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## **Report of Bank BPH SA Supervisory Board on the evaluation of the Bank's financial statements and opinion on the Bank Management Board's motion on profit distribution for 2014**

In line with Art. 382 sec. 3 of the Code of Commercial Companies, the Bank's Supervisory Board has analyzed and evaluated the Bank BPH SA ('the Bank's') financial statements for the year ended on 31 December 2014.

In line with Art. 4 of the Accounting Act dated 29 September 1994 (Official Journal of Laws of 2002, number 76, item 694, with amendments), Bank BPH 's Management Board is responsible for developing and duly presenting the financial statements in line with the applicable accounting rules. The Supervisory Board ("SB") along with the Bank's Management Board ("MB") are obliged to ensure that the financial statements and the report on activities comply with the provisions of the above-mentioned law.

The Supervisory Board confirmed that the Bank's financial statements cover the following:

- The statement on the Bank's financial standing as at 31 December 2014, disclosing balance sheet sum of PLN 30 721 290 thousand,
- The profit and loss account for the year ending 31 December 2014, disclosing net income in the amount of PLN 123 496 thousand,
- The statement on total revenues for the year ending 31 December 2014 with total revenues amounting to PLN 118 598 thousand,
- The statement of changes in shareholders' equity, with the net increase in equity of PLN 121 430 thousand in the financial year ended on 31 December 2014,
- The cash flow statement with negative cash flow balance in the financial year ended on 31 December 2014 of PLN 1 165 880 thousand,
- Additional explanatory notes.

The Bank's financial statements for the financial year concluded on 31 December 2014 were audited by an independent chartered auditor, i.e. PricewaterhouseCoopers Spółka z ograniczoną odpowiedzialnością. On 20 March 2015, the chartered auditor issued its unqualified opinion on Bank's financial statement.

In its opinion, the Chartered Auditor stated that financial statements of Bank BPH S.A. present true and fair view of the Company's financial position as of 31 December 2014 as well as its financial results for the financial year from 1 January 2014 to 31 December 2014, and were prepared, in all material respects, in accordance with the accounting principles resulting from the International Accounting Standards, the International Financial Reporting Standards and related interpretations published in the form of the European Commission regulations and to the extent not regulated in those Standards - in accordance with the provisions of the Accounting Act and regulations issued on the basis thereof.

After considering the Bank's financial statements for the financial year ended on 31 December 2014 and with due account to the positive recommendation of the Supervisory Board Audit Committee of 18 March 2015, and the unqualified opinion of the chartered auditor, the Bank's Supervisory Board issued a positive opinion on the Bank's 2014 financial statements as prepared in compliance with the accounting records and documents as well as the status quo.

The Supervisory Board recommends that the General Shareholders' Meeting approves the Bank's financial statements for the financial year ended on 31 December 2014.

#### **Opinion on the Management Board's motion for the profit distribution for the year 2014**

In line with Art. 382 § 3 of the code of commercial companies, the Bank's Management Board submitted a motion for the profit distribution for the year 2014 informing that net profit of the Bank for the financial year closed on 31.12.2014 was PLN 123 495 537.60 and the additional profit included in it over the expenditures of the building society not subject to distribution was PLN 8 235 428.42. In connection with the above, the Management Board proposed to allocate the Bank's net income for 2014 in the amount of PLN 115 260 109.18 into the Bank's supplementary capital.

The SB issues positive opinion on the Management Board's motion and recommends to the Bank's General Shareholders Meeting to accept 2014 profit distribution as presented above.



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## **Report of Bank BPH's Supervisory Board on the evaluation of Management Board's Report on the Bank's activities for 2014**

Pursuant to Art. 382 § 3 of the Commercial Companies Code, Supervisory Board of Bank BPH S.A. evaluated the Bank Management Board's Report on the Bank's activities in the year 2014.

According to the Supervisory Board, the Management Board's report on the Bank's activities:

- was developed in compliance with the legal provisions, accounting records and documents,
- presents genuine picture of Bank's financial standing, with description of basic risks and threats.

The Supervisory Board expresses its positive opinion on the Management Board's report on 2014 activities and recommends that it is adopted by Bank's General Shareholders Meeting.



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## **Brief assessment of the Company's situation in 2014**

Delivering on the provisions of the Code of Best Practice for WSE Listed Companies (Chapter III point 1 subpoint 1), Bank BPH's Supervisory Board presents brief assessment of the Company's situation, including evaluation of the internal control system and significant risk management systems.

Bank BPH Supervisory Board acknowledged the following documents presented by Bank BPH Management Board:

- the Annual Separate Financial Statements of Bank BPH S.A. for the year 2014,
- the Management Board Report on the activities of Bank BPH S.A. for the year 2014,
- the Annual Consolidated Financial Statements of the Bank BPH S.A. Group for the year 2014,
- the Management Board Report on the activities of the Bank BPH S.A. Group for the year 2014.

