



Bank Pocztowy

# The Bank Pocztowy S.A. Capital Group

Management Report on the Activities of  
the Bank Pocztowy S.A.  
Capital Group  
in 2015

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# Letter from the Chairman of the Supervisory Board

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**Jerzy Józkwiaak**

**Chairman of the Supervisory Board  
of Bank Pocztowy**

Dear Sirs and Madams,

On behalf of Supervisory Board, I have the pleasure to summarize the performance of the Bank Pocztowy Capital Group in 2015.

Undoubtedly, the year 2015 was challenging for the Polish banking sector. The net profit of the banking sector dropped by nearly 30 percent comparing to 2014 due to lower interest and commission income and the recent regulatory charges.

The Bank Pocztowy Capital Group, however, has managed to successfully face these challenges. Significantly, the scale of operations of the Group has grown and in December 2015 the number of clients approached 1.5 million. The Company also reported record high sales of cash loans, which exceeded PLN 1 billion. Consequently, thanks to business growth and cost discipline the Capital Group reposted satisfactory performance in 2015. The Group's income amounted to PLN 327.5 million and was slightly lower than in 2014. At the same time, the Capital Group incurred additional one-off expenses of PLN 15.5 million, related to enhancing stability of the Polish banking sector. In effect, the net profit amounted to PLN 33.9 million.

The Supervisory Board was informed about business and financial performance, as well as organizational and infrastructural changes introduced in the Bank on an ongoing basis. In response to dynamic market changes and the new strategy of Poczta Polska, which assumed an increased share of financial services in the Poczta Polska Group strategy, Bank Pocztowy set a new strategic goal – to become the leader in consumer banking in provincial Poland. Consequently, in April 2015 the Board accepted a new development strategy of Bank Pocztowy for the period until 2018.

Bank Pocztowy will focus on a well-priced and simple offer. Importantly, it will encourage further integration with Poczta Polska. A major element of the strategy is to replace the universal banking with specialized well-priced banking services responding to the requirements of mass consumers. The Bank will also accelerate integration with Poczta Polska, which is constantly being changed and modernized, and automate and streamline processes. The strategy will enable growing the value of Bank Pocztowy in the long run.

The Bank's operations, its stability and development strategies have been positively opinioned by potential investors participating in initial preparations to the IPO. However, considering disadvantageous conditions on the capital market, the Bank's Management Board and its stakeholders decided to suspend preparations to the IPO on the Warsaw Stock Exchange. Still, I am certain that investors' opinions provide optimistic outlooks for the Bank and

confirm that the Bank's growth strategy has a great potential for success. Importantly, financial market players perceive Bank Pocztowy as a trustful and safe business. At the same time, the Bank's shareholders unanimously agreed to inject PLN 60 million to the Bank to enable its further growth.

As Supervisory Board Chairman, I am sure that in the coming years Bank Pocztowy, supported by its Supervisory Board, will growth safely and steadily in the structures of the Poczta Polska Capital Group and it will benefit from strategic partnership with other Group entities.

Best regards,

**Jerzy Józkowiak**

Chairman of the Supervisory Board

# Letter from the Chairman of the Management Board

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**Szymon Midera**  
Chairman of the  
Management Board

Dear Sirs and Madams,

The year 2015 was a special period for Bank Pocztowy, as we celebrated the 25<sup>th</sup> anniversary of the Bank's registration. In the last 25 years we have evolved from a settlement institution to the bank aspiring to the position of the consumer banking leader in all regions of Poland, which intensively works on a mobile offer. Our last-year achievements contributed a lot to these changes.

At the same time, it was a difficult year for the banking sector impacted by a number of events influencing banks' performance. Apart from record low interest rates, which adversely affected interest income, and a mandatory reduction of fees on card transactions, banks made higher contributions to the Bank Guarantee Fund and incurred costs of creating the Borrowers Support Fund.

In April 2015 the Bank adopted a new strategy based on three key growth drivers – simplicity, safety and a good price of services. This implies a special focus on consumers and simplest services offered at a good price. At the same time, we plan further integration with Poczta Polska, in particular in the area of products and the sales network.

In 2015 the Bank Pocztowy Group generated a net profit of PLN 34 million and the total income of PLN 328 million. Return on equity reached 6.9%, i.e. slightly more than in the entire banking sector. Our performance was very good considering the market situation.

Despite the challenging environment, Bank Pocztowy can be proud of its numerous achievements.

We are very satisfied with the growing portfolio of individuals and companies, as the number of Bank Pocztowy's clients has reached ca. 1.5 million. In December 2015 the total credit receivables of the Bank Pocztowy Capital Group amounted to PLN 5.5 billion and the total liabilities due to deposits reached PLN 5.7 billion. Having simplified our offer and streamlined processes in the last 12 months we have managed to achieve record high sale of cash loans exceeding PLN 1 billion. We have achieved a 20% growth in receivables and reported record high total receivables of PLN 2 billion.

Importantly, in 2015 the quality of the credit portfolio of Bank Pocztowy was higher than the market average and so was the interest margin, which reached 3.6% (versus 2.3% for the entire sector). This is particularly important, because determining its future value and profitability the indicator is of key importance for Bank Pocztowy.

Other major events, which occurred in 2015 included activities aimed at floating the Bank on the Warsaw Stock Exchange. Although the decision has been postponed due to a disadvantageous market situation, potential investors positively assessed our business model and stable performance reported in the recent years. Such opinions give an optimistic outlook for the Bank. At the same time, in September 2015 the Bank's shareholders took a major decision to inject PLN 60 million of capital by way of a private placement. Both our shareholders have taken new shares at the same time keeping the existing ones. The funds acquired have improved the solvency ratio and they will enable the Bank to grow substantially in the coming years.

In 2015 we also started works on one of the key projects included in the long-term development strategy of the Bank, i.e. the new EnveloBank brand to be launched in 2016. The project is based on the everyday bank idea responding to financial needs of clients and other requirements related to numerous everyday tasks and chores. The brand will offer much more than mobile banking services and at the same time the Bank will make the first step towards creating an exceptional network of partners and additional services included in our product offer.

In the fast changing world, EnveloBank will certainly contribute to transforming the Bank's culture, help us acquire young clients and drive further growth and value for our stakeholders.

This is all ahead of us, but now we are presenting a report on the performance of the Bank Pocztowy Capital Group generated in 2015.

Best regards,

**Szymon Midera**

Chairman of the Management Board

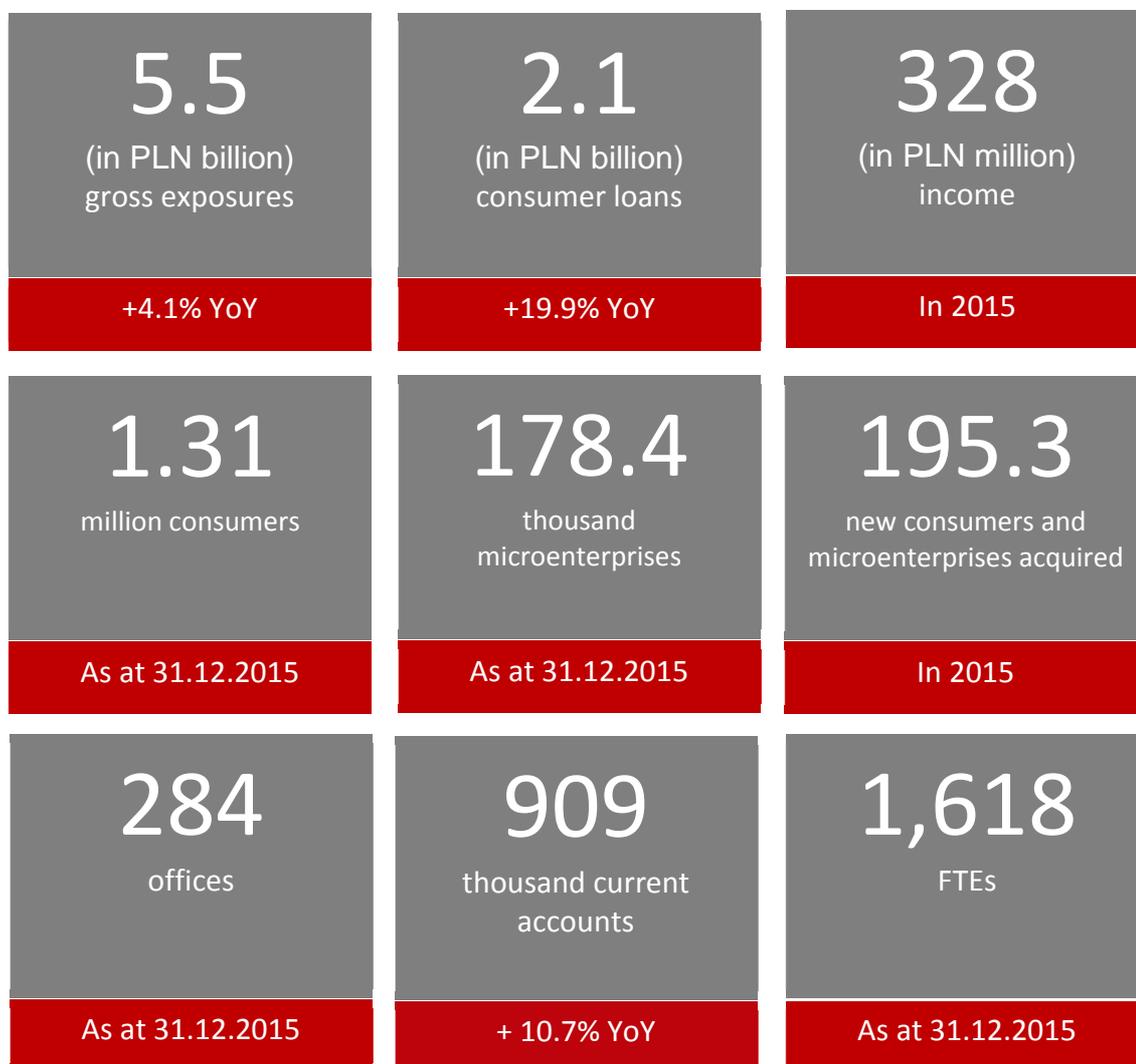
## Summary of the Year

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*“Relentlessly pursuing its strategy Bank Pocztowy managed to report record high performance figures, such as over PLN 1 billion consumer loans granted in 2015 and the total balance of consumer loans exceeding PLN 2 billion”*

*- Szymon Midera*

*Chairman of the Management Board of Bank Pocztowy*



# General Information about the Bank Pocztowy Capital Group

Bank Pocztowy (Bank) is a consumer bank providing safe and simple financial services through the network of Poczta Polska, its own offices operating countrywide and through mobile channels. Its business model is based on strategic partnership with Poczta Polska, which ensures exclusive access to its distribution network and a wide consumer portfolio in provincial Poland.

The mission of the Bank, the parent of the Bank Pocztowy Capital Group (the Bank Pocztowy Capital Group, the Capital Group, the Group) is defined as “simple, safe and well-priced banking”. For consumers it implies:

- focus on the simplest products, processes and communication;
- good price guaranteed to a wide group of consumers;
- modern financial services based on integration within the Poczta Polska Capital Group.

Bank Pocztowy focuses on consumer banking and provides a supplementary offer for microenterprises.

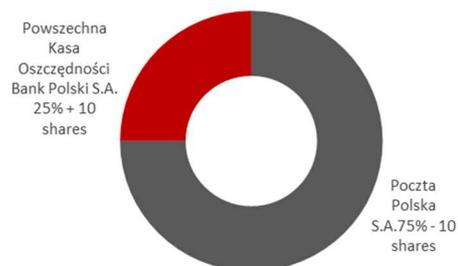
Poczta Polska S.A. is the key shareholder and business partner of Bank Pocztowy holding 75%, i.e. 10 shares in its share capital. Powszechna Kasa Oszczędności Bank Polski S.A. also holds shares in the bank (25% +10 shares).

Thanks to the strategic alliance with Poczta Polska, the Bank’s services and products are available in ca. 7.4 thousand outlets and offices (post offices, branches and agencies) countrywide. Apart from Poczta Polska, Bank Pocztowy offers its services and products through 284 own offices, electronic distribution channels (online and telephone banking) and a network of mobile agents of its subsidiary – Spółka Dystrybucyjna Banku Poczowego Sp. z o.o. Additionally, the Bank’s products are distributed by ca. 23 thousand postmen and other agents. The wide distribution network constitutes a unique competitive advantage of the Bank.

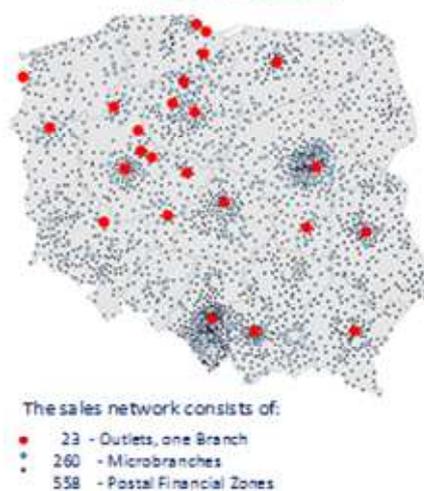
At the end of 2015 the Bank provided services to 1,484.2 thousand consumers and microenterprises. In 2015 it acquired 195.3 thousand new clients in this group. The Bank served over 15.2 thousand of entities in the institutional segment. Consequently, at the end of 2015 the Bank had about 1.5 million clients in consumer and institutional segments.

In 2015 the Group generated the net profit of PLN 33.9 million and ROE of 6.9%.

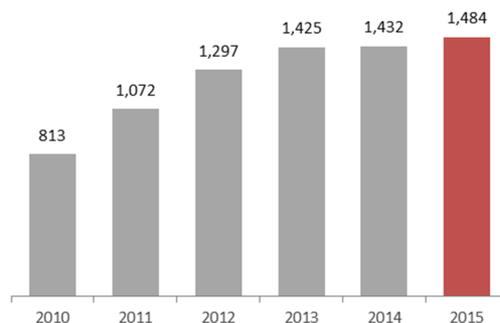
Shareholding structure of Bank Pocztowy



Network selling products and services of Bank Pocztowy



Number of consumers and microenterprises ('000)



As at 31 December 2015, the balance sheet total of the Group amounted to PLN 7,213.0 million and represented 0.5% of the total assets of the Polish banking sector<sup>1</sup>. The total gross loans and advances granted to clients amounted to PLN 5,542.5 million with 85% of consumer loans. Liabilities to the Bank's clients amounted to PLN 5 742.4 million, including over 77.4% of funds obtained from the consumer sector. With its 3%<sup>2</sup> share, the Bank has gained a relatively good position in the current accounts market thanks to dynamic growth reported in the last few years and the increase in the number of consumers.

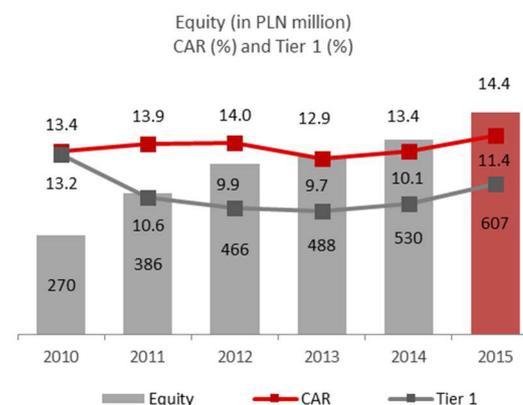
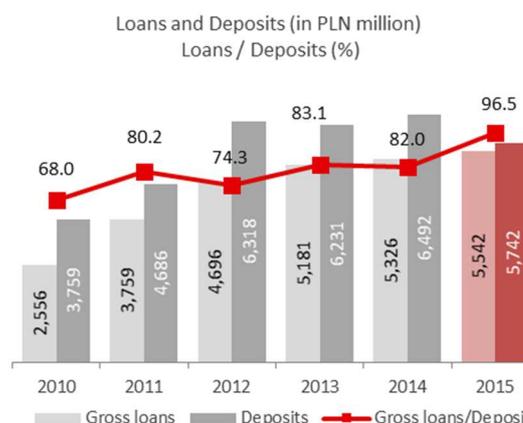
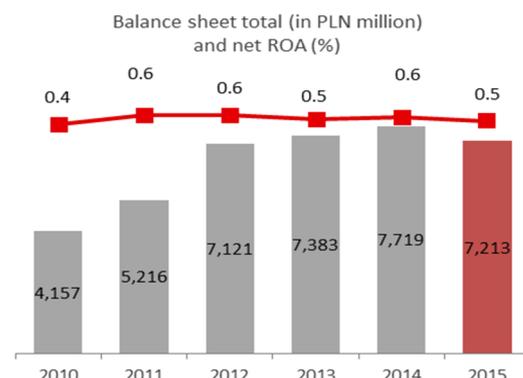
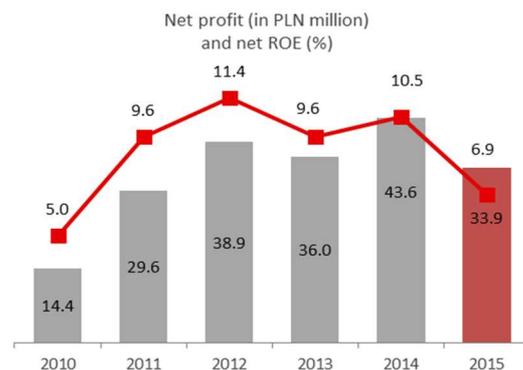
During 2015, the Group maintained its liquidity ratios on safe levels, and its capitals were adequate to the scale of operations. At the end of the year the relation of loans and advances to deposits stood at 96.5%. As at 31 December 2015 the Bank's capital adequacy ratio amounted to 14.4%, and Tier 1 reached 11.4% having improved by 1.3 p.p. versus 31 December 2014. The capital adequacy ratios improved after the existing shareholders have injected PLN 60 million to the Bank.

At the end of 2015 employment in the Group reached 1,618 FTEs.

Bank Pocztowy's bonds have been listed with Catalyst. The Bank's position as a responsible issuer caring for high standards of communication with the capital market has been confirmed with the award in The Best Annual Report contest for 2014 in the category of Banks and Financial Institutions which was granted to the Bank for the second time in a row. The Bank got the second place and was recognized for the application of the IFRS/IAS in the financial statements.

Subsidiaries of the Bank Pocztowy Group play an important role in implementing the strategy of the Capital Group. They include:

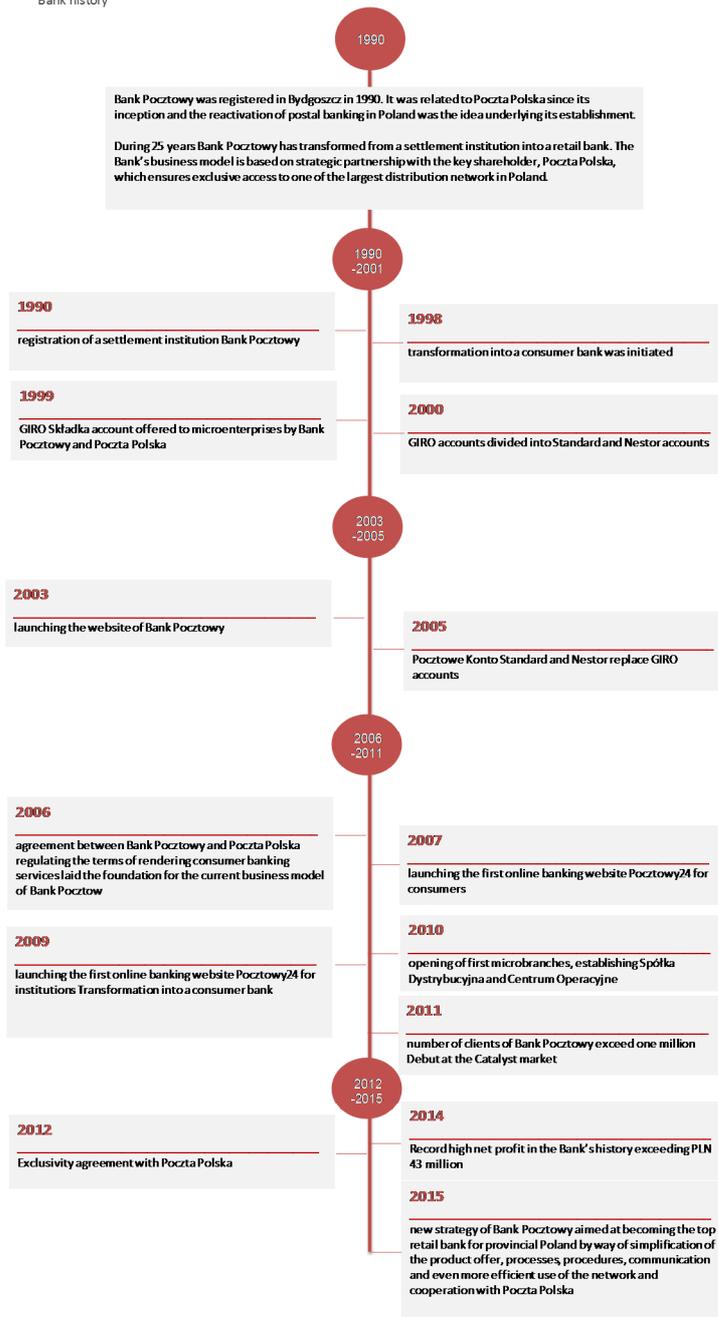
- Spółka Dystrybucyjna Banku Poczowego Sp. z o.o., whose key objective is to support distribution channels of Bank Pocztowy and access prospect clients from remote locations.
- Centrum Operacyjne Sp. z o.o. (Centrum Operacyjne) providing professional services in process administration for products and services for entities in the financial sector.



<sup>1</sup>Source: Financial Supervision Authority, monthly data for the banking sector file – December 2015.

<sup>2</sup>Source: PRNews.pl Rynek kont osobistych – Q3,2015, 01.12.2015.

Bank history



Bank Pocztowy Capital Group

Bank Pocztowy S.A.

Spółka Dystrybucyjna  
Banku Poczowego Sp. z o.o.  
(100%)

Centrum Operacyjne Sp. z o.o.  
(100%)

The Bank started operations in 1990 and the reactivation of postal banking in Poland was the idea underlying its establishment. To this aim and in order to develop the Bank, the GIRO non-cash settlement system was launched to enable fast and easy processing of bulk payments, reduce costs of issuing and circulating cash in the economy and to provide bank services to clients, in particular consumers, through a wide distribution network of Poczta Polska. Therefore, initially the Bank was a typical settlement institution with performance highly related to the volume of settlements with Poczta Polska.

In 1998, transformation into a consumer bank was initiated. The Bank started to reach an increasingly large group of clients through a sales network of Poczta Polska and own branches and outlets. At the same time, it started to launch new products.

In 1999 all post offices provided comprehensive services related to GIRO personal accounts and, additionally, Visa Electron cards to the accounts were offered. In 2003, the Bank launched an online information system. Two years later, in 2005, GIRO personal accounts were renamed to *Pocztowe Konto Nestor* for elderly people and *Pocztowe Konto Standard*.

Agreement concluded by the Bank and Poczta Polska in 2006 regulating the terms of cooperation between the institutions in consumer banking services was a breakthrough event for the Bank's consumer business. Under the agreement over 2 thousand Postal Financial Points were opened in post offices by the end of 2009 to streamline service provision to the Bank's customers by post office staff. Following the gradual changes and development of the sales network, in February 2010 the number of clients exceeded 500 thousand, in October 2011 it was 1 million, and at the end of 2015 it reached 1.5 million.

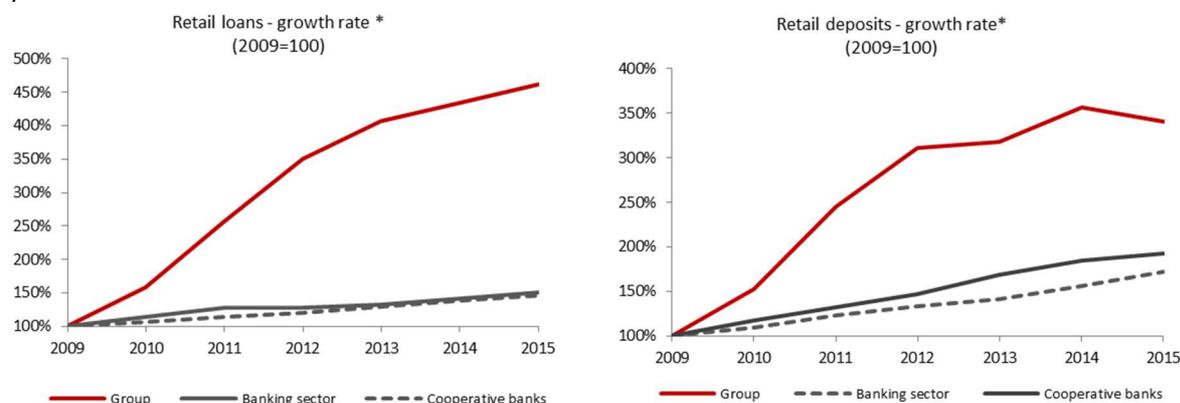
In 2010 the Bank's subsidiaries: Spółka Dystrybucyjna Banku Poczowego Sp. z o.o. and Centrum Operacyjne Sp. z o.o. were established and commenced business activities. As a result, the Bank Pocztowy Capital Group was set up.

Key data of the Bank Pocztowy S.A. Capital Group for 2010-2015							
	2010	2011	2012	2013	2014	2015	Change 2015/2014
<b>Key financial data</b>							
Group's income <sup>1</sup> / (PLN'000)	221,165	258,473	290,255	294,320	332,340	327,528	(1.4)%
Administrative expenses (PLN '000)	(195,204)	(209,837)	(218,356)	(212,738)	(218,622)	(217,030)	(0.7)%
Impairment losses (PLN'000)	(9,673)	(12,877)	(25,099)	(42,398)	(61,013)	(66,145)	8.4 %
Gross profit (PLN '000)	17,529	37,531	48,665	43,260	55,145	42,879	(22.2)%
Net profit (PLN '000)	14,412	29,555	38,949	36,027	43,639	33,931	(22.2)%
<b>Balance sheet</b>							
Balance sheet total (PLN '000)	4,156,609	5,215,801	7,120,653	7,382,745	7,719,027	7,213,030	(6.6)%
Loans and advances granted to clients <sup>2</sup> /(PLN'000)	2,488,835	3,679,382	4,599,545	5,055,712	5,151,777	5,312,882	3.1 %
Liabilities to customers (PLN'000)	3,759,124	4,685,735	6,317,949	6,230,578	6,492,023	5,742,377	(11.5)%
Equity (PLN '000)	294,968	321,395	361,470	391,765	439,632	542,485	23.4 %
<b>Key ratios:</b>							
Net ROA (%)	0.4	0.6	0.6	0.5	0.6	0.5	(0.1) p.p.
Net ROE (%)	5.0	9.6	11.4	9.6	10.5	6.9	(3.6) p.p.
Expenses with amortization (depreciation) / income (C/I) <sup>3</sup> (%)	87.8	80.6	74.7	71.3	65.3	66.6	1.3 p.p.
Solvency ratio <sup>4</sup> / (%)	13.4	13.9	14.0	12.9	13.4	14.4	1.0 p.p.
Tier 1 <sup>4</sup> / (%)	13.2	10.6	9.9	9.7	10.1	11.4	1.3 p.p.
NPL <sup>5</sup> / (%)	7.2	5.0	4.7	5.4	6.1	7.0	0.9 p.p.
Net interest margin to total assets <sup>6</sup> / (%)	3.6	4.1	3.8	3.6	3.8	3.6	(0.2) p.p.
<b>Business figures:</b>							
Headcount (FTEs)	1,323	1,496	1,571	1,700	1,633	1,618	(0.9)%
Number of offices	74	161	227	295	293	284	(3.1)%
Number of customers and microenterprises ('000)	813	1,072	1,297	1,425	1,432	1,484	3.6 %

1. Net interest income, net fee and commission income, gain/loss on financial instruments measured at fair value through profit or loss and realized gain/loss on other financial instruments.
2. Net loans and advances.
3. Income increased by gain/loss on other revenue and operating expenses.
4. As at 31 December 2014 and 31 December 2015, CAR and Tier 1 values were calculated in accordance to the Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. Pursuant to the above regulations, the Bank has been released from the obligation to determine its consolidated capital requirements. Separate data.  
In the remaining years CAR and Tier 1 values were calculated in accordance with Resolution no. 76/2010 of the Polish Financial Supervision Authority of 10 March 2010 regarding the scope and detailed principles of determining capital requirements due to various risk types (as amended). Separate data.
5. NPL – the share of impaired loans and advances in the gross credit portfolio.
6. Net interest margin calculated as a relation of net interest income for a given year to average assets (calculated as average daily balance of assets).

### The Group benchmarked against the banking sector and cooperative banks<sup>3</sup>

In 2015 the Group focused on the offer targeted at consumers, in particular on consumer loans. Following the policy adopted, in 2015 the Group further increased the share of exposures granted to individuals in the total credit portfolio. At the end of 2015 such exposures accounted for 85.0%, i.e. were by 1.9 p.p. higher than the previous year.



\* Market data – household analysis.

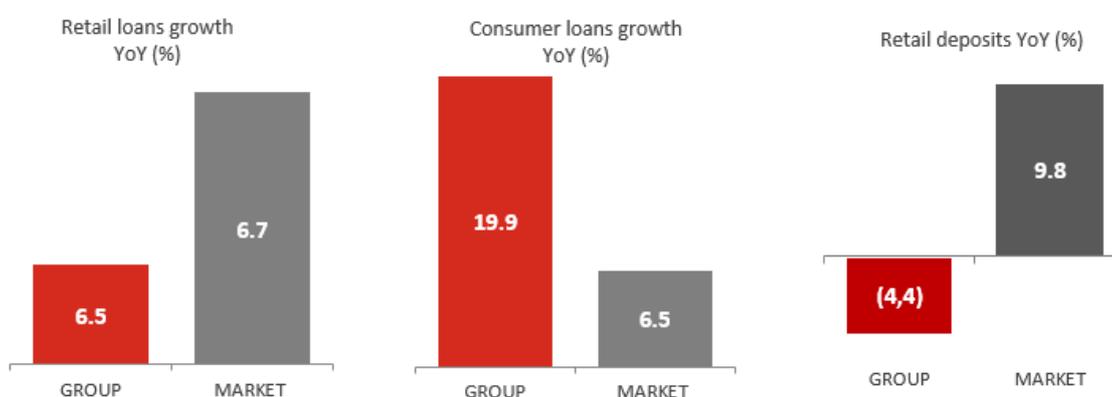
<sup>3</sup> Source: Polish Financial Supervision Authority; monthly data on the banking sector – December 2015.

The growth in loans and advances granted by the Group to consumers in the years 2009-2015 was much higher than in the entire banking sector and in the group of cooperative banks. The average annual growth rate of the discussed loans in the analyzed period amounted to 29.1% vs. 7.1% growth in the banking sector and 6.5% growth in the group of cooperative banks.

Similarly, the growth in deposits of consumers in the years 2009-2015 was considerably higher than in the entire banking sector and in the group of cooperative banks. The average annual growth in consumer deposits acquired by the Group in the years 2009-2015 amounted to 22.7%. The average annual growth in liabilities to consumers in the entire banking sector in the same period was 9.4% and 11.5% in the group of cooperative banks. In the recent years, stable deposits of consumers accounted for two thirds of the total value of deposits.

At the end of December 2015 receivables arising from loans granted to individuals amounted to PLN 4 711.4 million and grew by 6.5% p.a., as compared to the 6.7% growth in the banking sector. In 2015, the Group reported a three times higher growth of consumer loans than that of the banking sector.

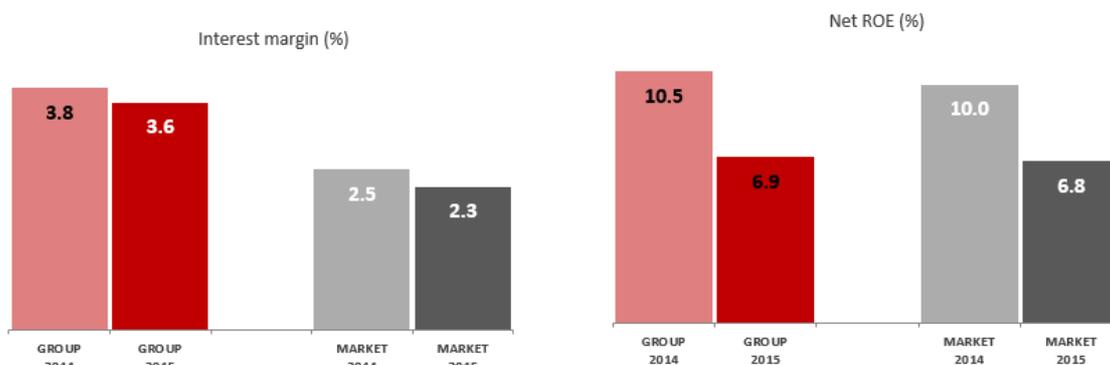
Due to low market rates, clients were less willing to deposit funds in 2015. At the end of December 2015, total liabilities of the Group to individuals dropped by 4.4% and amounted to PLN 4 444.9 million.



Record low interest rates resulted in a 0.2 p.p. decrease in interest margin in the banking sector and in the Group. Significantly, the Group's margin was considerably higher than in the entire banking sector.

A series of one-off events resulting in considerable financial charges affected the profit of the Group and of the entire banking sector: increasing the additional payment to the Bank Guarantee Fund related to the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa seated in Wołomin („SK Bank”) up to PLN 2 billion and the cost of payments made to the Borrowers Support Fund established under the Act on supporting borrowers in a difficult financial situation who have been granted a mortgage loan of 9 October 2015 of PLN 600 million.

Consequently, in 2015 the Group's net ROE amounted to 6.9% and was by 0.1 p.p. higher than the net ROE of the banking sector.



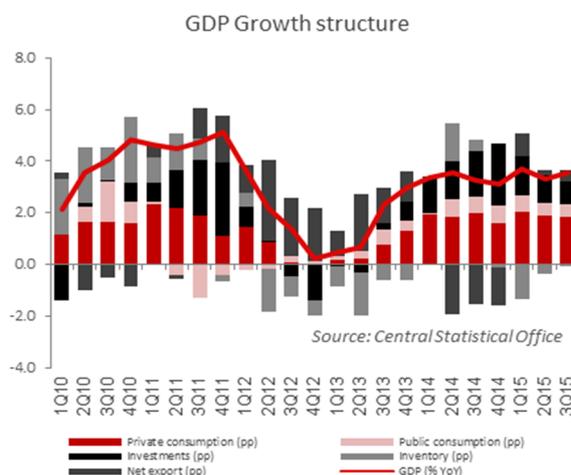
Interest margin, ROE for the banking sector – the denominator specifies the asset level with interest margin and capital level for ROE at the end of 2015 and the end of 2014.

# 1. External Factors

## 1.1 Key trends in the economy

### Gross Domestic Product and its components

In 2015 the GDP growth was estimated by the Central Statistical Office at 3.6% versus 3.3% in 2014. In 2015 domestic demand remained the key driver of the Polish economy, with the consumption expenditure of the household growing by 3.1% and investments increasing by 6.1%. The consumption growth stemmed from the improved condition of the labor market and deflation reported in the entire year. Interest rates announced by the National Bank of Poland were reduced in March 2015 by the Monetary Policy Council to record low levels, which has additionally improved the attractiveness of consumer loans. Despite low interest rates on loans, in 2015 investment growth was slightly slower than a year before, because the EU funds from the 2007-2013 Perspective had been used up and the financing from the 2014-2020 Perspective was not available yet which was accompanied by unstable environment and political changes in Poland. As a result of the Russian embargo on European agricultural and food produce, the growth rate of exports of goods and services decreased in 2015. Still, as the import growth rate was considerably lower, net exports contribution to the GDP growth was positive and amounted to 0.2 p.p.



### Labor market

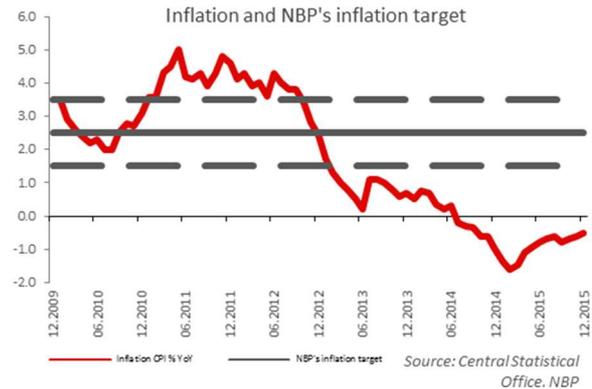
In 2015 the condition of the labor market was still improving. At year-end, the unemployment rate dropped from 11.5% at the end of 2014 to 9.8% and became a one-digit number for the first time since December 2008. Unemployment in Poland dropped thanks to stable economic growth and a growing demand for talents in the business sector. Moreover, weather conditions in the last three months of 2015 were more advantageous than the same time last two years, which also positively affected the unemployment rate.

The year 2015 was another year of employment growth in the business sector. In December 2015, 5 626 thousand people worked in the business sector, as compared to 5 549 thousand in December 2014. Employment in the business sector grew during the entire 2015 and in December the growth rate reached 1.4%. Higher employment in the business sector positively affected consumption of households on the one hand and increased savings of households on the other. New jobs in businesses resulted among others from the investment activity and foreign projects.

In 2015, the growth in employment (unemployment reduction) was accompanied with an increase in salaries and wages in the business sector. Nominal annual growth of wages reached 3.5% as compared to 3.7% in 2014. Real wages growth rate was considerably higher thanks to deflation which was reported during the entire year. Real wages growth amounted to 4.5% in December 2015, as compared to 3.7% in December 2014.

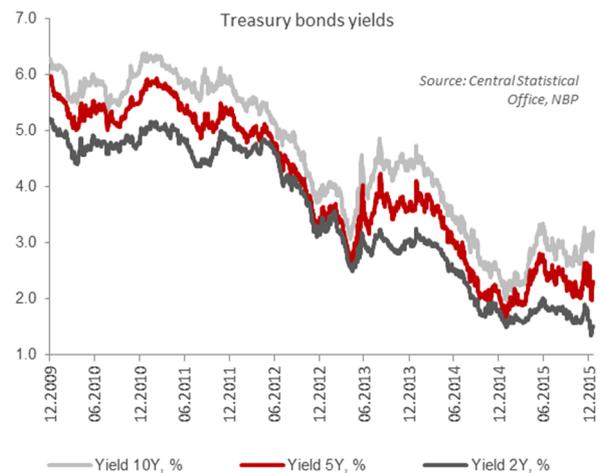
## Inflation

In 2015 the consumer price index amounted to – 0.9%, which implies considerable deviation from the inflation target of the National Bank of Poland and a change since 2014, when it was equal to 0%. Last year saw deflation in all months of 2015 (YoY), with the highest ratio reported in February (1.6% YoY) and the lowest in December (-0.5% YoY). The key reason for a drop in prices in Poland were lower prices of commodities, including crude oil, on global markets and low prices of food following the Russian embargo on European agricultural and food produce imposed in July 2014. Crude oil prices dropped on the global markets in 2015 (BRENT by 35.9%, NYMEX by 30.5%) due to the considerable oversupply and unchanged production level in OPEC, hence fuel prices in Poland decreased significantly despite the weakening Polish zloty against the American dollar. The prices of food grew slightly only in the last three months of 2015 as a result of the summer drought, which adversely affected the production of fruit and vegetables. In 2015 core inflation (excluding food and electricity prices) amounted to 0.3% versus 0.6% in 2014, while in December 2015 the ratio dropped to 0.2% YoY.



## Public finance and the treasury debt securities market

The year 2015 was a challenging period for the Polish public finance. The deflation, which proved longer and deeper than expected, affected VAT inflows, i.e. the key source of budget income, which were lower than projected by the Ministry of Finance. At the same time, the State budget spending was suspended, hence the budget deficit was lower than planned (apart from April and May). According to the data of the Ministry of Finance, at the end of November the budget deficit amounted to PLN 36,1 billion as compared to PLN 46,08 billion projected for 2015 by the coalition of the Citizens Platform and Polish People's Party in the Budget Act. In the period in question the actual revenue amounted to 88.8%, while expenses to 87.4% of the planned level. In December 2015, after the parliamentary elections, the state budget was changed and the deficit was increased to PLN 49.98 billion, government revenue (both tax and non-tax) was reduced by PLN 10.5 billion (from PLN 297.2 billion to PLN 286.7 billion) and the total government expenses were reduced by PLN 6.6 billion (from PLN 343.3 billion to PLN 336.7 billion).

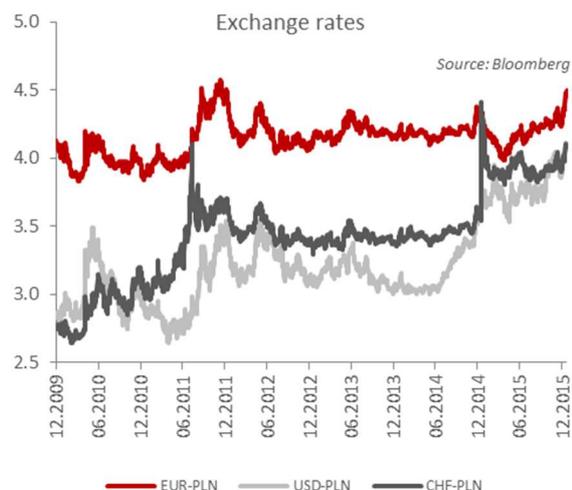


At the end of Q3,2015, public debt amounted to PLN 876.4 billion (49.7% of GDP) vs. PLN 826.8 billion (48.1% of GDP) at the end of 2014.

Although the actual budget revenue reported in 2015 differed from the projections of the Ministry of Finance since the very beginning of the year, thanks to advance funding of demand for debt in 2014 (32% at the end of December) and efficient funding of annual debt in Q1,2015 (57% at the end of March), the Ministry of Finance was able to introduce flexible management of the treasury bonds supply in the subsequent months, adjusting its structure to market conditions. Finally, debt demand funding was completed in October, when the advance funding of debt demand planned for 2016 was started. Limited supply of debt securities accompanied with an interest rate reduction implemented by the Monetary Policy Council contributed to a growing demand for Polish Treasury securities in Q1,2015. However, in the following months higher risk aversion on global markets, resulting from the political and economic crisis in Greece, slowdown in the Chinese economy and the expected increase in interest rates in the U.S. translated into higher profitability of Polish treasury bonds. Another factor was the insecurity of investors related to presidential and parliamentary elections. Finally, at the end of 2015 the yield on 2-year bonds reached 1.64% (versus 1.77% at the end of 2014), the yield on 5-year bonds amounted to 2.23% (versus 2.15% at the end of 2014) and the yield on 10-year bonds to 2.95% (versus 2.54% a year before).

## Exchange rates

In 2015 exchange rates were fluctuating considerably mainly due to policies followed by key global central banks, i.e. European Central Bank, the Federal Reserve and the Swiss National Bank. Exchange rates were also affected by other global events, such as: Greek political and bank crisis, considerable economic slowdown in China, migration crisis in Europe and further slumps in global oil prices. The year began with a surprising decision of the Swiss National Bank, which declared to no longer protect CHF rate against EUR, hence to discontinue the practice introduced in September 2011, and to reduce the interest rate to -0.75%. Despite earlier efforts of EBC, deflation, which occurred at the end of 2014 deepened in the Eurozone in early 2015. Therefore, a long-awaited program of quantitative easing worth EUR 60 billion, assuming monthly purchases of treasury and private bonds, was launched in March. In line with the EBC plans, the program was to be carried out by the end of September 2016. Still, as the inflation growth in the Eurozone was still low, in December 2015 EBC extended the program period until the end of March 2017 and reduced the deposit rate by 10 b.p. down to - 0.30%. At the same time, the long-heralded increase in interest rates (by 0.25 b.p.) was carried out in the U.S. in December 2015, for the first time since 2006. Moreover, the Federal Reserve informed of its intention to further tighten the monetary policy in 2016. The actions taken by central banks resulted in fluctuations in EUR/USD rates, but, generally, in 2015 the USD remained stronger than EUR and other currencies, including PLN, comparing to 2014. At the end of 2015, USD/PLN rate was PLN 3.92 and the EUR/PLN rate amounted to PLN 4.26, although in April it equaled PLN 3.90. Apart from external factors, EUR/PLN rates were also affected by domestic events, such as presidential and parliamentary elections. The CHF/PLN rate amounted to PLN 3.91 at year end.



## Monetary policy

In 2015 the Polish Monetary Policy Council reduced interest rates once only, by 50 b.p., hence closing the process of easing the monetary policy in Poland. The decision was made in March, when the Monetary Policy Council analyzed the latest GDP and CPI projections prepared by the National Bank of Poland. The GDP growth rate was adjusted upwards, but the CPI path was adjusted downwards. The Monetary Policy Council reduced the rates due to the longer deflation period and the increased risk that inflation will remain under the target in medium term. In the following months of 2015 the Monetary Policy Council did not change interest rates, despite long-lasting deep deflation trend. At the end of 2015 the reference rate was 1.50%, bill of exchange rediscount rate: 1.75%, Lombard rate: 2.50%, and deposit rate: 0.50%. Interest rate reduction by the National Bank of Poland translated into lower market rates in 2015. At the end of 2015, WIBOR 3M amounted to 1.72% versus 2.06% at the end of 2014.



