2012 Report of the Supervisory Board of BNP Paribas Bank Polska SA

BNP PARIBAS | Bank zmieniającego się świata

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Brief Assessment of BNP Paribas Bank Polska Standing in 2012 and prospects

For the BNP Paribas Bank Polska (the Bank), year 2012 was a challenging year marked with restructuring projects and focused on accelerating the growth of income and increasing operational efficiency. The Bank continued the transformation of its business model with the main strategic objective of building a strong sizeable universal bank on the Polish market.

In 2012, the situation on global financial markets was unstable, with the mood steadily improving from the middle of last year. The fall in eurozone's GDP by 0.4% y/y was primarily driven by tighter fiscal policies in the troubled peripheral countries; however, also Germany did suffer a slowdown due to a weakening in the global manufacturing cycle. Thankfully towards the end of the year market tensions over Euro peripheral countries started to diminish.

In this environment, the Polish economy had been steadily slowing in 2012, with the slowdown being driven by both the recession in the eurozone, undermining exports, as well as a tighter fiscal policy, and lower public sector investment spending in particular. The investments and spending related to the successful organisation of the Euro Cup 2012 had a positive impact on the domestic demand and promotion of Poland worldwide. However, after continued economic development in the first 3 quarters of 2012, the situation deteriorated in Q4. The pace of GDP growth weakened from 3.6% y/y in Q1 to expectedly less than 1.0% y/y in Q4. CPI inflation has started at a high level of 4.1% y/y in January and it has reached a peak of 4.3% y/y in June, mainly on the back of higher prices during the EURO 2012 Football Championships, boosted mainly by food, fuel and energy prices. However, the steady decline in demand pressure, coupled with the strengthening zloty and lower commodity prices on international markets, pushed inflation down in the final months of 2012. In December, CPI inflation has fallen below the NBP target of 2.5% i.e. to 2.4% y/y.

Weakening growth and the problems in the construction sector in particular, as well as continued de-leveraging made the economic environment more challenging for banks.

Despite the worsening economic environment, the banking sector performed well in the first three quarters of 2012. Net profits of banks reached PLN 12.1 billion vs. 11.8 billion in the same period of 2011, although the return on equity ratio declined to 13.2% by Q3 2012 from 14.8% in Q3 2011 and return on assets to 1.20% from 1.23% in the respective periods. The liquidity and deposit side is still stable and unemployment is not growing as could have been expected. Given a pessimistic outlook for the beginning of 2013, the leading indicators should be carefully followed to see how the situation is evolving.

The Bank continued in 2012 to reinforce its competitiveness and market presence in its core activities.

For the **Corporate and Transaction Banking (CTB)** 2012 was a year of growth based on development of its integrated financing product offering, and new cross-selling opportunities with respect to corporate and SME customers. CTB increased the number of clients by 4% net compared to 2011 capitalizing on the systematic client acquisition program, addressed particularly to European groups present in Poland, by leveraging the Group-wide strategy and program of "One bank for corporate in Europe" but also expanding in the medium sized domestic companies. CTB focused in particular on:

- development of cash management advanced solutions;
- development of the Structured Financing activity created in 2011 which focuses on acquisition financing, real estate financing and large syndicated facilities;
- further expansion of the product offering in the corporate sector with the acquisition in April 2012 of a factoring company BNP Paribas Factor. The company supports financing of business activity of the Bank's customers from the small and medium enterprises segment and corporate customers by offering both non-recourse and recourse factoring services;
- Introduction of new services, including mass domestic payments or mass direct debit, which multiplied the transactional capacity of the bank.

In **Retail Banking**, many initiatives have been taken to strengthen the retail banking activity with the introduction of several products supported by communication campaigns. Investments were made in multichannel banking program and in sales network development and restructuring program, in 2012, 9 new operating branches were opened under a New Branch Model concept which offers to its clients well located, attractive and functional environments to meet with advisors and realize transactions.

In the Individual Clients segment the strategy of becoming a top and first class retail bank in Poland mobilized a lot of efforts to realize a change in the positioning and increase of market share. The all-year-long marketing activities dedicated to Individuals were carried out under the slogan: "Let's Talk About Your Plans".

The number of personal accounts by the end of 2012 exceeded 260 thousand and was by 17% higher as compared to the number of accounts recorded as at the end of 2011. Bank's share in the ind. customers' market increased to 5% in production.

The promoted credit products, such as cash loans, car loans and mortgage loans, were offered with an attractive interest rate and advantageous conditions. Consequently, the sales of cash loans grew in 2012 by over 60 per cent as compared to the year 2011.

Furthermore, marketing activities supported the development of the deposit base (which grew by 13 per cent over the year 2011) and active use of payment cards.

In SME and Micro segments RB pursued its strategy to capitalize on the historical strength of the bank in this area and continue development with the deepening of relationship with existing clients and acquisition of new ones.