### ***2014 financial situation assessment***

In 2014, the Bank continued to deliver on its main strategic objectives, enabling the creation of a safe, efficient and profitable Bank. This strategy is based on five main directions:

1. Differentiate on 'Fair Play' – Bank BPH focuses on constant improvement in customer experience and satisfaction. The emphasis is also placed on being a 'simple and transparent' partner for all stakeholders.
2. Grow the core – the Bank focuses on defined mass market segments (cash loans, credit cards and current accounts), and develops personal banking programs to achieve leadership in the mass affluent segment. The Bank's aim is also to increase market share in micro and small SME (with emphasis on primary banking relationships) and to expand its share in high return Mid-Cap corporate banking with selective Large Cap acquisition.

The Bank is striving to develop long-term customer relations, while optimizing risk and revenues.

3. Remain safe and secure – the Bank operates within 'Risk Appetite Statement' tolerances and in compliance with all regulatory ratios. The Bank intends to continue to be recognized as strong on global and local regulatory agenda.
4. Continue investment – the Bank's objective is to create and maintain a 'healthy' technology platform and front desk infrastructure, and to focus on digitization and innovation as well as supporting employee engagement and development.
5. Potential portfolio growth through digestible synergic portfolio acquisition opportunities.

In 2014, in its product-related and financial activities, the Bank continued to implement initiatives and projects in accordance with the strategic goals of the company.

2014 profit amounted to PLN 123,496 thousand against PLN 289,525 thousand in 2013. Pre-tax profit stood at PLN 168,411 thousand in 2014 against PLN 344,307 thousand a year before. During the period under review, the Bank generated net interest income and fees and commission income of over PLN 1.2 billion.

Interest income for 2014 amounted to PLN 927,889 thousand and was 4.8% lower than in 2013 (by PLN 46,500 thousand). It remained the main source of Bank BPH revenues. During the period under review, interest costs went down 33.8% YoY (by PLN 189,307 thousand). This development did not offset 15.4% drop in interest income, which reached PLN 1,298,523 thousand in 2014 against PLN 1,534,330 thousand a year before.

Interest income is mainly driven by revenues on loans and borrowings, which generate 87.2% of all interest revenues. However, due to Monetary Policy Council's decision to cut interest rates, including reference rate reduction by 50 bps and Lombard rate cut by 100 bps, interest revenues went down PLN 187,785 thousand (or 14.2% YoY). Revenues on securities in 2014 amounted to PLN 145,135 thousand, down 24.5% YoY. This was due to lower volumes and structure of the Bank's securities portfolio.

Interest costs were mainly impacted by developments in the costs of deposits, term and current accounts, which amounted to PLN 169,290 thousand in 2014 against PLN 311,798 thousand a year before (a drop of 45.7% YoY). This was attributable to on-going alignment of the Bank's pricing policy to the evolving market environment. Interest costs were positively impacted by lower costs of received loans and borrowings, down by PLN 44,261 thousand (or 21.5% YoY),

thanks to, inter alia, partial repayment of debt contracted from GE Group companies to fund CHF denominated mortgage loans.

In 2014 total impairment charges for loans and borrowings amounted to PLN 57.5 MM against PLN 139.2 MM in 2013, down by PLN 81.7 MM or 58.7%. This significant decrease in the Bank's total credit losses was mainly attributable to significant reduction in impairment portfolio, down by PLN 134.2 MM (48.8%) to PLN 140.9 MM against PLN 275.1 MM in 2013, due to considerable portfolio reduction and quality improvement thanks to less new defaults as well as efficient work-out processes, mainly in retail loans and commercial debt restructuring, assisted by intensified sales of unrecoverable debt. PLN 31.3 MM (or 49.8%) reduction in write-offs for non-impairment portfolio (incurrent but not reported losses) to PLN 31.5 MM against PLN 62.8 MM in 2013 is related to a halted shrinking of this credit portfolio by PLN 313 MM (or 1.4%) in 2014 as compared to PLN 2.8 billion (11.3%) in 2013, accompanied by further improvements in portfolio quality, parameters and risk ratios. Thanks to standard validations of pricing models, conducted basically in Q4 2104, IBNR reserve was reduced, mainly in consequence of improved parameters, in particular retail lending PD.

Net commission income in 2014 amounted to PLN 292,927 thousand, 21.0% down on 2013. It was negatively impacted by a PLN 51,641 thousand (or 46.8%) drop in insurance agency income, while in 2013 the insurance agency income was credited with a one-off revenue from amicable settlement with STU Ergo Hestia SA concerning insurance of mortgage loans with borrowers' low own funds and insurance of mortgage loans within the period until the mortgage is set up. As a result of the settlement, the Bank's net income went up PLN 33.4 million. Domestic payment income shrunk by PLN 14,454 thousand (or 12.7%) as a result of lower income from opening and servicing banking accounts and money transfers.

In 2014 general administrative costs were similar to last year's level. The highest change was recorded in the costs of external services and consulting, which amounted to PLN 94,997 thousand in 2014, up PLN 22,424 thousand (or 30.9%) on 2013. This was due to 2013 cost correction for previous years, related to the Master Services Agreement ('MSA'), a consulting contract that regulates Bank BPH relation with GE Capital EMEA. Without this effect, the general administrative costs would go down 1.9% YoY. The highest cost reductions came from optimization of IT and office equipment maintenance, down by PLN 8,371 thousand (or 12.4% YoY) and costs of apartment maintenance and rents, which dropped by the total of PLN 6,952 thousand (or 4.5% YoY).

