to independent institutional control exercised by the Audit and Internal Control Department. Monitoring of the effectiveness of the control system consists in periodic examination, evaluation and improvement of the existing internal control mechanisms. Recovery plans are developed for identified irregularities in order to mitigate identified risks or improve the effectiveness of the functioning of the control environment.

## **Meritum Bank ICB S.A.**

### Management Board report on the activities of Meritum Bank ICB S.A. in 2013

Annual and interim financial statements are subject to audit and review by the auditor selected by the Supervisory Board. The auditor authorised to audit and review the financial statements in 2013 was Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.

The independent external auditor audits the annual and interim financial statements. The audit includes checking the correctness of the preparation of those financial statements and assessing the control environment for key processes related to their preparation.

The Management Board submits to the Supervisory Board examined and approved financial statements together with the registered auditor's opinion and the report on the Bank's activities and also to the shareholders, in accordance with the provisions of the Code of Commercial Partnerships and Companies and the provisions of the Articles of Association.

## **SHAREHOLDERS – SIGNIFICANT HOLDINGS**

In accordance with the register of shares of Meritum Bank ICB S.A., as at 31 December 2013 the shareholders holding more than 5% of shares in the share capital are as follows: Innova/4 L.P. investment fund advised by Innova Capital and the European Bank for Reconstruction and Development as well as WCP COOPERATIEF U.A. (a subsidiary of the private equity fund, Wolfensohn Capital Partners).

<i>Shareholders</i>	<i>Number of shares</i>	<i>Value of shares in PLN</i>	<i>Share at AGM in %</i>
<i>INNOVA FINANCIAL HOLDING S.a.r.l</i>	5,967,809	179,034,270	46.85%
<i>WCP Cooperatief U.A.</i>	2,884,346	86,530,380	24.05%
<i>European Bank for Reconstruction and Development</i>	2,863,923	85,917,690	23.88%

### **Innova Capital**

is one of the first and still actively operating private equity companies in Central Europe. During 17 years of its operations, it implemented 40 investments, mainly in the manufacturing, telecommunications, business services, financial services and media industries, with the total value of approximately half a billion euro. It manages five investment funds with the total capital of nearly EUR 900 million. Institutions investing in Innova comprise institutions from Western Europe and the United States. The team comprising the company is made up of people with extensive international experience in consulting, management and investment banking, which translates into an increase in the value of companies in which Innova Capital invests, such as Euronet, Polcard or Dom Finansowy QS. The portfolio of Innova Capital comprises Expander, GTS, Marmite, Libet, La Fantana and Donako.

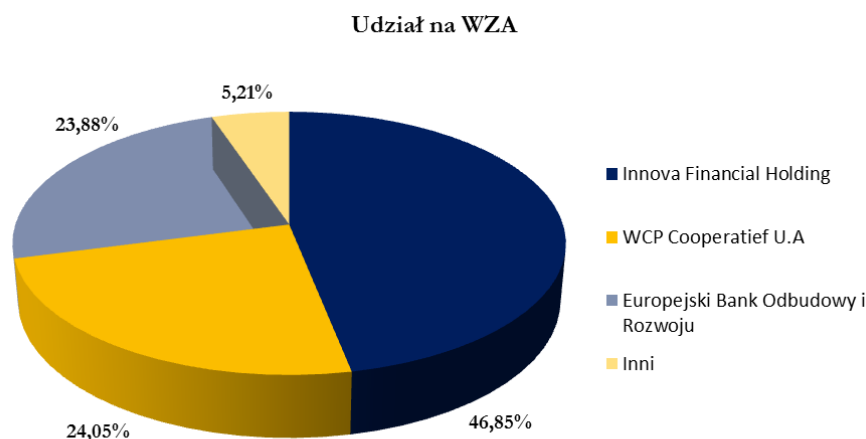
### **European Bank for Reconstruction and Development**

is one of the largest financial investors in the region. This international organisation consists of 61 countries and two intergovernmental institutions. It supports the development of market economies and democracies in Central and Eastern Europe countries as well as the banking sector in overcoming the effects of the financial crisis. The principle underlying the activities of the EBRD is to promote sustainable development of the private sector while respecting the

environment and cultural heritage. The total liabilities of the bank in Poland amount to nearly EUR 5 billion.

