MANAGEMENT REPORT

FOR THE FINANCIAL YEAR

FROM 1 JANUARY TO 31 DECEMBER 2012

Gdańsk, 11 March 2013

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Supervisory Board

In 2012, the Supervisory Board consisted of:

Chairman of the Supervisory Board	-	Sławomir Lachowski
Vice-Chairman of the Supervisory Board	-	Krzysztof Kulig
Secretary of the Supervisory Board	-	Magdalena Magnuszewska
Member of the Supervisory Board	-	Steven J. Buckley
Member of the Supervisory Board	-	Grzegorz Waluszewski
Member of the Supervisory Board	-	Peter Franklin
Member of the Supervisory Board	-	Cesare Calari

Management Board

The Management Board of the Bank consisted of the following members as at the beginning of 2012:

- President of the Management Board - Piotr Urbańczyk
- First Vice-President of the Management Board - Joanna Krzyżanowska
- Member of the Management Board - Grażyna Musiatowicz-Podbiał
- Member of the Management Board - Błażej Kochański

On 30 June 2012, the Supervisory Board of the Bank appointed Mr Piotr Gawron as the Member of the Management Board as at 1 July 2012.

From 1 July 2012 to 13 September 2012, the Management Board of the Bank comprised:

- President of the Management Board - Piotr Urbańczyk
- First Vice-President of the Management Board - Joanna Krzyżanowska
- Member of the Management Board - Grażyna Musiatowicz-Podbiał
- Member of the Management Board - Błażej Kochański

- Member of the Management Board - Piotr Gawron

On 13 September 2012, Ms Grażyna Musiatowicz-Podbiał handed in her resignation from the Management Board at the Supervisory Board meeting.

From 13 September 2012 to 31 December 2012, the Management Board of the Bank consisted of:

- President of the Management Board - Piotr Urbańczyk
- First Vice-President of the Management Board - Joanna Krzyżanowska
- Member of the Management Board - Błażej Kochański
- Member of the Management Board - Piotr Gawron

On 4 December 2012, Mr Błażej Kochański handed in his resignation from the Management Board at the Supervisory Board meeting.

Since 1 January 2013, the Management Board has comprised:

- President of the Management Board - Piotr Urbańczyk
- First Vice-President of the Management Board - Joanna Krzyżanowska
- Member of the Management Board - Piotr Gawron

The dynamics of economic growth in Poland slowed down in 2012 to 2% vs. the growth in 2010-2011 by 3.9% and 4.3% respectively. The slow-down was recorded in all sectors that affect economic growth, primarily in the dynamics of private consumption (retail in 2012 increased by 5.6 vs. 11.6% in 2011), with retail falling by 2.5% in December 2012 compared to December 2011. Gross expenditures on fixed assets fell by about 0.8% vs. 2011, while the dynamics of sold industrial production amounted to -10.6% in December vs. December 2011, with the export and import levels remaining on the same level. The deteriorating economic situation was accompanied by the worsening social and economic situation of households, as the average employment in the sector of enterprises fell by 0.5% in December 2012, while the unemployment rate increased to 13.4% (as at the end of December 2012) from 12.5% (in December 2011). The dynamics of average monthly remuneration decreased throughout 2012, reaching only 2.4% in December 2012. In the second half of 2012, the fall of monthly real income was recorded. The falling inflation rate was a positive phenomenon in 2012. In January 2012, the inflation was at 4.1%, while in December 2012 it amounted to 2.4%. The decrease of inflation was followed by the change of attitude in the interest rate policy of the National Bank of Poland (NBP). Therefore, the cycle of less restrictive money policy began in November, with the reference rate falling from 4.75% to 4.25% in December 2012.

The economic revival in 2010-2011 had a moderate impact on the banking sector: assets increased at 10% per year, similarly to credits and loans growing by 9.4% in 2010 and 14.6% in 2011. Profits of the banking sector rose in the period by 36-38% per year. In 2012, the significant deterioration of the banking sector indices occurred, as assets increased by only 4.5%, credits and loans by 2.1%, while the profit dynamics fell to 3.9% in 2012.

The growth of the consumer deposit portfolio amounted to 8.3% year-to-year in 2012, and the corporate deposits fell by 6.3% year-to-year. The portfolio of corporate credits increased by 3% year-to-year, while the portfolio of consumer deposits fell by 4.5%, including the housing loan portfolio increasing by 0.8% and consumer loan portfolio falling by 4.5%. The net profit of the banking sector in 2012 increased by 3.8% and amounted to BPLN 16.1. In 2012, Banks increased their profit on interest and commission (the dynamics in 2012 amounted to 1.5% and 0.4% respectively).

The year 2012 saw the beginning of the economic slow-down after the growth in 2010-2011. A further slump of the economic growth dynamics is expected in 2013, with the climax in the first half of the year, followed by the expected come-back to the growth path in the second half of 2013. It can be assumed that the growth of economic indices will be followed by the renewed optimism expressed in the economic situation indices, such as the growth of investments and consumption. Consequently, the banking sector situation will improve, in particular in the consumer credit sector.

BUSINESS DEVELOPMENT IN 2012

In 2012, the Bank continued to implement its strategy targeted at strengthening its position on the market of retail customers and small and medium enterprises. According to its estimates prepared based on data provided by the Credit Information Office (BIK), the share of the Bank in the volume of sold cash loans increased from 2.7% in 2011 to 4.0% in 2012. Based on the data provided by the National Bank of Poland, the Bank is estimating that its share in the micro-business loan portfolio grew from 0.6% in 2011 to 1.1% in 2012.