The result on other operating revenues and expenses in 2014 was negative and amounted to PLN 1,004 thousand.

At the end of 2014, Bank BPH balance sheet total amounted to PLN 30,721,290 thousand, down PLN 1,388,941 thousand (or 4.3%) as compared to 2013. Developments in the Bank's assets came from reduced financial assets designated at fair value through profit and loss, which shrunk by PLN 1,293,842 thousand (or 20.0% YoY) to PLN 5,187,901 thousand at the end of 2014. These funds were used, inter alia, towards partial repayment of the credit facility contracted from General Electric Group in the amount of CHF 200 million in Q1 2014 and CHF 150 million in Q3 2014.

At the end of 2014 the value of impaired loans amounted to PLN 2,243,004 thousand, while a year before it was PLN 2,892,735 thousand.

In 2014 the Bank's own funds and liabilities went down mainly due to lower 'Amounts due to customers', down by PLN 908,447 thousand (or 6.8%) and reduced 'Amounts due to other institutions', down by PLN 718,816 thousand (or 5.7%). The drop of the amounts due to customers was due to, inter alia, price adjustment of the Bank's deposits to the current market situation, which made the products less popular among customers. In 2014 Bank BPH made two partial payments of the debt contracted from General Electric Group to fund CHF mortgage lending portfolio. In Q1 the Bank repaid CHF 200 million and in Q3 CHF 150 million, which reduced the Bank's debt towards other institutions.

At the end of 2014, the employment (excluding maternity and childcare leaves and sabbaticals) in the Bank amounted to 5,375 FTEs and was lower by 26 FTEs when compared to the end of 2013.

On 6 August 2014 the Management Board of Bank BPH S.A. decided to withdraw from sale of BPH TFI S.A. shares. This was the result of a review of bids submitted by potential investors interested in purchasing BPH TFI S.A. shares. None of the bids was optimal from the Bank's perspective based on assessment of the criteria applied by the Bank as well as the Bank's changed perspective towards external and internal factors influencing the transaction. In the decision-making process macroeconomic and regulatory environments and changes in the mutual funds market as well as the growth perspective of BPH TFI S.A. in the coming years have also been taken into consideration.



Bank BPH S.A. stock is listed on the main floor of the Warsaw Stock Exchange (WSE) in a continuous trading system. At the end of 2014, the Bank's stock was included in the following indices: WIG, WIG250<sup>1</sup>, MIS80<sup>2</sup>, WIG-Polska, WIG-Banki, InvestorMS oraz RESPECT.

Earnings per share (EPS) in 2014 was PLN 1.61. Book value per share (BV/S) in 2014 was PLN 54.38 as compared to PLN 52.79 in 2013. As at 31 December 2014, the Bank's solvency ratio stood at 16.67% (16.38% in 2013) and was above the regulatory level. In 2014 the Bank fulfilled regulatory requirements on capital adequacy.

On 15 October 2014 the Bank BPH Management Board announced it had learned that General Electric Company, the dominant entity of the majority shareholders of the Bank, i.e. GE Investments Poland sp. z o.o., Selective American Financial Enterprises, Inc. and DRB Holdings B.V., is exploring strategic options for the sale of shares in the Bank held by such shareholders and that investment banks and other advisors have been engaged with a view to assisting them in connection therewith.

On 4 November 2014 the Moody's Investor's Service rating agency informed about a downgrade of the Bank's long-term and short-term deposit ratings to Baa3/Prime-3 from Baa2/Prime-2 and placed them on review for further downgrade. Moody's decision followed the announcement by General Electric Company that it was exploring strategic options for the sale of the ownership in Bank BPH held by the Bank's ultimate parent General Electric Company Corporation ('GECC', rating A1, stable). The rating agency also placed on review for downgrade the Bank's standalone Bank Financial Strength Rating (BSFR) of D, equivalent of the Baseline Credit Assessment (BCA) of ba2.

The Polish Financial Supervision Authority ordered a continuation of the Bank's Remedy Plan until the end of June 2016. In consequence the Bank was obliged to submit economic and financial projections as well as an operational plan that supports achieving the Bank's business goals.

**Given the impact of changing banking regulatory environment and the general macroeconomics on Bank BPH's performance, the Supervisory Board assesses that the Bank's general financial situation in 2014 was stable. The Bank maintained strong capital base and was efficient in managing its financial liquidity.**

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<sup>1</sup> In accordance with the decision by WSE in Warsaw, publication of the WIG250 index has been discontinued from the beginning of 2015.

<sup>2</sup> The MIS80 index was owned by the Chamber of Asset and Fund Management. It was published between March and December 2014. In accordance with a decision by WSE in Warsaw, the publication of the sWIG80 index was resumed at the beginning of 2015 to replace the MIS80 index.

