



Bank Polski

The PKO Bank Polski SA Group Directors' Report for the year 2017

prepared jointly with the Directors' Report of PKO Bank Polski SA

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1. INTRODUCTION

1.1 DESCRIPTION OF THE PKO BANK POLSKI SA GROUP ACTIVITIES

The Powszechna Kasa Oszczędności Banku Polskiego SA Group (the PKO Bank Polski SA Group, the Bank's Group) is one of the largest financial institutions in Poland and one of the largest financial groups in Central and Eastern Europe. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank), the parent company of the Bank's Group, is the largest commercial bank in Poland and a leading bank on the Polish market in terms of scale of operations, equity, loans, deposits, number of customers and size of the distribution network. The Bank's Group stands out on the Polish market due to its high results of operations which ensure its stable and safe development.

PKO Bank Polski SA is a universal bank which provides services to individuals, legal persons and other entities which are Polish and foreign persons.

Apart from strictly banking and brokerage activities, the PKO Bank Polski SA Group offers a range of specialist services relating to leasing, factoring, investment funds, pension funds and insurance; transfer agent, outsourcing of IT professionals and support services; it also conducts banking activities and provides financial services outside Poland through its branches in Germany, the Czech Republic and its subsidiaries in Ukraine.

Throughout the whole period of its activity, the Bank's Group has been consistently developing the prestige of its brand and providing services to many generations of Poles. The long tradition and customer confidence are important elements of the PKO Bank Polski SA Group's identity, therefore, consistent measures are taken to reinforce its perception as a group of institutions which are:

- safe, strong and competitive;
- modern and innovative, customer friendly and efficiently managed;
- socially responsible, concerned about the development of Poles' cultural awareness.

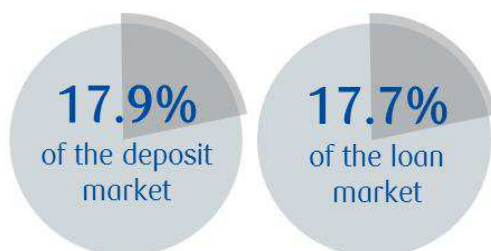
9.5 million

Customers of the Bank



2.6 million

Active Users
of mobile banking



Despite keen market competition, the PKO Bank Polski SA Group effectively develops its operations, not only in the traditional area of its operations, which is retail banking. It has also become a leader in serving corporate customers and small- and medium-sized enterprises (especially with regard to the financing of their operations) and for the market of financial services offered to municipalities, poviats, voivodeships and the public sector. It is also the foremost underwriter of municipal bonds.

The PKO Bank Polski SA Group has leading market shares in the Polish banking market for deposits (17.9%) and loans (17.7%), in the lease market (12.0%) and the market of non-dedicated investment funds (17.2%). PKO Bank Polski SA is a leader in terms of the number of current accounts and payment cards maintained.

High customer service standards and effective procedures for assessing credit risk enabled the Bank's Group in to increase its net loan portfolio to PLN 206 billion in 2017. Amounts due to customers as at the end of 2017 totalled PLN 219 billion.

3,190

ATMs



1,192

branches

745

agencies



In 2017, the Bank's Group continued its activities aimed at increasing the effectiveness of the distribution network. As at the end of 2017, the largest network of PKO Bank Polski SA branches in Poland comprised 1,192 branches and 745 agencies. The Bank's customers can use systematically enhanced electronic banking services offered under the iPKO brand and as part of the Inteligo account, and IKO mobile payments. Customers of PKO Bank Polski SA have a developed network of ATMs at their disposal, which as at the end of 2017 comprised 3,190 ATMs.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2017, the PKO Bank Polski SA Group employed more than 28 thousand full-time employees. The comprehensive training and education offer serves the purpose of building a professional and loyal team of employees able to provide high quality customer services and achieve outstanding results.

The Bank's social responsibility is reflected in the operations of PKO Bank Polski SA's Foundation which are performed for the benefit of the public.

THE PKO BANK POLSKI SA GROUP IN THE YEARS 2013–2017

	2017	2016	2015	2014	2013
Statement of financial position (in PLN million)					
Total assets	296 912	285 573	266 940	248 701	199 231
Equity	36 256	32 569	30 265	27 616	25 154
Loans and advances to customers	205 628	200 606	190 414	179 497	149 623
Amounts due to customers	218 800	205 066	195 759	174 387	151 904
Income statement (in PLN million)					
Net profit for the year	3 104	2 874	2 610	3 254	3 230
Net interest income	8 606	7 755	7 029	7 523	6 722
Net fee and commission income	2 969	2 693	2 851	2 934	3 006
Net other income	988	1 342	786	690	979
Result on business activities	12 563	11 790	10 665	11 147	10 707
Net impairment allowance and write-downs	-1 620	-1 623	-1 476	-1 899	-2 038
General administrative expenses	-5 784	-5 590	-6 036	-5 245	-4 623
Financial ratios					
Net ROA	1,1%	1,1%	1,0%	1,4%	1,6%
Net ROE	9,0%	9,1%	9,0%	12,4%	13,2%
C/I	46,0%	47,4%	56,6%	47,1%	43,2%
Interest margin	3,3%	3,2%	3,0%	3,6%	3,7%
Share of impaired loans	5,5%	5,9%	6,6%	6,9%	8,2%
Cost of risk	-0,71%	-0,75%	-0,72%	-0,96%	-1,31%
Total capital ratio	17,37%	15,81%	14,61%	12,96%	13,58%
Number of customers of PKO Bank Polski SA (in thousands)	9 498	9 199	8 982	8 894	8 451
Retail customers (in thousands)	9 044	8 756	8 538	8 431	8 024
SME (in thousands)	439	429	430	449	415
Corporate customers (in thousands)	15	15	14	14	12
Operational data					
Number of branches of PKO Bank Polski SA	1 192	1 238	1 278	1 319	1 186
Number of employees (FTE)	28 443	29 163	28 944	28 749	27 093
Number of current accounts in the Bank (in thousands)	7 134	6 850	6 621	6 660	6 318
Information on shares					
Stock exchange capitalization (in PLN million)	55 388	35 175	34 163	44 700	49 275
Number of shares (in millions)	1 250	1 250	1 250	1 250	1 250
Share price (in PLN)	44,31	28,14	27,33	35,76	39,42
Dividend per share (in PLN) (paid in a given year for the previous year)	0,00	0,00	0,00	0,75	1,80

1.2 COMPETITIVE ADVANTAGES OF THE PKO BANK POLSKI SA GROUP

The PKO Bank Polski SA Group is distinguished on the Polish financial market due to a number of competitive advantages which enable it to perform its mission and effectively achieve the goals specified in the Strategy for the years 2016–2020 “We support the development of Poland and the Poles”. The key advantages of the PKO Bank Polski SA Group compared with its main competitors include:

THE BEST KNOWN BRAND IN THE BANKING SECTOR



PKO Bank Polski SA invariably remains the most recognizable bank in Poland. The customers appreciate the brand and associate it not only with a bank that cares for their individual needs but also ensures high security of the entrusted funds.