The offer of the Bank focused on the following three main segments of clients:

I. high-net-worth and medium-net-worth clients, searching for profitable deposits for their funds and effective services, mostly via electronic channels;

II. a broad spectrum of debtor clients, both from the mass market served by credit agents and debtors from higher segments, served by financial consultants, branches, and Internet; and

III. Micro-business companies, operating in the service and production sector, whose owners seek attractive deposit products or make the cooperation contingent on obtaining funding.

The Bank has targeted its offer at dynamic people, who expect high quality of services and for whom time saving is important. To meet such expectations, the Bank prepared specially designed solutions that will enable everyone to use banking services in a fast, simple, and effective way. Such solutions implemented in 2012 include the instant transfer function Express ELIXIR and the process of fully remote account opening via the Internet without the need of courier visits (the identity is confirmed with a transfer from another bank, in the same way as for the solution of opening deposits implemented before).

The key role is played by innovation in Meritum Bank, which means practical and simple solutions, in contrast to time-consuming technological novelties. This is a response to the expectations of retail clients and SMEs. The strength of the Bank is that it listens to the opinions of its clients and adapts its financial solutions to the expectations of precisely determined market segments included in the strategic service areas of the Bank.

The Bank provides its clients with a triad of benefits:

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

Offering these three-fold advantages has been possible owing to strategic strengths based on the operational excellence, a low cost platform, and the culture of innovation.

In 2012, the Bank implemented its development strategy of a dynamically operating sales network, both in own and franchise branches. Moreover, it built up its market advantage based on its quick reactions to changes in the business environment, the skilful management of the operating cost to process quality ratio and the consistently implemented innovation. Internet banking is among the basic pillars of the Bank's development. In 2012, it belonged to the most important strategic sales channels, as well as the basic channel of after-sales services, both for retail clients and SMEs. Internet banking has been among the most important channels of distributing deposit products, which generated more than 40% sales of the Bank in checking and saving accounts in 2012, 88% sales in retail deposits, and 38% sales of business accounts. Compared to 2011, the Bank doubled its customer base who use Internet banking.

In 2012, according to the Cooperation Agreement made with Tesco in August 2011, the Bank implemented a strategic project of offering financial services to customers of Tesco hypermarkets. The cooperation model between the Partners is based on joint-venture principles. The business involves the sales of the Bank's products at 66 permanent points of Tesco Finance located in the largest Tesco hypermarkets in Poland. The key products in the offer include an instalment loan for goods available at Tesco, a cash loan, a consolidation credit and, a Visa Clubcard credit card. It is worth mentioning that the above-mentioned card was recognised as the 'Best Polish Loyalty Card 2012' by participants of the 'Central European Electronic Card' conference.

In 2012, the Bank increased the value of equity by MPLN 57.8, which guaranteed the fulfilment of the capital standard as at the end of the year. The equity was increased primarily by the majority shareholders: Innova Capital, European Bank for Reconstruction and Development, and the WCP Fund (Wolfensohn Capital Partners). The success of the first corporate subordinated bond issue showed the trust of the market in the Bank's strategy. In compliance with the regulations of the Banking Law, the bonds were recognised in the equity of the Bank. The value of capital gained in this manner amounted to MPLN 26.3.

Moreover, projects started in previous years were continued to provide the Bank with stable funding for its operation, by implementing modern methods of collecting term deposits from retail customers. These actions brought a fundamental change both in the breakdown and maturity structure of the deposit portfolio, resulting directly in the higher stability of the deposit base. A modern process of opening Internet deposits (without the need of a courier visit) and the growth of the customer base with personal accounts (almost two-fold increase of accounts in 2012) combined with a competitive price and innovative products (e.g. long-term deposits connected with the WIBOR index, a promotional deposit for Clients who open accounts, the sales of accounts on group sales portals, and a new saving account) contributed to the growth of share on the personal term deposit market from 0.37% as at the end of 2011 to 0.56% as at the end of 2012.

Structure of assets

As at the end of 2012, the Balance Sheet total amounted to MPLN 2,232.8, after the growth by 60% compared to the end of 2011. The increase of the Balance Sheet total amounted to MPLN 839 and was higher than in the previous year, when it amounted to MPLN 682.

The following table presents the structure of key categories of the Bank's assets as at the end of December 2012 and changes compared to the values as at the end of December 2011.

Assets (PLN thousand)	2012	2011	Change	Change %
Cash, operations with the Central Bank	64,978	15,815	49,163	310.87%
Receivables from the financial sector	75,834	64,178	11,656	18.16%
Receivables from the non-financial sector	1,766,599	1,064,801	701,798	65.91%
Securities	238,419	167,580	70,839	42.27%
Fixed assets	31,142	32,543	-1,401	-4.30%
- shares	*569*	*569*	*0*	*0.00%*
- intangible and legal assets	*21,125*	*17,480*	*3,646*	*20.86%*
- tangible fixed assets	*9,448*	*14,494*	*-5,046*	*-34.82%*
Other assets	55,842	49,287	6,555	13.30%
Assets in total	**2,232,814**	**1,394,203**	**838,611**	**60.15%**

The value of assets in 2012 was affected mostly by the receivables from the non-financial sector — their value increased by 65.9% in the analysed period. Keeping the high ratio of asset growth stems from, but is not limited to, more new loans owing to the further development of distribution channels and the loan offer itself. The value of new loans increased by 54% in 2012.