### ***Assessment of internal control systems***

The Management Board shall be responsible for the definition, implementation and the effectiveness of the internal control system and for supervising the efficiency of this process by making the necessary corrections and improvements if changes occur in the risk level of the Bank's operations, economic environment factors or irregularities in the operation of systems and processes.

The Management Board shall take steps to ensure the continuity of monitoring the effectiveness of internal controls and shall identify areas of the Bank's business, operations, transactions and other actions which are to be monitored permanently.

The Management Board provides the Supervisory Board with an annual report giving a fair, transparent and synthetic picture of the risks and their magnitudes in the Bank's business.

Bank BPH SA has appropriate mechanisms and procedures safeguarding assets against unauthorized use or disposition, for maintaining proper accounting records and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage the risk of failure to achieve business objectives.

Authority to operate the various responsibilities for financial performance against plans and for capital expenditure is delegated to respective officers within limits set by the Management Board. Credit exposure and market risk exposure competencies are delegated according to the limits. Functional, operating, and financial reporting standards are established in the Bank and cover all key processes. Systems and procedures are in place in the Bank to identify, control and report on various risks. Exposure to these risks is monitored by the Management Board and overseen by the Risk Committee and Audit Committee.

The institutional control, i.e. the examination, assessment and improvement of internal control procedures and mechanisms of the Bank and their practical application shall be performed by the Internal Audit Department. The work of the internal audit function is focused on areas of greatest risk to Bank as determined by an inherent risk-based approach. The Head of Internal Audit is independent and reports directly to the President of the Management Board. The Management Board is responsible for ensuring that recommendations made by the internal audit are implemented within an appropriate and agreed timetable. Supervision over the Internal Audit

Department is performed by the Audit Committee of the Supervisory Board. Key activities performed by the Audit Committee cover regular reviews and discussions over Internal Audit's reports and review of its annual and multi-annual audit plan.

Internal audit in Bank BPH SA consists of three levels:

**Level 1:** internal control mechanisms implemented at individual banking processes and including control activities embedded into individual banking processes to mitigate the risks identified in the processes (e.g. control procedures, self-assessment, functional control, manual and automatic controls et cetera),

**Level 2:** Internal control mechanisms applied on regular basis by the Bank's separated organizational units, which were appointed to manage specific types of banking risks. Level 2 control is aimed at assessing effectiveness of Level 1,

**Level 3:** Internal control exercised by the Internal Audit Department (DAW) consisting in regular inspection, assessment and optimization of the Bank's internal control mechanisms and their practical application. Level 3 control is aimed at assessing effectiveness of Level 1 and Level 2.

In 2013, the Bank's Internal Audit Department was subject to internal and external review of compliance with the International Standards for the Professional Practice of Internal Auditing. The requirement to assess the Internal Audit function is also included in Recommendation H of the Polish Financial Supervision Authority (KNF).

As a result of the above-mentioned, reviews, the Internal Audit Department of Bank BPH SA was assessed with the top grade as "generally compliant" with the International Standards for the Professional Practice of Internal Auditing. It was also concluded that the activities of the internal audit support the Bank's internal control process.

In December 2014 The Supervisory Board of Bank BPH S.A. adopted a resolution on accepting the Management Board's resolution on adhering to the Principles of corporate governance for supervised institutions issued by KNF and confirmed their application to the extent relating to the Supervisory Board from 1 January 2015.

### ***Assessment of risk management system***

The Supervisory Board monitors risk management in the Bank on regular basis. Credit, market, liquidity and operational risks as well as other major risks related to the Bank's operations are discussed and monitored by the SB Risk Committee and the entire Supervisory Board.

To assist it in decision-making, the Management Board appointed committees responsible for individual risk areas as opinion and consultation bodies: Credit Committee, Enterprise Risk Management Committee, Assets and Liabilities Management Committee ("ALCO"), Operating Risk Committee, Product and Software Development Committee, Compliance Committee, Technology Risk Committee.

The Bank's capital management is fully integrated with the risk management process so that equity decisions match risks the Bank takes as part of its business operation. The Bank's funds fully cover the risk level required by the capital requirement broken down to individual risk types.

According to the Supervisory Board, the current system of risk management provides for regular identification, monitoring and control of risk related to the Bank's operations, and appropriately defines risk appetite, adjusting internal and regulatory capital to it.



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## **Report on Bank BPH S.A. Supervisory Board's 2014 activities**

### **Supervisory Board composition**

The Supervisory Board acts on the basis of the Banking Act, the Code of Commercial Companies, Articles of Association of Bank BPH S.A. and the Rules of Supervisory Board. Pursuant to art. 21 of the Bank's Articles of Association, the Supervisory Board shall be composed of 5 to 14 members appointed for a joint three-year term of office by the General Meeting. The current term of office, under General Meeting's Resolution no. 30/2013 has begun on 6 June 2013.

As of 1 January 2014 the Supervisory Board consisted of 10 members and presided in the following composition:

- Wiesław Rozłucki — Chairman of the Supervisory Board,
- Denis Hall — First Deputy Chairman of the Supervisory Board,
- Richard Laxer — Second Deputy Chairman of the Supervisory Board,
- Aleš Blažek — Member of the Supervisory Board,
- Maurice Benisty — Member of the Supervisory Board,
- Rafał Rybkowski — Member of the Supervisory Board,
- Agnieszka Słomka-Gołębiowska — Member of the Supervisory Board,
- Todd Smith — Member of the Supervisory Board,
- Tomasz Stamirowski — Member of the Supervisory Board,
- Beata Stelmach — Member of the Supervisory Board.