### **Wolfensohn Capital Partners**

is a private investment fund specialising in equity investments in emerging markets, particularly in the financial services sector. The fund is managed by James D. Wolfensohn, former long-term President of the World Bank, an experienced investment banker.



Percent held at the General Meeting of Shareholders	Udział na WZA
Innova Financial Holding	Innova Financial Holding
WCP Cooperatief U.A.	WCP Cooperatief U.A.
European Bank for Reconstruction and Development	Europejski Bank Odbudowy i Rozwoju
Others	Inni

## **CONTROLLING RIGHTS UNDER SHARES**

In accordance with the Bank's Articles of Association, series A–L shares are preference shares, and they entitle to five votes at the General Meeting. Bank's shares of series M to P are preference shares, and each share gives the right to two votes at the General Meeting.

## **PRINCIPLES OF APPOINTING AND DISMISSING MEMBERS OF THE MANAGEMENT BOARD**

The Supervisory Board appoints, dismisses or changes the functions of the members of the Bank's Management Board, concludes with them and amends contracts of employment.

The term of office of a Management Board member expires no later than on the date of the general meeting approving the financial statements for the last full financial year in which the member of the Management Board performed the function and also as a result of death,



resignation or dismissal of the member from the Management Board. In the case of resignation, the term of office of a Management Board member expires on the date of submission to the Bank of a declaration of resignation and in the case of dismissal from the Management Board – on the date specified in the resolution on the dismissal.

## **PRINCIPLES OF AMENDING BANK'S ARTICLES OF ASSOCIATION**

An amendment of the Bank's Articles of Association requires a resolution of the General Meeting and an entry in the National Court Register.

An amendment of the Bank's Articles of Association requires the permission of the Polish Financial Supervision Authority if it relates to:

- the company,
- the registered office, object and scope of Bank's activities,
- bodies and their powers,
- principles of the functioning of the internal control system,
- own funds and principles of financial management.

## **MANNER OF OPERATION AND POWERS OF THE GENERAL MEETING**

The General Meeting is convened by the Management Board as an annual or extraordinary meeting. The annual General Meeting should be held within six months after the end of each financial year. The Supervisory Board has the right to convene the Annual General Meeting if the Management Board fails to do so within the period specified in clause 2 and the Extraordinary General Meeting – if it deems it advisable.

Shareholders representing at least half of the share capital or at least half of the total votes in the Bank may convene an Extraordinary General Meeting. A shareholder or shareholders representing at least one twentieth of the share capital may demand that the Extraordinary General Meeting be convened and that particular matters be put on the agenda of the next General Meeting. Such a request should be submitted to the Management Board in writing or in an electronic form.

The General Meeting is held in the Bank's registered office or in other place in the territory of the Republic of Poland.

Matters put on the agenda of the General Meeting by the Management Board are first presented to the Supervisory Board.

If shareholders representing at least one twentieth of the share capital submit to the Management Board requests to put a matter on the agenda of the General Meeting, the Management Board should present them to the General Meeting. The provisions of clause 1 apply accordingly.

The agenda of the General Meeting is determined by the body (the Management Board or the Supervisory Board) or a person who convenes the General Meeting.

The General Meeting is opened by the Chairman or Deputy Chairman of the Supervisory Board. If neither of them can open the Meeting, the Meeting will be open by a member of the Supervisory Board or a shareholder representing the highest number of votes at the Meeting. Then, the shareholders will elect the Chairman of the General Meeting.

Except as specified in the Code of Commercial Partnerships and Companies and in the Articles of Association, the General Meeting is capable of passing resolutions if shares entitling to at least 51% (fifty-one percent) of the total number of votes are represented at the Meeting.

Unless the Code of Commercial Partnerships and Companies or the Articles of Association provide otherwise, resolutions are passed by an absolute majority of the votes cast.