Some adverse factors impacted the results in the SME sector, namely a deterioration of the risk profile of many SME's due to the slowing down of the economy and more specifically the ones involved in the construction sector and a substantial drop in investment loan requests by companies generally less keen to expand in a stagnating and uncertain economic environment.

In 2012 a dedicated and comprehensive offering for the micro-entrepreneurs and professionals was launched to be expanded in 2013.

Remodeling of the offering dedicated to the wealthiest individual customers was one of the key projects of the last year. The new offering, which was accompanied by the creation of a Brokerage Office, includes investment advisory services, wealth planning, discretionary portfolio management and execution of clients' orders for the sale and purchase of financial instruments. It combines the knowledge of Polish experts, i.e. private banking advisers, brokers and investment advisers, with global experience of the BNP Paribas Group. In 2012 few new investment products were introduced.

In 2012 the Bank implemented a project to optimize its operational efficiency and reduce cost, mainly in the central and back office organization, whilst simultaneously continuing to selectively invest in its sales network and business lines. The downsizing of the staff covered 355 people over 2012 and the first quarter of 2013. The underlying restructuring cost of an estimated PLN 13 million, was charged to the financial results of the HY1-2012. The Board appreciates the handling of the FTE optimization process, ensuring the largest support possible for employees who lost their job, including a redundancy package above legal requirements and special outplacement program. The expected results of this structural reorganization project are to have costs stable in 2012 - which has been achieved - and decreased in 2013, with decreasing CIR over the years 2012-2014.

The Bank's capital and liquidity position remain satisfactory and enabled the Bank to implement its business plans and develop its credit activity for individuals, professionals and corporate customers.

The highlights of the Bank's separate financial results in 2012 are:

- **The Bank's total assets as at 31 December 2012 were lower than the total assets as at the end of December 2011 by PLN 1,477 million or over 7%;**

One of the main reasons of the lower balance sheet total was a reduction of the available-for-sale investment portfolio related to the evolution of the balance sheet structure and optimisation of the liquidity surplus. The drop in the Bank's assets was also attributable to a slight decrease in the value of loan receivables.

- **2% decrease in net loans to customers - caused predominantly by the zloty appreciation against the currencies in which a part of loan portfolio is denominated, sale of a portion of uncollectible receivables' portfolio, and economic deterioration resulting in a slower growth of production of new loans, mainly commercial loans;**

On the other hand, growth was noted in the portfolio of overdraft facilities (by 6.9% as compared to the end of December 2011), PLN car loans (by 25.7%) and PLN mortgage loans (by 30.5%). Thanks to an attractive offering of cash loans and intensive marketing actions, the sales of those loans in 2012 amounted to PLN 800 million and were by 65% higher than in 2011. A higher sale of cash loans compensated a reduction in the balance of consumer loans which resulted from selling a portion of the uncollectible receivables portfolio in June and November 2012.

The lower balance of loans to enterprises (by PLN 272 million as compared to the end of December 2011) was attributable mainly to:

- drop in FX rates (due to the zloty appreciation against foreign currencies, the balance of total commercial loans decreased by 2.1%),
- sale of a portion of the uncollectible commercial receivables portfolio in August 2012,
- economic downturn and the related limited demand for investment projects among enterprises.

- **The share of non-performing loans in the Bank's total loan portfolio fell from 12.7% recorded at the end 2011 to 11.3% at the end of 2012.**

The improvement of the loan portfolio quality remains one of the priority attention points for the Bank. The observed continued downward trend of the ratio of impaired (non-performing) loans in the total portfolio results from:

  - high quality of the new loans granted;
  - effective debt restructuring and recovery measures with respect to the non-performing portfolio;
  - sale of a portion of the uncollectible receivables portfolio.

- **Deposits from customers grew by 12.0% .**

In 2012, the Bank consistently grew its customer deposit base as the stable source of PLN financing. This increase was mainly related to: PLN term deposits, both of individual customers and large enterprises and core deposits on current accounts of business customers. The YoY growth of term deposits was possible by a dynamic PLN deposit gathering policy supported by an attractive offering – in line with current market practice - targeted at both individual and business customers. This led to a comforting liquidity situation which enabled the Bank to optimise its external funding base.

- **The equity capital rose by PLN 324 million (23.6%) as compared to December 2011 mainly owing to a new issue of shares addressed to the majority shareholder of the Bank.**

In an environment of growing regulatory demands in respect of the Bank's capitalization and in particular to meet the objectives under the recovery programme, the Bank raised its own capital base through a share issue fully subscribed by the Bank's majority shareholder, BNP Paribas Fortis SA/NV, based in Brussels.

- **As at 31 December 2012 the capital adequacy ratio went up to 14.46% in comparison to 12.01% as at the end of December 2011. In June 2012, the Bank's own funds were raised by nearly PLN 260 million owing to the realisation of the share issue which was fully subscribed by the majority shareholder;**

This capital increase enabled the Bank to reach a CAR exceeding 12% with a core Tier 1 in excess of 9%. These solid ratios will facilitate the growth strategy. In addition the great care was applied to raising of deposits in PLN combined with the the funding of the CHF mortgage portfolio primarily through intragroup financing which enabled the Bank to show a very satisfactory liquidity position throughout the year.