On 28 May 2014 the General Meeting of Shareholders (hereinafter the GSM) gave its consent to following changes in the composition of Supervisory Board:

- Mr. Aleš Blažek resigned from his membership in the Supervisory Board of Bank BPH S.A. in relation to his new professional duties outside of GE Group;
- Mr. Richard Laxer resigned from his membership in the Supervisory Board of Bank BPH S.A. in relation to his new professional duties within the GE Group;
- Mr. Andrew Bull was appointed as member of the Bank's Supervisory Board;
- Ms. Roshni Haywood was appointed as member of the Bank's Supervisory Board.

Due to resignation of Mr. Richard Laxer, the hitherto SB Second Deputy Chairman, the Supervisory Board held its meeting on 28 May 2014 and appointed Mr. Todd Smith to the position of the Second Deputy Chairman of the Supervisory Board. In the period following the GSM Ms. Agnieszka Słomka-Gołębiowska on 22 October 2014 resigned from her membership in the Supervisory Board of Bank BPH S.A. in relation to her new professional duties that cannot be combined with the function in Bank BPH S.A. Supervisory Board. On 18 December 2014 Mr. Maurice Benisty resigned from his membership in the Supervisory Board of Bank BPH S.A. in relation to his new professional duties within the GE Group.

At the end of the reporting period, i.e. on 31 December 2014, the Supervisory Board presided in the following composition:

- Wiesław Rozłucki — Chairman of the Supervisory Board,
- Denis Hall — First Deputy Chairman of the Supervisory Board,
- Todd Smith — Second Deputy Chairman of the Supervisory Board,
- Andrew Bull — Member of the Supervisory Board,
- Roshni Haywood — Member of the Supervisory Board,
- Piotr Rybkowski — Member of the Supervisory Board,
- Tomasz Stamirowski — Member of the Supervisory Board,
- Beata Stelmach — Member of the Supervisory Board.

In line with the recommendations of Good Practice of Companies Listed at the WSE and the Bank's Articles of Association, in 2014 the Bank fulfilled the criterion whereby 30% of Supervisory Board members should be independent, i.e. free from any ties to the Bank, its shareholders or employees, which ties could have a significant impact on the

independent member's capability to adopt impartial decisions. At the end of 2014, three out of eight members of the Supervisory Board or 37,5% of the total, i.e. Mr. Wiesław Rozłucki, Mr. Rafał Rybkowski and Mr. Tomasz Stamirowski submitted Statements of Independence. The independence of the Supervisory Board's members was confirmed by the resolution no. 3/2014 of 11 February 2014.

As of 31 December 2014, each of the Supervisory Board Committees included at least one independent member, with the Audit Committee including 50% of independent members. As at 31 December 2014, the independent SB members performed the following functions: Mr. Wiesław Rozłucki — Chairman of the Supervisory Board, Member of the Nomination and Remuneration Committee and Member of the Risk Committee, Mr. Rafał Rybkowski — Chairman of the Audit Committee and Member of the Investment Committee, Mr. Tomasz Stamirowski — Member of the Audit Committee and Member of the Investment Committee.

The composition of the Supervisory Board is diverse. Half of the Supervisory Board Members are Polish nationals. There is a professional experience and educational background diversity among the Members of Supervisory Board, adequate to the duties performed. Women accounted for 25% of the Supervisory Bank's composition as of the end of 2014.

#### **Supervisory Board's work organization**

The Supervisory Board is organized adequately to the requirements stipulated in the Code of Commercial Companies, the Bank's Articles of Association and the Bank's needs.

Two Deputy Chairmen in the SB's composition account for an efficient decision-making process in case of the Chairman's absence. The Committees of the Supervisory Board improve Board's work efficiency and offer support and guarantee that the decisions made by the Supervisory Board are properly considered and analyzed.

The Supervisory Board also discharged its duties with support of 4 committees: Audit Committee, Risk Committee, Investment Committee and Nomination and Remuneration

Committee. The Committees performed their functions in accordance with the provisions of the Rules of the Supervisory Board and Rules of individual Committees. The Audit Committee pursued detailed monitoring of financial reporting process, risk management and internal audit systems efficiency and cooperation with the external auditor. The Risk Committee was monitoring and assessing risk management in Bank BPH and issued opinions on credit exposures with values exceeding specific limits. The tasks of the Investment Committee included issuing opinions on investment expenditures and for services purchased with value exceeding specific limits. The Nomination and Remuneration Committee issued opinions on, inter alia, contracts and remuneration of the Management Board Members.

### **Supervisory Board's activities**

In the last reporting period the Supervisory Board actively discharged its statutory duties of continuous supervision over the Bank's activities in compliance with the provisions of the Code of Commercial Companies. Members of the Supervisory Board are bound to participate actively in the activities carried out by the Supervisory Board. Sitzings of the SP take place at least 4 times a year. In 2014, the Supervisory Board held 5 regular meetings and 2 meetings by means of remote communication, where it passed 49 resolutions.