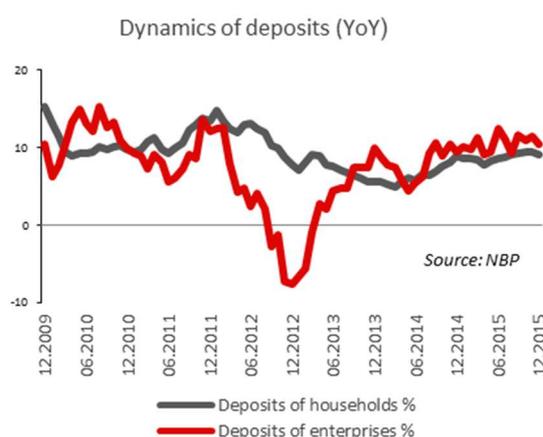
Economic ratios	2010	2011	2012	2013	2014	2015
GDP (YoY)	3.9%	4.5%	1.9%	1.7%	3.3%	3,6%*
Inflation (average for the period)	2.6%	4.3%	3.7%	0.9%	0.0%	(0.9)%
Registered unemployment rate (at period end)	12.4%	12.5%	13.4%	13.4%	11.5%	9.8%
Deposits and other liabilities (in PLN billion, at period end)	682.0	761.9	797.9	845.9	914.5	996.0
Households (in PLN billion, at period end)	421.2	478.0	514.9	543.6	591.6	646.0
Enterprises (in PLN billion, at period end)	181.3	203.3	187.8	206.5	225.9	249.4
Receivables (in PLN billion, at period end)	770.0	880.8	901.1	937.4	1,005.7	1,076.4
Average EUR/PLN rate	3.99	4.12	4.19	4.19	4.18	4.18
Average USD/PLN rate	3.01	2.96	3.26	3.16	3.15	3.77
Average CHF/PLN rate	2.89	3.35	3.47	3.41	3.44	3.91
Reference rate (at period end)	3.50%	4.50%	4.25%	2.50%	2.00%	1.50%
WIBOR 3M (at period end)	3.95%	4.99%	4.11%	2.71%	2.06%	1.72%

\*preliminary estimates of Central Statistical Office

## 1.2 Situation in the banking sector

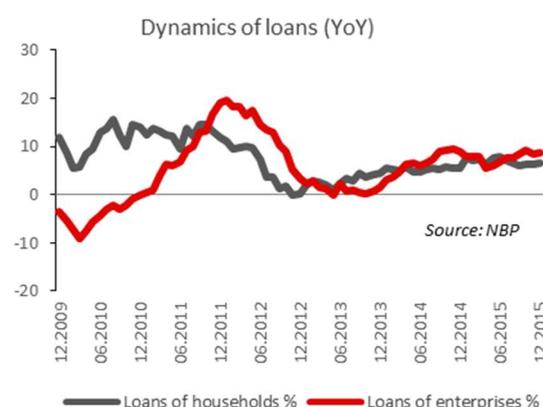
### Deposits of households and enterprises

At the end of 2015 the total deposits in the banking system amounted to PLN 996 billion, i.e. by 8.9% more than at the end of 2014. Deposits of households stood at PLN 646.0 billion. In 2015 the growth rate of deposits of households gradually increased and in December reached 9.2% year-on-year (versus 8.8% in December 2014). The deposit growth being higher than in the prior year resulted mostly from an improvement on the labor market, while the interest rate reduction introduced by National Bank of Poland in March adversely affected the attractiveness of investments in the banking sector. Another deposit driver was deflation reported during the entire year. In December 2015, deposits of enterprises amounted to PLN 249.4 billion, i.e. increased by 10.4% during the year vs. a 9.4% increase in December 2014. A higher growth rate of corporate deposits resulted from improved financial condition of businesses. Historic low costs of credit encouraged enterprises to take out loans for financing growth and investment.



### Loans and advances to households and enterprises

In December 2015, loan receivables in the banking sector totaled PLN 1 076.4 billion, being 7.0% higher than in December 2014. Loans and advanced to households went up by 6.6% up to PLN 632.6 billion. Housing loans in the local currency grew from PLN 190.4 billion in December 2014 to PLN 212 billion at the end of 2015 (by 11.3%). Record low interest rates and an improvement on the labor market positively affected the scale of the new lending campaign. In the second half of 2015, apartments bought on the secondary market were included into the Flat for the Young program, which considerably increased credit appetite of consumers. On the other hand, the down payment was increased from 5% to 10% on 1 January 2015 in accordance with the Recommendation S issued in 2014, which adversely affected the appetite for debt. In December 2015 the portfolio value of foreign currency loans increased to



PLN 166.2 billion, i.e. by PLN 3.1 billion since the end of 2014. The increase in the portfolio value resulted in particular from weakening PLN versus CHF and other currencies. More restrictive provisions of the Recommendation S have made taking out foreign currency loans very difficult. Receivables of the banking sector due to consumer loans from individuals increased. In December 2015 they totaled PLN 126.4 billion (versus PLN 118.4 billion in December 2014). The consumer loan volume increase resulted from a reduction in interest rates and more lenient loan terms offered by banks, among others in relation to the observed labor market improvement. In December 2015 the value of loans granted to enterprises was PLN 326.0 billion versus PLN 300.9 billion in December 2014 (8.3% growth). More new loans in the corporate sector resulted from increased investments made by businesses. Moreover, corporations were encouraged to apply for loans due to attractive interest rates offered after the reduction introduced in March by the Monetary Policy Council and the Council's announcement that the rates would not be reduced any further in the following months.

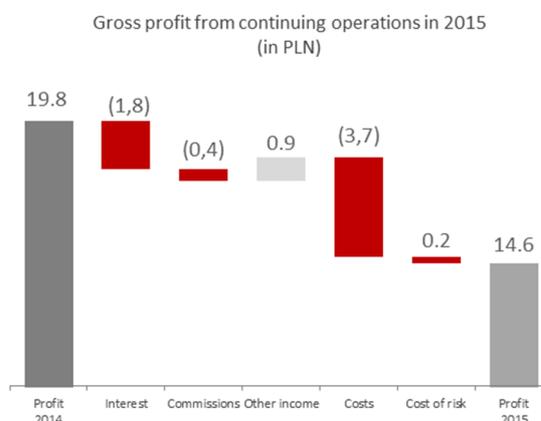
### Interest rate on deposits and loans

In March 2015 the Monetary Policy Council cut interest rates and announced to have closed the cycle of easing the monetary policy. The reference rate was reduced to the lowest level in history (i.e. down to 1.50%), while the Lombard rate went down to 2.50%, which materially affected the interest rates on loans and deposits. According to the data of the National Bank of Poland, in December 2015 the average interest rate on new deposits of households in PLN amounted to 1.8% versus 2.3% in December 2014. Average interest on new deposits of enterprises was equal to 1.5% as compared to 1.9% in the previous year. Average interest on new loans granted to households in the Polish zloty in 2015 stood at 6.2%, having dropped by 1.2 p.p. versus the end of 2014. As for loans for households, in December 2015 the interest on housing loans amounted to 4.4% (versus 4.7% at the end of 2014), and interest on consumer loans reached 8.0% (versus 9.5% at the end of 2014). In the business sector, the interest on new loans in the local currency amounted to 3.6% in December 2015, having increased by 0.1 p.p. as compared to December 2014. The interest rate reduction made by the National Bank of Poland in March 2015 did not result in a further decrease in interest on loans in this segment.

### Financial performance of the banking sector<sup>4</sup>

The situation of the Polish banking sector deteriorated in 2015, comparing to the previous year. In 12 months of 2015 banks generated the net profit of PLN 11.5 billion, i.e. 27.6% lower than in December 2014. Banking sector performance was affected by:

- A decrease in the operating profit (by PLN 1.7 billion, i.e. by 3.0% in 2015), mainly due to the decrease in the net interest income (by PLN 1.8 billion, i.e. by 4.8%). The latter resulted mainly from interest rate reduction introduced by the National Bank of Poland in October 2014 and in March 2015, which translated into lower interest rates on loans and deposits. Another factor, which adversely affected the operating profit was the deterioration of the net fee and commission income (by PLN 0.4 billion, i.e. by 3.3% in the analyzed period), which resulted mainly from lower revenue due to payment cards related to the reduction of the interchange rate (from 0.5% applicable to both type of cards to 0.2% for debit cards and 0.3% for credit cards).
- The increase in operating expense with amortization and depreciation in December 2015 (by PLN 3.7 billion, i.e. by 12.0% comparing to December 2014), which resulted from a higher annual fee and prudential fee to the Bank Guarantee Fund (an increase from 0.1% and 0.037% to 0.189% and 0.05%, respectively, comparing to the end of 2014) and an additional payment to the Bank Guarantee Funds of PLN 2 billion resulting from the need to pay out guaranteed deposits after the Polish Financial Supervision Authority had filed a bankruptcy petition for Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin on 23 November 2015. Payments to the Borrowers Support Fund established under



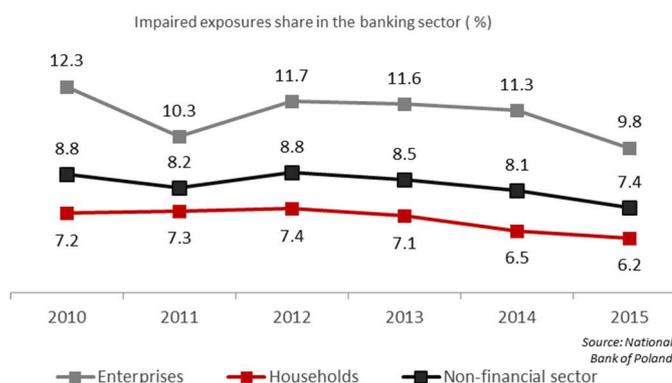
<sup>4</sup> Source: Financial Supervision Authority, Monthly data for the banking sector file – December 2015.

the Act on supporting borrowers in a difficult financial situation who have been granted a mortgage loan constituted an additional expense for the banking sector (PLN 600 million) in 2015.

- An increase in the negative balance of allowances and provisions by PLN 219.9 million in 2015. This adverse trend should be associated with the increase in the CHF-PLN rate, which increased the costs of loan repayment for households which were granted such loans in the past. Factors which positively affected the balance of impairment losses and provision were: stable economic growth and low interest rates which drove stabilization or improvement of the financial situation of a number of borrowers and the sale of credit receivables to debt collection agencies by selected banks.

The share of impaired receivables in the total receivables from the non-financial sector dropped from 8.1% in December 2014 to a record low level of 7.4% in December 2015<sup>5</sup>. The year 2015 also saw an improvement in the quality of credit exposures of banks to enterprises and households and certain banks sold their credit exposures to external companies.

Banks retained a large portion of profits generated in 2014 and refrained from or suspended dividend payment, hence the capital base strengthened (the increase in equity from PLN 136.8 billion at the end of 2014 to PLN 149.2 billion at the end of September 2015) and the total capital ratio increased from 14.7% in December 2014 to 15.6% in September 2015. In September 2015 CET 1 capital ratio amounted to 14.3% (13.5% at the end of 2014).



Banks continued with measures aimed at efficiency improvement through optimization of headcount and sales networks. As a result, a headcount drop in the banking sector was observed in 2015 (by 1.7 thousand people at the end of December 2015) and a reduction in the sales network (by 566 outlets at the end of December 2015).

### 1.3 Capital market

#### Stock market (WSE main market and ASO New Connect market)

The year 2015 saw a drop in key indices of the Warsaw Stock Exchange (WIG and WIG20) and for WIG20 it was the third year of decline. For the first time since 2009 the index breached the psychological threshold of 2000 points. The beginning of the year in world stock exchanges was optimistic, as the market expected, and then the purchase of treasury bonds was started by the European Central Bank at oil prices which were the lowest since 2009. The global optimism was also driven by the increase in crude oil prices resulting from advantageous demand projections and disruptions in the production and export of crude oil from Libya and Iraq. In May the market expectations concerning stabilization of the crude oil market were high. Due to the positive global risk-on sentiments, the Shanghai Composite Index rose by 60% from the beginning of the year to June 2015 to reach the record high level in the last seven years. The market started to suspect that the SCI growth was a bubble deemed to burst in near future. In May the upward trend reversed in the stock exchanges of developed countries, to be followed by the Warsaw stock exchange. In June the stock price fall was deepened by the correction in the Chinese market. Moreover, European markets, including the Polish one were additionally affected by the approaching term of repayment of Greece's liabilities to the International Monetary Fund and yet another failure in the government's negotiations with its creditors. Following a global risk aversion, the global indices were falling for six months, with the drops sharpened by a number of worrying news from China, including the August devaluation of the Chinese yuan, which started in June with the slump in the commodity markets. This, in turn, resulted from a threat of a lower Chinese demand,

516.8

(in PLN billion)  
value of WSE-listed Polish companies

-12.6% YoY

<sup>5</sup> Data of the National Bank of Poland, monetary and financial data, File: Receivables.

projections of considerable oversupply and information on the possibility of exporting Iranian crude oil. Apart from risk-off sentiments, the Warsaw Stock Exchange was affected by the elections in Poland, projected taxes on selected financial institutions and large-format stores and planned engagement of energy companies in rescuing the mining sector. The Polish stock market was also adversely affected by the consequences of the reform of Polish open pension funds, which dramatically reduced the role of the funds as investors and the decreasing investing activity. Finally, in 2015, the large-cap index, WIG20, dropped by 19.72% and WIG decreased by approx. 9.62%. In 2015, seven out of eleven sub-indexes increased. WIG-Chemistry sub-index saw the biggest growth (by 44.58%), while WIG-Commodities lost the most (-43.79%).

At the end of December 2015 the value of Polish firms listed at the Warsaw Stock Exchange reached PLN 516.8 billion and was by 12.6% lower than in December 2014. In 2014 companies chose the capital market as the source of financing growth more often than a year before. During 2015, 30 companies debuted with the Stock Exchange, as compared to 28 IPOs in 2014.

The activity of investors decreased. In 2015 shares worth PLN 203.5 billion changed hands as a result of session transactions, i.e. by 12.6% more than in the previous year.

As announced in September 2014, at the beginning of the year the Warsaw Stock Exchange introduced changes in key indices. The WSE still quotes WIG30, while indices based on WIG30, i.e. WIG30short and WIG30lev, are no longer quoted. At the same time, sWIG80 is quoted again, while WIG50 and WIG250 are not listed. The changes in indices also affect the derivative market. The WSE focuses on developing the derivative market and promoting indices based on WIG20. Moreover, the WSE has been certified by the U.S. Commodity Futures Trading Commission, which allows it to offer WIG20 futures contracts to investors in the U.S. In June 2015 the WSE and KDPW\_CCP announced to introduce a promotion, which assumes a temporary waiver of transactional and settlement fees on trading in SMEs' stock carried out by market makers at the WSE and NewConnect. The promotion covered all stock except for WIG20 companies and lasted from 1 July to 31 December 2015. On 30 April 2015 the Management Board of the WSE informed that the Polish Financial Supervision Authority approved the changes to the Regulations of the WSE implemented by Resolution No. 5/1392/2015 of the Council of the WSE dated 26 February 2015. The changes result from adjusting the regulations of the WSE to the provisions of the Act amending the act on trading in financial instruments and certain other acts dated 5 December 2014. The Act cancels the provisions which obligated the WSE to provide additional detailed regulations concerning short sale. The changes entered into force as of 31 May 2015 and apply starting from the trading session of 1 June 2015. Since 13 August 2015 five new Turbo certificates have been available on the WSE, with the price depending on the value of NASDAQ-100 index. The certificates are issued by ING NV with the registered office in Amsterdam.

In 2015 total capitalization of companies decreased (5.0% YoY), while the value of offers grew (40.0% YoY) on the alternative market. In 2015, NewConnect saw 19 IPOs, and 13 companies (the biggest number in the history of this market) moved to the WSE Main Market. This affected among others the number of companies on the alternative market: at the end of 2015, 418 companies were listed compared to 431 at the end of 2014.

### **Bonds market (Catalyst)**

The Catalyst market also saw an increase in the quoted stock issues. At the end of December 2015, the value of debt securities of 192 issuers traded on the Catalyst market reached PLN 613.1 billion, while at the end of 2014, debt securities of 193 issuers reached PLN 544.6 billion. In 2015, the value of corporate bonds issued with Catalyst reached PLN 66.4 billion, while the value of municipality bonds reached PLN 3.2 billion, and of the State Treasury Bonds PLN 543.6 billion. In 2014, the value of each instrument type issue reached PLN 60.9 billion, PLN 3.2 billion and PLN 480.5 billion, respectively.

In 2015 the number of IPOs on the Catalyst market reached 147, while the number of new issuers amounted to 23 versus 191 and 53, respectively in the previous year. The highest number of issues among debuting entities (expressed as the total value of bonds included in the motion) reached EUR 1.75 billion vs. EUR 500 million in 2014.

Significant decrease in stock exchange indices observed in the second half of the year was not accompanied with the balancing increase in bond prices. During the 12 months of 2015 the profitable TBSP.Index (Treasury BondSpot Poland) grew by 1.68% as compared to a 9.45% growth in 2014. This resulted from the reform of open pension funds in 2014, which did not allow open pension funds buy treasury securities; higher yield on benchmark German securities in spring and summer, despite the QE program carried out by the European Central Bank; and investors' skepticism for fiscal projects of the new government.

### Investment funds' net assets

The first half of 2015 was advantageous for investment funds due to the global bull market. In the following six months of fluctuation in the stock market and the debt market, the volume of assets of Polish investment fund companies dropped gradually (with one market rebound of 3.9% MoM in September, which resulted from a very high payment to non-public funds). In 2015 the growth rate of Polish investment fund assets amounted to 21% as compared to 10.4% in 2014. The increase was possible thanks to contributions made to funds of non-public assets in December (a 41.9% MoM increase in the category)<sup>6</sup>.

## 1.4 Macroeconomic factors potentially affecting the Group's performance

According to the Bank, the macroeconomic situation shall slowly but steadily improve in 2016, although certain threats occur. The economic growth rate should increase to 3.6-3.8% of GDP. Domestic demand shall continue to grow, while the Russian sanctions and slowly rebounding economic growth in the Eurozone shall still hamper export of goods and services. An increase in internal demand shall result from a growth in both consumption and investments. Consumption should be supported by further improvement in the labor market (payroll and employment growth), the planned launch of the 500+ Program of payments to families with children and stable low prices of goods and services, which increase the purchasing power of households. Consumption may also be boosted by higher appetite for consumer credit among households due to advantageous interest rates and a wider range of loans offered after enacting the so-called bank tax on 1 February 2016. Further disbursements of EU funds from 2014-2020 Perspective and record low interest rates should positively affect the investment level. The Bank expects that at the end of 2016 the reference rate of the National Bank of Poland may be reduced to 1.25%.

Domestic demand remains the key driver of the Polish economy in 2016

3.8% GDP growth

In 2016 other challenges for the Polish banking sector and for the Group may include:

- The bank tax which will enter into force as of 1 February 2016 (Act on Tax on Certain Financial Institutions of 15 January 2016, Journal of Laws of 2016, item 68) along with higher payments to the Bank Guarantee Fund, increased capital requirements and possible financial difficulty of other credit unions and cooperative banks. Accumulation of charges imposed on the banking sector will considerably reduce the banks' profits and force them to cut costs. The lawmaker estimates that the tax on certain financial institutions will amount to PLN 4.4 billion in 2016. A liability resulting from this tax, estimated based on the value of the Bank Pocztowy's assets as at 31 December 2015 will amount to ca. PLN 6 million.
- Translation of mortgage loans granted in CHF in recent years. Possible mass translation of loans granted in CHF would force banks to purchase large amounts of the Swiss currency, thus resulting in devaluation of PLN. Further rapid devaluation of PLN vs. CHF and other currencies would result in an imbalance on financial markets, threaten the stability of the financial system and the economy. Translation of mortgage loans in CHF will not directly affect Bank Pocztowy, as it holds PLN mortgage loans in its portfolio.
- Risk of deflation in Poland lasting longer than in Q2, 2016 and its increase due to a drop in global prices of commodities (mainly crude oil) and agricultural products. In such a case, the Monetary Policy Council may further reduce interest rates, to levels lower than expected. Reducing interest rates to another record low level would strongly affect banks' revenues.
- Further deterioration of Poland's rating. After S&P cut Poland's long-term foreign currency sovereign credit rating from A- to BBB+ on 15 January 2016, which was the first downgrade since 1995 and changed the rating outlook to negative, further downgrades by S&P or other rating agencies are possible. This scenario would result in a weaker zloty against all major currencies and sale of domestic treasury bonds.
- Fed discontinuing its easing policy faster than expected. This would have an adverse effect on the exchange rate of PLN and the value of domestic treasury securities. It would also lead to higher costs of servicing public debt and limited possibility to finance business investments.

<sup>6</sup> Investment fund's assets, monthly elaborations, mutual reports of Online Analysis and the Chamber of Management of Funds and Assets

- Further reduction of interest rates by Swiss Central Bank (SNB). Although this would reduce the value of CHF vs. other currencies, to include PLN, and improve lenders' ability to pay their liabilities to banks, LIBOR CHF rates getting more and more negative would affect banks holding large portfolios of CHF-denominated loans.

## 1.5 Regulatory environment

In 2015, the financial and organizational condition of the Group was affected by the following amendments of law:

No.	Regulation	Change description	Effect on business operations
1.	Resolution No. 183/2014 of the Polish Financial Supervision Authority dated 24 June 2014 on issuing Recommendation U concerning good practices in bancassurance.	In particular, banks were obligated to ensure client's freedom of choice regarding the insurer. Banks cannot act as insurers and insurance agents at the same time, while their fee for the insurance products offered shall be determined proportionally to the costs incurred by them. Recommendation U was issued to improve the standards of cooperation between banks and insurance companies with regard to offering clients insurance products through banks and determining conditions for stable long-term bancassurance market development.  Recommendation U has entered into force as of 31 March 2015.	Fee and commission income, fee and commission expense, interest expense, the Bank's offer.
2.	Recommendation P dated 10 March 2015. In force since 31 December 2015.	The objectives of the Recommendation P on managing the liquidity risk of banks include: determining the bank's of liquidity risk tolerance, recognizing the full scope of all liquidity risk types, to include the risk of unexpected need for liquidity, constant presence in selected key financial markets, diversifying liquid assets, stress testing, collateral management, mid-day liquidity management, disclosing information regarding bank's liquidity.	Costs of liquidity maintenance, interest expense and reporting obligations.
3.	Act of 9 October 2015 on performing the Agreement between the Government of the Republic of Poland and the Government of the United States of America to Improve International Tax Compliance and to Implement FATCA.	FATCA is a set of regulations combatting tax evasion by American taxpayers using foreign bank accounts. FATCA is to prevent using foreign financial institutions to conceal income and build aggressive tax planning structures by American taxpayers. For countries not joining FATCA, all financial transfers from the U.S. to foreign financial institutions are charged with 30% withholding tax.	Obligation to transfer to the U.S. the data regarding bank accounts held by American citizens through the Polish Ministry of Finance. Administrative costs.
4.	The act on macroprudential supervision over the financial system and crisis management of 5 August 2015.	The objective of the Act is to implement EU regulations concerning operations of credit and investment institutions to the Polish law. The Act specifies the requirements for banks and investment firms which should be met in order to start operations and provisions on prudential supervision over banks and investment firms. Moreover, the Act introduces supervision to the Polish financial system, the objective of which is to identify, assess and monitor systemic risk	Maintaining an appropriate level of the bank's equity.

		occurring in the financial system and mitigate such risk.	
5.	Act of 25 September 2015 amending the Banking Law and certain other acts – Bank Writ of Enforcement.	The objective of the Act is to adjust the law to the decision of the Constitutional Tribunal dated 14 April 2015 (file No. P 45/12) stating the non-constitutional nature of certain provisions of the Banking Law, which authorizes banks to issue writs of enforcement.	Costs of collection proceedings and longer process period.
6.	The act on complaint handling procedure by financial service providers and Financial Ombudsman of 5 August 2015.	The Act explicitly determines the method and deadlines for handling complaints by financial service providers under complaint procedures and introduces the function of a Financial Ombudsman.  The operating costs of the Ombudsman and his office will be borne by banks and calculated as the product of the total balance sheet assets of the Bank and a rate of at maximum 0.0006%.	Administrative costs.
7.	The Act on supporting borrowers in a difficult financial situation who have been granted a mortgage loan of 9 October 2015.	The Act specifies the principles of financial support granting to individuals who repay housing loans and who have found themselves in a difficult financial situation and the terms and conditions for obtaining such support. The Bank is obliged to pay a premium to the Borrowers' Support Fund proportionally to the consumer housing loan portfolio with the principal or interest delinquent by over 90 days.	Administrative costs.
8.	Act of 28 November 2014 amending the act on payment services (Journal of Laws of 2014 item 1916).	The Act provides for a reduction in the maximum statutory <i>interchange</i> rate to 0.2% for debit cards and to 0.3% for credit cards.	Fee and commission income.
9.	Resolution No. 28/2014 of the Banking Guarantee Fund Council of 19 November 2014 determining the rate of the 2015 annual fee payable to the Banking Guarantee Fund through entities subject to the obligatory guarantee system.	The Banking Guarantee Fund Council determined the annual fee for 2015 as 0,189% of the product of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law and 12.5.	Administrative costs.
10.	Resolution No. 29/2014 of the Banking Guarantee Fund Council of 19 November 2014 determining the rate of the 2015 annual fee payable to the Banking Guarantee Fund through entities subject to the obligatory guarantee system.	The Banking Guarantee Fund Council determined the prudence fee for 2015 as 0.05% of the product of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law and 12.5.	Administrative costs.
11.	Resolution No. 148/2013 of the Polish Financial Supervision Authority dated 18 June 2013 on issuing Recommendation S on good practices in managing mortgaged credit exposures.	According to PFSA guidance, since January 2015 own contribution required for real property purchases credited by banks has been increased from 5% to 10% of the property value.	Interest income, net impairment losses.

New regulations enacted in 2016 will affect financial performance of the Polish banking sector and the Group, in particular:

No.	Regulation	Change description	Effect on business operations
1.	Act amending the Banking Law and certain other acts	The objective of the Act is to provide regulations concerning inactive (dormant) accounts. The changes will concern the impact of the account holder's death on the account agreement, easier access to the account for heirs, legatees, and therefore eliminate problems faced by legal heirs in the process of collecting inherited funds, implementation of appropriate legal tools.	System changes.
2.	Recommendation of the Polish Financial Supervision Authority concerning securing of online payments made by banks, national payment institutions, national electronic money institutions and credit unions.	The objective of the Recommendation is to provide standard minimum requirements for secure online payment services provided by banks, national payment institutions, national electronic money institutions and credit unions. The Recommendation covers the following areas: 1) Principles and administration of risk management and assessment, 2) Controls and security measures applicable to online payments, 3) Customer communication and education.	System changes.
3.	Recommendation Z concerning corporate governance issued by the Polish Financial Supervision Authority.  The Recommendation will come into force on 1 November 2016.	The Recommendation concerns the principles of internal management in banks. It will regulate the following areas: organizational structure, tasks, obligations, composition and activities of the supervisory board, management board, top executives, risk and internal control management, IT systems and communication, going concern and management transparency in the bank.	Corporate governance.
4.	Recommendation W concerning risk management models in banks issued by the Polish Financial Supervision Authority.  The Recommendation will come into force on 1 July 2016.	The Recommendation discusses model risk management and determines model risk management standards with the process framework, the principles of modelling and assessing model quality in compliance with corporate governance standards.	Corporate governance.
5.	Act amending the act on supervision over the financial market and certain other acts of 5 August 2015. The Act will come into force on 11 March 2016.	Key changes concern the amount of payments for defaulting under timely repayment of the principal or interest, which will limit non-interest income of the bank.	Fee and commission income.

Moreover, works and negotiations have been carried out on the following regulations:

No.	Regulation	Change description	Effect on business operations
1.	Act on mandatory automatic exchange of information in the field of taxation	The objective of the act is to implement the provisions of the Directive 2014/107/EU of the Council dated 9 December 2014. Apart from a unified information exchange standard it is possible to exchange financial information between tax administrations of individual countries, to prevent adverse phenomena and contribute to increasing the inflows to the state budget.	Administrative costs, reporting requirements.
2.	Recommendation C concerning concentration risk management issued by the Polish Financial Supervision Authority.	Draft Recommendation C covers in particular the provisions concerning the strategy and procedures of concentration risk management in place, considering concentration risk of intra-group exposures, reliable concentration risk identification and assessment processes in place, concentration risk mitigation limits in place.	Organizational changes.
3.	Regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data.	The Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data is planned to be replaced with Regulation of the European Parliament and of the Council on protection of individuals with regard to the processing of personal data. When the latter enters into force the substantive law on personal data protection will be fully harmonized in the European Union.	System changes, and administrative costs.

## 2. Significant Events in the Capital Group in 2015

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### 2.1 Capital injection to the Bank

In 2015 Bank Pocztowy prepared the Bank's shares to be traded on the regulated market of the Warsaw Stock Exchange. The Bank's debut at the WSE was planned for Q4,2015. However, due to a disadvantageous market situation and bank share quotations which were lower than expected, the Bank delayed the stock exchange debut. Therefore, on 23 September 2015 the Bank's shareholders, i.e. Poczta Polska and PKO Bank Polski decided to inject capital of PLN 60 million to the Bank by way of a private placement, which will secure the Bank's growth in 2016 if the Polish Financial Supervision Authority maintains the same capital requirements in the coming quarters.

The General Shareholders' Meeting adopted a resolution to increase the share capital of the Bank by way of:

- the issue of new C1 series ordinary registered shares in the form of a private placement with subscription rights entirely excluded for the existing shareholders; the change in the Bank's charter following the capital increase; dematerialization of C1 series shares; and a request for admitting these shares to trading on the regulated market,
- the issue of new D series ordinary bearer shares in the form of a public offering with subscription rights entirely excluded for the existing shareholders; the change in the Bank's charter following the capital increase; dematerialization of D series shares and rights to D series shares; and a request for admitting these shares and rights to trading on the regulated market.

The existing shareholders took up new shares in the form of the capital increase and maintained the existing share: 75% of the share capital less 10 shares for Poczta Polska and 25% of the share capital plus 10 shares for PKO BP.

The unanimous decision of the shareholders with respect to the capital injection to the Bank enables the Bank's ongoing growth, in particular increasing new lending at the same time meeting the increased capital requirements applicable to the Bank since 1 January 2016. In compliance with the guidelines of the Polish Financial Supervision Authority (No. DRB/0735/2/1/2015) since 1 January 2016 the Bank has been obliged to maintain capital adequacy taking into consideration capital buffers at the level of at least:

- CAR – 13.25% (versus 12% before 31 December 2015),
- Tier 1 – 10.25% (as compared to 9% before 31 December 2015).

Thanks to the capital injection of PLN 60 million, the capital adequacy ratios remained high and exceeded the minimum level recommended by the supervising authority. As at 31 December 2015, CAR amounted to 14.4% and Tier 1 to - 11.4%.

Significantly, the Bank intends to continue its preparations to the capital increase in the form of the IPO to follow the dynamic growth strategy for the period until 2018.

### 2.2 Growing client base

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At the end of 2015 Bank Pocztowy had the total of 1,499.4 thousand clients, including:

- 1,305.7 thousand of individuals vs. 1,254.4 thousand at the end of 2014;
- 178.4 thousand microenterprises versus 177.9 thousand at the end of 2014,
- 15.2 thousand other institutional clients (small and medium enterprises, public sector entities, public benefit institutions). The number of the Bank's clients in the segment slightly decreased.

In 2015, the Bank's client portfolio grew by 3.6%. Following the Bank's actions aimed at stimulating clients who do not actively use accounts, an insignificant number of dormant account holders left the Bank. The continuing growth in the number of clients accompanied with closures of inactive accounts has

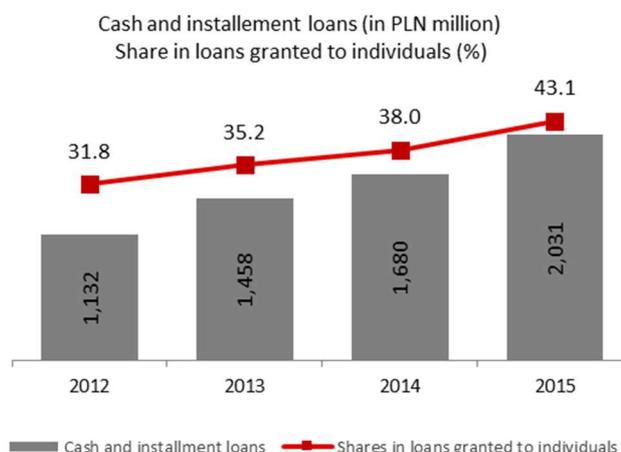


confirmed the efficiency of the Bank's policy regarding its product offer. The policy is based on offering simple, user-friendly products and avoiding complicated procedures and incomprehensible communication.

### 2.3 Dynamic growth of cash loans and installment loans

In 2015 the Group took steps to optimize its balance sheet structure and increase the share of highly profitable assets. At the end of December 2015 the total cash loans and installment loans amounted to PLN 2 031.3 million, having increased by PLN 351.3 million, i.e. by 20.9% versus December 2014.

Following the loan policy adopted, the change in the Group's credit exposure structure followed the changes observed in recent years. Since 2012, the share of consumer loans, i.e. of the largest group in the structure, has increased. At the end of 2015 such exposures accounted for 43.1%, i.e. were by 5.1 p.p. higher than the previous year.



#### Loans and advances granted to customers of the Bank Pocztowy S.A. Capital Group (in PLN '000)

	31.12.2015	Structure (31.12.2015)	31.12.2014	Structure (31.12.2014)	Change 2015/2014	
					PLN '000	%
<b>Gross loans and advances granted to customers (gross)</b>	<b>5,542,489</b>	<b>100.0%</b>	<b>5,325,685</b>	<b>100.0%</b>	<b>216,804</b>	<b>4.1 %</b>
<b>individuals, including:</b>	<b>4,711,355</b>	<b>85.0%</b>	<b>4,423,563</b>	<b>83.1%</b>	<b>287,792</b>	<b>6.5 %</b>
<b>cash loans and instalment loans</b>	<b>2,031,277</b>	<b>36.6%</b>	<b>1,680,009</b>	<b>31.5%</b>	<b>351,268</b>	<b>20.9 %</b>
<b>mortgages</b>	<b>228,598</b>	<b>4.1%</b>	<b>245,792</b>	<b>4.6%</b>	<b>(17,194)</b>	<b>(7.0)%</b>
<b>real estate loans</b>	<b>2,402,034</b>	<b>43.3%</b>	<b>2,444,023</b>	<b>45.9%</b>	<b>(41,989)</b>	<b>(1.7)%</b>
<b>overdraft facilities</b>	<b>32,478</b>	<b>0.6%</b>	<b>35,836</b>	<b>0.7%</b>	<b>(3,358)</b>	<b>(9.4)%</b>
<b>credit card debt</b>	<b>16,968</b>	<b>0.3%</b>	<b>17,903</b>	<b>0.3%</b>	<b>(935)</b>	<b>(5.2)%</b>
<b>institutional customers</b>	<b>578,292</b>	<b>10.4%</b>	<b>598,760</b>	<b>11.2%</b>	<b>(20,468)</b>	<b>(3.4)%</b>
<b>local authorities</b>	<b>252,842</b>	<b>4.6%</b>	<b>303,362</b>	<b>5.7%</b>	<b>(50,520)</b>	<b>(16.7)%</b>
<b>Impairment losses on receivables</b>	<b>229,607</b>	<b>-</b>	<b>173,908</b>	<b>-</b>	<b>55,699</b>	<b>32.0 %</b>
<b>Net loans and advances</b>	<b>5,312,882</b>	<b>-</b>	<b>5,151,777</b>	<b>-</b>	<b>161,105</b>	<b>3.1 %</b>

## 2.4 Net ROE in excess of the market average

In 2015 the Group operated in sustained low interest rate environment, as in March 2015 the Monetary Policy Council decreased interest rates by 50 b.p. to record low levels, at the same time announcing the end of the monetary policy easing cycle. At the same time, certain adverse one-off events occurred in the banking sector (SK Bank, Office for Competition and Consumer Protection and Borrowers' Support Fund) and both factors decreased banks' performance.

In 2015 the Capital Group generated the second-highest net profit since the registration. It reached PLN 33.9 million and was by 22.2%, i.e. by 9.7% lower than the record high net profit reported in 2014. At the same time, the total impact of one-off events remaining out of the Group's control which accumulated in Q4,2015 (an additional payment to the Bank Guarantee Fund related to the bankruptcy of SK Bank, a payment to the Office for Competition and Consumer Protection under a court's decision dated 6 October 2015, a provision for payment to the Borrowers' Support Fund) and amounted to PLN 18.5 million, which translated into a decrease in the net profit of PLN 14.6 million.

Apart from one-off events, which considerably increased the expenses, the financial profit of the Group in 2015 was affected by the following factors:

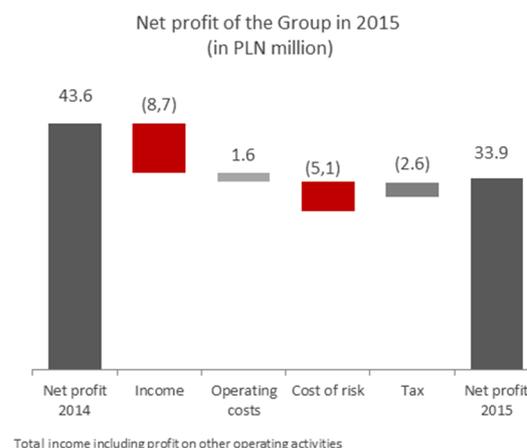
- Income deterioration (to include revenue and expenses related to other operations). The income amounted to PLN 326.1 million, i.e. by 2.6% less YoY. In the record low interest rate environment net interest income decreased by 3.7%. Net fee and commission income decreased by 6.4% to PLN 55.8 million. The drop resulted from:
  - market interest rate decreases – average WIBOR 3M decreased by 0.8 p.p. (from 2.5% to 1.7%) in 2015, hence the interest margin of the Group dropped by 0.2 p.p. (from 3.8% in 2014 to 3.6% in 2015),
  - reduced *interchange* rates since 1 July 2014 to 0.5% at maximum and since 1 February 2015 to 0.2% for debit cards and 0.3% for credit cards and other payment cards,
  - a tendency to limit the bancassurance product range and investment and insurance offer related to the implementation of the Recommendation U issued by the Polish Financial Supervision Authority and lower demand among clients,
  - launch of the new Bank offer in Q4,2014 – *Zawsze Darmowe* account with no monthly fee for account maintenance, which translated into higher acquisition of new clients in 2015 and limited revenue due to account maintenance.
- Maintaining the cost discipline despite one-off events discussed above. In 2015 operating expenses reached PLN 217.0 million and were 0.7% lower than in 2014.
- The increase in the loss on impairment allowances from PLN 61.0 million in 2014 to PLN 66.1 million in 2015 (an increase of 8.4%). The losses were recognized mostly for consumer loans with relatively higher cost of risk.

In 2015 the cost/income ratio amounted to 66.6%, i.e. was by 1.3 p.p. higher than in 2014.

Despite disadvantageous environment the Group generated higher net ROE than the entire banking sector. In 2015 net ROE of the Group amounted to 6.9% and was by 0.1 p.p. higher than the market average.

In 2015 the net ROA of the Group reached 0.5% vs. 0.6% in the prior year.

As at 31 December 2015 the solvency ratio amounted to 14.4% compared to 13.4% in December 2014. The ratio increased after the injection of PLN 60 million made by the existing shareholders. Tier 1 capital ratio of the Bank also exceeded regulatory requirements and amounted to 11.4% at the end of 2015. Capital adequacy ratios remained high and exceeded the minimum level recommended by the supervising authority.



Financial performance of the Bank Pocztowy S.A. Capital Group			
	2015	2014	Change 2015/2014
Operating income <sup>1</sup> (PLN'000)	326,054	334,780	(2.6)%
Operating expenses (PLN '000)	(217,030)	(218,622)	(0.7)%
Profit before cost of risk <sup>2</sup> (PLN'000)	109,024	116,158	(6.1)%
Net impairment losses (PLN'000)	(66,145)	(61,013)	8.4 %
Gross profit (PLN '000)	42,879	55,145	(22.2)%
Net profit (PLN '000)	33,931	43,639	(22.2)%
Net ROA (%)	0.5	0.6	(0.1) p.p.
Net ROE (%)	6.9	10.5	(3.6) p.p.
Cost/Income ratio (%)	66.6	65.3	1.3 p.p.
CAR (%)	14.4	13.4	1.0 p.p.
Tier 1 (%)	11.4	10.1	1.3 p.p.

1/ Income including profit on other operating activities.

2/ Cost of risk: net impairment losses.

## 2.5 Bank Pocztowy Development Strategy 2015-2018

In April 2015 the Supervisory Board of the Bank approved "Development Strategy of Bank Pocztowy S.A. for 2015-2018", which assumes that the Bank will become a top consumer bank for regional Poland.

Key strategic objectives of the Bank for the period until 2018 include:

- increasing the number of consumers in the portfolio to 2.4 million,
- exceeding the balance of PLN 4 billion in consumer loans,
- credit portfolio diversification
- reducing the total cost/income ratio to less than 60%.

The bank intends to achieve all these strategic objectives by way of acquiring new clients (in particular clients of Poczta Polska), further expansion of the Bank's distribution network, using the Poczta Polska distribution network more efficiently, increasing profitability of the existing clients based on cross-sell (cash loans in particular), increasing operational process efficiency, maintaining low-cost and efficient marketing activities and developing the corporate culture of the Bank.

Details of the strategy have been discussed in item 11.1 of the Report.

## 2.6 Bond issue

In order to diversify funds for financing new loans, in 2015 Bank Pocztowy issued short-term and long-term treasury bonds.

- Short-term bonds issue.  
On 29 June 2015 the Bank issued D8 series bonds with the total nominal value of PLN 30 million. The issue covered 300 bonds with the nominal value of PLN 100,000 each. The issue price was PLN 99,205.50. Bond redemption at nominal value was carried out on 2 November 2015.
- Long-term bonds issue.  
On 22 December 2015 the Bank issued B5 series bonds with the nominal value of PLN 145 million. The issue covered 14,500 bonds with the nominal value of PLN 10,000 each. The issue price was PLN 100. They are floating interest bonds determined as WIBOR6M + 1.80 p.p. Bond redemption at face value will be carried out on 22 December 2019. It is the Bank's intention to trade its B5 series bonds on the Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*).

The Bank provided detailed information on the issue of bonds in its current reports, which are available at the website of the *Catalyst* market and the Bank.

## 2.7 Awards and distinctions

The year 2015 brought a number of awards and distinctions to the Bank, granted in many categories in industrial rankings and countrywide contests in appreciation of its product offer, management and communication with stakeholders.

In April 2015, the Bank was awarded a prestigious title of the Best Small and Medium Bank in 2014. The jury appreciated dynamic growth of the Bank in the recent years. The Bank was awarded for “Dynamic growth generated in the recent years and bold market trend setting, such as the introduction of *Pocztowe Konto Zawsze Darmowe* – the first account with the unconditional lifetime guarantee of no maintenance fees”. The Bank win in the category of banks with the equity up to PLN 3 billion. In the recent years the Bank received a number of awards granted by Banking Leaders experts. In 2013 the Bank received awards in the Best Bank and Best Medium and Small Bank categories.



The cash loan of Bank Pocztowy received the "Wprost Portfolio" award in 2015. The Bank's product won in the “loan for the client” category. “Wprost Portfolio” winners were selected in a two-stage survey which focused on: brand recognition, offer adjustment to market needs, offer transparency for the client, fees and commissions, customer service, loyalty policy, client loyalty and confidence. In the first stage a consumer survey was carried out in cooperation with the psychology and sociology departments. Later, the institutions surveyed completed a product questionnaire. The survey results were discussed by the jury, which declared the winners.



The Bank's cash loan offer was selected one of the top three most attractive market offers in the August rating prepared by TotalMoney.pl.

The cash loan offer for “internal clients” came fourth in the September ranking of TotalMoney, which is a good position.

Pocztowe Konto Firmowe (PKF) is regularly granted market awards. In the July ranking published by bankier.pl Pocztowe Konto Firmowe (Company Postal Bank Account) got two second places in the corporate bank account ranking for start-ups and medium-sized enterprises. The assessment criteria included costs of account maintenance and additional services.

Comparing with other accounts offered on the market, the Bank Pocztowy's account stands out as that offering:

- the widest company account service network in Poland including offices of the Bank and Poczta Polska,
- account opening, maintenance and basis corporate services offered free of charge.

In the October Forbes ranking analyzing the offer of 12 banks, Pocztowe Konto Firmowe received four out of five stars.

Once again Pocztowe Konto Firmowe was ranked the third top account for SMEs. The authors of the ranking published by the Dziennik Gazeta Prawna daily particularly appreciated the possibility to open and keep an account with the Bank, to make transfers (including to the Social Insurance Institution and the Tax Office), to pay out cash from all ATMs worldwide free of charge. The ranking, which distinguished the account of Bank Pocztowy analyzed offers of 12 banks.

*ZawszeDarmowe* account got the "Dark Horse" title in the ranking of personal accounts prepared by the Banking-Magazine web service. The portal analyzed personal accounts offered by top Polish banks. The objective of the analysis was to select a current account, which offers the most additional benefits and profits to clients at the same time keeping its costs low. The “Dark Horse” title distinguished the account as the offer perfectly tailored to the needs of a specific client group.

The *Gazeta Prawna* daily published the results of the third edition of the survey analyzing remote communication with top Polish banks. The Bank was ranked eighth.

The survey was composed of three key parts covering various forms of the client's communication with the bank:

- helpline,

- online communication (e-mail, contact form and chat),
- finding contact details (homepage, contact tab).

This good position in the ranking was achieved with the effort of the Contact Centre Department and the Bank, who were focused on one objective only: improving the quality of client's communication with Bank Pocztowy.

The key changes include:

- improved quality of helpline communication,
- shorter IVR message transmission,
- shorter call waiting time,
- improved quality of telephone conversations,
- changes in e-mail forms,
- changes in contact forms available on the website,
- website changes to highlight contact forms available in Bank Pocztowy.