The PKO Bank Polski SA brand is most frequently mentioned first in surveys on the bank's recognisability. The brand's strength supports the dominating share of PKO Bank Polski SA in the main segments of loan and deposit markets and the lease market, and the share of its subsidiaries which stands out in the investment fund market.

The value of the PKO Bank Polski SA* brand as at the end of 2017 was estimated at PLN 2.7 billion.

* according to *Rzeczpospolita* daily valuation under the ranking of the most valuable Polish brands

INNOVATIONS AND PAYMENTS



PKO Bank Polski SA invests in the development of electronic and mobile banking services, therefore dynamically adapting to changing customer preferences. The IKO mobile payments project and creating a global scale innovative BLIK payment standard confirmed the high value of the business solutions offered.

The Bank actively cooperates with technological start-ups setting the path for other Polish banks and supports the development of the e-State by using innovative solutions in public administration.

THE LARGEST DISTRIBUTION NETWORK IN POLAND



The largest multichannel distribution network on the Polish market creates an environment for increasing the revenue of the entire PKO Bank Polski SA Group and enables the diversification of revenue sources.

The reach of the distribution network enables providing bank products and services in a manner that is most convenient for the customers. This also applies to persons residing in locations in which the Bank's main competitors do not have their branches. The Bank's distribution network is used by companies belonging to the PKO Bank Polski SA Group.

INVOLVEMENT IN THE DEVELOPMENT OF POLISH ENTREPRENEURSHIP



PKO Bank Polski SA stands out due to its comprehensive product offer addressed to both micro, small and medium and large enterprises.

The Bank offers a full range of modern financial solutions: settlement and transaction products, loan and deposit products as well as specialist brokerage services, leasing and factoring.

PKO Bank Polski SA addresses the needs of Polish entrepreneurs who are open to new development directions and supports them in foreign expansion.

THE LARGEST CUSTOMER BASE



The largest customer base of PKO Bank Polski SA creates an environment for setting the standards of customer service, products and services offered and technological innovations. The potential for setting market standards in association with high strength in the area of enterprise financing gives the PKO Bank Polski SA Group a competitive advantage over its largest competitors.

COMPETENT AND DEVOTED STAFF



PKO Bank Polski SA belongs to a circle of most desired employers, both among students and specialists, and managers.

STABLE BASE OF FINANCING



PKO Bank Polski SA has a secure and stable financing structure based on customer deposits, mainly deposits of retail customers.

The high assessment of the Bank's financial reliability and competency with regard to issues on the debt market enable access to financing on Polish and international markets, thus ensuring the diversification of the sources of financing operations.

1.3 THE PKO BANK POLSKI SA GROUP – HISTORICAL BACKGROUND

The PKO Bank Polski SA Group has been strengthening its position as leader of Polish banking, offering services to retail as well as institutional customers for ninety-eight years.

1919–1938	<ol style="list-style-type: none"> Pocztowa Kasa Oszczędności was established on 8 February 1919 by virtue of a decree signed by the Head of the country Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde – PKO's founder and first president. Pocztowa Kasa Oszczędności was vested with legal personality as a state institution, operating under the supervision of and with the guarantee of the State. The first local branch of Pocztowa Kasa Oszczędności was opened in Poznań. Pocztowa Kasa Oszczędności began running School Savings Unions (Szkolne Kasy Oszczędności). With the initiative of Pocztowa Kasa Oszczędności, the Ministry of the Treasury decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the transfer of foreign currencies to Poland by Poles living abroad. Pocztowa Kasa Oszczędności strongly contributed to the development of non-cash transactions – every other larger industrial plant and every large enterprise had a cheque account with Pocztowa Kasa Oszczędności, and cheque turnover in Poland was one and a half times higher than the cash turnover.
1939–1945	<p>The Second World War was a period in which Pocztowa Kasa Oszczędności's activity came to a standstill and it suffered huge losses.</p>
1946–1990	<ol style="list-style-type: none"> Pocztowa Kasa Oszczędności was transformed into Powszechna Kasa Oszczędności. The Banking Law Act introduced a privilege for saving deposits held in Powszechna Kasa Oszczędności; they were covered by a State guarantee. Powszechna Kasa Oszczędności introduced a modern product: a current account. In the years 1975–1987, Powszechna Kasa Oszczędności was merged into the structures of the National Bank of Poland (NBP), yet it retained its identity.
1991–2001	<ol style="list-style-type: none"> The first Internet information portal of the Bank and the first e-PKO Internet branch were launched. PKO Towarzystwo Funduszy Inwestycyjnych SA (PKO TFI) began its operations. PKO BP BANKOWY PTE SA was formed. Bankowy Fundusz Leasingowy SA (currently PKO Leasing SA) was formed which provides operating and finance leases of non-current assets and property. PKO BP, as one of the founders, formed Centrum Elektronicznych Usług Płatniczych eService SA (currently CEUP eService Sp. z o.o.). In 2000, the Bank was transformed into a joint-stock company fully owned by the State Treasury under the name PKO Bank Polski Spółka Akcyjna.
2002–2009	<ol style="list-style-type: none"> The Bank acquired Inteligo Financial Services SA, a company providing services covering the maintenance and development of ICT systems used in banking systems, also including electronic access to bank accounts (Inteligo account). The Bank acquired 66.65% shares in KREDOBANK SA. The company is registered and operates in Ukraine. At present, the Bank holds 99.6293% of shares in the company's share capital. In 2004, PKO Bank Polski SA's floatation took place – at the end of the first day of quotations, shares reached a price of PLN 24.50 against the issue price fixed at PLN 20.50. PKO BP Faktoring SA (currently PKO Faktoring SA) began its operations. The Bank's share capital was increased from PLN 1 000 million to PLN 1 250 million (2009).
2010–2015	<ol style="list-style-type: none"> 2013–2015 strategy: "PKO Bank Polski. Every day the best" strengthened the position of the Bank's Group as a leader in key market segments. The PKO Bank Polski SA Group issued 5-year Eurobonds with a value of EUR 800 million and bonds to the American market in the amount of USD 1.0 billion, which became benchmark securities not only for Polish entities but also for issuers in Central and Eastern Europe. In 2013, PKO Bank Polski SA set a new standard of mobile payments – IKO – an innovative solution on the market of mobile payments, transformed in 2015 into the BLIK payment system, which became the Polish market standard. PKO Bank Polski SA signed an agreement for a twenty-year strategic alliance in the electronic payment market with EVO Payments International Acquisition GmbH, and at the same time sold a significant portion of shares in CEUP eService Sp. z o.o.