In the cases referred to § 10 clause 1 item 5 of the Bank's Articles of Association, resolutions are passed by a majority of at least three fourths of votes.

In the cases referred to in: (i) § 10 clause 1 item 3 of the Bank's Articles of Association with regard to the payment of dividends to shareholders in excess of 50% (fifty percent) of net profit for the previous financial year, (ii) § 10 clause 1 item 11 of the Bank's Articles of Association with regard to matters other than those resulting from the need to adjust the content of the Articles of Association to the requirements of generally applicable laws or guidelines of the Polish Financial Supervision Authority or any other authority competent in matters of banking supervision in accordance with applicable laws, (iii) § 10 clause 1 items 12–17 of the Bank's Articles of Association and (iv) in matters submitted to the General Meeting by the Supervisory Board in accordance with the provisions of § 17 clause 4 of the Bank's Articles of Association, resolutions are passed if shareholders holding in total at least 90% (ninety percent) of the total number of votes vote for their adoption.

Voting is open.

Voting by secret ballot is ordered at elections and on proposals to dismiss members of the Bank's Supervisory Board or liquidators, to hold them liable and also in personal matters as well as in other cases specified in the Code of Commercial Partnerships and Companies. Voting by secret ballot should be also ordered if so requested by at least one of shareholders present or represented at the General Meeting.

## **RULES OF FUNCTIONING OF THE MANAGEMENT BOARD**

The Management Board is made of 3 to 7 members, appointed for a joint 5-year term.

The Management Board runs the Bank's operations and represents the Bank by adopting resolutions and preforms other factual and legal acts, in particular:

- runs the Bank's policy and manages its entire operations, including adopting the Bank's business plan,
- makes collective decisions, through resolutions, on matters stipulated in the Bank's Articles of Association,

- performs a review of the capital estimation process at least once a year,
- provides proper organisation of the management process, including all risks (including liquidity risk, operational risk, compliance risk and other risks deemed significant for the Bank's operations), in particular through indicating the level of acceptable risk, risk management methods, determining scopes of responsibilities for individual process participants and establishing rules for risk identification, measurement and control,
- granting commercial representation and appointing attorneys-in-fact.

The President of the Management Board acting independently, two Members of the Management Board or one Member of the Management Board acting jointly with a commercial proxy are authorised to make declarations of will on behalf of the Bank. The Bank may appoint attorneys-in-fact who act within their authority. The commercial representation may be revoked by any member of the Management Board acting alone.

The Management Board keeps the Share Register and is authorised to render shares to their owners, and share duplicates after receiving an application from the shareholder and a notice of their loss. The redemption and delivery of share duplicates requires a notification of the destruction or loss of shares to be published in the Court and Economic Monitor [Monitor Sądowy i Gospodarczy]. The notification should contain a minimum period of no less than 14 days for raising potential objections or presenting the lost shares. Decisions regarding incurring liabilities or disposing of assets of a total value in relation to one entity of more than 5% of equity in the scope of forward transactions, deposit operations on the interbank market and contracting Lombard loans are made within the capacity of individual Management Board members.

## **CHANGES IN THE MANAGEMENT BOARD IN 2013**

On 16 August 2013, Mr Piotr Gawron resigned from the post of Member of the Management Board, effective as of 19 August 2013.

On 9 September 2013, during its meeting, the Bank's Supervisory Board appointed from among its members Ms Magdalena Magnuszewska to act temporarily as Member of the Management Board for the period from 10 September 2013 until 30 September 2013.

At the meeting of 1 October 2013, the Supervisory Board appointed Mr Bartosz Chytła Member of the Management Board of Meritum bank ICB S.A., effective as of the day the relevant resolution entered into force. The Supervisory Board provisionally entrusted Mr Bartosz Chytła with the duties of President of the Management Board of Meritum Bank ICB S.A. from 1 October 2013 until the day of obtaining the consent of the Polish Financial Supervision

Authority to the appointment of Mr Chytła as President of the Management Board of Meritum Bank ICB S.A.

