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LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD



Dear Sir/Madam,

2014 was very successful for SGB-Bank S.A. The level of generated financial outcomes ensures safety and development of the Bank. The gross profit generated by our bank exceeded PLN 63.5 million, which means an increase by 367 percent as compared to year 2013 and the net profit was close to PLN 52 milion and was higher as compared to the previous year by 386 percent. Importantly, the most significant impact on the better financial result achieved by SGB-Bank S.A. in 2014 was connected with effective business activity (outcome increase thanks to bank activity by 13%) and the cost optimization of implemented SGB-Bank SA activityin 2013 (activity costs of the Bank decreased in 2014 by subsequent 4%). One of the challenges we want to meet in the following years is to maintain current cost discipline that should lead to the anticipated cost level decrease by 12% during 3 years. Liabilities from financial, nonfinancial and budget sectors increased by 4% in 2014. In the previous year we also noted 14% increase of the obligations towards the financial, nonfinancial and budget sectors. In 2014, SGB-Bank S.A. significantly improved all the most important indicators - including gross and net profitability, capital adequacy ratio as well as ROA and ROE.

Very good bank activity results come from a good survey on the needs of our clients, better product offer, implementation of many optimization programmes, and involvement of our employees. Taking into account the expectations of the strategic clients of SGB-Bank SA like associated Cooperative Banks, the Bank offer devoted to this group has been modified. The most essential innovations include: SGB Cash Investment Fund, modifications in the field of currency flows, it means providing the transactions in new currencies, transaction processing system FOREX. In 2014 we intensified our cooperation with SGB Cooperative Banks when it comes to loan syndication which results in a significant increase of value of the granted loans.

In the previous year, the preparations to implement new European regulations concerning the bank sector were a priority. We devoted much time and effort to this issue. In spite of many difficulties, thanks to enormous work and experience of the SGB-Bank S.A. as well as SGB Cooperative Bank employees we managed to obtain very profitable amendments in statutory provisions as well as to prepare preliminary documentation concerning launching of IPS in our Association. However, this process is still in progress which means that further challenges are ahead of us.

Social involvement has been always very important for the cooperative banking. As the associating Bank, we focus foremost on co-financing of local initiatives supported by the Cooperative Bank in their activity areas. In 2014 we started talking more about this issue to raise public awareness concerning the scope of our commitment. Społecznik 2.0 is the basic platform for this communication. The fact that we take up the necessary tasks stands out us from the spectacular but also apparent commercial initiatives that want to be included in the social business responsibility trend.

We are proud that thanks to our activity we can support the entrepreneurship and creativity of people, help them in passion, talents development and fulfill their dreams about better everyday life.

A good communication is necessary to implement effective actions and achieve such good results. In 2014, we developed and started implementing the tools that will allow us to share information between the Cooperative Banks and SGB Bank SA. in a better way. It is too early to assess it but we observed the first good effects. Thanks to a more effective information flow, our cooperation is more effective and brings visible effects, included business ones. I thank Board members, Supervisory Board members as well as all the Presidents of Banks belonging to the Cooperative Bank Group for a very fruitful cooperation in the previous year. I thank SGB S.A. Bank managers, all the employees of our Bank as well as the employees of the Cooperative Banks. I am aware that without our joint commitment, without our professionalism, this spectacular success of SGB S.A. Bank in 2014 wouldn't be possible to achieve.

Ryszard Lorek President of the Management Board

THANKS TO EFFECTIVE OPERATIONS

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Basic information about the Bank

1.1 Name, registered office, KRS, REGON, NIP

SGB-Bank Spółka Akcyjna operates as a joint-stock company, pursuant to the Act on the Operation of Cooperative Banks, Their Associations and Associating Banks, Banking Law and Code of Commercial Partnerships and Companies. The scope of the Bank's business specified in the Articles of Association is to serve as the associating bank for cooperative banks which signed an association agreement with the Bank, provide comprehensive banking services for consumers, corporate entities and non-corporate entities, including business entities and local government bodies, and pursue other forms of cooperation with cooperative banks - shareholders, as well as undertake initiatives for the development of cooperative banking. The table below presents the basic identification data of SGB-Bank S.A.

Table 1. Registration data

Company's name	SGB-Bank Spółka Akcyjna
Registered office	Poznań
Address	ul. Szarych Szeregów nr 23a city: Poznań, postal code: 60-462 post office: Poznań, country: Poland
KRS	0000058205
REGON	004848247
NIP	7770005362

1.2 Composition of the Management Board and Supervisory Board

Management Board

In the period from 1 January 2014 to 31 December 2014 the composition of the Management Board of SGB-Bank S.A. did not change and as on 31 December 2014 it was composed of:

Ryszard Lorek	President of the Management Board
Adam Skowroński	Vice-President of the Management Board
Paweł Masadyński	Vice-President of the Management Board

In 2014, the Bank's Management Board held 71 meetings, adopted 457 resolutions and passed 441 opinions. The Management Board adopted resolutions on issues including:

- credit approvals,
- organisational changes,
- introducing new internal regulations,
- adapting the existing regulations to changes in applicable law.

The Management Board also made decisions on granting loans from the funds of the Foundation of Assistance Programmes for Agriculture (FAPA) to associated cooperative banks, consenting to expanding operating territories and activities referred to in Banking Law, that require the consent of the associating bank and expressed opinions on candidates for the President of the Management Board of the Cooperative Bank.

Moreover, at the meetings the Management Board:

- discussed the issue of organization of institutional protection scheme of the Association,
- analysed detailed information on credit exposures and analysed warning signs identified in the monitoring of entities with the highest involvement of the Bank,
- received information on economic and financial situation of the Bank and the Association and the scoring results of the Cooperative Banks associated,
- assessed the level of the banking, credit and operational risk,
- received reports on the activities of the Credit Committee and Expenses Committee, information on the status of projects in the Bank's Project Portfolio, information on the use of the Bank's equity investment limits, a report on the non-compliance

Basic information about the Bank

risk, a report on the implementation of the internal audit plan and information on the implementation of post-audit recommendations,

- made decisions on changing the internal organisational structures of organisational units and their employee structure,
- received information and took positions on matters of substance that required current or directional decisions of the Management Board.

Supervisory Board

Composion of the Supervisory Board of SGB-Bank S.A. in the period from 1 January to 31 December 2014 is presented in the table below.

In 2014, the Supervisory Board held 7 meetings, adopting 50 resolutions and passing 114 decisions.

Supervisory Board Chairman	Władysław Dymek	
Vice Chairs	Marek Byzdra	Ryszard Żuraw
Supervisory Board Secretary	Marek Banaszak	
Supervisory Board Members	Aleksander Brzeźniakiewicz Roman Dawidowski Zdzisław Inglot Cezary Maciejewski Stanisław Murawski	Grażyna Palczewska Andrzej Szwejkowski Olesław Wałowski Stefan Wanke Waldemar Zieliński

Table 2. Composition of the Supervisory Board of the 9th term of office

1.3 Shareholding

On 17 June 2014, the GSM of SGB-Bank S.A. adopted a resolution regarding series AI share issue. As a result, shareholders were offered series AI ordinary registered shares. The shares were taken up by the existing shareholders. A total of 86 shareholders acquired 111 492 shares, amounting to PLN 11 149 200.00. The issue was registered with the KRS on 31 December 2014, the authorised capital of SGB-Bank S.A. was raised up to PLN 231 903 900.00.

1.4 Structure of SGB-Bank S.A.

Head Office

As of 31 December 2014 the structure of the Bank's Head Office included 11 organisational units, including nine Departments, Centre of Operations and IT. In the course of 2014, some significant changes took place in the Bank's organisation. As of 1 October 2014, the Bank adopted a completely new organisational structure, with a separated fourth organisational division - the Business Division, supervision of which was temporarily entrusted to the President of the Management Board by the Supervisory Board.

The role of the Relations and Oversight Division, comprised of the Relations Department, Audit Department, HR Department, is to develop relations with the associated cooperative banks, conduct joint marketing and public relations activities creating image of the associated cooperative banks, conducting independent and unbiased audit reviews at the Bank as well as requested by the associated cooperative banks, aimed at adding value and improving operational activities, coordinate strategic activities and projects, prepare and implement HR policy in support of the Bank's strategic priorities, management of the project portfolio.

Basic information about the Bank

CHAPTER 1

- The role of the Business Division, comprised of the Banking Products Department, Treasury Department, Sales Support Department and the Bank's branches, is to generate own business and joint business with associated cooperative banks, support the Bank and associated cooperative banks in terms of product and sales, operational management of liquidity, interest rate, foreign exchange operations of the Bank.
- The role of the Risk and Finance Division, comprised of the Finance Department, Banking Risk Department, and the newly established Monitoring, Restructuring and Debt Collection Department, is to manage risk and profitability, conduct monitoring, restructuring and debt Collection activities, manage tax policy.
- The role of the Business Support Division, comprised of the newly established Lending Centre and Operating and IT Centre, is to support the Bank and associated cooperative banks in the scope of IT services, and also provide services related to settlements, payment cards, online banking, coordinate the Bank's credit process in respect of credit analyses, recommendations and decisions.

Importantly, the organisational units within each Division are responsible for supporting the associated cooperative banks on the one hand, and cooperating within the Bank on the other.

As of 1 October 2014, new Organisational Regulations of SGB-Bank S.A. entered into force. The changes introduced in the Bank's organisation were reflected in resolutions on giving the Management Board Members powers of the Management Board of SGB-Bank S.A..

The organisational chart of the Bank as of 31 December 2014 is enclosed as Appendix no 1 with this Report.

In 2014, at the Head Office there were interdisciplinary task forces, project teams and standing committees. The list of committees as of 31 December 2014 is as follows:

- Asset/Liability Committee ALCO,
- Credit Committee,
- Operational Risk Committee,

- Project Portfolio Committee,
- Expenses Committee.

In addition, at the Branches there were Committees for review and classification of credit exposures.

Branches

As of 31 December 2014, SGB-Bank S.A. conducted its operations through 20 Branches (including 2 Branches as Financial Business Centres).

As of 1 January 2014, the Branch in Warsaw was transformed into the Branch - Financial Business Centre in Warsaw.

Compared to 31 December 2013, the number of Branches declined by 4:

- as of 28 March 2014, the Branch Financial Business Centre in Katowice was closed down;
- as of 28 July 2014, the Branch in Malbork and the Branch in Włocławek were closed down;
- as of 29 September 2014, the II Branch in Poznań was closed down.

Moreover, as of 1 December 2014, the "SGB 24", functionally linked with the e-banking services, was closed down.

The list of the Bank's Branches as of 31 December 2014 is enclosed as Appendix no 2 to this Report.

Employment structure

Employment at SGB-Bank S.A. as of 31.12.2014 was 753.41 full-time equivalents. The table below presents the basic information on the employment at the Bank over the past 3 years.

The average employment (quotient of the sum of monthly employment statuses in a calendar year and the number of months) at SGB-Bank S.A. amounted: in 2012 to 909.22; in 2013 to 833,25 FTEs and in 2014 to 771.04 FTEs.

Basic information about the Bank

Table 3. Employment at SGB-Bank S.A. in 2012, 2013 and 2014

	Employment as of 31.12.2012	Employment as of 31.12.2013	Employment as of 31.12.2014
Full-time equivalents	871,86*	776,61*	725,41*
Full-time substitutes	+22,00	+12,00	+28,00
Individuals	899	791	755

*employment level in line with the long-term plan

Association

The number of associated Cooperative Banks as of 1 January 2014 amounted to 206.

In 2014, two mergers took place:

- On 07 August 2014 a merger took place of the Cooperative Bank in Żychlin (the acquiring bank) with the Cooperative Bank in Strzelce (the acquired bank);
- On 19 September 2014 a merger took place of the Braniewsko-Pasłęcki Cooperative Bank in Pasłęk (the acquiring bank) the People's Cooperative Bank w Elbląg (the acquired bank).

Therefore, the number of associated cooperative banks as of 31 December amounted to 204.

The list of cooperative banks associated with SGB-Bank S.A. as of 31 December 2014 is enclosed as Appendix no 3 to this Report.

In 2014, the Association Board convened 5 times and held 3 joint meetings with the Supervisory Board of SGB-Bank S.A. In 2014 the Association Board adopted 29 resolutions and passed 90 decisions.

Key capital exposure of SGB-Bank S.A.

The most significant capital exposures for SGB-Bank S.A. and Spółdzielcza Grupa Bankowa include the following companies (with their core business indicated):

- Bankowy Ośrodek Doradztwa i Edukacji Sp. z o.o. educational, consulting & advisory activities in the field of business finance, organisation and management, publishing,
- 2. FAKTORZY S.A. providing financial services related to factoring and buying monetary claims,
- FORTUNE S.A. restructuring, followed by the sale of held assets, acquired most often in the course of foreclosure, by way of enforcement, of collaterals from the banking portfolio,
- LMB Capital S.A. financial holding activities, the company specialises in executing business buyouts,
- 5. SGB CDR Investment Sp. z o.o. other activities supporting financial services. In practice, the company deals in debt collection, recovery and receivables purchasing,
- 6. SGB-Leasing Sp. z o.o. concluding lease contracts with business partners, mainly regarding machines, equipment and vehicles,
- 7. Bankowe Biuro Nieruchomości Sp. z o.o. activities related to services in the real estate market, especially property lease and management.

Capital exposures are regularly assessed at SGB-Bank S.A., with the conclusions implemented on an ongoing basis. The goal of this approach is to take into account the changing circumstances in order to optimise the capital exposures of SGB-Bank S.A. and focus on those projects that support SGB and SGB-Bank S.A. in the most effective way.

THANKS TO FRUITFUL COOPERATION





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Factors and events affecting the Bank's situation

2.1 Macroeconomic environment

World economy

The International Business Outlook report published in February 2015 by the National Bank of Poland shows that in 2014, the world economy grew below the long-term growth rate. Significantly lower GDP growth rate against previous forecasts was showed by the largest developing economies - China, Brazil and Russia. The recovery in economic activity was visible in the United States and the United Kingdom. Slow recovery continued in the euro zone but hampered by weakness in investment demand and the deteriorating economic situation in the markets of developing countries. The last months of 2014 brought some improvement in the economic situation in Germany while maintaining moderate growth in Spain and other euro zone peripheral countries.

Weakening demand coupled with growing supply contributed to the strong decline in prices, which

in turn exacerbated the fall in inflation on a global scale. At the beginning of 2015, a downward trend in prices of major commodity markets continued, primarily in the fuel market, as well as the food market. As a result, inflation in most economies significantly reduced, including in particular in the euro zone countries and the countries of Central and Eastern Europe. A strong disinflation tendency in European economies contributed to lowering inflation expectations. In these conditions, monetary policy in most countries remained extremely mild, but the scale of easing of this policy and its outlook was mixed. In particular, the Federal Open Market Committee began preparations for the normalization of monetary policy in 2015, while the European Central Bank announced the extension of the program of quantitative easing of monetary policy.

Table 4. Basic interest rates, as of 31 December 2014

Central Bank	Bank of England	Swiss National Bank	EBC	Fed
Basic interest rate	0,50%	-0,75-0,25%	0,05%	0,00-0,25%
Date of the recent change of interest rate	March 2009	December 2014	September 2014	December 2008

Poland's economy

According to the preliminary estimate provided by the Polish Central Statistical Office (GUS), in the fourth quarter of 2014 gross domestic product seasonally adjusted (in constant prices with 2010 as the reference year) increased in real terms by 0.7% as compared to the previous quarter and was higher than a year ago by 3.2%. Unseasonally adjusted GDP (in constant average prices of the previous year) increased in real terms by 3.1% as compared to the fourth quarter of 2013, which represents an improvement compared with the rapid estimate published on 13 February this year by 10 basis points. GDP growth in 2014 amounted to 3.3%. These estimates are consistent with forecasts of the Bank.

In the fourth quarter of 2014, domestic demand growth was 4.6% y/y and was slower than that recorded in the third quarter (+ 4.9% y/y). The growth in domestic demand was due to the high, although lower than in the third quarter, growth rate of accumulation (+ 8.5% y/y). Total consumption in the fourth quarter of 2014 was higher than in the previous year by 3.2%, including consumption expenditure of households

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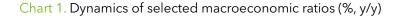
CHAPTER 2

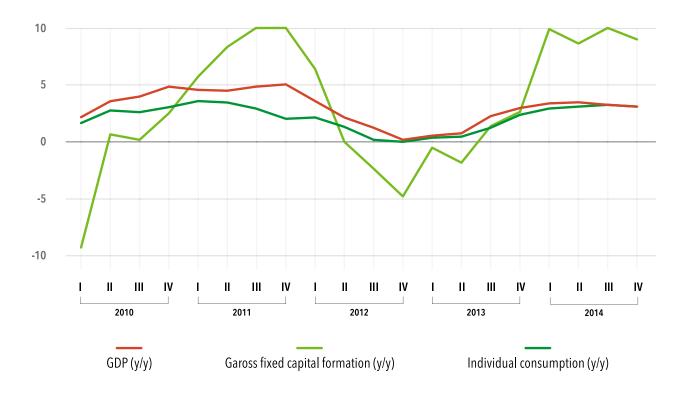
Factors and events affecting the Bank's situation

increased by 3.1%. As a result, the positive effect of domestic demand on economic growth was 4.6 percentage points vs. 4.9 p.p. in the third quarter of 2014. The positive impact of total consumption amounted to 2.3 percentage points, to which positive influence of consumption in the household sector (+1.6 p.p.) and public consumption (+0.7 p.p.) contributed. As a result of further appreciation of the positive impact of investment demand (+2.4 p.p.), with only a slightly negative impact of the increase in inventories, the positive contribution of accumulation remained similar to that recorded in the third guarter of 2014 and amounted to 2.3 percentage points. Negative contribution of net exports to economic growth decreased slightly and amounted to -1.5 p.p. Gross added value in the national economy in the fourth guarter of 2014, as compared with the same period of 2013, was higher by 2.8%., gross added value in industry increased by 3.5% and in construction - by 2.5%.