5. PKO Bank Hipoteczny SA was formed; its operations include issuing long-term mortgage bonds and granting long-term mortgage loans to retail customers.
6. PKO Bank Polski SA acquired shares in Nordea Group companies, including shares in Nordea Bank Polska SA, and a portfolio of amounts due from corporate customers. In October 2014, the legal merger of the banks was carried out.
7. PKO Towarzystwo Ubezpieczeń SA was formed, which provides property insurance services to the retail customers of PKO Bank Polski SA.
8. Expansion into foreign markets by establishing the first foreign branch of the Bank (in Frankfurt am Main in the Federal Republic of Germany).

2016

1. Approval of the 2016–2020 strategy: “We support the development of Poland and the Poles” the objective of which is to continue to strengthen the position of the Bank’s Group as a leader in key market segments, enhance innovativeness and adapt to customer needs.
2. PKO Leasing SA belonging to the Bank’s Group successfully closed the transaction of acquiring Raiffeisen-Leasing Polska SA, thus becoming the main lease provider in Poland.
3. PKO Bank Hipoteczny SA effected issues of mortgage bonds with the highest possible Moody’s rating of Aa3 that can be achieved by Polish securities.
4. The Bank started cooperation with Poczta Polska SA in the scope of payment card handling.

2017

1. PKO Bank Polski SA is the most valuable Polish company listed on the WSE. The value of the Bank’s shares reached PLN 55 billion, and the price of the shares increased during the year by more than 57%.
2. The Bank’s Group acquired KBC TFI SA and plans merging the new company with PKO TFI SA, which would additionally accelerate the current dynamic development of PKO TFI SA, which is already a leader in the retail funds segment.
3. PKO Bank Polski SA continued its development abroad and formed the second foreign branch – the corporate branch in Prague.
4. The Bank’s Group was increased for ZenCard Sp. z o.o., which provides services within the scope of IT and computer technologies.

1.4 MAJOR EVENTS IN 2017

The development of the business activities of the PKO Bank Polski SA Group in 2017 and the results achieved confirmed its position as a leader in the Polish banking system. The market value of PKO Bank Polski SA exceeded PLN 55 billion as at the end of 2017, which means that the Bank is the most valuable Polish company quoted on the Warsaw Stock Exchange.

The PKO Bank Polski SA Group executes its strategy of “We support the development of Poland and the Poles”, which is in answer to the changing market environment and to the need to adapt to the new challenges facing the banking sector and the Polish economy. The direction of the transformation of the Bank’s business model remains strictly linked to the dynamically developing digitization of social life and Poland’s economic development strategy.

THE BANK’S GROUP SYSTEMATICALLY DEVELOPS ELECTRONIC BANKING CHANNELS AND THE INNOVATIVENESS OF THE BRANCHES

The financial sector is one of the most technologically advanced sectors and the PKO Bank Polski SA Group has been setting trends in this field for years.

- PKO Bank Polski SA maintains the leader’s position in mobile banking in Poland. The number of IKO activations exceeded 2 million in 2017, which means that their number was nearly doubled during the year. The application software IKO is ranked first among mobile banking application software in the three largest shops with application software: Google Play, App Store and Windows Phone Store and for more than two years now the number of stars awarded to IKO has not dropped below 4.5 out of 5. In March 2017, IKO won in the ranking of mobile applications of the 100 largest banks in the world, conducted by the prestigious British monthly *Retail Banker International* – it is the most highly assessed mobile application by its users.
- PKO Bank Polski continually develops the electronic banking functionality. In 2017, the Bank’s customers were given the possibility of applying via iPKO electronic banking for the Tax Office to prepare their initial tax return for 2016 in the form of PIT-37 and submit it on behalf of the taxpayer. Customers were eager to make use of the e-administration solutions offered to them as part of the transaction services – the number of Trusted Profiles opened by customers in iPKO and Inteligo exceeded 200 thousand; additionally, nearly 180 thousand applications for benefits from the Rodzina 500+ (Family 500+) programme were submitted. The year 2017 was also a year of starting work on a ground-breaking solution for future entrepreneurs – a fully remote process for registering a

business and at the same time opening a bank account. The application was put through testing at the end of 2017, and in the first weeks of 2018, the customers were able to use it. The Bank also introduced new solutions in the area of online payments – faster, more convenient and more secure shopping through the Internet is ensured by a new function “Płacę z iPKO”, which enables choosing a credit card as a means of payments.

- An important innovation introduced by PKO Bank Polski SA in cooperation with Krajowa Izba Rozliczeniowa SA (KIR) and Polski Standard Płatności Sp. z o.o. (PSP) is a new type of payment in offices and e-offices – a transfer initiated using the BLIK code from IKO. It enables accepting payments at any office counter directly in an officer's computer, which uses a special application available via KIR.
- The Bank introduced the first self-service desks in its branches. The self-service desks can be used by all individual and corporate clients holding cards to their bank accounts. The first self-service desks were made available to customers for their convenience: two in Warsaw and two in Jelenia Góra. The desks have been equipped with touchscreens and additional software which enables effecting more complex transactions other than deposits and cash withdrawals.
- For the first time in Poland tests of the digital pen were conducted thanks to which a form signed by a customer can reach the banking system in real time. PKO Bank Polski SA together with the start-up IC Solutions started the pilot programme of the IC Pen. The shorter time of service, reducing the amount of used paper and automatic digital archiving – are only some of the benefits of the innovative solution.
- The Bank introduced a service called PKO Masowe Wyплаты which enables cash withdrawals. To date, such transactions were only possible in the Bank's branches or agencies. This function was introduced in 3 thousand of the Bank's own ATM machines. PKO Masowe Wyплаты is a service addressed to firms or institutions that perform numerous one-off cash withdrawals, which are ready to outsource this process outside their own network. The service is also offered to customers who perform repeated withdrawals on behalf of beneficiaries who do not have a bank account or prefer to receive cash.
- The ZenCard loyalty platform has been integrated with the systems of CEUP eService Sp. z o.o. acting as the Bank's Group clearing agent, which provided the possibility of offering an added service to retail chains. The first joint project with ZenCard Sp. z o.o. and CEUP eService Sp. z o.o. was the promotion campaign for customers of the MAKRO chain who paid by Visa card.