For yet another year the consolidated annual report of Bank Pocztowy was awarded in The Best Annual Report contest organized by the Institute for Accounting and Taxes and the Warsaw Stock Exchange for the tenth time. The consolidated annual report of Bank Pocztowy for 2014 was ranked second in the Banks and Financial Institutions category. Moreover, the Bank was awarded for the best application of the IFRS/IAS in the financial statements. Thus, the fact that Bank Pocztowy, as an issuer of bonds quoted with *Catalyst* market of the Warsaw Stock Exchange, cares for top quality market communication, among others adopting reporting standards close to those applied by banks quoted with WSE, was recognized. In the previous rounds of *The Best Annual Report* competition, the annual report of Bank Pocztowy was ranked the first in the *Banks and Financial Institutions* category and the Bank was distinguished for the best Management Report on the activities of the Bank (in 2013 and in 2012), and for the best application of the IFRS/IAS in the financial statements (in 2011).



## 2.8 New website

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In September 2015 the Bank launched an upgraded version of its website. The only thing that remained unchanged is the address: <http://www.pocztowy.pl>. The Bank has introduced new facilities for users, which are visible at first glance. The Bank's website [www.pocztowy.pl](http://www.pocztowy.pl) has been prepared in accordance with the current market standards, it is modern, simple and user-friendly. Thanks to the Responsive Web Design technology, the new website can be accessed from any type of device: smartphone, tablet, laptop and desk top. It has also been adjusted to the needs of users with visual disability. The new website uses a number of interesting solutions compliant with the latest market standards and it is easy to navigate. Bank Pocztowy's products are divided into three categories: daily banking, loans, savings and investments. The website has a search function (which enables easy data search based on a word or phrase), table of contents (moving when scrolled and highlighting accessed section), bank office and ATM search (which allows for determining client location and the route to the selected office).



Key advantages of the new website:

- content adjustment to the client segment,
- simple presentation of the Bank's offer,
- efficient content search,
- clear layout,
- simple navigation,
- modern search engine to find branches and offices, ATMs and cash deposit machines.

In September 2015 the Bank prepared the new version of the Sales Website, presenting products and sales information for the distribution network staff of the Bank and Poczta Polska. Thanks to user remarks and suggestions, a new simple clear and modern website has been developed. The website offers:

- clear layout,
- easy data search and active phrase search,
- logical structure of publications and advertising materials,
- new artwork.

In early October 2015 the Bank launched an upgraded version of the Management Information Website to centralize report management and provide management and operational information to the Bank's staff. Apart from the attractive artwork, the new website enables an easy search for reports, intuitive navigation, clear layout for various browsers and screens and an efficient report search.

In September 2015 Bank Pocztowy in cooperation with Poczta Polska launched a website dedicated to the stock exchange and basic investing skills at <http://www.gieldowy.pocztowy.pl>. Certain educational activities were carried out under the Akcjonariat Obywatelski program. The <http://www.gieldowy.pocztowy.pl> website has been created to explain the stock exchange to beginners. The web service presents information useful for all newcomers to the stock market, such as general information about the stock exchange, its history, the listing process, stock exchange indexes and other interesting facts, such as famous investment quotes.

## 3. Activities in the Consumer Market

### 3.1 Consumers

At the end of 2015, services offered by Bank Pocztowy were used by 1,484.2 thousand consumers (individual and microenterprises), i.e. 51.9 thousand more than a year before.

The growing number of consumers confirms that the Bank's decision to create a simple and transparent offer built around trust and security has been appropriate. As a result, in 2015 the Bank acquired over 195 thousand new consumers.

After the *Zawsze Darmowe (Always for free)* account was introduced to the Bank's offer in 2014 the number of consumers in the Bank's portfolio started to grow dynamically in the following months. The largest increase was reported in the number of current account holders – by 82.2 thousand. At the same time, in line with the policy aimed at reducing costs of the deposit portfolio and adjusting the deposit balance to liquidity needs of the Bank, the number of deposit clients has decreased. The Bank reported a decrease in the number of clients holding term deposits by PLN 16.2 thousand. In 2015 the number of the Bank's credit clients in the consumer segment grew by 7.9 thousand.

195

thousand new clients in  
retail banking segment

In 2015

### 3.2 Development of the product offer for consumers

Bank Pocztowy has created a simple and comprehensible offer for consumers, including deposit, credit, investment, and insurance products. Following the strategy to simplify the offer, in the first half of 2015 the number of products and their variants has been limited.

The offer covers the following product groups:

- current account (*Pocztowe Konto Zawsze Darmowe*),
- saving account (*Pocztowe Konto Oszczędnościowe*),
- fixed-rate term deposits always offered in three term options: short-term MINI, mid-term MIDI, and long-term MAXI, i.e. as at 31 December 2015 it was respectively: 4, 6 and 36 months,
- floating-rate term deposits based on WIBID 3M – *Market + 30M*,
- 3-month deposit linked to acquisition of participation units in selected investment funds,
- consumer loans, cash loans, revolving overdrafts and credit cards,
- mortgage loans (including housing loans, mortgage loans and debt consolidation loans),
- insurance products,
- investment funds.

A current account for consumers is the key product used for acquiring consumers and the focal point in customer relationships.

On 1 April 2015 the Bank withdrew *Pocztowe Konto Nestor* targeted at senior consumers from its offer at the same time maintaining such accounts opened before that date. At the end of December 2015 the Bank managed 290 thousand active *Nestor* accounts, which constituted 32% of current accounts.

To drive acquisitions and transactional activities, in August 2015 the Bank launched a promotional action *Oplaca się oplacać* available to holders of *Zawsze Darmowe* accounts targeted at clients making payments to accounts. The promotion assumes that consumers will receive a PLN 100 bonus, i.e. get a portion of bills paid back from the Bank. The bonus is paid in the period of 5 months and is calculated as 10% of the amount of bills paid not to exceed PLN 20 per month.

Moreover, Bank Pocztowy has launched loyalty schemes and transactional activity programs to encourage its clients to actively use their personal accounts:

- *Pakiet Pocztowy* (postal package) program under which clients are refunded 10% of costs incurred for

selected postal services offered by Poczta Polska (mainly packages and letters);

- Pocztyowy Program Ubezpieczeniowy (postal insurance program) under which clients are refunded 10% of the insurance premium amount paid from their current accounts held with Bank Pocztyowy under insurance agreements entered into with Pocztyowe Towarzystwo Ubezpieczeń Wzajemnych and in co-insurance agreements with Sopockie Towarzystwo Ubezpieczeń Ergo Hestia S.A.,
- Program Aktywny Nestor (active nestor program) under which clients are refunded 5% of the amount paid for purchases made in any pharmacy in Poland and abroad provided that the payment has been made using a card linked to Pocztyowe Konto Nestor (postal nestor account),
- Pay by link Envelo program for remote clients, under which they are refunded 10% of costs incurred to buy Envelo products through pay by link functionality from their accounts held with Bank Pocztyowy.

Responding to clients' needs, the Bank has extended its lending offer with:

- loan with the guaranteed lowest installment in the market sold under the brand name RataZawszeNajniższa,
- simple, short-term, low-value loan *Pożyczka na Poczcie* (from PLN 1 000 to PLN 3 000) offered since March 2015. The product launch was supported with an advertising campaign. In the second half of 2015 the repayment period was extended to 12 months and the acceptance of the statement of income was introduced for *Pożyczka na Poczcie* in the amount up to PLN 1 000.

A new simplified credit approval process was implemented in August 2015. Simplification of credit approval processes was one of the CODE initiatives. It will be easier, faster and more user-friendly for the client and for the Relationship Manager.

At the same time, the Bank communicated a message to clients focusing on the loan and installment amounts. It also introduced changes with respect to insurance constituting loan collateral, its scope, the sum insured and the method of calculating and collecting premiums. At the same time, the loan amount for which collateral is required has been changed. A new, semi-automatic processing path has been introduced. All these changes have been implemented along with a new cash loan credit approval process in the FerrytFlow application.

In April 2015 the term deposit offer was simplified by way of eliminating a number of product types and variants. In order to encourage clients to hold a personal account and to use remote banking services the Bank has increased interest rates on deposits made in the current account via the Internet or the Contact Center by 20 b.p.

The process of opening a current account was optimized in November 2015. The number of process steps has been limited, the workload for Relationship Managers has been reduced hence improving efficiency of customer service. Following the changes made an account may be opened within 15 minutes.

Since January 2015 the Bank, in cooperation with Ipopema TFI, has offered the possibility to purchase units in selected investment funds with a various investment strategy and risk profile. The funds' offer constitutes an interesting alternative to the deposit offer for clients with a higher risk appetite. Investment products are available in the Bank's sales network only.

The Bank also offers bancassurance products in cooperation with insurance companies, such as: Pocztyowe Towarzystwo Ubezpieczeń Wzajemnych, Aviva Towarzystwo Ubezpieczeń na Życie S.A., Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and Pocztyowe Towarzystwo Ubezpieczeń na Życie.

At the beginning of 2015 numerous regulatory changes were implemented, hence the Bank had to adjust its insurance operations to the requirements determined by the Polish Financial Supervision Authority in Recommendation U. Due to regulatory changes the Bank had to carry out a business assessment of insurance products with particularly low insurance premiums. Consequently, it was necessary to eliminate credit card and debit card insurance and accident insurance to overdrafts from the Bank's offer.

In cooperation with Pocztyowe Towarzystwo Ubezpieczeń Wzajemnych and Pocztyowe Towarzystwo Ubezpieczeń na Życie the Bank introduced correlated insurance products to its offer: a life insurance package, health and non-life insurance with various sums insured and premiums determined by clients based on their needs. A life insurance and income protection insurance have been included in the offer related to the cash loan.

An important process change was also introduced in 2015, which included the change in the method of calculating and collecting insurance premiums from clients. The insurance premium is no longer calculated and charged on a one-off basis, but it is payable monthly. The change proved very important for clients, as it enabled prorating the cost of insurance over a period of time.

The insurance coverage for borrowers using cash loans includes unemployment insurance, accident insurance and life insurance. The offer for mortgage loan borrowers has remained unchanged. The Bank offers real estate insurance and life and unemployment insurance packages.

### 3.3 Credit operations

At the end of 2015 gross credit receivables of Bank Pocztowy from consumers totaled PLN 4 741.3 million versus PLN 4 454.7 million in December 2014 (a 6.4% increase). The Bank's share in credit receivables from consumers of the banking sector amounted to 0.9%<sup>7</sup>.

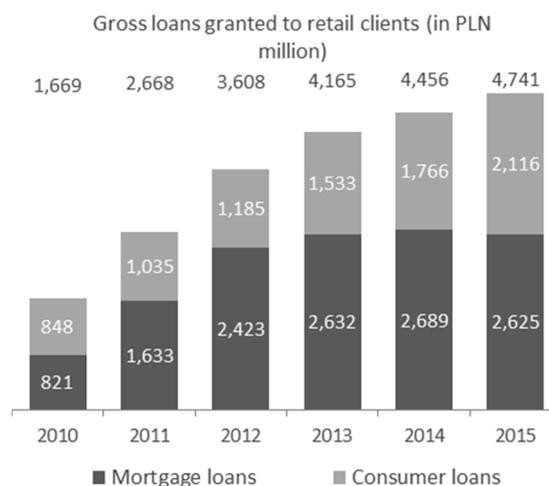
Gross loans granted to clients of Bank Pocztowy S.A. in the retail segment (PLN'000)						
	31.12.2015	structure (31.12.2015)	31.12.2014	structure (31.12.2014)	Change 2015/2014 PLN '000	%
Gross loans and advances, including	4,741,255	100.0%	4,454,674	100.0%	286,581	6.4 %
Mortgage loans	2,625,126	55.4%	2,689,295	60.4%	(64,169)	(2.4)%
Consumer loans	2,116,129	44.6%	1,765,379	39.6%	350,749	19.9 %

Source: management information of the Bank. The data present the principal amount only. Default interest, due and undue interest, commissions, other prepaid expenses and revenue, other restricted revenue and interest and other receivables were not included.

Consumer loans includes cash and installment loans, overdrafts and credit card debt and the principal amount balance of loans granted to microenterprises which amounted to PLN 39 308 thousand as at 31 December 2015, as compared to PLN 43 933 thousand as at 31 December 2014. The item does not include the balance of mortgaged loans for consumption purposes, which were presented in mortgage loans.

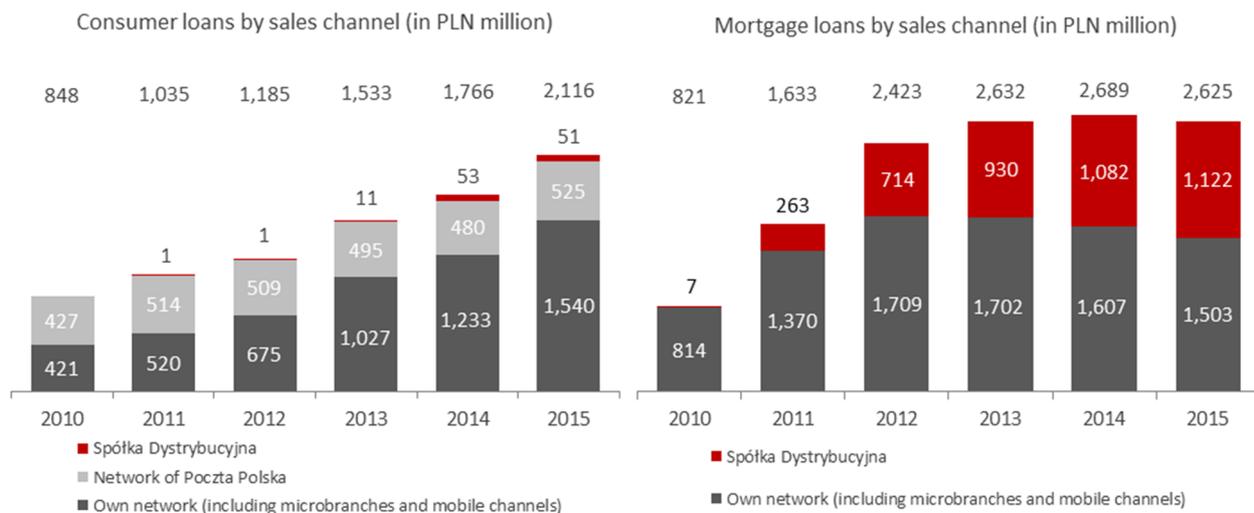
In 2015 the Bank dynamically acquired new consumer loans. At the end of December 2015 receivables due to such products reached PLN 2,116.1 million, i.e. by 19.9% more than a year before. In 2015 the Bank sold consumer loans with the value of PLN 1,066.6 million.

Mortgage loans remain a large portion of the portfolio. As at 31 December 2015, the Bank's receivables due to mortgage loans reached PLN 2,625.1 million and were by 2.4% lower than in December 2014. In 2015 the Bank, offering local currency loans only, extended PLN 106.2 million of mortgage loans, i.e. by 48.1% less than in 2014, when the sales reached PLN 204.6 million. The decrease resulted from the strategy followed. Due to limited capital, the Bank focuses on the sale of products with the highest profitability considering their effect on the capital, which implies promoting the sale of consumer loans.



Spółka Dystrybucyjna is at present the only distribution channel for mortgage loans. The key distribution channels are own sales network and the offices of Poczta Polska.

<sup>7</sup> Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for monetary receivables and liabilities of financial institutions, December 2015 for the banking sector



In the years 2013-2015 cross-selling activities, i.e. the sale of products to the existing client portfolio under the approved limits, grew dynamically. The strategy was aimed at increasing the volume of loans granted to clients, and consequently growing their profitability. This was achieved through:

- an increase in the number of communications sent to clients from 70 in 2013 to nearly 200 in 2015; hence the total number of client communications grew to ca. 600 thousand p.a.,
- cyclical retention actions addressed to clients with maturing loans,
- cyclical additional sales of loans based on a simplified process developed in line with Recommendation T covering 1/3 of the client base,
- extending the sales channels in the cross-sell actions to include own outlets and the network of Poczta Polska,
- implementing Operational CRM, which enables contact distribution to the Bank's sales network and recording results,
- initiating development of a multi-channel process, where the Call Center calls clients from the database and reports sales leads for further processing by the sales network.

### 3.4 Deposits

In 2015 the Bank adjusted the speed of developing its deposit base to credit needs, including optimization of the funding costs. At the end of December 2015 consumers deposited in the Bank the total of PLN 4,523.5 million versus PLN 4,656.2 million at the end of December 2014 (a decrease by PLN 132.7 million). Consequently, the Bank's share in consumer's deposits market<sup>8</sup> reached 0.7%.

Deposits of Bank Pocztowy S.A. - retail segment (in PLN '000)						
	31.12.2015	structure (31.12.2015)	31.12.2014	structure (31.12.2014)	Change 2015/2014 PLN '000	%
Client deposits, including:	4,523,510	100.0%	4,656,169	100.0%	(132,659)	(2.8)%
Current accounts	1,367,747	30.2%	1,036,810	22.3%	330,936	31.9%
Saving accounts	1,238,990	27.4%	1,332,618	28.6%	(93,628)	(7.0)%
Term deposits	1,916,773	42.4%	2,286,741	49.1%	(369,968)	(16.2)%

Source: management information of the Bank. The data include only the principal balance of deposits of individuals and microenterprises, without accrued interest. As at 31 December 2015 the balance of deposits of microenterprises amounted to PLN 116 649 thousand, while as at 31 December 2014 it was PLN 91 100 thousand. Interest accrued were not included.

In 2015, funds deposited on current accounts of consumers increased to reach PLN 1 367.7 million at the end of December 2015 (31.9% more than in December 2014).

At the end of 2015 Bank Pocztowy managed 1 085 thousand active current accounts of consumers (including microenterprises):

- 908.8 thousand current accounts, i.e. by 87.7 thousand more than at the end of 2014. An introduction of *ZawszeDarmowe* account to the Bank's offer in September 2014, which is expected to be maintained free of charge for an indefinite period, enabled mass client acquisition. In 2015 the Bank concluded over 225 thousand new current account agreements. Nestor accounts, which were no longer sold since 2015 amounted to 290 thousand (32% of the total current account portfolio).
- 176.6 thousand of Pocztowe Konto Firmowe accounts for microenterprises, i.e. by 0.4 thousand more than at the end of 2014.



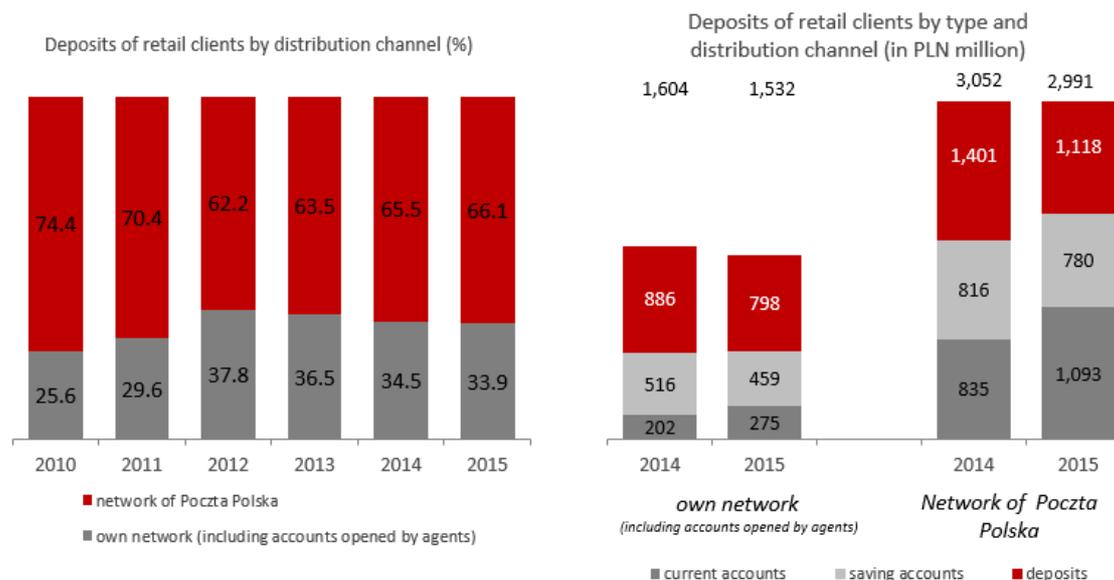
In December 2015 consumers deposited PLN 1 239.0 million on saving accounts in the Bank, i.e. by 93.6 million less than at the end of 2014. The decrease resulted from the deposit structure change aimed at reducing the costs of the deposit portfolio.

Due to decreasing interest rates the lowest demand was reported for term deposits. At the end of December 2015 funds placed in term deposits amounted to PLN 1 916.8 million and were PLN 370.0 million lower than at the end of 2014.

In December 2015, 66.1% of funds deposited with Bank Pocztowy came from consumers and were collected through the Poczta Polska network:

- current accounts – 79.9% (versus 80.5% in December 2014),
- saving accounts – 63.0% (versus 61.3% in December 2014),
- term deposits – 58.3% (versus 61.3% in December 2014).

<sup>8</sup> Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for monetary receivables and liabilities of financial institutions, December 2015 for the banking sector



### 3.5 Investment products

In 2015 the Bank sold investment fund units with the value of PLN 206 million, which implies a high demand for such products among the Bank's clients.

Works are carried out to introduce investment fund units to the Bank's offer to be sold as white label products - *Pocztowy Specjalistyczny Fundusz Inwestycyjny Otwarty*. A necessary request was filed with the Polish Financial Supervision Authority by Ipopema TFI. The products of Pocztowy SFIO are expected to be offered starting from Q2, 2016.

In Q1, 2015 the Bank withdrew a structured product *Światowi Giganci* and a unit-linked insurance product *Złote Jutro* from its offer intending to simplify its investment offer and to focus on the sale of investment fund units.

### 3.6 Bank cards

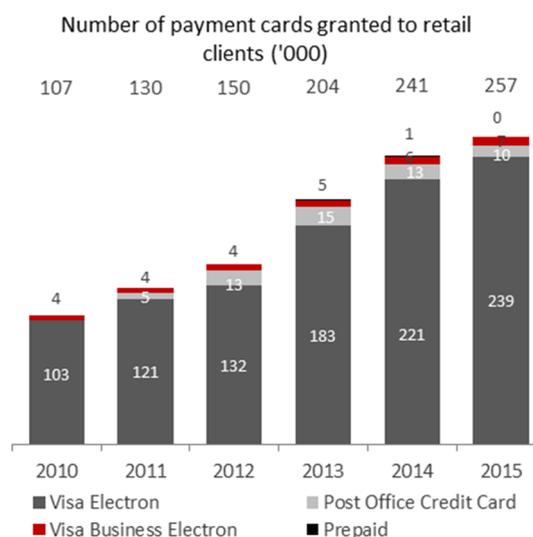
Bank Pocztowy offers the following types of bank cards to consumers:

- MasterCard and Visa Electron debit cards issued to personal accounts,
- MasterCard and Visa Classic credit cards,
- Visa Business cards issued to *Pocztowe Konto Firmowe* accounts.

At the end of 2015 the payment card portfolio for consumers amounted to PLN 257 thousand, out of which 93% were debit cards.

Major changes in the payment card offer of the Bank:

- at the beginning of 2015 the possibility to enable and to disable the contactless payment functionality has been implemented,
- in order to enhance security on 1 February 2015 the Bank introduced the possibility for consumers to establish an individual limit for online transactions,
- Debit cards to *Pocztowe Konto Oszczędnościowe* and pre-paid cards were withdrawn from the offer on 1 April 2015,
- Following the implementation of Recommendation U on 1 April 2015 additional insurance coverage *Ochrona karty* (card protection) and additional optional insurance coverage for repayment of credit card debt have been withdrawn from the offer.



## 4. Activities in the institutional market

### 4.1 Institutional banking clients

Applying general, financial and business relations criteria, the Bank has divided its institutional clients into the following categories:

- small and medium enterprises (SME),
- housing institutions such as condominiums, housing associations, property managers and social housing associations,
- Public Finance and Public Benefit Organizations to include associations, labor unions, election committees,
- Poczta Polska and companies from its Capital Group.

15.2

thousand clients in  
institutional banking  
segment

As at 31.12.2015

At the end of 2015 Bank Pocztowy had the total of 15.2 thousand institutional clients. The housing segment is the largest group of institutional clients. In December 2015 the Bank served 11.3 thousand clients in this group.

### 4.2 Development of the product offer for institutional clients

The key product in packages tailored to individual needs of institutional client segments is the current account. The Bank offers the following types of current accounts to institutional clients:

- Pocztowy Biznes Pakiet – targeted at all SMEs, real property managers and administrators, Public Finance sector, public benefit organizations, NGOs, Poczta Polska S.A. and companies from the Poczta Polska Capital Group,
- *Pocztowy Pakiet MINI DOM* (Mini House Postal Package) – targeted at condominiums which enter into a limited number of transactions, generate low revenue and use a narrow range of bank products. Lower package price with additional individual fees and charges for individual products,
- Pocztowy Pakiet DOM (House Postal Package) – full offer for condominiums. Free of charge transfers in return for a higher package price.

In order to simplify the Bank's offer for institutional clients in April 2015 the Bank decided to withdraw certain products: Pocztowy Pakiet MAŁA ORGANIZACJA (Small Organization Postal Package) and Pocztowy Pakiet ORGANIZACJA (Organization Postal Package) dedicated to the Public Finance sector, Public Benefit Organizations (associations, organizations, trade unions, Parents' Councils) and social housing associations.

The Bank also offers escrow accounts for housing purposes (both open-ended and closed-ended) for developers and used for accumulating funds paid by the buyer for purposes specified in the development agreement.

The Bank offers the following deposit products:

- standard fixed-rate deposits with the tenor of 3, 6 and 12 months and the minimal amount of PLN 1 thousand,
- individually negotiated deposits for at least PLN 50 thousand,
- automatically renewed overnight deposits of at least PLN 50 thousand with more advantageous interest rates than those proposed for overdrafts,
- Konto Oszczędnościowe Biznes (Business Saving Accounts) - for all segments. Interest rates dependent on the amount of funds on the account with two thresholds: account balance of less than PLN 10 thousand (lower interest rate) and account balance of more than PLN 10 thousand (higher interest rate),
- bank accounts in foreign currencies (USD, EUR, GBP, CHF, CAD).

The Bank offers comprehensive settlement services based on the access to Poczta Polska's infrastructure. The services include: managing cash payments made in other banks and handling payments made to the Social Insurance Institution and Tax Offices.

The Bank's settlement offer includes:

- Giro Płatność (Giro Payment) (cash payments to third parties available at the offices Poczta Polska and the Bank's own network),
- over-the-counter deposits (cash payments to the client's account at the offices of Poczta Polska and the Bank's own network based on standard or individual terms),
- Pocztowy Collect (identifying bulk payments using virtual accounts generated to a client's bank account),
- Pocztowy Przelew Zbiorczy (Postal Collective Transfer) (managing bulk domestic non-cash payment orders in the Polish zloty),
- sealed cash deposits (accepting sealed cash deposits from clients).

Further, in 2015 the Bank continued relationships with companies offering international cash transfers. The Bank's key competitive advantage is the widest distribution network in Poland, composed of post offices and bank's sales points where customers can collect cash transfers.

The Bank's credit offer for institutional clients includes in particular:

- overdraft facilities (in the current and credit account),
- non-revolving working capital loans (in the credit account),
- investment loans,
- loans with thermal improvement and refurbishment premium,
- loans for refurbishment and construction purposes,
- mortgage loans,
- bank guarantees.

The treasury offer for institutional clients includes:

- currency forward contracts,
- purchase and sale of debt securities (treasury and non-treasury securities, certificates of deposit),
- possibility to conclude currency forward transactions under a treasury limit.

In order to improve competitiveness of its offer for institutional clients the following steps have been taken by the Bank:

- change of the standard deposit offer: at the beginning of 2015 the number of standard deposits has been limited to three periods 3, 6 and 12 months as at 31 December 2015 (the same as those of deposits offered to consumers : MINI, MIDI and MAXI),
- reduction of the minimum amount of individually negotiated deposits to PLN 50 thousand and simplification of the process of depositing funds through an direct client communication with the Treasury Department,
- simplification of the Fee and Commission Scheme and transferring products no longer available to a separate document,
- introduction of a flexible mechanism of determining interest rates for standard *overnight* deposits,
- initial works on a new cash transfer services.

### 4.3 Credit operations

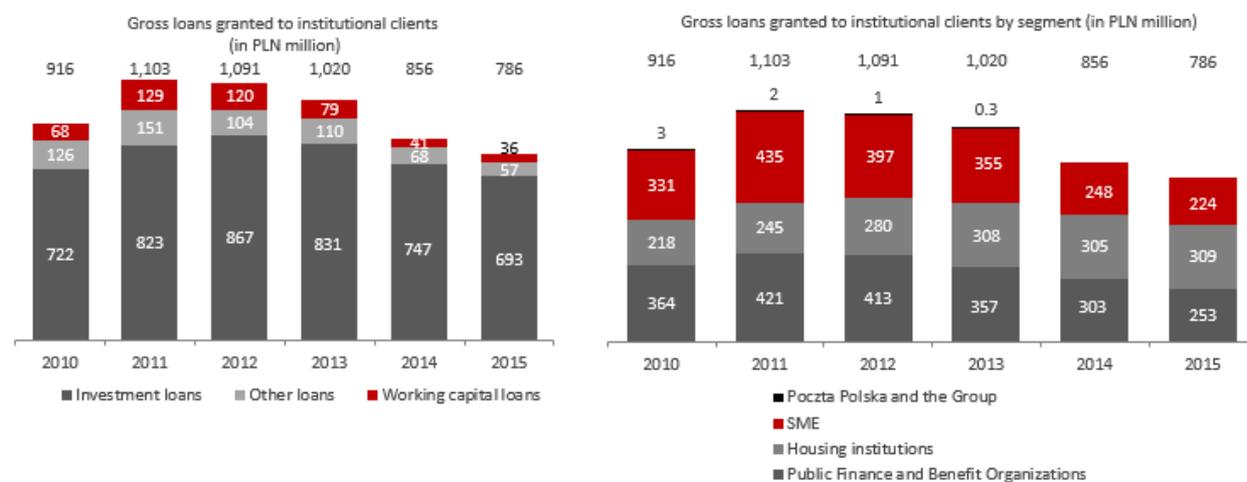
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The Bank's strategy with respect to institutional clients assumes selected growth focused on housing products. Therefore, in 2015 the Bank limited the scope of its lending campaign addressing it only to the existing key clients holding significant deposits and using settlement services. The change in the lending policy towards institutional clients translated into a decrease in credit receivables from this client group. As at 31 December 2015 the Bank's credit receivables from institutional clients totaled PLN 785.6 million and were by PLN 70.5 million lower than in December 2014.

Loans of Bank Pocztowy S.A. - institutional segment (in PLN '000)						
	31.12.2015	structure (31.12.2015)	31.12.2014	structure (31.12.2014)	Change 2015/2014 PLN '000	%
Loans granted to institutions	785,612	100.0%	856,097	100.0%	(70,485)	(8.2)%
Investment loans	692,500	88.2%	746,959	87.2%	(54,459)	(7.3)%
Working capital loans	35,637	4.5%	40,956	4.8%	(5,319)	(13.0)%
Other loans	57,475	7.3%	68,182	8.0%	(10,707)	(15.7)%

Source: management information of the Bank. The data present the principal amount only. Default interest, due and undue interest, EIR fees, other prepaid expenses and revenue, other restricted revenue and interest and other receivables were not included.

Investment loans had the highest share in the institutional clients portfolio and they accounted for 88.2% of the total credit exposure of the Bank from this group of clients at the end of 2015.



## 4.4 Deposits

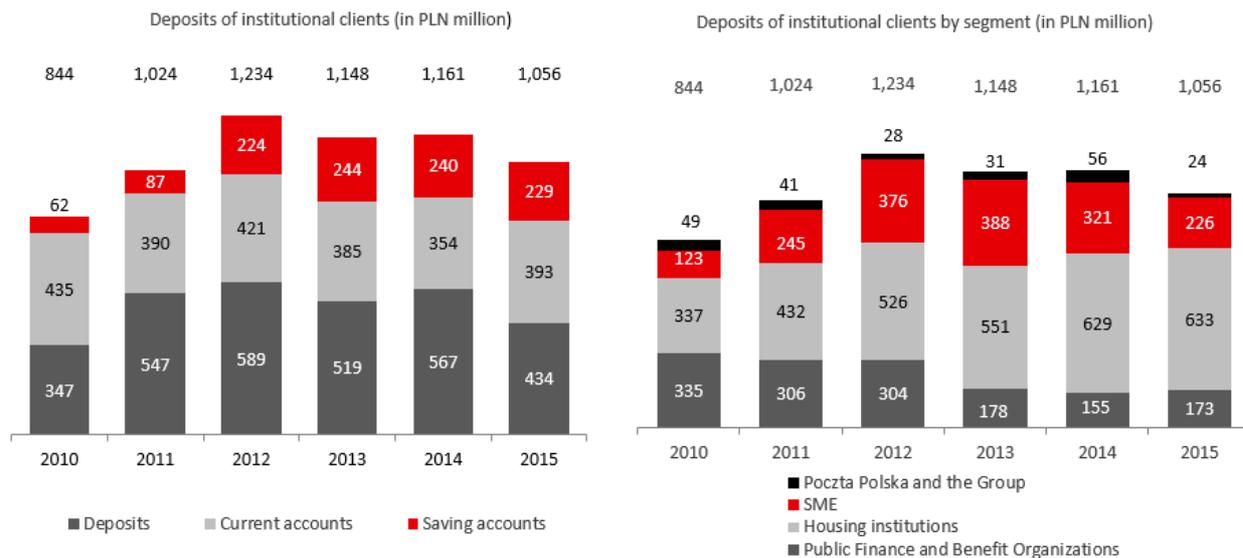
As at 31 December 2015 deposits of institutional clients amounted to PLN 1 056.4 million, i.e. by PLN 104.3 million less than at the end of 2014. The scale of deposit activities in the institutional segment was adjusted to the limited lending activities in particular in the SME portfolio. In December 2015 Bank Pocztowy held a 0.4% share in the market of deposits of institutional clients and controlled 2.7% of the market of deposits made by non-profit organizations operating for the benefit of households<sup>9</sup>.

Deposits of Bank Pocztowy S.A. - institutional segment (in PLN '000)						
	31.12.2015	structure (31.12.2015)	31.12.2014	structure (31.12.2014)	Change 2015/2014 PLN '000	%
Total institutional deposits	1,056,431	100.0%	1,160,706	100.0%	(104,275)	(9.0)%
Current accounts	392,984	37.2%	354,339	30.5%	38,645	10.9%
Saving accounts	228,996	21.7%	239,472	20.6%	(10,476)	(4.4)%
Deposits	434,451	41.1%	566,895	48.9%	(132,444)	(23.4)%

Source: management information of the Bank. Deposits without individually negotiated deposits of Poczta Polska (transfer payments).

At the end of December 2015, the balance of cash on current accounts of institutional clients increased to PLN 393.0 million, i.e. it was by 10.9% higher than on 31 December 2014.

<sup>9</sup> Source: WEBIS data for Bank Pocztowy, data of the National Bank of Poland for monetary receivables and liabilities of financial institutions, December 2015 for the banking sector



At the end of 2015 Bank Pocztowy managed 20.3 thousand active current accounts of institutional clients.

Most institutional clients invest free cash in term deposits. In December 2015 term deposits of these entities reached PLN 434.5 million, i.e. 41.2% of total deposits of institutional clients. In 2015, in time of decreasing interest rates, the balance of deposits was by PLN 132.4, i.e. by 23.4% lower than at the end of 2014. At the end of 2015 the total balance deposited on saving accounts decreased by PLN 10.5 million to PLN 229.0 million.

Housing institutions were those to deposit the highest amount at the Bank. In December 2015 the value of deposits in the housing segment reached PLN 633.0 million and constituted 59.9% of the total deposits of institutional clients. Deposits of SMEs were also considerable and amounted to PLN 226.3 million, i.e. accounted for 21.4% of the total deposits of institutional clients.

## 5. Treasury operations

Treasury operations of Bank Pocztowy focus on:

- interest rate risk and liquidity risk (for the banking book),
- currency risk, own trading risk, treasury risk (for the trading book).

### 5.1 Banking book

In 2015 the Bank concluded mainly sale and purchase transactions in debt securities, sell-buy-back and buy-sell-back transactions and deposited or borrowed funds in the interbank market as a part of managing short-term liquidity and interest rate risk. Moreover, it entered into derivative transactions such as FRA, IRS or OIS to hedge against interest rate risk. In line with its long-term liquidity management strategy the Bank issued treasury debt securities.

**1,248**

financial assets  
(in PLN million)

As at 31.12.2015

Investments in financial assets (in PLN '000)				
	31.12.2015	31.12.2014	Change 2015/2014	
			PLN '000	%
<b>Investments in financial assets</b>	<b>1,248,037</b>	<b>1,519,266</b>	<b>(271,229)</b>	<b>(17.9)%</b>
available for sale, including:	803,347	1,100,547	(297,200)	(27.0)%
Treasury bonds	779,609	611,726	167,883	27.4%
Bank bonds and certificates of deposit	8,924	8,866	58	0.7%
Shares	14,814	8	14,806	185,075.0%
Debt instruments issued by the National Bank of Poland	-	479,947	(479,947)	(100.0)%
held to maturity, including:	444,690	418,719	25,971	6.2%
Treasury bonds	394,645	393,688	957	0.2%
Bank bonds and certificates of deposit	50,045	25,031	25,014	99.9%

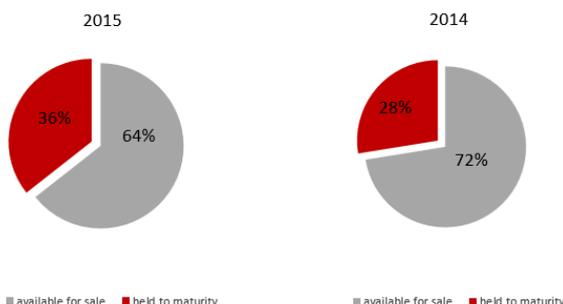
At the end of 2015 the total investments in financial assets of the Bank reached PLN 1 248.0 million, i.e. by PLN 271.2 million (17.9%) less than at the end of 2014, which resulted from lower investments of the Bank in short-term money bills issued by the National Bank of Poland. Government bonds accounted for 94.1% of the Bank's investments in financial assets (as compared to 66.2% in December 2014) and constituted their key element. In December 2015 the face value of Government Bonds was PLN 1,174.3 million and was by PLN 168.8 million (i.e. by 16.8%) higher than at the end of 2014.

In 2015 the shares item included the fair value of shares in Visa Europe Limited ("Visa Europe"). In December 2015 Visa Europe informed the Bank that the projected settlement amount for the acquisition of Visa Europe by Visa Inc. allocated to the Bank will reach EUR 3,511 thousand, including EUR 2,614 thousand of cash and EUR 897 thousand of preference shares convertible to shares in Visa Inc. The amounts in question may be adjusted by transaction costs and other adjustments resulting from possible appeals filed by members of Visa Europe, which regard adjustments of amounts awarded to members due to transaction settlement. Moreover, deferred earn-out payments to Visa Europe members after 16 quarters of the transaction close have been accounted for in the deal. Earn-out is awarded to members meeting qualification criteria for payments in cash and shares who will not have discontinued their membership in Visa for 4 years of the transaction date. As at 31 December 2015 the deferred earn-out amount allocated to the Bank was not determined.

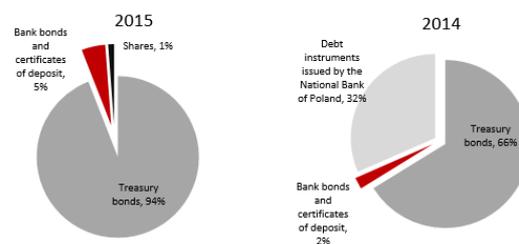
Based on the information the Bank remeasured shares in Visa Europe to their fair value, with the fair value assumed in the projected amount of cash allocated to the Bank as a result of the transaction settlement and the projected value of shares awarded including a 6% discount, i.e. EUR 3,457 thousand (i.e. PLN 14,733 thousand).

Fair value measurement of shares was recognized in revaluation reserve. As the deferred earn-out allocated to the Bank was not determined at the end of the reporting period, the Bank did not account for this amount in the measurement of shares in Visa Europe.

Securities by type



Securities structure



Investments in financial assets available for sale with the total nominal value of PLN 803.3 million constituted 64.4% of the debt securities portfolio and the remaining 35.6% were bonds held to maturity with the total face value of PLN 444.7 million.

In its securities portfolio the Bank also holds debt securities issued by other banks, classified to receivables and loans. In 2015 the value of these securities reached PLN 45.3 million, i.e. PLN 112.9 million less than in December 2014.

In 2015 interest income on investments in financial assets and non-treasury bonds amounted to PLN 40.1 million and was by 26.9% lower than in 2014. The decrease resulted from reduced market interest rates and a lower balance of debt securities.

At the end of December 2015 the gain on financial instruments measured at fair value through profit or loss and the gain on foreign exchange transactions amounted to PLN 1.2 million, i.e. reaching the level reported in 2014, where the gain on foreign exchange transactions was by PLN 0.6 million higher than in 2014 and equaled PLN 1.4 million. The change resulted from the increased business operations in the consumer segment.

In 2015 the gain on other financial instruments amounted to PLN 11.7 million, as compared to PLN 1.8 million in 2014. The increase resulted from higher income from sale of debt securities.

Since 2012 the Bank has consistently built the portfolio of long-term equity and liabilities through issues of own debt securities. At the end of December 2015 they amounted to PLN 503.5 million and had a 7.0% share in the balance sheet total.

## 5.2 Trading book

In 2015, the Bank concluded commercial transactions denominated in 10 foreign currencies, i.e. the euro, American dollar, fund sterling, Swiss franc, Japanese yen, Canadian dollar, Czech koruna, Swedish krone, Danish krone and Norwegian krone.

The Bank also traded in interest rate financial instruments, mainly in treasury debt securities.

In 2015 the gain on financial instruments held for trading and gain on foreign exchange transactions amounted to PLN 0.6 million versus PLN 1.5 million reported in 2014. The Bank generated a lower gain on trade transactions, debt instruments mainly. In 2015, on the currency market, the Bank generated the total gain on own and client transactions under individually negotiated currency transactions of PLN 1.0 million versus PLN 0.7 million in 2014.

In 2015 the Bank's commercial transactions were insignificant.

## 6. Activities of companies from the Bank's Capital Group

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### 6.1 Bank Pocztowy Capital Group

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No changes in the structure of the Bank Pocztowy Capital Group took place in 2015. Holding 100% of shares in each subsidiary, the Bank carries out its supervisory function through its representatives working and exerting control in supervisory boards of the companies. Operations of the subsidiaries considerably support business operations of the parent.

Companies from the Capital Group hold current accounts and deposit free cash using term deposits in Bank Pocztowy. Related-party transactions are carried out at arm's length.

### 6.2 Centrum Operacyjne Sp. z o.o.

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Centrum Operacyjne was established by the Bank on 20 May 2010 with the share capital of PLN 2,500 thousand. All shares were assumed by Bank Pocztowy. On 1 July 2010 the Shareholders' Meeting increased the share capital by PLN 783.8 thousand up to PLN 3,283.8 thousand.

The core business of Centrum Operacyjne includes supporting settlement processes of Bank Pocztowy, clients of the Bank Pocztowy Capital Group and Poczta Polska. It carries out its tasks using competencies and experience gained at the Bank. The company manages business processes using specialized tools, which enables it to tailor its approach to support and manage operating processes. For process optimization, Centrum Operacyjne uses modern lean management tools. The processes managed are constantly improved through elimination of bottlenecks. Additionally, the company has implemented the "paperless office" initiative.

As at 31 December 2015, the balance sheet total of Centrum Operacyjne amounted to PLN 4,809.4 thousand. In 2015 the company reported a net profit of PLN 181.4 thousand, as compared to PLN 434.0 thousand reported in 2014.

### 6.3 Spółka Dystrybucyjna Sp. z o.o.

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Spółka Dystrybucyjna was established by the Bank on 20 May 2010 with the share capital of PLN 2,000 thousand. All shares were assumed by Bank Pocztowy. On 30 September 2011, the Extraordinary Shareholders' Meeting increased the share capital of the company by PLN 679.8 thousand up to PLN 2,679.8 thousand.

The core business of the company includes the sale of financial products and services, aimed, in particular, at diversifying product and service distribution channels of the Bank and supporting its sales channels. The company's objective is also to attract new clients not using the Bank's services, e.g. due to a considerable distance from the nearest office.

At the end of 2015 Spółka Dystrybucyjna cooperated with 93 Mobile Relationship Managers, while a year before the Bank's products had been distributed by 94 RMs.