At the meeting of 5 December 2013, the Bank's Supervisory Board appointed Ms Agnieszka Porebska-Burczyn to the post of Member of the Management Board.

## **PROFILES OF MANAGEMENT BOARD MEMBERS**

### ***Bartosz Chytła – acting President of the Management Board***

Working in banking since 1996. He started his professional career in the First Polish-American Bank. From 2004, he was vice-president of Fortis Bank, where he was responsible for retail banking and SME banking segments. He designed and implemented a growth strategy in these areas. In 2008, as Member of the Management Board of DnB Nord, he was responsible for retail banking. From 2009 until 2012, he was the president of DnB NORD Polska, where he restructured the bank, thus causing an increase in profits. In 2009–2011 he was a member of the Managing Committee of DnB Nord. From 2012, he was vice-president of Getin Holding. Since 1 October 2013, he has been acting President of the Management Board and is responsible for the Support Division, IT Division and Financial Markets Division.

### ***Joanna Krzyżanowska – First Vice-President of the Management Board***

Working in banking since 1995. For 12 years, she was responsible for preparing and implementing the growth strategy of GE Money on the Polish market. She managed the development of loans for natural persons and created very effective, specialised sales structures for cash and car loans, and subsequently, loans to purchase goods and services. In 2000, she was entrusted with the supervision over the designing and implementation of the credit cards strategy on the Polish market. From 2005, she was also responsible for the development of mortgage loans and re-positioning the Bank under the new name: GE Money. In GE Money, operating in 50 countries, she created a unique management model for combined sales and marketing functions. She was the initiator and creator of GE Money Bank branch network in Poland. Since 2008, as the First Vice-President of the Management Board in Meritum Bank, she has been managing the development of the Bank's business lines and distribution channels.

**Piotr Urbańczyk – Vice-President of the Management Board**

Working in banking since 1992. After graduating, he started his first job in the then Bank Zachodni (currently BZ WBK), where he worked for 6 years, of which the last four on the position of Treasury Director. In 1998, he accepted the challenge, for the first time, to create the structures of a new bank – Lukas Bank – as the person responsible in the bank’s management board for the field of finance. In 2002, he started working at another banking project – Dominet Bank – where he was responsible for the fields of finance, accounting, reporting and capital markets. From 2007 until the first quarter of 2009, he worked in the Fortis Financial Group (purchaser of Dominet Bank). Since 5 May 2009, he has been serving as Vice-President of the Management Board of Meritum Bank, supervising the Financial Division. In the period from 25 January 2011 until 30 September 2013, he served as President of the Management Board of Meritum Bank ICB S.A. Since 1 October 2013, he has been Vice-President of the Bank’s Management Board, and has been in charge of the Financial Division, Operations Division, and Risk Division.

**Agnieszka Porębska – Member of the Management Board**

Working in banking since 1996. She started her professional career in the First Polish-American Bank. From 2000, she worked for Fortis Bank, where she was in charge of managing and developing retail and SME banking. From 2008, she worked in the DnB NORD Bank, where she was responsible for the development of retail and SME banking. She designed the Bank’s strategy and financial plan in these areas. From February 2010 until May 2012, she held the post of Member of the Bank’s Management Board, and she supervised retail and SME banking in the fields of development and sales. From January 2013 until August 2013, she worked in Idea Expert, first as advisor of the Management Board, and then as Vice-President of the Management Board responsible for sales in the area of cash, car, mortgage loans and loans for SMEs. Since 5 December 2013, she has been serving as Member of the Management Board and is in charge of the Own Sales Division.

## **RULES OF FUNCTIONING OF SUPERVISORY BOARD**

The Supervisory Board is made of 7 members appointed by an Annual General Meeting for a joint 5-year term.