The share of securities in assets amounted to 11% as at 31 December 2012, resulting from the value of the deposit portfolio. In 2012, the surplus deposits over the credit portfolio were reinvested in fixed interest rate securities.

The value of the Bank's fixed assets amounted to KPLN 31,142 as at the end of 2012, while the value of other assets was at KPLN 55,842.

Structure of liabilities

The liability item that grew most dynamically in 2012 were the liabilities towards the non-financial sector. The Bank focused its fund-raising operations on financing new loans, mostly with deposits from individuals.

The following table presents the Bank's structure of key categories of liabilities as the end of December 2012 and their changes compared to the status as at the end of December 2011.

Liabilities (KPLN)	2012	2011	Change	Change %
Liabilities towards the Central Bank	0	0	0	,
Liabilities towards the financial sector	19,640	33,776	-14,136	-41.9%
Liabilities towards the non-financial sector	1,823,449	1,096,830	726,619	66.25%
Liabilities towards the budget sector	39,798	16,662	23,136	138.9%
Other liabilities	93,031	80,379	12,652	15.74%
Subordinated liabilities	26,300	0	26,300	,
Capitals with the current result and approved with *profit (loss) of previous years*	230,596	166,557	64,039	38.45%
- basic capital from the revaluation and profit (loss) of previous years	*224,345*	*178,524*	*45,821*	*25.7%*
- (net) current year result	*6,251*	*-11,967*	*18,218*	*-152.24%*
Liabilities in total	**2,232,814**	**1,394,203**	**838,611**	**60.15%**

As of the end of 2012, the Bank gathered the deposits and current accounts (including accrued interest) totalling MPLN 1,882.9. The average interest rate of new deposits opened in 2012 amounted to 5.97% p.a., while the deposit/credit ratio was at 1.07 as at the end of 2012.

Throughout 2012, all liquidity ratios were above the required thresholds.

Bank capitals / Capital adequacy

In April and November 2012, the present shareholders recapitalised the Bank with the total amount of MPLN 57.8. As a result, the Bank's capital including the current result and after approval as well as with profit (loss) of previous years amounted to KPLN 230,596 as at 31 December 2012.

In May 2012, the Bank issued subordinated bonds. The following month, after approval by the Financial Supervision Authority, the bonds were recognised in supplementary capitals totalling MPLN 26.3.

The equity of the Bank, pursuant to Article 127 of the Act on Banking Law and the Resolution No. 76/2010 of the Financial Supervision Authority of 10 March 2010 concerning the scope and detailed rules of determining capital requirements due to specific types of risk with subsequent amendments, amounted to KPLN 229,516. The value of the solvency ratio was at 14.92% as at the end of 2012.

Profit and Loss Account

The following table presents changes in the basic items of the Profit and Loss Account of the Bank in 2012 compared to the previous year:

Profit and Loss Account (KPLN)	2012	2011	Change	Change %
Profit on interest	156,850	92,423	64,427	69.71%
Profit on commission	44,141	28,673	15,468	53.95%
Income on shares or stocks	0	0	0	,
Profit on financial op. and FX positions	-2,320	499	-2,819	-565.27%
Profit on banking activity	**198,671**	**121,595**	**77,076**	**63.39%**
Other operating incomes and costs	11,335	5,972	5,363	89.78%
Operating costs of the Bank	-95,148	-74,993	-20,155	26.86%
Depreciation	-8,721	-6,696	-2,025	30.23%
Difference in provision value	-98,096	-58,541	-39,555	67.57%
Gross profit (loss)	**8,041**	**-12,663**	**20,704**	**-163.50%**
Income tax	-1,790	697	-2,487	-356.82%
Net profit (loss)	**6,251**	**-11,967**	**18,218**	**-152.24%**

Profit on interest

In 2012, income on interest amounted to KPLN 248,672 and was 83% higher than in 2011. The interest costs totalled KPLN 91,822. In 2012, the profit on interest increased by KPLN 64,427, achieving the value of KPLN 156,850.

Profit on commission

In 2012, the profit on commission amounted to KPLN 44,141 and was higher by 56% than in 2011.

Profit on financial operations and FX positions

The total profit on financial operations and FX positions amounted to KPLN -2,320 in 2012. The negative value of this item results from the issue of subordinated bonds by the Bank in 2012. Interest due and paid to bondholders is included in this item.

Profit on banking activity

The profit on banking activity totalled KPLN 198,671. Compared to 2011, it increased by KPLN 77,076. The growth of income was also higher than in the previous year, when this item of the Profit and Loss Account grew by KPLN 63,877.

Moreover, the structure of incomes changed further in 2012, although less dynamically than in the previous year. The profit on interest amounted to 79%, and on commission 22% of the profit on banking activity. In 2011, these figures were at 76% and 24% respectively.

Other operating incomes and costs

In 2012, other operating incomes and costs totalled KPLN 11,335. This result was affected significantly by the following events:

1. the sale of the part of the retail loan portfolio with documented ineffective collection;
2. the settlement of the joint project with Tesco Polska Sp. z o. o. and the reimbursement of costs incurred by the Bank due to its operational and financial services totalling KPLN 4,748; and
3. the revaluation of the liability of Euromark S.A. (due to the sales of the Alpinus trademark) after the declaration of liquidation bankruptcy of this Company, totalling KPLN 900.