The GUS data confirmed that the domestic demand remained the main engine of economic growth. Positive impact of investment demand on GDP strengthened, also the impact of consumption on economic growth remained strong. In this situation, it is forecast that the rate of change of GDP in Poland will amount to 3.2% in 2015 and 3.4% in 2016.

According to GUS, the registered unemployment rate in February remained at the level of 12%. Compared to February 2014, the number of unemployed decreased by 336 thousand, the biggest number for 7 years. Employment in the enterprise sector is growing - according to the GUS data, it increased in February 2015 by 1.2% y/y and amounted to 5 572.6 thousand. In the coming months, unemployment will remain at the elevated level due to the impact of seasonal factor, but in December 2015 the registered unemployment rate will decrease to 11%.





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2.2 Trends in the financial market

Financial market in Poland

MPC's monetary policy

In 2014, the Monetary Policy Council continued its cycle of reducing the basic NBP interest rates. As a result, the reference rate was lowered in October from 2.5% to 2%. The Lombard rate was lowered stronger, by 100 basis points, to the level of 3%. However the deposit rate (1%) was left without changes, which led to the narrowing of the corridor between the deposit rate and the Lombard rate. The Council considered that the incoming data indicated a slowdown in economic activity and increase in the risk of inflation remaining below target in the medium term. Therefore, the Council decided to lower all the NBP interest rates, with the exception of the deposit rate. The MPC did not rule out further monetary policy adjustment, if the incoming information confirm the significant risk of inflation remaining below target in the medium term. This adjustment took place in March.

Markets: money and bonds

In 2014, the interbank lending rates dropped. The individual WIBOR rates fell, depending on the term, by 37 to 71 basis points. The yield on Treasury bonds dropped even more.

Lowering rates on the interbank market was derived from decisions taken by the MPC. The decline in yield was supported by intensifying expectations regarding the introduction of a program of quantitative easing of monetary policy in the euro zone and lowering of the NBP interest rates expected by some investors. Prices of the Polish Treasury bonds increased with the securities getting more expensive at core markets, mainly in Germany. The upward pressure on yields was exerted, however, by expectations regarding increases in the federal funds rate in the US.

Table 5. WIBOR rates and	yield on Treasur	y bonds in 2013-2014 (%)
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Term	31.12.2014	31.12.2013	Change (p.p.)
O/N	2,09	2,46	-0,37
1W	2,08	2,58	-0,50
2W	2,08	2,59	-0,51
1M	2,08	2,61	-0,53
3M	2,06	2,71	-0,65
6M	2,05	2,72	-0,67
9M	2,04	2,73	-0,69
12M	2,04	2,75	-0,71
2-year bond yield	1,79	3,03	-1,24
5-year bond yield	2,13	3,78	-1,65

Markets: currency and stock

The end of 2014 brought a strong depreciation of the zloty, caused by very positive information about the condition of the US economy, in particular the situation on the labour market. In combination with the low liquidity of the market this made the zloty break the levels of 4.30 EUR/PLN and 3.60 USD/PLN. The depreciation of the zloty against the dollar deepened with increasing investors' expectations that the first interest rate increases in the US will occur as early as mid-2015. This caused an outflow of capital from all emerging market countries.

In the second half of 2014, stock prices in Poland decreased (WIG fell by almost 3%), as well as in the euro zone and emerging market countries. The "Financial Stability Report" by NBP shows that major changes in the stock market indices were affected by events in Ukraine and EU relations with Russia, the situation on the US exchanges, deflationary trends and related concerns about the pace of world economic growth and the currency crisis in Russia. All these phenomena adversely affected stock prices in emerging markets, including in the Polish market.

Factors and events affecting the Bank's situation

2.3 Optimisation program

In 2014, optimisation activities as part of the Bank's Optimisation Program were continued. These activities were carried out in the framework of 12 projects aimed at increasing the Bank's business performance that have affected all organisational units of the Bank's head office and its branches.

The optimisation program includes the following tasks:

- 1. organisational structure optimisation of the Bank's head office,
- 2. branch structure optimisation,
- 3. change in cash transactions model,
- 4. centralisation and automation of syndicated and own loans,
- 5. review and optimisation of internal processes, including reporting,
- 6. review and optimisation of contracts with suppliers,
- 7. review and optimisation of real estate management,
- 8. outsourcing of some IT processes to third parties,
- 9. back-office and middle-office outsourcing from cooperative banks to SGB-Bank,

- 10. review of the legal services model,
- 11. outsourcing of debt collection
- 12. review of subsidiaries.

THANKS TO DEDICATION AND EFFORTS

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3.1 Cooperative banking services

Cooperation with regard to deposits

SGB-Bank S.A. finances its operations mainly with the funds acquired from the cooperative banks associated in Spółdzielcza Grupa Bankowa and, to a lesser degree, from commercial banks and non-financial clients. Cooperative banks may deposit their surplus funds with SGB-Bank S.A. on current accounts as well as O/N and term deposits.





In 2014, the rate of growth of funds from cooperative banks slowed down significantly, which was due to a reduction in excess liquidity as a result of more dynamic growth in loans compared to deposits in cooperative banks. In addition, the macroeconomic situation forced the MPC to bring interest rates to historically low levels, with the result that cooperative banks sought alternative investments in relation to deposits, as can be seen from the dynamic growth in securities on bank balance sheets. The average balance of deposits accepted from cooperative banks in 2014 was equal to 10,147,407.8 K PLN, which means an increase of 5.5% as compared to 2013. As of 31.12.2014, the balance of deposits obtained from cooperative banks amounted to 9,542,811.4 K PLN, of which 99.2% were deposits in zloty. This represents a drop of funds by 0.6% compared to the balance as of 31.12.2013. Cooperative banks deposited most of their surpluses for short terms, as of 31.12.2014, 77% of deposits were deposited for periods of up to 1 month, 6% for a period from 1 to 3 months. It should be underlined that despite short depositing terms, deposits of cooperative banks were characterised by high stability.

Average balance on current accounts of cooperative banks in 2014 stood at 152,205.7 K PLN and in 98.1%

Bank's operations

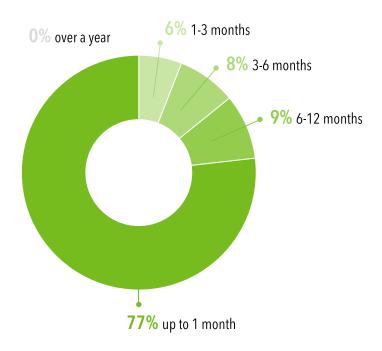


Chart 3. Ageing of deposits received from cooperative banks as of 31.12.2014

consisted of foreign currency loro accounts. In relation to 2013, it is an increase of 12.3%. As of 31.12.2014, the balance at cooperative banks' current accounts amounted to 205,632.55 K PLN, which represents an increase of 39.5% as compared to the balance as of 31.12.2013. The balance of funds on automatic O/N as of 31.12.2014 amounted to 315,808.7 K PLN and the average balance in 2014 amounted to 206,377.7 K PLN.

Total balance of funds gained from cooperative banks in the balance sheet as of 31.12.2014 amounted to 10,064,252.7 K PLN, which accounted for 78% of total assets (in 2013, this share was 79%). At the end of 2014, the balance of cooperative banks was similar to that recorded at the end of 2013 (growth by 0.1).

In 2014, a couple of changes were introduced to the offer of SGB-Bank S.A. in terms of currency flows. Cooperative banks were offered to keep foreign currency vostro accounts and conduct foreign exchange transactions in the Norwegian kroner (NOK), the Swedish crown (SEK), the Danish crown (DKK) and the Czech koruna (CZK).

In July 2014, a new system for handling FX transactions with cooperative banks was launched, among other

things, more flexible rules for determining foreign exchange rates were introduced, updating them at intervals of 1 minute in comparison to market rates. In 2014, SGB-Bank S.A. entered with cooperative banks into foreign exchange transactions in the amount of 142,170.3 K EUR, 12,766.8 K USD and 3,087.0 K GBP. Compared to 2013, the EUR currency turnover increased by 36.1%, USD by 45.9% and GBP by 7.7%.

In 2014, cooperative banks through SGB-Bank S.A. acquired commercial and municipal securities for a total value of 75,514.3 K PLN and 7-day money bills for a total value of 949,980.0 K PLN.

In 2014, SGB-Bank S.A. offered cooperation to cooperative banks, in which SGB-Bank will serve clients of cooperative banks in the field of complementary products, while a cooperative bank will have share in the result gained on transactions with its clients.

In 2014, the Group's business was developed in respect of service of Western Union money transfers. In the past year, the number of cooperative banks carrying out the WU transfers was extended by 32 further sub-agents and the process of implementation of operations in subsequent banks began. At the end of

2014, a total of 104 cooperative banks used the Western Union service.

Cooperation with regard to loans

As of 31 December 2014, the balance of credit in the non-financial and public sector extended within the framework of the consortium comprising SGB-Bank S.A. and cooperative banks amounted to 2 264 769 K PLN. This figure means that the value of loans in the consortium increased by 114 389 K PLN from the status quo of the previous year. In 2014, the consortium extended loans amounting to 667 004 K PLN, and in comparison to the previous year, the number of loans extended in the consortium increased by 124 334 K PLN. The number of loans extended in the consortium in 2014 was 385. In 2014, SGB-Bank S.A. cooperated with 75 cooperative banks with regard to loans extended by the consortium.

Cooperation with regard to leasing services

Like in previous years, cooperative banks offered their clients lease financing in collaboration with SGB-LE-ASING Sp. z o.o. As of 31 December 2014, the net value of leases concluded by cooperative banks was 38 501 K PLN, which corresponds to an increase by 136% in sales as compared to 2013.

Cooperation with regard to factoring services

In 2014, cooperative banks provided invoice factoring services in collaboration with Faktorzy S.A. The contracts concluded as of the end of 2014 with clients of Cooperative Banks amounted to 5 900 K PLN, which means sales increase by 87% as compared to 2013.

Cooperation with regard to insurance services

Like in previous years, cooperative banks in collaboration with Concordia Ubezpieczenia (WTUŻiR Concordia Capital SA and CP TUW) offered their Clients insurance products in terms of association insurance contracts. As of 31 December 2014, insurance premiums due on account of:

 life insurance amounted to 9 186.05 K PLN, which means an increase in insurance premiums due by 1 191 K PLN as compared to 2013. 2. property insurance amounted to 1 924.22 K PLN, which means an increase in insurance premiums due by 361 K PLN as compared to 2013.

Regulatory support with regard to products

Within the framework of regulatory support, technical and implementation consultations were conducted for the associated cooperative banks and communications campaigns took place, including workshops, aiming at the implementation of associational and master regulations at cooperative banks. Product regulations were updated and further optimised.

In connection with the provisions of the Recommendation U coming into effect on 1 April 2015, concerning good practices in the field of bancassurance issued by the Financial Supervision Commission, support was provided to cooperative banks in its implementation. Work was carried out to adapt their activities in offering insurance products to the provisions of the abovementioned recommendation.

Support with regard to special programs

In 2014, SGB banks granted 3 748 loans with the aid of the Agency for Restructuring and Modernisation of Agriculture (ARMA) in the form of interest rate subsidies and partial repayment of the loan principal to a total of 612 962.93 K PLN. The number of investment loans with interest rate subsidies extended by SGB cooperative banks was 1 792 totalling to 488 223.84 K PLN, so-called disaster loans with interest rate subsidies numbered 1 527 totalling to 66 425.01 K PLN, and there were 429 investment loans with partial repayment of the principal to a total of 58 314.08 K PLN.

The total amount of funds obtained from ARMA in 2014 for interest rate subsidies to loans extended by SGB cooperative banks was 114 703.34 K PLN, and for partial repayment of the principal – 15 408.52 K PLN.

In 2014, SGB banks extended 186 loans subsidised by the National Fund for Environmental Protection and Water Management earmarked for acquisition and installation of solar collectors to a total for eligible expenses amounting to 2 938.42 K PLN with subsidies of 1 322.29 K PLN.

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SGB banks also extended loans with the aid of Bank Gospodarstwa Krajowego, including student loans and loans with financial support from the Subsidy Fund granted under the terms of the Act of 27 September 2013 on state aid in the purchase of a first home for young people, the so-called "Mieszkanie dla młodych" program. In 2014, SGB Banks granted 107 loans as part of the "Mieszkanie dla młodych" program for the total amount of 17 255.30 K PLN with subsidies in the amount of 2 472.20 K PLN.

Bank Gospodarstwa Krajowego provided securities in the form of guarantees and bonds on 928 extended by cooperative banks to SMEs to a total amount of securities of 303 070.35 K PLN, including 856 de minimis guarantees to a total of 271 703.25 K PLN.

In 2014, SGB banks via SGB-Bank S.A. obtained 2 264.16 K PLN in subsidies from the National Fund for Environmental Protection and Water Management to loans for the purchase and installation of solar collectors, 3 967.64 K PLN in BGK interest rate subsidies to mortgages extended within the framework of the "Rodzina na swoim" program, 2 080.26 K PLN in subsidies for "MdM" loans, and 478.26 K PLN in BGK interest rate subsidies to student loans.

Marketing and communication

Communication activities of SGB-Bank S.A. focused on promoting the image and brand of SGB cooperative banks and active support for local marketing activities of cooperative banks of the Group. Promotional activities also indirectly included market activity of the network of SGB-Bank S.A. branches, within the scope defined by the strategy of SGB.

The key idea of communication in 2014 was to highlight the mission of social involvement of cooperative banks. The purpose of the communication not only was to inform about this kind of activity, but emphasise that it is inherent in the DNA of cooperatives – these are permanent measures, taken each year, and by all cooperative banks, therefore in the economies of scale cooperative banks generate social changes of enormous importance. An extremely important topic for both internal communication and public relations activities directed outside the Association during the past year involved work on amendments to the Act on the functioning of cooperative banks, their affiliation, and affiliating banks, and Institutional Protection Fund project.

Brand promotion (SGB Promotion Fund)

A total of 190 SGB cooperative banks participated in the SGB Promotion Fund in 2014. The value of the Promotion Fund amounted to PLN 7 754 281.68. The Fund was used with success to promote the image of cooperative banks as strong financial entities. The Fund's resources were used to finance two nationwide image and product advertising campaigns: promotion campaign with the motto "Dzięki!" addressed to individual clients and campaign for young people "Nie odkładaj swoich planów na potem". Measures from the Fund 2014 were used to broadcast advertising spots via nationwide television stations and conduct promotional activities on the Internet in the period from 16 September 2014 to 28 February 2015.

Communication with the youngest

Communication with the youngest age group is placed in educational areas. In 2014, the next edition of the competition "Dziś oszczędzam w SKO, jutro w Banku Spółdzielczym" was announced. The program aims at educating children and young people on various forms of saving and managing own money. The action was participated by several thousand students from nearly 500 schools.

The online platform Fair Play Bank and the second edition of the economic game Fair Play Bank "New Generation" are aimed at a slightly older group of youth between 13 and 20 years of age. During the tournament, 7509 miniBanks were competing (individual participants) and 1265 MEGABanks, namely virtual associations of 2-5 players together competing for main prizes. In the course of the game young people not only won prizes, but also had the opportunity to become familiar with cooperative banking principles and develop their knowledge of finance. The game taught selecting strategies and efficient collaboration in groups. The project Fair Play Bank 2: New Genera-

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tion involved 69 cooperative banks of SGB Association from throughout Poland.

Product promotions

The year 2014 was another year of development of promotional activities to support the sale of products offered by the SGB Group. In addition to periodically held promotions on term deposits, promotions were of organised of: Visa and MasterCard payment cards, consumer loans and accounts. A total of 16 promotional projects were carried out, including the most important:

- 1. 4 lotteries "Lokata SGB" supporting the sale of fixed-term deposits,
- 2. loan lottery "Dobry Kredyt" including cash loans, revolving credit in current account and credit cards,
- 3. lottery of account with credit or debit card held as part of the campaign for the young "Nie czekaj".

At the same time, cooperation was continued with Visa and MasterCard, promoting non-cash transactions and card issuance to personal and business accounts. Apart from participation in systematic campaigns organised by payment organisations, competitions and promotions were held in support of increasing the number of transactions and cards issued.

Sponsorship activity

Sponsorship activities pursued in 2014 were aimed at proactively creating the image of Spółdzielcza Grupa Bankowa, as a credible organisation, client-oriented, and involved in actions aimed at building social capital.

Sponsorship projects implemented by SGB-Bank S.A. in the course of 2014 were of two-fold nature:

- 1. sponsorship provided on behalf of SGB-Bank S.A. to build the image of SGB,
- 2. sponsorship provided individually by cooperative banks with the support of the Bank.

The cooperative banks which contributed to the SGB Promotion Fund in 2014 could count on the support in the execution of their own initiatives through organisational support, as well as co-financing of events and rental of display materials.

Area of PR activities

Social involvement of cooperative banks

The issue of involvement of cooperative banks in local activities was many times discussed in 2014, both in respect of communication within the association, as well as communication to a wide group of clients, stakeholders and the external environment. A key event was a conference in the Sejm, which took place on 27 June 2014 and was entirely dedicated to the "Role of Social Cooperative Banks in Poland" in shaping and supporting local social activities.

Społecznik 2.0

In August 2014, Społecznik 2.0 web portal was launched, addressed to people who support the idea of social involvement. Articles published therein provide hints on how to act and encourage undertaking large and small scale social initiatives integrating communities and improving quality of their lives. Communication activities associated with this issue are intended to consolidate in the public opinion strong connections between the mission of SGB cooperative banks with the process of development of local communities.

In 2014, as part of the Społecznik 2.0 project, the first edition of the competition for local community-led initiatives "Spółdzielnia pomysłów" was carried out, with 94 projects recorded. During the competition, more than 10,000 unique users were registered on the website www.spolecznik20.pl.