Apart from the rights and responsibilities stipulated in law, the competence of the Supervisory Board includes in particular:

- 1) constant supervision over the Bank's operations, including supervision over the implementation of the management system, and assessment of the adequacy and efficiency of that system;
- 2) assessment of the Management Board's report on the Bank's operations and financial statements for the previous year in the scope of their consistency with accounting books and documents as well as the actual state, assessment of the Management Board's motions as to profit distribution or loss coverage, submitting a report on the results of this assessment to the Annual General Meeting;
- 3) considering the information of the Bank's Management Board on the course and results of the lending and deposit activities and the interest rate policy, as well as prudential rules used in the Bank's operations;
- 4) determining in regulations the terms of granting loan facilities, cash loans, bank guarantees and sureties to members of the Bank's bodies and other persons indicated in the Banking Law Act;
- 5) approving written procedures of internal control and considering the Bank's annual reports on maintaining internal control in the Bank;
- 6) approving the strategies of the Bank's operations and annual financial plans of the Bank;
- 7) approving the rules of the Bank's information policy;
- 8) approving the rules of the Bank's policy on the comprehensive system of managing risk in the Bank;
- 9) approving procedures regarding internal capital estimation processes, capital management and capital planning;
- 10) creating and closing branches, agencies and other organisational units of the Bank preparing the balance sheet, both in Poland and abroad;
- 11) appointing, revoking or changing the position of Members of the Bank's Management Board, including the Vice-President of the Management Board responsible for marketing, the Vice-President of the Management Board responsible for finance, the Member of the Management Board responsible for risk management or the Member of the Management Board responsible for IT, and suspending Members of the Management Board;
- 12) concluding and amending employment contracts with Members of the Management Board;
- 13) approving and making material changes to the Bank's business plan;
- 14) giving consent to the change of accounting policy and principles, apart from changes resulting from the necessity to adapt the accounting policy and principles to the requirements of the generally applicable law or other regulations regarding accounting principles;

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15) giving consent to the Bank's purchase or acquisition of shares in another entity and the purchase of an enterprise or an organised part of an enterprise;

16) giving consent to the Bank's establishment of a subsidiary, participation in a joint venture or financing the Bank's subsidiary or such joint venture;

17) giving consent to the sale, lease or rent of the Bank's assets of a value exceeding 10% of the Bank's share capital for each event.

The Members of the Bank's Supervisory Board form the following committees and councils within the Bank:

- Audit Committee,
- Appointment and Remuneration Council,
- Risk Committee.

<i>Audit Committee</i>	<i>Appointment and Remuneration Council</i>	<i>Risk Committee</i>
Magdalena Magnuszewska	Magdalena Magnuszewska	Peter Franklin
Peter Franklin	Krzysztof Kulig	Magdalena Magnuszewska
Asad Naqvi	Peter Franklin	Asad Naqvi
	Asad Naqvi	

## **CHANGES IN THE SUPERVISORY BOARD IN 2013**

On 29 January 2013, Mr Cesare Calari resigned from the position of Member of the Supervisory Board of Meritum Bank ICB S.A., effective as of the date of appointment of Mr Asad Naqvi to the position of Member of the Supervisory Board. On 1 March 2013, the Extraordinary General Meeting of Shareholders of Meritum Bank ICB S.A. appointed Mr Asad Naqvi to serve as Member of the Supervisory Board.

On 1 August 2013, Mr Sławomir Lachowski resigned from the position of Chairman of the Supervisory Board of Meritum Bank ICB S.A., effective as of the date of resignation.

On 19 August 2013, the Annual General Meeting of Meritum Bank ICB S.A. appointed Mr Łukasz Doktor as Member of the Supervisory Board and appointed Mr Krzysztof Kulig to be Chairman of the Supervisory Board.

## **PROFILES OF SUPERVISORY BOARD MEMBERS**

### **Krzysztof Kulig – Chairman of the Supervisory Board**

He joined Innova Capital in 2001. He is the co-creator of investments in BWE, Expander Advisors Sp. z o.o., Polcard S.A. and Dom Finansowy QS. He is currently member of Supervisory Boards of Meritum Bank S.A. (BWE) and Expander Advisors Sp. z o.o. He is in charge of the development of investments regarding services for entrepreneurs, with particular regard to financial services. Mr Kulig is also responsible for staff recruitment. Before joining Innova Capital, he worked for Heidrick & Struggles, where he was Chief Consultant and Head of professional services and e-business. Mr Krzysztof Kulig gained significant experience during his five-year work at the position of Managing Director and Vice-President of the Polish branch of Euronet Worldwide.