Operating costs of the Bank and fixed asset depreciation

The costs of the Bank's operation (exclusive of depreciation) in 2012 totalled KPLN 95,148. Compared to 2011, this figure increased by KPLN 20,155, mostly due to the development of sales channels, promotion, and marketing. However, the increase of costs was lower than in the previous year, when the expenditures rose by KPLN 24,460.

The costs of salaries amounted to KPLN 49,188, while the operating costs (other than on promotion) were at KPLN 38,399. The costs of promotion totalled KPLN 7,341 during the year. The growth of these costs was related to the promotion of deposit and credit products of the Bank as well as the development of the Bank's and franchise branch network.

In 2012, the Bank continued its programme of streamlining costs and increasing the efficiency of employment. As a result, the Bank was able to launch new products, offer new sales channels to clients, and develop the credit campaign, with a relatively low increase of the Bank's operating costs. In the same period, the portfolio of gross loans increased by 66%, with the simultaneous growth of costs by only 26.6%. The depreciation of fixed assets and intangible and legal assets totalled KPLN 8,721 in 2012.

The C/I ratio (operating costs (including depreciation) to income) amounted to 52.0% in 2011 and was lower by 15.1 pp than in 2011.

Difference in the value of provisions and revaluations

In 2012, the difference between the value of provisions and their revaluations amounted to KPLN 98,096 (in the previous year it totalled KPLN 58,541).

With the dynamic growth of new loans and the credit portfolio, the ratio of provision cost to the generated result on banking activity was maintained on the level similar to the previous year.

	2012	2011	Change
The value of provision revaluation* to the profit on banking activity	45.95%	45.99%	-0.04 pp.

* The value of provision revaluation presented in the above ratio has been revised by the effect of selling a part of the loan portfolio. The cost of provisions has been reduced respectively by KPLN 6,790 for 2012 and KPLN 2,616 for 2011.

Gross profit / loss

The above-mentioned changes that occurred in 2012 in the Profit and Loss Account, in particular the improved cost to banking activity profit ratio and the growth of receivable portfolio of the Bank, provided the positive gross financial result amounting to KPLN 8,041.

Income tax

In 2012, the due income tax totalled KPLN 1,790.

Net profit / loss

The net financial profit for 2012 amounted to KPLN 6,251. Compared to the previous year when the financial loss was incurred, the result increased by KPLN 18,218.

DEVELOPMENT PERSPECTIVE IN 2013

Q4 2012 was another period when the Bank recorded a positive financial result. This trend will be continued also in 2013 and in the next years. While following this positive trend in 2013, the Bank intends to keep focusing on building the portfolio of highly profitable credit assets. As at the end of 2013, the planned value of the credit portfolio will be BPLN 2.5, which constitutes the growth by 42% vs. 2012. Achieving this objective will be possible primarily through the development of the existing product offer and raising the sales efficiency of distribution channels. The Bank is planning to launch so-called product bundles, which are a combination of several existing products, both credit and saving ones, and thus to create unique advantages for its clients. Some new products will be also added to the Bank's offer, dedicated to corporate clients and aimed at taking over all the services of their financial relationships by the Bank.

Focusing on the distribution channel efficiency improvement means that the Bank does not intend to increase the number of its branches significantly. As at the end of the year, the Bank will manage a network of its own branches and 150 franchise branches, supported by 68 points operating within the strategic partnership with Tesco. However, the Internet distribution potential will grow and its basic objective will be to sell checking and saving accounts to provide the suitable level of liquidity with the falling costs of financing with deposit exposures. The increase of the account portfolio will be supported additionally by the planned launch of the deposit and transaction products planned together with Tesco in its chain.

To build the long-term loyalty of customers and to maximise the profitability of the existing customer base, the Bank intends to increase the scale and frequency of cross selling significantly, which will be facilitated by the dynamic growth of the number of customers opening current accounts as well as the growing borrower base.

The planned growth of the Balance Sheet total will require higher equity. According to the Recovery Plan, the Bank intends to increase equity by minimum MPLN 50 in 2013. A part of the funds for recapitalization, alike in 2012, will be raised by the Bank from the issue of subordinated corporate bonds, which can be recognised in the Bank's equity according to the regulations of the Banking Law.

The growth of the product sales scale, related to the improved use of the existing potential of the Bank, will provide the further improvement of operational efficiency. The planned C/I ratio for 2013 will fall below 45%.

The fulfilment of the above-mentioned objectives will provide the further enhancement of profitability in 2013 and the financial profit recorded as at the end of the year at minimum MPLN 13.

Operational risk

In 2012, the Bank will continue its adopted policy in operational risk management, without any major changes of its profile. In order to improve the operational risk management system and to enhance the quality of data included in the current register of incidents, events, and operational losses, the process of reporting and registering events in the operational risk area will be improved.

The Bank intensified work related to promoting business continuity and the knowledge of operational risk last year. Within the performed work a site was allocated in the Intranet for collecting training and informative materials on business continuity management in the organization, abuse prevention, and knowledge of operational risks.

In the area of business continuity management, the key role was played by the Business Continuity Plans for Critical and Key Processes developed based on the Business Continuity Strategy at Meritum Bank ICB S.A. adopted by the Management Board and their tests. At the next stage, the Work Time Schedule was approved for 2013 as well as the time schedule of the 2nd stage of Business Continuity Plans. Moreover, in the last quarter of 2012, work was commenced to carry out the BIA analysis again in all the organizational units of the Bank. The performed analysis is to be used to revise the list of Critical and Key Processes.