Three winning projects were successfully implemented and effectively helped to promote a positive image of the SGB brand.

External communication

Information on Spółdzielcza Grupa Bankowa as well as SGB-Bank S.A. was published in numerous press titles. According to the report of the Institute of Media Monitoring, in 2014 there were nearly 800 press releases and thousands of mentions in online media informing about the associating Bank and the Association of SGB.

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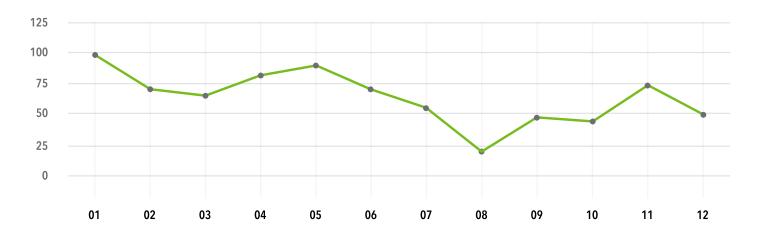


Chart 4. Overall number of publications in 2014

New model of internal communication

In October 2014, SGB-Bank S.A. launched activities in the framework of the New Communication Model (NMK) aimed at improvement of communication between the cooperative banks and the associating bank.

The primary objective of the New Communication Model is to provide professional information, to gather opinions and exchange experience with the cooperative banks.

Communication is carried, among other things, through a new intranet and SGB newsletter. The needs of internal communication are also addressed by Informator SGB, a printed bimonthly magazine of the SGB Association. Direct communication includes holding meetings of members of the Management Board of SGB-Bank S.A. in cooperative banks and periodical meetings bringing together representatives of the associating Bank and cooperative banks in the regions (SGB Panels), dedicated business, organisational and information issues, as well as conferences, congresses, workshops and trainings. The third area consists of activities and meetings related to exceptional occasions such as holidays or bank celebrations.

New Intranet

In 2014, a new intranet platform was launched, in a modern form, refreshed layout and functionally displayed information. The new service provides current news and gives constant access to the knowledge of banking products and services, as well as the contact details of employees of SGB-Bank S.A. The main objective of the new platform is to improve management of internal information that can be constantly updated and modified. The role of the new intranet is also to improve communication and distribution of relevant information between cooperative banks and the associating bank.

New layout of Informator SGB

The Association magazine Informator SGB gained a modern graphic design, consistent with the Group's corporate identity, and professional editors' team, as a result of which the form itself invites you to read. But above all, it is a source of substantive information from the various departments of the associating Bank, current information from the Cooperative Banks, advice and information to support business development.

3.2 Corporate banking and services to the public finance sector

In 2014, SGB-Bank S.A. developed activities in the market of non-Treasury debt instruments. 10 municipal bond issues were carried out with a value of 34,470.0 K PLN and 9 commercial bond issues with a value of programs of 97,750.0 K PLN (decrease of the issue value by 1.5% compared to 2013).

As part of its statutory activities, SGB-Bank S.A. entered with clients into transactions on non-Treasury debt instruments. In 2014, commercial and municipal securities were sold to the clients for a nominal value of 6,731.8 K PLN. As of 31.12.2014, the value of commercial securities issued by SGB-Bank S.A. represented 256,194.0 K PLN in the Bank's portfolio, whereas the value of municipal securities amounted to 148,277.3 K PLN.

SGB-Bank SA offered to clients with significant surpluses a possibility of investing funds in the Bank in the form of SKARB deposits with interest rates negotiated in each case in relation to the quotations on the interbank market. In 2014, 680 term deposits were received with terms ranging from 1 day to 1 year. As of 31.12.2014, the balance of SKARB deposits amounted to 10,045.5 K PLN. Furthermore, under the SKARB deposit agreement, clients could use from the automatic O/N in the current account. As of 31.12.2014, the balance of automatic O/N was 46,562.7 K PLN.

In terms of foreign exchange services, SGB-Bank S.A. carried in 2014, on the accounts of clients of SGB-Bank and associated cooperative banks, 36.0% more payment orders abroad and 17.2% more payment orders coming from abroad as compared to 2013.

In respect of implementation of foreign exchange transactions in 2014, SGB-Bank S.A. entered with clients into foreign exchange transactions in the amount of 32,446.2 K EUR 1,539.1 K USD, 104.8 K GBP, and 1150.0 K NOK.

Lending activity

As of 31 December 2014, the credit portfolio of the non-financial and public sector amounted to 5,181,077 K PLN, recording growth by 5.93% in relation to the previous year, i.e. by 289 844 K PLN.

Table 6. Credit portfolio of non-financial and public clients of SGB-Bank S.A. as of 31.12.2014 (in K PLN)

Description	31.12.2014	Structure
Non-financial sector, including:	4.336.417	78,0%
Public sector	844.660	14,9%
Total credit portfolio of non-financial, public clients at the end of 2014	5.181.077	
Total credit portfolio of non-financial, public clients at the end of 2013	4.891.233	
Dynamics 2014/2013	105,93%	

Deposit activity

As of 31 December 2014, the deposit portfolio of the non-financial and public sector amounted to 616 826 K PLN. Growth was recorded in the deposit portfolio of the non-financial sector, with dynamics of 107%, whereas drop was recorded in the deposit portfolio of public sector by 49 365 K PLN. The structure of the deposit portfolio of the non-financial and public sector is presented in the table below.

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Deposits	Status as of 31.12.2014	Status as of 31.12.2013	Dynamics %
Non-financial sector:	617.819,15	579.570,22	107%
on demand	459.513,79	353.262,90	130%
term deposits	158.305,36	226.307,32	70%
Public sector	15.559,10	64.926,83	24%
Total	633.378,25	644.497,05	98%

Table 7. Deposit portfolio of non-financial and public clients of SGB-Bank S.A. (in K PLN)

Factoring and leasing services

Like in previous years, SGB-Bank S.A. in collaboration with Faktorzy S.A. offered its clients financial services in the form of factoring. The contracts concluded as of the end of 2014 with SGB-Bank S.A. clients amounted to 8 240 K PLN, which means a drop in sales by 2 237 K PLN as compared to 2013.

SGB-Bank S.A. also continued its collaboration with SGB-Leasing Sp. z o.o., offering clients financial services related to leases. At the end of the year, the contracts concluded by SGB-Bank S.A. amounted to net 17 275 K PLN, which means an increase in sales by 197% as compared to 2013.

Product-related activities

With regard to product range development, activities were continued to incorporate the assumptions of the product platform. The key elements of the product platform include:

- 1. choice of products and prices for individual segments,
- 2. modernisation of the product range,
- 3. improvement of the client service processes, including "de-localisation" of bank accounts,
- 4. reinforcement of product sale support elements.

The offer was expanded with new products: investment and working capital facility for SMEs, credit limit for working capital purposes, placement account, overnight deposit, active direct debits, accounts in additional four convertible currencies, a card for institutional clients holding MasterCard Business PayPass settlement accounts.

In terms of regulations, activities were carried out aimed at their improvement and adaptation to external regulations in force.

In terms of sales support, actions were initiated aimed at raising the level of providing cards for accounts and increasing the number of transactions with payment cards, including the development of contactless transactions, including through bonus sales for clients of cooperative banks and competitions for employees of Cooperative Banks issuing payment cards. Actions to support the issue of payment cards were organised in collaboration with Visa and MasterCard.

3.3 Retail banking

In line with the strategy of SGB-Bank S.A. and SGB Group, retail banking sector was not a priority segment in the Bank's business. At the end of 2014, loans to individuals accounted for 7% of the portfolio of loans and bonds of non-financial and public sector of SGB-Bank S.A., i.e. 393 813 K PLN, thus remaining at a similar level compared to the previous year, namely 331 988 K PLN (a year-to-year growth by less than 1%, i.e. by 60 825 K PLN).

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The number of accounts maintained for individual clients at the end of 2014 amounted to 17 186, i.e. an increase of 5% compared to the previous year.

In terms of product development, activities aimed at achieving the objectives of the product platform were continued through offer development and adaptation of prices for individual segments.

The product range was modernised by adding the following products to the Bank's offer: card for the personal savings and settlement accounts MasterCard PayPass Lech, a local SGB card, a credit card for individual clients MasterCard PayPass Gold, and housing loans "Mieszkanie dla młodych".

In terms of consumer protection, internal regulations were reviewed to ensure compliance of their provisions with the applicable legal regulations, including review in order to eliminate any abusive clauses.

In connection with the provisions of the Recommendation U coming into effect on 1 April 2015, concerning good practices in the field of bancassurance issued by the Financial Supervision Commission, work was started to adapt the Bank's activities to the implementation of to the provisions of the abovementioned recommendation.

Actions were undertaken to increase the number of payment cards issued as well as the number of card transactions, including development of contactless payments, e.g. through bonus sales for clients of SGB Group and competitions for the clients of SGB banks issuing payment cards.

3.4 Treasury activities

The treasury activities of SGB-Bank S.A. is aimed primarily at securing the liquidity of the Bank and the whole Association and at investing surplus funds in the financial market. The activity of SGB-Bank S.A. in 2014 in this area involved mainly investing the available funds in debt securities and interbank deposits. Due to the lower dynamics of funds of cooperative banks, the value of funds in the financial market was also reduced by 1.7% compared to 2013.

The securities portfolio contained predominantly State Treasury securities and NBP money bills (70% of the securities portfolio as of the end of 2014), and compared to 2013 their share decreased by 9 p.p., which was the result of low interest rates in the market, still lowered at the end of the year. The Treasury securities yield curve at the end of the year as compared to December 2013 moved downwards by 1.25 p.p at the short end (2Y) and by 2.01 p.p. at the long end of the curve (15Y). The Treasury securities yield in analogical period fell from 2.50% to 2.00%. The State securities portfolio at the end of 2014 amounted to 3,481,618.5 K PLN and in relation to 31.12.2013 it was higher by 9.8%. The money bills portfolio amounted to 799,875.6 K PLN and it was by 52.4% lower compared to the previous year.

In 2014, SGB-Bank S.A. increased its exposure in commercial debt securities, by issuing such papers and purchases in the secondary market. As of 31 December 2014, the value of commercial papers in the Bank's portfolio amounted to 1,418,829.9 K PLN, which was up by 37.3% from the year before. The balance of municipal bonds at the year-end reached 162.212,4 K PLN and was higher from the figure for 2013 by 13.7%.

Other securities held by the Bank were participation units in investment funds and investment certificates at the end of the year amounting to 229,293.9 K PLN.

In 2014, SGB-Bank S.A. was not very active in the interbank market. The balance of interbank deposits as of 31 December 2014 was 199,305.1 K PLN, including 139,305.1 K PLN in foreign currency deposits. Compared to 2013, the balance of deposits was down by 11.0%.

The funds invested in the financial market as of 31.12.2014 accounted for 49.0% of the balance-sheet total (50.4% at the end of 2013).

As part of its dealership activities, in 2014, SGB-Bank effected foreign exchange transactions in the amount of 20.600,0 K EUR and 355.000,0 K USD.

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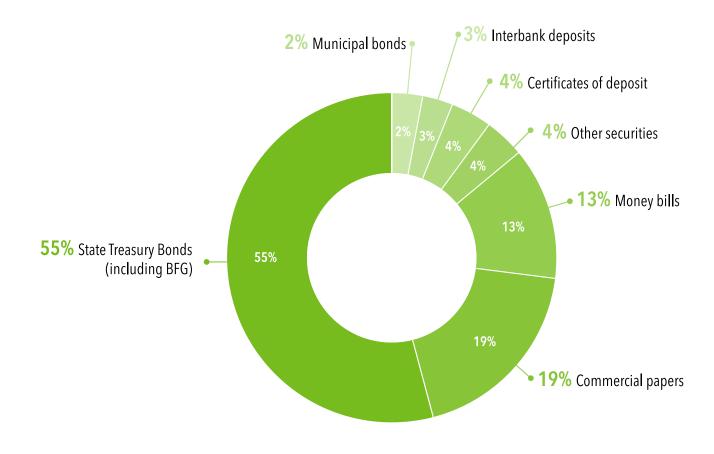


Chart 5. Structure of assets placed in the financial market by SGB-Bank S.A. - as of 31.12.2014

3.5 Cash management

Clearing services

In 2014, nearly 119 million electronic payment orders were cleared (increase by c.a. 5 million orders compared to 2013) and more than 75 million underlying documents processed in transactions made with clients' payment cards, at ATMs and in client service outlets of Spółdzielcza Grupa Bankowa (up by more than 30% from 2013).

Trust services

The Bank provided depository and financial services with regard to securities for which the Bank acted as the Custodian Bank and Paying Agent. At the end of 2014, services were provided to 57 issuers: 35 local government units and 22 enterprises, including bond issues for cooperative banks associated with SGB-Bank S.A. The total value of bonds at par registered in accounts amounted to 557 380 K PLN, including respectively: 156 916 K PLN in clients' accounts and 400 464 K PLN in the Issuing Agent's account. The nominal value of bonds registered in accounts of the associated Cooperative Banks totalled to 95 592 K PLN, including respectively: 41 090 K PLN of local government units' bonds and 54 502 K PLN of enterprises' bonds. At year-end, there were 114 clients' accounts in which non-Treasury securities were held.

THANKS TO BEST SOLUTIONS

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4.1 Distribution channels

Branches

As of 31 December 2014, SGB-Bank S.A. operated through 20 Branches (including 2 Branches - Financial Business Centres).

Def3000 Electronic Channels

Online banking def3000 as of 31 December 2014 was used by 20 267 retail clients and 724 corporate clients of SGB-Bank S.A. The total number of clients (of both SGB-Bank and cooperative banks) using Electronic Channels was 39 157 (37 565 retail clients and 1 592 corporate clients).

As of 31 December 2014, the number of clients of SGB-Bank S.A. using electronic channels via the

web channel amounted to 11 136 and was up from 31.12.2013 by 1 501 (as of 31.12.2013 the number was 9 635). At the same time, account saturation with electronic channels as of 31 December 2014 was 46.79%, which is up from the figure from the year before by 0.57 pp. (as of 31.12.2013 it was 46.22%).

Regarding services for cooperative banks:

- 1. at 190 cooperative banks account access via the Web channel was launched,
- for 7 cooperative banks account services were provided within the framework of SGB-Online banking. The above solution was used by a total of 6 555 clients of 7 cooperative banks, including 4 265 retail clients and 2 290 corporate clients.

 Table 8. Number of cards and value of transactions conducted with SGB cards in 2013 - 2014

	2013				2014		Dynamics 2013/2014		
Description	Number of cards as of 31.12.2013	Number of transactions	Amount of transactions in PLN	Number of cards as of 31.12.2014	Number of transactions	Amount of transactions in PLN	Number of cards	Number of transac- tions	Amount of transac- tions
MASTERCARD SYSTEM	171 486	8 788 240	1 919 423 599	190 377	11 086 266	2 202 882 073	111%	126%	115,%
non-cash		3 812 591	328 634 055		5 650 660	447 981 525		148%	136%
cash		4 975 649	1 590 789 545		5 435 606	1 754 900 548		109%	110%
VISA SYSTEM	379 253	21 521 417	6 956 340 129	408 862	25 135 563	7 667 936 241	108%	117%	110%
non-cash		8 925 774	961 714 477		11 977 231	1 184 360 712		134%	123%
cash		12 595 643	5 994 625 651		13 158 332	6 483 575 529		104%	108%
Total	550 739	30 309 657	8 875 763 728	599 239	36 221 829	9 870 818 314	109%	120%	111%
non-cash		12 738 365	1 290 348 532		17 627 891	1 632 342 237		138%	127%
cash		17 571 292	7 585 415 196		18 593 938	8 238 476 077		106%	109%

Payment cards

At the end of December 2014 r. number of cards active across SGB amounted to 600 thousand payment cards.

In 2014, the implementation of online authorisation system and the SGB Card system continued at coop-

erative banks. Online authorisation is available at 194 cooperative banks and the SGB Card system at all banks issuing cards as part of the SGB system. The total number of payment card transactions in SGB in 2014 exceeded 36 million (of which nearly 17.5 million were non-cash transactions) amounting to a total of more than 9.5 billion zlotys (of which more than 1.5 billion zlotys in non-cash turnover).

The number of payment cards issued by SGB increased in the course of the year by 48 500, from 550 739 cards issued at the end of 2013 up to 599 239 as of 31.12.2014, corresponding to annual dynamics of 108.81%. In 2014, a record growth in transactions with SGB payment cards was recorded (48% for MasterCard, 34% for Visa cards) – see details in Table 8 – Number of cards and value of transactions conducted with SGB cards in 2013 – 2014.

In order to meet the expectations of cooperative banks and make the offer more attractive, in 2014 SGB-Bank S.A. completed projects of the implementation of new card products, such as: credit card for individuals MasterCard Gold PayPass, which is a prestigious product that allows payments on the Internet with added security (3D Secure system for SMS), MOTO and contactless payments. In addition, a MasterCard Debit Business PayPass was placed among issuable products, which completed the offer of SGB-Bank S.A. for institutional clients because so far only debit cards Visa Business Electron were offered for this group of clients.

Furthermore, following the requests from cooperative banks, a low cost Karta Lokalna SGB was put back in place for cash withdrawals at ATMs of SGB, which is an alternative card for local cards, such as NOVUM, OSKAR, giving additional opportunities for cooperative banks in service handling.

In an attempt to modernise the offer of SGB, modern NFC mobile payment service was implemented, consisting in making payments using a mobile phone, with a pre-loaded onto MasterCard PayPass NFC card.

Activities aimed at increasing the security of card transactions in SGB were continued through the implementation of the National Payment Card Blocking System (Krajowy System Zastrzegania Kart Płatniczych - SZKP) and rendering it available to the cardholders. Currently, in addition to the possibility of blocking card via the hotline in the FDP, in banks outlets, holders of cards issued in the framework of SGB may use an additional number, common to all holders of cards issued in Poland.

In addition, a change in the distribution model of payment cards and a possibility to choose whether the card is to be sent to the client or to a outlet have been introduced.