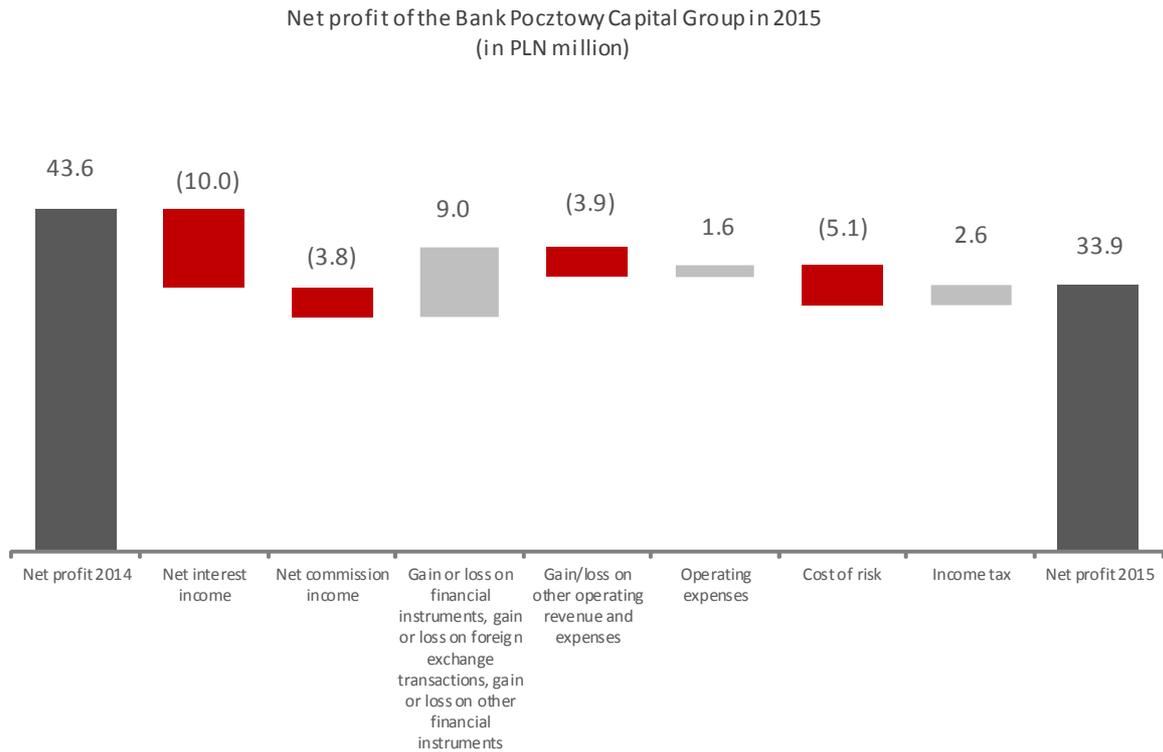
As at 31 December 2015, the balance sheet total of Spółka Dystrybucyjna amounted to PLN 3,516.5 thousand. In 2015 Spółka Dystrybucyjna generated a net profit of PLN 118.4 thousand vs. PLN 96.5 thousand in 2014.

## 7. Consolidated financial performance

### 7.1 Key factors determining the Group's financial profit or loss

In 2015 the Group generated a gross profit of PLN 42.9 million versus PLN 55.1 million in 2014. The net profit reached PLN 33.9 million and was 22.2% lower than in the prior year, when it hit the record level in the Group's history.

The key income statement items:



The financial performance of the Group in 2015 was affected by one-off events which occurred mainly in Q4, 2015:

- additional payment of PLN 11.9 million to the Bank Guarantee Fund related to the bankruptcy of SK Bank used for payment of guaranteed funds to depositors of SK Bank under the Resolution No. 87/DGD/2015 of the Management Board of the Bank Guarantee Fund,
- PLN 2.9 million paid to the Office for Competition and Consumer Protection under the court's decision dated 6 October 2015,
- costs of provision of PLN 3.6 million for a contribution to the Borrowers' Support Fund established under the Act of 9 October 2015. The Fund's objective is to provide financial support to borrowers who have found themselves in a difficult financial situation due to external factors and who have to repay a housing loan, which constitutes a significant burden for their household budgets.

Moreover, apart from one-off events, which considerably increased the expenses, the financial profit of the Group in 2015 was affected by the following factors:

- Net interest income was by PLN 10 million (3.7%) lower than in 2014 and amounted to PLN 258.2 million. The performance deterioration resulted from the disadvantageous business environment and low interest rates, as in March 2015 the Monetary Policy Council decreased interest rates by 50 b.p. to record low levels, at the same time announcing the end of the monetary policy easing cycle. In 2015 average WIBOR 3M decreased by 0.8 p.p, (from 2.5% to 1.7%), hence the interest margin of the Group dropped by 0.2 p.p. (from 3.8% in 2014 to 3.6% in 2015).
- A decrease in the net fee and commission income by PLN 3.8 million. The Group generated PLN 55,8 million of net fee and commission income, i.e. 6.4% less than in the prior year, mainly due to the following changes in the market environment and in the Bank's offer in 2015:
  - statutory reduction of interchange rates from 1 July 2014 to 0.5% at maximum and from 1 February 2015 to 0.2% for debit cards and 0.3% for credit cards and other payment cards,
  - a tendency to limit the product range in the area of bancassurance, investment and insurance offer related to the implementation of the Recommendation U issued by the Polish Financial Supervision Authority and lower demand among clients,
  - launch of the new Bank offer of current accounts – Zawsze Darmowe account with no monthly fee for account maintenance, which translated into higher acquisition of new clients in 2015 and limited revenue due to account maintenance.
- Higher gain on transactions in securities available for sale, gain on foreign exchange transactions and gain on financial instruments. The Bank generated the total income from such transactions of PLN 13.5 million, i.e. by PLN 9.0 million more than in 2014. The increase resulted from higher income from sale of debt securities.
- Maintaining a cost discipline, which translated into lower administrative expense despite additional one-off events mentioned above. In 2015 administrative costs amounted to PLN 217.0 million and were by PLN 1.6 million (0.7%) lower than in 2014.
- A gain on other revenue and operating expenses lower by PLN 3.9 million mainly due to additional payments to the Office for Competition and Consumer Protection.
- Higher impairment losses on assets. In 2015 the cost of risk reached PLN 66.1 million and grew by 8.4% comparing to 2014. The increase resulted from change in the exposure structure and a dynamic growth in consumer loans with relatively higher cost of risk.

Key items the income statement of the Bank Pocztowy S.A. Capital Group (in PLN'000)				
	2015	2014	Change 2015/2014	
			PLN '000	%
Operating income	327,528	332,340	(4,812)	(1.4)%
Net interest income	258,175	268,150	(9,975)	(3.7)%
Net fee and commission income	55,837	59,657	(3,820)	(6.4)%
Gain or loss on financial instruments measured at fair value through profit or loss and gain or loss on foreign exchange transactions	1,789	2,763	(974)	(100.0)%
Gain or loss on other financial instruments	11,727	1,770	9,957	562.5%
Gain/loss on other operating revenue and expenses	(1,474)	2,440	(3,914)	x
General and administrative expenses	(217,030)	(218,622)	1,592	(0.7)%
Net impairment losses	(66,145)	(61,013)	(5,132)	8.4%
Operating profit/loss	42,879	55,145	(12,266)	(22.2)%
Net financial profit/loss for the current period	42,879	55,145	(12,266)	(22.2)%
Income tax	(8,948)	(11,506)	2,558	(22.2)%
<b>Net financial profit/loss for the current period</b>	<b>33,931</b>	<b>43,639</b>	<b>(9,708)</b>	<b>(22.2)%</b>

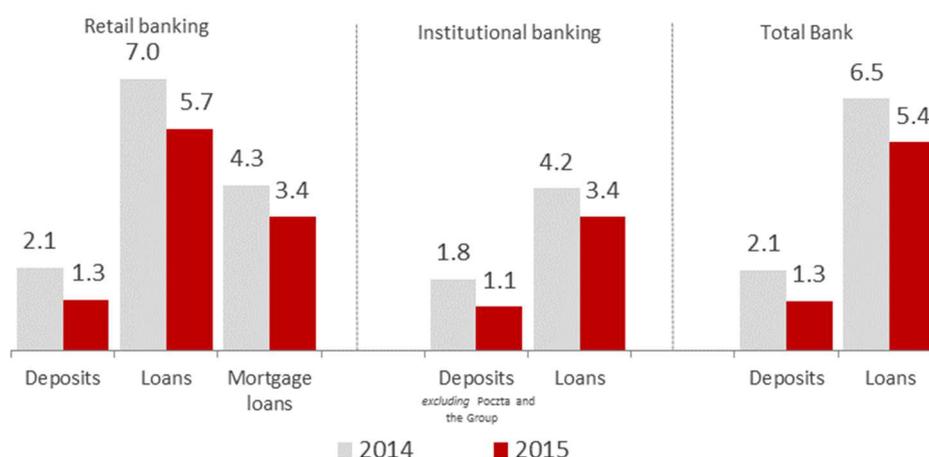
### Net interest income

In 2015, like in the previous year, the net interest income constituted the key source of income for the Group. It amounted to PLN 258.2 million and was by PLN 10.0 million, i.e. by 3.7% lower YoY.

The deterioration of the net interest income of the Group in 2015 occurred in the following circumstances:

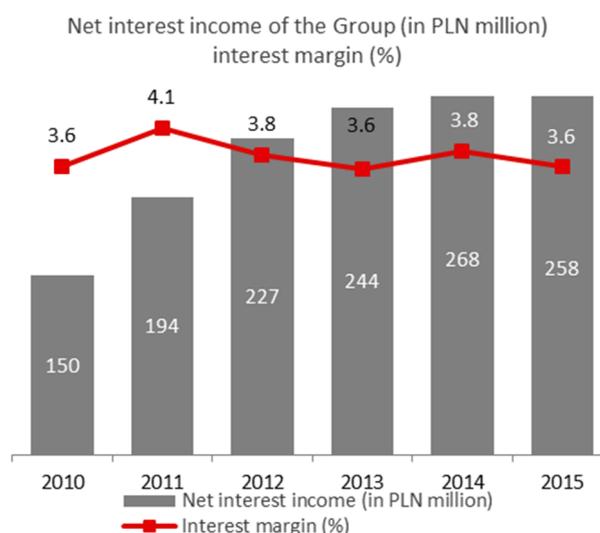
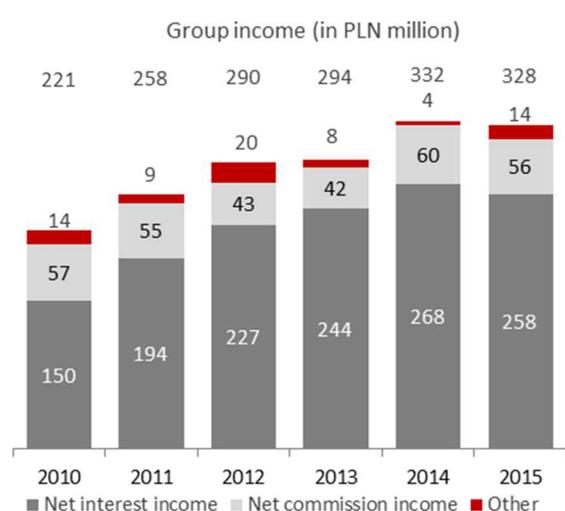
- Lower interest income. It amounted to PLN 355.2 million and was by 14.7% lower than in the previous year. The deterioration resulted mainly from the decrease in interest income from term loans granted to individuals of PLN 31.8 million, i.e. 10.3% despite higher credit balances in this area, which resulted from a decrease in average interest on consumer loans. At the end of 2015 the yield on consumer loans amounted to 8.9% and was by 2.5 p.p. lower than in 2014. To a large extent, it resulted from a reduction in Lombard rates by 0.5 p.p., which constitute the basis for calculating interest caps under the Act on supervision over the financial market. Moreover, interest income on term loans granted to institutional clients and local government bodies decreased by: 22.6% and 34.8% respectively, which resulted from lower credit exposures granted to this portfolio as well as adverse effects of lower interest rates. Income on investment financial assets decreased as well and amounted to PLN 35.1 million, i.e. was by 22.8% lower than in the previous year.
- Lower interest expense. In 2015 interest expense amounted to PLN 97.1 million and was by 34.5% lower than in 2014. The Group incurred much lower interest expense due to term deposits of all groups of clients, which resulted from:
  - deposit pricing policy aimed at limiting the cost of financing and mitigating the negative impact of lower yield on assets.
  - lower balance of cash at bank.

Average interest rate by product and segment (%)



Interest income and interest expense of the Bank Pocztowy S.A. Capital Group (PLN'000)				
	2015	2014	Change 2015/2014 PLN '000	%
<b>Interest income</b>	<b>355,240</b>	<b>416,278</b>	<b>(61,038)</b>	<b>(14.7)%</b>
Income on receivables from banks	4,914	9,064	(4,150)	(45.8)%
Income on loans and advances to clients, including:	315,165	361,466	(46,301)	(12.8)%
Overdraft facilities	4,209	7,125	(2,916)	(40.9)%
Credit facilities and term loans	310,956	354,341	(43,385)	(12.2)%
individuals	277,228	309,011	(31,783)	(10.3)%
institutional clients	26,540	34,300	(7,760)	(22.6)%
local authorities	7,188	11,030	(3,842)	(34.8)%
Income on investments in financial assets classified as	35,089	45,447	(10,358)	(22.8)%
available for sale	18,729	25,361	(6,632)	(26.2)%
held to maturity	16,360	20,086	(3,726)	(18.6)%
Income on financial assets held for trading	72	301	(229)	(76.1)%
<b>Interest expense</b>	<b>(97,065)</b>	<b>(148,128)</b>	<b>51,063</b>	<b>(34.5)%</b>
Expense due to liabilities to other banks	(1,125)	(419)	(706)	168.5 %
Expense due to liabilities to customers, including:	(73,287)	(121,894)	48,607	(39.9)%
Current accounts	(16,975)	(31,603)	14,628	(46.3)%
Term deposits	(56,312)	(90,291)	33,979	(37.6)%
individuals	(46,370)	(71,031)	24,661	(34.7)%
institutional clients	(9,489)	(18,157)	8,668	(47.7)%
local authorities	(453)	(1,103)	650	(58.9)%
Expense due to issue of liquidity and subordinated bonds, and subordinated debt	(20,384)	(23,199)	2,815	(12.1)%
Costs arising from sell-buy-back securities	(2,141)	(2,616)	475	(18.2)%
Expense due to hedging instruments	(128)	-	(128)	-

Lower net interest income of the Group translated into a decrease in the interest margin. In 2015 the Group reported an interest margin of 3.6% versus 3.8% in the preceding year, still the decrease in the interest margin by 0.2 p.p. was accompanied by lower average market rate WIBOR 3M by 0.8 p.p. (from 2.5% to 1.7%).



### Net fee and commission income

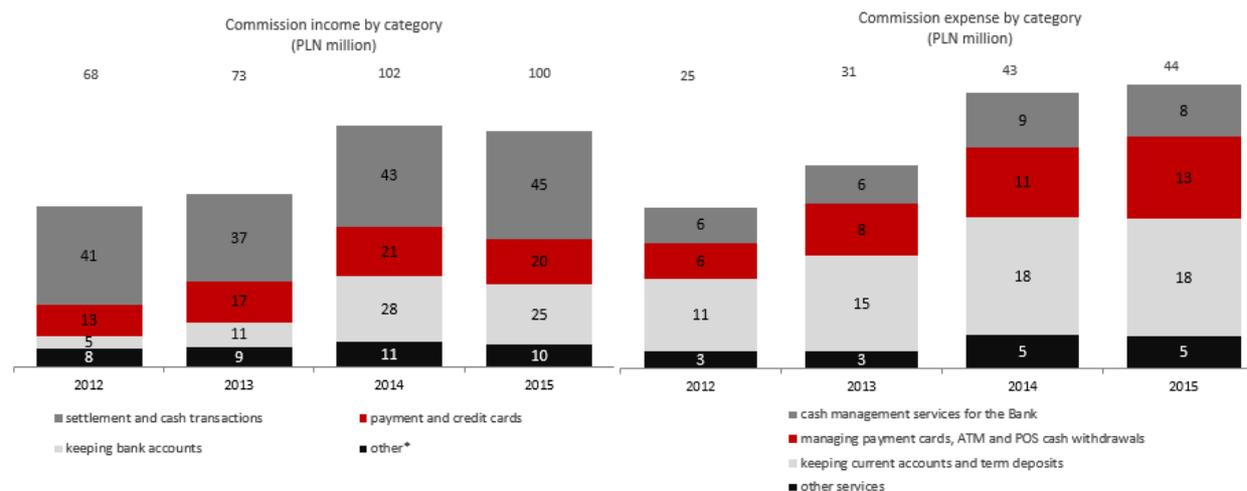
Net fee and commission income was the key element of non-interest income of the Group. It amounted to PLN 55.8 million and was by 6.4% lower than in the previous year.

Fee and commission income and expense of the Bank Pocztowy S.A. Capital Group (PLN'000)				
	2015	2014	Change 2015/2014	
			PLN '000	%
<b>Fee and commission income</b>	<b>99,710</b>	<b>102,304</b>	<b>(2,594)</b>	<b>(2.5)%</b>
settlement and cash transactions	45,401	42,783	2,618	6.1 %
keeping bank accounts	25,221	27,589	(2,368)	(8.6)%
payment and credit cards	19,520	21,028	(1,508)	(7.2)%
sale of insurance products	3,412	4,717	(1,305)	(27.7)%
originated loans and advances	1,097	1,243	(146)	(11.7)%
other	5,059	4,944	115	2.3 %
<b>Fee and commission expense</b>	<b>(43,873)</b>	<b>(42,647)</b>	<b>(1,226)</b>	<b>2.9 %</b>
keeping current accounts and term deposits	(18,071)	(18,108)	37	(0.2)%
managing payment cards, ATM and POS cash withdrawals	(12,853)	(10,746)	(2,107)	19.6 %
cash management services for the Group	(7,916)	(8,513)	597	(7.0)%
other services	(5,033)	(5,280)	247	(4.7)%

Commission income amounted to PLN 99.7 million and was by 2.5% lower than in 2014. The Capital Group reported in particular an decrease in:

- Commission on sale of bancassurance products (by 27.7%). It was related to limiting the product range in the area of *bancassurance* and investment and insurance offer related to the implementation of the Recommendation U issued by the Polish Financial Supervision Authority and lower demand among clients.
- Income from bank account maintenance (by 8.6%). This decrease resulted from the launch of the new Bank offer of current accounts – *Zawsze Darmowe* account with no monthly fee for account maintenance.
- Commissions on payment cards and credit cards (by 7.2%) mainly due to a decrease in interchange rates on non-cash transactions. Interchange rates were decreased twice. On 1 July 2014 they were decreased to 0.5% (down from 1.2%) and since January 2015 they have stood at 0.2% for debit cards and 0.3% for credit cards.

At the same time, the Group increased the commission income due to settlement and cash operations by 6.1%. In 2015 it amounted to PLN 45.4 million, as compared to 42.8 million a year before. The key reasons were higher commission income from cash transfers made by consumers, from cash operations and higher commission income from an increased number of standard payments to the account.



\*Other commission income included: income from sale of insurance products, originated loans and other income. In the years 2010-2011 the financial statements did not account for bancassurance adjustments. The Bank decided to not disclose these items for data comparability reasons.

In 2015 the fee and commission expense increased as well up to PLN 43.9 million, being 2.9% higher than in 2014. The Group reported higher fee and commission expenses related to payment cards and cash withdrawals from ATMs and POS by PLN 2.1 million, i.e. by 19.6% as a result of a growth in the number of transactions performed by clients and in the number of cards issued in relation to growing popularity of proximity card transactions and development of the acceptance network. Further, fees charged by VISA increased and the Bank incurred the costs of fees to MasterCard (related to the inclusion of their cards into Bank's offer);

#### Other income

In 2015 the gain on financial instruments measured at fair value through profit or loss, gain on foreign exchange transactions and gain on other financial instruments amounted to PLN 13.5 million versus PLN 4.5 million reported in 2014. The category is discussed in detail in Section 5 dedicated to treasury operations.

In 2015 other operating income (other revenue/operating expenses) amounted to (PLN - 1.5 million) as compared to PLN 2.4 million at the end of 2014. Other operating revenue amounted to PLN 5.7 million and was by PLN 3.0 million lower than in 2014, mainly due to lower revenue from sales of on-balance sheet receivables.

In 2015 other operating expense amounted to PLN 7.2 million and was PLN 0.9 million (14.0%) higher than in 2014. The items which grew most (by PLN 1.9 million) was the costs of damages and fines which were related to the fine imposed after the validation of the decision of the President of the Office for Competition and Consumer Protection No. DAR 15/2006 on fining banks for joint determination of the "interchange" rate. The fine imposed on the Bank amounted to PLN 2,895 thousand. The Bank maintained a related provision of PLN 1 million. The remaining portion not provisioned for (PLN 1.9 million) was recognized in other operating expenses.

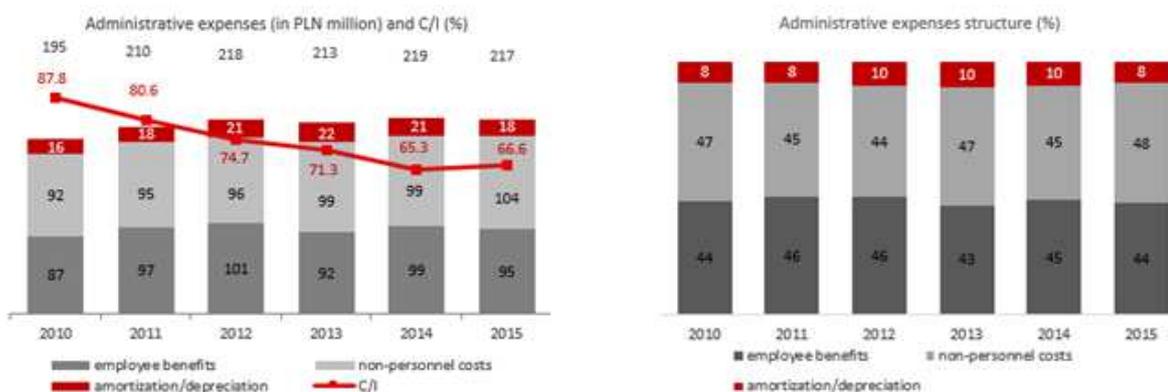
#### General and administrative expenses

In 2015, the Group followed the cost optimization strategy. In 2015 operating expenses of the Group reached PLN 217.0 million and remained at the level comparable to that of 2014.

Administrative expenses and amortization/depreciation of the Bank Pocztowy S.A. Capital Group (PLN '000)						
	2015	Structure (2015)	2014	Structure (2014)	Change 2015/2014	
					PLN '000	%
<b>Administrative expenses including amortization/depreciation</b>	<b>(217,030)</b>	<b>100.0%</b>	<b>(218,622)</b>	<b>100.0%</b>	<b>1,592</b>	<b>(0.7)%</b>
Employee benefits	(95,276)	43.9%	(99,398)	45.5%	4,122	(4.1)%
Non-personnel costs	(103,576)	47.7%	(98,420)	45.0%	(5,156)	5.2%
Amortization/ Depreciation	(18,178)	8.4%	(20,804)	9.5%	2,626	(12.6)%

The key element of operating expense of the Group were non-personnel costs. In 2015 they amounted to PLN 103.6 million, having grown by 5.2% comparing to 2014. The item included the following increased costs:

- Other non-personnel costs, which grew by PLN 16.2 million to PLN 24.3 million in 2015, as a consequence of an increase in payments to the Bank Guarantee Fund, which resulted from:
  - changes in basic rates applicable in 2015. The following payment rates to the Bank Guarantee Fund applied in 2015.
    - Mandatory annual fee for 2015 calculated as 0.189% of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law multiplied by 12.5. The rate applied in 2014 was 0.1%. Consequently, the costs grew by PLN 3.7 million.
    - Prudential fee for 2015 calculated as 0.05% of the total of capital requirements pertaining to each risk type and to the exceeding of limits and other standards determined in the Banking Law multiplied by 12.5. The rate applied in 2014 was 0.037%. Consequently, the costs grew by PLN 0.6 million.
  - an additional payment of PLN 11.9 million to the Bank Guarantee Fund used for payment of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin under the Resolution No. 87/DGD/2015 of the Management Board of the Bank Guarantee Fund,
  - a provision for the costs of premiums to the Borrowers' Support Fund for obligors in a difficult financial situation of PLN 3.6 million.



In 2015 employee benefits amounted to PLN 95.3 million and dropped by 4.1% comparing to 2014. The decrease in costs resulted from personnel costs optimization related to the reorganization in the Bank's head office. The changes included in particular headcount reduction in the institutional segment due to the strategic decision to focus business activities on the consumer segment and to reverse provisions for annual bonuses of PLN 3.7 million.

In 2015 the Group followed its strategy aimed at tight cost control, which will allow for permanent cost reduction in future, accompanied with improved efficiency of the Group and support for its further development. In the first half of 2014, the Group launched a cost and process optimizing project, whose implementation and outcome monitoring has been planned for two years. Key initiatives included:

- remodeling of the Bank's organizational structure, change of its business model and determining FTE number of employees in each organizational unit in compliance with the new strategy assumptions (mainly reorganizing of the institutional service line),
- optimizing of processes, procedures and internal regulations,
- optimizing of the scope of purchases and adjusting costs of support functions to sales objectives.

## Net impairment losses

In 2015 the amount of PLN 66.1 million was recognized in the income statement due to impairment losses (vs. PLN 61.0 million in the comparable period).

Net impairment losses (PLN'000)				
	2015	2014	Change 2015/2014	
			PLN '000	%
<b>Loans and advances granted to customers, including</b>	<b>(66,145)</b>	<b>(61,013)</b>	<b>(5,132)</b>	<b>8.4 %</b>
individuals	(59,544)	(48,739)	(10,805)	22.2 %
overdraft facilities	(742)	(565)	(177)	31.3 %
cash loans and instalment loans	(53,725)	(41,943)	(11,782)	28.1 %
mortgage loans	(2,915)	(1,355)	(1,560)	115.1 %
real estate loans	(1,903)	(3,943)	2,040	(51.7)%
credit card debt	(259)	(933)	674	(72.2)%
institutional customers	(6,649)	(12,233)	5,584	(45.6)%
local authorities	48	(41)	89	(217.1)%

The increase in the impairment losses recognized in the income statement was mostly related to:

- loans for individuals, where the impairment loss recognized was higher by PL 10.8 million, which results from the increased focus of the Group on cash and installment loans which are characterized by higher cost of risk,
- loans for institutional clients, where the impairment loss recognized in the income statement was by PLN 5.6 million lower, because no significant events of default were reported in the segment.

## 7.2 Business segment performance

The Bank's operations have been divided into segments in accordance with products sold, services provided and types of clients, for management purposes. The following operating segments have been identified: consumer, institution, settlement and treasury.

Detailed principles of separating revenue, expenses, assets and liabilities in each segment are described in internal regulations of the Bank. The Bank settles inter-segment transactions applying internal transfer rates determined based on market data. Most operations are carried out in the Polish market – the client base is composed mainly of local individuals and corporations. The Bank's activities are not exposed to the risk of fluctuations resulting from seasonality of operations.

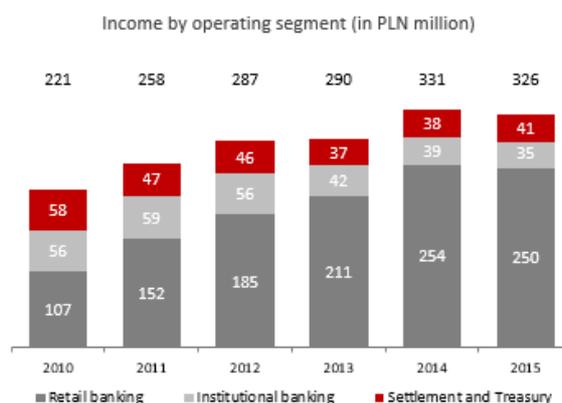
The Bank's Management Board assesses segment financial performance based on the following figures:

- operating profit after any impairment losses including other operating revenue and expenses,
- general and administrative expenses,
- C/I (cost/income).

### Changes in operational segment reporting

In 2015 the Bank introduced changes in operational segment reporting. The changes resulted from a revised allocation key applied to the general and administrative expenses based on an internal capital assigned to individual segments. In addition, the net interest income in the settlement and treasury segment has been divided into external clients and other segments. The data for 2014 have been appropriately restated in the financial statements to ensure comparability.

The Group has separated assets and liabilities related to the settlement and treasury segment from the data related to assets, equity and liabilities as at 31 December 2015. The data as at 31 December 2014 have been appropriately restated to ensure comparability.



Income amounts unallocated to segments amounted to PLN 1.8 million in 2015 and to PLN 0.9 million in 2014.

As the Management Board of the Bank analyses the aggregate net interest income, no interest income or interest expense has been separated in financial performance of individual segments.

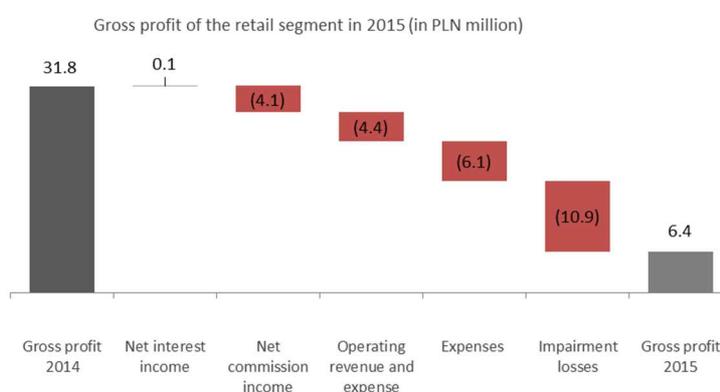
### Consumer segment

From management accounting perspective the consumer segment offers products targeted at individuals and microenterprises (including sole proprietorships). The offer consists of saving and settlement accounts (current accounts), savings accounts, term deposits, consumer loans (including cash loans and overdrafts), mortgage loans (including housing loans and mortgages), debit and credit cards, insurance products and investment funds. It is sold through traditional distribution channels in a countrywide network of branches and offices (including the sales network of Poczta Polska and financial agents), Pocztowy24 Internet banking, PocztowySMS mobile banking and a Contact Center.

In 2015 the consumer segment generated a gross profit of PLN 6.4 million, which was by PLN 25.4 million lower than that generated in 2014.

Key gross profit growth drivers in the consumer segment:

- maintaining the net interest income at the level reported in the previous year thanks to balancing the decrease in interest income with the appropriate reduction of costs related to deposits. Net interest income constituted the key source of segment income. It has grown by PLN 71.0 thousand and amounted to PLN 222.2 million,
- a decrease in the net commission income. In 2015 the consumer segment generated a net fee and commission income of PLN 28.0 million, i.e. by PLN 4.1 million less than in the prior year. The decrease resulted from lower income due to current account maintenance (following the launch of the ZawszeDarmowe account with no monthly fee for account maintenance) lower income and higher costs related to bank cards,
- lower gain on other operating revenue and expenses. The decrease resulted from recognizing the fine imposed by the Office for Competition and Consumer Protection for the joint determination of the interchange rate by banks (court decision on the Decision of the Office for Competition and Consumer Protection of 2006) in the operating expenses,
- higher administrative expenses. In 2015 the consumer segment costs reached PLN 178.1 million, i.e. by PLN 6.1 million more than in 2014. The key reason for growth was allocating additional non-personnel expenses to the consumer segment (the cost of payments made to the Borrowers Support Fund supporting borrowers in a difficult financial situation and a portion of the premium paid to the Bank Guarantee Fund following the bankruptcy of SK Bank),
- higher net impairment losses. In 2015 they amounted to PLN 65.1 million comparing to PLN 54.2 million in 2014, due to focusing on sales of consumer loans charged with higher average cost of risk.



### Institutional segment

For management accounting purposes institutional segment includes operating profit/loss from services provided to business entities with legal personality, individuals and entities with no legal personality carrying out business activities under applicable regulations and central and local administration entities.

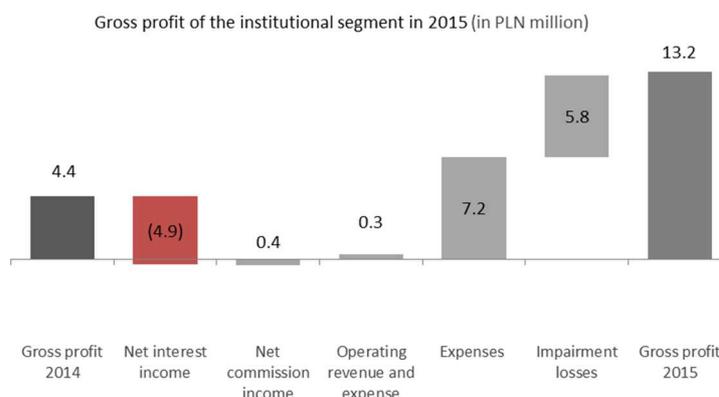
Products offered in the institutional segment include: credit products (working capital loans including revolving loans, overdrafts, investment loans, loans with thermal improvement and refurbishment premium, mortgage loans and bank guarantees), deposits (current accounts, standards and individually negotiated deposits, savings accounts) and settlement services with reasonably priced cash management offer. Services such as accepting in-branch deposits and secure deposits for institutional clients and giro transfers (cash payments to beneficiaries, i.e. third parties who are not Bank clients) are offered through the Bank's own network and the distribution network of Poczta Polska S.A., while bank products such as credit facilities are sold through the Bank's network and financial agents.

The Bank offers the following types of treasury products: purchase and sale of debt securities (treasury and non-treasury securities, certificates of deposit) and forward contracts within the treasury limit.

In 2015 the institutional segment generated a gross profit of PLN 13.2 million versus PLN 4.4 million in 2014 (an increase of PLN 8.8 million).

The institutional segment profit was driven by the following items:

- a reduction in net interest income. It amounted to PLN 23.8 million, i.e. decreased by 17.0%. The decrease resulted from limiting the lending and deposit activities, in accordance with the strategy adopted,
- flat net fee and commission income. The segment generated a net commission income of PLN 11.2 million, i.e. by 0.4 more (i.e. by 3.3%) than in the prior year. The highest commission income was generated on secure deposits and in-branch deposits.
- improved level of administrative expenses. They amounted to PLN 20.8 million, i.e. decreased by PLN 7.2 million, mainly due to the change resulting from the reduction in the institutional segment;
- improved net impairment losses. In 2015 the net impairment losses amounted to (PLN – 1.0 million), versus (PLN – 6.8 million) in 2014, which resulted from limited lending in the institutional segment.



### Settlement and treasury segment

For management accounting purposes, the settlement and treasury segment recognizes the profit or loss from settlement services and treasury activities.

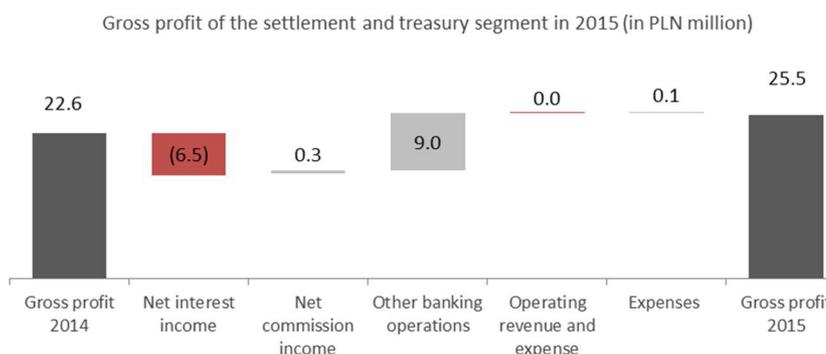
The Bank offers the customers of Poczta Polska S.A. comprehensive settlement services such as cash payments, because cash payments received in the offices of Poczta Polska S.A. have been included in interbank settlements. The services include mainly: managing cash payments made in other banks and handling payments made to the Social Insurance Institution and Tax Offices.

Operations of the treasury function include treasury transactions, financial markets, and management of liquidity, interest rate and currency risks. The department concludes transactions in the interbank market (e.g. deposits), buys and sells securities (Treasury bonds, debt instruments issued by the National Bank of Poland, bank bonds) and enters into sell-buy-back and buy-sell-back transactions and derivative transactions such as FRA, IRS or swap. It repurchases client funds obtained by operating segments at a transfer rate and sells the funds to finance their credit operations.

In 2015 the settlement and treasury segment generated a gross profit of PLN 25.5 million versus PLN 22.6 million in 2014 (an increase of PLN 12.9%).

The key gross profit drivers in the settlement and treasury segment in 2015:

- a decrease in net interest income by PLN 6.5 million to PLN 11.6 million in 2015. The key reason was a decrease in the profitability of treasury assets from 3.2% in 2014 to 2.4% in 2015, which followed the market rates reduction,
- flat net fee and commission income. In 2015 the net fee and commission income amounted to PLN 15.5



million and was by PLN 0.3 million (i.e. by 2.1%) higher than in the prior year,

- higher gain on other banking operations comprising a gain on other financial instruments, gain on financial instruments measured at fair value through profit or loss and gain on foreign exchange transactions. It amounted to PLN 13.5 million and vs. PLN 4.5 million in 2014 due to higher income from sale of debt securities,
- administrative expenses remaining stable, on the previous year level. In 2015 the segment reported expenses of PLN 15.1 million.

#### Unallocated items

Unallocated items comprise revenue and expenses not classified to the above segments, as well as income tax.

### 7.3 Key performance ratios

Deterioration of the net profit of the Group in 2015 and the increase in equity following the capital injection to Bank Pocztowy resulted in a lower net ROE. In 2015 the return on equity stood at 6.9% and was by 3.6 p.p. lower than in the previous year.

Key performance ratios of the Bank Pocztowy S.A. Capital Group			
	31.12.2015	31.12.2014	Change 2015/2014
Net ROE (%)	6.9	10.5	(3.6) p.p.
Net ROA (%)	0.5	0.6	(0.1) p.p.
Costs including amortization / income (C/I) (%)	66.6	65.3	1.3 p.p.
Net interest margin (%)	3.6	3.8	(0.2) p.p.
CAR (%)	14.4	13.4	1.0 p.p.
NPL – the share of impaired loans and advances in the credit portfolio (%)	7.0	6.1	0.9 p.p.

**Net ROE** calculated as a net profit for a given year to average equity (calculated as the average of equity at the end of a given year and at the end of the previous year) taking into account the net profit or loss for a given year.

**Net ROA** calculated as a net profit for a given year to average assets (calculated as the average of assets at the end of a given year and at the end of the previous year).

**Costs including amortization and depreciation/Income (C/I)** calculated as the general and administrative expenses including amortization and depreciation to total income (net interest income, net fee and commission income, gain/loss on financial instruments measured at fair value through profit or loss, gain/loss on foreign exchange transactions, gain/loss on other financial instruments, other operating revenue and expenses).

**Net interest margin** calculated a relation of net interest income for a given year to average assets (calculated as average daily balance of assets).

**NPL (Non Performing Loans)** calculated as a relation of impaired loans to the gross loans and advances to clients.

A significant increase in the Group's income (by 1.4%) which was lower than the reduction of operating expenses (by 0.7%) translated into the deterioration of the Cost/Income ratio. In 2015 the Cost/Income ratio amounted to 66.6%, i.e. was by 1.3 p.p. higher than in 2014.

At the end of 2015 the share of impaired loans (NPL) in the credit portfolio was 7.0% vs. 6.1% a year before. The key reason for the higher NPL was the dynamic growth in consumer loans for individuals which bear higher risk. Significantly, the ratio was considerably better than that of the entire Polish banking sector (7.4%)<sup>7</sup>.

### 7.4 Changes in the statement of financial position in 2015 – key items

As at 31 December 2015 the balance sheet total of the Group amounted to PLN 7 213.0 million and was by PLN 506.0 million, i.e. by 6.6% lower than at the end of 2014. The decrease in the balance sheet total resulted mainly from the decrease in transfer funds of Poczta Polska, which amounted to PLN 193.6 million at the end of December 2015, i.e. were by PLN 452.1 million lower than at the end of December 2014. If transfer funds were not accounted for in the balance sheet total, its amount would have to remain at the level similar to that of 31 December 2014.

<sup>7</sup> Source: National Bank of Poland, financial data for the banking sector; file – Receivables, data for December 2015.

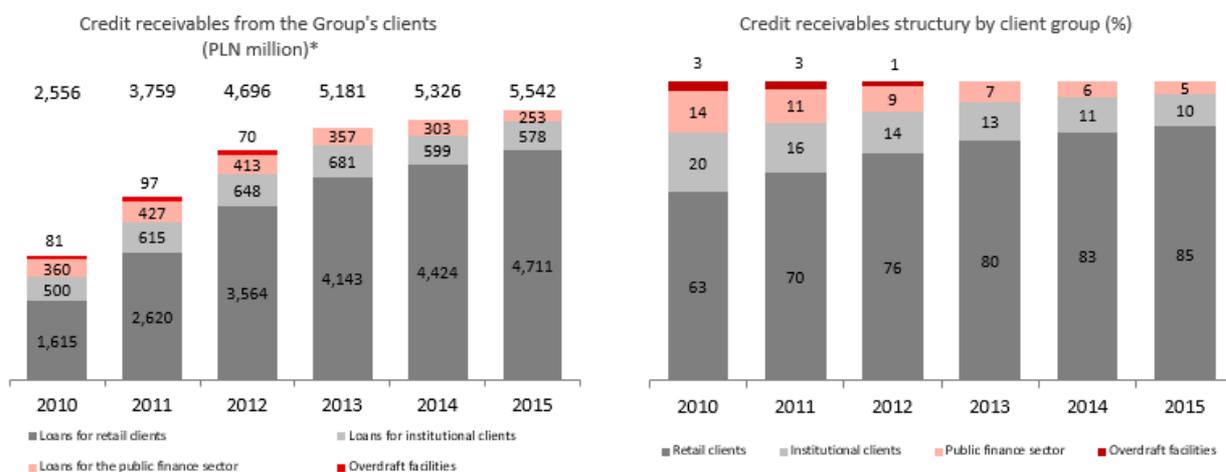
Key balance sheet items of the Bank Pocztowy S.A. Capital Group (PLN '000)						
	31.12.2015	Share (31.12.2015)	31.12.2014	Share (31.12.2014)	Change 2015/2014 PLN '000	%
Cash in hand and deposits with the Central Bank	426,875	5.9%	757,643	9.8%	(330,768)	(43.7)%
Receivables from other banks	45,346	0.6%	158,269	2.1%	(112,923)	(71.3)%
Receivables from securities purchased under reverse repo and buy-sell-back agreements	19,794	0.3%	0	0.0%	19,794	-
Loans and advances granted to customers	5,312,882	73.7%	5,151,777	66.7%	161,105	3.1%
Investments in financial assets	1,248,037	17.3%	1,519,266	19.7%	(271,229)	(17.9)%
Investments in subsidiaries	0	0.0%	0	0.0%	-	-
Net non-current assets	100,137	1.4%	80,322	1.0%	19,815	24.7%
Other assets	59,959	0.8%	51,750	0.8%	8,209	15.9%
<b>Total assets</b>	<b>7,213,030</b>	<b>100.0%</b>	<b>7,719,027</b>	<b>100.0%</b>	<b>(505,997)</b>	<b>(6.6)%</b>
Liabilities to the Central Bank	10	0.0%	11	0.0%	(1)	(9.1)%
Liabilities to other banks	34,440	0.5%	4,020	0.1%	30,420	756.7%
Liabilities from securities sold under repo and sell-buy-back agreements	154,017	2.1%	177,701	2.3%	(23,684)	(13.3)%
Liabilities to customers	5,742,377	79.6%	6,492,023	84.1%	(749,646)	(11.5)%
Liabilities arising from issue of debt securities	503,500	7.0%	358,256	4.6%	145,244	40.5%
Subordinated liabilities	141,887	2.0%	142,090	1.8%	(203)	(0.1)%
Other liabilities	94,314	1.3%	105,294	1.4%	(10,980)	(10.4)%
<b>Total liabilities</b>	<b>6,670,545</b>	<b>92.5%</b>	<b>7,279,395</b>	<b>94.3%</b>	<b>(608,850)</b>	<b>(8.4)%</b>
Total equity	542,485	7.5%	439,632	5.7%	102,853	23.4%
<b>Total liabilities and equity</b>	<b>7,213,030</b>	<b>100.0%</b>	<b>7,719,027</b>	<b>100.0%</b>	<b>(505,997)</b>	<b>(6.6)%</b>

Other assets include: Financial assets held for trading, hedging financial instruments, net deferred income tax assets, other assets.  
Other liabilities include: financial liabilities held for trading, provisions, current income tax liabilities, other liabilities.

## Assets

In 2015 the key changes in the Group's asset structure resulted from:

- Increased value of the key item in the Group's assets, i.e. net loans and advances granted to clients. At the end of 2015 they amounted to PLN 5 312.9 million and grew by PLN 161.1 million during the year. The item accounted for 73.7% of the total assets of the Group (versus 66.7% a year before).



\* In 2010 interest on loans were not assigned to individual client category in the Bank and amounted to – PLN 9 051 thousand, the balance of loans was PLN 2 565 million

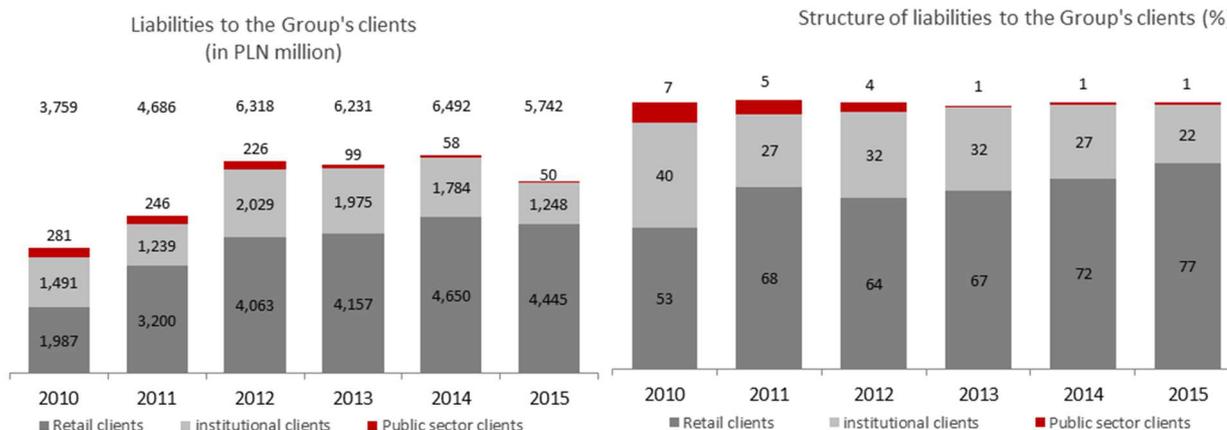
Since 2014 overdrafts have been allocated to individual segment groups

- The decrease in the value of cash in hand and at bank (National Bank of Poland). In December 2015 it amounted to PLN 426.9 million and decreased by 330.8 million comparing to the end of 2014. Consequently, its share in assets increased from 9.8% at the end of 2014 to 5.9% in December 2015.
- The decrease in investments in financial assets comparing to the previous year. They amounted to PLN 1 248.0 million, i.e. PLN 271.2 million less than in December 2014. Consequently, their share in assets decreased from 19.6% at the end of 2014 to 17.3% in December 2015.