An important factor that determines the nature of the Bank's activities taken within operational risk management was the recorded excessive threshold value of two KRIs. However, it did not result in any major increase of the Bank's exposure to operational risk or any higher loss due to operational risk. The Bank carried out an in-depth analysis of causes that resulted in exceeding the threshold limits and took measures due to the identified hazards aimed at reducing the risk in critical points of conducted processes. To limit the newly identified hazards, the Bank took a number of procedural and process initiatives. After the implementation of changes, the ratios have been on the level below the thresholds, and the occurrence of a new type of hazards has been largely limited.

Credit risk — SME loans

In 2012, the Bank continued the process of developing tools that support credit risk management in the area of SME loans. The key initiative aimed at extending the scope of credit risk assessment was the broader use of information from SI BIK 'Entrepreneur'. The dynamic development of this database allowed the more comprehensive credit rating, both in the process of verifying credit applications and in monitoring during the term of concluded agreements. To further improve the quality of risk assessment resulting from a client business profile, the Bank introduced a new scoring card, dedicated to self-employed individuals.

Moreover, the efficiency tests were conducted for the process of financial data verification, being the basis for assessing creditworthiness of clients. The results of the tests were used to determine the Bank's policy in this regard. Finally, the Bank introduced a number of changes in the collection strategy, resulting in the improved efficiency of its actions and the higher recovery level that limits the value of losses.

Credit risk — retail loans

The improved competitive position and the continued growth of the Bank's brand recognition in 2012 enabled to develop the partnership with counterparties with a high quality client profile. Simultaneously, the Bank developed broad access to the databases of information of key importance for the process of credit acceptance and gained a high level of scoring tool efficiency, by introducing scoring cards dedicated to self-employed individuals and for the instalment loan portfolio.

The new loan campaign is characterised by a stable level of the risk ratio, which is falling in a long term. Moreover, the Bank developed its operational processes related to collection and enforcement activities. An important factor was the regular monitoring of payments made by clients, which allowed the adaptation of actions to their present economic and financial situation.

FX risk

The Bank keeps the exposure to FX risk on a low level, by maintaining a low FX position. In all 2012, no capital requirement occurred due to the FX risk. The Bank still did not grant any loans in or denominated in foreign currencies. The Bank does not intend to change its policy within FX risk in the near future.

Interest rate risk

The Bank continues the regular (weekly) measurements of funding cost. In 2012, this cost followed the market trend —it showed a growing trend in the first half of the year and it fell in the second half.

A positive interest rate gap is maintained resulting from financing credits of a variable interest rate with medium- and long-term deposits of a fixed rate. To limit the mismatch of interest rates, the Bank offered long-term deposits based on a variable interest rate (WIBOR). Moreover, it supported the increase of funds on checking and saving accounts, which also bear interest at a variable rate.

Liquidity risk

In 2012, the Bank focused on keeping a stable and diversified deposit portfolio, which is a dominant source of financing the Bank's activity. The Bank kept the concentration of deposits on a low level consistently — the 'TOP10' ratio (the share of the ten largest depositories) during the year was maintained within the range 4% - 12%. The percentage of deposits held by individuals, which is characterised by the highest stability, amounted to about 90% of the entire base.

The Bank maintained a high index of term deposit share in the whole deposit base. Moreover, it supported the sales of medium- and long-term products. The medium period of a term deposit was 7 months.

For all 2012, the short-term M1 and M2 measures and long-term M3 and M4 measures were above the limits.

IT SYSTEM DEVELOPMENT

In 2012, the Bank continued its efforts in the areas related to the introduction of necessary and desired changes in IT systems and cared for raising the quality of rendered services while complying with safety rules at the same time.

AREAS OF CHANGES IN IT SYSTEMS

The areas that saw the largest investments of the Bank in 2012 were the systems of credit product sales support and the E-Banking System area.

Changes in the credit offer

In this area, the Bank continued the introduction of changes to make the credit offer of the Bank more attractive, in particular with regard to such loan products as 'Business Loan', 'Mortgage Loan', and a cash credit. The introduced changes included the special offer for professional borrowers performing jobs that require registration, with preferential credit conditions for persons with the best risk profile, a retention offer for the present customers of the Bank, and changes in the PPI insurance, allowing the selection of the insurance period convenient for a client.

Changes in the Main Banking System

The key reorganization conducted in the area of the banking system was the implementation of changes within the new rules of charging income tax on deposits of individuals, which came into effect at the end of March 2012.

The scope of using the modules of the Main Banking System was extended with the implemented and launched CP module, used to calculate FX positions.

Moreover, a number of projects were implemented with regard to several systems of the Bank, including the following most important ones:

1. Projects with TESCO Finance

As a consequence of continuing the cooperation with the key partner of the Bank, Tesco Finance, new products were prepared, thus extending the range of the already available products. The changes involved also the improvement of the ongoing service of customers gained in cooperation with Tesco, including through the modification in the processes of VISA credit card sales with loyalty programmes (Club Card). The operational services were also improved by supplementing credit card statements with a bar code that makes it possible to provide fast services in external payment centres, including in the Tesco chain.

2. Project of selling accounts with the sales platform

A solution was launched last year that makes it possible to sell checking and saving accounts to individuals and business clients with the external sales network. The solution allows both processing an application with tracing its status and the automatic preparation of documents necessary to make an agreement and to transfer authentication packages required to provide access to the E-Banking System. The solution was prepared for the Bank's sales network, in particular for the franchise branches.

3. Project of opening accounts 100% on-line

A solution was developed and adopted that enables to open current accounts for individual and institutional customers with the authorization of personal data with a transfer or via an e-payment, which means that a client can receive a signed electronic agreement and access to the E-Banking System very quickly.