ATMs and POS terminals

In 2014, the number of ATMs in the SGB network as of 31 December 2014 was 1199 machines. The majority of ATMs are located in banking facilities, but some were also installed in commercial complexes and shopping centres. Currently, there are 243 machines not adjoining a banking facility (20.2% of all SGB ATMs). In total, within the framework of the agreement initiated by SGB-Bank S.A. with Bank Polskiej Spółdzielczości S.A. in Warsaw and with Krakowski Bank Spółdzielczy, as of 31 December 2014 the Cooperative ATM Network comprised 3947 machines nationwide.

In 2014, SGB-Bank S.A. implemented in collaboration with First Data Polska S.A. a service of dynamic currency conversion (DCC) in all SGB ATMs. This service was operationally launched on 1 July 2014. It is the largest in recent years project which provided cooperative banks with a significant new source of revenue in the ATM business.

CallCenter in SGB - phone support and service for e-banking clients and information services via hotline.

Within the framework of e-banking, SGB-Bank S.A. offers phone support and services - CallCenter. The Center also deals with clients' and prospective clients' enquiries regarding the network of SGB outlets as well as ATMs of the whole Association, payment cards issued by SGB and a common offer of the Association, and supports common promotional campaigns. In 2014, the CallCenter handled 24 262 phone enquiries, answered at the level of nearly 90%. 86% of phone enquiries concerned e-banking support and services.

Support areas

Description	2007	2008	2009	2010	2011	2012	2013	2014
Number of SGB ATMs as at the end of the year [machines]	643	769	827	872	1 115	1 160	1 171	1 199
Dynamics compared to the previous year [%]	123,65%	119,60%	107,54%	105,44%	127,87%	104,04%	100,95%	102,39%
Overall number of SGB transac- tions in the year [items]	14 839 874	19 668 737	22 815 935	24 649 627	30 814 148	35 470 782	38 890 026	40 828 826
Dynamics compared to the previous year [%]	143,62%	132,50%	116,00%	108,04%	125,01%	115,11%	109,64%	104,98%
	Number of SGB ATMs as at the end of the year [machines] Dynamics compared to the previous year [%] Overall number of SGB transac- tions in the year [items] Dynamics compared to the previous	Number of SGB ATMs as at the end of the year [machines]643Dynamics compared to the previous year [%]123,65%Overall number of SGB transac- tions in the year [items]14 839 874Dynamics compared to the previous143,62%	Number of SGB ATMs as at the end of the year [machines]643769Dynamics compared to the previous year [%]123,65%119,60%Overall number of SGB transac- tions in the year [items]14 839 87419 668 737Dynamics compared to the previous143,62%132,50%	Number of SGB ATMs as at the end of the year [machines]643769827Dynamics compared to the previous year [%]123,65%119,60%107,54%Overall number of SGB transac- tions in the year [items]14 839 87419 668 73722 815 935Dynamics compared to the previous143,62%132,50%116,00%	Number of SGB ATMs as at the end of the year [machines]643769827872Dynamics compared to the previous year [%]123,65%119,60%107,54%105,44%Overall number of SGB transac- tions in the year [items]14 839 87419 668 73722 815 93524 649 627Dynamics compared to the previous143,62%132,50%116,00%108,04%	Number of SGB ATMs as at the end of the year [machines] 643 769 827 872 1 115 Dynamics compared to the previous year [%] 123,65% 119,60% 107,54% 105,44% 127,87% Overall number of SGB transac- tions in the year [items] 14 839 874 19 668 737 22 815 935 24 649 627 30 814 148 Dynamics compared to the previous 143,62% 132,50% 116,00% 108,04% 125,01%	Number of SGB ATMs as at the end of the year [machines] 643 769 827 872 1 115 1 160 Dynamics compared to the previous year [%] 123,65% 119,60% 107,54% 105,44% 127,87% 104,04% Overall number of SGB transac- tions in the year [items] 14 839 874 19 668 737 22 815 935 24 649 627 30 814 148 35 470 782 Dynamics compared to the previous 143,62% 132,50% 116,00% 108,04% 125,01% 115,11%	Number of SGB ATMs as at the end of the year [machines] 643 769 827 872 1 115 1 160 1 171 Dynamics compared to the previous year [%] 123,65% 119,60% 107,54% 105,44% 127,87% 104,04% 100,95% Overall number of SGB transac- tions in the year [items] 14 839 874 19 668 737 22 815 935 24 649 627 30 814 148 35 470 782 38 890 026 Dynamics compared to the previous 143,62% 132,50% 116,00% 108,04% 125,01% 115,11% 109,64%

Table 9. Number of SGB ATMSs and overall number of transactions in years 2007 - 2014

Table 10. Average monthly numbers of transactions per ATM in years 2007 - 2014

Description	2007	2008	2009	2010	2011	2012	2013	2014
Average number of all transactions per SGB ATM [items]	2 103	2 295	2 342	2 356	2 303	2 549	2 768	2 838
Average number of other banks' transactions per SGB ATM [items]	555	618	610	617	690	1 122	1 323	1 365

4.2 Changes in Information Technology

In terms of software production:

- Implementation of comprehensive automation of manual clearing of SEPA foreign orders in the SGB Zlecenia Zagraniczne system.
- Deployment and implementation of a model of integration services for def3000 and defBankPro, Zlecenia Zagraniczne systems in Oracle Service Bus (OSB).
- 3. Deployment and implementation of Promocje SGB promotion deposit support system.

- 4. Implementation of Forex trading operations support for cooperative banks.
- 5. COREP Project production implementation in SGB-Bank of capital requirement calculation model in accordance with CRD4/CRR.
- 6. Reconstruction of the ETL process for Module Analysis - modifications related to the implementation of the process of calculating the supervisory liquidity measures.
- 7. Optimisation of power supply to def3000/MIS, a significant (up to 50%) shorter supply time in all environments.

Support areas

In terms of systems used in the Association:

- 1. Implementation of a system that supports transactions with Western Union and extension in the range of currencies supported.
- Implementation of the new SGB Intranet system (along with the integration with the e-mail system).
- 3. Implementation of support for payment cards based on NFC technology.
- Centralisation and automation of distribution to Cooperative Banks of proprietary documents and information on unreliable clients from the PBA in the Dłużnicy (debtors) system.
- 5. Implementation of DCC service for the card system in the entire Association.
- 6. Preparing the Gryfcard system to handle VPP and MoneySend transfers.
- 7. Implementation of a functionality that enables individualisation of card fees for Cooperative Banks and charging fees according to the turnover in the card systems.
- 8. Implementation of support for loans with a BGK guarantee within the Portfolio Guarantee Line de minimis in the new SI-OKP*PLD system.
- 9. C-Spert interface modifications resulting from the implementation of the recommendations of the Financial Supervision Authority.

In terms of network infrastructure in place at SGB-Bank and its security:

- 1. Implementation of new F5 network traffic load balancers.
- 2. Launching of the ISE system users' authorisation at the head office of SGB-Bank. The system allows employees to gain access to network resources of the Bank based on Windows AD credentials issued during login. The system allows employees to securely connect computers to the banking network at any place in the Bank.
- Extension of the Wi-Fi network at the head office of SGB-Bank S.A. The network enables the Bank's guests and employees to access the Internet in conference rooms.
- 4. Modernisation of the SIEM system. The system is used to correlate event logs from various network devices and generate reports. The SIEM system can detect and analyse incidents that may be caused

by network attacks from outside the network or the action of malicious software on workstations.

In terms of the computer network operated at SGB-Bank and its security:

- 1. Migration of the authentication system of LDAP logins to def3000/CEB was carried out.
- New databases and application servers for def3000/SP and SOPN systems were implemented. Adequate performance and security were ensured in the framework of the SOPN project through the use of Oracle RAC clusters.
- 3. WebSphere 7.0 test and production environment were prepared for the def3000 system.
- 4. The backup system was provided with Symantec deduplicator device, which significantly accelerated backup tasks and caused shortening of the backup window. Additionally, the device allows performing recovery procedures in a much shorter time.
- Hyper-V virtualiser was launched. The use of this tool significantly reduced the costs of virtualisation for Windows and Linux environments.

In terms of databases and application servers

Following business needs, def3000 updates were made:

- 1. from version 8.5C to 8.5D with other modules,
- 2. from version 8.5D to 8.5E with other modules,
- 3. from version 8.5E to 8.5F with other modules.

4.3 Changes in processes and products

New products added to the Bank's offer.

In 2014, activities continued to develop the SGB-Bank S.A. product range in terms of banking and auxiliary products. Due to the deployment of new products and upgrading the existing products, the applicable regulations were drawn up. Based on the ongoing monitoring of the competitive environment, the bank responded to changes in the market, e.g. changing fees related to account management.

Support areas

CHAPTER 4

The product range was modernised by enlarging the Bank's offer with the following products: Master-Card Business PayPass card for settlement accounts, MasterCard PayPass KKS Lech card and SGB local card to savings and checking accounts, housing loan "Mieszkanie dla młodych", investment and working capital credit for SMEs, credit limit for working capital purposes, placement account, active direct debits, accounts in additional four currencies.

Processes and tools

- IT functionalities related to preferential loans subsidised by ARMA (SI-OKP) were expanded to include control of the use of loans with interest rate subsidies by ARMA carried out by the banks directly at the borrower at least once a year,
- 2. The SI-OKP*PLD system was implemented for BGK de minimis guarantees service,
- 3. Sales support tools were updated, including credit calculators, among others, in terms of the changed regulations and indicators in the tools used,
- 4. Spreadsheet functionalities used in credit scoring of institutional clients were developed,
- 5. Within the CasePro system for handling loan applications, the following were implemented:
 - overdraft for institutional clients,
 - revolving credit facility in the current account for individual clients,
 - centralized credit process for large exposures of institutional clients,
- 6. Client cooperation yield sheet was prepared.

4.4 Management by Objectives

In 2014, following the decision of the Management Board, the Bank started implementing the Management by Objectives program (MBO). The program is based on self-setting of well-defined, ambitious and mutually correlated business objectives by managers, resulting in increased requirements for the desired results of work.

Benefits of the Management by Objectives program:

- MBO is aimed at effectively achieving the business objectives and increasing the capacity of the organization to achieve the objectives in the future. By setting the objectives for managers, the Management Board focuses their activities and involvement in key areas for the company. This improves the performance and eliminates actions of lesser value.
- 2. Managers are accountable for the value they bring and not for the results - the system is therefore more effective in terms of management, transparent and more motivating than traditional management consisting in task delegation.
- 3. The map of objectives, showing interconnectedness of all objectives, enables analysis of the structure and correlations between the objectives.
- 4. The process of setting the objectives runs smoothly and on time.
- 5. The process of management by objectives is active throughout the year owing to reviews on quarterly basis.

IT platform to support the MBO process allows monitoring the process of setting and correlating objectives, facilitates control of timeliness of the process stages as well as methodological and substantive control. Computerisation of the process of objectives allows realtime reporting of the content of objectives, indicators and correlations between the objectives.

In 2014, the Management By Objectives program included 47 representatives of the Bank's executives.





RISK MANAGEMENT

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5.1 Goals and principles of risk management

In 2014, as part of systematic verification of bank risk management procedures an update was performed of regulations applicable in the Bank regarding all the risk areas monitored at SGB-Bank S.A., including but not limited to the changes which were introduced in external regulations at the time.

5.2 Credit risk

In 2014, the loan portfolio increased as compared to 2013 by 8.07%, while non-performing loan exposures decreased by 8.2%. The structure of credit risk in the non-financial and public sector portfolio is presented in the table below.

2013	Loan portfolio	Non-performi	ng loans	Balance of provisions (excluding regular provisions)		
	tys. zł	tys. zł	udział	tys. zł	udział	
	1	2	3=2/1	4	5=4/2	
Non-financial sector	3.520.890	557.068	15,82	168.041	30,17	
Public sector	851.553	12.631	1,48	218	1,73	
Total	4.372.443	569.699	13,03	168.259	29,53	
2014	Loan portfolio	Non-performi	ng loans	Balance of provisions (excluding regular provisions		
	tys. zł	tys. zł	udział	tys. zł	udział	
	1	2	3=2/1	4	5=4/2	
Non-financial sector	3.888.788	504.355	12,97	174.986	34,70	
Public sector	822.102	18 643	2,27	129	0,69	
	4.710.890	522.998	11,10	175.115	33,48	

Table 11. Share of non-performing loans - in receivables from the non-financial and public sector - 2013 and 2014

The share held by non-performing loans in the overall loan portfolio went down from 13.03% to 11.10%. The share held by non-performing loans in the non-financial sector portfolio went down from 15.82% to 12.97%. The share held by non-performing loans in the public sector portfolio went up from 1.48% to 2.27%.

The share of provisions in non-performing receivables amounted to: in the substandard category 2.6%, doubtful 6.0%, loss 59.3%; provisions for non-performing receivables account for 33.48% of non-performing receivables. Were not exceeded concentration exposure limits defined in external provisions, i.e.:

 the maximum exposure in the sum of the Bank's receivables, off-balance sheet commitments granted by the Bank and stocks or shares held by the Bank, directly or indirectly, in another entity, contributions made in a limited liability company or limited partnership contributions or sums depending on which of these amounts is greater - in a limited partnership or limited joint-stock partnership (exposure), burdened with risk of one entity or entities related by capital or organisation, excluding the sum of the funds managed by one investment funds company (IFC),



Risk management

- the maximum level of the Bank's exposure to other domestic bank, lending institution, a foreign bank or a group of related by capital or organisation, consisting of at least one domestic bank, a lending institution or a foreign bank,
- 3. the maximum level of exposure to members of the Supervisory Board, members of the Management Board, employees holding managerial positions, entities related by capital or organisation with a member of the Supervisory Board, a member of the Management Board member, an employee holding a managerial position.

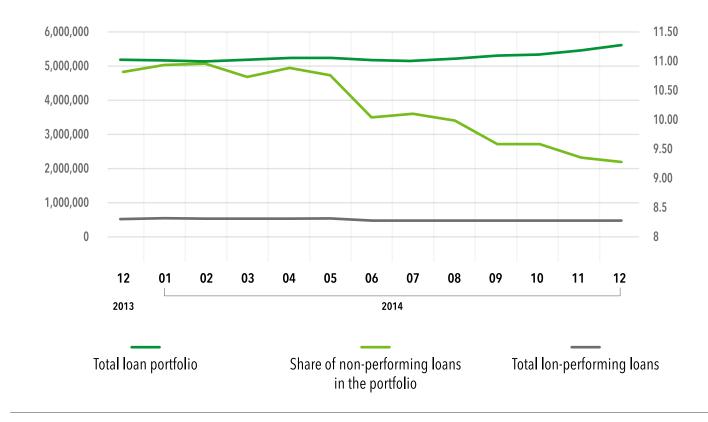


Chart 6. Balance loan portfolio - share of non-performing loans

The value of syndicated loans compared with the same period of the year before was up by 5,19%. The increase of total syndicated loans was accompanied by an increase of impaired syndicated loans compared to 31.12.2013 by 14.87%.

The Bank has no significant capital employed in MBCE, MBCE financing residential real estate, MBCE financing commercial real estate or RCE-T.

As of 31.12.2014, general limits on MBCE, retail credit exposures (RCE) and RCE T specified in the "Risk Management Policy of portfolio of mortgage-backed credit exposures (MBCE)" and "Risk Management Policy of retail credit exposures (RCE)". Also the concentration limit in the MBCE, RCE and RCE-T portfolio were not exceeded.

The Bank's risk profile measured by the weighted LtV ratio at portfolio level is acceptable.

The loan repayment ratio for the MBCE portfolio divided into loans secured by mortgage, pledge and transfer of title amounted to 32,45% while loan repayment ration for the RCE-T portfolio was at the level of 86.23%.

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Compared to 31.12.2013, the dynamics of the MBCE portfolio are positive. The MBCE portfolio went up by 8.34%. The dynamics of the impaired MBCE portfolio were negative – non-performing loans went down by 0.33%.

With a view to improving the credit risk monitoring system and mitigating this risk, the following activities were undertaken in 2014:

- credit risk policy was modified with regard to: retail credit exposures, mortgage-backed credit exposures and management principles for credit, concentration and residual risk,
- 2. new quantity and quality targets were set for RCE, RCE-T and MBCE,

- limits related to MBCE, RCE, RCE-T and other limits of the credit portfolio, including those related to "large exposures" and in the same economic sector, had their scope expanded and values modified,
- 4. implementation was continued of software supporting the lending procedures for clients of cooperative banks and SGB-Bank S.A. through creation of a new scoring sheet for the credit card facility,
- 5. scoring and rating models applicable at the Bank were monitored and validated for the first time,
- 6. another report was developed on business risks in selected sectors of the economy and containing an analysis of the level of risk in selected sectors of the economy and the trend of its change in the next six months a periodical material.

5.3 Liquidity risk

Supervisory liquidity measures of the Bank stayed above the statutory minimal levels throughout 2014.