## Equity and liabilities

The following changes occurred in the structure of Group's equity and liabilities in 2015:

- The liabilities to clients decreased. At the end of 2015 they amounted to PLN 5,742.4 million, i.e. dropped by PLN 749.6 million during the year. They accounted for 79.6% of the balance sheet total versus 84.1% in December 2014.



- The value of liabilities due to issue of debt securities increased. In December 2015 they amounted to PLN 503.5 million having increased by PLN 145.2 million since December 2014.
- Equity amounted to PLN 542.5 million, which accounted for 7.5% of the total equity and liabilities, as compared to PLN 439.6 million and 5.7%, respectively, at the end of December 2014. The equity increased due to the capital injection of PLN 60 million to the Bank made by the existing shareholders and the allocation of the prior year profit.

## 8. Managing key risk types

### 8.1 Risk management objectives and principles

The key objective of risk management in the Group is to ensure security of funds deposited by its clients as well as effective accomplishment of the Group's strategic objectives through decisions focused on maximization of income generated over a longer time horizon, with an acceptable level of accompanying risks.

Risk management in the Group is an integrated process based on supervisory requirements and internal regulations approved by the Supervisory and Management Board of the Bank. Internal regulations in force are reviewed on a periodic basis, taking into account the developments in the Group's external and internal environment. The Bank is the entity that integrates the risk management approach within the Group.

The Group has adopted a three-level system of organizing internal risk management regulations.

The general risk management framework for 2015 has been determined in the following documents adopted by the Supervisory Board:

- General Risk Management Policy of Bank Pocztowy S.A.;
- General Capital Management Policy of Bank Pocztowy S.A.;
- Growth Strategy of Bank Pocztowy S.A. for 2015-2018;
- Financial Plan of Bank Pocztowy S.A. for 2015;
- Risk Management Strategy of Bank Pocztowy S.A. for 2015.

Individual risk management policies, approved by the Management Board, provide detailed guidance in this regard. They delegate duties to individual Departments and Offices and provide detailed guidance. Based thereon, detailed

operating procedures with descriptions of individual activities (including controls) to be performed by the Departments, Teams and Positions, have been developed.

The risk management system includes:

- the Supervisory Board;
- the Management Board;
- risk management committees established by the Management Board pursuant to internal regulations in force;
- organizational units managing individual risk types;
- control units (including the internal audit and compliance unit);
- other organizational units;
- selected organizational units of the subsidiaries.

The Supervisory Board oversees the risk management system and individual risk management process control, approving its key objectives and guidelines.

The Management Board is in charge of overall risk management in the Group as well as strategic decisions affecting the risk scale and structure. The Management Board approves risk management approach for each risk type, to include risk identification, measurement, monitoring and control, reporting, preventive measures, as well as review and verification of selected risk management processes.

Risk management committees in the Bank are established by the Management Board and participate in the risk management process. Their other roles include consulting and making recommendations for the Management Board with regard to management strategies for a given risk type, principles and procedures applicable to individual risk management stages as well as making decisions within the scope of authorization delegated by the Management Board. This concerns, in particular, determining limits and monitoring compliance therewith as well as taking credit decisions in accordance with the limit-related decision-making system adopted by the Bank.

Due to a broad scope and interrelations among different risk types, each type has its leading unit in charge of coordination of its management. These units are responsible for identification, measurement, monitoring and coordination of preventive measures regarding each risk type. Their other tasks include development of risk management procedures applicable to individual stages of the process.

The Bank has an internal audit unit in charge of independent and unbiased audit and assessment of adequacy and effectiveness of the internal control system, procedures and controls, as well as consulting the Bank management system to include effectiveness of its operational risk management. Additionally, to ensure compliance with the applicable regulations, laws and standards, the Bank has established a separate compliance unit in charge of compliance risk management.

The target risk structure at the level of the Bank and the Capital Group depends on the defined risk appetite. The risk appetite determines the readiness of the Bank and the Group to assume a specific risk within a determined time horizon and it is subject to acceptance by the Management Board. The risk appetite is a substantial element of the Bank's Strategy and Financial Plan approved by the Supervisory Board.

Identification and measurement of each risk type result in determining those which are material for the Group, classifying them from the permanent materiality assessment perspective (permanently and temporarily material risks) and for the purpose of capital coverage.

The following risk types are classified as permanently material for the Group:

- credit risk;
- operational risk;
- interest rate risk related to the banking book;
- liquidity risk.

Additionally, the Group identifies the following material risk types:

- strategic risk,
- compliance risk,

- business cycle risk,
- outsourcing risk,
- reputation risk,
- risk of excessive leverage,
- residual risk,
- concentration risk,
- price risk related to debt instruments in the trading book.

In 2015 activities of the Group complied with regulatory requirements arising from Regulation of the European Parliament and of the Council (EU) no. 2014 of 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012 and Directive of the European Parliament and of the Council no. 2013/36/EU of 26 June 2013 on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and amending Directive 2002/87/EC and cancelling Directives 2006/48/EC and 2006/49/EC.

## 8.2 Credit risk

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Credit risk is the risk assumed by the Group under credit transactions and resulting in its inability to recover the amounts disbursed, loss of income or a financial loss. It is the outcome of credit product development and launch as well as the lending process on the one hand and measures employed with a view to reducing the probability of losses, on the other. The Group's credit risk includes both counterparty and settlement risk.

When developing its current credit risk management policy, the Group aims to maintain the risk appetite level, i.e. NPL ratio and the cost of risk, determined in the strategy. Other factors taken into account include maintaining an appropriate level of equity, compliance with the credit limits set by the Group, analyzing both strengths and weaknesses of the Group's lending process and anticipating the opportunities and threats for its further growth. The Group's acceptable credit risk policy also takes into account cyclicity of economic processes and changes in the credit portfolio itself.

The Group has adopted the following principles for the credit risk management process:

- analyzing credit risk of individual exposures, the entire portfolio and the capital requirement related to credit risk,
- applying internal and external limits arising from risk appetite in various areas of the credit portfolio and from the Banking Law and implemented recommendations of Polish Financial Supervision Authority, respectively,
- Functions related to direct analysis of applications, risk assessment and credit related decision making are separated from those focused on client attraction (sales of banking products),
- credit capacity and creditworthiness are the main criteria underlying all credit transactions with clients,
- credit decisions are made in the Bank in accordance with procedures and competencies determined in internal regulations on credit risk assessment and credit decision making,
- each credit transaction is monitored in terms of utilization, timely repayment, legal security, equity and organizational relationships of the obligor and, in the case of institutional clients, also in terms of their current economic and financial position,
- the financial and economic standing of each insurance company supplying credit collateral, as well as delivery of insurance policies and assignment of rights related thereto by clients are monitored on a regular basis,
- developments in the real estate market as well as the legal and economic assumptions and framework for valuation of property provided as collateral for credit exposures are monitored on a periodic basis.

Credit risk management in the Group is based on written policies and procedures defining methods of identification, measurement, monitoring, limiting and reporting of credit risk. The regulations determine the scope of competencies assigned to each unit of the Bank in the credit risk management process.

In order to determine the credit risk level, the Bank uses the following measures:

- probability of default (PD),
- recovery rate (RR),
- loss given default (LGD),
- loss identification period (LIP),
- share and structure of non-performing loans (NPL),
- coverage of non-performing loans with impairment losses (NPL coverage),
- scoring model efficiency measures (among others GINI, PSI Ratio),
- cost of risk.

The Bank carries out regular review of implementation of the adopted credit risk management policy. The review and modification includes mostly:

- internal regulations regarding client's credit risk assessment and monitoring, as well as verification of the value of legal security, which are adjusted to changing market conditions, business specifics of each client type (group), loan purpose and determination of the minimum requirements regarding the obligatory forms of legal security,
- internal system of limiting credit activities and determining decision-making powers regarding loans,
- a system of identifying, assessing and reporting credit risk to Credit Committees, Management and Supervisory Board of the Bank,
- maximum adequacy levels of ratios used to assess credit risk and acceptable forms of own contribution for retail housing loans,
- scoring models and IT tools used in the credit risk management process.

The Bank's reporting system includes among others:

- reporting on credit risk level, to include vintage analyses, information regarding the use of limits, quality and efficiency of credit processes,
- reports on stress tests, limit review and back-test analyses for impairment losses,
- analyses of real property market and verification of the current value of security for credit exposures,
- review of implemented credit risk policy.

The Bank prepares the following cyclical reports on its exposure to liquidity risk:

- Monthly report for the Management Board and Credit Committee of the Bank,
- quarterly report for the Supervisory and Management Board.

### Portfolio quality

At the end of December 2015 the share of non-performing loans in the credit portfolio accounted for 7.0% and was 0.9 p.p. higher than a year before.

The NPL growth resulted mainly from the Group's focus on consumer loans availed to individuals. Significantly, the NPL level recorded at the end of 2015 was lower than the risk appetite level accepted by the Group. Further, quality of the Group's loan

**NPL 7.0%**

NPL lower than the  
average of the banking  
sector

+0.9 y/y

portfolio was considerably higher than the banking sector average, which at the end of 2015 demonstrated NPL of 7.4%)<sup>8</sup>.

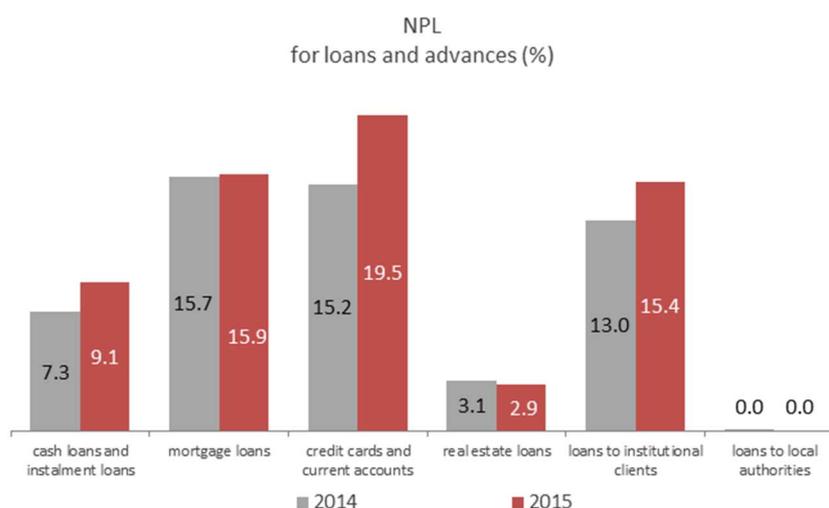
Portfolio quality – the share of impaired loans in the gross credit portfolio vs. market average					
	31.12.2012	31.12.2013	31.12.2014	31.12.2015	
Group	4.7%	5.4%	6.1%	7.0%	
Banking sector	8.8%	8.5%	8.1%	7.4%	

Portfolio quality – the share of impaired loans in the gross credit portfolio					
	31.12.2012	31.12.2013	31.12.2014	31.12.2015	Change 2015/2014
<b>Capital Group total</b>	<b>4.7%</b>	<b>5.4%</b>	<b>6.1%</b>	<b>7.0%</b>	<b>0.9 p.p.</b>
for individuals	4.4%	4.7%	5.6%	6.4%	0.8 p.p.
for institutional clients	9.5%	12.3%	13.0%	15.4%	2.4 p.p.
for local authorities	0.0%	0.0%	0.0%	0.0%	(0.0) p.p.

Portfolio quality – impaired loans balance (PLN'000)					
	31.12.2012	31.12.2013	31.12.2014	31.12.2015	Change 2015/2014
<b>Capital Group total</b>	<b>221,777</b>	<b>277,241</b>	<b>325,391</b>	<b>389,838</b>	<b>64,447</b>
for individuals	157,472	193,465	247,265	300,766	53,501
for institutional clients	64,305	83,776	78,026	89,072	11,046
for local authorities	0	0	100	0	(100)

At the end of 2015 the amount of non-performing loans was by PLN 64.4 million higher than at the end of 2014, where 83% of the growth was reported in loans granted to individuals. In the institutional segment, however, the value of impaired receivables was by PLN 11.0 million higher than at the end of 2014.



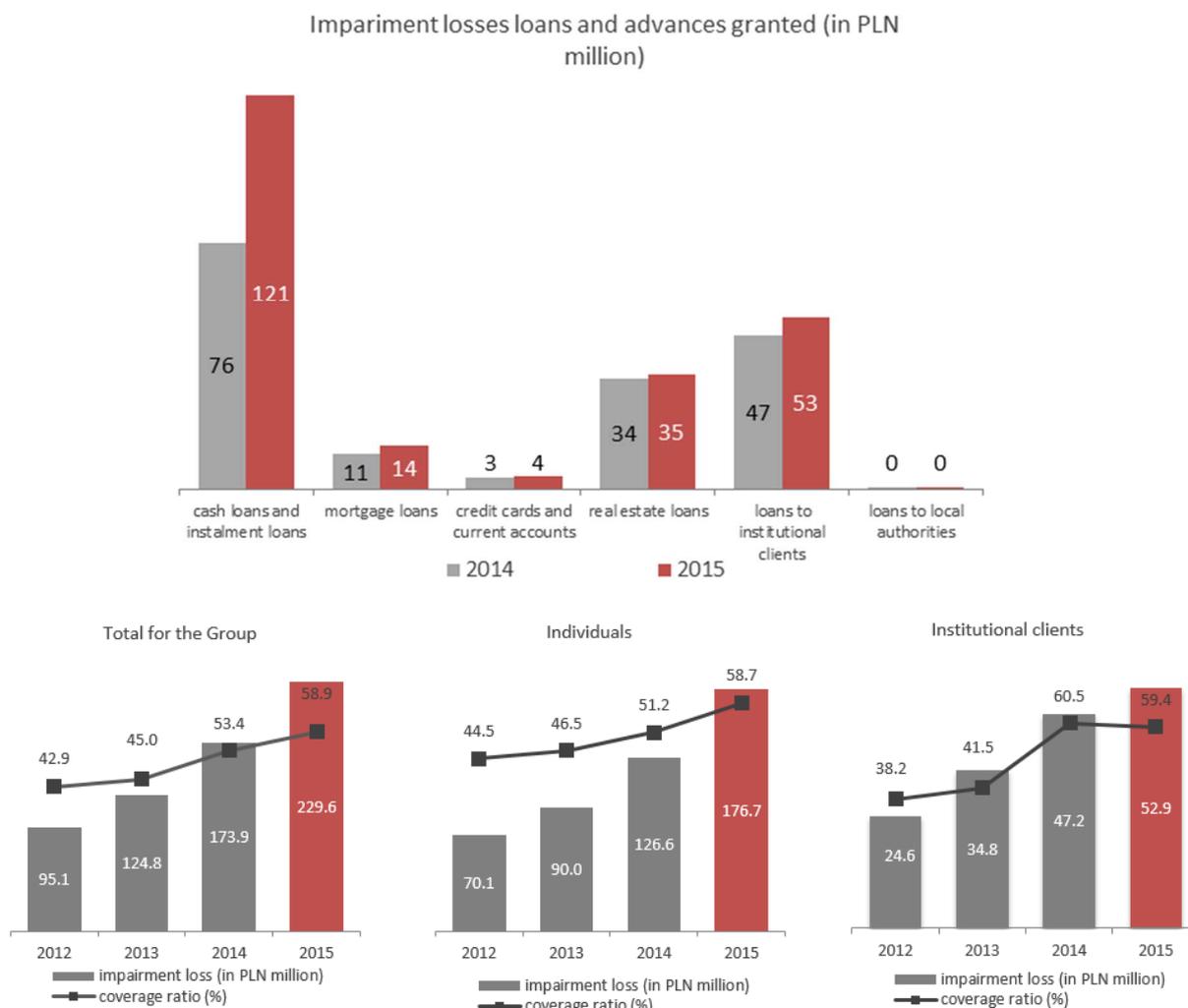
Overdrafts, credit card debt and mortgage loans demonstrated the highest share of non-performing loans both at the end of 2015 and 2014. The ratio was high for mortgage loans, because the portfolio has been maturing gradually

<sup>8</sup> Data of the National Bank of Poland, monetary and financial statistical data, file: Receivables.

and at the same time the new lending has decreased. The NPL for cash and installment loans went up 1.8 p.p., which results from portfolio maturity. Significantly, the ratio is significantly lower than that of the Polish banking sector average for consumer loans granted to individuals which amounted to 12.2% at the end of 2015.

### Impairment losses

At the end of 2015 the carrying amount of impairment losses for the Group's credit portfolio amounted to PLN 229.6 million and was 32% higher than at the end of 2014.



At the end of December 2015 the coverage ratio reached 58.9% and was 5.5 p.p. higher than at the end of December 2014. The ratio amounted to 58.7% for loans extended to individuals, including 65.5% for cash loans, and 59.4% for loans granted to institutional clients. The IBNR losses have been accounted for in the coverage ratio.

## 8.3 Credit policy

### Retail clients

The amendments to the Group's credit policy were related to changes in the Group's credit portfolio and those observed in the banking market. The measures were taken to adjust the credit policy to the current client profile and the risk level of the client and optimize the loan granting process.

Moreover, the existing client classification to risk classes based on their employer (reduced risk employers or other employers) was no longer applied. The definitions of the existing and new client have been implemented with the new scoring model and amended credit policy. Appropriate parameters have been established for cash loans depending on client risk class.

The amended credit policy introduced different collateral requirements for credit exposures and credit approval processes for different amounts and for new and existing clients.

With the view to diversifying the Group's credit portfolio the Bank launched a low-amount product Pożyczka na Poczcie (Loan at the post office) in the maximum amount of PLN 3 thousand, the maximum amount based on a declaration of PLN 1 thousand and the maximum tenor of 12 months.

#### **Debt collection**

The Group sold one package of credit receivables. The agreement on the sale of credit receivables was concluded on 17 September 2015 with a securitization fund, which offered the best price in the tendering process. A package sold included 1,480 credit exposures with the nominal value of the principal of PLN 11.8 million and interest with other expenses amounting to PLN 7.5 million, whose substantial portion had been impaired (PLN 10.3 million). The gross profit on the sale of the package of exposures was PLN 987.2 thousand and was recognized under "Other operating revenue" in the income statement part of the financial statements.

### **8.4 Liquidity risk**

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Liquidity risk is the risk of the Bank's losing the capacity to pay its liabilities on a timely basis due to an unfavorable structure of its assets and liabilities and cash flow mismatch. Liquidity risk may arise from a cash flow mismatch, sudden withdrawal of deposits, concentration of funding sources and the credit portfolio, inadequate level of liquid assets, limited liquidity of assets, the Group's clients' default on their obligations or other unexpected developments in the financial market.

The Group's liquidity risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of liquidity risk management is to balance proceeds and payments of funds under on- and off-balance sheet transactions in order to ensure cost-effective funding sources, generating of cash surpluses and their appropriate use. The Bank builds the structure of its assets and liabilities so as to ensure the achievement of assumed financial ratios with the liquidity risk level accepted by the Bank.

The following principles have been adopted for the liquidity risk management process:

- maintaining an acceptable liquidity level based on an appropriate portfolio of liquid assets,
- stable funds being the key source of funding for the Bank's assets,
- undertaking initiatives aimed at maintaining the liquidity risk level within the accepted risk profile,
- maintaining supervisory liquidity measures above the defined limits.

Liquidity risk management in the Bank is based on written policies and procedures defining the methods of identification, measurement, monitoring, limiting and reporting of liquidity risk. The regulations also determine the scope of competencies assigned to each unit of Bank Pocztowy in the liquidity risk management process. In order to ensure high standards of liquidity risk management, compliant with best banking practices, at least once a year the Bank reviews and verifies the policies and procedures, including internal liquidity limits.

In order to determine the liquidity risk level, the Bank uses a number of measurement and assessment methods, such as:

- contractual and actual liquidity gap method,
- deposit base stability and concentration check,
- surplus of liquid assets over unstable liabilities,
- structural limits,
- stress testing.

With a view to mitigating the liquidity risk, the Bank uses liquidity limits and thresholds for selected measures, including liquidity ratios or the mismatch between accumulated actual cash flows generated by assets and liabilities in individual time ranges.

Pursuant to Resolution No. 386/2008 of the Polish Financial Supervision Authority of 17 December 2008 on liquidity requirements for banks (as amended), the Bank monitors and maintains the liquidity measures above the statutory minimum. In 2015, the Bank fulfilled the requirements concerning the minimum supervisory liquidity ratios as specified in the aforesaid Resolution. Since October 2015 the Bank has been obliged to maintain minimum liquidity coverage ratio ("LCR") under Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No. 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for credit institutions and in conjunction with Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) No. 648/2012. Minimum LCR applicable to the Bank has been 60% as from 2015, 70% - from 1 January 2016, 80% - from 1 January 2017 and 100% from 1 January 2018.

As at 31 December 2015, liquidity ratios remained within the applicable liquidity risk limits.

The following table presents supervisory liquidity measures as at individual balance sheet dates.

Liquidity measures					
	31.12.2012	31.12.2013	31.12.2014	31.12.2015	Limit
M1 (PLN '000)	702,417	447,457	694,826	520,331	0
M2	1.5	1.3	1.49	1.60	1
M3	4.2	2.9	4.74	4.85	1
M4	1.2	1.1	1.19	1.16	1
LCR	-	-	138%	131%	60% <sup>1</sup>

<sup>1</sup> from 1 October 2015 to 31 December 2015

The Bank has defined contingency plans to address sudden changes in the deposit base. An analysis of immediately available funding sources shows that in case of a sudden liquidity drop, the Bank is able to obtain sufficient funds without the need to implement its contingency plans. As at 31 December 2015, the Bank's portfolio of liquid assets was sufficient to deal with an actual crisis.

The following tables present realigned liquidity gaps for the Bank as at individual dates.

Realigned liquidity gap in 2015 (PLN'000)						
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years
Realigned gap	701,962	(754)	99,628	53,414	(1,263,874)	1,520,195
Accumulated gap	701,962	701,208	800,836	854,250	(409,624)	1,110,571

Realigned liquidity gap in 2014 (PLN'000)						
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years
Realigned gap	899,964	(125,192)	15,914	79,692	(1,439,935)	1,648,591
Accumulated gap	899,964	774,772	790,686	870,378	(569,557)	1,079,034

Realigned liquidity gap in 2013 (PLN'000)						
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years
Realigned gap	654,032	(166,771)	(94,812)	(209,737)	(738,356)	2,120,637
Accumulated gap	654,032	487,261	392,449	182,712	(555,644)	1,564,993

Realigned liquidity gap in 2012 (PLN'000)						
	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 months to 1 year	From 1 to 5 years	Over 5 years
Realigned gap	921,012	(171,412)	(107,579)	(56,248)	(1,452,275)	1,709,584
Accumulated gap	921,012	749,600	642,021	585,773	(866,502)	843,082

The amended Recommendation P issued by the Polish Financial Supervision Authority in March came into force as of 31 December 2015. Its objective was to align requirements for banks with international liquidity management practices, in particular with the guidelines set out by the Basel Committee on Banking Supervision and European supervisory institutions such as the Committee of European Banking Supervisors (CEBS), currently: European Banking Authority (EBA) and the European Systemic Risk Board (ESRB). The amended Recommendation P includes international guidelines and implementation of recommendations regarding in particular:

- determining the liquidity risk tolerance for banks,
- recognition of the full scope of liquidity risk types, including the risk of unexpected liquidity shortfall,
- ensuring continuous presence on selected key financing markets,
- diversification of liquid assets,
- stress tests and their functional relation with liquidity contingency plan,
- collateral management,
- maintaining excess liquidity (high quality liquid assets with no encumbrances),
- applying the mechanism of allocating costs and benefits resulting from various liquidity risks in the internal transfer pricing system,
- intraday liquidity management,
- disclosing information on bank liquidity risk.

Excess liquidity defined in accordance with the amended Recommendation P:

<b>Liquidity surplus</b>		
	<b>31.12.2015</b>	<b>31.12.2014</b>
<b>General liquidity surplus</b>	<b>1,194,944</b>	<b>1,888,088</b>
Cash (non-operational)	0	0
Current accounts in banks	3,920	4,838
O/N deposits in banks	0	0
Funds in the National Bank of Poland (in excess of the obligatory reserve)	223,969	554,138
Treasury debt securities	967,055	858,764
Debt securities of the National Bank of Poland	0	470,348
Other debt securities	0	0
<b>Additional liquidity surplus</b>	<b>62,095</b>	<b>26,667</b>
Bank debt securities	62,095	26,667
Other items	0	0
<b>Liquidity surplus</b>	<b>1,257,039</b>	<b>1,914,755</b>

As at 31 December 2015 the Bank complied with the requirements of the amended Recommendation P.

## 8.5 Interest rate risk

Interest rate risk results from the exposure of the Group's financial performance and equity to adverse changes in interest rates.

The interest rate risk arises from:

- mismatch of revaluation dates: the risk is expressed as a threat to the Bank's revenue, mostly interest income, in case of unfavorable changes of market interest rates or significant changes of the balance sheet revaluation structure resulting in changes in the interest gain/loss,
- basis risk arising from imperfect correlation between interest rates on products that generate interest income and expense and have the same revaluation dates,
- yield curve risk where the ratio between the interest rates concerning different periods but the same index or market changes,

- client option risk arising when clients change the amount and timeline of cash flows on assets, liabilities and off-balance sheet items according to their rights arising from loan or deposit agreements, without incurring any additional costs.

The Group's interest rate risk is managed at the level of the Bank as the liquidity risk assumed by the subsidiaries is immaterial considering the nature of their business.

The Bank adapts its interest rate risk management to the type and scale of its business. Interest rate risk in the Bank may be related to the banking book and to the trading book.

The objective of interest rate risk management is to build a structure of assets and liabilities ensuring protection of the present value and the net interest income of the Bank for the banking book and to obtain financial benefits through transactions on interest rate instruments concluded on own account in the trading book, with the accepted interest rate risk level.

Interest rate risk management in the Bank is based on written policies and procedures, which define the methods of:

- risk identification,
- risk measure calculation (risk measurement),
- risk exposure limiting – determining the acceptable risk level,
- monitoring items and changes in each book, portfolio and the limit use levels,
- risk exposure reporting,
- hedging exposures against interest rate risk.

In order to ensure high standards of interest rate risk management, compliant with best banking practices, in 2015 the Bank reviewed the applicable policies and procedures.

Interest rate risk related to the banking book is measured and monitored with the use of such risk measures as:

- BPV (Basis Point Value) denoting interest rate risk expressed as a cash value, related to maintaining of a given position when interest rates change by one basis point,
- NII (Net Interest Income) – a change in the net interest income representing the difference between interest income and expense with an interest rate change at a specified level,
- BPV gap value in each revaluation range,
- Duration: a measure of interest rate risk interpreted as the average duration of an instrument or portfolio,
- early repayment of loans and withdrawal of deposits ratios for each type of products and entities.

Interest rate risk related to the Trading Book is measured and monitored with the use of such risk measures as:

- BPV and BPV gap value in each revaluation range,
- Value at Risk (VaR).

For the purpose of calculating the banking book risk measures, the current value of loans and deposits is determined based on reference rates arising from revaluation dates and liquidity adjustment excluding the commercial margin realized on each product. Additionally, stress tests for downward curve shift purposes are based on the assumption that interest on items sensitive to interest rate risk shall not drop below 0%.

The following tables present the interest rate risk level for the banking book (BPV and stress tests) as at individual balance sheet dates.

<b>BPV in the banking book (PLN '000)</b>				
	<b>31.12.2012</b>	<b>31.12.2013</b>	<b>31.12.2014</b>	<b>31.12.2015</b>
BPV	61	40	17	5

Results of stress tests for +/- 200 b.p. (PLN '000)				
Change in the present value of the banking book	31.12.2012	31.12.2013	31.12.2014	31.12.2015
200 b.p. down	(11,802)	(7,837)	(1,034)	69
200 b.p. up	13,052	8,374	4,767	1,359

The table below presents the change in the annual net interest income in the 12-month period from the end of the reporting period assuming a change in interest rates of +/- 100 b.p. and an unchanged balance as at the end of the reporting period. The analysis is based on the following assumptions:

- for interest rate decrease: interest rates on loans shall not exceed the interest rate cap determined in applicable laws and interest rates on deposits (both term and current accounts) shall not drop below 0%;
- for interest rate increase: interest on interest-free current accounts shall not increase.

Change in the annual net interest income (in PLN '000)				
	31.12.2012	31.12.2013	31.12.2014	31.12.2015
100 b.p. down	(16,483)	(18,053)	(51,777)	(29,045)
100 b.p. up	17,255	15,029	17,494	14,589

Lower fluctuations in the net interest income in the period of 12 months following 31 December 2015 in case of a decrease in interest rates as at 31 December 2015 result from amended principles applicable as of 1 January 2016 determining maximum interest rate and linking it to the NBP reference rate increased by the margin and multiplied by 2<sup>9</sup>. By 31 December 2015 the interest rate cap on credit exposures was not to exceed the four-time Lombard rate of the NBP.

In 2014 and 2015, Bank's trading activities regarding interest rates were limited to transactions on Polish treasury securities denominated in PLN. The Bank did not conclude speculative derivative transactions on its own behalf or derivative transactions with its clients.

The following table presents BPV for the trading book as at individual balance sheet dates.

BPV in the trading book (PLN '000)				
	31.12.2012	31.12.2013	31.12.2014	31.12.2015
BPV	0	0	0	0

## 8.6 Currency risk

Currency risk arises from the current and future performance of the Group as well as its equity being exposed to adverse changes in foreign exchange rates.

The Group's currency risk is managed at the level of the Bank as the currency risk assumed by the subsidiaries is immaterial considering the nature of their business.

The objective of currency risk management is to protect the exchange gain and obtain financial benefits through transactions concluded in FX instruments on own account, with the accepted risk level.

In the process of currency risk management, the said risk in the Bank is measured through:

- calculation of the total position of the Bank,
- calculation of the position in each currency,
- calculation of Value at Risk (VaR),
- stress tests.

<sup>9</sup> Act of 9 October 2015 amending the act on payment terms in trade transactions – the Civil Code and certain other acts.

The following tables present VaR for currency risk as at individual balance sheet dates.

In 2015 and 2014, the Bank's currency risk was low due to an insignificant share of foreign currency assets and liabilities in the balance sheet total (below 2%). The value of the total currency position exceeded 2% of equity only on 31 December 2015.

VaR measure statistics for currency risk (PLN '000)				
VAR	2012	2013	2014	2015
Minimum value	7	7	10	11
Maximum value	420	322	210	409
Average value	143	34	49	33

VaR measure statistics for currency risk (PLN '000)				
	31.12.2012	31.12.2013	31.12.2014	31.12.2015
VAR	13	28	10	409

## 8.7 Operational risk

The Group defines operational risk as the risk of a loss arising from inadequacy or unreliability of internal processes, people and systems or from external events. The definition does not include strategic and reputational risks, which are managed separately, but it does include legal risk.

Based on assumptions adopted by the Bank and by the Group, the operational risk management structure includes all organizational units, branches, outlets, microbranches and subsidiaries. All directors manage operational risk in their reporting areas on an ongoing basis.

Ongoing management includes employment of measures aimed at evaluating the risk scale, mitigating the effects of risk events and reducing the probability that the risk will be assumed in the future. The Management Board of the Bank supervises the overall operational risk management process. The Operational Risk Committee is a body consulting the measures employed to change the operational risk level. Coordination of the operational risk management process is the responsibility of the Risk Function.

Each employee is to identify operational risk events pertaining to his/her position that are then collected in a dedicated database. The events are verified by operational risk coordinators on an ongoing basis and monitored by a coordinating unit for the number of events and loss value. Risk monitoring enables employment of measures that reduce the effects of events and implementation of instruments mitigating future risk.

Within the process of risk identification and assessment, the Group has monitored the use of operational risk appetite, key operational risk indicators and has regularly performed self-assessment of its operational risk. The self-assessment process includes all organizational units of the Bank and its subsidiaries.

With the view to limit operational risk, the Group has been improving its processes in the Bank structures and in cooperation with other Group companies, including Poczta Polska S.A., on an ongoing basis.

As at 31 December 2015 the Bank recognized a receivable amount from Poczta Polska S.A., acting as the Bank's agent, due to unauthorized cash payments from Bank clients' accounts made by an employee of Poczta Polska S.A. in the total amount of PLN 2.9 million. The Bank returned all funds with interest due to the clients and requested Poczta Polska S.A. to cover the losses resulting from clients' claims under the Agency Agreement concluded by the Bank and Poczta Polska S.A. and in compliance with the Banking Law and the Civil Code. As at 31 December 2015 no indications of impairment occurred which would necessitate recognition of an impairment loss for the receivable.

Additionally, operational risk in the Bank is mitigated based on procedures related to implementation of the "General Security Policy of Bank Pocztowy S.A." governing such issues as anti-money laundering, fraud prevention, protection of the Bank's resources, continuity of business, protection of personal data, confidential information and business secret as well as security of information in IT systems.

In order to ensure high standards of operational risk management, compliant with best banking practices, once a year the Bank reviews the applicable policies and procedures.

## 8.8 Other risks

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In addition to the above risks described in detail, the Group identifies and assesses the following risk types:

- compliance risk,
- strategic risk,
- business cycle risk,
- reputation risk,
- outsourcing risk,
- risk of excessive leverage.

### Compliance risk

Compliance risk is the risk that the effects of the Group's non-compliance with the law, internal regulations and codes of conduct will occur. The Group also takes into account compliance risk generated both by the Bank and its subsidiaries, and manages the said risk arising from cooperation between the Bank and Poczta Polska S.A.

The compliance risk management process is based on written principles and procedures, which define the key principles to be followed by the Bank's employees and explain the key processes that identify the said risk, enabling its management at all organizational levels of the Group.

The scope of compliance risk management includes:

- the Group's compliance with the law and requirements imposed on banks,
- compliance with appropriate market standards, good practices and codes of conduct adopted by the banking sector,
- preventing money laundering and the funding of terrorism,
- preventing fraud detrimental to the Group.

The compliance risk management process includes risk identification, measurement, monitoring, mitigating and reporting.

Compliance risk identification is a continuous process which is carried out:

- when internal regulations are consulted by the compliance unit for their conformity with the law and requirements imposed on banks,
- based on the outcome of compliance tests and internal regulations compliance self-assessment,
- based on ongoing analyses, including operational risk events base, follow-up functional control and internal audit reports, record of court cases, information on customer complaints related to compliance risk, information from organizational unit heads regarding compliance risks, and fraud reports.

Identified compliance risk events are recorded by the compliance unit in the compliance risk events database.

Compliance risk measurement is performed on a quarterly basis by the compliance unit using a risk scoring model that takes into account the anticipated effects of compliance risk on the organization and its clients, including the probability of its occurrence, and other criteria, such as:

- the number of compliance risk events or actual losses arising from such risk,
- the number of negative press publications and accusations regarding compliance risk in the Bank.

As a result of measurement, risk is scored using a 3-level scale (low, medium or high).

As far as compliance risk arising from cooperation between the Bank and Poczta Polska S.A. is concerned, the compliance unit records compliance risk events and monitors measures aimed at explanation and mitigation of the said risk.

### **Strategic risk**

Strategic risk is the risk to which the Group, its financial performance and equity are exposed due to unfavorable or incorrect strategic decisions, failure to implement or improper implementation of the strategy and developments in the business environment or incorrect response to such changes.

In April 2015 the Supervisory Board of the Bank approved the Development Strategy of Bank Pocztowy S.A. for 2015-2018, whose assumptions have underlain the new direction and pace of the Bank's growth.

Strategy implementation monitoring, taking into account the (direct or potential) effect of external factors, is aimed at examining the effectiveness of initiatives undertaken with a view to accomplishing the Bank's objectives defined in the Strategy.

### **Business cycle risk**

The business cycle risk is the risk of long-term negative effects of an unfavorable stage of the business cycle (e.g. economic slowdown or recession) on the financial performance or equity of the Group.

As the economic situation affects the banking sector, an analysis of the macro-economic conditions should be part of the decision-making process at banks. The Bank monitors the macro-economic ratios presenting the situation of the Polish economy on a continuous basis and once a month, prepares detailed macro-economic reports that underlie the process of decision making by the Management Board.

The business cycle risk occurs when the overall economic situation deteriorates. In the case of growing unemployment, taxes, inflation or interest rates or when significant changes in foreign exchange rates occur, the financial standing of customers may deteriorate, which may translate into a limited capacity to pay their liabilities at their due dates and a reduced demand for the products offered by the Bank (loans, deposits). A slowdown may also result in increased impairment losses on loans and advances or a slower rise in the value of the Bank's credit portfolio due to a drop in demand for loans and in the number of clients that meet the loan granting criteria. Market volatility, economic slowdown and growing unemployment may also result in a significant decrease in the value of the clients' assets, such as real property securing payment of loans originated by the Bank.

In 2015, due to certain economic and political instability affecting national business activity level, the economic risk in the Bank was assessed as material. The Polish GDP growth exceeded 3.0%, the situation in the Polish labor market was improving, the government was able to control the public finance although deflation proved deeper and longer than expected. Nevertheless global events including the Russian-Ukrainian conflict, financial problems of Greece, the threat of Greek withdrawal from Eurozone, a slump in crude oil prices and the risk of bankruptcy of Russia or Brazil posed the risk of further easement of the monetary policy, which usually adversely affects the banking sector.

### **Reputational risk**

The reputational risk is related to damage to the Group's reputation in the eyes of its existing and potential clients and stakeholders. This may result in unfavorable effects on the Group's equity, i.e. the negative impact on its planned performance, among others through outflow of the existing clients or no inflow of new clients.

Reputation risk management is to protect the Group's image and minimize the probability of damaging that would adversely affect the Group's capital. Reputation risk management includes:

- ongoing monitoring and analysis of events and media communications that may affect the Group's image and if necessary, implementation of preventive measures,
- regular reporting on the reputation risk level.

### **Outsourcing risk**

Outsourcing risk is a risk third party's negative impact on the continuity, integrity or quality of the Bank's operations, its assets or employees.

Outsourcing banking activities and the related banking business processes to third parties necessitates the Bank's performance of numerous analyses, both before establishing a relationship and in the course of cooperation with the insourcer. Outsourcing risk materiality assessment depends on the scope of outsourced activities and the number of entities that perform them for and on behalf of the Bank. Outsourcing a broad range of activities to a small number of third parties creates concentration risk and potential problems with timely performance of the activities if the said entities discontinue their services. On the other hand, too large a number of insourcers gives rise to a risk that the Bank may lose control over the performance of the outsourced activities.

Outsourcing risk management in the Bank is based on written policies and procedures defining methods of identification, measurement and monitoring of outsourcing risk. The regulations determine also the scope

of competencies assigned to each unit of the Bank in outsourcing banking and the related banking business processes.

Key information regarding outsourcing risk is regularly presented during Operational Risk Committee meetings.

### Risk of excessive leverage

The risk of excessive leverage means the risk resulting from an institution's vulnerability related to the leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets.

The Bank assesses the risk of excessive leverage using the leverage ratio, which is calculated as an institution's capital measure divided by that institution's total exposure measure.

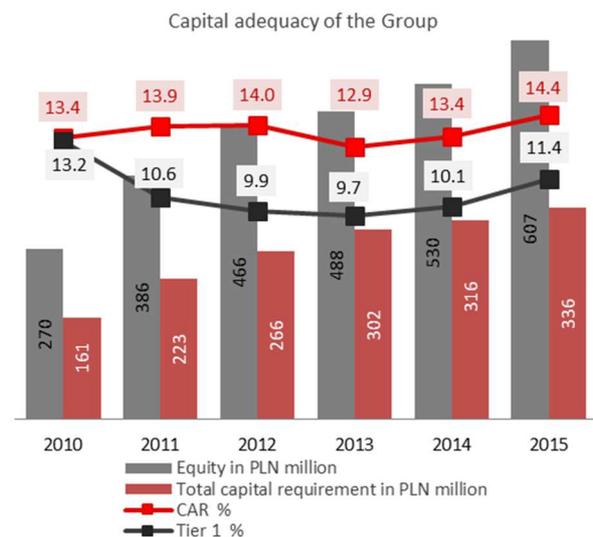
The leverage ratio is determined quarterly and reported in the Bank's Capital Adequacy Report.

## 8.9 Capital adequacy

The Group's capital adequacy is managed on the Bank level. It is aimed to ensure that the Bank's equity level is not lower than the one required by internal and external regulations. The regulations link the required capital level with the scale of operations and risks assumed by the Bank.

Considering the above, the Bank regularly:

- identifies risks material for its business,
- manages key risks,
- determines internal capital to be maintained should the risk materialize,
- calculates and reports capital adequacy measures,
- allocates internal capital to business areas;
- performs stress tests;
- compares its capital needs with the level of equity held;
- integrates the capital adequacy assessment with development of the Bank's Strategy, financial and sales plans.



In 2015 the solvency ratio, Tier 1 and internal solvency ratio of the Bank were above the required regulatory minimum.

In order to ensure high standards of capital management, compliant with best banking practices, once a year the Bank reviews the applicable policies and procedures.

### Equity

For the purpose of equity calculation, the Bank applies methods arising from Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending the Regulation (EU) no. 648/2012 (CRR). The Group's equity consists of Tier 1 (CET1) and Tier 2 capital.

In 2015, Tier 1 funds in the Bank included:

- equity instruments meeting the conditions specified in CRR,
- agio related to the instruments referred to above,
- retained earnings, to include current period gains or annual profit before a formal decision confirming the final financial performance for a given year following an approval of a competent body,
- accumulated other comprehensive income,
- reserve capital,

- general risk reserve,
  - unrealized gains and losses measured at fair value (in amounts including transition regulations referred to in Articles 467 and 468 of the CRR),
  - the Tier 1 items as determined in CRR
- and reduced by:
- carrying amount of intangible assets;
  - loss on measurement of debt instruments classified as available for sale.

In October 2015 the Bank issued ordinary registered C1 series shares with the total par value of PLN 12,842,480.00 and the issue value of PLN 60,000,066.56. The capital increase was recorded in the National Court Register on 20 November 2015. Subsequently, on 15 December 2015 the Bank obtained a consent of the Polish Financial Supervision Authority to classify the equity instruments in question to Tier 1 capital (file No. DBK/DBK2/7105/26/7/2015/AN).

In 2015, Tier 2 funds in the Bank included cash obtained from a subordinate loan received in 2014 from Poczta Polska S.A. and two issues of subordinate bonds (carried out in 2011 and 2012, respectively).

### Capital requirements (Pillar 1)

For the purpose of total capital requirement calculation, the Bank applies methods arising from CRR, in particular:

- the standard method of calculating the capital requirement due to credit risk,
- a simplified collateral recognition method where the counterparty's risk weight is replaced with the collateral (its issuer's) risk weight,
- the standard method of calculating the capital requirement due to operational risk,
- the standard method for the risk of credit valuation adjustment,
- the standard method of calculating the capital requirement due to currency risk,
- the maturity method of calculating the capital requirement due to general interest rate risk,
- the standard method of calculating the capital requirement due to special debt instrument price risk,
- the method of calculating the capital requirement due to large exposures.

Since the trading scale was immaterial, the capital requirement regarding market risks for the Bank was PLN 0.00. This means that in the analyzed period the Bank's capital requirement was limited to credit risk, operational risk, currency risk and risk of credit valuation adjustment. As at 31 December 2015 the adjustment amounted to PLN 51.0 thousand.

In 2015 the supervisory solvency ratio of the Group was above the required regulatory minimum.

### Internal capital (Pillar 2)

When identifying key risks that occur in the Bank's operations, having included the scale and complexity of a given operation, additional risks are considered which, according to the management, are not fully covered by Pillar 1 risks. The identification is to optimally adjust the structure of internal capital to the actual capital needs that reflect the true risk exposure level.

For the additional risk purpose, the internal capital is calculated based on internal methods accepted by the Management Board, which include the scale and specifics of the Bank's operations in a given risk context.

Additionally, when determining the internal capital, the Bank applies a conservative approach with regard to risk diversification among each risk type.

Please note that due to the specifics of liquidity risk and in light of market standards and practices, the Bank does not determine an additional internal capital for this risk type. For this reason, special focus is placed on the process evaluation and management.

In 2015 the internal solvency ratio of the Group was above the required regulatory minimum.

### Disclosures (Pillar 3)

Pursuant to the CRR and to the General Principles of Disclosing Information on Capital Adequacy in Bank Pocztowy S.A. accepted by the Supervisory Board of the Bank, in 2015 the Bank published information on its capital adequacy in a separate document.

The following tables present detailed calculation of base figures regarding regulatory capital and the solvency ratio as at 31 December 2015 and 31 December 2014.

Equity (PLN'000)		
	31.12.2015	31.12.2014
<b>I. Tier 1 capital</b>	<b>480,417</b>	<b>399,481</b>
Equity instruments paid for	110,133	94,378
Adjustments related to instruments in Tier 1 capital in the transition period	0	2,330
Agio	55,691	8,600
Retained earnings, including:	25,086	38,179
- profit	25,086	38,179
- loss	0	0
Accumulated other comprehensive income	11,908	3,571
Adjustments related to unrealized gains/losses on instruments in Tier 1 capital*	(8,146)	(5,532)
Reserve capital	225,577	183,019
Funds for general banking risk	114,345	108,345
Other intangible assets	(53,362)	(32,307)
Additional value adjustments arising from prudent measurement requirements	(815)	(1,102)
<b>Tier 2 capital</b>	<b>126,138</b>	<b>130,872</b>
Equity instruments and subordinated loans classified as Tier 2 capital	93,000	93,000
Adjustments related to instruments in Tier 2 capital in the transition period	33,138	37,872
<b>Equity</b>	<b>606,555</b>	<b>530,353</b>

\* The adjustment regards elimination of a portion of the positive valuation due to unrealized gains in the transition period.