- **Increase in the cost of risk versus 2011.**

The cost of risk was the priority issue for the Bank in 2012. Although the cost of risk related to the new business model applied by the Bank since 2009/2010 was kept at a very low level, again the Bank created additional provisions on account of methodology changes which to a large extent concerned the consumer credit portfolio of the former Dominet Bank, which contributed to the increase of the Group's cost of risk.

This cost of risk increase, notably in the consumer loans activity, is predominantly linked to an alignment in Q1 2012 to the risk provisions-methodology with BNP Paribas Group and to additional write-downs of old dated non-performing consumer loans.
This negative impact on the 2012 cost of risk was partially offset by:

a) release of provisions due to effective restructuring on specific non–performing corporate loans
b) sale in 2012 of part of old irrecoverable consumer loan portfolio, with some write-back of provisions.

- **Net banking income increased by 4% compared to 2011. The net interest income was lower than in 2011 by 9%.**

4% increase in the Bank's net banking income was related to the higher net trading income and net investment income of the Bank, as well as the dividend received from the subsidiary, Fortis Lease Polska Sp. z o.o. in the amount of PLN 22 million;

Net fee and commission income grew by 1 per cent, mainly due to a higher income on cash and card settlements as well as issuance of guarantees and other contingent commitments. The Bank earned lower fee and commission income on the sale of insurance related car and cash loans.

Net trading and investment income was higher by 61 per cent as compared to 2011.

- **Total costs of the Bank decreased by 1% The Bank's general expenses and depreciation totalled PLN 300 million which was by 5 per cent lower than in the corresponding period of 2011**

8% increase in the Group's personnel costs was mainly a result of creating one-off provision in the amount of PLN 13 million related to the employment restructuring programme and the growth of employment in the RB BL related to a transformations of the franchisee outlets into the Bank's own branches;

The Bank's other expenses were reduced by 7% as compared to 2011 under the Bank's cost optimisation programme. Optimisation initiatives and activities identified within the programme are to bring PLN 80 million savings a year. Depreciation costs dropped by 10%.

- **Basic ratios: C/I ratio at 78%, ROA at 0.15%, ROE at 1.81% and book value per share at PLN 59.18 as at 31 December 2012.**
- **A network of 226 branches and 8 business centers serve the Bank's customers. As at 31 December 2012, the total number of employees in the Bank amounted to 2,773 as compared to 2,984 as at 31 December 2011.**

The Bank closed the year 2012 with a pre-tax profit totalling PLN 45 million, which was by PLN 3 million lower than in 2011, and a profit after taxation of PLN 29 million.

The decrease of the Bank's profit resulted primarily from higher cost of risk following the creation of additional provisions for the old consumer credit portfolio (of the former Dominet Bank), and from an economic slowdown observed last year which particularly affected the construction sector and small and medium enterprises. At the same time, the net banking income increased chiefly thanks to the higher net trading income and the dividend received from the subsidiary, Fortis Lease Polska Sp. z o.o.

The Board noted that one-off events had a material impact on the Bank's performance in 2012.

Thanks to the improved funding structure and increased volume of customer deposits in the structure of liabilities, the Bank was able to prepay tranches of credit facilities taken from the BNP Paribas group. It translated into a lower interest expense attributable to lower average loan balances and additional net income on a settlement of prepaid tranches of credit facilities from the BNP Paribas group with the positive market valuation (PLN+23.2 million). Further to that, maturities of loans granted by the BNP Paribas group were extended.

The Board appreciates the efforts of the Bank's Board of Executives, and of all its employees in pursuing the implementation of the business strategy, their substantial contribution in the restructuring process and launching of new businesses, which resulted in good sales results, improved profitability and good control of risk. The Board takes note of the Bank's sound capital and liquidity position and improved credit risk profile. At the same time the management should continue the efforts to improve cost efficiency and revenue generation, however maintain the sound risk profile.

The prospects for the Bank's activity development could be materially influenced by the macroeconomic situation, the further implementation of the BNP Paribas Group development strategy on the Polish market, as well as by changing market conditions, and by eventual changes in the regulatory environment. Key factors that may affect the Group's future performance include the following:

- deterioration of the global economic situation which has an impact on the Polish economy slowdown,
- possible financial problems of some Polish enterprises,
- rising unemployment rate and a decrease in salary purchasing power which can limit demand for consumer and mortgage loans,
- expected further monetary easing,
- evolution of the PLN FX rate versus foreign currencies,
- changes in the costs of the Group's financing which depend on the price competition intensity among banks as regards deposit acquisition, and the level of PLN interest rates.