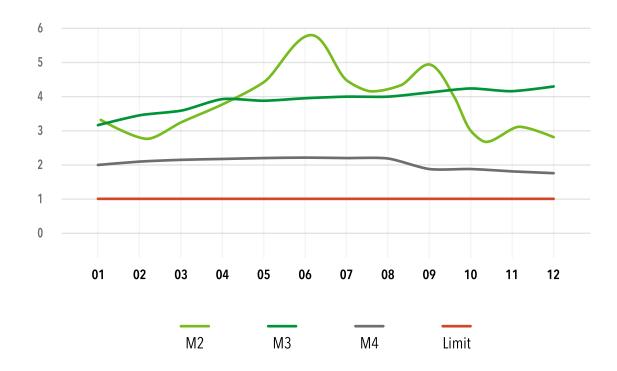


Chart 7. Supervisory liquidity measures in 2014

Risk management

Table 12. Supervisory liquidity measures as of 31.12.2014

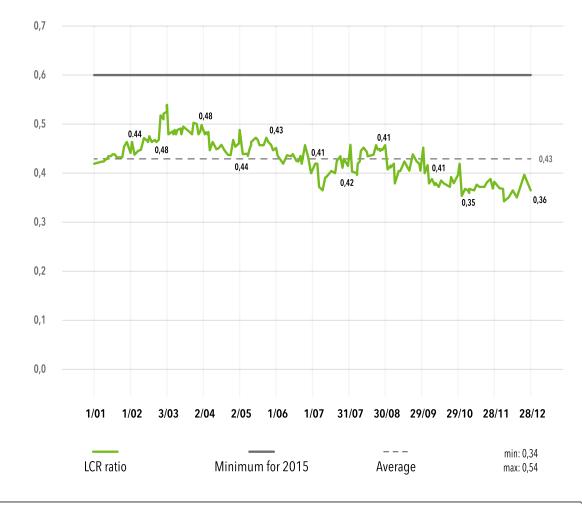
Measure symbol	Name	Amount
M1	short-term liquidity gap [K PLN]	2 673 831,9
M2	short-term liquidity ratio	2,52
М3	non-liquid assets to own funds ratio	4,30
M4	non-liquid and limited liquidity assets to own funds and stable external funds ratio	1,76

In 2014, SGB-Bank S.A. made sure that the associated cooperative banks maintain an adequate level of supervisory liquidity measures through:

- 1. granting overdraft limits,
- 2. granting revolving credit limits,
- 3. extending subordinated loans.

Granting overdraft and revolving credit limits to cooperative banks had a significant impact on the structure of contingent liabilities extended, whose total amount as of the end of the year reached 1,763,080 K PLN.

Chart 8. LCR ratio (daily)



Risk management

Table 13. Contingent liabilities extended - as of31.12.2014 (K PLN)

Name	Amount
Financial sector	1 218 035,5
Non-financial sector	538 625,0
Public sector	6 419,9

LCR liquidity coverage requirement at the end of December 2014 amounted to 36% - in 2014, external regulations did not oblige the Bank to maintain a minimum level of this ratio.

The overall liquidity risk in 2014 did not exceed the Bank's overall tolerance of such risk.

5.4 Interest rate risk

The interest rate risk management included the repricing risk, base risk, yield curve risk and client option risk.

In 2014, the Bank shaped the structure of its interest-bearing assets and liabilities, as well as contingent liabilities generating potential interest rate risk taking into account the current trends in interest rate fluctuations in the market.

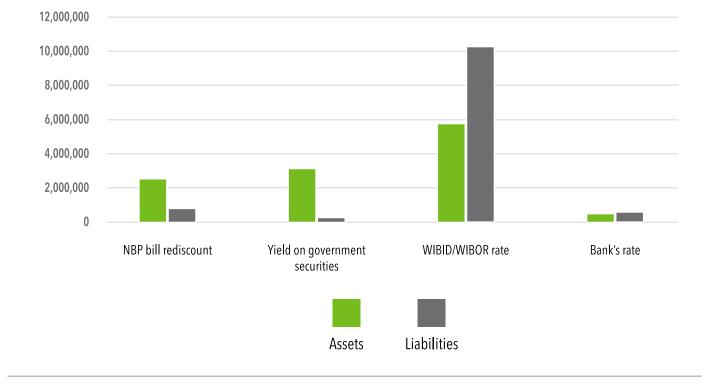


Chart 9. Structure of interest-bearing assets and liabilities at reference rates - as of 31.12.2014 (in K PLN)

Changes in the structure of interest-bearing assets and liabilities and contingent liabilities generating potential interest rate risk observed in 2014, as well as the changes in market interest rates contributed to increasing the impact of interest rate variability on the interest performance over the 12-month period.

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Risk management

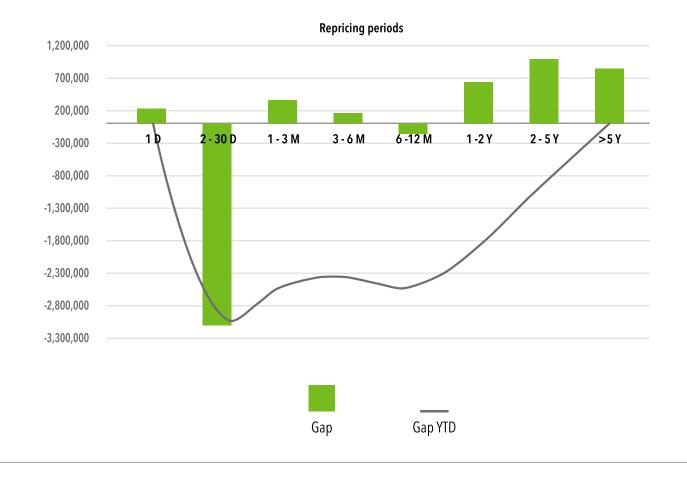


Chart 10. Mismatching of repricing dates of interest-bearing assets and liabilities - as of 31.12.2014 (in K PLN)

 Table 14. Impact of interest rate variability by +/- 2 p.p. on the interest rate performance. Impact in 2014 presented in absolute terms in K PLN

	31.12.2013	31.03.2014	30.06.2014	30.09.2014	31.12.2014
Impact of interest rate variability by +/- 2 p.p. on the interest rate performance	30 716,5	43 328,1	37 521,3	37 959,7	34 454,3

The Bank's potential exposure to interest rate risk in 2014 was significant. Exceeded limits on changes in net interest income were noted, resulting from changes in interest rates by 200 b.p. and 100 b.p. The internal limits established for this risk were maintained, but Bank's overall tolerance of such risk was exceeded.

5.5 Currency risk

In the course of 2014, a slight increase in currency activities was noted. The number of EUR loans was on the up, as were the balances of current accounts.

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Risk management

Table 15. Foreign currency current accounts and termdeposits in K PLN

Date	Current accounts	Term deposits
31.12.2013	175 068,8	122 090,6
31.03.2014	173 019,5	115 937,5
30.06.2014	185 221,2	126 126,9
30.09.2014	216 475,8	102 213,0
31.12.2014	226 012,1	94 115,2

Table 16. Foreign currency credit portfolio in K PLN

Date	EUR	CHF
31.12.2013	20 820,9	2 458,2
31.03.2014	20 228,4	2 404,3
30.06.2014	20 019,0	2 323,0
30.09.2014	18 452,4	2 276,4
31.12.2014	23 872,6	2 231,8

The Bank maintained a policy of closing out currency positions on a current basis. In 2014, exceeded internal limits of funds on nostro accounts and the failure

to meet a minimum level of liquid assets were noted. Other limits for foreign currency operations, including the level of the Bank's general tendency to take this risk were met. The capital requirement against currency risk emerged in February and July.

5.6 Operational risk

The objective of operational risk management was to minimise operational losses and reduce the probability of operational events that may result in losses. The limit of the capital requirement against operational risk in 2014 amounted to 5% of the available capital. The actual capital requirement against this risk ranged between 4.5% and 4.6% of the available capital in the course of the year.

Operational events (resulting in actual or operational loss) and operational risk events (not resulting in losses) were recorded in the Bank according to the classification provided in Recommendation M, i.e. in 7 categories, of which a significant number of events was recorded under 3 categories, i.e.:

- 1. clients, products and business practices (category 4),
- 2. business disruptions and system failures (category 6),
- 3. execution, delivery and process management (category 7).

Table 17a. Number of events per category

Category No.	Number of events per category
1.	4
2.	8
3.	2
4.	94
5.	7
6.	55
7.	40
	1. 2. 3. 4. 5.

Risk management

Out of a total of 210 recorded events throughout the year, 90% fell into the categories 4., 6. and 7. At the same time, the number of recorded events increased by 70% compared to the number of events recorded

in 2013 (147). This was due to the increased recording of irregularities related to a non-compliance risk, connected with operational risk.

Table 17b. Number of operational events per category

Description of risk category	Category No.	Number of events per category
1. Internal fraud (including breach of limits)	1.	1
2. External fraud	2.	5
3. Employment practices and workplace safety	3.	1
4. Clients, products and business practices	4.	26
5. Damage to physical assets	5.	4
6. Business disruption and system failures	6.	5
7. Execution, delivery and process management	7.	17

Out of a total of 59 recorded operational events throughout the year, resulting in an actual or potential loss, 73% fell into the categories 4. and 7.

The operational losses recorded in 2014 amounted to 227.4 K PLN net, out of which 150 K PLN net was a penalty imposed by the General Inspector of Financial Information and 70 K PLN net was a penalty imposed by the FSA.

Table 18. Sum of operational losses in 2012-2014

	Net amount (PLN)	
Losses 2012	126 252,15	
Losses 2013	23 996,86	
Losses 2014	227 384,47	

5.7 Capital adequacy, own funds and capital adequacy ratio

The capital adequacy ratio reached 12.52 and compared to the year before went up from 12.29% i.e. by 0.23 p.p. The increase of the capital adequacy ratio from the year before was due to reducing the overall capital requirement by 0.45%, coupled with an increase of own funds by 1.46%. Changes in own funds and capital requirements were significantly affected by changes in legal regulations on capital adequacy.

Own funds changed in the period from December 2013 to December 2014:

- 1. in authorised capital by +11.1 M PLN,
- in supplementary capital and capital reserve by +13.4 M PLN,
- 3. in revaluation fund by -16 M PLN (due to changes in legislation),
- 4. in subordinated liabilities by -21.8 M PLN, as a result of depreciation of subordinated liabilities,
- in deductions from own funds by +7.7 M PLN (mostly due to changes in legislation),
- 6. in general credit risk adjustments by +16.1 M PLN.

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CHAPTER 5

The total amount of risk exposure as of 31 December 2014 was 5 922.3 M PLN and was lower by 27 M PLN from the balance as of 31 December 2013 however the amount of exposure to operational risk increased by 53 M PLN and the amount of exposure to credit risk fell by 80 M PLN. The decrease in credit risk was associated primarily with the change in regulations including in particular taking into account the factor of support to SMEs, as well as the optimisation of the process for determining capital requirements, including the use of credit risk mitigation methods. At the end of 2014, there was no requirement for foreign exchange risk. A slight decrease in the risk exposure while increasing the own funds contributed to the improvement in capital adequacy ratios.

5.8 Internal capital (Second Pillar)

The Bank's internal capital is calculated according to a procedure developed in-house regarding internal capital assessment and maintenance.

At the end of respective quarters of 2014, the Bank maintained internal capital against credit risk and interest rate risk in the banking book. In addition, at the end of Q3 of 2014, internal capital was maintained against the concentration risk.

At the end of December 2014, additional capital requirement against credit risk and interest rate risk occurred for the total amount of 72 873 K PLN and the internal capital was higher by this amount in respect of the required regulatory capital.

The limits on allocation of available capital to capital requirements against respective risk categories considered by the Bank as significant both for the First and the Second Pillar were not exceeded.

5.9 Committee Activities

Expenses Committee

In 2014, the Expenses Committee convened 11 times (including 3 matters settled in paper form). The Committee's work focused on controlling cost discipline, efforts to rationalise costs and focused on the review and verification of agreements with contractors. During its meetings, the Committee analysed in detail individual cost items, deviations from the plan and causes thereof. It paid attention to the items that showed significant dynamics. It made decisions required in a situation where expenses were not included in the financial plan or resulted from the need to satisfy mandatory requirements. According to the adopted work plan, it reviewed the costs of the functioning of the Bank's individual areas.

Asset/Liability Committee ALCO

In 2014, the ALCO Committee convened 20 times (including 4 matters settled in paper form). During the meetings, the Committee issued recommendations regarding selected items of assets and liabilities, income statement, economic ratios of the Bank and Association, introducing new banking products, deposit/loan strategy, internal capital requirement, credit risk, liquidity risk, interest rate risk, currency risk, operational events and losses, outsourcing and other.

Credit Committee

In 2014, the Credit Committee convened 64 times to consider 390 credit applications amounting to a total of 3 457 151.0 K PLN. Credit approvals were granted in 92 cases totalling 406 835.6 K PLN, while 66 credit applications totalling 661,932.9 K PLN were recommended to the Management Board. In the case of 131 applications, totalling 750,547.6 K PLN, the Credit Committee modified the lending terms offered, such us the margin, commission, form of loan security, or rescheduling loan repayment dates. At the same time, the Credit Committee approved 8 matters related to bond acquisition, extending guarantees or other non-standard products, to a total of 24 230.3 K PLN.

Operational Risk Committee

In 2014, the ORC convened 8 times (including one matter settled in paper form) to assess reports on operational events and losses and to issue recommendations on those sections of the reports that indicated high business risk areas.



Project Portfolio Committee

The Project Portfolio Committee, as an opinion-providing and decision-making body, is aimed at optimising the resources used for projects carried out by the Bank. The Committee recommends and makes decisions in the form of its positions on matters concerning launch of projects, acceptance of the project objective, parameters, changes in projects, opening and completion of subsequent stages of the project. In 2014, the Committee convened 15 times, including 1 matter settled in paper form. In the course of 2014, 19 new projects were launched, 15 projects were completed, while 35 projects (as of 31.12.2014) were marked as "ongoing".

Credit Risk Team

In 2014, the Credit Risk Team, whose objectives include monitoring credit risk and recommending measures aimed at managing this risk, convened 12 times to analyse issues including but not limited to:

- 1. verifying lending procedures to include more detailed and stricter requirements,
- 2. identifying the reasons for deterioration of the credit portfolio (analysis of various credit reports, vintage analysis),
- 3. verifying existing limits and introducing new ones.

Liquidity Management Team

In the whole 2014, the Liquidity Management Team which monitors short-term liquidity risk convened 52 times to analyse the following issues:

- 1. monitoring the current liquidity position for the Bank,
- 2. controlling the current liquidity position for the Bank against the projected position,
- determining the administrative, organisational and technical conditions necessary to manage liquidity in an accurate, consistent and effective manner,
- 4. recommending the course of action for the Bank regarding planned capital investments,
- 5. coordinating works and exercising supervision over tasks delegated to certain organisational teams and units of the Bank with regard to liquidity risk management.

Foreign Exchange Team

The foreign exchange team, whose objectives include monitoring currency risk and recommending measures aimed at managing this risk, convened 12 times in 2013 to analyse issues including but not limited to:

- 1. balance analysis in nostro accounts,
- 2. balance analysis in deposits,
- 3. analysis of results on foreign exchange differences,
- 4. report on individual currency items,
- 5. currency risk analysis.

Crisis Team

In 2014, the Crisis Team was established whose major role is to undertake actions aimed at stabilisation of the Bank's liquidity status.





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CHAPTER <mark>6</mark>

The internal control system designed and implemented at SGB-Bank S.A. in 2014 operated in compliance with the requirements of external regulations. The basic elements serving the system were internal controls and internal audit and compliance test of the Bank's operations with legal provisions and internal regulations.

6.1 Internal audit

The framework of internal audit included systems, processes, activities and phenomena which might have had a negative impact on the Bank's situation.

In 2014, internal audit performed tasks according to the audit plan approved by the Supervisory Board and Management Board and also conducted unscheduled internal audits as requested by the Bank's Governing Bodies on an as-needed basis. Internal audits provided a cross-section of both the Departments at the Bank's Head Office and the Branches.

In total 20 internal audits were conducted in the Bank in 2014, involving all units and most organisational entities. The irregularities uncovered in the course of the audits had a negligible impact on the Bank's risk levels. If any errors were discovered in the functioning of control mechanisms in the course of an internal audit, appropriate recommendations were issued, the implementation of which was then monitored on an ongoing basis and assessed independently.

Within the framework of its associational role, SGB-Bank S.A. continued to provide internal audit services to the associated cooperative banks in 2014. Internal audits covered all significant risk categories identified at the associated cooperative banks.

In total in 2014, SGB-Bank S.A. conducted 300 internal audits at 156 associated cooperative banks. Compared to 2013, the interest of the associated cooperative banks in these services continued to grow, with 75% of the associated cooperative banks involved as recipients. Internal audit / control system

The Management Board and Supervisory Board received periodic reports on the findings of internal audits and on the steps undertaken to remedy the irregularities uncovered.

The adequacy and effectiveness of internal audit was assessed by the Bank's Governing Bodies.

6.2 Internal control

Internal control in the Bank is exercised by each member of staff (current checks), entity/unit managers and people appointed by them, Bank's Head Office staff (checks at Bank's Branches) and by the Internal Control Coordinator (scheduled or ad hoc checks).

In 2014, throughout the Bank 978 scheduled internal checks took place (including 597 in the Branches and 381 at the Head Office). Scheduled internal checks were conducted on a continuous basis. Irregularities uncovered in the course of an inspection were remedied immediately or as a result of implementing issued instructions and recommendations. None of the irregularities uncovered in the course of internal checks met the criteria of a significant irregularity, which could contribute to increasing the level of business risk.

The Management Board and Supervisory Board received periodic reports on the findings of internal controls and on the steps undertaken to remedy the irregularities uncovered. Adequacy and effectiveness of the internal control system in place was subject to annual evaluation by the Bank's Governing Bodies.

6.3 Ensuring compliance

SGB-Bank S.A. strives for compliance in its business. Compliance processes included all the organisational units and bodies of the Bank (within their scopes of competence and duties), Relations Department and the Legal Offices providing services to the Bank. All employees of the Bank were bound by the duty to prevent, identify and mitigate the risk of non-compliance.

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Internal audit / control system

In 2014, a new compliance model was created, as part of which the existing internal compliance regulations were updated, including the compliance policy and compliance rules, as well as new internal regulations, important for the Bank, were developed: the Bank's principles of good practice, the rules of managing conflicts of interest and the procedure for giving and accepting gifts in the Bank. In addition, internal communication "Compliance Alerts" was developed, under which important information to ensure compliance in the Bank was passed in order to improve awareness and education in this area.