4. New deposit product launch — saving insurance policies

In cooperation with Generali, a new long-term product was launched in the Bank's offer – Saving Insurance Policies. This product can be applied for via the E-Banking System or with the insurer's system.

5. The project of using Facebook as an additional channel to acquire new customers.

The function was introduced to attract interest in filing an application and to submit applications with the Facebook service together with the mechanism of bonuses for customers who use this channel.

6. Immediate liquidity project

Last year, the Bank was one of the first three banks in Poland that provided its customers with the option to transfer funds with the 'Express Elixir' System of Instant Payments. Thanks to the system, funds are transferred to banks participating in the system within about a dozen seconds.

7. Infrastructural projects

The most important infrastructural project completed in 2012 was the geographic separation of the server platform machines serving the back-up environment of the Bank. The project implementation enabled to raise the safety of the Bank and to limit the related operational risk.
In 2012, the elements of the Bank's infrastructure were being modified successively, to adapt them to the growing scale of the Bank's operations. Moreover, the further automation of work in the area of the system service was introduced.

8. Regulatory changes

Moreover, some changes were made due to the introduced regulatory changes. The most important changes in this area included the implementation of the PSD regulation recommendations (Act of 19 August 2011 on payment services). The introduced changes concerned mostly the fulfilment of orders placed in the E-Banking System, either by a customer or personnel of the Bank on behalf of a customer, and the presentation of additional data required by the Act, such as the date of FX rate update, their archiving, information on payments related to the performance of transactions, and information on FX rates of transactions at which they were converted.

AREA OF RENDERED IT SERVICES

1. Availability of IT systems

In 2012, the mid-year availability of the Bank's systems amounted to 99.73%, which was much above the expected value. Individual incidents, such as interruptions of availability, concerned mostly reporting and analytical systems.

2. Efficiency of IT systems

In 2012, most systems of the Bank recorded a major increase of their efficiency after changes applied by their suppliers. The greatest improvement of efficiency occurred in the area of processing in the main banking system.
In the E-Banking System, a major reduction of database server load was observed after the introduced optimization changes, particularly in the area of the application server.

AREA OF IT SAFETY

No major attempted break-ins or safety violations were registered in the Bank last year, and the level of unsuccessful access attempts remained on a stable average level. Most attacks were repeated and rather trivial attempts at interfering with the Bank's infrastructure, which were relatively easily detected by the protection layer equipment.

In Q2 2012, annual safety tests were conducted for the basic systems of the Bank available via the Internet. The obtained results did not indicate any real hazards and the found minor non-compliances were resolved successively in the systems in the consecutive months of 2012.

The activity in retail banking and offer for SMEs

Retail banking

The sales of banking products to retail customers in 2012 encompassed loan products (cash and consolidation loans, instalment loans, credit cards, and mortgages) as well as term deposits and current accounts.

Cash and consolidation loans

In 2012, the Bank offered cash and consolidation loans via its own branches, franchise branches, Internet as well as the network of agents working under agency agreements concluded with the Bank.

As at the end of December 2012, the gross retail cash and consolidation loan portfolio totalled MPLN 1,019.2. The new loans in 2012 amounted to KPLN 849,002.9. Compared to the new loans in 2011 at KPLN 573,020.3, the sales in 2012 increased by 48%. The main distribution channel of cash loans were credit agents in 2012, with their share in total new loans at 55%. The average credit term increased, due to the high share of consolidation loans that affected the high average amount of a loan (KPLN 21.9), which increased by 23% vs. 2011.

Instalment loans

In 2012, the Bank continued the sales of instalment loans via the channel of agents and through individual agreements with large commercial chains and distribution companies. As at the end of 2012, the Bank worked with more than 6 thousand shops in Poland. Moreover, the Bank sold instalment loans via 4 large distributors and more than 160 agents. As at the end of December, the portfolio of instalment loans totalled KPLN 65,809, while new loans in 2012 amounted to KPLN 76,710.

Credit cards

In 2012, the Bank continued the sales of credit cards to its own credit customer base and to new customers via its own and franchise branches. However, the main distribution channel of credit cards became Tesco hypermarkets, with their 66 points that offer financial products of the Bank, where Meritum Bank issues credit cards with the Tesco logo. The cards are connected with the Clubcard loyalty programme and offer a number of functions as a part of the close cooperation with the partner. As at the end of December 2012, the total number of issued credit cards exceeded 22.2 thousand, and the value of card debt amounted to about MPLN 28.

Secured loans

In 2012, the Bank continued the sales of a product that supplements the range of unsecured products — a mortgage loan. The product was offered via the Bank's branches and franchise branches as well as the growing network of financial agents.

As at the end of 2012, the distribution network of this product was the same as the distribution network of unsecured loans offered by the Bank. As at the beginning of 2012, the Bank introduced major product changes, including the higher maximum loan amount to PLN 500,000, and the extended maximum crediting period to 25 years. Such changes enabled the increase of new loans from MPLN 5 in 2011 to MPLN 11.5 in 2012.

Credits and loans for business

In 2012, the Bank offered loan products via its agents, at franchise branches, its own branches, and through Direct Sales Teams.

As at the end of December 2012, the gross loan portfolio for business totalled MPLN 664 and was 88% higher than until December 2011, when the gross loan portfolio for business amounted to MPLN 353.9. New loans in 2012 totalled MPLN 428.5, exclusive of renewed loans. Compared to the new loans in 2011 at MPLN 287.7, the new loans were larger by MPLN 140.8, i.e. recorded the 49% growth year-to-year.