The main challenges for 2013 are to continue efforts to build a technologically advanced universal bank supporting clients projects and fulfilling their transactional needs, focusing on enhancing Client satisfaction by refining service quality and bringing innovations tailored to customer needs. Thanks to the projects launched in 2012, while continuing revitalizing of the sales network of branches, the Bank aims at providing its clients during 2013 with new and modernized internet and mobile banking services. The management is also dedicated to continuation of initiatives aiming at cost control and increasing the Bank's profitability potential within a controlled risk profile. The Bank plans to intensify communication and promotional actions with a view of strengthening the BNP Paribas brand in the market.

The Board supports these development plans, being confident that changes and improvements introduced over the past years - sometimes painful and slow to generate additional revenues will start to pay off as from 2013, and will contribute, assuming no drastic change of business environment, to continuously rising financial performance over next years and increasingly satisfactory benchmarking with the competitors.

Similarly as in 2012, the Bank does not publish the financial projections for 2013.

Evaluation of Internal Control System and Significant Risk Management

The Supervisory Board positively assesses the Bank's management system, including internal controls system and risk management system.

The internal control system in the Bank operates under the Polish regulatory requirements and is adjusted to the standards of the BNP Paribas Group. The purpose of the internal control system is to support decision processes in the manner that enables prevention of risks or their early detection, in particular by ensuring the following:

- effectiveness and efficiency of the Bank's business;
- reliability of financial reporting;
- compliance of the Bank's business with law provisions and internal regulations;
- security of transactions and assets.

The internal control system of the Bank is composed of two categories of control:

- permanent control (1st and 2nd level controls, including functional control and operational control) and
- institutional control (3rd level control, including internal audit).

The functional control and the permanent operational control are performed in line with the internal control rules binding at the Bank subject to the approval of the Board of Executive and the Supervisory Board.

Internal Control Coordination Committee (ICCC) was set up as an advisory body to support the Board of Executives in effective management of the internal controls at the Bank and also the Audit Committee in monitoring of the effectiveness of internal control system.

In line with the *Compliance Risk Management Policy* and due to local requirements Compliance provides to the Board of Executives and Supervisory Board minimum once a year the report presenting the management summary of all key aspects, events or compliance incidents crucial for the monitoring of compliance risk at the Bank.

The Audit Department (3rd level control) activity is performed with the required independence and objectivity as assured in the Audit Charter approved by the Board of Executives and the Supervisory Board. Pursuant to internal audit regulations binding in the BNP Paribas Group the Audit Department's activity is supervised by the Audit Committee and is performed as part of Inspection Generale, internal audit of the BNP Paribas Group. It applies the audit methodology and the risk analysis, planning and reporting methodology adopted by the Group and it operates in compliance with Polish law.

The Audit Department on regular basis notifies the Audit Committee of the Supervisory Board, and at appropriate intervals the Supervisory Board, of eventual weaknesses identified together with conclusions resulting from the internal audit assignments conducted likewise actions undertaken to remove these weaknesses or fulfil given recommendations.

The major attention points of the audit review of the internal control system are:

- Continuously since 2009 growing number of complaints, which recorded a 33% increase in 2012 compared to 2011 while the number of customers and number of transactions recorded a lower change. The largest group of claiming clients (ca. 90%) are Individual customers of RB and PF Line. The highest losses or fees reimbursed were paid to RB Mass Retail customers. Total amount of losses or reimbursement decreased y/y.
- Total operational losses increased 100% compared to previous year (to 10,5 mio). Mainly due to the: non -recognized financial positions, compensation payment for FX options and external credit frauds.
- In the operational loss reporting the Board attention was drawn to the claims concerning FX derivatives.
- Total amount of external frauds incresed mainly due to mortgage credit frauds, while Total amount of internal frauds decreased and only 2 (of 24) cases resulted in losses.
- Numerous changes in the organizational structure and in internal regulations implied problems of responsibility identification. On the other hand, reduction of management levels and decreased number of organizational units had a positive impact on cost base and the project of simplifying bank was started.

The regulatory recommendations issued after inspection in 4Q 2010 have been reported as implemented. The KNF inspection regarding AML was conducted in 2012. Bank received 17 recommendations 6 of them were already implemented in 2012.

The Supervisory Board analysed and approved the Annual Compliance Report. The Board positively assessed the level of the effectiveness of the compliance risk management system in the Bank, and approved of suggested correction actions to be taken in 2013.

Having received the Audit Department evaluation of the Internal Control System, and based on the Audit Committee report, the Supervisory Board concludes that the internal controls system at the Bank' is functioning effectively. However despite improvement of control ratings and development of control system, the business results, increasing number of operational losses and complaints show that system of internal control needs constant and particular management attention.

General Meetings

The Supervisory Board reviewed and presented their opinions on issues subject to resolutions of the General Meeting, including approval of financial statements and profit sharing proposal as well as the proposed changes in the Statute.

The Annual General Meeting of BNP Paribas Bank Polska SA (AGM) was held on 23 May 2012. The AGM adopted all submitted resolutions in respect to fiscal year 2011, including approval of separate and consolidated financial statements for 2011, the approval of the discharge of duties of the Bank's authorities for 2011 and distribution of the 2011 profit earmarked to increase the Bank's own funds.