Identification of non-compliance events indicating the risk of non-compliance was a continuous process at the Bank, based on current and interim information received from the organisational units and entities, operational risk event database, complaints register, register of transactions recorded pursuant to the provisions on anti-money laundering and counter-terrorism financing, check and audit follow-up reports (internal control), inspection reports (external control) as well as information regarding changes in legal regulations, judicial decisions, ongoing court cases, adjudicated costs, potential litigation, etc.

In the period 01 January - 31 December 2014, a total of 30 non-compliance events were recorded with regard to the content development of internal regulations and 143 non-compliance events in the business conduct of organisational units and entities.







As of 31 December 2014, own funds of SGB-Bank S.A. amounted to 741 632.1 K PLN, which was up from the figure for the end of 2013 by 10 638.9 K PLN. The main factor behind the boost of own funds was the increase of authorised capital by 11 149.2 K PLN and allocation of 13 441 K PLN from the financial result of 2013 to the funds, as well as allocation of the general risk provision in the amount of 16 125.4 K PLN to the funds. At the same time, TIER I capital decreased by 8 400 K PLN and this amount was allocated to subordinated liabilities. The existing subordinated liabilities decreased by 21 817 K PLN, of which 15 248 K PLN is the result of depreciation of banking commercial papers and 2 102 K PLN of the depreciation of a subordinated loan received from Credit Cooperatif, and 4 467 K PLN of the depreciation of a subordinated loan received from CoopEst. Details regarding changes affecting own funds are presented in the table below.

Table 19. Changes affecting the amount of own funds (in K PLN)

	31.12.2014	31.12.2013	Balance change
	1	2	1-2
TIER I core capital	579 232,7	567 124,2	12 108,5
Authorised capital	231 903,9	220 754,7	11 149,2
Supplementary capital	194 705,1	187 984,4	6 720,7
Capital reserve	106 179,1	99 458,4	6 720,7
General bank risk fund	64 273,9	64 273,9	0,0
Revaluation fund	26 708,4	20 382,0	6 326,4
Intangible assets	(-17 726,3)	(-17 030,7)	696,3
Loss on revaluation of financial instruments classified as available for sale	0	0	0
Adjustment of revaluation fund	(-26 811,0)	0	(-26 811,0)
Capital investments in financial entities	0	4 222,3	(-4 222,3)
TIER I additional capital	33 600,0	42 000,0	(-8 400,0)
TIER II capital	128 799,4	121 869,0	6 930,4
General risk provision	16 125,4	0,0	16 125,4
Subordinated liabilities	112 674,0	126 091,0	(-13 417,0)
Capital investments in financial entities	0	4 222,0	(- 4 222,0)
Own funds	741 632,1	730 993,2	10 638,9

Financial performance

Table 20. Basic reporting data and economic and financial ratios (in K PLN)

	31.12.2014	31.12.2013	Dynamics
Balance-sheet total	12 828 875,7	12 708 349,0	101%
Receivables from financial entities	724 272,0	601 126,2	120%
Receivables from non-financial and public entities	5 181 076,8	4 891 233,4	106%
Debt securities	5 862 536,4	6 028 146,7	97%
Payables to financial entities	11 081 452,8	11 004 746,1	101%
Payables to non-financial and public entities	637 762,5	651 652,7	98%
TIER I core capital	579 232,7	567 124,2	102%
Own funds	741 632,1	730 993,2	101%
Total capital requirements	473 926,0	475 742,5	100%
Capital adequacy ratio	12,52%	12,29%	102%
Total revenues	741 804,3	837 806,4	89%
Total expenses	678 211,3	820 493,9	83%
Gross financial result	63 593,0	17 312,5	367%
Net financial result	51 883,2	13 441,3	386%
Gross profit margin	9,38%	2,11%	444%
Net profit margin	7,65%	1,64%	466%
ROA	0,40%	0,11%	364%
ROE	8,56%	2,33%	367%

The balance-sheet total as of the end of 2014 amounted to 12 828 875.7 K PLN and compared 2013 increased by 120 526.7 K PLN, which was mainly caused by a 1% increase in funds deposited by financial entities, chiefly cooperative banks. Payables to financial entities accounted for 86.4% of liabilities and went down by 0.2 p.p. compared to the year before. Payables to non-financial and public entities went down by 13 890.2 K PLN and are mainly due to a decrease in the balance of public sector funds. Payables to non-financial and public entities accounted for 5.1% and were slightly down from the end of 2013.

Growth in the level of financing sources translated mainly into increase in receivables from the non-financial sector. Their growth at the end of 2014 compared to the end of 2013 amount to 8%, i.e. 314 933.5 K PLN.

As a result, the structure of assets – like the year before – contained a large share of debt securities, although they went down from 47.4% to 45.7%. In turn, total receivables from non-financial and public entities accounted for 40.4% of the balance-sheet total at the end of 2014 and compared to the end of 2013, when they represented 38.5%, they went up by 1.9 p.p.

In 2014, although the loan portfolio for non-financial entities increased, total loans for public entities decreased by 2.7%. Syndicated loans extended to non-financial and public entities went down to by 0.5 p.p., from 43.5% to 43%. As an alternative to lending activity, the bank can acquire corporate bonds and certificates. The value of corporate bonds issued by entities other than banks as of 31.12.2014 amounted to 1,174,397.0 K PLN, whereas the value of bonds and

certificates issued by banks was 244,432.86 K PLN. Compared to 2013, quality of loans for non-financial and public entities improved. The ratio of non-performing loans to the whole loan portfolio went down from 10.92% to 9.28%. The ratio improvement is due to the dynamics of the loan portfolio of 106%, and non-performing loans - of 92%.

In 2014, outlay on tangible fixed assets amounted to 4 647.9 K PLN, of which 69.7%, i.e. 3 239.1 K PLN accounted for outlay on computer sets. At the same time, the gross value of fixed assets declined by 11 714.8 K PLN due to liquidation or sale and this also mainly involved computer sets.

In 2014, interest income was down by 33 738.8 K PLN from the figure for the preceding year and amounted to 493 403.3 K PLN. Interest expenses were down by 61 610.8 K PLN than in the preceding year and amounted to 302 408.1 K PLN. Net interest income was higher by 27 872.0 K PLN. The increase in net interest income was the result of a more favourable interest rate differential, which, in 2014, amounted to 1.72 p.p., compared to 1.46 pp a year earlier. The increase in the interest rate differential is mainly due to the favourable impact of the reduction in interest rates by the Monetary Policy Council. Most of the liabilities are revalued in a short time, so the drop in interest rates was reflected more quickly in decrease in interest expenses than decrease in revenues, mostly due to the fact of holding securities of longer-term revaluation in the portfolio. Net interest margin in 2014 amounted to 1.79% against 1.46% a year earlier.

The result on banking activities compared to the preceding year was up by 28 578.6 K PLN, amounting to 251 991.0 K PLN. It was due to the net result on interest, which was up by 27 872.0 K PLN, net income from commissions up by 163.9 K PLN and net income from financial operations up by 974.7 K PLN, despite a decrease of 515.5 K PLN in result on currency

exchange items. The main reason behind a higher result from financial operations is higher revenues from the valuation of Treasury bonds due to an increase in their prices in 2014.

Administration costs including depreciation amounted to 153 963.8 K PLN, down by 6 224.4 K PLN from 2013. Cost savings include the drops in payroll expenses by 7 326.4 K PLN and depreciation by 875.8 K PLN. Other operating costs increased by 1 977.7 K PLN. The higher increase in costs was due to mandatory payments to the BGF and the FSA by 1 766.6 K PLN and legal services by 1 929.8 K PLN. Maintenance costs of buildings and rooms were down by 2 041.8 K PLN and consulting and advisory services by 468.0 K PLN.

The gross financial result for 2014 amounted to 63 593.0 K PLN and was up by 46 280.5 K PLN from the year before. The higher financial result was affected mainly by the result from banking activities higher by 28 578.6 K PLN, operational costs and depreciation lower by 6 224.4 K PLN, as well as more favourable difference between provisions and revaluations by 12 044.8 K PLN.

The ROA in 2014 amounted to 0.40%, ROE was 8.56% and the net profit margin was 7.65%. Compared to the year before, the C/I ratio improved significantly C/I from 66.0% in 2013 to 56.9% in 2014.

The capital adequacy ratio amounted to 12.52% and compared to the preceding year's ratio jumped by 0.23 p.p. The increase of the capital adequacy ratio compared to the year before emerged because own funds went up by 1.5% while the total capital requirement dropped by 0.4%.

The Bank's Management Board does not assume that the financial situation next year would be significantly deteriorated compared to the previous year.

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CHAPTER 8

8.1 Macro environment and financial market forecasts

Economic growth and unemployment

According to the preliminary estimate provided by the Polish Central Statistical Office (GUS), in the fourth quarter of 2014 gross domestic product seasonally adjusted (in constant prices with 2010 as the reference year) increased in real terms by 0.7% as compared to the previous quarter and was higher than a year ago by 3.2%. Unseasonally adjusted GDP (in constant average prices of the previous year) increased in real terms by 3.1% as compared to the fourth quarter of 2013, which represents an improvement compared with the rapid estimate published on 13 February this year by 10 basis points. GDP growth in 2014 amounted to 3.3%.

The GUS data confirmed that the domestic demand remained the main engine of economic growth. Positive impact of investment demand on GDP strengthened, also the impact of consumption on economic growth remained strong. In this situation, it is forecast that the rate of change of GDP in Poland will amount to 3.2% in 2015 and 3.4% in 2016.

According to the Ministry of Labour and Social Policy, the registered unemployment rate in March went down to 11.7% as compared to 12 % in February and 13.5% in March 2014. Compared to March 2014, the number of unemployed decreased by 316 thousand. In the coming months, unemployment will remain at the elevated level due to the impact of seasonal factor, but in December 2015 the registered unemployment rate will decrease to 11%.

Inflation

In the draft budget act for 2015 it was assumed that the average annual consumer price index will reach 1.2%. The actual inflation rate is likely to be much lower, though. In February 2015, according to preliminary estimates of GUS, prices fell by 0.1% m/m and 1.6% y/y. In annual terms, consumer price index has been falling continuously for eight months. The biggest impact on the formation of the consumer price index on a negative level in annual terms was exerted by decreases in transport-related charges and lower prices for food and non-alcoholic beverages. Cost pressure also remained weak. According to preliminary data, in February 2015 prices of total industrial production sold were lower by 2.7% in annual terms. The fall in prices was also recorded in construction and assembly production (-0.4% y/y). Growth of average wages in the enterprise sector excluding payments from profit also did not accelerate. In February 2015, it increased only by 3.2% y/y and 1.0% m/m. Thus, the economic recovery takes place in conditions of low and anchored inflation expectations, as well as

Low prices of oil and food will prolong the period of deflation to the third quarter of 2015. Later, however, prices will begin to rise. At the end of 2015, CPI inflation may amount to approx. 0.7% y/y, while throughout 2015 it could fall below zero.

Money market interest rates

low wage and cost pressure.

At its March meeting, the Monetary Policy Council decided to lower the NBP interest rates by 50 basis points. Since 5 March, the reference rate has been 1.50%. Taking into account the extension of the period of deflation and a marked increase in the risk of inflation remaining below the target in the medium term - as indicated by the March projection - the Council decided to lower the NBP interest rates. The MPC announced in a press release that the decision to cut interest rates mean the end of the cycle of monetary policy easing. The statement issued after the March meeting and press conference clearly show that by the end of its current term, the MPC will not carry out further reductions of the NBP interest rates.

At the end of March 2015, WIBOR 1W, 1M, 3M, 6M and 12M rates amounted to 1.62%, 1.64%, 1.65%, 1.66% and 1.68%, and the WIBID rates respectively 1.42%, 1.44%, 1.45%, 1.46% and 1.48%. Assuming a baseline scenario in which the MPC has completed the cycle of monetary policy easing, it is anticipated that in Decem-



ber 2015 interbank rates will Mount to 1.42%, 1.45%, 1.46%, 1.48% and 1.50% for the WIBID 1W, 1M, 3M, 6M and 12M rates and 1.62%, 1.65%, 1.66%, 1.68% and 1.70% for the respective WIBOR rates.

Exchange rates of the Polish zloty to the euro and dollar

In the first three months of 2015, the Polish zloty exchange rate was characterised by high volatility. In early March, the zloty strengthened against the euro and against the dollar. The euro has weakened since the launch of the quantitative easing program by the ECB in March 2015 and also as a result of protracted negotiations between Greece and the other euro zone countries on the granting of the next tranche of financial aid. As a result, the EUR/PLN exchange rate fell to almost 4.0 and the zloty proved to be the strongest since 2011. In contrast, the depreciation of the US dollar was caused by worse than expected data on the number of new jobs in the US in March 2015. These data cast doubt on both dates, as well as the scale of the first interest rate increase in the US.

The zloty exchange rate in the coming months will be affected by the extension in the scope of the quantitative easing program by the ECB. This should induce the influx of foreign capital to Poland, looking for assets with relatively high rate of return and serving as the basis for appreciation of the zloty against the euro. However, the expected tightening of the monetary policy in the US will affect the depreciation of the zloty against the US dollar. As a result, by the end of 2015, the zloty should gradually strengthen against the euro, while being fairly weak against the dollar. As a result, in December 2015, the EUR/PLN exchange rate will reach 4.05 and the USD/PLN - 3.80.

International interest rates

LIBOR and EURIBOR rates remain historically low. At its March meeting, the Governing Council of the ECB left key interest rates unchanged (the refinancing credit rate is still at 0.05%). At a press conference held after the meeting, the ECB President M. Draghi announced extension of the financial assets purchase program. This will involve purchase of assets worth 60 billion euro each month. These purchases will continue into 2016 or until the ECB's inflation target (2%) is reached.

Forecasts and plans

In turn, the Federal Open Market Committee at its March meeting also left federal funds rate unchanged, but information on a patient approach regarding a decision to normalise monetary policy included in a statement issued after the meeting was removed. At the same time the interest rates forecasts formulated by the members of the Committee were lowered: the median of the forecasts indicate that the federal funds rate at the end of 2015 will amount to 0.625% (from 1.125% in December 2014).

Taking into account the likely Fed's tightening of monetary policy in the second half of 2015, it is assumed that at the end of 2015, the LIBOR rates will reach 0.70%, 0.80% and 0.95% for the LIBOR USD 1M, 3M and 6M, while the EURIBOR rates will remain stable and reach 0.00%, 0.02% and 0.10% for the EURIBOR 1M, 3M and 6M.

8.2 Plans

In 2015, the term of the previous strategy of the Bank and the Group ends. SGB actions in the coming years will follow the new strategy of the association, which will take effect from 2016.

The Group's operations will be largely determined by the changing external regulations as a result of implementing the CRD IV Directive and the CRR Regulation.

Implementation of the IPS package will determine the new business model for the Bank, based on even stronger cooperation with cooperative banks in areas including syndicated loans, treasury services, clearing services and IT support.

Internal activities will focus mainly on support for the Cooperative Banks' operations, development of an attractive offer of association services for cooperative banks and conducting joint business activities by the Bank and cooperative banks.

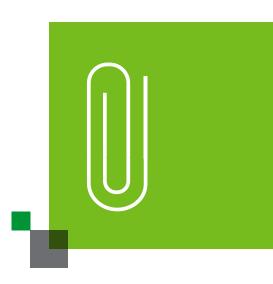
Apart from activities aimed at improving internal processes and regulatory compliance, the Bank will also focus on associational solutions related to the development of electronic access channels, ATM services and def3000 deployment with auxiliary systems at the



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associated cooperative banks. Technology support will be aimed at ensuring operational security and enhancing client experience through service level. Marketing will be an important element supporting business activities. It will be realised in line with the Group's strategy, to reinforce the SGB brand and cooperative banks' brands.