THANKS TO ITS EXTENSIVE PRODUCT OFFER AND PROFESSIONAL CUSTOMER SERVICE, THE BANK'S GROUP IS A LEADING PARTNER OF POLISH ENTREPRENEURSHIP

The Bank's Group offers comprehensive solutions tailored to the individual needs of its corporate customers, taking into account their size, industry sector and current development stage. It ensures professional tools to the customers, which are helpful in conducting business activities. The Bank's Group analyses customer expectations and adapts the current product offer so as to best deal with the growing competition and satisfy both the lending and other than lending needs of its customers. In 2017, the Bank undertook the following activities:

- The Bank created an automatic connection with the register of the Central Register and Information on Economic Activity (CEIDG) operated by the Ministry of Development. Thanks to downloading data directly from the CEIDG, the process of opening a corporate account has been simplified and accelerated.
- PKO Bank Polski SA and Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG) signed an agreement on strategic cooperation in the area of transaction banking. The agreement enables commission-free payment of bills by retail customers of PGNiG in nearly 1.2 thousand branches and 0.8 thousand agencies of PKO Bank Polski SA throughout the country.
- PKN ORLEN and PKO Bank Polski SA signed an agreement for maintaining a *cash pool* system the overriding objective of which is to centralize financial liquidity in the international ORLEN Group. As the first step, the Bank will ensure centralization of the cash of companies from Poland, Germany, the Czech Republic, Lithuania, Latvia, Estonia and Sweden. The *cash pool* system will include ongoing consolidation of positive and negative balances in the main currencies used by the Group. By signing this major contract, the Bank strengthened its leader's position in banking services to large capital groups.
- The branch of PKO Bank Polski SA in the Czech Republic (with its registered office in Prague) has begun operations. Based on this branch PKO Bank Polski SA wishes to become the first choice bank for Polish companies operating on the Czech market and a gateway for Czech companies entering the Polish market. The branch in Prague is the second branch of the Bank abroad, after the branch of PKO Bank Polski SA in the Federal Republic of Germany (with its registered office in Frankfurt am Main).
- A joint product of PKO Bank Polski SA and Korporacja Ubezpieczeń Kredytów Eksportowych (KUKE) “Polisa na Świat” was launched on the market and is available in the Bank's outlets throughout Poland. Thanks to the

strategic cooperation of PKO Bank Polski SA and KUKE (the PFR Group), the Bank provides support to Polish companies in their foreign expansion.

- In September 2017, the Bank signed a contract for serving the budget of the Pomorskie Voivodeship. It is the eighth of the sixteen voivodeships that is served by the Bank next to Kujawsko-Pomorskie, Lubelskie, Mazowieckie, Podkarpackie, Świętokrzyskie, Wielkopolskie and Zachodniopomorskie. In this way, the Bank confirmed its position of unquestioned leader in the sector of services to local governments.
- The Bank launched the Export Support Platform (Platforma Wsparcia Eksportu) – a comprehensive analytical tool with up-to-date business data and analyses which helps entrepreneurs establish commercial relations on foreign markets and educates and supports them in their proper choice of financial instruments that would be useful in international trade and which are to be found in the offer of the Bank's Group.

INCREASED SCALE OF OPERATIONS OF THE PKO BANK POLSKI SA GROUP THANKS TO A SELECTIVE APPROACH TO ACQUISITION.

The PKO Bank Polski SA Group effectively combined dynamic organic growth with selective acquisitions conducted on terms that are attractive for the group and the shareholders.

- In the fourth quarter of 2017, the Bank's Group acquired 100% of shares in KBC TFI SA by which as at the end of 2017 it strengthened its position in the segment of retail funds, with a market share of 17.2%. According to plans, the investment fund companies operating as part of the Bank's Group will be merged in the first half of 2018. Thanks to the planned business combination of PKO TFI SA and KBC TFI SA, the customers will gain access to a more comprehensive offer for depositing their savings. As at the end of 2017, the two companies managed assets with a value of over PLN 29 billion.
- In the first quarter of 2017, the Bank's Group acquired 100% of shares in ZenCard Sp. z o.o., which provides services within the scope of IT and computer technologies. The Company developed a platform for creating rebate and loyalty programmes, which at the same time enables the virtualization of loyalty cards. The platform is integrated with the payment terminal and enables resigning from numerous separate loyalty cards or separate applications installed on telephones, as it offers one customer payment card, which at the same time is a virtual loyalty card for each of the sales agents. The company's strategic partner is CEUP eService Sp. z o.o. – one of the largest clearing agents in Poland.

The activities undertaken by the PKO Bank Polski SA Group in 2017 enabled it to achieve very good financial results and strengthen its position among the largest financial institutions in Poland.

Table 1. Key financial data of the PKO Bank Polski SA Group (in PLN million)

	2017	2016	Change
Net profit	3 104	2 874	8,0% (y/y)
Net interest income	8 606	7 755	11,0% (y/y)
Net fee and commission income	2 969	2 693	10,2% (y/y)
Result on business activities*	12 563	11 790	6,6% (y/y)
Administrative expenses	-5 784	-5 590	3,5% (y/y)
Tax on certain financial institutions	-932	-829	12,4% (y/y)
Net impairment allowance	-1 620	-1 623	-0,2% (y/y)
Total assets	296 912	285 573	4,0% (y/y)
Equity	36 256	32 569	11,3% (y/y)
ROA net	1,1%	1,1%	0,0 p.p.
ROE net	9,0%	9,1%	-0,1 p.p.
C/I (cost to income ratio)**	46,0%	47,4%	-1,4 p.p.
Net interest margin	3,3%	3,2%	0,1 p.p.
Share of impaired loans	5,5%	5,9%	-0,4 p.p.
Cost of risk	-0,71%	-0,75%	0,04 p.p.
Total capital ratio	17,37%	15,81%	1,56 p.p.
Tier 1 ratio	16,50%	14,51%	1,99 p.p.