The Bank's shareholders at the decided on the increase of the Bank's share capital by PLN 228.5 million through the Series N shares issue with pre-emptive rights excluded, and on the related amendments to the Bank's Statute. Furthermore, amended Regulations of the Supervisory Board of BNP Paribas Bank Polska SA were approved.

Changes in the ownership and capital structure

As a result of the series N share issue, on 23 June 2012 the Bank's share capital increased from PLN 1,206,175,300 up to PLN 1,434,646,300, i.e. by the amount of PLN 228,471 thousand.

As at 31 December 2012, the share capital of the Bank was divided into 28,692,926 ordinary bearer shares with a nominal value of PLN 50 each.

Series A to K shares were admitted and introduced to public trading. As at 31 December 2012, the Bank did not undertake any steps to introduce the series L, M or N shares into stock exchange trading yet. It is due to the Bank's intention to combine the introduction of those shares into stock exchange trading with the share free float increase planned for 2013.

The change in the structure of shareholders took place on 23 June 2012 in connection with the registration of the Bank's share capital increase in effect of the series N share issue under private placement.

As a result of the series N share issue acquisition, the stake of BNP Paribas Fortis SA/NV increased from 78.13% to 81.62% of the total number of shares and votes, i.e. by 3.49 pp. On the other hand, the stake of Dominet SA went down by 3.47 pp from 21.74% to 18.27%. As a result of the above, the stake of the BNP Paribas SA group (indirectly through BNP Paribas Fortis SA/NV and Dominet SA) increased by approx. 0.02 pp, i.e. from 99.87% to 99.89%.

BNP Paribas Group, as ultimate controlling shareholder, holds, via BNP Paribas Fortis SA/NV, Brussels, Belgium directly 23 418 013 shares in the Bank representing a 81,62% stake in the share capital and giving the right to exercise 18,848,593 of total votes at the general meeting, and indirectly through Dominet SA, a BNP Paribas Fortis affiliate, holds further 5,243,532, of the share capital and giving a right to exercise 5.243.532 votes at the general meeting. The free float, i.e. shares held by minority shareholders included 31,381 shares i.e. 0.13% of all the Bank's shares and the same number of votes.

The Supervisory Board acknowledged that, following the KNF consent to the request of BNP Paribas Group to have an extension to the end of 2013 of the deadline for fulfilling BNP Paribas commitment to increase the free float of BNP Paribas Bank Polska shares to at least 15%, the kick off of internal process has taken place.

Changes in the composition of the Supervisory Board

As at 31 December 2011, the Supervisory Board composition was as follows:

1.	Camille Fohl	Chairman
2.	Jarosław Bauc	Deputy Chairman, independent
3.	Lars Machenil	Deputy Chairman
4.	Monika Bednarek	Supervisory Board's member, independent
5.	Jean Deullin	Supervisory Board's member
6.	Mark Selles	Supervisory Board's member
7.	Andrzej Wojtyna	Supervisory Board's member, independent

In connection with assuming new professional responsibilities within the BNP Paribas Group, the following members handed in a resignation from his membership in the Bank's Supervisory Board Mr Lars Machenil on 1 February 2012 and Mr Mark Selles, as from the date of the AGM.

The Annual General Meeting of the Bank held on 23 May 2012, appointed three new members of the Supervisory Board:

- Francois Benaroya,
- Filip Dierckx,
- Helene Dubourg.

Mr. Filip Dierckx, the Deputy Chairman and COO of BNP Paribas Fortis, replaced Mr. Machenil in all his previously exercised functions, i.e. as deputy Chairman, Chairman of the Audit Committee and member of the Compensation Committee.

Also two other new members joined the Supervisory Board on behalf of the majority shareholder, i.e. Mrs. Hélène Dubourg, deputy CFO of International Retail Banking (IRB) of BNP Paribas Group and Mr. Francois Benaroya, Head of Retail Individuals of IRB business of BNP Paribas Group.

As at 31 December 2012, the Supervisory Board composition was as follows:

1.	Camille Fohl	Chairman
2.	Jarosław Bauc	Deputy Chairman, independent
3.	Filip Dierckx	Vice Chairman
4.	Monika Bednarek	Supervisory Board's member, independent
5.	Francois Benaroya	Supervisory Board's member
6.	Jean Deullin	Supervisory Board's member
7.	Helene Dubourg	Supervisory Board's member
8.	Andrzej Wojtyna	Supervisory Board's member, independent

Review of 2012 Supervisory Board meetings

In 2012, the Supervisory Board held seven (7) meetings and adopted 47 resolutions.

Recurring issues discussed at the meetings included financial performance of the Bank and results by business lines, review of financial statements, the balance sheet key equilibriums, evolution of the loan portfolio of the bank, its risk management as well as adopted risk strategy, the human resources evolution, executive remuneration, strategic discussions on financial and business prospects of the Bank and issues and/or reports from the regulator, brought to the attention of the Board by the Audit Committee.