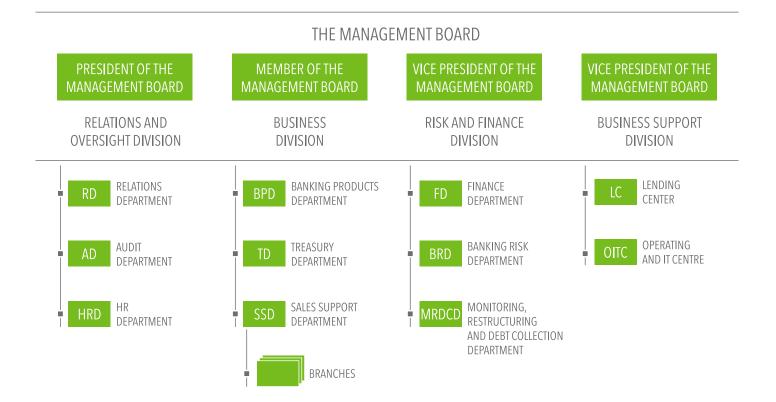




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1. Organisational structure of the Bank



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2. List of the Bank's Branches at 31 December 2014

No.	Name	Address
1	Branch in Brodnica	ul. Przykop 53, 87-300 Brodnica
2	1st Branch in Bydgoszcz	ul. Chodkiewicza 89/91, 85-950 Bydgoszcz
3	Branch in Ciechanów	ul. Kopernika 2, 06-400 Ciechanów
4	Branch in Gdynia	ul. Bytomska 24, 81-509 Gdynia
5	Branch in Grodzisk Wielkopolski	ul. Chopina 1, 62-065 Grodzisk Wlkp.
6	Branch in Konin	ul. Bankowa 1, 62-500 Konin
7	1st Branch in Koszalin	al. Armii Krajowej 8, 75-200 Koszalin
8	Branch in Leszno	ul. Zamenhofa 107, 64-100 Leszno
9	Branch in Łowicz	ul. Stanisławskiego 25, 99-400 Łowicz
10	1st Branch in Łódź	ul. Północna 27/29, 91-420 Łódź
11	Branch in Ostrów Wielkopolski	ul. Raszkowska 60/62, 63-400 Ostrów Wlkp.
12	Branch in Piła	al. Wojska Polskiego 6, 64-920 Piła
13	Branch in Piotrków Trybunalski	ul. Słowackiego 81, 97-300 Piotrków Tryb.
14	Branch in Płock	ul. Nowy Rynek 6, 04-900 Płock
15	1st Branch in Poznań	ul. Mielżyńskiego 22, 61-725 Poznań
16	Branch in Radom	ul. Piłsudskiego 3, 26-600 Radom
17	Branch in Sieradz	ul. Spółdzielcza 4a, 98-200 Sieradz
18	Branch in Wrocław	ul. Zwycięska 14e/2/A, 55-033 Wrocław
19	Branch - Finansowe Centrum Biznesu in Poznań	ul. Zwierzyniecka 14/16, 60-813 Poznań
20	Branch - Finansowe Centrum Biznesu in Warsaw	ul. Elbląska 15/17, 01-747 Warszawa

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3. Cooperative banks affiliated with SGB-Bank S.A. at 31 December 2014

1.	Kujawski Bank Spółdzielczy in Aleksandrów Kujawski
2.	Bank Spółdzielczy im. Stefczyka in Belsk Duży
3.	Bank Spółdzielczy in Bełchatów
4.	Bank Spółdzielczy in Stara Biała
5.	Bank Spółdzielczy Ziemi Wieluńskiej
6.	Bank Spółdzielczy in Białobrzegi
7.	Bank Spółdzielczy in Białogard
8.	Nadnotecki Bank Spółdzielczy
9.	Bank Spółdzielczy in Białystok
10.	Bank Spółdzielczy in Bieżuń
11.	Bank Spółdzielczy in Błaszki
12.	Bank Spółdzielczy in Bytów
13.	Bank Spółdzielczy in Chełmn
14.	Bank Spółdzielczy in Chodzież
15.	Bank Spółdzielczy in Chojna
16.	Gospodarczy Bank Spółdzielczy in Choszczno
17.	Bank Spółdzielczy in Chynów
18.	Polski Bank Spółdzielczy in Ciechanów
19.	Bank Spółdzielczy in Czarnków
20.	Bank Spółdzielczy in Czersk
21.	Bank Spółdzielczy in Człuchów
22.	Bałtycki Bank Spółdzielczy in Darłowo
23.	Bank Spółdzielczy in Dobrzyca
24.	Lubusko - Wielkopolski Bank Spółdzielczy seated in Drezdenko

25.	Nadwarciański Bank Spółdzielczy in Działoszyn
26.	Bank Spółdzielczy in Dzierzgoń
27.	Bank Spółdzielczy in Dzierżoniów
28.	Bank Spółdzielczy in Gąbin
29.	Bank Spółdzielczy in Gąsocin
30.	Bank Spółdzielczy in Glinojeck
31.	Bank Spółdzielczy in Głowaczów
32.	Bank Spółdzielczy in Głowno
33.	Bank Spółdzielczy in Gniew
34.	Bank Spółdzielczy in Gniezno
35.	Bank Spółdzielczy in Goleniów
36.	Bank Spółdzielczy in Golub-Dobrzyń
37.	Gospodarczy Bank Spółdzielczy in Gorzów Wielkopolski
38.	Powiatowy Bank Spółdzielczy in Gostyń
39.	Bank Spółdzielczy in Góra
40.	Bank Spółdzielczy in Grabów
40.	
	in Grabów Bank Spółdzielczy
41.	in Grabów Bank Spółdzielczy in Grębocin Bank Spółdzielczy
41.	in Grabów Bank Spółdzielczy in Grębocin Bank Spółdzielczy in Grodzisk Wielkopolski Bank Spółdzielczy
41. 42. 43.	in Grabów Bank Spółdzielczy in Grębocin Bank Spółdzielczy in Grodzisk Wielkopolski Bank Spółdzielczy in Grójec Bank Spółdzielczy
41. 42. 43. 44.	in Grabów Bank Spółdzielczy in Grębocin Bank Spółdzielczy in Grodzisk Wielkopolski Bank Spółdzielczy in Grójec Bank Spółdzielczy in Grudusk Bank Spółdzielczy
41. 42. 43. 44. 45.	in Grabów Bank Spółdzielczy in Grębocin Bank Spółdzielczy in Grodzisk Wielkopolski Bank Spółdzielczy in Grójec Bank Spółdzielczy in Grudusk Bank Spółdzielczy in Gryfice Bank Spółdzielczy

49.	Bank Spółdzielczy in Inowrocław
50.	Piastowski Bank Spółdzielczy in Janików
51.	Bank Spółdzielczy in Jarocin
52.	Bank Spółdzielczy in Jastrów
53.	Południowo-Mazowiecki Bank Spółdzielczy in Jedlińsk
54.	Bank Spółdzielczy in Jutrosin
55.	Bank Spółdzielczy in Kalisz Pomorski
56.	Bank Spółdzielczy in Kcynia
57.	Spółdzielczy Bank Ludowy in Kępno
58.	Bank Spółdzielczy in Kleszczów
59.	Bank Spółdzielczy in Kłodawa
60.	Bank Spółdzielczy in Kobierzyce
61.	Bank Spółdzielczy in Konin
62.	Bank Spółdzielczy in Koronów
63.	Bank Spółdzielczy in Kostrzyń
64.	Bank Spółdzielczy in Kościan
65.	Bank Spółdzielczy in Kościerzyna
66.	Bank Spółdzielczy in Kowal
67.	Bank Spółdzielczy in Kowalew Pomorski
68.	Bank Spółdzielczy Ziemi Kaliskiej
69.	Bank Spółdzielczy in Kórnik
70.	Bank Spółdzielczy in Krokowa
71.	Bank Spółdzielczy in Krosno Odrzańskie
72.	Bank Spółdzielczy in Krośniewice

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3. Cooperative banks affiliated with SGB-Bank S.A. at 31 December 2014

73.	Bank Spółdzielczy in Krotoszyn
74.	Bank Spółdzielczy in Kruszwica
75.	Bank Spółdzielczy "Wspólna Praca" in Kutno
76.	Bank Spółdzielczy in Lesznowola
77.	Bank Spółdzielczy in Działdowo seated in Lidzbark
78.	Bank Spółdzielczy in Lipce
79.	Bank Spółdzielczy in Lipno
80.	Bank Spółdzielczy in Lipsk
81.	Bank Spółdzielczy in Lubichów
82.	Bank Spółdzielczy in Lubraniec
83.	Bank Spółdzielczy in Lubycz Królewska
84.	Rejonowy Bank Spółdzielczy in Lututów
85.	Bank Spółdzielczy Lwówek Śląski
86.	Bank Spółdzielczy in Łasina
87.	Bank Spółdzielczy in Łeba
88.	Bank Spółdzielczy Ziemi Łęczyckiej in Łęczyca
89.	Bank Spółdzielczy Ziemi Łowickiej in Łowicz
90.	Bank Spółdzielczy Rzemiosła in Łódź
91.	Rejonowy Bank Spółdzielczy in Malanów
92.	Bank Spółdzielczy in Malbork
93.	Gospodarczy Bank Spółdzielczy Międzyrzecz
94.	Bank Spółdzielczy in Mława
95.	Gospodarczy Bank Spółdzielczy in Mosinia
96.	Bank Spółdzielczy in Mszczonów

97.	Bank Spółdzielczy in Nadarzyn
98.	Bank Spółdzielczy in Naklo by Noteć
99.	Bank Spółdzielczy in Nasielsk
100.	Bank Spółdzielczy in Nowe by Vistula River
101.	Żuławski Bank Spółdzielczy in Nowy Dwór Gdański
102.	Bank Spółdzielczy in Nowy Staw
103.	Bank Spółdzielczy in Nowy Tomyśl
104.	Ludowy Bank Spółdzielczy in Oborniki
105.	Bank Spółdzielczy in Oława
106.	Bank Spółdzielczy in Opoczno
107.	Bank Spółdzielczy in Osie
108.	Bank Spółdzielczy in Ośno Lubuskie
109.	Bank Spółdzielczy in Ożarów
110.	Bank Spółdzielczy Towarzystwo Oszczędnościowo-Pożyczkowe PA-CO-BANK
111.	Braniewsko-Pasłęcki Bank Spółdzielczy in Pasłęk
112.	Bank Spółdzielczy in Pionki
113.	Bank Spółdzielczy in Piotrków Kujawski
114.	Bank Spółdzielczy Ziemi Piotrkowskiej in Piotrków Trybunalski
115.	Bank Spółdzielczy in Pleszewo
116.	Bank Spółdzielczy "Mazowsze" in Płock
117.	Pobiedzisko-Gośliński Bank Spółdzielczy in Pobiedziska
118.	Powiatowy Bank Spółdzielczy in Police
119.	Bank Spółdzielczy in Połczyn Zdrój

120.	Bank Spółdzielczy in Poniec
121.	Poznański Bank Spółdzielczy
122.	Wielkopolski Bank Spółdzielczy
123.	Bank Spółdzielczy in Prabuty
124.	Bank Spółdzielczy in Pruszcz Gdański
125.	Bank Spółdzielczy in Pruszczu Pomorski
126.	Bank Spółdzielczy in Przedbórz
127.	Bank Spółdzielczy in Przemków
128.	Bank Spółdzielczy in Przysucha
129.	Bank Spółdzielczy in Pszczółki
130.	Bank Spółdzielczy in Puck
131.	Bank Spółdzielczy in Pułtusk
132.	Pyrzycko-Stargardzki Bank Spółdzielczy in Pyrzyce
133.	Bank Spółdzielczy in Raciąż
134.	ESBANK Bank Spółdzielczy
135.	Bank Spółdzielczy in Radziejów
136.	Nadobrzański Bank Spółdzielczy in Rakoniewice
137.	Bank Spółdzielczy in Raszków
138.	Bank Spółdzielczy in Rumia
139.	Bank Spółdzielczy in Rusiec
140.	Bank Spółdzielczy in Rzepin
141.	Express Bank Spółdzielczy
142.	Bank Spółdzielczy in Sandomierz
143.	Bank Spółdzielczy in Santok

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3. Cooperative banks affiliated with SGB-Bank S.A. at 31 December 2014

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145.	Bank Spółdzielczy in Siedlec
146.	Bank Spółdzielczy in Sieradz
147.	Bank Spółdzielczy in Sierakowice
148.	Bank Spółdzielczy Pojezierza Międzychodzko-Sierakowskiego
149.	Spółdzielczy Bank Ludowy in Skalmierzyce
150.	Bank Spółdzielczy in Skaryszew
151.	Bank Spółdzielczy in Skępe
152.	Bank Spółdzielczy in Skórcz
153.	Bank Spółdzielczy in Sławno
154.	Bank Spółdzielczy in Słupca
155.	Bank Spółdzielczy in Smętów Graniczny
156.	Bank Spółdzielczy in Sokoły
157.	Bank Spółdzielczy in Starogard Gdański
158.	Bank Spółdzielczy in Stegna
159.	Bank Spółdzielczy in Stryków
160.	Ludowy Bank Spółdzielczy in Strzałkowo
161.	Bank Spółdzielczy in Strzegów
162.	Gospodarczy Bank Spółdzielczy in Strzelin
163.	Bank Spółdzielczy in Strzelno
164.	Bank Spółdzielczy in Susz
165.	Bank Spółdzielczy in Szadek
166.	Bank Spółdzielczy Duszniki
167.	Bank Spółdzielczy Rzemiosła in Szczecin

168.	Bank Spółdzielczy in Sztum	
169.	Bank Spółdzielczy in Szubin	-
170.	Bank Spółdzielczy in Ślesin	
171.	Bank Spółdzielczy in Śmiglo	-
172.	Spółdzielczy Bank Ludowy im. Ks. P. Wawrzyniaka	-
173.	Bank Spółdzielczy in Środa Wielkopolska	
174.	Pomorski Bank Spółdzielczy in Świdwin	
175.	Bank Spółdzielczy in Świecie	-
176.	Bank Spółdzielczy in Tczew	-
177.	Bank Spółdzielczy in Teresin	-
178.	Powiatowy Bank Spółdzielczy in Tomaszów Mazowiecki	-
179.	Bank Spółdzielczy in Toruń	-
180.	Bank Spółdzielczy in Tuchola	-
181.	Bank Spółdzielczy in Ustka	-
182.	Bank Spółdzielczy in Warka	
183.	Bank Spółdzielczy in Wartkowice	
184.	Pałucki Bank Spółdzielczy in Wągrów	
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186.	Bank Spółdzielczy in Wieleń	
187.	Bank Spółdzielczy in Wierzbin	
188.	Bank Spółdzielczy in Wiskitki	
189.	Bank Spółdzielczy in Witków	
190.	Kujawsko-Dobrzyński Bank Spółdzielczy in Włocławek	
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192.	Bank Spółdzielczy in Wolin
193.	Bank Spółdzielczy in Wołczyn
194.	Bank Spółdzielczy in Wronki
195.	Powiatowy Bank Spółdzielczy in Września
196.	Bank Spółdzielczy in Wschowa
197.	Bank Spółdzielczy in Zagórów
198.	Spółdzielczy Bank Ludowy in Zakrzew
199.	Ludowy Bank Spółdzielczy in Zduńska Wola
200.	Spółdzielczy Bank Ludowy in Złotów
201.	Bank Spółdzielczy in Zwoleń
202.	Bank Spółdzielczy Pałuki in Żnin
203.	Bank Spółdzielczy in Żuromin
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FINANCIAL STATEMENTS



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Independent Auditor's Opinion

١.

To the Shareholders and the Supervisory Board of SGB-Bank S.A.

11.

We have audited the accompanying financial statements of **SGB-BANK S.A.**, with its registered office in Poznań, ul. Szarych Szeregów 23a, comprising an introduction to the financial statements, balance sheet as at 31 December 2014, income statement, statement of changes in equity, cash flow statement for the period from 1 January 2014 to 31 December 2014, and notes.

The Bank's Management Board is responsible for a fair and clear view of the accompanying financial statements, their preparation in accordance with applicable regulations, proper accounting records and the report on the activities of the Bank.

Additionally, the Management Board and the members of the Bank's Supervisory Board are obliged to ensure that the financial statements and the report on the activities of the Bank meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330), hereinafter referred to as the "Accounting Act".

Our task was to audit and express our opinion on the conformity of these financial statements with the applicable accounting principles (policies) and whether or not they give a true and fair view, in all material respects, of the Bank's property and financial position, financial result, as well as on the correctness of the accounting books based on which these financial statements were prepared.

III.

We conducted our audit in accordance with:

- 1. Chapter 7 of the Accounting Act,
- 2. National Standards on Auditing issued by the National Council of Statutory Auditors in Poland.

The audit was planned and conducted so as to obtain reasonable assurance to express an opinion on the financial statements. In particular, the audit included assessing the Bank's accounting policies and significant estimates, examining, largely on a test basis, evidence and accounting records supporting the amounts and disclosures in the financial statements, as well as evaluating the overall financial statements presentation.

We believe that our audit provides a reasonable basis for our opinion.

FINANCIAL STATEMENTS

In our opinion, the audited financial statements, in all material respects:

a) give a fair and true view of the information relevant for assessing the Bank's property and financial position as at 31 December 2014, as well as its financial result for the period from 1 January 2014 to 31 December 2014,

IV.

b) have been prepared in accordance with the applicable accounting principles (policies) and based on properly kept books of accounts,

c) comply with the provisions of law and the Bank's Articles of Association that affect the content of the financial statements.

V.

The report on the activities of the Bank is complete within the meaning of Article 49(2) of the Accounting Act and the information contained therein is consistent with the audited financial statements.