<b>Capital requirements (PLN '000)</b>		
	<b>31.12.2015</b>	<b>31.12.2014</b>
Capital requirements for credit, counterparty credit, dilution and settlement risk, including for exposures	293,365	278,431
with 0% risk weight	0	0
with 4%** risk weight	9	0
with 20% risk weight	4,128	4,955
with 35% risk weight	43,364	43,135
with 50% risk weight	2,535	1,154
with 75% risk weight	176,316	162,333
with 100% risk weight	57,038	59,528
with 150% risk weight	5,454	2,491
with 250% risk weight	4,521	4,835
other risk weights	0	0
Capital requirement for operational risk	41,270	37,495
Currency risk capital requirement	1,201	0
Capital requirement for credit valuation adjustment (CVA)	51	39
<b>Total capital requirement</b>	<b>335,886</b>	<b>315,965</b>
<b>Solvency ratio</b>	<b>14.4%</b>	<b>13.4%</b>
<b>Tier 1</b>	<b>11.4%</b>	<b>10.1%</b>

\*\* ) rounded up risk weight for exposures due to payments to central counterparty fund in case of default

In 2015 the Bank's activities ensured the maintaining of capital ratios on a save level, above the regulatory minimum.

The Bank informs to have been granted no financial support from public funds in 2015 under the Accounting Act of 29 September 1994 and in particular under the Act on granting the support for financial institutions by the State Treasury of 12 February 2009 (Journal of Laws of 2014 item 158).

## 9. Organizational and infrastructural development

### 9.1 Organizational structure of the Bank

In 2015 the organizational structure of the Bank was adjusted to new tasks imposed by its development strategy up to 2018, including the requirement to separate supervisory and control capacities from business operations.

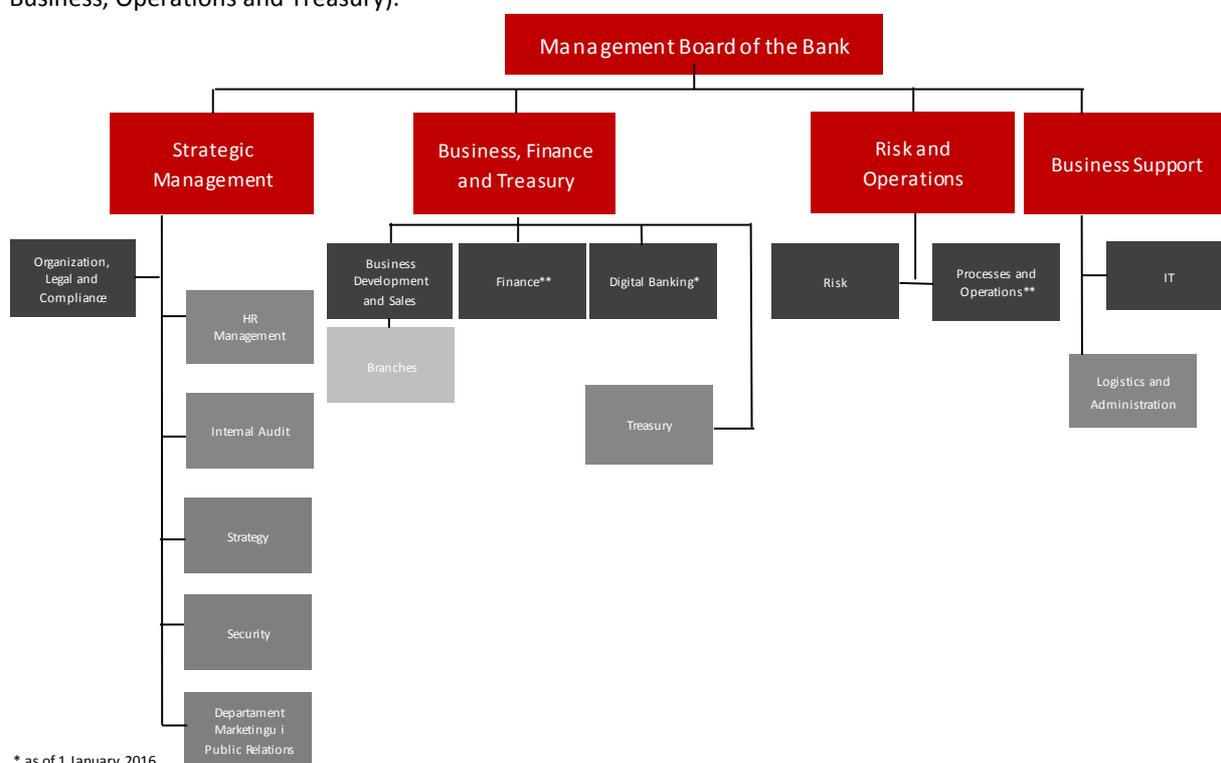
In 2015 Bank Pocztowy was divided into four functional areas managed by individual Management Board members:

- Strategic Management,
- Business, Operations and Treasury,
- Finance and Risk,
- Business Support.

Since 1 March 2016 Bank Pocztowy has been divided into four functional areas managed by individual Management Board members:

- Strategic Management,
- Business, Finance and Treasury,
- Risk and Operations,
- Business Support.

The Digital Banking Department was launched in the Business, Operations and Treasury areas on 1 January 2016. On 1 March 2016 the Finance Department was moved from Finance and Risk to Business, Finance and Treasury and the Process and Operations Department became a part of Risk and Operations (having been transferred from Business, Operations and Treasury).



\* as of 1 January 2016

\*\* as of 1 March 2016

Key objectives and tasks assigned to each area:

**Strategic Management:**

- Organization, Legal and Compliance Function: ensuring efficient operation of Bank's bodies, efficient legal support to protect interests of the Bank, ensuring security of IT systems and Bank's resources, to include business continuity solutions and safety of the Bank's operations and clients' funds through preventing fraud, money laundering and terrorism funding,
- Human Resources Management Department: developing employment, training and social policy, ensuring appropriate staff quality and qualifications,
- Internal Audit Office: ensuring tight and effective internal control,
- Strategy Department: developing and verifying the Bank's strategy,
- Compliance Department: ensuring efficient management of compliance risk,
- Marketing and Public Relations Department: marketing activities, internal and external communication.

**Business, Finance and Treasury:**

- Business and Sales Development Function: developing and implementing retail and institutional sales of the Bank's and third party products, developing retail and institutional business, organizing an efficient network to sell retail and institutional banking and third-party products, developing CRM and data analysis tools, by way of ensuring management information through the Data Warehouse,
- Finance Function: performing the financial planning process, monitoring implementation of financial plans, keeping accounting records, managing internal resources, strategic management of the structure of assets and liabilities and structural liquidity in the Bank,
- Digital Banking Function: providing services to digital clients covering offer management and development of modern access channels.
- Treasury Department: current liquidity management.

**Risk and Operations:**

- Risk Function: developing a system for integrated risk and capital management to support strategy implementation and maintenance of the assumed risk appetite level; developing risk management strategy aligned with the Bank's strategy; in particular, developing the Bank's policy concerning credit risk, developing an effective risk monitoring, restructuring and debt collection system.
- Process and Operations Function: developing processes and service support, developing a desired bank service and product offer and innovative functional and technological solutions essential for meeting business objectives, ensuring efficient supervision over performance of operational activities under agreements between the Bank and insourcers, developing, implementing and internal reporting of operating performance ratios, coordinating the Bank's capital investments, participating in the sale of retail credit products, mortgaged retail credit products, credit products for microenterprises and institutional clients sold in individual distribution channels, participating in the credit approval process, ensuring foreign currency transaction processing and settlements and settlement of transactions concluded by the Treasury Department.

**Business Support:**

- IT Function: maintaining infrastructure and IT systems on an appropriate level and developing IT systems in accordance with internal client expectations.
- Logistics and Administration Department: providing administrative and logistic services to the Bank.

## 9.2 Banking product distribution channels

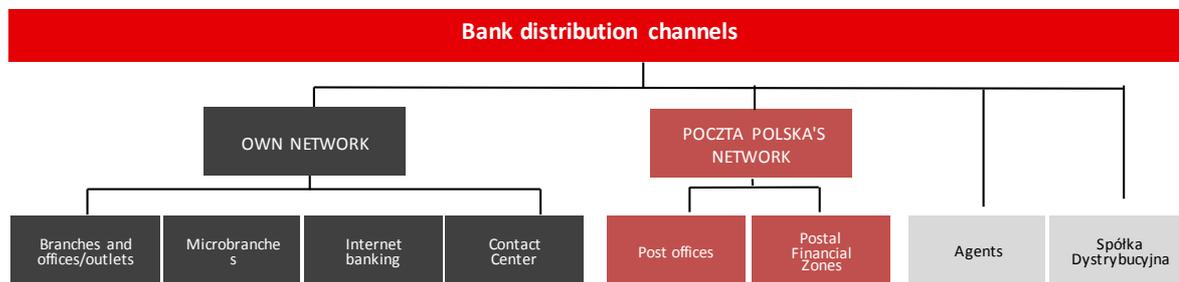
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Bank Pocztowy has a well-developed sales network consisting of:

- the Bank's own network of branches, offices, agencies, micro-branches, online banking channels and the Contact Centre,
- the network of Poczta Polska,

- the distribution network of Spółka Dystrybucyjna,
- agents.

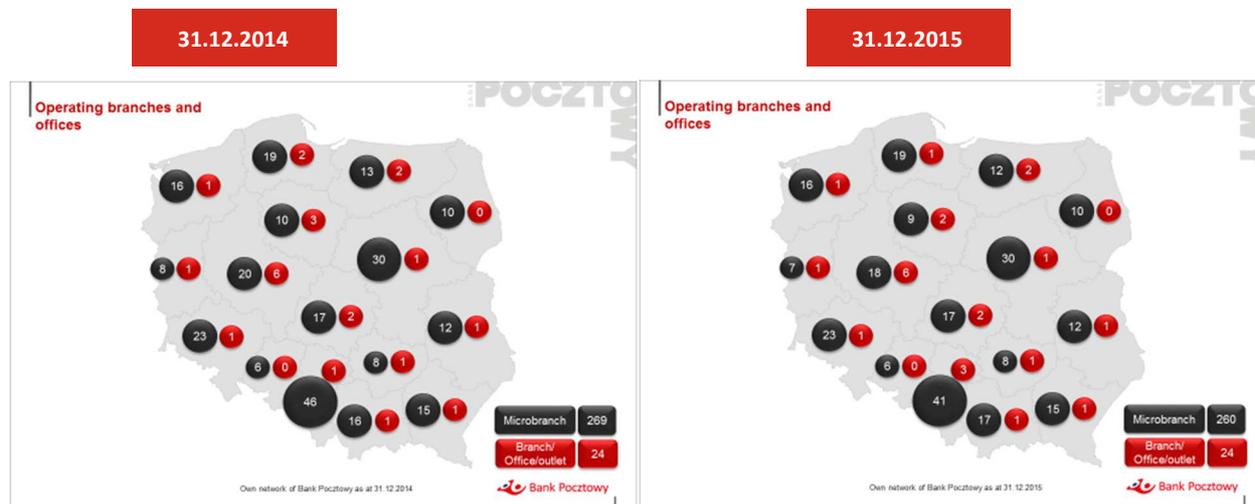
Distribution channels' structure of the Bank has been presented below.



At the end of 2015, the Bank's own distribution network included 284 units: one branch, 23 offices (including three agencies) and 260 microbranches. Following the analysis of office location efficiency and of their performance, as well as actual client needs in 2015 the Bank closed 9 outlets. The action steps aimed at improving the efficiency of the sales network will be continued in future and they may bring about relocation of certain outlets to locations with the higher business potential and further networks restructuring. The network revitalization complies with the new Bank Standards Book and the new strategy adopted by the Bank. In 2015 Elbląg and Wrocław offices were revitalized

Two agencies of Bank Pocztowy were opened: one in Sosnowiec in February 2015 and one in Rybnik in September 2015. Agencies are opened in shopping malls and provide all services of a Bank office and selected services of a post office. They are open seven days a week during the shopping hours. The Bank has entered into an agreement with a Partner, who is independent in its management and HR policy. The first such outlet was opened in Bełchatów in 2014.

The network of traditional distribution channels in Bank Pocztowy by province:



Internet distribution channels are being developed as well. Consumers may use *Pocztowy24* e-banking system, while institutional clients have access to *Pocztowy24 Biznes*. Contact Center is a phone banking system, which enables clients to access their accounts and other banking services via phone or instant messengers. In 2015 the Contact Center employed 55 people. In 2015 they answered 900 000 client calls, replied to 86 000 e-mails and chatted online with clients 12 000 times.

Additionally, the Bank's products are distributed by 26 thousand Mobile Relationship Managers of Spółka Dystrybucyjna. Under the agency agreement with the Bank, Spółka Dystrybucyjna coordinates the work of mobile RMs, who sell mortgage products offered by the Bank, cash loans and products offered to microenterprises. The self-

employed RMs operate countrywide. Under the agreement the RMs may use back-office units of Spółka Dystrybucyjna in ten locations: Warsaw, Gdańsk, Gdynia, Bydgoszcz, Olsztyn, Katowice, Łódź, Poznań, Krakowie and Wrocław. The RMs acquire new clients for the Bank using own business relations. At the end of 2015, Spółka Dystrybucyjna cooperated with 93 RMs.

The Bank provides financial services using the sales network of Poczta Polska (the total of 4 659 post offices and post outlets and 558 Postal Financial Zones). Further, its products are distributed by 23 thousand postmen. The extensive network provides easy access to banking products and services countrywide.

Photos of outlets designed in line with the new standards have been presented below:



Photos of Partner Outlets:



Each Bank office with the average area of 60 sq. m. has from 6 to 12 people of staff (except for the Bank branch, the area of which is 330 sq. m., which employs 14 persons). Microbranches located mainly at the premises of Poczta Polska occupy from 10 to 20 sq. m. of space for two to three persons of staff. When developing the network of microbranches, the Bank started converting 2-person microbranches to those with three persons of staff. The process is aimed at extending banking hours, ensuring more efficient replacement process (at the same time improving operational continuity) and growing the sales potential.

Bank agencies are located in shopping malls on the area of up to 80 sq. m. and employ from 3 to 5 people.

One or two employees work in Postal Financial Zones located at the premises of Poczta Polska and occupying from 7 to 15 sq. m. They are employed by Poczta Polska to sell financial services only. At the end of 2015 the number of Postal Financial Services reached 558.

The scope of services provided by each channel distributing products and services of Bank Pocztowy.

			Information and acquisition	Cash services	Full services scope for retail clients	Full services scope for institutional clients
Own network	Offices, outlets and Branches	284				
	<i>Including Microbranches</i>	260				
	Internet Banking: Pocztowy 24, Pocztowy 24 Biznes	1				
	Contact Centre - Customer Service Unit (call center)	1				
	Contact Centre - Call Center in Spółka Dystrybucyjna (back-up CC)	1				
Network of Poczta Polska	Post offices, including:	7,4 thous.				
	Postal Financial Zones	558				
	Postmen	23,0 thous.				
Mobile RMs of Spółka Dystrybucyjna	Mobile RMs of Spółka Dystrybucyjna	93				
Local and network agents	Local and network agents	368				

### 9.3 Development projects

In 2015 the Group incurred capital expenditure on development projects amounting to PLN 22.6 million, which was twice as high as in 2014, when it equaled PLN 11.1 million. The increase in the capital expenditure in 2015 was to a large extent related to the Bank's plans to implement a new, extended mobile and online banking platform EnveloBank. Moreover, most investments pertained to IT and included the modernization and development of key IT components and optimization of back-office and sales processes. A portion of funds was used for developing the traditional outlet network.

In 2015 the capital expenditure of the Group was used for the following development projects:

#### Digital services development

- One of the key strategic projects for 2016 is the launch of EnveloBank - a new digital brand of Bank Pocztowy responding to the needs of mobile clients. At the same time it has been the largest project carried out by the Bank in terms of its elements and the human and financial resources involved. In 2015 the Bank made certain efforts to prepare for the launch of the new brand, such as developing a technological solution and a product and service offer for clients. Project details have been presented in section 11.3 New digital brand – EnveloBank.

#### Development of e-distribution channels

- **New internet platform for consumers and institutional clients**  
In 2015 further growth of the new internet platform for consumers and institutional clients of Pocztowy24 was observed. A number of upgrades and changes were implemented in the Pocztowy24 platform. The production deployment took place in July 2015 at the same time as the installation of Front End and CRM systems.
- **New website [www.pocztowy.pl](http://www.pocztowy.pl)**  
The key objective of the project carried out in 2015 was to provide the Bank clients with the modern website [www.pocztowy.pl](http://www.pocztowy.pl) available from any type of mobile device.
- **On-line loan**  
The key objective of the 'on-line loan' project was to increase the sale of consumer loans by way of creating a new channel, to maintain top market standards, to acquire clients from the new segment and to carry out cross-selling activities. On-line project follows the strategy for developing the consumer offer of Bank Pocztowy in the years 2015-2018. On-line loan, as an entirely digital product, will extend the product range offered by EnveloBank.

- **Instant transfers**

Instant transfers, a new product in the Bank's offer, have been implemented to drive the attractiveness of the Bank's offer for mobile clients. Instant transfers will enable clients holding current accounts with the Bank to make fast transfers within 20 minutes. Following the implementation the Bank's offer will be adjusted to market standards with respect to instant transfers.

## IT and Operations

- **Front-End implementation in the offices of Poczta Polska S.A.**

Implementation of a new technology solution in Poczta Polska offices is a follow-up of the Front-End implementation in the Bank's outlets. The project will allow for extending the scope of products and services offered to clients in post office outlets, availing products and services in all post office outlets and streamlining and accelerating the process of selling products of Bank Pocztowy and after-sale services.

Benefits:

- access to the largest traditional service network,
- unified service standards and applications for the Bank and the post office,
- on-line access to all Bank services (cash payments and withdrawals, transfers and orders, deposits and power of attorney registration in all post offices,
- one technology – Front-End system replaces all technologies used before, hence employees of the Bank and Poczta Polska can provide services in the same application,
- fast and easy – Bank outlets issue instructions with a bar code, which keeps the process of registering cash transactions in the post office counter as short as possible,
- centralization – settlements between the Bank and Poczta Polska S.A. related to cash transaction services at the post office have been fully automated and no further services provided at the Bank are required,
- new opportunities – since the implementation of the Front-End system post office staff have been able to provide after-sale services for bank cards and loans.

Projects related to the Bank's operations

- **Development of the Customer Relationship Management system**

The key project objective has been to provide comprehensive CRM solutions which would integrate all communication channels and sales support systems, which will allow for developing mechanisms to collect client data and prepare special customized offer available in their preferred distribution channels. The offer shall be available through RM via CRM tool, in remote channels such as IVR and on the website through system integration in the project. Consequently, a strong relationship, beneficial for both parties, will be developed. All cross-selling initiatives will encourage client activity and increase the number of products sold per one client at the same time increasing income in the consumer segment.

- **Upgrade of workflow system (Ferryt)**

The project objective is to put into practice the following ideas:

- "simple banking" achieved through simple user interfaces and short request processing time,
- "@ccessible banking" achieved through new possibilities of filing requests for products and services.

The project performance will improve platform stability, which will reduce the risk of access problems. The initiative is an important element of the Bank's strategy assuming development of remote channels and providing banks services 24/7.

- **Data Warehouse and MIS upgrade**

The Project objective is to provide business functions with timely, accessible and reliable information supporting performance of market and financial goals. The objective will be performed through the development of controlling methodologies, the upgrade and development of the Data Warehouse and Management Information System tools.

- **Customer Lifecycle Management**

The project focuses on Customer Lifecycle Management based on selecting most appropriate communication channels, communication and Bank credit products to the carefully selected client group.

Development and implementation of the strategy will enable precise alignment of the Bank's credit products with the needs of consumers. This, in turn, will drive cross selling and profitability.

Additionally, the Group carried out security projects, such as the implementation of SIEM (*Security Information and Event Management*) to efficiently manage IT operational risk. It also introduced DLP (*Data Loss Protection*) and MDM (*Mobile Device Management*) systems improving information security and Anti-fraud and *Anti-Money Laundering* system reducing the fraud risk and counteracting money laundering and financing of terrorism.

## 10. HR management

### 10.1 Headcount and employment structure

As at 31 December 2015, the Group had 1,618 FTEs vs. 1,633 FTEs at the end of 2014 (a decrease by 15 FTEs).

As at 31 December 2015, the Bank employed 1,386 people vs. 1,401 FTEs at the end of 2014 (a decrease by 15 FTEs). The headcount was reduced in the Bank's offices and microbranches (by 31 FTEs) following the optimization in the Bank's sales network and closing unprofitable outlets. The headcount in the Bank's head office amounted to 685 FTEs having grown by 16 FTEs.

**35 years**

Average age for people  
employed by Bank  
Pocztowy

As at 31.12.2015

FTEs	31.12.2010	31.12.2011	31.12.2012	31.12.2013	31.12.2014	31.12.2015	Change 2015/2014
Head Office of the Bank	770	788	712	727	669	685	16
Local offices and branches	315	325	270	244	178	155	(23)
Microbranches	42	166	370	490	554	546	(8)
Subsidiaries	196	217	219	239	232	232	0
<b>Total Capital Group</b>	<b>1,323</b>	<b>1,496</b>	<b>1,571</b>	<b>1,700</b>	<b>1,633</b>	<b>1,618</b>	<b>(15)</b>

At the end of 2015, the Bank employed 1,405 people:

- most of the employees were female (1,017 FTEs, i.e. 72%),
- 5 years of services on average,
- the average age of an employee was 35.

### 10.2 Training and development

In 2015 the training and development policy was aimed at supporting implementation of the business strategy of Bank Pocztowy and ensuring compliance with the supervisory requirements. The main focus was placed on implementing the new organizational culture and the new business model of Bank Pocztowy.

#### Training courses improving business efficiency:

- Introductory training dedicated to 378 new hires in the consumer segment, covering the Bank's product offer, professional sales techniques on the basic level with final tests checking the knowledge of bank products, systems and processing.
- Training increasing sales skills, knowledge sharing skills and work planning for Experts, when two two-day training courses for ca. 100 participants were run.
- Training courses improving sales skills of Relationship Managers and Account Managers covering transfer of know-how and best practices, reinforcement of sales attitudes and behaviors, building long-term relations with clients, including advanced sales techniques. 185 employees finished the two-day training courses in 2015.
- Workshops aimed at implementing a new "sales wheel" model in the distribution network were carried out in June. The workshops covered the presentation of the new model, learning how to use the sales wheel, i.e. a tool for efficient sales negotiations, and how to report in the new model. The workshops were attended by 150 employees from the sales network.
- Customer Relationship Management system training courses aimed at organizing knowledge and perfecting the ability to use the sales management system. Managers and sales network Experts attended 10 workshops organized in November and December. The objective of the workshops was to prepare for cascading knowledge. The CRM system was implemented in the entire sales network on 1 January 2016.

- Training courses advancing knowledge and skills related to investment funds. The workshops were attended by 370 employees from the sales network. The Leader Club composed of top 50 investment products salesmen was created to expand knowledge and skills in selling investment products.
- Top salesmen could also develop their financial knowledge participating in the European Financial Advisor studies, and 20 persons started their course in 2015.
- Additional training regarding new products offered by the Bank and its processes and authorizing to perform specific banking transactions.

#### **Training improving IT efficiency:**

- Training courses for Managers and Leaders enhancing leadership skills – (two two-day workshops).
- Individual and group training courses for IT staff on project financing, programming languages, application development and databases.

#### **Other training initiatives:**

- Individual development. In 2015 other employees also participated in the training and development program. The staff was offered individual support in the form of training, conferences, seminars and post-graduate studies focused on new consumer banking trends, finance, risk, security, internal audit, HR and good practices in implementation of external regulations.
- Management workshops. Management workshops dedicated to the entire managerial staff of Bank Pocztowy were carried out in May 2015. Their objective was to present the new business strategy and work together on its efficient implementation based on the engaging leadership style. They gathered approx. 130 participants.
- Cascading workshops: Management by Objectives. Workshops dedicated to all Bank managers working in line with the MBO (Management by Objectives) system were held in April and May to determine objectives compliant with the Bank's CODE, directly supporting performance of strategic goals and to agree these objectives with managers.
- A labor law workshops program was carried out in 2015 mainly for retail sales network managers. The purpose of the training was to improve knowledge regarding practical application of the labor law, also with regard to the personnel policy adopted by Bank Pocztowy.
- Workshops implementing the new competency model. In July and August the Bank organized 10 workshops on talent development planning in line with the new competency model for its Managers. The project was a part of the strategy promoting the new organizational structure. Managers had a meeting with employees, where they presented a new competency model – ADAŚ (CAN DO).
- E-learning courses for 2,016 people (employees of Bank Pocztowy) including security, bank secrecy, AML, personal data protection, ethics, quality standards, MiFID, CRM, as well as the Bank's product offer. Additionally, 18 364 employees of Poczta Polska participated in e-learning courses on Front-End system implementation and functionalities in 2015. Before the end of 2015 the total number of employees who completed e-learning courses reached 20 379.
- Obligatory training imposed by the law, e.g. by Labor Law, Banking Law, OHS, personal data protection.
- The training program for new hires entitled "Welcome to Pocztowy" presents the mission, vision, strategy, values, processes and principles adopted by the Bank. The training also includes an introduction to IT systems and practical information useful in the first weeks of working at the Bank. In October 2015 a one-day visit in a microbranch was added to the introduction program for new hires. The project objective is to gain a better understanding of the work in the sales network and products among head office staff and to foster cooperation between the sales force and the head office. So far 22 new hires of the Bank participated in the initiative.

#### **Training for the Poczta Polska S.A. Capital Group**

- Thanks to the support of internal Bank trainers in 2015 Poczta Polska staff was offered an e-learning course on product and systems (Ferry, Front End), security policy, and Front-End application in post offices. By the end of 2015, 18364 employees completed the e-learning course.

- Business Process Model and Notation training program covering tax and legal changes, Lean Management and Six Sigma organized for Centrum Operacyjne staff.
- A project carried out in Centrum Operacyjne co-funded by County Labor Office (National Training Fund) for employees aged 45+, aimed at improvement of their productivity and efficiency and covering banking, IT and process knowledge.
- Training in time management, stress management, communication skills, motivating skills, creative thinking, operational risk and coaching.

### 10.3 New organizational culture – Business and cultural CODE

In 2015 the Bank changed its organizational culture to support the new strategy, introducing the new CODE of thinking and behaving. The CODE is based on three pillars:

SIMPLE: we offer uncomplicated banking services and make everything as simple as possible

CAN DO: we know that everything is possible, we look for solutions and make things happen

CHEAPER: we care for clients' and the bank's money like for our own

With our CODE we provide the value for clients, for the bank and for ourselves

The new way of thinking and behaving was implemented in key areas of the Bank's operations:

- people and communication,
- products and income drivers,
- processes,
- procedures,
- organizational structure,
- share of responsibilities as a number of initiatives.

Ambitious goals set by the Bank in the new strategy can be achieved only with strong staff commitment. Therefore, a number of initiatives have been launched to change the existing corporate culture, i.e. the way of thinking about work, attitudes, behaviors and Bank employee experience. HR management initiatives are aimed at creating a friendly workplace, which enhances commitment and improves work satisfaction. The CAN DO attitude and the new management style based on engaging leadership are highly encouraged. This strategy will enable keeping top talents, reduce unwanted turnover and improve succession, i.e. it will help prepare a group of employees willing to take managerial and expert positions following an internal promotion career path.

The CODE clearly defines employee and management competencies and job expectations, determines drivers for personal and team efficiency improvement at the same contributing to the Bank's efficiency.

The Bank has changed its internal communication system to ensure that employees understand their individual and team goals and follow the same strategy.

Building a coherent corporate culture in Bank Pocztowy is based on:

- creating CODE-compliant experience in relations with the Bank both for clients and for employees,
- building commitment to the Bank's value delivered to clients and employees,
- pro-active approach to changing staff behaviors.

As a part of the CODE initiative the Bank organized workshops for Managers and numerous discussion meetings with a consulting firm. Managers, who participated in the workshops, subsequently cascaded CODE details to their subordinates and supervised the implementation of CODE behaviors and language in their teams.

## 10.4 Bank staff competencies assessment

CODE-compliant HR and communication activities transformed employees' approach to professional development. Implementation of the CODE and its three pillars, an ambitious business strategy for 2015-2018 and continuous efforts to create an engaging work environment required that all Bank's staff change their attitudes, behaviors and develop their skills. The HR function and the Management Board selected competencies which will considerably contribute to continuous growth of the Bank and to building a performance-oriented corporate culture.

Managers play a particularly important role in fostering the new organizational culture of the Bank, hence their target competencies were defined first, to efficiently manage the supervised area in accordance with the engaging leadership style. Nine competencies of CAN DO Manager have been determined, out of which four directly define the expected leadership style applied to managing teams and supervised areas. These competencies are particularly important for developing efficient, committed teams and promoting the engaging leadership style.

CAN DO Manager of Bank Pocztowy should be:

- Thinking strategically,
- Operation focused,
- Talent focused,
- Target oriented,
- Take initiative,
- Business accountable,
- Action oriented,
- Cooperating,
- Eager to learn.

Managers' performance is reviewed annually with the analysis of their 360° evaluation. Consequently, managers can receive feedback from various groups: supervisors, subordinates and peers. The 360° evaluation is an excellent source of information for analysis, reflection, future action steps and further development.

The Bank has also defined skills and attitudes of the staff which drive their work commitment, increase business accountability and commit to performing the Bank's business strategy.

CAN DO Employee of Bank Pocztowy should be:

- Initiative-oriented
- Business accountable,
- Action oriented,
- Cooperating,
- Eager to learn.

Employees' performance is reviewed annually along with their 270° evaluation. CAN DO Employee has a chance to get valuable feedback not only from his immediate supervisor, but also from his peers.

Annual performance progress reviews of CAN DO Managers and CAN DO Employees enable assessing their development potential and plan action steps to increase competencies of key importance from the Bank's business strategy perspective. The objective of the evaluation is that every employee receives an annual development plan based on a 70/20/10 model<sup>10</sup> to be carried out in cooperation with his supervisor with the support of the HR Department.

The process is aimed at providing CAN DO Managers and CAN DO Employees with as much relevant feedback as possible to enable them to work better and more efficiently.

The main objective of the evaluation is to drive professional development and to direct employees and managers in developing competencies determined in the model. Moreover, in the evaluation process development potential is

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<sup>10</sup>The 70/20/10 model combines informal and organized learning methods. The model determines the proportions of learning tools applied to efficient development of adults: 70% from job-related experience, 20% from interactions with others, a 10% from formal educational events. When planning individual growth of the Bank's staff, the Bank uses all kinds of model tools. It supports development of competencies through project management, on-going feedback, internal knowledge-sharing program, professional literature, training courses, conferences and studies.

determined for every employee to provide the basis for detailed planning of development activities and possible horizontal or vertical promotions.

The annual performance progress review results provide guidelines for action steps fostering competencies of key importance for the Bank's business strategy, so that every employee could achieve his business goals set by the organization and develop own competencies.

The competence profile and assessment based on the CAN DO approach are important for the organization, because:

- Employees know what kind of attitudes and behaviors is expected of them to achieve their business objectives.
- Employees can develop and grow on the job, immediately apply their knowledge and skills in everyday work and see the effects of their commitment to the Bank.
- They take responsibility for their own development.
- New hires can quickly become fully efficient team members.
- Employees can see their performance improve and can measure it.
- All employees know who has achieved the CAN DO standards and can follow their role models.
- The staff know that straightforward communication is encouraged in the Bank and that they will receive constructive feedback. They also feel comfortable when giving feedback.

## 10.5 Incentive scheme

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The Bank has implemented an incentive scheme based on the Management by Objectives methodology, where the variable portion of the remuneration depends of goal performance. Tasks and jobs and performance measures are determined depending on position and category: executives, direct sales support and support. The MBO-based incentive scheme was implemented in the Bank in 2011. Linking individual's remuneration with his performance and achievement of goals agreed on with the employee for a given period the Bank has reinforced the variable portion of the remuneration, being an additional incentive for work. The system focuses on determining goals/tasks which contribute to the overall development structure of the organization.

Additionally, focusing on key objectives allows mobilization and preparing the Bank for achieving stretch goals (including finance) in rapidly changing business environment. Implementing of MbO assumptions contributes to improving of productivity and competencies of employees, providing incentives and involvement in the performance of tasks aligned with strategic objectives.

Objectives for 2015 were determined based on:

- Bank Pocztowy strategy,
- initiative of the Bank's business lines developed during management workshops, including projects built around CODE compliant way of thinking,
- pending business initiatives.

In 2015, during MbO process, special focus was placed on aligning the planned objectives with the expected Bank's performance. Workshops dedicated to all managers of Bank Pocztowy working in line with the MBO (Management by Objectives) system were held in April and May

The objective of the workshops was to set CODE - compliant directly supporting performance of measurable strategic objectives. If the goal performance does not reach the required level, the goal is considered unachieved. The business aspect was stressed also for other initiatives expressed in the form of objectives.

With the view to streamlining the MBO goal setting and assessment process, a new IT platform has been implemented in the KARO HR system.

Under the incentive program introduced in 2012 for sales network employees, in 2015 the staff was consistently encouraged to improve sales performance in specific product groups. Each product included in the sales plan has been assigned specific weight. Depending on the performance vs. plan, individual product weights are translated into the monthly commission amount.

In April 2015 the Bank introduced a new remuneration system in which the base pay of the sales network managers was increased. The system was linked with the professional development path applicable to all sales network staff since 2014. It allows continuous professional development beginning from Junior Relationship Manager / Account Manager all the way through Relationship Manager / Account Manager and Senior Relationship Manager / Account Manager. Employees can be promoted every six months if specific criteria are met. Additionally, in each stage of the development path, they can improve their sales and product related qualifications through dedicated training. Promotion to a higher position entails a higher base pay.

## 10.6 Management remuneration policy

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In 2015 Bank Pocztowy maintained the previous management remuneration policy based on the existing internal regulations, i.e. Principles of Remunerating Employees of Bank Pocztowy S.A. and in case of the variable portion of compensation, Principles of Granting Bonuses to Management of Bank Pocztowy S.A. according to MBO methodology and evaluation system.

Adjusting its policy to the requirements of PFSA Resolution no. 258/2011, the Bank applies the principles of determining variable compensation components of individuals holding managerial positions in the Bank.

The basis to grant an individual a variable compensation, including the deferred portion of such compensation, and to determine the total amount of the variable compensation applicable to qualifying individuals includes:

- assessing an individual's performance vs. individual goals planned for the year subject to evaluation,
- financial performance of the Bank for the last financial year,
- performance of the cost budget,
- financial profit/sales plan performance.

Determination of the variable compensation portion includes also a non-financial criterion, i.e. assessment of compliance of attitudes and behavior of an employee with the values adopted by the Bank. The performance assessment underlying the entitlement to the variable compensation covers three years, to cover the Bank's business cycle and risk related to its business operations. According to the Policy, the variable compensation is deferred and at least 50% of its amount is paid in phantom stock entitling to cash receipt. 40% of the variable pay (annual bonus) was deferred. In 2015, upon a decision of the Supervisory Board, the second portion of the deferred variable compensation was paid out.

## 10.7 IT in HR processes

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In 2015 the works related to digital HR under the project IT tool supporting HR management processes was continued. The Bank's system operates under the name KARO HR. So far a number of HR processes, in particular those related to HR services, training and recruitment have been streamlined and staff evaluation and MBO goals assessment have been simplified considerably.

Replacing printed versions of HR documents (e.g. annual leave application, personnel progress review forms, training requests and pay slips) with their electronic equivalents significantly improved access and data flow among employees, managers and HR Department with regard to personnel data management.

In 2015, KARO HR was extended with new functionalities. A new IT Platform managing the MBO goal setting and assessment process, a 360° evaluation and staff attendance has been implemented. New modules introduced allowed for liquidating paper documents and replacing them with soft copies.

## 11. Bank Pocztowy development strategy

### 11.1 Development Strategy 2015-2018 and progress status

Goals to be achieved by the end of 2018:



Due to considerable changes in the macroeconomic environment effecting the entire banking sector (including record low interest rates), changes in the banking sector (lessening possibility to develop in the existing small universal bank model) and the new strategy of Poczta Polska, which assumes growing importance of bank and insurance services in the strategy of the Poczta Polska Capital Group, the Bank decided to update the growth vision of Bank Pocztowy for the period until 2018. The updated version of the Development Strategy of Bank Pocztowy S.A. for the years 2015-2018 was adopted by the Supervisory Board on 16 April 2015.

In accordance with the strategy adopted, the key objective of Bank Pocztowy is to become a top consumer bank for regional Poland.

At the same time, it was assumed that Bank Pocztowy's competitive advantages will be built around:

- a network of offices which enable the widest access to financial products and services in Poland,
- a simple offer (one current account, three types of deposits: mini, midi and maxi and a simple cash loan), which satisfy basic financial needs of the Bank's clients,
- advantageous and competitive prices of products (accounts, deposits, cash loans offered to the existing clients of the Bank) supported by operational models with competitive cost,
- advanced integration with Poczta Polska, which consists in using the potential of clients and Poczta Polska distribution networks and developing the product offer in cooperation with other entities from the Poczta Polska Capital Group,
- simple and inexpensive sales and customer service processes, based on Frond-End type solutions opened in a web browser implemented in Poczta Polska outlets,
- simple marketing communication in sales points and outlets, based on advertising materials available in Poczta Polska outlets,
- corporate culture focused on performance of ambitious objectives in a manner specified in the corporate competency model, which defines attitudes and behaviors expected of the Bank's management and staff.

The revised development vision of the Bank assumes transition from the universal bank model towards the bank focused on consumer services and a very simple offer, which can provide its clients with well-priced services and foster integration with Poczta Polska in the form of joint product initiatives and a sales network.

### Which is Bank Pocztowy?

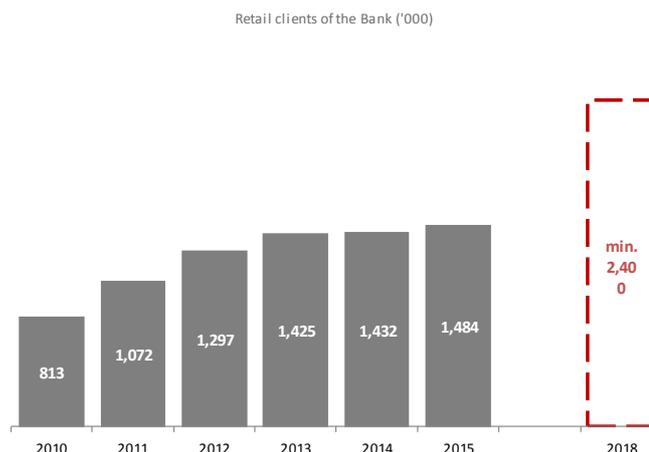
- The simplest – The bank is specialized in the simplest products
- Cheap – The bank is quaranting reasonable price for broad range of Customers
- Integrated with Poczta Polska – The bank is offering modern financial services based on integration in the Poczta Polska Group.

### Key strategic goals to be achieved by the end of 2018:

#### • Client base of PLN 2.4 million individuals

On 31 December 2015 the Bank provided services to 1.48 million consumers, i.e. the number of retail consumers grew by 3.6% as compared to December 2014. The key growth driver was the implementation of KontoZawszeDarmowe account. The number of current accounts increased by 88 thousand and in December 2015 the number of current accounts maintained by the Bank reached 909 thousand.

In the years 2010-2015 the client base increased from PLN 0.81 million to PLN 1.48 million, i.e. by over 180%. The Bank intends to maintain a high growth rate of client acquisition and to acquire an additional million of new clients by the end of 2018. The Bank intends to maintain a high share in acquiring new clients, in particular in regional Poland.



#### • Exceeding the balance of PLN 4 billion in consumer loans

As at 31 December 2015 receivables due to consumer loans exceeded PLN 2 billion. In 2015 the Bank sold consumer loans with the value of PLN 1 058.3 million, i.e. by 26.7% higher than in 2014. At the end of 2015 the balance of consumer loans reached PLN 2.1 billion, i.e. by 19.9% more than at the end of 2014.



By the end of 2018 the Bank intends to double the consumer loan portfolio (to exceed PLN 4 billion), thanks to cross selling credit products to the existing client base. To this aim, the Bank intends to benefit from its strong presence in towns and significant demand for consumer loans in regional Poland. According to the data of BIK, i.e. the provider of credit information on borrowers, 47% of consumer loans (by volume) in Poland is granted in towns with up to 25 thousand inhabitants (43% by value), and 71% (by volume) in towns and cities with up to 100 thousand inhabitants (67% by value).

#### • Credit portfolio diversification

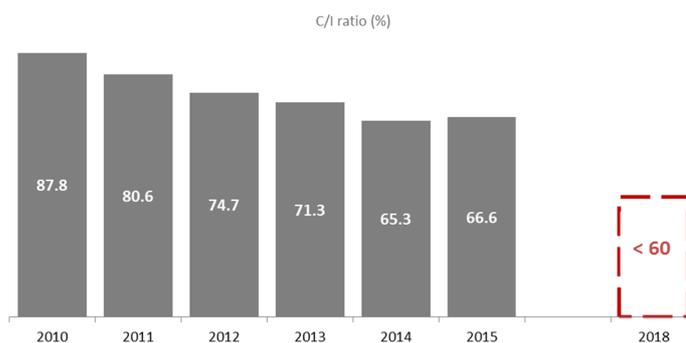
The Bank intends to diversify the credit portfolio by way of returning to active sale of mortgage loans, which will allow for acquiring clients willing to buy a high number of products and increasing the sale of loans to selected parts of the institutional segment (mainly the housing sector). At the same time, the Bank intends to intensify sales to the SMEs, including settlement segment clients, who are provided with international and domestic cash transfer services by the Bank.

● **Reducing the total cost/income ratio to less than 60%**

In 2015 the Bank carried out a number of activities aimed at increasing the Group's efficiency, mainly process streamlining and cost optimization initiatives.

Still the profit for 2015 was considerably affected by significant costs of unplanned one-off events such as: payment to the Bank Guarantee Fund related to the bankruptcy of SK Bank of PLN 11.9 million or the costs of creating the Borrowers Support Fund (ca. PLN 3.6 million).

As a result of these events, in 2015 the consolidated Cost/Income ratio amounted to 66.6%, i.e. was by 1.3.p.p. higher than in 2014. The Bank's objective is to improve the operational efficiency and to reduce the Cost/Income ratio to the level below 60% by the end of 2018.



**New business model as the key element of the strategy adopted**

Four key elements of the business model adopted by Bank Pocztowy:

Mass acquisition	Improved cross-sell
The Bank offers simple and cheap products, such as one account for consumers, one for microenterprises, a simple credit, deposit and investment offer supported with loyalty schemes.	The Bank focuses on efficient management of the client life cycle, including cross-sell of cash loans.
Efficient operating model	Full integration with the Poczta Polska Capital Group
Simple cheap and automated processes in the Bank Group	Efficiently used potential of the Poczta Polska's distribution network and development of a modern product offer in cooperation with other companies from the Poczta Polska Capital Group

Determination to achieve strategic objectives supported by special strategic initiatives.

Following the revised strategy the Bank developed its CODE of thinking and behaving. The CODE is based on the following paradigms:

- Simple – simple banking, keep it simple,
- CAN DO approach – look for solutions and act,
- Cheap – focus on profits of your clients and the Bank like on our own money.

In accordance with the mission and CODE in 2015 the Bank completed a number of initiatives in four key areas:

- PRODUCTS
  - Simple offer (e.g. one current account, three deposit options),
  - Liquidating low-margin products,
  - Implementation of *Pocztowy SFIO*,
  - Implementation of *Pożyczka na Poczcie*.
- PROCESSES:
  - New cash loan approval process,
  - Optimized approval process for Account opened within 15 minutes,
  - Implementation of Process Management and Process Ownership Principles.

- EMPLOYEES:
  - Implementation of the profile and culture of desired attitudes (CAN DO),
  - MBO process and CODE-based goal setting,
  - CODE-based annual performance progress review and 360° evaluation process.
  
- PROCEDURES AND STRUCTURE:
  - Review of the organizational structure and regulations,
  - Review and consolidation of internal regulations,
  - New legislative principles.

## 11.2 Development directions for 2016

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Key activities carried out in 2016 which should contribute to performance of key strategic objectives include:

- continued dynamic sales of consumer loans,
- digital bank launch in 2016 (EnveloBank project). The initiative is aimed at encouraging young people to use services of Bank Pocztowy. Project details have been presented item 11.3 hereof,
- changes in the offer, such as adding services fit for sale in Poczta Polska offices or investment funds of Bank Pocztowy as white label products,
- works on the implementation of the Customer Relationship Management system, which allows for increasing sales margin,
- further development of Front End, an IT solution, which standardizes the sales scope and method and bank product support in Poczta Polska outlets,
- development of traditional sales outlets and their rebranding, Further development of microbranches is planned with accompanying steps aimed at increasing margin generated in microbranches.

Key business objectives for 2016:

- Increase in the balance of consumer loans by over 20%,
- Increase in sales of current accounts by over 20%,
- A twofold increase of the balance of net current assets in the funds,
- Maintaining the existing performance in the institutional segment.

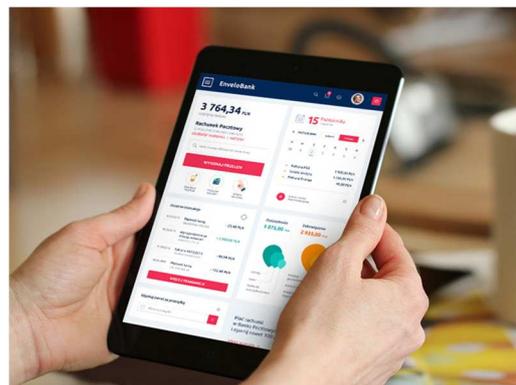
Moreover, the Bank still aims at increasing its share capitals in the form of capital injection, but this depends on favorable market standing and a positive decision of its shareholders.