The Board was presented at regular intervals with business development reports of business lines Corporate & Transaction Banking, Retail Banking, Personal Finance and discussed the related business development strategies. These strategies and respective achievements were assessed against market performances and their merits of developing sustainable income growth within a controlled risk profile.

The Board was regularly briefed on developments in economic situation in Poland and the Bank's performance in comparison to competitive banks and the banking sector.

The Board duly debated and approved the transaction of purchase by BNP Paribas Bank Polska SA of the factoring company BNP Paribas Factor Sp. z o.o. (until 28 June 2012 - Fortis Commercial Finance Sp. z o.o).

The Board followed closely the execution of restructuring project, which involved operational efficiency improvements mainy in support functions and FTE redundancy plan.

The Board confirmed changes on the executive level including appointment of new Head of Retail Banking. The Board appointed Mr. Adam Parfiniewicz as a new member of the Bank's Board of Executives responsible for RB Area, effective from 23 May 2012.

The Board approved changes in the organizational structure of the Bank and respective shifts in the responsibility of the members of the Board of Executives.

The Board also took note and discussed in several meetings the review of the execution of the Recovery Programme for BNP Paribas Bank Polska SA. The Supervisory Board approved the update of the Recovery Program prepared by the management in response to the requests received from the regulator.

The Board paid special attention to monitoring of the risk management and received on monthly basis a summary Risk reporting dashboard for counterparty, market and operational risk.

The Board was presented with detailed overviews of credit risk with focus on the exposures secured by real estate (residential and/or commercial mortgages) and exposures related to financing real estate, monitored under Recommendation S. The Board received necessary information about the risk level and quality of real estate portfolio; both the elements of the past and new production were discussed and how they impact the quality of the portfolio. The Board inquired also on the elements of the process of evaluation of the collateral.

During the year the Board also closely monitored the portfolio of loans denominated in CHF, with focus on mortgage loan portfolio and the actions taken to mitigate risk related to this portfolio.

The Board was properly informed on significant agreements signed by the Bank, in particular major credit agreements. The Board took note of loan agreements which exceeded the internal lending limit of PLN 100 million with respect to credit facilities, as duly approved by the acting Credit Committees.

In 2012 the Board authorized changes in the credit decision making model.

The Board confirmed the consolidated text of the Statute of BNP Paribas Bank Polska SA based on the formerly binding consolidated text of the Statute including the amendments introduced under resolutions of General Meetings held on May 23, 2012.

The Board passed resolutions on approval of new or updated strategies and policies pertaining risk and internal control, as required under Polish law and internal regulations, including:

- new "Principles regarding public disclosure of information on capital adequacy";
- amended "Regulations regarding credit decision making in BNP Paribas Bank Polska SA";
- amended "Operational Risk Management Strategy and Policy of BNP Paribas Bank Polska SA";
- amended "Risk Strategy for BNP Paribas Bank Polska SA";
- amended "Audit Charter";
- updated "Internal Control Rules in BNP Paribas Bank Polska SA".

The Board received and based on Audit Committee's recommendation approved the "Annual Audit Report for 2012" and the "Annual Compliance Report for 2012".

Summary on activity of Board Committees

In accordance with the rules of the Code of Best Practices of WSE Listed Companies, supplemented in 2010, as adopted by the Bank, within the meaning of Article 14 of the Bank's Statute, and in accordance with the requirements of the Act on statutory auditors and their council, entities authorized to audit financial statements, two standing committees are convened within the Supervisory Board, namely: the Compensation Committee and the Audit Committee.

- ***Summary of Compensation Committee activity in 2012***

As at 31 December 2011 the Compensation Committee was composed of:

1.	Camille Fohl	Chairman
2.	Lars Machenil	Committee Member

3.	Monika Bednarek	Committee Member, independent

On 1 February 2012 Mr Lars Machenil resigned his membership in the Bank's Supervisory Board, and subsequently Mr. Bauc was appointed to the Committee on temporary basis.

Upon appointment of 3 new Supervisory Board members effective May 23rd , 2012 composition of Compensation Committee was changed. As from at 23 May 2012 and on December 31, 2012, the Committee was composed of:

1.	Camille Fohl	Chairman
2.	Filip Dierckx	Committee Member
3.	Monika Bednarek	Committee Member, independent

The composition and rules of operation of the Compensation Committee are determined in the Regulations of the Supervisory Board and the Regulations of the Committee for Compensation of the Board of Executives' Members of BNP Paribas Bank Polska SA approved by the Supervisory Board.

The Committee normally invites the President of the Board of Executives and the Head of the Human Capital Area and other persons, as it deems necessary, to its meetings.

The said Regulations were reviewed and changed in March 2012 in the process of implementation of "Variable Compensation Policy for Executives and other Individuals who Have a Significant Influence on the Risk Profile at BNP Paribas Bank Polska SA" (VCP), pursuant to the new local requirements under Resolutions no. 258/2011 and 259/2011 of the Financial Supervision Authority dd. 4 October 2011.