At the SB scheduled meetings and in between them, the Supervisory Board members familiarized themselves with regular reports and materials pertaining to, inter alia, the Bank's financial performance, the Bank's interim results in individual business segments, risk ratios and detailed reports on specific risk areas eg. liquidity risk, capital adequacy ratio, correspondence with the regulators, execution of the post-inspection recommendations, internal audit and compliance functions activities.

Additionally, within the remits of its competencies, the Supervisory Board was supporting the Management Board in adopting significant decisions aiming to align the Bank's operations to the changing market environment. In 2014, the Supervisory Board delivered on all its reporting obligations, submitting the required documents for approval of the General Shareholders Meeting.



In line with art. 26 sec. 4 of Bank BPH S.A. Articles of Association, the SB resolutions concerning the Bank's benefits to its Board members and the Bank's consent for the conclusion of a significant agreement with an entity related to the Bank, member of its authorities or entities related to them, as well as related to the selection of a new entity authorized to audit the Bank's financial statements were adopted with the approval of the majority of independent SB members. The Supervisory Board monitored the Bank's relations with the dominant entity, including the level of costs incurred for the received services.

In the performance of its duties, the Supervisory Board accepted draft amendments to the Bank's Articles of Association and approved changes to the internal regulations related to risk. The Supervisory Board gave its consent to amendments to the Articles of Association emphasizing the independence of the internal audit department and the addressing the requirements of Recommendation H, concerning internal control system in banks, issued by the Polish Financial Supervision Authority. On 24 February and 4 August 2014 the Supervisory Board adopted resolutions accepting the Management Board's resolutions on amendments to "Bank BPH S.A. risk appetite strategy". On 30 December 2014 the Supervisory Board adopted a resolution on accepting the Management Board's resolution on "Bank BPH S.A. credit risk management strategy".

Finalizing the selection of the entity authorized to audit the Bank's financial statements in 2013, on 20 January 2013 and after receiving a positive recommendation of the Audit Committee, the Supervisory Board adopted a resolution to select PricewaterhouseCoopers Sp. z o.o. as an entity authorized to audit and review the Bank's and the Bank's Group financial statements for 2013 and for the subsequent financial years.

In particular, Supervisory Board's competencies include decisions on the Management Board's composition. On 16 December 2013 the Supervisory Board appointed Mr. Mariusz Bondarczuk to the position of the Management Board as Deputy President of the Management Board in charge of the IT and Operations Divisions as of 1 January 2014. On

17 April 2014 the Supervisory Board appointed the Management Board for the next 3-year term of office.

The Supervisory Board gives special attention to scrutiny of the areas of potential conflict of interests. In line with the "Regulations governing maintenance of bank accounts, granting loans, cash borrowings, bank guarantees, sureties, and assuming other off-balance sheet commitments towards the entities referred to in Art. 79 of the Banking Act and art. 26 sec. 4 of the Bank's Articles of Association, the Supervisory Board adopted resolutions on approving transactions with related entities. Moreover, on 15 December 2014, the Supervisory Board adopted by a resolution the amended Rules of Supervisory Board, which introduced, inter alia, a new management policy of the conflicts of interest among the Members of the Supervisory Board and a detailed mode of voting outside of meetings. Supervisory Board adopted a resolution approving a resolution of the Management Board on adhering to the Principles of Corporate Governance for supervised institutions issued by the Polish Financial Supervision Authority and confirmed their implementation until 1 January 2015.

Based on the above considerations the Supervisory Board recognizes that as a Bank's Supervisory Board, it meets the requirements of "Policy on the Selection and Assessment of Members of Bank BPH S.A. Management Board and Supervisory Board". The Supervisory Board in the current, varied composition has the means to execute effectively tasks conferred on it and the individual members of the Supervisory Board comply with the policy's suitability criteria, have impeccable reputation, appropriate education and qualifications to perform continuous supervision over Bank's activities. Members of the Supervisory Board devote sufficient amount of time to carrying out duties they have undertaken duly.

Detailed attendance of the Supervisory Board members at individual SB meetings in 2014 is presented in the table below.