* Result on business activities defined as operating profit before administrative expenses, tax on certain financial institutions and net impairment allowance and write-downs

**Administrative expenses to result on business activities

The net profit generated by the PKO Bank Polski SA Group in 2017 amounted to PLN 3 104 million, which represents an 8.0%, i.e. nearly PLN 230 million increase compared with the prior year. The level of the net profit achieved was determined by:

- 1) an improvement of the result on business activities, which amounted to PLN 12 563 million (+6.6% y/y), mainly due to:
 - an increase in the net interest income of 11.0% y/y, which was mainly achieved thanks to an increase in interest income;
 - an increase in net commission income of 10.2% y/y, among others, from investment funds and insurance activity;
 - a decrease in other net income of PLN 354 million, which was mainly associated with the settlement of the acquisition of Visa Europe Limited by Visa Inc. in June 2016 and the sale of assets of Qualia Development Sp. z o.o. and its subsidiaries in the third quarter of 2016.
- 2) an increase in tax on certain financial institutions (the bank tax) of PLN 103 million y/y, related to the increased scale of the Bank Group's operations and a mismatch of the periods for which the tax is due (the tax is payable from February 2016);
- 3) an increase in administrative expenses of 3.5% y/y, mainly employee benefits. The C/I ratio as at the end of 2017 amounted to 46.0% compared with 47.4% as at the end of 2016;
- 4) stable net impairment allowance and write-downs of PLN 1 620 million and a decrease in the costs of risk to 71 b.p.

The improvement in the results of the PKO Bank Polski SA Group was possible thanks to the structure of the balance sheet which was characterized by a strong deposit base and a safe level of equity. The ratio of loans to deposits (amounts due to customers) as at the end of 2017 amounted to 94.0% (the ratio of loans to stable sources of financing¹ amounted to 83.2%), which proves the very good condition of liquidity of the Bank's Group.

As a result of actions undertaken in 2017, the PKO Bank Polski SA Group:

- increased total assets by over 11 billion PLN and customers receivables portfolio by over 5 billion PLN;
- exceeded 7 million current accounts of individuals, thus strengthening its leadership position in this category;
- increased the number of customers by nearly 300 thousand, mainly in the household segment and the number of customers using the IKO mobile banking, which exceeded 2 million at the end of 2017;
- maintained a high share in the loans and deposits market on a level of 17.7% and 17.9%, respectively;
- was the first on the market of housing loans to individuals² having a nearly 30% market share;
- was the largest lender to small and medium enterprises of loans with *de minimis* guarantees, having a 20.5% market share;³
- significantly improved the quality of the loan portfolio measured by the ratio of impaired loans and reduced the cost of risk;
- extended the offer of insurance and investment products and property insurance to customers, among other things, by introducing insurance products unrelated to banking products, available in iPKO and IKO mobile channels into its offer;
- strengthened its capital position by increasing equity through retaining the net profit generated in 2016, which translated into an increase in the total capital adequacy ratio by 1.56 p.p. compared with the end of 2016 to 17.37%.

1.5 DEVELOPMENT DIRECTIONS OF THE PKO BANK POLSKI SA GROUP

Mission
Strategy of PKO Bank Polski SA for the years 2016 – 2020
Strategic goals
Implementation of the strategy

The development directions of PKO Bank Polski SA are set out in the Strategy for the years 2016–2020 “We support the development of Poland and the Poles” (the Strategy), which was approved by the Supervisory Board on 3 November 2016.

WHO WE ARE – OUR MISSION



Bank Polski

“WE SUPPORT THE DEVELOPMENT OF POLAND AND THE POLES”

We have provided financial solutions to our customers for a hundred years, every day, therefore, we understand the needs of Poles and Polish companies.

We are constantly changing, we invest in development and implement modern technologies responsibly to enable our customers to conveniently manage their finances anywhere, any time. We are proud of our history and our Polish roots.

We wish to continue to have a positive influence on Poland – its people, firms, culture and environment. As one of the largest banks in Central and Eastern Europe, we care about the interests of our shareholders, customers, employees and local communities in a responsible manner.

¹ Stable sources of financing include amounts due to customers and external financing in the form of subordinated liabilities, own issue of debt securities and loans received from financial institutions.

² Data from the Polish Banks Association.

³ According to the data provided by Centrum Poręczeń i Gwarancji Banku Gospodarstwa Krajowego of 31 December 2017.

STRATEGY OF PKO BANK POLSKI SA FOR THE YEARS 2016 – 2020

The strategy is in answer to the changing market environment and the need to adjust the organization to the new challenges facing the banking sector and the Polish economy. The direction of the transformation of the Bank's business model remains strictly linked to the dynamically developing digitization of social life and Poland's economic development strategy.

The strategy for the years 2016–2020 is based on strong foundations developed in previous years. Thanks to the implementation of the "Lider" and "Codziennie Najlepszy" strategies, PKO Bank Polski SA has strengthened its position as the unquestionable banking market leader in Poland, consistently developing the range and quality of e-banking and mobile banking (IKO) services, improving processes and organizational efficiency, and building competence that will allow it to leverage growth through acquisitions.

STRATEGIC GOALS

By 2020, PKO Bank Polski SA intends to:

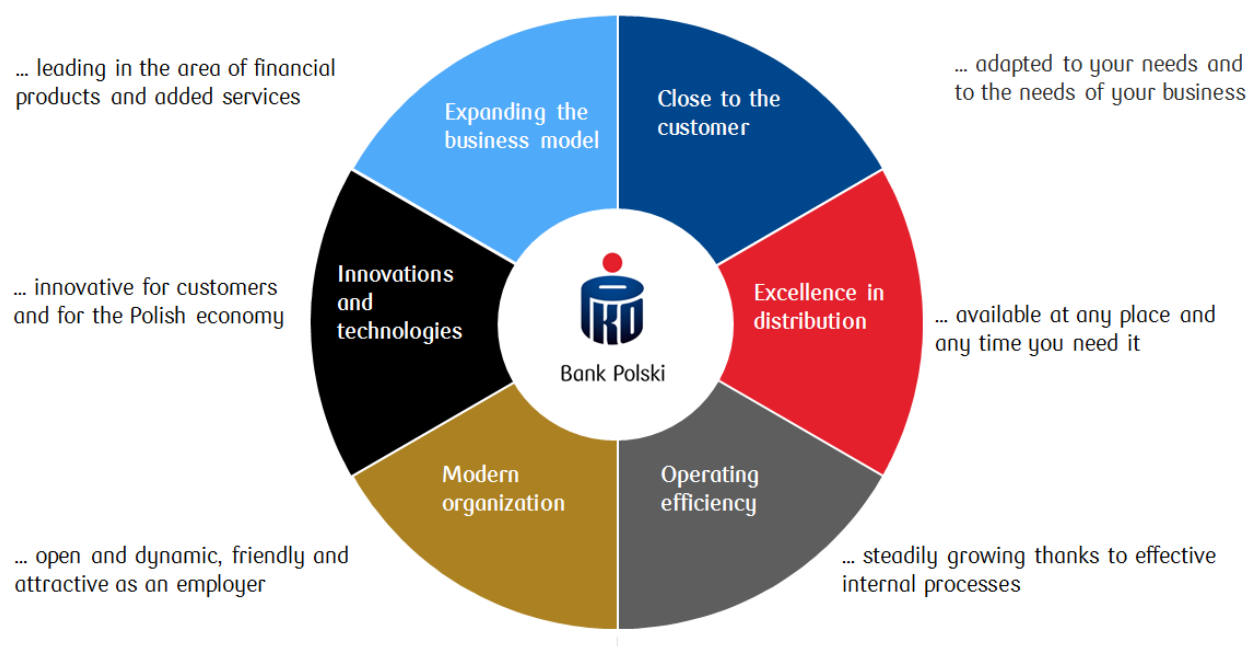
- achieve a return on equity (ROE) of more than 10%;
- reduce the cost to income (C/I) ratio to below 45%;
- maintain the cost of risk within the range of 75–85 b.p.;
- manage its capital adequacy in an efficient and reasonable manner, in order to maintain TCR and CET1 above the regulatory and supervisory requirements and, at the same time, allow the payment of dividend.

As the unquestionable banking market leader in Poland and maintaining the position of a leader in all key market segments, the Bank will address the following main strategic challenges by 2020:

1. supporting the development of Polish business, particularly in the small- and medium-sized enterprises segment;
2. customer satisfaction;
3. an increase in the number of customers using digital solutions;
4. simple and efficient processes – "faster and paperless";
5. best employer;
6. innovations and new sources of revenues;
7. leader in the field of cooperation in the area of cybersecurity.

IMPLEMENTATION OF THE STRATEGY

Thanks to the implementation of its Strategy, in 2020 PKO Bank Polski SA will be:



The Strategy implementation is supported by six sustainable development levers:

1. BEING CLOSE TO THE CUSTOMER

PKO Bank Polski SA will focus on supporting the development of Polish businesses, particularly in the small and medium-sized enterprises segment, as well as customer satisfaction understood as building lasting relations with the Bank. This will be achieved through a simple and transparent offer, high quality advice, flexible pricing solutions, intuitive and fast sales processes, and a reduction in the volume of paper documentation.

2. DISTRIBUTION EXCELLENCE

Distribution channels will be developed based on the diagnosed needs of the customers to form a holistic model of multi-channel service system. The Bank's aim is to provide consistent customer experience in all contact channels. These aims will be achieved through the continued modernization process of the network of branches playing a key role in building relations with customers and the market position, as well as the further development of remote contact channels and an increase in the number and activity of customers using digital solutions.

3. OPERATIONAL EFFICIENCY

The strategy assumes the further improvement of internal processes. Decisions will be made in a fast and efficient manner thanks to the use of high quality data analytics, process automation and dematerialization, innovative identification and authorization methods and preventing bureaucracy.

4. MODERN ORGANIZATION

A well-motivated and dedicated team will be the key to achieving strategic goals. The Strategy emphasizes the importance of creating a friendly, supportive and open working environment. This will be achieved through motivating leadership, modern knowledge management and promoting solutions that facilitate cooperation within the organization.

5. INNOVATION AND TECHNOLOGIES

PKO Bank Polski SA will constantly invest in innovative solutions, becoming actively involved in creating new market standards, innovative tools for customers and organizations and strengthening its role as a public trust institution and counteracting cyber threats. The Bank will support the development of Polish innovators in the corporate segment (micro, small and medium enterprises and corporations).

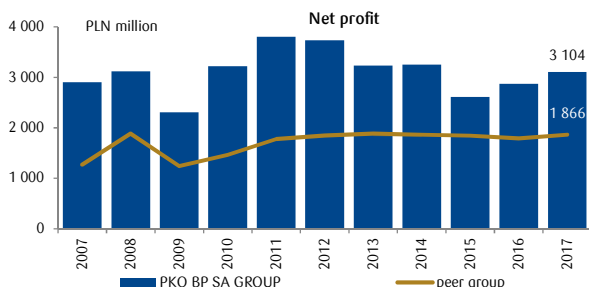
6. EXTENSION OF THE BUSINESS MODEL

This strategic lever will be implemented by actively monitoring the domestic market for potential acquisitions, extending the availability of the offer of the Bank's Group companies, international development supporting the expansion of the Bank's customers, alliances with strategic partners, e.g. through loyalty platforms and cooperation with public institutions through e-State solutions. As part of its effort to become a leader in technological solutions, the Bank also plans to invest in selected new-technology companies.

The Bank will continue to combine creating value for the shareholders with social responsibility and sustainable development. In its daily work, it will integrate business goals with acting on behalf of all groups of stakeholders, at the same time pursuing social initiatives. The Bank's values and transparent communication will be the key foundations for building a dialogue with customers, employees, shareholders and the community.

1.6 THE PKO BANK POLSKI SA GROUP AGAINST ITS PEER GROUP⁴

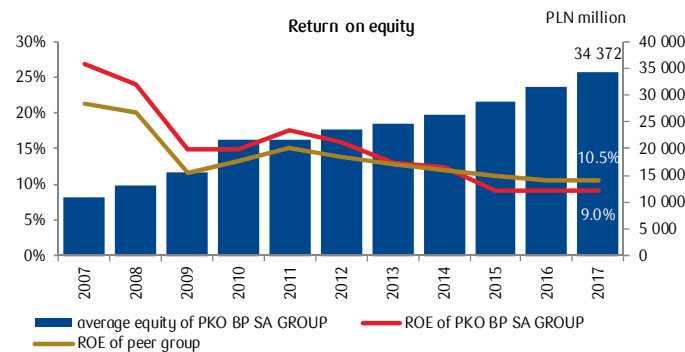
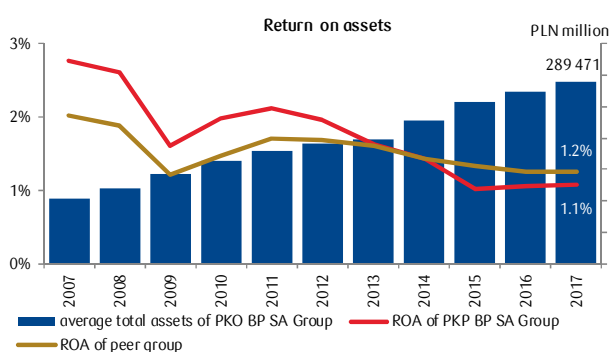
A STRONG INCREASE IN THE NET PROFIT OF THE PKO BANK POLSKI SA GROUP AGAINST THE BANKING GROUPS BELONGING TO ITS PEER GROUP