Under the new Variable Compensation Policy, the scope of competence of the Compensation Committee within the Bank's Supervisory Board was extended.

Under existing Regulations the Committee plays an advisory role to the Supervisory Board in opinionating all issues related to the remuneration policy and motivation programs and also is authorised to make decisions related to compensation packages in favour of the Board of Executives' Members.

Under the new Variable Compensation Policy and resolution of the Supervisory Board on changes in the Regulations of the Compensation Committee, from March 2012, the scope of competence of the Compensation Committee within the Bank's Supervisory Board was extended. The Committee shall issue opinions on the Variable Compensation Policy functioning, including in particular the remuneration amount and components, and it will monitor and issue opinions about variable components of remuneration paid to bank managers responsible for risk management and also for compliance of the Bank's activity with law and internal regulations.

In 2012 the Compensation Committee held 4 meetings, including 2 on the occasion of supervisory Board meetings of March 9th and May 23rd and 2 organized as teleconferences on June 26th and December 6th and took 8 decisions.

The Committee opinionated or took decisions in the following matters:

- Recommended to the Supervisory Board adoption of principles for implementation in the Bank of the policy governing variable components of remuneration paid to the Board of Executives and other employees whose professional activity has a significant impact on the Bank's risk profile, considering the new local requirements.
- Approved the payments of awards for 2011 for all members of the Board of Executives and payments of additional compensation for 2011 for 3 BOE members;
- Approved the bonus 2011 payment for former CRO for the period of his performing the duties of Vice President of the Board of Executives;
- Approved changes in employment conditions for 3 members of the Board of Executives as of April 1, 2012, in accordance with annexes to the contracts of employment;
- Approved an additional one-off compensation payment for an expat BOE member;
- Confirmed the right to receive deferred 2009 financial bonus based on DCS 2010 units programs applied in BNP Paribas group for the CEO and one former BOE member responsible for Risk.
- In December 2012, the Committee reviewed the status of implementation of the Variable Compensation Policy (implemented by the Board of Executives' Resolution 51/2012 dated 19 July 2012 according to the policy principles approved by SuB). The Policy has been implemented with regard to all Executives and 12 managers selected in accordance with regulatory criteria, and internal rule, i.e. participation in various committees of the Bank and risk related decisions.
- Resolved to change, as of 1 January 2012, the terms of compensating the members of the Board of Executives, included in their employment contracts, in accordance with annexes to the contracts of

employment. All members of the BoE are now covered by the principles for determining and payment of variable compensation as stipulated by the VCP.

- Settled legacy of the past concerning deferred remuneration for 2 Polish BOE members contracted back in 2007 in full understanding with the individuals concerned.

- ***Summary of Audit Committee activity in 2012***

On December 31, 2012, the Audit Committee composition was as follows:

1.	Filip Dierckx	Chairman
2.	Jarosław Bauc	Committee Member, independent
3.	Helene Dubourg	Committee Member
4.	Andrzej Wojtyna	Committee Member, independent

The composition of Audit Committee has been changed in 2012 after resignations of Mr. Lars Machenil and Mark Selles, Following their appointment to the Supervisory Board by the AGM of May 23, 2012, Mr. Filip Dierckx, COO of BNP Paribas Fortis replaced Mr. Machenil as Chairman of the Audit Committee and Helene Dubourg joined as member.

The composition and rules of operation of the Audit Committee are determined in the Regulations of the Supervisory Board and the Audit Committee Regulations approved by the Supervisory Board.

The Audit Committee issues recommendations and provides opinions based on a consensus. The recommendations and opinions are presented to the Supervisory Board by the Committee Chairman. The Audit Committee submits annual reports on its activity to the Supervisory Board.

In 2012 the Audit Committee held 5 meetings, which were organized together with Supervisory Board meetings.

Under its competence, throughout the year 2012, the Audit Committee:

- monitored the effectiveness of the internal audit activity, in particular through supervision of the Bank's Audit Department, discussing at each meeting reporting on audit assignments, issues recommendations, organizational issues and Audit Department's budget;
- received analysis of remuneration of the Audit Department employees, which is a compulsory report prepared in line with the Audit Card and pursuant to KNF Resolution no. 258/2011;
- approved changes in the Audit Plan for 2012;
- issued recommendation to the Supervisory Board on approval of amendments to Internal Control Coordination Committee Regulations and Internal Control Rules in BNP Paribas Bank Polska SA;
- endorsed changes in the Audit Charter;
- Issued a positive recommendation to the Supervisory Board on re-appointment of Mazars Audyt Sp. z o. o. as the Bank's external auditor for the years 2012 – 2017, which was then reconsidered under the rule that the auditor should be changed after a 5 year period. The agreement with the Auditor was annexed
- Conducted supervision of the work performed by statutory auditor and provided opinion on the audit plan submitted by the statutory auditor, monitored adherence to the policy of the external auditors' independence and objectivity;
- Discussed over the audit of the financial statements for 2011 and review of the financial statements for the 1st half of 2012 by the statutory auditor and issued positive recommendations on approval of these financial statements for publication;
- Discussed the Letter to the Management for 2011 by Mazars' and reviewed of the responsiveness of management to the recommendations made in the external auditor's management letter;
- Discussed the conclusions of credit procedures review focused on control of application procedures IT review,
- Review of the Bank's performance and financial standing before publication of the quarterly reports of BNP Paribas Bank Polska SA;
- Advised on issues related to harmonization of local financial reporting standards with Group accounting for consolidation purposes;
- Reviewed implementation of the recommendations issued by the Internal Audit;