The Bank's ability to achieve the objectives determined for 2016 shall depend mostly on external conditions, in particular the economic growth seen in Poland. Bank tax imposed as of 1 February 2016 may also deteriorate the Bank's profit. A liability resulting from this tax, estimated based on the value of the Bank Pocztowy's assets as at 31 December 2015 will amount to ca. PLN 6 million.

### 11.3 New digital brand – EnveloBank

One of the strategic projects for 2016 is the launch of EnveloBank - a new digital brand of Bank Pocztowy responding to the needs of mobile clients.

The traditional banking model based on distribution in bank offices supported by digital channels offers a limited growth potential only. Although still quite high, the group of unbanked Poles has been shrinking steadily. The share of middle-aged and elderly people in the group of unbanked Poles have been decreasing, while the group of young people who do not use Bank services has been growing. Based on the analysis of the needs of young people, changes in the market and global trends related to the growing popularity of digital and internet technologies, the Bank decided to develop modern financial services under the EnveloBank brand, coherent with the marketing strategy of the Poczta Polska Capital Group.



EnveloBank will constitute a digital solution aligned with the increasing trend to provide services to clients in many channels ("omnichannel business model"). Such approach will enable managing individual elements of a given process in many channels – depending on client needs and preferences. EnveloBank will constitute the ecosystem, offering clients not only bank services but also additional services provided in cooperation with partners, in particular with the key strategic partner – Poczta Polska. Along with the omnichannel business model, additional services offered in the bank system constitute the key pillars of EnveloBank, which focuses on customer experience of modern mobile and digital clients. The bank will offer an additional benefit, i.e. a loyalty program, where clients using digital services of Poczta Polska would be reimbursed the costs of courier services.

EnveloBank will ensure organized daily payments, it will pro-actively communicate with the client and take care of his liabilities, operating like an intelligent application rather than a simple website. The key enhancement for clients will be the invoice module integrated with the calendar. It will enable registering invoices in the manner the client finds most comfortable (automatic registration of invoices sent by issuers, invoices sent by e-mail, making a scan of the invoice, scanning the code) and the calendar functionality will be responsible for remembering about payment deadlines. Apart from the cooperation within the Poczta Polska Capital Group, the Bank will look for synergies with firms offering digital products and services, such as mobile payments. The central focus of EnveloBank is on client needs, where financial services are only the method to fulfill them. Other attractive services for clients will be offered in the course of the bank's development.

EnveloBank has been the largest project carried out by the Bank in terms of its elements and resources involved. It requires developing an IT solution, its integration with the Bank's applications, development and implementation of mobile and digital banking designed with RWD, preparing the product and service offer for clients, optimization of all front-office and back-office processes and market launch of a new brand.

## 12. Competitive advantages

The competitive advantages discussed below constitute key factors, which enable the Bank to achieve its strategic objectives.

### **Strategic alliance between the Bank and Poczta Polska.**

The Bank's business model is based on strategic partnership with the key shareholder, Poczta Polska, which ensures exclusive access to its distribution network (on terms stipulated in the Cooperation Agreement) and a wide consumer base in regional Poland.

Bank and insurance service are one of the main pillars of the strategy followed by the Poczta Polska Capital Group. Poczta Polska assumes that the share of bank and insurance products in its revenue structure will grow considerably by 2019. The Bank's contribution is also important for the financial performance of the Poczta Polska Capital Group.

Poczta Polska is the top provider of postal services in Poland, rendering services for individual and business clients nationwide.

Poczta Polska is one of the largest Polish enterprises in terms of the distribution network (the total of over 7.4 thousand offices of various kind as at 31 December 2015), including over 4.6 thousand outlets distributing bank and insurance products. Thanks to its extensive network and a wide services scope Poczta Polska can reach nearly every Pole. Moreover, having won the tender Poczta Polska will act as a universal service provider of postal services from 1 January 2016 to the end of 2025 under the decision of the Office of Electronic Communication. Therefore, it will operate a great number of distribution outlets countrywide, as required by applicable regulations.

The Bank operates and pursues its strategy based on resources and infrastructure of Poczta Polska, hence gaining access to a wide group of clients, in particular in provincial Poland.

Thanks to the strategic partnership with Poczta Polska and access to its clients Bank Pocztowy can acquire new clients at low costs, with no need to incur high expenditure on advertising campaigns or on own distribution network.

#### **Access to the distribution network of Poczta Polska**

Under the Cooperation Agreement and other related agreements concluded with Poczta Polska the Bank has gained exclusive access to the distribution network of Poczta Polska. It constitutes a considerable competitive advantage of the Bank in terms of customer acquisition countrywide (including areas of low banking penetration). Therefore, over 50% of existing clients of the Bank live in rural areas and towns of less than 5 000 inhabitants, and ca. 70% in towns with population to 50 000. According to the Bank, clients from smaller towns are less willing to acquire bank services, buy fewer bank products and visit traditional bank outlets more often than big city clients. Based on the report on the research by TNS ("Unbanked population in the financial world", Supplement to the Retail Banking Audit, Q4,2014) the share of the unbanked is higher in Polish rural areas and small towns. The report shows that 30% of the Poles living in rural areas have no bank account, while in smaller towns of less than 25 thousand inhabitants, unbanked consumers account for 23%. In larger towns and cities (more than 200,000 inhabitants) the share of the unbanked is considerably lower and amounts to 14%. Unbanked clients from rural areas and small towns are the target group of the Bank, which can be reached through the extensive distribution network. Significantly, in accordance with the results of the TNS research, 48% of the unbanked (estimated by the Bank as 3 to 4 million of Polish adults) paid their bills at Poczta Polska outlets, which can also be used by the Bank. Moreover, in accordance with the TNS research, the lowest cross-sell ratio has also been observed in rural areas and smaller towns, where the average number of products per one person was 2.1 and 2.2, respectively (while in large cities of more than 200 000 inhabitants the ratio amounted to 2.6). The Bank's existing clients have 1.6 product per person on average, which opens significant cross-sell opportunities.

Potential competition growth in financial services offered in rural areas and small towns is limited due very high potential expenditure which would be necessary to develop a traditional distribution network which is the most desired sales channel for this client group. At the same time, the Bank is able to reduce its capital expenditure on its own distribution network.

According the Bank's data in 2010-2014 over 80% of clients were acquired through the distribution network of Poczta Polska and 30% of new names were unbanked.

Under the Agency Agreement with Poczta Polska, postmen of Poczta Polska can carry out acquisition activities and offer selected services of the Bank, for instance deliver cash to the Bank's clients.

#### **Access to the client base of Poczta Polska**

The access to the distribution network of Poczta Polska enables the Bank to offer its products to Poczta Polska's clients. It is particularly important in areas, where the competition in financial services is less intense, i.e. in rural Poland and small towns. For these market relationship banking model is of key importance to enable making transactions and purchasing bank products in bank offices. For instance, in accordance with the research ordered by the Bank in Q1,2014 over 60% of the Bank's clients declared that their preferred communication channel was the traditional outlet (based on the Quality Watch report Client segmentation in Bank Pocztowy, 2014). According to the research by 4P Research Mix from 2014 carried out for Poczta Polska, 75% of the Poles is able to get to the nearest post office within less than 15 minutes (4P Report: Postal services usage and segmentation of consumers, 2014).

According to the data for 2014, 88% of Polish adults used the services of Poczta Polska and ca. 66% of adult Poles (ca. 19 million) purchased financial and postal services in the offices of Poczta Polska at least every two or three months (4P Report: Postal services usage and segmentation of consumers, 2014). In accordance with the results of the TNS research ("Unbanked population in the financial world", Supplement to the Retail Banking Audit,

Q4,2014) 48% of unbanked population (estimated by the Bank as 3 to 4 million of Polish adults) paid their bills at Poczta Polska offices. Thanks to the Bank's low-cost acquisition model based on the access to the client base of Poczta Polska, the Bank developed a client base of 1.4 consumers (data as at 31 December 2014) using considerably lower marketing expenditure on media advertising (ca. PLN 69 million in the years 2010-2014) than those of other financial institutions and other lenders. Average advertising spending of top advertisers in the financial sector in the years 2010-2014 (Top 5 banks and Top 2 financial agents) amounted to ca. PLN 463 million (the data of Effective Media media house: analysis of the data of Nielsen Audience Measurement and Kantar Media; gross price list data, discounts and rebates excluded).

### **Experienced and stable Management Board and qualified executives**

The Management Board and top executives of the Bank have many years of experience in creating and managing financial institutions. Three out of four Members of the Management Board have been with the Bank for over four years and have participated in the development of the current operational model of the Bank based on the integration and strategic partnership with Poczta Polska and on the development and pursue of the Bank's strategy. Following the initiatives carried out the number of current accounts increased from ca. 301 000 as at 31 December 2009 to ca. 909 000 as at 31 December 2015 and the share of commission income due to transfer funds of Poczta Polska decreased from 51% as at 31 December 2009 to ca. 16% as at 31 December 2015. Thanks to rational decisions taken by the Bank's management, the Bank reported stable financial performance in 2012-2015 despite disadvantageous market environment.

In the period from 2009 to the end of 2015 operational efficiency of the Bank improved considerably as the Bank reported a three-fold efficiency increase calculated as consumer loans balance per one FTE. According to the Management Board the existing human resources of the Bank will enable further business growth.

The Management Board and top executives of the Bank have developed advanced skills in managing extensive sales networks – both the internal one and that of Poczta Polska.

The top executives of the Bank, i.e. managers reporting directly to the Management Board are a team of well-educated managers with vast business and management experience and high professional development prospects (average age of 45 years). Top executives of the Bank make a stable (6 years of service with the Bank on average) and effectively cooperating team focused on harmonious, long-term growth of the organization.

### **Image of a secure and stable Polish bank**

Poczta Polska, which is directly controlled by the State Treasury, is the majority and controlling shareholder of the Bank. In time of financial market uncertainty, thanks to the indirect involvement of the State Treasury the Bank is perceived as a secure and stable Polish financial institution, offering an alternative for other financial institutions and lenders operating in regional Poland.

The image is one of the key elements taken into account by clients when selecting their preferred bank. According to the research *Retail Banking Audit* carried out in 2014 by TNS the key reasons for selecting Bank Pocztowy include: the image of a stable and reliable bank and a Polish brand.

The Bank's image is further enhanced by the image of its majority shareholder – Poczta Polska, which is perceived as the brand with the highest level of integrity among original Polish brands with 85% of the surveyed positively assessing Poczta Polska (4P Research Mix research from 2014). The brand recognition of Poczta Polska is one of the highest among institutions providing financial services (4P Report: Postal services usage and segmentation of consumers, 2014).

In regional Poland the Bank competes not only with other banks but also with credit unions, which undergo restructuring, and other lenders, which are not subject to regulatory supervision. According to the Management Board of the Bank, its image of a stable and secure financial institution supervised by the Polish Financial Supervision Authority significantly affects clients' decision to acquire financial services and constitutes a major competitive advantage over credit unions and other lending firms.

### **Prudent credit risk management**

Credit risk in the Bank is managed prudently, based on supervisory requirements and proven market standards.

As at 31 December 2015 the Bank had a diversified credit portfolio characterized by NPL (7.0%) lower than the banking sector average, which as at 31 December 2015 reached 7,4%<sup>11</sup> (for the non-financial sector).

The Bank developed its cash loan portfolio based on cooperation with clients working for low-risk employers and clients with satisfactory track record with the bank. As at 31 December 2015 the NPL for cash and installment loans in the Bank amounted to 9.1% and was lower than the ratio for the entire banking sector, which amounted to 12.2<sup>12</sup>% as at the same date (for consumer loans granted to individuals in the non-financial sector).

As at 31 December 2015 the Bank's NPL for self-government entities amounted to 0.0%, similarly to loans for condominiums.

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<sup>11</sup> NBP data, monetary and financial statistical data, File: Receivables.

<sup>12</sup> Op. cit.

## 13. Corporate social responsibility of the Bank Pocztowy Capital Group

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Corporate social responsibility of Bank Pocztowy towards its clients, employees, shareholders, bondholders and the society is an integral part of its operations. The principle has been confirmed in the new development strategy for the years 2015-2018 adopted in April 2015.

The mission of Bank Pocztowy is to be a leading supplier of financial services in provincial Poland, offering simple, secure and reasonably priced banking.

Bank Pocztowy: what is it like?

- Simple. Focused on simple products.
- Inexpensive. Offering good prices for a wide group of clients.
- Integrated with Poczta Polska. Providing modern financial services based on integration within the Poczta Polska Capital Group.

### 13.1 Relations with clients

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The main objective of all activities taken by Bank Pocztowy is to constantly improve client satisfaction by way of offering products and service responding to their needs. Clients were the key areas of focus when in 2015 the Bank decided to adopt a new mission and strategy assuming simple secure and well-priced banking services, which was the starting point for simplifying the product offer, processes, procedures and communication methods.

The strategy assumes a simple offer available in the vast sales network of Poczta Polska targeted at mass clients from towns of below 50 000 inhabitants. The Bank decided to develop a mobile offer for digital clients integrated with services of the Poczta Polska Capital Group (including consumers and microenterprises) and to continue growth in the housing and settlement areas.

Having in mind client needs in 2015 Bank Pocztowy introduced a number of innovative initiatives aimed at improving service quality and higher client satisfaction with the Bank's services. They included projects discussed in more detail in the Report, such as: streamlining a number of the Bank's Contact Center areas, simplifying the product offer, developing a new website <http://www.pocztowy.pl> and an educational website on stock exchange [giełdowy.pocztowy.pl](http://giełdowy.pocztowy.pl), as well as preparing a top-quality interactive on-line annual report.

The Bank incessantly strives to further improve the customer service quality taking appropriate steps in the following areas:

- training Relationship Managers,
- monitoring service quality,
- client satisfaction surveys (Net Promotor Score).

Bank Pocztowy focuses on natural communication and starting friendly relationships with clients, hence it no longer encourages traditional standard sales communication. Service standards need constant adjusting to needs and expectations of the target client group.

In order to ensure high service quality, we have adopted client service standards depicting desirable behavior to be adopted by advisors when discussing with clients. The description includes discussing with clients coming to the outlets, telephone calls and e-mail correspondence. The aspects described in the book of standards are monitored in the form of *Mystery Shopping* and *Mystery Calling*.

Also, a blog has been maintained on the Bank's website as an element of dialog with clients. A number of messages published in the blog, such as introducing *Pocztowy24*, the new Internet banking system, have met a strong response on the clients' side.

Bank Pocztowy has used its Facebook profile and YouTube to reach its clients, too.

## 13.2 Relations with employees

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Implementation of the Bank's strategy would not be possible without mature managers and devoted employees.

Social responsibility regarding relations with Bank's employees involves:

- providing employees with promotion and development opportunities,
- succession plan implementation,
- providing friendly and safe job positions,
- integrating and enhancing bonds with the employer,
- improving internal communication,
- ensuring ethical management,
- ensuring work-life balance, among others through supporting employees' passions and hobbies.

Various aspects of remuneration policy, competency building, developing growth and promotion paths are presented in Section 10 Human resources management.

Bank Pocztowy supports non-professional interests of its employees, to include sports. Most sports events are organized in cooperation with Poczta Polska.

In 2015, the calendar of events included 26 initiatives, out of which four were sponsored by the Bank and two organized directly by it. Employees of Bank Pocztowy participated in the following sports events:

- Polish Men's and Women's Volleyball Championship for Poczta Polska Employees in Iława,
- International Sailing Championship of Poczta Polska in Wilkasy near Giżycko,
- Olympic Games of Poczta Polska Employees in Cetniewo near Władysławowo,
- Shooting contest in Ustka, during which the 2<sup>nd</sup> Sea Fishing Competition was held (both events organized by the Bank),
- InO Competition in w Ślesin near Konin (organized by the Bank),
- Warsaw 10 km Race.

The total of 240 employees of Bank Pocztowy participated in these events. Moreover, 30 persons received a grant for their participation in mass events, mainly in street runs organized by various organizations in Polish cities.

The employee relationship policy is supported by activities initiated under Social Benefit Fund. In 2015, the Fund:

- provided non-refundable support to individuals affected by accidents or facing material, family or other serious life problems,
- co-funded organized domestic and foreign vacation for children and youth aged up to 18 and purchase of school books,
- co-funded group benefits, so-called open cultural, educational, entertainment and sports events,
- co-funded MultiSport initiative,
- purchased shared sports equipment,
- provided seasonal benefits for employees' children (Christmas, Easter) and cash benefits for all employees of the Bank. The gift giving event organized on 6th of December enjoyed popularity among employees. It gathered 300 participants, including 112 children. The event was organized in Digiloo Fun Park, one of the largest fun parks for children in Warsaw,
- providing employees assistance in the form of reimbursable housing loans.

## 13.3 Social initiatives

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Like in the previous years, the initiatives of Bank Pocztowy focused on supporting education, equalization of opportunities and preventing exclusion.

The projects are usually dedicated to elderly people who require special approach and communication. To this end, the Bank decided to support Activus Foundation running the Senior Academy Activus project.

The Bank published educational articles in the press preferred by its target group. One of the examples can be information about bank accounts published in the *ABC* weekly. The text provided advice on elements which should be considered in selection of a current account to avoid additional costs. In the article published in the *Wprost* weekly the Bank discussed the credit market and encouraged people who need a loan to go to banks rather than to fraudulent lending firms and shadow banks. It also discussed risks related to payday loans often granted at unfair usurious interest. The Bank also published articles in the *Fakt* daily.

Bank Pocztowy in cooperation with Poczta Polska launched a website dedicated to the stock exchange and basic investing skills at [www.gieldowy.pocztowy.pl](http://www.gieldowy.pocztowy.pl). Certain educational activities were carried out under the Akcjonariat Obywatelski program. The [www.gieldowy.pocztowy.pl](http://www.gieldowy.pocztowy.pl) website was created to present key information about the stock exchange to people who have never invested or have only just started their investing activities. The web service presents information useful for all newcomers to the stock market, such as general information about the stock exchange, its history, the listing process, stock exchange indexes and other interesting facts, such as famous investment quotes. This is yet another example of educational activities carried out by the Bank. The Bank also initiated discussion on the necessity to prevent financial exclusion during numerous business events, it published educational articles in the press and introduced elderly people to the world of finance at the Third Age University. The educational website of Bank Pocztowy follows the idea of the Akcjonariat Obywatelski program for individual investors, launched in 2010 by the Ministry of State Treasury.

In 2015 Bank Pocztowy decided to develop an offer dedicated to Poles spending their holiday at the seaside and created its special zone called Pocztove Wybrzeże (Postal Seaside) at the Sopot beach. Persons visiting the zone could use free beach chairs, sun umbrellas provided by Bank Pocztowy, the Wi-Fi and take part in a number of other facilities: games, art and sport competitions, eco-workshops, first aid courses, beach libraries and a kite rental place.

#### 13.4 Supporting business

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For many years Bank Pocztowy supported initiatives promoting entrepreneurship in Poland, by way of advocating best market practices. In 2015, for the second year in a row, Bank Pocztowy was a partner of Business e-Gazelles ranking prepared by Bonnier Business Polska publishing the *Puls Biznesu* daily.

As a result, a ranking of the fastest-growing small and medium e-commerce firms in Poland was prepared. It included firms that saw rapid growth over last three years.

Over 300 firms from around the country were granted the e-Gazelle title. During the five final galas organized in Sopot, Katowice, Kraków, Wrocław and Warsaw, the winners were granted statuettes and could share their experience in this type of business activity. Each gala was accompanied with a panel discussion attended among others by representatives of the Bank's Management Board and selected ranking winners. The discussion was to see the e-commerce related issues both from the viewpoint of market players and suppliers of financial and logistic services that significantly impact the form and quality of e-commerce in Poland. Puls Biznesu published reports from all galas and presented the most interesting e-businesses. Detailed ranking report and information and photos of the winners can be found at [e-gazele.pb.pl](http://e-gazele.pb.pl).

In May 2015 the Bank participated in the organization of the 41<sup>st</sup> Symposium on Contemporary Economy and Public Administration held twice a year on the initiative of Fundacja Gospodarki i Administracji Publicznej (Economics and Public Administration Foundation) associated with the Faculty of Economics and Public Administration of the Kraków University of Economics. The main theme of the Symposium was "Polish work" and the panelists analyzed the Polish labor market. The speakers tried to determine the methods of improving the quality of Polish work, changing labor offices to fully exploit the potential of Polish talents and shaping the Polish labor market.

### 13.5 Promoting sports

Considering sports as the area promoting desired behaviors, which is important for individual development and often constitutes a focal point of local societies, the Bank decided to support sport initiatives.

In 2015 the Bank became the General Sponsor of the Basketball Academy of Legia Warszawa. The Academy organizes general sport classes with basic elements of basketball for children aged 3 to 9. During a 50-minute class, children supported by two coaches enter a wonderful world of sport stories, where they can improve their physical fitness and exercise their imagination. The world offers sport adventure, fun in a friendly environment and the possibility to gain new mini basketball skills. The project supported by Bank Pocztowy is aimed at promoting basketball among children.



As for sports activities for teenagers the Bank has also sponsored KS ZWAR, a football school for young players, which organizes football classes and prepares football teams playing in Polish tournaments for young players born between 2000 and 2011.

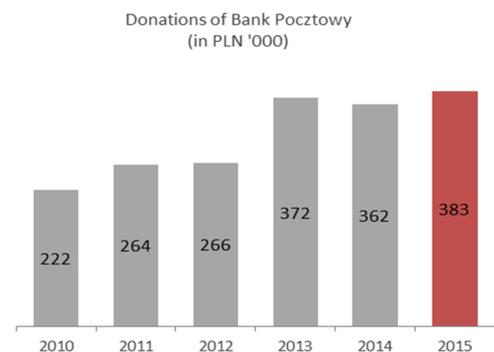
In 2015 Bank Pocztowy also supported professional sports, having granted Stal Gorzów Wielkopolski team funds for organizing Polish Motorcycle Speedway Team Championship in summer 2015.

### 13.6 Donation policy

Since Bank Pocztowy has addressed its offer to citizens of small towns and villages, it focuses on local initiatives supporting financial education, education of children and youth and business development. Further, it provides financial support to those in need.

Bank Pocztowy has a Donation Committee, which, according to the Charter, may distribute up to 1.5% of gross profit generated in the previous financial year.

In 2015 Bank Pocztowy S.A. granted support in excess of PLN 383 thousand.



### 13.7 Additional benefit packages

Like in the previous years, in 2015 Bank Pocztowy provided its employees with a large package of additional benefits. At the same time, it started works to make them more attractive, by way of adding new benefits, taking into account staff preferences:

- Comprehensive health care. The program offers a wide range of private medical services to all employees with an option to extend it to their family members on preferential terms. In 2015 the package was additionally extended by new medical services access standards.
- Sports and entertainment: The Bank continued its cooperation with Benefit Systems Sp. z o.o. Thanks to MultiSport cards all employees are granted unlimited access to sports and leisure facilities around the country. Further, each employee can buy additional MultiSport Kids cards for children and partners on preferential terms, under an agreement concluded between the Bank and Benefit Systems Sp. z o.o.
- MultiBenefit rebate program performed in cooperation with Benefit Systems Sp. z o.o.: Employees may do shopping with a preferential discount and use different forms of entertainment, such as movies, theater and weekend outings, booked through an Internet platform.

- Employee Pension Plan (EPP) significantly contributing to safe financial future of employees due to the growing need to accumulate capital for future pension benefits.
- Group voluntary life insurance plan. Under the agreement between the Bank and the selected insurance company employees may buy life insurance on advantageous terms.
- Social benefits. Employees may receive benefits offered under the Company Social Benefits Fund created by the Bank under the Act on Company Social Benefits Funds of 4 March 1994 and Company Social Benefit Fund Regulations adopted in Bank Pocztowy. All eligible persons can use the Company Social Benefits Fund by way of:
  - participation in various forms of sport and cultural events organized by the Bank,
  - receiving financial support in challenging and unpredictable situations in life.  
Such support is provided based on social criteria in the following forms:
    - non-refundable financial or non-financial support,
    - subsidized textbooks for employees' children who are still at school,
    - subsidized holiday travel for children and teenagers,
    - refundable loan for housing purposes.

### 13.8 Employee satisfaction survey

One of the priorities of the Management Board and top executives of the Bank was to create an engaging work environment, as it translates into higher business performance in the long run. Employees who feel engaged in the work environment display three attitudes: they express positive opinions about the company, are determined to be a part of the organization and are willing to exceed expectations. According to the research, in organizations, which open the ranking of Employee Satisfaction Survey carried out under the Best Employer Program, employee commitment is highly correlated with key performance factors, such as: cost reduction achieved though lower absence rate and staff turnover, higher revenue and profit, higher rate of return for shareholders a higher customer satisfaction.

The survey is carried out annually with the intention to improve results every year and to become one of Top Employers.



In 2014 the Management Boards of the Bank and Centrum Operacyjne decided to launch an Employee Satisfaction Survey project. The survey objective was to measure the current employee engagement and satisfaction in various work environments (as-is analysis) and identify key areas for development.

From the very beginning the survey was considered as process focused on further action steps not only on as-is analysis.

The project started with workshops for the Management Board, where strategic assumptions on driving employee engagement were determined. The Management Board defined their needs and roles in the entire process. The survey was carried out in January and the response rate was 76% for the Bank and 82% for Centrum Operacyjne (average response rate for Poland is ca. 70%). The high response rate guaranteed a reliable view of the work environment perception by employees.

One-day meetings were organized for all managers before and after the survey. Meetings preceding the survey were aimed at presenting the impact of high employee commitment on business performance and describing market trends and best practices. The purpose of meetings carried out after the survey was to teach the participants how to interpret the survey results, how to communicate them and take appropriate, efficient and simple action steps which would drive commitment in teams.

Meetings with all employees were organized to communicate the survey results. Most of the time during the 4-6 hour workshops was dedicated to discussing the work environment, encountered problems and needs of employees. The main focus, however, was on developing possible work environment improvements.

After the survey result analysis and meetings with employees 9 key initiatives were selected to be implemented in the Bank, i.e.: terms and conditions of work and customer service; access to the workplace and office devices; access to IT devices and their condition; efficiency and operational standards of IT systems; efficient cooperation; development system in the Bank; attractive employee experience and financial rewards for work; employer branding based on efficient communication and motivation; engaging leadership. The first issue of the newsletter entitled "Play with us to celebrate the changes" was issued in December 2015. The objective of this periodical is to inform staff of current events and initiatives.

According to the research, Top Employers build their competitive advantage on engaging leadership style focused on talents and performance and on a strong belief that commitment is essential for high business performance. Consequently, work environment management is not an option, it is a must.

The survey will be carried out regularly as an element of building the organizational structure of the Bank.

## 14. Corporate governance and management

### 14.1 Corporate governance principles and application scope



#### Corporate governance principles for institutions supervised by Polish Financial Supervision Authority

On 22 July 2014, the Polish Financial Supervisory Authority (PFSA) adopted Corporate governance principles for supervised institutions, expecting their implementation as of 1 January 2015. Beginning from 2015, application of the principles will be included in supervisory review and assessment (BION) and regularly reviewed. The purpose of the principles is to improve corporate governance standards and transparency of operation of institutions supervised by PFSA.

Corporate governance principles issued by PFSA defined internal and external relationships of the supervised institutions, to include relations with shareholders and clients, organization, internal supervision and key internal systems and functions, as well as statutory bodies and their cooperation.

PFSA decided that the corporate governance principles should be adopted by the supervised institutions (banks), become a crucial program paper underlying their strategic corporate policy and form appropriate procedures and proceedings in these institutions.

Therefore, on 22 December 2014, Extraordinary Shareholders' Meeting of Bank Pocztowy approved "Corporate governance principles for Bank Pocztowy S.A." (the "Principles") determining internal and external relationships of the Bank, including those with shareholders and clients. Further, the Principles regulate the operation of internal supervision, key internal systems and functions, as well as statutory bodies and their cooperation.

The Corporate governance principles for supervised institutions issued by PFSA state that the supervised institution should apply the principles determined therein to the widest extent possible, including the principle of proportionality arising from the scale of operations, business specifics and nature of each institution. Refraining from the full application of specific principles is allowed only if their comprehensive implementation would be impractical for the supervised institution.

"Corporate governance principles for Bank Pocztowy S.A." introduce the following principles adjusted to the specifics of Bank Pocztowy:

- Article 8.4 "If justified with the number of shareholders, the Bank shall attempt to help them participate in General Shareholders' Meetings, among others allowing active participation through the Internet."
- Article 21.2: "Supervisory Board includes the position of Chairman, who manages its work. The Chairman is appointed based on experience and team leadership skills".
- Article 29.1: "Subject to relevant legal regulations, remuneration of Supervisory Board members is calculated adequately to their roles and to the scale of Bank's operations. Members appointed to work in committees, including the Audit Committee, should be paid adequately to the additional tasks they perform in these committees."

The Bank does not apply principles referred to in section 9 "Exercise of titles arising from assets purchased at client's risk" since principles determined in Articles 53-57 do not apply to the Bank, since it does not perform services involving asset management at client's risk.

As expected by PFSA, the Principles have been adopted as of 1 January 2015.

Pursuant to Article 27 of Corporate governance principles for Bank Pocztowy S.A, the Supervisory Board shall evaluate implementation of the principles introduced thereby on a periodic basis, and the results of the evaluation shall be published on Bank's website and communicated to the other bodies of the Bank. For the first time the compliance with the Principles in question will be evaluated by the Supervisory Board during its meeting in 2016.

The Bank's Charter assume annual evaluation of the Principles.

For alignment purposes, other corporate documents have been adjusted: the Bank's Charter, Operating Rules of the Supervisory Board, and Operating Rules of the Management Board; besides, Operating Rules of the General Shareholders' Meeting of Bank Pocztowy S.A. were adopted.

On 30 November 2015 the Bank amended its internal regulations, such as the Corporate governance principles for Bank Pocztowy S.A., where the number of members of the Supervisory Board have been changed for the period before and after dematerialization of shares as a consequence of the amendments to the Charter of Bank Pocztowy approved by the Extraordinary General Shareholders' Meeting on 30 June 2015 and in order to adjust the Bank's regulations to standards applicable to public companies.

### **Banking Code of Ethics**

On 11 June 2013, Bank Pocztowy implemented the Banking Code of Ethics adopted by Polish Bank Association. The document, accepted by the General Shareholders' Meeting of Polish Bank Association on 18 April 2013 is a set of good banking practices regarding banks themselves, their employees and agents.

According to the Code, banks, as public trust institutions, shall respect legal regulations regarding their operations, recommendations of PFSA, resolutions of the banking self-government, standards included in the Code and good commercial practices. Banks, their employees and agents follow the principles of professionalism, reliability, objectivism, due diligence and best knowledge. Carrying their business operations, banks should contribute to social and economic domestic growth and increase in social wellbeing through respecting CRS principles, innovative solutions and support of educational initiatives. Social responsibility is the fundamental principle underlying relations of banks and their employees with environment. When following their business strategy, banks should consider both economic conditions and legitimate interests of their clients, employees, shareholders, business partners and local communities. The Code includes principles of the Financial Market's Code of Best Practices.

### **Code of Best Practice for WSE Listed Companies**

Since Bank Pocztowy's securities are not traded on the regulated market (its bonds are listed with Catalyst, the over-the-counter trading system), it is not bound to follow the Code of Best Practice for WSE Listed Companies.

In 2015 Bank Pocztowy followed principles include in the Code of Best Practice for WSE Listed Companies to the extent applicable to non-public companies. When preparing for IPO, on 24 April 2012 the Management Board passed a resolution to apply the Code of Best Practice for WSE Listed Companies. In the resolution, it declared the will to follow the principles and recommendation of the Code as of the date of approving the prospectus, except for principle IV.10 and recommendation I.5, I.9, I.11 and I.12. In the justification of the resolution, the Management Board provided a detailed explanation (technical reasons regarding principle IV.10 and formal reasons regarding the other) why the above principles and recommendations should not be followed.

## **14.2 Control system in process of preparing financial statements**

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### **Internal control in the Bank**

The Bank has an internal control system adjusted to the risk nature and profile, as well as to the Bank's operation scale. The Supervisory Board supervises implementation of the internal control system, while the Management Board designs it, implements and ensures its efficient operation.

The internal control system is embedded in the management system. The purpose of the internal control system is to support decision making processes that contribute to efficiency and effectiveness of the Bank's operations, reliability of financial reporting and compliance with external and internal regulations.

The internal control system includes risk controls, compliance check and internal audit. Along from the institutional control performed by internal audit, functional control performed on all organizational levels by each employee with

regard to quality and correctness of performed activities and by managers as an element of their supervisory duties constitutes the other element of the control system.

Detailed principles of operating the internal control system are determined by internal regulations of the Bank. The internal control system includes all processes performed in the Bank, including the preparation of financial statements.

The internal control of financial statements takes place:

- at the stage of developing internal regulations that depict processes performed in the course of Bank's operations – their compliance with accounting regulations – in particular with International Financial Reporting Standards as endorsed by the European Union and the Accounting Act. Internal regulations on accounting are verified on a regular basis for compliance,
- at the stage of routine operations, where postings in the Bank's books are verified in accordance with functional control principles,
- in organizational units independent from those carrying out operations, where postings in the books are checked for compliance with internal procedures regarding management of the general ledger,
- at the data generation stage through algorithms validating data in IT systems that support the preparation of financial statements,
- in organizational units preparing financial statements through verification of consistency and integrity of the presented data.

### 14.3 Entity authorized to audit financial statements

The entity authorized to audit or review financial statements is appointed by the Supervisory Board upon recommendation of the Audit Committee.

On 26 March 2015, the Supervisory Board, acting pursuant to Article 12.2.8 of the Charter and Article 3.1.25 of the Operating Rules of the Supervisory Board appointed Deloitte Polska Sp. z o.o. Sp. k. (formerly: Deloitte Audyt Sp. zo.o.) a certified auditor to audit the financial statements for the years 2015-2016.

Gross fee of the entity authorized to audit financial statements (PLN'000)	2015	2014
Statutory audit of the financial statements	280	280
Review of mid-year financial statements	96	96
Other services*	1,641	185
<b>Total</b>	<b>2,017</b>	<b>561</b>

\* Including costs of preparing the Prospectus of the Bank in 2015

### 14.4 Shareholding structure and share capital

Shareholding structure as at 31 December 2015:

	Number of shares	Number of votes	Face value of shares	Interest in the share capital
Poczta Polska S.A.	8,259,956	8,259,956	10	74.9999%
Powszechna Kasa Oszczędności Bank Polski S.A.	2,753,332	2,753,332	10	25.0001%
<b>Total</b>	<b>11,013,288</b>	<b>11,013,288</b>		<b>100%</b>

Shareholding structure as at 31 December 2014:

	Number of shares	Number of votes	Face value of shares	Interest in the share capital
Poczta Polska S.A.	7,296,770	7,296,770	10	74.9999%
Powszechna Kasa Oszczędności Bank Polski S.A.	2,432,270	2,432,270	10	25.0001%
<b>Total</b>	<b>9,729,040</b>	<b>9,729,040</b>		<b>100%</b>

On 24 April 2015 the Extraordinary Shareholders' Meeting adopted a resolution concerning the increase of the Bank's share capital by the issue of new C series ordinary bearer shares in the form of a public offering with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of C series shares and rights to C series shares; and a request for admitting these shares and rights to trading on the regulated market.

A request will be filed for C series shares and rights to C series shares to be admitted for trading on the regulated market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

On 23 September 2015 the Extraordinary General Shareholders' Meeting adopted Resolution No. 1 concerning the increase of the Bank's share capital by the issue of new C1 series ordinary registered shares, in the form of a private placement with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of C1 series shares; and a request for admitting these shares to trading on the regulated market of the Warsaw Stock Exchange.

Moreover, the Extraordinary General Shareholders' Meeting adopted Resolution No. 2 concerning the increase of the Bank's share capital by the issue of new D series ordinary bearer shares, in the form of a public offering with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of D series shares and rights to D series shares; and a request for admitting these shares and rights to trading on the regulated market of the Warsaw Stock Exchange.

At the same time, the Extraordinary General Shareholders' Meeting repealed the resolution of Extraordinary General Shareholders' Meeting dated 24 April 2015.

After the Bank's capital increase was recorded by the National Court Register on 20 November 2015, Poczta Polska S.A. retained a 74.9999% interest in the share capital of the Bank.

	Number of shares	Registered in	Value
Registered shares, A series/face value of PLN 10 each	291,300	2,011	2,913
Registered shares, B series/face value of PLN 10 each	9,437,740	2,011	94,377
Registered shares, C1 series/face value of PLN 10 each	1,284,248	2,015	12,842
<b>Total</b>	<b>11,013,288</b>	<b>6,037</b>	<b>110,132</b>

General description of shares:

- 291,300 registered A series shares (held by Poczta Polska S.A.) carrying no preference,
- 7,005,470 registered B series shares (held by Poczta Polska S.A.) and 2,432,270 registered B series shares (held by Powszechna Kasa Oszczędności Bank Polski S.A.) carrying no preference,
- 963 186 registered C1 series shares (held by Poczta Polska S.A.) and 321 062 registered C1 series shares (held by Powszechna Kasa Oszczędności Bank Polski S.A.) carrying no preference.

Each ordinary share gives its holder a title to dividend and one vote at General Shareholders' Meeting.

#### 14.5 Key information regarding Poczta Polska S.A., the majority stakeholder of the Bank Pocztowy Capital Group

Poczta Polska is a firm with 455 years of tradition including approx. 7,400 offices that provide services to consumers and businesses. Poczta Polska provides postal services (letters, packages), banking and insurance services (through Capital Group companies) and logistic services. Further, it develops digital services (neo-stamp, neo-letter, neo-postcard) performed through an Internet platform.

The Poczta Polska Capital Group includes Poczta Polska and Bank Pocztowy, Pocztove Towarzystwo Ubezpieczeń Wzajemnych, Pocztove Towarzystwo Ubezpieczeń na Życie, Poczta Polska Usługi Cyfrowe Sp. z o.o., Pocztylion – Arka PTE S.A., POSTDATA S.A., Pocztove Agencja Usług Finansowych S.A., POST-TEL Sp. z o.o., Pocztove Usługi Finansowe Sp. z o.o. and Centrum Rozliczania Ubezpieczeń Sp. z o.o.

More information regarding Poczta Polska and its financial performance is provided on its website <http://www.poczta-polska.pl/o-firmie/>.

Poczta Polska is owned by State Treasury and supervised by the Ministry of Infrastructure and Construction.

## 14.6 Cooperation with Poczta Polska

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Bank Pocztowy carries out strategic partnership with Poczta Polska based on a plan determining its key objectives and how to achieve them.

The strategic partnership assumes that the Bank plays a crucial role in implementing the strategy of developing financial services in the Poczta Polska Group and of the network of own outlets based on the infrastructure of Poczta Polska na dedicated to distribution of products and services. According to the adopted plan, a new model of managing financial services has been introduced with a new and efficient model of selling them, based on the network of outlets and employees of Poczta Polska.

Bank Pocztowy has a unique opportunity to use the network of Poczta Polska including approx. 7.4 thousand outlets (post offices, agencies and branches) countrywide. Since the Bank's own network is mostly located within the infrastructure of Poczta Polska, its extension does not require high capital expenditure. Capital expenditure for greenfield outlets (without access to Poczta Polska infrastructure and network) would be much higher than when developing a network based on existing post offices.

Thanks to access to Poczta Polska outlets countrywide, also in small towns and villages, where no competition of other banks exists, the Bank has successfully acquired clients from its target segments. With regard to development of financial services, strategic plans assume further improvement of sales efficiency of Postal Financial Zones with business ratios close to the levels achieved in Microbranches.

The sales of Bank's products and services are based on an agency agreement. According to the agreement, Poczta Polska outlets sell current accounts, corporate and saving accounts, term deposits, cash loans for consumers, credit facilities for microenterprises, credit cards and the related services. Access to the network of sales outlets and postal infrastructure allows the Bank providing institutional clients with the following services: ordering payments to counterparties (among others, through Money Gram), over-the-counter and sealed cash deposits and cash processing services.

Further, Poczta Polska is the Bank's client provided with comprehensive financial services. Including cash payments accepted in Poczta Polska network addressed to a variety of counterparties, to include Social Insurance Institution and tax offices (transfer funds) and cash receipts from Poczta Polska network to third parties indicated by Bank's clients into interbank settlements is a significant source of commission income generated by the Bank.

Cooperation of the Bank and Poczta Polska is regulated by a series of arrangement addressing its key aspects. They have been concluded on arm's length terms and concluded for an indefinite period.

## 14.7 Investor relations

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The key purpose of investor relations is to provide the stakeholders with up-to-date and reliable information regarding the Bank in a simple and clear manner, in compliance with the law.

Other major events which occurred in 2015 included the preparation to the floatation of the Bank. In the preparation process, the Management Board participated in a number of pilot fishing meetings with local and foreign investors. On 1 September 2015 the intention to float announcement was sent to the media, as a part of the standard IPO procedure. This way the Bank officially communicated the IPO intention to the market. The publication was the starting point for analysts' discussions with potential investors before the Prospectus has been approved by the Polish Financial Supervision Authority. The market feedback proved helpful in taking the final decision on further steps related to floatation of Bank Pocztowy. However, due to a disadvantageous market situation and bank share quotations at the Warsaw Stock Exchange, which were lower than expected, the Bank delayed the stock exchange debut.

Since December 2011, Bank's bonds are traded on the Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*).

At the end of 2015, the following bonds of Bank Pocztowy S.A. were quoted with Over-The-Counter market of the Warsaw Stock Exchange (Catalyst):

Series	Type	Number in ATS of WSE	Number in National Deposit for Securities	Issue date	First quotation	Redemp- tion date	Face value (PLN)	Number of bonds	Issue value (PLN)	Interest rate
A	subordinated	BPO0721	PLBPCZT00015	08.07.11	02.12.11	08.07.21	10,000	4,734	47,340,000	WIBOR6M+375 pb*
B2	ordinary	BPO1216	PLBPCZT00049	13.12.13	13.03.14	13.12.16	10,000	14,785	147,850,000	WIBOR6M+140 pb
C	subordinated	BPO1022	PLBPCZT00031	05.10.12	20.02.13	05.10.22	10,000	5,000	50,000,000	WIBOR6M+350 pb

\*/Until 8.07.16; from 9.07.16 to 8.07.21 WIBOR6M+3.75+1.5 p.p.

Since the Bank's shares are not traded on a regulated market, in 2015 its activities regarding investor relations, apart from preparations to the floatation, focused on:

- developing contacts with investors holding Bank's bonds or interested in purchasing them,
- fulfilling of information obligations related to the bonds being listed with Over-The-Counter market of the Warsaw Stock Exchange (*Catalyst*).

The following person is responsible for ongoing investor relations in the Bank:

*Magdalena Ossowska-Krasoń*  
*Deputy Director of the Public Relations and Marketing Department*  
*e-mail: M.Ossowska-Krason@pocztowy.pl*  
*phone No. (22)328,76,06*  
*mobile 601,057 496*

All current and periodic reports published by *Catalyst* through the Electronic Information Base System (EBI) along with other information regarding bonds issued by the Bank can be found on the website of Bank Pocztowy S.A. (<http://www.pocztowy.pl>), in Investors relations section.

## 14.8 Amendments to the Charter

Amendments to Bank Pocztowy's Charter require a resolution of its General Shareholders' Meeting and recording of the agreed amendments with the National Court Register. Prior to presenting the General Meeting with a draft resolution on Charter amendment, the Management Board passes a resolution regarding the proposed changes, adopting the draft resolution of the General Meeting. The draft is then presented to the Supervisory Board for approval. Pursuant to the Code of Commercial Companies, the resolution to amend the Charter is passed with the majority of three-fourths of votes. Pursuant to Article 34.2 of the Banking Law of 29 August 1997, amendments to bank's Charter require a permission of the Polish Financial Supervision Authority if they regard:

- the business name,
- registered office, core business and scope of operations of the Bank,
- bodies and their competencies, with special attention to competencies of Management Board members appointed with the approval of PFSA and decision-making principles, the basic organizational structure of the Bank, principles of making statements regarding property titles and liabilities, issuing of internal regulations and taking decisions to contract liabilities or use assets whose total value exceeds 5% of own funds of an entity,
- operation of the internal control system,
- equity and financial management principles,
- preference or restriction placed on shares with regard to the voting rights.

On 20 November 2015, amendments to the Bank's Charter approved by the General Shareholders' Meeting on 30 June 2015 and 23 September 2015 were recorded with the National Court Register. The changes concerned the share preference and the increase in the share capital of the Company by way of issuing new C1 series ordinary registered shares in the form of a private placement.

The Charter is available on the Bank Pocztowy's website <http://www.pocztowy.pl>.

## 14.9 Activities of Bank's corporate bodies

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### General Shareholders Meeting

#### Operation of the General Meeting

General Meetings are held in the registered office of the Bank in Bydgoszcz or in Warsaw. Ordinary General Meetings are convened by the Management Board of the Bank.

Extraordinary Shareholders' Meetings may be convened if necessary by the Management Board following its own decision or as requested by shareholders representing at least 1/20 of the share capital. The General Meeting is convened and prepared in accordance with the provisions of the Code of Commercial Companies and the Bank's Charter.

The Ordinary Shareholders' Meeting convened by the Management Board in line with the routine procedure is held once a year, within six months of the end of each financial year.

The Supervisory Board may convene an Ordinary Shareholders' Meeting if the Management Board fails to do so within the statutory deadline, or an Extraordinary Shareholders' Meeting if it deems it necessary.

Further, in specified cases, shareholders are entitled to call or request the calling of the General Meeting. The shareholders may participate in the General Meeting and vote in person or through a plenipotentiary.

The General Meeting decides on its own internal rules. On 30 November 2015, Extraordinary General Shareholders' Meeting approved amendments to the Operational Rules of the General Shareholders' Meeting of Bank Pocztowy S.A., which were aimed at gaining compliance with the Bank Pocztowy Charter and standards applicable to public companies.

Issues to be raised at the General Meeting are presented to the Supervisory Board for consideration and approval.