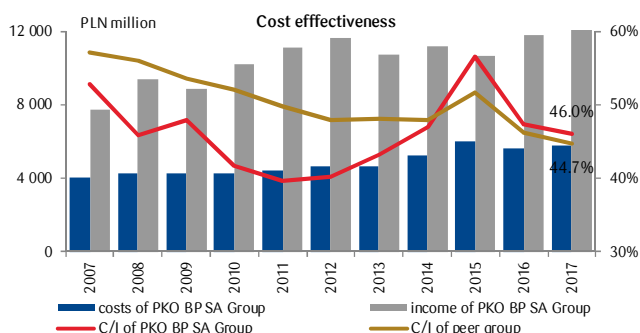
Despite the high one-off income generated in 2016 (the VISA transaction) and an increase in regulatory charges in 2017, the PKO Bank Polski SA Group recorded a noticeable increase in the net profit y/y compared with a significantly smaller increase in the net profits in the peer group (in spite of significant one-off profits recorded in the peer group in 2017).

A SMALL INCREASE IN THE RETURN ON ASSETS OF THE PKO BANK POLSKI SA GROUP COMPARED WITH A SMALL DECREASE IN THE PEER GROUP

As at the end of 2017, the return on assets of the PKO Bank Polski SA Group increased slightly y/y compared with a slight decrease in the peer group. In the conditions of high regulatory and supervisory burdens affecting the level of capital maintained by banks, as at the end of 2017, the PKO Bank Polski SA Group recorded a slight decrease in the return on equity (ROE), compared with the stabilization in the peer group in which one-off profits were generated.



IMPROVEMENT IN COST EFFICIENCY OF THE PKO BANK POLSKI SA GROUP AND OF THE PEER GROUP, MAINLY DUE TO IMPROVED RESULTS ON BUSINESS ACTIVITIES

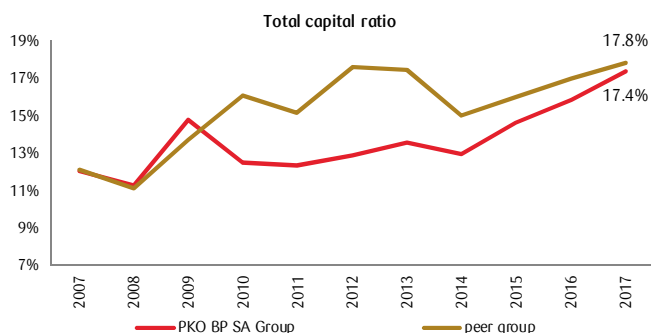


In 2017, cost efficiency (C/I) of the PKO Bank Polski SA Group and its peer group improved considerably (after excluding the costs of the bank tax), which was associated with:

- an improvement in the result on business activities (mainly net interest income) compared with 2016;
- cost discipline maintained by banks, despite the growing spending on digitization and cyber security.

⁴ The peer group includes the following Groups: Pekao SA, BZ WBK SA, mBank SA, ING Bank Śląski SA. The data required for calculating the ratios come from consolidated annual and quarterly reports and preliminary information on the results for 2017 of the individual banks.

STRONGER INCREASE IN THE TOTAL CAPITAL ADEQUACY RATIO OF THE PKO BANK POLSKI SA GROUP COMPARED WITH A LOWER INCREASE IN THE PEER GROUP



In 2017, the capital adequacy ratios of the largest banking groups in Poland, including the PKO Bank Polski SA Group, went up. This was due to actions taken by the banks, including mainly the accumulation of capital.

1.7 MARKET POSITION OF THE BANK'S GROUP

The PKO Bank Polski SA Group has leading market shares in the Polish banking market of loans and deposits, in the Polish lease market and the Polish retail investment funds market.

The companies in the Bank's Group occupy leading positions in individual sectors of the financial services market.

It is worth emphasizing that Dom Maklerski PKO Banku Polskiego SA has a high share in the transaction volume on the secondary market, amounting to 14.7%, which placed Dom Maklerski in first position in the ranking of brokerage houses.



Table 2. Market share

	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	Change 2017/2016
Loans to:*	17.7%	17.8%	17.9%	17.9%	16.1%	-0.1 p.p.
individuals, including:	23.0%	22.8%	22.9%	22.9%	19.1%	0.2 p.p.
housing	26.1%	25.7%	25.5%	25.8%	20.6%	0.4 p.p.
PLN	28.6%	28.6%	28.7%	29.6%	28.4%	0 p.p.
currency	21.2%	21.4%	21.5%	21.5%	12.8%	-0.2 p.p.
consumer and other	15.9%	15.8%	16.1%	15.6%	15.4%	0.1 p.p.
institutions	12.8%	12.9%	13.0%	13.1%	13.1%	-0.1 p.p.
Deposits to:	17.9%	17.3%	17.9%	17.3%	16.3%	0.6 p.p.
individuals	20.4%	20.7%	20.7%	21.7%	21.7%	-0.3 p.p.
institutions	14.5%	12.4%	14.0%	11.5%	9.4%	2.1 p.p.
Leases**	12.0%	7.5%	6.1%	6.4%	7.2%	4.5 p.p.
Investment fund company assets						
non-dedicated funds	17.2%	14.4%	14.3%	13.9%	13.4%	2.8 p.p.
Other than treasury debt securities (amount of debt)	29.3%	29.2%	28.8%	31.5%	20.1%	0.1 p.p.
Brokerage activities						
secondary market transactions	14.7%	9.4%	9.1%	10.5%	9.5%	5.3 p.p.

Source: NBP, GWP, Polish Lease Association

* Data according to the reporting system for NBP - Webis. In the third quarter of 2016, the market share were updated as a result of changing the presentation of market data for the period from September 2014 to September 2016. Receivables from mortgage banks, which so far were presented in other receivables classified as consumer loans, is now recorded in housing loans to households.