**Magdalena Magnuszewska – Secretary of the Supervisory Board**

She joined Innova Capital in 2004. She worked as Analyst, Associate and Director. Currently, Ms Magnuszewska has 10 years of experience as specialist in private equity ventures. During her professional career, she participated in 11 M&A transactions, primarily of companies in the portfolio of Innova, and many additional investments. She participates in the supervision over companies in the portfolio of Innova (as Supervisory Boards' member), supervising primarily selected operating initiatives and project management. She also participates in projects regarding cost reduction and profitability recovery, financing structure optimisation (loan refinancing, bonds issue, subordinated financing) and preparing financial reporting. She has comprehensive knowledge of public markets (member of the management board in two listed entities) as the person in charge of the floating process and participating in investor relationship management (also from the perspective of the fund). She currently holds the position of Executive Officer at Innova Capital, a private equity fund operating in Central and Eastern Europe.

**Steven J. Buckley – Member of the Supervisory Board**

In the years 1980–1981, he was Staff Consultant on Information Consultancy; in the years 1983–1985, he was Vice-President of the American Consumer Product Safety Commission. Until 1986, he worked in Booz Allen & Hamilton, Partner and Senior Partner, and in Black Forest Investments. In the years 1986–1990, he worked in Bain & Company, an international consulting firm specialising in management. In the years 1990–1994, he worked as Specialist-Consultant in Company Assistance Limited (Dublin, Ireland). Since 1994, he has been President of Poland Partners Management Company which manages an investment fund valued at 63.5 million, looking for private equity investment possibilities in Poland. He runs the operations of Poland Partners in Poland. He is currently the Co-Founder and Managing Partner of Innova Capital,



responsible for investments in Euronet, PolCard, Orange Slovensko and Orange Romania. He focuses on developing investment opportunities in financial services, telecommunications companies and media in the Central and Eastern Europe region.

**Grzegorz Waluszewski – Member of the Supervisory Board**

In the years 1991–1999, he was the co-owner of BIG Autohandel, the biggest Ford dealer in Poland. Since 1991, he has been financially involved (as owner or co-owner) in entities operating on the financial, real property, factoring and insurance markets, including primarily: BIK Brokers Sp. z o.o., BIK Serwis Sp. z o.o., GJ Investment Sp. z o.o. Chairman of Supervisory Boards: since 1995 of Futura Leasing SA (also shareholder), since 1999 of Prime Car Management SA (also shareholder) and since 2010 r. of Masterlease Sp. z o.o. (the entities operate under the business name: Masterlease Polska). Since 2006, Deputy Chairman of the Supervisory Board of Cross Finance Sp. z o.o. Since 2011, Member of the Supervisory Board of Meritum Bank ICB SA. Member of the Lions Club and Past President LC Gedania, Member of Round Table 4 Sopot and Past President RT Poland, President of the Polish Authorised Ford Dealers Association, representative in European management and Ford Europe President’s advisor on Central and Eastern Europe (until 1999), Member of the Theatrum Gedanense Association, Member of the Gdansk Business Club, Member of the American Chamber of Commerce in Poland.

**Peter Franklin – Member of the Supervisory Board**

He began his professional career in HSBC London, Malaysia and Hong-Kong (1975–1978). In the years 1979–1986, he worked in The Chase Manhattan Bank, London, Malaysia and Hong Kong, where he held different posts related with credit analyses, credit markets and capital markets. In the years 1987–1992, he worked for ANZ Bank, Hong Kong, where he was in charge of operations related with concluding credit agreements, sales and trade. In the years 1992–2009, he worked for the General Electric / GE Capital group. In the years 2000–2002, he was CFO, GE Real Estate Europe in Paris. He was also CFO, GE Consumer Finance Europe, Dublin (2000–2002) and Treasurer, GE Capital Asia Pacific, Hong Kong and Singapore (1992–2000), responsible for financial management and the balance sheet in the operations of GE Capital in all of Asia. In the years 2006–2008, he was CFO, GE Corporate Financial Services. In the years 2008–2009, he was CFO, GE Money, Central and Easter Europe. He also held the post of member of the supervisory board in GE Capital banks in Poland (chairman), Hungary and the Czech Republic. He is currently a non-executive director appointed by the European Bank for Reconstruction and Development in Banca Transilvania (Romania) and Meritum Bank (Poland).