- followed up closely on implementation of recommendations issued by the Financial Supervision Authority (KNF) issued after the last comprehensive audit performed in Q4 2010.
- Discussed necessary improvements of internal controls and risk management, including changes in the Internal Control Rules and Risk Strategy and issued recommendations to the Supervisory Board on approval of amended strategies' documents.
- On regular basis received and discussed operational loss events reporting.

The Audit Committee fulfilled all its duties imposed in the current legal environment.

Having analysed the annual reports of the Internal Audit and Compliance & Control and Audit Assessment of the internal control system in the Bank, the Audit Committee issued positive assessment on the functioning of the Bank's internal control system, as adequate to the identified risks, effective and well developed.

Annual accounts and Board of Executives' Reports

The Supervisory Board reviewed the consolidated Board of Executives' Report on BNP Paribas Bank Polska Group's business activity in 2012 as well as the audited Annual Consolidated Financial Statements of BNP Paribas Bank Polska Group for 2012, comprising:

1). Consolidated balance sheet as at 31 December 2012 disclosing total assets and liabilities amounting to PLN **20,830,812** thousand;

2). Consolidated profit and loss account for the period from 1 January 2012 to 31 December 2012 disclosing a net profit amounting to PLN **30,841** thousand;

3). Consolidated statement of comprehensive income for the period from 1 January 2012 to 31 December 2012 disclosing a total income of PLN **67,335** thousand;

4). Capital adequacy ratio of **13.80%;**

5). Consolidated statement of changes in equity for the period from 1 January 2012 to 31 December 2012 disclosing an increase in the consolidated equity by PLN **327,023** thousand;

6). Consolidated cash flow statement for the period from 1 January 2012 to 31 December 2012 disclosing an increase in cash balance by PLN **864,154** thousand;

7). Notes to the consolidated financial statements comprising a summary of significant accounting policies and other explanatory notes.

The Supervisory Board reviewed the separate Board of Executives' Report on BNP Paribas Bank Polska SA business activity in 2012 as well as the audited Annual Separate (Non-consolidated) Financial Statements of BNP Paribas Bank Polska SA for 2012, comprising:

1). Separate balance sheet as at 31 December 2012 disclosing total assets and liabilities amounting to PLN **19,245,705** thousand;

2). Separate profit and loss account for the period from 1 January 2012 to 31 December 2012 disclosing a net profit amounting to PLN **29,288** thousand;

3). Separate statement of comprehensive income for the period from 1 January 2012 to 31 December 2012 disclosing a total income of PLN **65,333** thousand;

4). Capital adequacy ratio of **14.46%;**

5). Separate statement of changes in equity for the period from 1 January 2012 to 31 December 2012 disclosing an increase in the separate equity by PLN **324,190** thousand;

6). Separate cash flow statement for the period from 1 January 2012 to 31 December 2012 disclosing an increase in cash balance by PLN **847,135** thousand;

7). Notes to the financial statements comprising a summary of significant accounting policies and other explanatory notes.

Based on the audit of the consolidated and non-consolidated financial statements as at the year-end (i.e. as at 31 December 2012), Mazars Audyt Sp. z o.o. issued ***unqualified opinions*** on these financial statements.

Having considered the Audit Committee's positive opinion, the Supervisory Board approved of the Board of Executives' Reports on BNP Paribas Bank Polska SA and its Group's business activity in 2012 and submits the BNP Paribas Bank Polska statutory and Group's Financial Statements for 2012 for the consideration of the Annual General Meeting to be held on 4 April 2013.

Distribution of the net profit for 2012

As a result of its activity in the 2012 fiscal year, the Bank generated on a statutory base a net profit in the amount of ***PLN 29 287 457.52*** *(say: twenty nine million two hundred eighty seven thousand four hundred fifty seven and 52/100).*

Having considered the Board of Executives' motion, the Supervisory Board submits and recommends to the AGM to adopt a resolution on the distribution of the 2012 profit in the following way:

- the portion of the profit in the amount of ***PLN 2 343 000*** to be allocated for additional capital,
- the remaining portion of the profit in the amount of ***PLN 26 944 457,52*** to be allocated to general risk fund,

Materials for the Annual General Meeting comprise the audited Consolidated and Separate Financial statements, the Reports of Board of Executives on the Bank's and Group activity in 2012 and this Report of the Supervisory Board.

Warsaw, 7 March 2013