Resolutions of the General Meeting, except for specific cases, are passed in open voting by an absolute majority of votes, unless the Code of Commercial Companies or the Charter require other, more restrictive manner of voting. Secret voting takes place when appointing and dismissing members of Bank's bodies or liquidators, deciding on their prosecution and in personnel related matters. Further, secret voting may take place if at least one shareholder present or represented at the General Meeting requests so.

Under the Charter, since the date of dematerializing any Bank's shares, the shareholder may participate in the General Shareholders' Meeting using electronic means of communication in accordance with the principles set out in the Operating Rules of the General Shareholders' Meeting.

The Supervisory Board of the Bank is appointed and dismissed by the General Shareholders' Meeting in secret voting.

The manner of resolving when appointing members of the Supervisory Board is determined by the common law, including Code of Commercial Companies and the Charter.

The Charter provisions describe the manner of appointing Supervisory Board members from among shareholders, including representation of individual shareholders in the body and principles of appointing independent members, their number and conditions they should fulfil.

On 30 June 2015 certain amendments were introduced to the Bank's Charter. They restricted voting rights of the shareholders in such a way that at the General Shareholders' Meeting none of them can exercise more than 10% of the total voting rights existing in the Bank on the day of the General Shareholders' Meeting. For the purpose of determining the obligations of acquirers of large blocks of shares under the Act on offering, conditions governing the introduction of financial instruments to organized trading, and public companies (Act on offering), such voting rights restriction shall not apply.

Voting rights restrictions do not apply to shareholders who were authorized to exercise their voting rights vested in shares representing more than 20% of the total number of votes in the Bank (or legal successors) on the day when the General Shareholders' Meeting adopted a resolution introducing the restriction. If, at any time, the interest held by the shareholder subject to restrictions falls below 20% of the total number of votes in the Bank (or legal successors), the shareholder will be authorized to exercise the voting rights from at maximum 20% of the total number of votes, even if his share in the total number of votes in the Bank (or legal successors) exceeded 20% again.

The provisions concerning voting rights restrictions apply as of the date of dematerializing any shares of the Bank.

### **Key powers of the General Shareholders' Meeting**

General Shareholders' Meeting should in particular:

- analyze and approve Management Board's report on the activities of the Bank and financial statements for the previous financial year,
- decide on profit distribution / loss absorption;
- grant a vote of acceptance to members of the Bank's bodies.

Further, the powers of the General Meeting include resolving on:

- appointment and dismissal of Supervisory Board members,
- amending the Charter,
- increasing or decreasing the share capital,
- approving the Operating Rules of the Supervisory Board,
- redemption of shares and conditions thereof,
- recognition and derecognition of special funds,
- issues of bonds,
- appointing of liquidators,
- other matters raised by the shareholders and Supervisory Board,
- determining the remuneration principles and employments terms for the Chairman of the Management Board so long as the number of shares in the share capital of Bank Pocztowy held by Poczta Polska S.A. exceeds 50% or if required by the Act on remunerating managers of certain entities of 3 March 2000,
- approving the policy of selecting and evaluating Supervisory Board members.

In 2015, the Ordinary Shareholders' Meeting was held on 15 April. During the Meeting, 100% of the share capital was represented; During the meeting, the following resolutions were adopted:

- approving the Management Board's report on the activities of Bank Pocztowy S.A. in 2014,
- approving the financial statements of Bank Pocztowy S.A. for 2014,
- approving the Management Board's report on the activities of the Bank Pocztowy Capital Group in 2014,
- approving the consolidated financial statements of the Bank Pocztowy Capital Group for 2014,
- distribution of the profit of Bank Pocztowy S.A. for 2014,
- granting a vote of acceptance to members of the Management Board for 2014,
- granting a vote of acceptance to members of the Supervisory Board for 2014,
- approving the policy of selecting and evaluating Supervisory Board members.

In 2015, five Extraordinary General Shareholders' Meetings were held. They adopted among others the following resolutions:

- on the increase in the share capital of the Bank by the issue of new C series ordinary bearer shares in the form of a public offering with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of C series shares and rights to C series shares; and a request for admitting these shares and rights to trading on the regulated market,
- on the request for admitting the Bank's shares to trading on the regulated market of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), dematerialization of the Bank's shares and authorization of the Management Board to enter into an agreement for registering the Bank's shares with Krajowy Depozyt Papierów Wartościowych S.A.,
- amending the Charter,

- approving the Operating Rules of the Supervisory Board,
- adopting Corporate governance principles for Bank Pocztowy S.A.,
- adopting Operating Rules of the General Meeting,
- the increase in the share capital of the Bank by the issue of C1 series ordinary registered shares in the form of a private placement with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of C1 series shares; and a request for admitting these shares to trading on the regulated market,
- increase in the share capital of the Bank by the issue of new D series ordinary bearer shares in the form of a public offering with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of D series shares and rights to D series shares; and a request for admitting these shares and rights to trading on the regulated market, where the General Shareholders' Meeting repealed Resolution No. 1 of the Extraordinary Shareholders' Meeting of the Company of 24 April 2015 on the increase in the share capital of the Bank by the issue of new C series ordinary bearer shares in the form of a public offering with subscription rights entirely excluded for the existing shareholders; the change in the Bank's Charter following the capital increase; dematerialization of C series shares and rights to C series shares; and a request for admitting these shares and rights to trading on the regulated market (amended by Resolution No. 2 of the Extraordinary Shareholders' Meeting of the Company dated 30 June 2015),
- approving the policy of selecting and evaluating Supervisory Board members,
- determining the new bond issue scheme.

## Supervisory Board

In accordance to the Code of Commercial Companies, the Management Board and Supervisory Board manage and supervise the Bank, respectively.

The Supervisory Board exercises general supervision of the Bank's operations.

The Supervisory Board acts collectively.

The Supervisory Board may delegate its members to perform specified supervisory activities independently.

## Composition

The Supervisory Board consists of seven members appointed and dismissed by the General Shareholders' Meeting (until the date of dematerializing any Bank shares) and of five to nine members appointed and dismissed by the General Shareholders' Meeting (from the date of dematerializing any Bank shares), where the number of members of the Supervisory Board in a given term of office is determined by Poczta Polska S.A. (or its legal successor). If the Supervisory Board is elected by separate groups, the Supervisory Board is composed of five members. The members are appointed for a joint office term of three years.

The Charter provides a detailed description of cases when the number of Supervisory Board Members is reduced.

In each case when the number of Supervisory Board members is lower than that determined in the Charter, the Management Board is obliged to promptly, within 14 days at the latest, convene the General Shareholders' Meeting in order to organize a by-election.

The Charter provisions describe the manner of appointing Supervisory Board members from among shareholders before and after the date of dematerialization of shares, including representation of individual shareholders in the body and principles of appointing independent members, their number and conditions they should fulfil.

The mandates of members of the Supervisory Board expire as of the date of the General Meeting approving the financial statements for the last full financial year during which the members has held their positions. If a new member is elected during the office term, his/her mandate expires along with the mandate of the other members. Further, the mandate expires in the case of death, resignation or dismissal.

The tenth office term of the Supervisory Board commenced in April 2014.

Before the day of dematerializing any shares of the Bank the Chairman of the Supervisory Board is appointed by the shareholder - Poczta Polska S.A. (or its legal successor), while the Deputy Chairman - by the shareholder PKO

Bank Polski S.A. (or its legal successor), from among appointed members (also if the Supervisory Board is elected in separate groups). After the day of dematerializing any shares of the Bank the Chairman and the Deputy Chairman of the Supervisory Board is appointed by the shareholder - Poczta Polska S.A. (or its legal successor) from among appointed members (also if the Supervisory Board is elected in separate groups). Members of the Supervisory Board may elect the Secretary from among themselves.

Having undergone no changes by the date of preparing this report at 31 December 2015 the composition of the tenth office term of the Supervisory Board of Bank Pocztowy was the following:

- Jerzy Jóźkowiak – Chairman of the Supervisory Board,
- Jakub Papierski – Deputy Chairman of the Supervisory Board,
- Piotr Michalski – Secretary of the Supervisory Board,
- Paweł Borys – Member of the Supervisory Board,
- Mariusz Czyżak – Member of the Supervisory Board,
- Bogusław Grabowski – Member of the Supervisory Board,
- Janusz Wojtas – Member of the Supervisory Board.

### Competences of Members of the Supervisory Board of Bank Pocztowy

**Jerzy Jóźkowiak** – appointed Chairman of the Supervisory Board in March 2011. He started his professional career in 1984 as an academic in Warsaw School of Economics (former name: Central School of Planning and Statistics), where he worked until 1990. From 1990 to 1993 he cooperated with private companies and provided advisory services related to foreign trade. From 1993 to 1999 he held the position of the Restructuring Department Director and the Deputy Chairman of the Management Board in Powszechny Bank Gospodarczy S.A. in Łódź, and the Chairman of the Management Board of PBG Fundusz Inwestycyjny sp. z o.o. In 1999 he was appointed Chief Executive Officer of Bank Pekao S.A. and held the position until 2001. In Powszechny Bank Gospodarczy S.A. and Bank Pekao S.A. he was responsible for bookkeeping, accounting, management information, treasury, market risk, credit risk, restructuring and brokerage house. From 2002 to 2008 Jerzy Jóźkowiak worked in BRE Bank S.A., where he held the position of the Bank's Director for Finance, Risk and Operations in the Consumer Bank Division, Chief Financial Officer, Director for Consumer Banking and Member of the Management Board. At the same time from 2002 to 2003 Jerzy Jóźkowiak held the position of the Chairman of the Management Board of Bank "Częstochowa" S.A. Since January 2010 held the position of the Chairman of the Management Board of MNI S.A. From March 2011 to January 2016 he was the Chairman of the Management Board of Poczta Polska. He has worked for the Bank since 2011, when he was appointed Member and Chairman of the Supervisory Board.

In 1983 Jerzy Jóźkowiak graduated from the Foreign Trade Department of Warsaw School of Economics and received a Master's degree in economics. From 1987 to 1998 he completed an internship program at the Department of Law and Political Science at the University of Zurich.

**Jakub Papierski** – appointed Deputy Chairman of the Supervisory Board in March 2011. He started his professional career in 1993 in ProInvest International and Dom Maklerski ProCapital as a Consultant and Analyst. From 1996 to 1997 he worked as a Business Sector Analyst in CAIB Creditanstalt Investment Bank, and subsequently as Senior Business Sector Analyst in Deutsche Bank. From 2001 to 2003 Jakub Papierski worked as Executive Director in charge of Finance and a Proxy in Bank Pekao S.A. From 2003 to 2009 he held the position of the Chairman of the Management Board of Centralny Dom Maklerski Pekao S.A., and subsequently – the same position in Allianz Bank Polska (from May 2009 to February 2010). In March 2010 Jakub Papierski was appointed Deputy Chairman of the Management Board in charge of corporate and investment banking in PKO BP. He was a Member of Supervisory Boards of PKO TFI, PTE PKO, PKO Leasing, PKO Faktoring, PKO Bank Hipoteczny and Kredobank. In 1996 Jakub Papierski graduated from the Warsaw School of Economics and received a Master's degree. In 1997 he was registered with SFA in the United Kingdom. In 2000 he was granted a license of Chartered Financial Analyst (CFA) by the U.S. Association for Investment Management and Research (AIMR, currently: CFA Institute).

**Piotr Michalski** – became a Member of the Supervisory Board in July 2011 and in August 2011 – its Secretary. Piotr Michalski started his professional career in Solidarność Chase D.T. Bank S.A., where he worked in the years 1993-1994. In 1994 he became a Senior Consultant in Warszawska Grupa Konsultingowa sp. z o.o. and subsequently he became its shareholder. From January 2000 to March 2001, Piotr Michalski worked as a Financial Manager in Grupa Zarządzająca FINLEX-Management sp. z o.o. From April 2001 to October 2002 he was employed in Kredyt Lease S.A., first as a Chief Specialist, then as the Risk Director. Since 2002 Piotr Michalski held the position of the Chairman

of the Management Board, and then the Director of the Risk Management Department of the Bank. In 2004 he was appointed Director of the Controlling and Management Information Department in BRE Bank S.A. and held the position until 2010. From April 2010 to June 2011 he acted as the Director of the Risk Management Department of Bankowy Fundusz Leasingowy S.A. From July 2011 to January 2016 he was a Member of the Management Board in charge of Finance in Poczta Polska. He has worked for the Bank since 2011, when he was appointed Member and Secretary of the Supervisory Board.

In 1993 Piotr Michalski graduated from the Finance and Banking Department of the University of Łódź and obtained a Master's degree. In 2012-2013 he participated in w Advanced Management Program at the IESE Business School of the University of Navarra.

**Paweł Borys** – appointed Member of the Supervisory Board in March 2011.

He started his professional career in 2000 as an Equity Market Analyst and Economist in Dom Inwestycyjny Erste Securities Polska S.A. From 2001 to 2004 he was an Assistant Lecturer in the Capital Market Department of Warsaw School of Economics. From 2001 to 2005 he worked for Deutsche Bank Group entities – DWS Polska TFI S.A. and Deutsche Asset Management S.A. as an Equity Market Analyst, Equity Market Manager and the Director of the Investment Department. In 2005 Paweł Borys became the Managing Director and subsequently the Deputy Chairman of the Management Board of AKJ Capital S.A. In the years 2007-2010 he held the position of the Chairman of the Management Board of AKJ Investment TFI S.A. From June 2010 Paweł Borys worked in PKO BP S.A., where, initially, he was an Advisor to the Chairman and from October 2010 - the Managing Director of the Corporation Development and Investment Department. Currently, he holds the position of the Director of the Analysis and Strategy Department.

In 2001 Paweł Borys graduated from the Finance and Banking Department of Warsaw School of Economics and received a Master's degree in economics.

**Mariusz Czyżak** – appointed Member of the Supervisory Board in March 2012.

Mariusz Czyżak started his professional career in 1998 in Poczta Polska, where he managed the works of the Council of Poczta Polska until 2001. From January 2001 to March 2002 Mariusz Czyżak was employed in the Polish Telecommunication Regulatory Office as an Organizational Department Head. From 2002 to 2006 he held the position of the Deputy Director of the Office for Administration and Human Resources in the Telecommunication and Post Regulatory Office and from 2004 to 2008 was a lecturer at Polonia University in Częstochowa. From 2006 he was the General Manager in the Office of Electronic Communications responsible for efficient operations of the Office, in particular for public procurement, public finance, HR management and managing projects co-financed with EU funds. In 2010 he was appointed associate professor at Executives Training University (Wyższa Szkoła Kadr Menedżerskich) in Konin.

In 1997 Mariusz Czyżak graduated from the Law, Canon Law and Administration Department at the John Paul II Catholic University of Lublin and received a Master's degree and in 2003 he received his PhD in law. In 2000 he completed post-graduate studies in Management and Marketing at the Institute of Marketing and Advertising of the Pultusk Academy of Humanities, in 2001 – Organization and Management at the Military University of Technology and in 2003 – Control, Supervision and Internal Audit at Warsaw University. In 2010 he obtained an MBA title from Lazarski University. In 2012 Mariusz Czyżak participated in APMG International Prince2® Project Management Training and obtained Prince2® Foundation and Prince2® Practitioner certificates. He attended a number of training courses for instance in: operational risk management, project risk management, financial analysis, internal control in public finance and HR management.

**Bogusław Grabowski** – appointed Member of the Supervisory Board in July 2009.

He started his professional career in 1985 as an academic at the University of Łódź, for which he worked until the end of 2013. In 1989 Bogusław Grabowski was appointed a Chief Specialist of Powszechny Bank Gospodarczy w Łodzi S.A. From February to July 1993 he acted as a Deputy Province Governor in charge of business issues, corporate governance and the Łódź region restructuring in the Provincial Office for Łódź. From 1991 to 1997 Bogusław Grabowski acted as an Advisor to the Chairman, the Chairman of the Management Board and then - the Deputy Chairman of LG Petrobank S.A. In the years 1998-2004 he was a member of the Monetary Policy Council in the National Bank of Poland. From 2003 to 2006 he held the position of the Chairman of the Management Board of Powszechny Towarzystwo Emerytalne – Skarbiec S.A., and subsequently – the same position in Skarbiec Towarzystwo Funduszy Inwestycyjnych S.A. (from 2006 to 2012), Skarbiec Asset Management Holding S.A. (from 2006 to 2013) and Skarbiec Holding sp. z o.o. (from 2012 to 2013).

In 1984 Bogusław Grabowski received a Master's degree from the Economics and Sociology Department of the University of Łódź and in 1991 he finished the University of Windsor in Canada. In 1993 Bogusław Grabowski received his PhD in Economics. In 1988 he completed Post-Graduate English Language Studies at the University

of Łódź. From 1992 to 1993 he participated in *Financial Markets Part 1&2* training courses provided by Austrian Bankers College International and in 2003 he attended the *Seminar on Overview of Financial Sector Issues and Analysis* organized by *World Bank Financial Sector Learning Program*.

**Janusz Wojtas** – appointed Member of the Supervisory Board in July 2011.

Janusz Wojtas commenced his professional career in Łódzki Bank Rozwoju S.A., which was acquired by Bank Inicjatyw Gospodarczych S.A., where he worked from May 1992 to December 1993 in the Bank Economics Department and the Monetary Economy Department finally holding the position of the Deputy Department Director. From 1994 to 1998 Janusz Wojtas worked for Powszechny Bank Gospodarczy S.A. (which became a part of the Pekao Capital Group in 1996) first as a Specialist, Account Manager, Deputy Director and Director of the Corporate Bank Department. From early 1999 to March 2005 he held top managerial positions in PKO BP. From 2002 to 2008 Janusz Wojtas was a Member of the Management Board of BRE Bank S.A. in charge of the Corporate Bank Department. From June 2011 to January 2016 he worked as a Member of the Management Board of Poczta Polska in charge of the organization and supervision over the Sales Department, Postal Services Department, Financial Services Department and Business Services Department. He has worked for the Bank since 2011, when he was appointed Member of the Supervisory Board.

In 1992 Janusz Wojtas graduated with honors from the Economics and Sociology Department of the University of Łódź and received a Master's degree in economics and foreign trade organization. In 2008 he finished Advanced Management Program in IESE Business School at the University of Navarra.

### **Operations**

The Supervisory Board operates pursuant to the Operating Rules of the Supervisory Board developed by the Board and approved by the General Shareholders' Meeting. Its meetings are called in the manner determined in the Rules, at least four times in each financial year.

The Supervisory Board may pass resolutions provided that at least half of its members are present at a meeting, including the Chairman or Deputy Chairman, if all its members have been invited to the meeting. The members may participate in the passing of resolutions giving their votes in writing through other members of the Supervisory Board.

The Supervisory Board may pass resolutions in writing or using remote communication media.

The passing of resolutions pursuant to the above procedures does not include election of the Secretary, appointing, suspending and dismissing of Management Board members.

Resolutions of the Supervisory Board are adopted with an absolute majority of votes cast. In case of a tie, the Chairman has the deciding vote if present at the meeting.

### **Supervisory Board's Meetings**

The agenda and issues to be discussed during the Supervisory Board's meetings held in 2015 were determined by the Chairman of the Supervisory Board resulted from the ongoing operations of the Bank, and included issues raised by the Management Board and Supervisory Board Members.

Supervisory Board's decisions had the form of resolutions, decisions, approvals regarding Management Board's motions and information materials presented by the Bank.

### **Audit Committee**

The Audit Committee is a body within the Supervisory Board.

The Audit Committee acts pursuant to the applicable provisions of law, the Act on statutory auditors, their self-governing organization, entities authorized to audit financial statements and on public oversight of 7 May 2009 and to the Operating Rules of the Audit Committee.

Its members are appointed by the Supervisory Board from among its members. Its operational rules are approved by the Supervisory Board.

The Supervisory Board may dismiss a member of the Audit Committee from the position of the Chairman of the Audit Committee at any time, at the same time keeping his position of a member and award the function to another member of the Audit Committee.

The term of office and the mandate of an Audit Committee member expire with the end of the term of office and the mandate in the Supervisory Board of the Bank.

The Audit Committee acts jointly.

The Audit Committee is in particular responsible for:

- monitoring of the financial reporting process,
- monitoring of effectiveness of the internal control systems, internal audit and risk management,
- monitoring of financial audit,
- monitoring of independence and unbiased approach of the certified auditor and the entity authorized to audit financial statements,
- Recommending an entity authorized to audit financial statements to the Supervisory Board for the purpose of auditing or reviewing financial statements of the Bank.

According to the Operating Rules of the Audit Committee approved by the Supervisory Board on 12 November 2015, the Audit Committee consists of at least three people, including the Chairman, appointed by the Supervisory Board from among its members. At least one Committee member should be independent within the meaning of the Act and have accounting/auditing qualifications. At present, Bogusław Grabowski, the Audit Committee Chairman, meets these requirements.

The Audit Committee meets at least once a quarter, on dates determined by the Audit Committee Chairman, provided that the Audit Committee meetings take place before the Bank publishes financial statements for the period of 12 months, 6 months, the first and the third quarter. In certain cases additional meeting of the Audit Committee may be convened by the Chairman or the Deputy Chairman of the Supervisory Board.

The meetings are convened by the Chairman upon his own decision or following a motion of its member. If the Chairman cannot convene a meeting for any reason, it may be convened by another Audit Committee member appointed by the Chairman. The Committee meetings may be called following a motion of another Supervisory Board Member, the Management Board, an internal or external auditor of the Bank, in particular if the Internal Audit Head escalates material disputable issues with the Management Board. The Audit Committee adopts resolutions if the Audit Committee meeting is attended by at least a half of its members and if all members have been appropriately invited. The Audit Committee may pass resolutions in writing or using remote communication media.

The Audit Committee meetings can be held if at least a half of members are present (quorum). Resolutions of the Audit Committee are approved with an absolute majority of votes cast by its members present at the meeting. If the number of votes for and against a given resolution is equal, the Chairman of the Audit Committee has a deciding vote.

If necessary, the Audit Committee, following an initiative of its Chairman or another member appointed by the Chairman, may pass resolutions among the meetings in writing or using remote communication media.

On 12 May 2014, the tenth-office term Supervisory Board appointed from among its members Bogusław Grabowski, Paweł Borys and Piotr Michalski members of the Audit Committee and appointed Bogusław Grabowski its Chairman.

As at 31 December 2015 the composition of the Audit Committee was the following:

- Bogusław Grabowski – Chairman;
- Piotr Michalski – Member;
- Paweł Borys –Member.

### **Appointment Committee**

The Appointment Committee is a permanent committee of the Supervisory Board, supporting its activities.

It is appointed for the office term of the Supervisory Board and consists of at least three people appointed by a Supervisory Board resolution, to include its Chairman appointed by the Supervisory Board from among Committee's members.

The Supervisory Board elects members of the Committee and its Chairman during the first meeting of a given term of office.

Every member of the Committee may be dismissed at any time by a resolution of the Supervisory Board. At any time the Supervisory Board may dismiss a member of the Committee from the position of the Chairman of the Committee, at the same time keeping his position of a member and award the function to another member of the Committee.

If the term of office of a Supervisory Board member elected to the Committee expires before the end of the term of office of the entire Supervisory Board or if he resigns from his position in the Committee, the Supervisory Board shall elect a new Committee member to replace such a member for the period until the end of the term of office of the Supervisory Board.

The term of office and the mandate of a Committee member expire with the end of the term of office and the mandate in the Supervisory Board of the Bank.

The Audit Committee acts jointly.

The operating rules of the Committee are approved by the Supervisory Board.

The Appointment Committee is in particular responsible for:

- evaluating of candidates for the position of Management Board Chairman and Members,
- evaluating of holders of the positions of Management Board Chairman and Members.

The Appointment Committee evaluates qualifications of candidates for the positions of the Management Board Chairman or Members and the current holders of these positions upon:

- selecting the new Management Boards (for candidates),
- motioning to PFSA for a permit for the Bank to carry out extended operations (for current position holders),
- occurrence of new circumstances described in the "Policy of selecting and evaluating Management Board members" (for current position holders).

The Appointment Committee holds meetings if required due to planned changes in the composition of the Management Board, if its office term expires, or in other cases determined in the Policy of selecting and evaluating Management Board members.. The meetings are convened by the Chairman upon his own decision or following a motion of its member or of the Management Board of the Bank. If the Chairman cannot convene a meeting for any reason, it may be convened by another Committee member appointed by the Chairman. The Committee meetings are chaired by its Chairman, and in his absence, by a member appointed by the Chairman.

The Appointment Committee meetings can be held if at least two members are present. Evaluation decisions are made with an absolute majority of votes cast by its members present at the meeting. In the event of a tied vote, the Chairman will have the deciding vote.

On 12 May 2014, the tenth-office term Supervisory Board appointed from among its members Jerzy Józkowiak, Jakub Papierski and Janusz Wojtas members of the Appointment Committee and appointed Jerzy Józkowiak its Chairman.

On 12 November 2015, the Supervisory Board amended the Operating Rules of the Appointment Committee.

As at 31 December 2015 the composition of the Appointment Committee was the following:

- Jerzy Józkowiak – Chairman,
- Jakub Papierski – Member,
- Janusz Wojtas – Member.

In 2015 and by the date hereof, the Appointment Committee held four meetings.

### **Due Diligence Committee**

The Supervisory Board adopts a resolution appointing the Due Diligence Committee composed of at least 3 members, including at least one member of the Supervisory Board appointed by the Supervisory Board, at least one member of the Management Board appointed by the Management Board, the Legal Department Director or a person designated by the Director.

A Member of the Supervisory Board is the Chairman of the Due Diligence Committee.

If the Supervisory Board appoints more than one of its members to the Due Diligence Committee, it specifies which of them will act as the Chairman of the Due Diligence Committee in the resolution establishing the Due Diligence Committee.

Resolutions of the Due Diligence Committee are passed by simple majority of votes cast. The provisions of the Bank's Charter concerning the Supervisory Board and the Supervisory Board regulations apply to the works of the Due Diligence Committee. Upon its request decisions of the Due Diligence Committee are approved by the Supervisory Board of the Bank in the form of a resolution.

The responsibilities of the Due Diligence Committee have been specified in the Principles of due diligence organization and management in Bank Pocztowy.

No other Supervisory Board committees were established.

## Management Board

### Appointing and dismissing Management Board Members

According to the Bank's Charter, the Management Board consists of 3 to 5 members appointed by the Supervisory Board. Composition of the Management Board: Chairman, Deputy Chairmen, including First Deputy Chairman, Members. The members are appointed for a joint three-year office term.

At least a half of Management Board Members, including the Chairman of the Management Board, should be Polish residents and should speak Polish.

The mandates of members of the Management Board expire as of the date of the General Meeting approving the financial statements for the last full financial year during which the members have held their positions. Further, the mandate expires in the case of death, resignation or dismissal.

The mandate of a Management Board Member appointed during the term of office expires at the same time as the mandate of the remaining members.

According to the Code of Commercial Companies, the General Meeting can dismiss or suspend a Management Board member.

The Management Board Chairman, Deputy Chairmen and other Members are appointed and dismissed by the Supervisory Board, which considers their qualification to hold these positions and acts in accordance with the Banking Law and Policy of selecting and evaluating Management Board Members of Bank Pocztowy S.A.

Two Management Board Members: the Chairman and Member in charge for risk management are appointed upon an approval of the Polish Financial Supervision Authority.

### Composition

Composition of the Management Board of Bank Pocztowy as at 31 December 2015:

- Szymon Midera – Chairman of the Management Board,
- Paweł Szałowski – Deputy Chairman of the Management Board,
- Hubert Meronk – Member of the Management Board,
- Michał Sobiech – Member of the Management Board.

On 16 January 2015, Tomasz Bogus resigned from the position of the Chairman of the Management Board of the Bank and from membership in the Management Board of the Bank as of 19 January 2015. On 16 January 2015, the Supervisory Board decided that Szymon Midera, Deputy Chairman of the Management Board of the Bank, would act as the Chairman of the Management Board of the Bank as of 20 January 2015. Moreover, the Supervisory Board of the Bank adopted a resolution to appoint Szymon Midera to the position of the Chairman of the Management Board of the Bank. On 24 March 2015, the Polish Financial Supervision Authority gave its consent for the appointment of Szymon Midera to this position. Consequently, Szymon Midera assumed his duties as Chairman of the Management Board of the Bank on 25 March 2015.

On 12 February 2015, the Supervisory Board appointed Hubert Meronk a Member of the Management Board for the ninth office term effective from 12 February 2015.

On 12 November 2015 the Supervisory Board of the Bank appointed Paweł Szałowski to the position of the Deputy Chairman of the Management of the Bank.

Michał Sobiech resigned from the position of the Member of the Management Board of the Bank as of 29 February 2016.

On 17 December 2015 the Supervisory Board adopted a resolution to request for a consent of the Polish Financial Supervision Authority to appoint Magdalena Nawara to the position of a Member of the Management Board (the ninth term of office). Ms Nawara was supposed to be in charge of key risks.

In accordance with the resolution of the Supervisory Board of 17 December 2015, Magdalena Nawara was appointed to the position of a Member of the Management of Bank Pocztowy in charge of key risks as of 1 March 2016. On 23 February 2016, the Polish Financial Supervision Authority gave its consent for the appointment of Magdalena Nawara to the position of a Member of the Management Board of Bank Pocztowy.

In accordance with the scope of responsibilities of the Management Board Members, Ms Magdalena Nawara, a Member of the Management is in charge of Risks and Operations, while Paweł Spławski, the Deputy Chairman of the Management Board – of Business, Finance and Treasury.

Therefore, as at the date of this Report, the composition of the ninth-office term Supervisory Board was the following:

- Szymon Midera – Chairman of the Management Board,
- Paweł Spławski – Deputy Chairman of the Management Board,
- Hubert Meronk – Member of the Management Board,
- Magdalena Nawara – Member of the Management Board

#### Qualifications and professional experience of Management Board Members



##### Szymon Midera – Chairman of the Management Board

In charge of strategic management, appointed to act as the Chairman of the Management Board on 25 March 2015. Before, since July 2008, Deputy Chairman of the Board in charge of business and sales, marketing and treasury. For seven years with BRE Bank, among others as Director of Marketing and Business Development Office in mBank (2007-2008), and Deputy Director of Marketing and Investor Relations Department in BRE Bank (2005-2007).

Expert on retail banking with over ten years of professional experience. Among others, he was responsible for:

- transforming Bank Pocztowy from a settlement bank into an universal bank,
- acquiring over one million clients for Bank Pocztowy in 2009-2014,
- achieving four-times growth in the number of current accounts held in Bank Pocztowy (in excess of 900 thousand),
- building the network of Microbranches of Bank Pocztowy (over 260 outlets),
- Developing the concept of selling mortgage loans in Bank Pocztowy through mobile advisors;
- Preparing and implementing marketing strategy of mBank and supervising its implementation in Poland, Czech Republic and Slovakia;
- Contributing to the development of mBank network; mKiosks and Financial Centers;
- Supervising the Internet sales in mBank and CRM strategy;
- Preparing a rebranding project for BRE Bank, designing and implementing a new corporate outlet.

Graduated from Economics and Sociology Faculty of the University of Łódź. Completed Executive MBA in PAM Center delivered by Towson University and Robert H. Smith School Business with an MBA certificate of Towson University. In November 2013, the completed Advanced Management Program at INSEAD (Fontainebleau, France).



**Paweł Szałowski – Deputy Chairman of the Management Board**

In charge of Business and Treasury. Appointed Member of the Management Board in May 2014 and Deputy Chairman of the Management Board Member in November 2015.

Working for the Bank since September 2011, as Finance Function Managing Director. In the position, he was in charge of accounting, controlling and data warehouse, management of assets and liabilities, and for certain operations.

Before, for four years (2007-2011) had worked for GetBank S.A., among others as Director of Controlling Department (2008-2011). He commenced his professional career with PwC, with which he stayed for seven years, dealing with advisory services for the financial sector. He has over 15 years of experience in banking, demonstrating high skills in: finance, operational and cost optimization and business analytics.

He graduated from Warsaw School of Economics, Finance and Banking Faculty; completed Post-graduate Studies on Bank Controlling by Warsaw Banking Institute. He holds a certificate of Financial Risk Manager granted by Global Association of Risk Professionals and ACCA (Association of Chartered Certified Accountants) certificate. In 2014 he completed the Management Development Program managed by Ican Institute. He continued management education in INSEAD Business School, where he finished Advanced Management Program in 2015.

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**Hubert Meronk – Member of the Management Board**

In charge of business support, i.e.: IT, administration, logistics. Appointed the Management Board Member on 12 February 2015.

He has over 15 years of international experience in advisory services, planning and management of IT services and in IT development.

He graduated from Norwegian and North American universities and holds the grade of Master of Computer Science. For over 20 years he lived and worked in Norway and the U.S., implementing projects for companies in the U.S., Iceland, Norway and Sweden. In 1997-2000 with Cap Gemini Norway as Branch Director in Oslo, in charge of business and technology advisory management. In 2000- 2003 operated its own advisory firm in Norway.

Since 2003 in Poland, where he has dealt with implementation of strategic IT projects, large scale IT centralization and implementation of corporate architecture in the financial sector. As a Managing Director was in charge of IT and IT strategy in PKO BP, BOŚ Bank, LOT, T-Systems Polska. Since 2011 had its own advisory business providing services to CGI Polska, ABC Data, BPS TFI, PGE Dom Maklerski and PwC Polska.

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### **Magdalena Nawara – Member of the Management Board**

In charge of Risk and Operations. Appointed the Management Board Member on 1 March 2016.

Working for the Bank since February 2011, initially as Director of the Market Risk, Operational Risk and ICAAP Department. In 2012 she was appointed the Risk Head in charge of: the implementation of the comprehensive risk management strategy supporting business initiatives, providing an efficient credit approval system, pre-collections, collections and restructuring, ICAAP and the implementation of solutions which allow for efficient management of credit risk, liquidity risk, market risk and operational risk. In March 2016 Magdalena Nawara was appointed Management Board Member. Before, for over ten years (1999-2011) she worked in Bank BPH in risk management and liquidity management as a Market Risk Team Manager and Liquidity and Treasury Controlling Manager participating in merger and spin-off processes in the Bank.

Substantial banking experience enable her to efficiently manage processes, operations and risks in projects carried out by the Bank and to lead risk optimization for products offered to clients of Bank Pocztowy.

She graduated from the Finance and Banking Department at Cracow University of Economics.

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### **Competencies**

The Management Board manages the Bank and represents it before third parties in the scope determined by the Code of Commercial Companies, the Bank's Charter and Operating Rules of the Management Board.

When performing its tasks, the Board makes decisions in the form of resolutions; in particular, the Board:

- determines the Bank's strategy,
- determines the pricing policy;
- determines the annual financial plan,
- determines the employment and remuneration policy,
- approves the Operating Rules of the Management Board,
- approves the Organizational Rules of the Bank,
- appoints proxies,
- designs and ensures efficient operation of the management system,
- makes decisions regarding liabilities or assets whose total value related to a single entity exceeds 5 percent of equity or grants the related general or specific authorization regarding cash investments in domestic and foreign securities,
- determines the principles of prudent and stable management of the Bank to include:
  - risk management policy,
  - internal control principles,
  - capital management principles, including internal capital estimation,
  - variable compensation component policy,
- determines the general level of the risk incurred by the Bank and appropriately adjusted internal limits that reduce the risk specific to individual operation areas,
- determines the Bank's compliance risk policy,
- approves internal procedures of the Bank regarding estimation of internal capital, capital management and planning,
- approves the Bank's information policy.

## Operations

The Management Board operates pursuant to the Management Board Operating Rules developed by it and approved by the Supervisory Board. Chairman of the Board manages its operation. Its meetings are convened and chaired by the Chairman, and in his absence, the First Deputy Chairman. In the absence of the latter, a Board Member appointed pursuant to the order determined in a resolution of the Management Board.

Resolutions of the Management Board are passed with an absolute majority of votes. In case of a tie, the Chairman has the deciding vote if present at the meeting. A resolution may be passed provided all the members of the Management Board have been properly informed about the planned meeting.

Voting is open, and a secret voting may be applied with regard to personal issues of Management Board members. Meetings are held and minutes taken in Polish. If non-Polish speaking members participate in a meeting, a translator is provided.

55 meetings of the Management Board were held in 2015. In its works the Management Board focused mainly on the capital injection to the Bank and the revision of strategic assumptions, including the change in the business model and aligning the Bank's strategy with the new development objectives of the Poczta Polska Capital Group.

As a result of works carried out by the Management Board, a new vision and development strategy of Bank Pocztowy for the years 2015-2018 was developed and the Bank's Financial Plan for 2015 was revised. Both documents were approved by the Supervisory Board of the Bank.

At the same time the Bank was transformed internally thanks to the implementation of the new organizational culture, i.e. CODE, based on the change in the way the staff thinks and behaves, which ensures efficient strategy implementation and gaining specified strategic objectives.

The Management Board reorganized the Bank's structures, having adjusted them to the target model.

At the same time, the Management Board actively participated in works related to mobile banking development and monitored progress of the remaining strategic initiatives of the Bank.

Other issues analyzed by the Management Board included topics raised at Supervisory Board meetings and at General Shareholders' Meetings, such as approval of the Management Board's report on the activities of the Bank, Management Board's report on the activities of the Capital Group, separate and consolidated financial statements for the prior financial year.

Fulfilling its prudent and stable management obligations, the Management Board of the Bank actively participated in risk management at a strategic level and in managing various risks in the Bank and the Group.

During its Meetings the Management Board discussed periodic reports regarding areas supervised by individual Management Board members as well as internal regulations whose implementation or amendment was necessary to align them with regulations, good banking practice, including amendments to the banking law and related acts in 2015.

The Bank has the following committees:

- Assets and Liabilities Committee (ALCO),
- Loan Committee (LC),
- Operational Risk Committee (ORC),
- IT Initiatives Prioritization Committee (ITIPC),
- Loan Appellation Committee (LAP),
- Project Portfolio Management Committee (PPMC),
- IT Architecture Committee (ITAC).

The committees operate based on internal regulations approved by the Management Board of the Bank. In principle, these regulations described tasks and competencies of a given committee.

The Management Board Members are included in the following committees: Loan Committee, Assets and Liabilities Committee, Operational Risk Committee and IT Architecture Committee.

### Remuneration paid or due to the Management and Supervisory Boards of the Bank and its subsidiaries

In 2015, the total amount of the remuneration (calculated as the value of remuneration, bonuses and benefits received in cash, in kind or in any other form) paid to the members of Management Board and Supervisory Board of the Bank amounted to PLN 1.8 million vs. PLN 1.5 million in the prior year.

Remuneration paid to members of the Management and Supervisory Board (PLN'000)		
	2015	2014
<b>Management Board</b>	<b>1,584</b>	<b>1,310</b>
Short-term employee benefits (payroll, bonuses and payroll charges)	1,134	1,063
Termination benefits	450	247
<b>Supervisory Board</b>	<b>172</b>	<b>151</b>
Short-term employee benefits (payroll, bonuses and payroll charges)	172	151
<b>Total</b>	<b>1,756</b>	<b>1,461</b>

### Principles of granting the annual bonus to the Management Board Members

The Management Board Members of Bank Pocztowy S.A. may receive annual bonuses pursuant to the Act on remunerating managers of certain entities of 3 March 2000 and Ordinance of the Minister of Administration and Digitalization of 15 October 2013 regarding annual bonuses for managers of certain entities.

The above Ordinance determines detailed principles of granting the annual bonus to the individuals referred to in Article 2.1 to 2.4 of the Act on remunerating of managers of certain entities of 3 March 2000.

According to the executory regulations, in the case of Bank Pocztowy:

- the Supervisory Board applies for the bonus for the Chairman of the Management Board to the General Meeting,
- the annual bonus for the Deputy Chairman and Members of the Management Board is granted by the competent body as determined in labor law regulations, i.e. by the Supervisory Board.

The executive regulations determine general principles of granting bonuses. The annual bonus may be granted to an entitled individual if the entity:

- has generated a financial profit or significantly reduced a net loss,
- has efficiently implemented its tasks and statutory objectives,
- has timely settled its liabilities under public law,
- has obtained approval of its financial statements for the financial year if these financial statements are subject to such approval, or has submitted correctly prepared financial statements for the financial year.

The annual bonus is payable to the entitled individuals only if they held the managerial position for the entire financial year and did not breach their obligations as employees during the period, whose employment or management contracts have not been terminated through their fault, who have not been dismissed from their positions for reasons justifying a contract termination without a notice through an employee's fault.

### Securities issued by the Bank and held by Management Board Members

As at the date hereof, Management Board Members held no securities issued by the Bank.

## 15. Definitions and acronyms

<b>SREP</b>	Supervisory Review and Evaluation Process- a supervisory tools supporting prudent supervision based on risk analytics understood as an organizational concept subjecting processing, organizational solutions and resource allocation to risk ratios
<b>BPV</b>	Basis Point Value - a measure denoting an amount by which a position (cash flows, instruments, portfolio) will change when the interest rates increase upwards
<b>C/I (Cost/Income)</b>	cost effectiveness ratio calculated as the total operating expense divided by total operating income
<b>CAR</b>	Capital Adequacy Ratio, solvency ratio
<b>cross-selling</b>	the action or practice of selling an additional product or service to an existing customer or selling two or more products to one customer at a time
<b>CRR</b>	Capital Requirements Regulation - Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) no. 648/2012
<b>DTI</b>	Debt to Income ratio - the relation of all debt service costs and cost of other financial liabilities to the customer's income
<b>FRA</b>	Forward Rate Agreement which determines the rate of interest applicable in future to a given amount denominated in a transaction currency for a predetermined period
<b>IBNR</b>	Incurring But Not Reported – impairment loss for losses incurred but not reported, calculated in accordance with IAS 39
<b>Banking Book</b>	the Bank's balance sheet and off-balance sheet items which were not classified to the trading book

<b>Trading Book</b>	portfolio of off-balance sheet assets and transactions entered into to gain profits from short-term market fluctuations
<b><i>lean management</i></b>	enterprise management concept, where the business is aligned with the market environment by way of organizational and functional transformation; a slow and continuous rationalization of the entire organization and its external relations by way of introducing extensive changes in the business operations, assets structure and management and in professional skills and staff attitudes
<b>LTV</b>	Loan To Value ratio is the relation of the loan granted to its collateral
<b>Microbranches</b>	type of Bank offices in its distribution network, special zones at post offices with the full access to databases, systems and bank applications operated by the Bank's staff
<b>NPL</b>	Non Performing Loans, the credit risk ratio calculated as a relation of gross impaired loans to the gross loans and advances to clients
<b>NPL coverage</b>	ratio calculated as the relation of the impaired loss on loans and advances with recognized impairment to the gross loans and advances granted to clients
<b>PD</b>	Probability of Default, credit risk assessment method
<b>Agency</b>	bank outlet where the client may use Bank services managed by an independent entity cooperating with the Bank based on franchise agreement, in which the Bank holds no shares
<b>Bank offices</b>	the Bank's network including branches, offices and Microbranches
<b>Postal Financial Services Offices</b>	offices created in the Poczta Polska network before the end of 2009, offering bank and insurance products of the Bank and other products offered by Poczta Polska
<b>Postal Financial Zones</b>	counters created in the Poczta Polska network offering bank and insurance products of the Bank only
<b>PSI ratio</b>	scoring model efficiency measures, credit risk assessment method

<b>Recommendation C</b>	Recommendation of the Polish Banking Supervisory Authority amended in 2002 and concerning management of exposure concentration risk
<b>Recommendation P</b>	Recommendation amended by the Polish Financial Supervision Authority in March 2015, concerning liquidity risk management in banks and superseding recommendation on liquidity monitoring system of 2002
<b>Recommendation R</b>	Recommendation issued by the Polish Financial Supervision Authority in June 2011 on the principles of identifying impaired balance sheet credit exposures and recognizing impairment losses for balance sheet credit exposures and provisioning for off-balance sheet credit exposures
<b>Recommendation S</b>	Recommendation amended by the Polish Financial Supervision Authority in June 2013 and concerning good practices in managing mortgaged credit exposures
<b>Recommendation T</b>	Recommendation amended by the Polish Financial Supervision Authority in February 2013 and concerning good practices in managing mortgaged credit exposures in the retail segment
<b>Recommendation U</b>	Recommendation issued by the Polish Financial Supervision Authority in June 2014 concerning good practices in the bancassurance market.
<b>VaR</b>	Value at Risk, risk measure determining the threshold loss value determined for a given probability of default
<b>WIBOR</b>	<i>Warsaw Interbank Offered Rate</i> – daily interbank reference rate based on the rate of interest applied by banks to grant unsecured exposures on the wholesale money market in Warsaw

## 16. Management Board's representation

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### 16.1 True and fair nature of the presented reports

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The Management Board of Bank Pocztowy represents that according to its best knowledge:

- the annual consolidated financial statements and the comparative data have been prepared in line with binding accounting principles and provide a true, fair and clear view of the economic and financial position as well as the financial performance of the Bank Pocztowy Capital Group,
- Management Board's report on the activities of the Bank Pocztowy Capital Group provides a true view of the current standing and achievements of the Group, including description of key risks and threats.

### 16.2 Appointing entity authorized to audit financial statements

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The Management Board of Bank Pocztowy S.A. represents that the entity authorized to audit financial statements, Deloitte Polska Sp. z o.o. Sp. k. (formerly: Deloitte Audyt Sp. zo.o.) auditing the annual consolidated financial statements of the Bank Pocztowy Capital Group for 2015, has been appointed in accordance with the law. The entity and certified auditors have fulfilled conditions necessary to issue an unbiased and independent audit opinion in accordance with the valid regulations and professional standards.

The Management Board's report on the activities of the Bank Pocztowy S.A. Capital Group for 2015 includes 128 pages bearing sequential numbers.

#### Signatures of Management Board Members of Bank Pocztowy S.A.

08 March 2016 Szymon Midera Chairman of the Management Board



08 March 2016 Paweł Szałowski Deputy Chairman of the Management board



08 March 2016 Hubert Meronk Member of the Management Board



08 March 2016 Magdalena Nawara Member of the Management Board