***Asad Naqvi – Member of the Supervisory Board***

In the years 2000–2004, he worked in the Lazard company in New York. In the years 2004–2008, he worked for The Resource Group (TRG) company in Washington DC, where he held the post of Mergers and Investment Director. He was one of the two members of an investment team in an investment holding established by IFC, EMP and AIG Capital Partners. Since 2009, he has been working for the company WOLFENSOHN FUND MANAGEMENT in New York and London, where he holds the position of Director, Private Equity Funds. He analysed and carried out investments for a global private equity fund established by James D. Wolfensohn (former President of the World Bank), specialising in financial services, retail sales and renewable energy sector. He participated in four closed transactions. He was promoted to Director; he currently runs the company's office in London. He participated in the following closed transactions: Meritum Bank, Moscow Exchange MICEX-RTS, BTG Pactual and Banco Daycoval. He was appointed to the Supervisory Board of Meritum Bank. He created, verified and analysed investment ideas within the framework of his own research and a contact network, generating transaction opportunities for the fund. He established and implemented the company's investment initiative in Central and Eastern Europe.

***Lukasz Doktor – Member of the Supervisory Board***

He graduated from the Faculty of Law and Administration of the Warsaw University (1998) and Centre for the Study of English and European Law at the Warsaw University (1997), lawyer since 2002, member of the District Bar Council in Warsaw. In the years 1997–1999, he worked for Allen & Overy law firm in Warsaw (currently Allen & Overy Pędzich Sp. k.), then in 1997–2007 he worked for Dewey Ballantine law firm in Warsaw (currently Greenberg Traurig Grzesiak Sp. k.), since 2007 he has been a partner in the law firm Doktor Jerszyński Pietras Adwokaci i Radcowie Prawni Sp. p.

## **10. STATEMENT OF THE MANAGEMENT BOARD**

### **PREPARATION OF THE FINANCIAL STATEMENTS**

The Management Board of Meritum Bank ICB S.A. represents that according to its best knowledge:

- the annual financial statements and the comparative figures have been prepared in accordance with the binding accounting principles and they reflect in a true, fair and clear manner the financial position and results of operations of Meritum Bank ICB S.A.,

## **Meritum Bank ICB S.A.**

### Management Board report on the activities of Meritum Bank ICB S.A. in 2013

- the Management Board report on the activities of Meritum Bank ICB S.A. presents a true view of the development and achievements.

## **SIGNIFICANT AGREEMENTS**

The Bank's Management Board represents that as at 31 December 2013 Meritum Bank ICB S.A.:

- was not involved in separate units and capital groups with more than 10% of the Bank's equity,
- had no clients whom the Bank granted financing on terms materially diverging from the generally applicable,

## **Meritum Bank ICB S.A.**

### Management Board report on the activities of Meritum Bank ICB S.A. in 2013

- did not carry out transactions with related entities on terms other than market terms,
- the value of court proceedings pending in 2013 did not affect the Bank's financial position,
- the number of bank enforcement orders issued amounted to 8,830 with an aggregate value of PLN 186.1 million.

**Signatures of the Members of the Management Board of Meritum Bank ICB S.A.**

31 March 2014  
Bartosz Chytła  
acting President of the Management Board

31 March 2014  
Joanna Krzyżanowska  
First Vice-President of the Management Board

31 March 2014  
Piotr Urbańczyk  
Vice-President of the Management Board

31 March 2014  
Agnieszka Porębska-Burczyn  
Member of the Management Board