For

Mazars Audyt Sp. z o.o Nr 186 Warsaw, ul. Piękna 18

Monika KACZOREK

Key Auditor Reg. No. 9 686

Warsaw, 20 April 2015



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Monika KACZOREK

Partner

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

2. Balance sheet

	Assets	31.12.2014	31.12.2013
I	Cash and balances with the Central Bank	557 896 227,48	768 857 067,71
	1 Current account	472 469 835,30	711 000 121,51
	2 Statutory reserve	0,00	0,00
	3 Other funds	85 426 392,18	57 856 946,20
П	Debt securities eligible for rediscounting with the Central Bank	0,00	0,00
III	Receivables from the financial sector	724 271 987,75	601 126 242,13
	1 Current account	127 953 518,37	103 087 401,24
	2 Term account	596 318 469,38	498 038 840,89
IV	Receivables from the non-financial sector	4 336 417 175,82	4 021 483 652,22
	1 Current account	370 743 518,57	429 976 479,15
	2 Term account	3 965 673 657,25	3 591 507 173,07
V	Receivables from the public sector	844 659 616,05	869 749 727,24
	1 Current account	0,00	0,00
	2 Term account	844 659 616,05	869 749 727,24
VI	Receivables under repurchase agreements	848 926,65	1 741 387,24
VII	Debt securities	5 862 536 408,74	6 028 146 652,73
	1 Issued by banks	1 814 402 505,61	2 225 344 544,67
	2 Issued by central and local budgets	3 658 968 216,50	3 329 804 091,87
	3 Other	389 165 686,63	472 998 016,19
/111	Shares in subsidiaries	10 636 650,00	10 636 650,00
	1 In financial institutions	1 280 650,00	1 280 650,00
	2 In other entities	9 356 000,00	9 356 000,00
IX	Shares in jointly controlled entities	6 825 000,00	6 825 000,00
	1 In financial institutions	3 325 000,00	3 325 000,00
	2 In other entities	3 500 000,00	3 500 000,00
Х	Shares in affiliates	1 888 759,66	1 938 759,66
	1 In financial institutions	1 888 759,66	1 888 759,66
	2 In other entities	0,00	50 000,00
XI	Shares in other entities	33 477 370,00	35 704 799,00
	1 In financial institutions	33 377 240,00	35 604 669,00
	2 In other entities	100 130,00	100 130,00
XII	Other securities and other financial assets	240 231 768,35	157 953 135,15

FINANCIAL STATEMENTS

2. Balance sheet

	Assets		
XIII	Intangible assets	17 726 265,05	17 030 711,51
	1 Goodwill	0,00	0,00
	2 Other intangible assets	17 630 288,15	17 002 433,81
	3 Expenses for intangible assets	95 976,90	28 277,70
XIV	Tangible fixed assets	94 894 798,95	99 525 869,45
	1 Real property	85 631 832,60	89 114 021,62
	2 Other tangible fixed assets	9 184 052,44	10 113 122,98
	3 Fixed assets under construction	78 913,91	298 724,85
XV	Other assets	56 262 240,42	53 496 932,32
	1 Assets taken over - to be disposed of	42 566 300,00	42 566 300,00
	2 Other	13 695 940,42	10 930 632,32
XVI	Prepayments	40 302 502,85	34 132 377,62
	1 Deferred tax assets	37 855 453,00	32 989 962,00
	2 Other prepayments	2 447 049,85	1 142 415,62
	TOTAL ASSETS	12 828 875 697,77	12 708 348 963,98

FINANCIAL STATEMENTS

2. Balance sheet

	Liabilities and equity	31.12.2014	31.12.2013
I	Liabilities to the Central Bank	2 261,83	7 580,65
II	Liabilities to the financial sector	11 081 452 831,08	11 004 746 082,44
	1. Current account	1 725 131 704,14	1 509 822 099,87
	2. Term account	9 356 321 126,94	9 494 923 982,57
	Liabilities to the non-financial sector	621 610 371,47	585 562 141,56
	1. Savings accounts, including	572 662 835,38	202 905 078,47
	a) current accounts	448 828 047,43	202 502 107,26
	b) term accounts	123 834 787,95	402 971,21
	2. Other, including	48 947 536,09	382 657 063,09
	a) current accounts	13 849 375,23	155 476 625,67
	b) term accounts	35 098 160,86	227 180 437,42
IV	Liabilities to the public sector	16 152 122,51	66 090 551,98
	1. Current accounts	15 792 910,93	15 431 656,36
	2. Term accounts	359 211,58	50 658 895,62
v	Liabilities under repurchase agreements	0,00	0,00
VI	Debt securities issued	34 085 363,01	42 497 800,27
VII	Other liabilities due for financial instruments	29 351,94	44 930,54
VIII	Special-purpose funds and other liabilities	21 330 684,60	20 807 073,63
	1. Special-purpose funds	337 547,13	444 801,07
	2. Other liabilities	20 993 137,47	20 362 272,56
IX	Accruals, deferred and reserved income	158 336 059,65	160 876 224,72
	1. Accruals	698 802,71	204 683,64
	2. Negative goodwill	8 962 024,72	11 406 213,28
	3. Other deferred and reserved income	148 675 232,22	149 265 327,80
Х	Provisions	52 487 647,02	51 993 369,87
	1. Deferred tax liability	29 656 188,00	28 124 345,00
	2. Other provisions	22 831 459,02	23 869 024,87
XI	Subordinated liabilities	167 735 416,54	172 799 332,98
XII	Share capital	231 903 900,00	220 754 700,00
XIII	Called up share capital (negative value)	0,00	0,00
xiv	Treasury shares	0,00	0,00
XV	Statutory reserve	194 705 098,79	187 984 441,79
χVI	Revaluation reserve	26 708 452,65	17 011 119,67

FINANCIAL STATEMENTS

2. Balance sheet

Liabilities and equity

XVII	Other reserves	170 452 956,88	163 732 299,57
	1. General banking risk reserve	64 273 875,20	64 273 875,20
	2. Other	106 179 081,68	99 458 424,37
XVIII	Retained earnings	0,00	0,00
XIX	Net profit (loss)	51 883 179,80	13 441 314,31
	TOTAL LIABILITIES AND EQUITY	12 828 875 697,77	12 708 348 963,98
	SOLVENCY RATIO	XXX	12,29%
	TOTAL CAPITAL RATIO	12,52%	XXX
	TIER I CAPITAL RATIO	10,35%	XXX
	TIER I CORE CAPITAL RATIO	9,78%	XXX

FINANCIAL STATEMENTS

3. Income statement

		from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Ι	Interest income	493 403 271,68	527 142 071,23
	1. From the financial sector	19 636 507,13	29 138 767,23
	2. From the non-financial sector	170 347 274,16	180 363 583,70
	3. From the public sector	53 973 169,04	72 143 124,52
	4. Fixed income securities	249 446 321,35	245 496 595,78
II	Interest expense	302 408 060,53	364 018 891,01
	1. From the financial sector	260 346 760,07	324 824 232,29
	2. From the non-financial sector	9 204 827,32	14 258 548,74
	3. From the public sector	1 117 963,36	3 602 499,85
	4. Securities		
	cost of issue of own securities	9 380 209,69	9 002 297,20
	cost of bonuses	22 358 300,09	12 331 312,93
	Net interest income (I - II)	190 995 211,15	163 123 180,22
IV	Commission income	52 952 503,43	52 738 337,23
v	Commission expense	13 792 498,92	13 742 249,48
VI	Net commission income (IV-V)	39 160 004,51	38 996 087,75
VII	Income from shares, other securities and other variable-yield financial instruments	1 296 951,20	1 213 473,97
	1. Subsidiaries	111 072,66	111 072,66
	2. Jointly controlled entities	0,00	0,00
	3. Associates	0,00	0,00
	4. Other entities	1 185 878,54	1 102 401,31
/111	Net trading income	2 557 968,25	1 583 309,29
	1. Securities and other financial instruments	2 557 968,25	1 583 309,29
	2. Other	0,00	0,00
IX	Foreign exchange result	17 980 890,23	18 496 377,56
Х	Banking activity result (III+VI+VII+/-VIII+IX)	251 991 025,34	223 412 428,79
XI	Other operating income	25 002 018,13	26 441 561,87
XII	Other operating expenses	6 232 979,63	7 105 267,91
CIII	General administrative expenses	137 844 981,15	143 193 641,11
	1. Salaries	48 571 913,39	54 753 050,36
	2. Social security contributions and other benefits	12 463 618,56	13 608 887,68
	3. Other	76 809 449,20	74 831 703,07

FINANCIAL STATEMENTS

3. Income statement

XIV	Depreciation and amortisation of fixed assets and intangible assets	16 118 828,99	16 994 584,78
xv	Provisions and impairment losses	184 763 213,84	231 517 772,94
	1. Specific and general banking risk provisions	184 763 213,84	231 517 772,94
	2. Revaluation of financial assets	0,00	0,00
XVI	Reversal of provisions and revaluation	131 559 992,94	166 269 766,39
	1. Reversal of specific and general banking risk provisions	131 559 992,94	166 269 766,39
	2. Revaluation of financial assets	0,00	0,00
XVII	Net provisions, impairment and revaluation (XV - XVI)	53 203 220,90	65 248 006,55
XVIII	Operating result (X+XI-XII-XIII-XIV+/-XVII)	63 593 032,80	17 312 490,31
XIX	Extraordinary gains/losses	0,00	0,00
	1. Extraordinary gains	0,00	0,00
	2. Extraordinary losses	0,00	0,00
хх	Gross profit (loss)	63 593 032,80	17 312 490,31
XXI	Income tax	11 709 853,00	3 871 176,00
XXII	Other compulsory charges decreasing the profit (increasing the loss)	0,00	0,00
XXIII	Net profit (loss)	51 883 179,80	13 441 314,31

FINANCIAL STATEMENTS

4. Statement of changes in equity

		31.12.2014	31.12.2013
Ι	Opening balance of equity	602 923 875,34	565 077 969,40
	(-)adjustments for fundamental errors		
.a.	Opening balance of equity, as adjusted	602 923 875,34	565 077 969,40
	1. Opening balance of share capital	220 754 700,00	189 755 900,00
	1.1. Changes in share capital	11 149 200,00	30 998 800,00
	a) increases	11 149 200,00	30 998 800,00
	issue of shares	11 149 200,00	30 998 800,00
	b) decreases	0,00	0,00
	redemption of shares	0,00	0,00
	1.2. Closing balance of share capital	231 903 900,00	220 754 700,00
	2. Opening balance of called up share capital	0,00	0,00
	2.1. Changes in called up share capital	0,00	0,00
	a) increases	0,00	0,00
	b) decreases	0,00	0,00
	2.2. Closing balance of called up share capital	0,00	0,00
	3. Opening balance of treasury shares	0,00	0,00
	a) increase	0,00	0,00
	b) decrease	0,00	0,00
	3.1. Closing balance of treasury shares	0,00	0,00
	4. Opening balance of statutory reserve	187 984 441,79	177 861 137,79
	4.1. Changes in statutory reserve	6 720 657,00	10 123 304,00
	a) increases	6 720 657,00	10 123 304,00
	share premium	0,00	0,00
	profit distribution (above the statutory minimum)	0,00	0,00
	profit distribution (in accordance with the Articles of Associa- tion)	6 720 657,00	10 123 304,00
	b) decreases	0,00	0,00
	loss coverage	0,00	0,00
	4.2. Closing balance of statutory reserve	194 705 098,79	187 984 441,79
	5. Opening balance of revaluation reserve	17 011 119,67	23 605 328,04
	5.1. Changes in revaluation reserve	9 697 332,98	-6 594 208,37
	a) increase- valuation of assets available for sale	14 057 438,39	1 602 946,00
	b) decrease - valuation of assets available for sale	4 360 105,41	-8 197 154,37
	disposal or decommissioning of fixed assets	0,00	0,00

FINANCIAL STATEMENTS

4. Statement of changes in equity

5.2. Closing balance of revaluation rese	erve 26 708 452,65	17 011 119,67
6. Opening balance of general banking r	isk reserve 64 273 875,20	64 273 875,20
6.1. Changes in general banking risk re	eserve 0,00	0,00
a) increase	0,00	0,00
profit appropriation	0,00	0,00
b) decrease	0,00	0,00
6.2. Closing balance of general banking	g risk reserve 64 273 875,20	64 273 875,20
7. Opening balance of other reserves	99 458 424,37	89 335 120,36
7.1. Changes in other reserves	6 720 657,31	10 123 304,01
a) increases	6 720 657,31	10 123 304,01
profit distribution	6 720 657,31	10 123 304,01
b) decreases	0,00	0,00
loss coverage	0,00	0,00
7.2. Closing balance of other reserves	106 179 081,68	99 458 424,37
8. Opening balance of retained earnings	(losses) 13 441 314,31	20 246 608,01
8.1. Opening balance of retained earni	ngs 13 441 314,31	20 246 608,01
adjustments for fundamental errors	s 0,00	0,00
8.2. Opening balance of retained earni	ngs, as adjusted 13 441 314,31	20 246 608,01
8.3. Change in retained earnings	-13 441 314,31	-20 246 608,01
a) increase	0,00	0,00
distribution of retained earnings	0,00	0,00
increase	0,00	0,00
b) decrease	13 441 314,31	-20 246 608,01
share capital	6 720 657,00	-10 123 304,00
statutory reserve	6 720 657,31	-10 123 304,01
general risk reserve	0,00	0,00
dividend	0,00	0,00
8.4. Closing balance of retained earnin	gs 0,00	0,00
8.5. Opening balance of retained losse	s 0,00	0,00
adjustments for fundamental errors	s 0,00	0,00
8.6. Opening balance of retained losse	s, as adjusted 0,00	0,00

FINANCIAL STATEMENTS

4. Statement of changes in equity

	8.7. Change in retained losses	0,00	0,00
	a) increase	0,00	0,00
	losses brought forward	0,00	0,00
	b) decrease	0,00	0,00
	8.8. Closing balance of retained losses	0,00	0,00
	8.9. Closing balance of retained earnings (losses)	0,00	0,00
	9. Net profit/loss	51 883 179,80	13 441 314,31
	a) net profit	51 883 179,80	13 441 314,31
	b) net loss	0,00	0,00
II	Closing balance of equity	675 653 588,12	602 923 875,34
III	Equity after proposed profit distribution	675 653 588,12	602 923 875,34
	(dividend)	0,00	0,00

FINANCIAL STATEMENTS

5. Off-balance sheet items

		31.12.2014	31.12.2013
I	Liabilities granted	1 763 080 370,54	1 611 067 801,48
	1.Liabilities granted to financial entities	1 218 035 507,53	1 189 714 618,99
	a) financing	1 203 027 916,54	1 168 921 540,58
	b) guarantees	15 007 590,99	20 793 078,41
	2. Liabilities granted to non-financial entities	538 625 009,87	418 029 199,15
	a) financing	466 178 339,71	367 971 488,62
	b) guarantees	72 446 670,16	50 057 710,53
	3. Liabilities granted to the public sector	6 419 853,14	3 323 983,34
II	Liabilities incurred	34 706 616,70	29 598 261,94
	1. Liabilities incurred from financial entities	34 706 616,70	28 011 367,62
	a) financing	6 393 450,00	6 220 800,00
	b) guarantees	28 313 166,70	21 790 567,62
	2. Liabilities incurred from non-financial entities	0,00	758 884,10
	a) financing	0,00	0,00
	b) guarantees	0,00	758 884,10
	3. Liabilities incurred from the public sector	0,00	828 010,22
	Currency transactions	22 206 850,20	20 274 324,00
V	Securities transactions	65 200 000,00	17 534 000,00
V	Liabilities under financial instruments transactions	0,00	0,00
/I	Other liabilities	0,00	0,00

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6. Cash flow statement

		from 01.01.2014 to 31.12.2014	from 01.01.2013 to 31.12.2013
Α	Cash flows from operating activities		
I	Net profit (loss)	51 883 179,80	13 441 314,31
II	Total adjustments	-117 507 575,00	-99 434 576,45
1.	Depreciation and amortisation	16 118 830,00	16 994 584,78
2.	Foreign exchange gains/losses	0,00	0,00
3.	Interest and profit-sharing (dividends)	-1 296 951,20	-1 213 473,97
4.	Profit (loss) on investing activities	355 965,62	-279 794,95
5.	Change in provisions	494 277,15	-14 418 836,18
6.	Change in debt securities	167 000 225,41	-1 571 898 053,77
7.	Change in receivables from the financial sector	-69 338 309,08	171 122 326,68
8.	Change in receivables from the non-financial sector and public sector	-289 843 412,41	15 506 637,51
9.	Change in receivables under repurchase agreements	892 460,59	16 712 651,18
10.	Change in shares, other securities and financial (trading) assets	-4 654 886,88	-10 000 171,73
11.	Change in liabilities to the financial sector	87 634 428,82	1 350 912 537,86
12.	Change in liabilities to the non-financial sector and public sector	-13 890 199,65	16 033 928,97
13.	Change in liabilities under repurchase agreements	0,00	0,00
14.	Change in liabilities arising from securities	-28 015,86	-1 302 187,11
15.	Change in other liabilities	523 610,97	-89 174 671,34
16.	Change in prepayments and accruals	-8 120 194,72	-18 249 685,63
17.	Change in deferred and reserved income	-590 095,58	-8 496 413,87
18.	Other adjustments	-2 765 308,17	28 316 045,12
Ш	Net cash flows from operating activities (I +/- II)	-65 624 395,20	-85 993 262,14
В	Cash flows from investing activities		
I	Inflows	3 865 112,27	57 420 856,05
1.	Disposal of shares in subsidiaries	0,00	0,00
2.	Disposal of shares in jointly controlled entities	0,00	0,00
3.	Disposal of shares in associates	50 000,00	0,00
4.	Disposal of shares in in other entities, other (investment) secu- rities and financial assets	1 741 384,20	54 838 142,35
5.	Disposal of intangible and tangible fixed assets	776 776,87	1 369 239,73
6.	Other investment inflows	1 296 951,20	1 213 473,97
II	Outflows	82 146 405,32	126 291 892,96
	Acquisition of shares in subsidiaries	0,00	0,00

FINANCIAL STATEMENTS

6. Cash flow statement

2.	Acquisition of shares in jointly controlled entities	0,00	0,00
3.	Disposal of shares in associates	0,00	730 200,00
4.	Acquisition of shares in in other entities, other (investment) securities and financial assets	68 830 350,80	114 985 222,04
5.	Acquisition of intangible and tangible fixed assets	13 316 054,52	10 576 470,92
6.	Other investment outflows	0,00	0,00
III	Net cash flows from investing activities (I+/-II)	-78 281 293,05	-68 871 036,91
С	Cash flows from financing activities		
I	Inflows	11 149 200,00	77 091 704,34
1.	Long-term borrowings from other banks	0,00	0,00
2.	Long-term borrowings from financial institutions other than banks	0,00	0,00
3.	Issue of debt securities to other financial institutions	0,00	0,00
4.	Increase in subordinated liabilities	0,00	46 092 904,34
5.	Net proceeds from issue of shares and additional capital contributions	11 149 200,00	30 998 800,00
6.	Other financial inflows	0,00	0,00
II	Outflows	24 396 915,44	25 257 724,00
1.	Repayment of long-term borrowings to other banks	10 932 999,00	25 257 724,00
2.	Repayment of long-term borrowings to financial institutions other than banks	0,00	0,00
3.	Redemption of debt securities from other financial institutions	0,00	0,00
4.	Other financial liabilities	0,00	0,00
5.	Payments under finance leases	0,00	0,00
6.	Decrease in subordinated liabilities	13 463 916,44	0,00
7.	Dividends and other payments to shareholders	0,00	0,00
8.	Profit distributions other than payments to shareholders	0,00	0,00
9.	Purchase of treasury shares	0,00	0,00
10.	Other financial outflows	0,00	0,00
Ш	Net cash flows from financing activities (I-II)	-13 247 715,44	51 833 980,34
D	Total net cash flows (A.III+/-B.III+/-C.III)	-157 153 403,69	-103 030 318,71
Е	Balance sheet change in cash, including	-157 153 403,69	-103 030 318,71
	change in cash due to foreign exchange differences	0,00	0,00
F	Opening balance of cash	794 493 756,23	967 408 697,23
G	Closing balance of cash (F+/-D), including	637 340 352,54	864 378 378,52
	- restricted cash		