First name and surname	Function	Ties with GE	Statement of independence	SB membership		Participation in SB meetings	Audit Committee	Investment Committee	Nomination and Remuneration Committee	Risk Committee
				from	to					
Wiesław Rozłucki	Chairman of the Supervisory Board	No	✓	24/06/2008		7/7			✓	✓
Denis Hall	First Deputy Chairman of the Supervisory Board	Yes		24/06/2008		6/7			✓	✓
Richard Alan Laxer	Second Deputy Chairman of the Supervisory Board	Yes		20/05/2011	28/05/2014	1/3			✓	
Todd Smith	Member of the Supervisory Board/Second Deputy Chairman of the Supervisory Board	Yes		13/11/2013		6/7	✓		✓	
Aleš Blažek	Member of the Supervisory Board	Yes		24/06/2008	28/05/2014	2/3	✓			✓
Maurice Benisty	Member of the Supervisory Board	Yes		6/06/2013	18/12/2014	5/7		✓		
Rafał Rybkowski	Member of the Supervisory Board	No	✓	09/09/2011		7/7	✓	✓		
Agnieszka Słomka-Gołębiowska	Member of the Supervisory Board	No	✓	20/02/2008	22/10/2014	5/5	✓		✓	
Andrew Bull	Member of the Supervisory Board	Yes		28/05/2014		4/4	✓			✓
Tomasz Stamirowski	Member of the Supervisory Board	No	✓	24/06/2008		5/7	✓	✓		
Beata Stelmach	Member of the Supervisory Board	Yes		13/11/2013		4/7				
Roshni Haywood	Member of the Supervisory Board	Yes		28/05/2014		4/4			✓	

After closing of the reporting period, on 16 January 2015 the Supervisory Board appointed Ms. Beata Stelmach to the Investment Committee of the Supervisory Board as the Chairperson of the Committee.



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## **Report on Audit Committee's activities**

The rules of operation of the Audit Committee derive from the Rules of Supervisory Board and Rules of Audit Committee and are consistent with the requirements of the Act of 7 May 2009 on Statutory Auditors and their Self-Governing Organization, Entities authorized to Audit Financial Statements and on Public Oversight (Journal of Laws, No. 77, item 649, as amended).

Pursuant to the Rules, at least two members of the Committee, including the Committee's Chairperson, are independent members of the Supervisory Board. Additionally, at least two members of the Committee should possess relevant qualifications and experience in accounting or financial auditing.

On 15 December 2014 the Supervisory Board adopted a resolution on amendments to Rules of the Audit Committee that strengthened the compliance function in the Bank.

The Audit Committee's tasks result from monitoring of the Bank's financial reporting process as well as monitoring of the effectiveness of the risk management system and the internal control system.

It is also within the scope of competence of the Audit Committee to present recommendations to the Supervisory Board regarding choosing or revoking audit entity allowed to analyze Bank's financial statements. Audit Committee also controls independence and objectivity of such entity and verifies results of its work.

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

1. Rafał Rybkowski (Committee Chairman),
2. Andrew Bull,
3. Tomasz Stamirowski,
4. Todd Smith.

During 2014 two members of the Committee, Aleš Blažek and Agnieszka Słomka-Gołębiowska, resigned from their functions in the Supervisory Board and thus from being members of the Committee. On 28 May 2014, Mr. Andrew Bull was appointed to the Committee and on 27 October 2014 Mr. Tomasz Stamirowski was appointed a new member of the Committee.

On 15 December 2014, the Supervisory Board approved the amended Rules of the Audit Committee improving control of the Committee exercised over the compliance function.

In 2014, delivering on its statutory duties, the Audit Committee held 4 regular meetings, working in line with the Audit Committee's Work Plan adopted for 2014 and 2 additional meetings.

The Audit Committee discussed details of the Bank's financial performance with the representatives of the Management Board, reviewed internal audit reports and met the representatives of the entity authorized to audit the Bank's financial statements. The Audit Committee also reviewed the on-going and planned changes to the regulatory environment and their impact on the Bank's business. The Audit Committee monitored on on-going basis the implementation progress of post-inspection recommendations, stemming from internal audits as well as external audits and regulator inspections. Delivering on its duties in 2014, the Audit Committee dealt, among others, with the following tasks:

- The AC discussed the Internal Audit's report on its 2013 activities and recommended its adoption by the Supervisory Board,
- The AC issued a positive opinion on 2014 internal audit plans, the Internal Audit Department (IAD) strategic plan for 2014-2016 and IAD 2014 budget and provided opinions on amendments proposed with their scope across 2014,
- The AC reviewed and evaluated 2013 Financial Statements of Bank BPH and Bank BPH Group and issued positive opinions on the following documents:

- Report of Bank BPH's Supervisory Board on the evaluation of the Bank's 2012 Financial Statements, Bank BPH Management Board's motion on profit distribution for 2013,
  - Report of Bank BPH's Supervisory Board on the evaluation of Management Board's report on 2013 activities and the evaluation of the Company's 2013 activities.
- The AC acknowledged the Bank's 2013 Compliance report and Compliance plan for 2014,
- The AC issued positive opinion on the independence and co-operation with the entity authorized to audit the Bank's 2013 financial statements,
- Monitored the implementation of recommendations contained in the Auditor's (KPMG) 2012 Management Letter,
- The AC discussed the Auditor's (PWC) 2013 Management Letter and the Management Board's response to the recommendations contained therein,
- The AC reviewed the Bank's half-year and quarterly financial statements before their publication in 2014,
- The AC reviewed the fees paid for auditing and non-auditing services to the entities authorized to audit the Bank's financial statements,
- The AC issued opinions on motions from the Bank's business units concerning engagement of the entity authorized to audit the Bank's financial statements for co-operation and for providing non-audit services,
- The AC issued opinions on amendments in regulations pertaining to the Internal Audit,
- The AC monitored activities run at the Bank to align it to KNF recommendations and post-inspection requirements,
- On regular basis, the AC discussed reports on the Bank's management of Fraud Risk;
- Amendments to Rules of Audit Committee,
- As part of the monitoring of the internal control system effectiveness the AC met with heads of: Legal and Corporate Relations Division, Risk Management Division, Internal Audit Department, Compliance Department.