In the development of credit products for enterprises, the Bank offered mostly loans without securities for one-person businesses. The activity of the Bank in the area of crediting micro-enterprises was possible owing to the consistently developed distribution network, the work conducted on its activation, and the introduced changes of loan boundary parameters, namely:

- the increase of the maximum value of a loan from 200 thousand to 300 thousand within the offer prepared especially for professionals, i.e. medical practitioners, dentists, veterinary surgeons, legal advisors, barristers, statutory auditors, owners of healthcare centres, surveyors, court officers, real estate appraisers, and sworn translators,
- extending a crediting period for loans on standard terms and conditions from 96 to 120 months, and
- adapting the price strategy of the 'Business Loan' product to the market requirements with tools that enable to match offer parameters to individual needs of a client.

As regards the distribution of secured loans, the Bank took actions aimed at increasing the efficiency of cooperation with key agents, including with the systematic training programme and the support with materials and processes dedicated to the Bank's staff.

Deposits and accounts for business

In 2012, the Bank offered deposit products and accounts for business at franchise branches, its own branches, and via the Internet.

As at the end of December 2012, the balance of deposits and funds collected on business accounts totalled MPLN 136, including MPLN 13.8 of funds on accounts of enterprises. In the analysed period, the Bank opened 3,987 accounts for companies, and the number of accounts totalled 5,395 as at the end of December 2012.

While creating the offer of its products, the Bank focused on developing service packages that enabled the comprehensive management of current funds, deposits with negotiable interest rates, and FX exchange for enterprises.

Other areas of activity

Development of distribution channels

In 2012, the Bank strengthened its position on the market of financial intermediaries in Poland, remaining the largest supplier of credit products in this segment. The Bank achieved this position with, but not limited to, the development of the Team of Regional Coordinators, whose job is to gain smaller partners of a high sales potential, and to provide selected agents with access to the individual support in the product offer and operational processes. As a result, the Bank commenced cooperation with 30 financial agency companies in 2012, offering two basic products via this channel: cash and consolidation loans and loans for micro-entrepreneurs, as well as additional products such as instalment loans and secured loans for individuals and businesses.

In 2012, the Bank opened 69 franchise branches, which increased the total number of branches to 142 as at the end of the year. Moreover, seven locations where changed and fourteen branches were taken over by new Partners. As at the end of the analysed period, the Bank cooperated with 22 Network Partners (running more than one branch). In total, the Network Partners managed 67 branches, i.e. 47% of the total franchise network. To make the partnership network channel model more attractive and to increase the sales significantly, the product and commission terms and conditions were modified, which enabled to obtain the following results:

- the sales of cash loans and cash loans allocated for the partial repayment of financial liabilities — MPLN 315.3 (the increase by 127% compared to the previous year);
- the sales of the 'Business Loan' product — MPLN 51.5 (the growth by 12% vs. the previous year);
- the sales of the 'Business Mortgage' product — MPLN 3.2;
- the sales of the 'secured' mortgage loan — MPLN 3.8 (the increase by 285% compared to the previous year);
- the sales of checking and saving accounts — 11,243 accounts (the rise by 295% vs. the previous year); and
- the sales of business accounts — 1,005 accounts (the growth by 481% compared to the previous year).

In 2012, the Bank continued its partnership with Tesco Polska. Within the joint project, the staff of the Bank offered financial products to individuals (instalment loans, cash and consolidation loans, and credit cards) at 66 largest Tesco hypermarkets. Customers are served in financial service points established especially for the cooperation. Moreover, the customers can learn the financial offer and submit an application for a product via www.tesco.pl.

In 2012, the Bank distributed the products and services via 15 own branches rendering complete services in deposit products, bank accounts, credits and loans for individuals and SMEs. The operations in 5 own branches included also complete cash and vault services as well as after-sales services dedicated both to retail customers and businesses.

In 2012, the Bank continued the project of creating the Direct Sales Teams dedicated to acquiring and serving enterprises outside the local branches of the Bank. As a result of the operation of the own network, the gross new loans were generated totalling MPLN 109, constituting the increase by 38% compared to MPLN 79 of loans and credits granted in 2011. In other operations of branches, deposits were collected for MPLN 804, and 4,518 accounts were opened for individuals and businesses.

Developing e-banking remained one of the pillars of the Bank's strategy in 2012, being a basic after-sales service channel both of individual and corporate customers. The developed functionality of e-banking as well as the efficiently prepared sales and after-sales service processes together with the well-prepared central back-office are aimed at the consistent:

- development of the Bank's activity not only in geographic terms but also in the area of client groups and offered products/services;

- reduction of operating costs, including costs involved in the development of the network of own branches, and
- increase of efficiency in the client base management (cross- and up-sell).

Based on the above premises, Internet banking was the most important channel of acquiring saving products, which generated more than 40% of the Bank's sales in 2012 with regard to checking and saving accounts, 88% retail customer deposits, and 38% sales of accounts to SMEs. In comparison to 2011, the Bank doubled the base of clients who use e-banking.

According to the Bank's strategy, 100% new retail customers and SMEs using the offer of accounts have access to Internet banking (e-Banking, mobile banking, and helpline).

The Bank's consistent policy of providing clients with the following benefits:

- competitive product prices;
- simplicity of products and processes; and
- rich and innovative functionality,

inspires greater loyalty of clients, both in terms of transactions and products (cross- and up-sell). On average, an active retail customer made three transactions with Internet banking in the last quarter of 2012, while an SME client more than 28 transactions, which according to data published by ZBP is within the market standards and, with regard to SMEs, exceeds such standards significantly. In the area of e-banking, the Bank has been extending its product offer and functionality available online consistently. The following were launched:

- the process of opening accounts of retail and business customers 100% online without the need of a courier visit (the verification of identity based on a transfer from another bank),
- the option to submit an application in the e-banking system for endowment insurance,
- a saving account with a monthly capitalization of interest,
- long-term deposits (24- and 36-month) with a variable interest rate linked with WIBOR, and
- instant transfers; as one of the first banks in Poland, Meritum Bank launched the system of instant payments in its e-banking implemented by the National Clearing Chamber, called Express ELIXIR. It provides clients with online transfers 24/7,

and a number of other transaction improvements and functionalities in the after-sales area.

Marketing/PR

Public relations activities

The main target of PR in 2012 was to create an image of the Bank as a stable and reliable financial institution. At the same time, the Bank conducted activities within:

- Corporate PR, which included briefings for journalists, publishing press releases presenting the financial results of the Bank as well as organising interviews with members of the Management Board about the strategy and development directions of the Bank;
- Product PR, which encompassed press releases about the launch of new products and changes in the present offer, as well as the participation of the Bank in numerous rankings that assessed financial products available on the market; and
- Positioning Bank's experts, including the expert analyses and comments on the current market situation distributed to journalists.

Owing to the above-mentioned activities, the Bank increased the reach of PR publications about the Bank and its products by about 20% in 2012 compared to the previous year (the data based on the report by Press-Service Media Monitoring, where the reach of publications is expressed as the product of the number of readers for every medium and the number of publications in the medium.

Promotional activity

In 2012, the Bank focused its promotional activities on acquiring personal and business accounts via the Internet, by conducting a non-stop 9-month campaign from January to September in all main horizontal portals, in search engines, and on hundreds of websites of the so-called affiliation network. Moreover, the Bank conducted the campaign of promoting its personal accounts on the group sales portal (Groupon) and in Facebook, with dedicated account offers created especially for the latter two portals.

In addition to its activity in the Internet, the Bank supported the sales of loans in the network of own and franchise branches, with an advertising campaign in local press and radio and using external advertising carriers available near its branches. Within micromarketing operations, mass distribution of leaflets was organised as well. In addition to promotional activities, the Bank defined again the main characteristics of the Meritum brand based on the results of marketing research and developed the strategy of its positioning. As a result of such activities, a project was started that involves the replacement and achieving cohesion of all promotional materials of the Bank. The process of replacing materials will be completed in April 2013.

Changes to the Bank's Statute

On 21 February 2012, the Shareholders' Meeting of Meritum Bank ICB S.A. took a resolution to amend the Bank's Statue by adding **§ 29 c**, under which the Management Board became authorised to increase the authorised capital by maximum PLN 226,177,170 (target capital) until 24 October 2014.

Within the above-mentioned target capital, the Management Board took the following resolutions in 2012, under which the authorised capital of the Bank was increased:

- On 23 April 2012, the Management Board adopted a resolution to increase the authorised capital within the target capital to the amount of **PLN 317,869,560**, with the issue of 455,054 Dd series shares and 88,279 Ee series shares, and
- On 23 November 2012, the Management Board of the Bank took a resolution to increase the authorised capital within the target capital to the amount of **PLN 359,341,560**, with the issue of 1,382,400 Ff series shares.

Organizational activities

In 2012, due to the dynamic development of the Bank and the increased headcount, a decision was taken to rent office spaces in Gdańsk, at 472 Grunwaldzka Street (the Olivia Gate building).

As a result of extending the scale of the Bank's business, a number of changes occurred in the organizational structure, including the following most important ones:

- establishing a new organizational unit in the IT Division — Department of IT Solution Quality Assurance, to which the Implementation Quality Department was transferred from the Operational Process Development Office (Operational Division),
- establishing a new organizational unit in the Sales Division — the Promotion Office, by separating its tasks from the Marketing Department, which changed its name into the Development and Sales Support Department,
- transferring the Fraud Prevention Office from the Operational Division into the Risk Division,
- transferring the Operational Risk and Abuse Control Team in the Risk Division into the Operational Risk and Abuse Control Office and the Risk Management System Team into the Risk Management System Office,

- in the Support Office, the present name of the unit H&S and Fire Officer was changed into the H&S and Fire Team,
- establishing the new Financial Market Division, to which the Treasury Department was transferred from the Support Division,
- establishing the new E-Banking Division, to which the following units were transferred from the Sales Division: E-Banking Department (except for the Telemarketing Team, which was transferred to the Development and Sales Support Department), TOK Sales Network Management Department, which changed its name to the TESCO Project Management Department, and the Deposit and Investment Product Office, which was transferred into the Deposit and Investment Product Department,
- establishing a new organizational unit in the E-Banking Division and IT Division — Division Director,
- in the Sales Division, in the Branch and Corporate Banking Department, the Direct Sales Team was transferred from the Direct Sales Office to Regions and the Direct Sales Office was closed, and
- establishing a new organizational unit in the Risk Division — Planning and Provision Manager.

Signatures of the Management Board Members

Piotr Urbańczyk
President of the Management Board

Joanna Krzyżanowska
First Vice-President of the Management Board

Piotr Gawron
Member the Management Board