The Audit Committee was also working actively in between its meetings, and the AC members met the representatives of the Bank's authorities and the Internal Audit Department, as required.

The Audit Committee concluded that it fulfilled the requirements of Art. 86 of the Act of 7 May 2009 on Statutory Auditors and their Self-Governing Organization, Entities authorized to Audit Financial Statements and on Public Oversight (Journal of Laws, No. 77, item 649).



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## **Report on Risk Committee's activities**

The Risk Committee is responsible for monitoring and assessing risk management at the Bank, in particular assessing management of credit risk, market risk and operational risk, as well as evaluating compliance of the Bank's operations with external regulations governing risk management. It is within the scope of responsibilities of the Committee to give opinions to Bank's internal regulations concerning risk management or impacting the risk area.

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

1. Denis Hall – Chairman of the Committee,
2. Wiesław Rozłucki,
3. Andrew Bull.

During 2014 Mr. Aleš Blažek resigned from their functions in the Supervisory Board and thus from being a member of the Committee. On 28 May 2014 Mr. Andrew Bull was appointed as a member of the Committee.

In 2014, the Committee held 4 regular meetings and 1 additional meeting. A key and constant element of the work of the Committee was ongoing analysis of the structure and quality of the loan portfolio, review of the issues relating to regulatory requirements and recommendations in the area of risk management, including, among other things, PFSA recommendations and guidelines on assets quality, PFSA post-inspection recommendations, analysis of the reports on operational, market and liquidity risks as well as analysis of internal and external regulations pertaining to the risk area.

The Committee also provided opinions on amendments to the Bank's internal regulations within the risk area, including the Bank's Risk Management Strategy, updated Credit Risk Management Policy in the Bank, amendments to the Bank's Risk Appetitive Statement



and to the Regulations governing maintenance of bank accounts, granting loans, cash borrowings, bank guarantees, sureties, and assuming other off-balance sheet commitments towards the entities referred to in Art. 79 of the Banking Act.

The Risk Committee also issued opinions on:

- Credit exposures and taking lending decisions involving exposures that exceed the limits set in the Bank's internal regulations;
- Decisions regarding establishment of provisions in the amount that exceeds the limit set in the instructions governing debt restructuring and collection.



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## **Report on Nomination and Remuneration Committee's activities**

The Nomination and Remuneration Committee issues opinions for the Supervisory Board in cases relating, among other things, to approval or amendment of the Management Board members contracts, remuneration of the Management Board members, policy on selection of appropriate members of Management Board, Supervisory Board and high level management staff. The Committee's opinions are issued unanimously and may be adopted by circulation.

During 2014, Mr. Richard Laxer and Ms. Agnieszka Słomka-Gołębiowska resigned from their function in the Supervisory Board and thus from being members of the Committee. On 28 May 2014, Ms. Roshni Haywood was nominated the Chairperson of the Committee. On 11 September 2014, Mr. Denis Hall was appointed to the Committee. On 13 November 2014, Mr. Wiesław Rozłucki was appointed to the Committee.

As at the end of December 2014, the composition of the Committee was as follows:

1. Roshni Haywood (Chairman of the Committee),
2. Todd Smith,
3. Wiesław Rozłucki,
4. Denis Hall.

In 2014, the Nomination and Remuneration Committee provided on-going support to the Supervisory Board in all personnel matters involving Members of the Bank's Management Board.



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## **Report on Investment Committee's activities**

In line with the provisions of the Rules, the Committee has been issuing opinions on investment expenditures exceeding set limit, and has been analysing thoroughly requests submitted for opinion taking into account both the structure of the proposed investment and benefits for the Bank connected with carrying out such investment. On 15 December the Supervisory Board adopted amendments to the Rules of Investment Committee on alignment of the spend threshold to the level consistent with other majority shareholder's business units. The amendments were implemented on 1 January 2015.

On 18 December 2014, Mr. Maurice Benisty resigned from his membership in the Supervisory Board of Bank BPH S.A. in connection with his new duties in the GE Group.

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

1. Rafał Rybkowski,
2. Tomasz Stamirowski.

After closing of the reporting period, on 16 January 2015 the Supervisory Board appointed Ms. Beata Stelmach to the Investment Committee of the Supervisory Board as the Chairperson of the Committee.

In 2014, the Investment Committee held 2 meetings.

The Committee paid special attention to the proper course of the process of selection of vendors with a view to selecting the best offers both in terms of costs and quality.

In 2014 the Committee considered and issued opinions on 10 motions pertaining to project implementation of conclusion of contracts with new vendors.

Also, the Committee received information materials on, inter alia, planned and implemented projects and contracts. In line with the Bank's Articles of Association and

within the remit of its competencies, the Investment Committee issued opinions on the motions that require Supervisory Board's approval.