** Share as at 31 December 2016 takes into account 1 month's sales of Raiffeisen - Leasing Polska SA.

2. EXTERNAL BUSINESS ENVIRONMENT

Macroeconomic environment

Situation on the financial market

The situation of the Polish banking sector

Situation of the Polish non-banking sector

The Ukrainian market

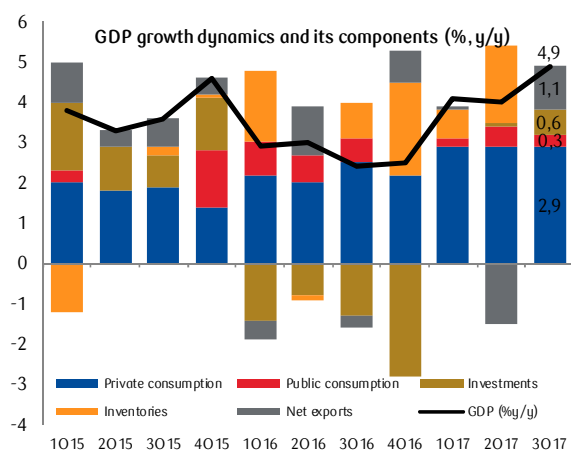
Regulatory environment

Tendencies in the Polish and global economy in 2018 and their impact on the Group's results

2.1 MACROECONOMIC ENVIRONMENT

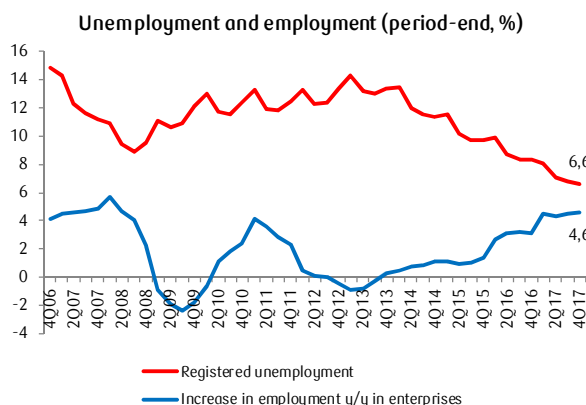
The following macroeconomic factors were shaping the economy in Poland in 2017:

- NOTICEABLE ACCELERATION OF ECONOMIC GROWTH



According to the initial data, in the fourth quarter of 2017, the GDP increased by approx. 5.1% y/y (compared with 4.9% y/y in the third quarter of 2017). Throughout 2017, the dynamics of the GDP was 4.6% and it was noticeably higher than the growth dynamics in 2016 (2.9%). Private consumption stimulated by a revival on the labour market continued to play a leading role in the GDP growth. Following a slump in 2016, investments showed symptoms of revival and according to initial forecasts, increased in the fourth quarter of 2017 by approx. 12% y/y. The structural change in export of services, in particular the increased importance of the BPO (Business Process Outsourcing) sector, resulted in maintaining a positive contribution of the net exports towards economic growth, despite the decrease in the surplus of goods.

• CONTINUED IMPROVEMENT ON THE LABOUR MARKET



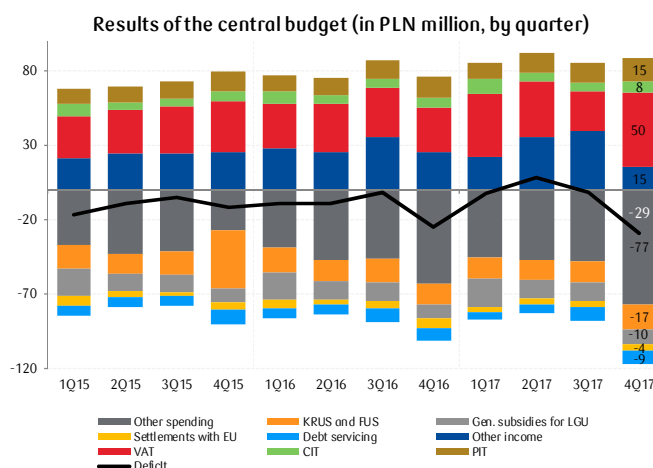
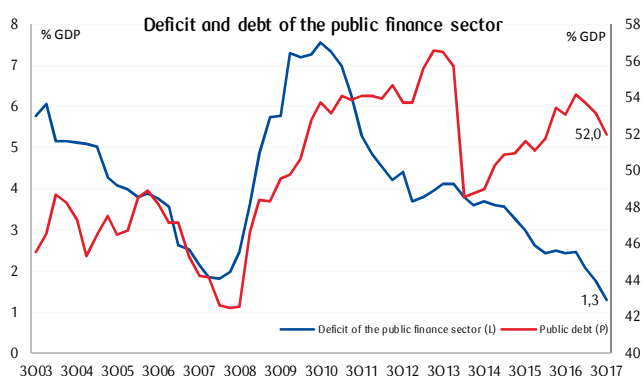
The unemployment rate recorded as at the end of December 2017 went down to 6.6%. During the year, the trend of decreasing unemployment slowed down, which is probably related to a growing deficit in the effective supply of labour. The record low unemployment and record high number of vacancies are gradually translating into the acceleration of salary growth. In the corporate sector, this ratio amounted to 5.7% compared with 4.1% in 2016.

• INFLATION APPROXIMATING THE NBP TARGET

Following a noticeable increase at the beginning of 2017 (to 2.2% y/y in February), the CPI ratio went down in June to 1.5% y/y and throughout the first half of the year remained within the range of acceptable variances from the NBP inflation target. In the second half of the year, inflation went up due to the growing prices of fuel and food. In December 2017, the CPI ratio went down to 2.1% y/y, which was the result of a high statistical base. The core inflation went up, although the growth dynamics was quite moderate and reflected the growing cost pressure in the economy (salaries, raw materials and other materials). As a result of the turn in the price dynamics after the prolonged deflation in recent years, the financial market again began to expect increases in the NBP interest rates in the coming years.

• IMPROVEMENT IN THE SITUATION IN PUBLIC FINANCE

In 2017, the deficit in the State Budget amounted to PLN 25.4 billion compared with PLN 59.3 billion planned in the State Budget Act. The good results of the State Budget were due to: the cyclic growth of income, improved collectibility of taxes, changes/movements in tax payment schedules, low dynamics of spending and record level payment out of the NBP's profit. The deficit of the entire public finance sector (according to ESA) in the third quarter of 2017 went down to 1.3% of the GDP from 1.7% of the GDP in the second quarter of 2017, which is the best result ever. In the same period, public debt (according to ESA) went down to 52.0% of the GDP from 53.2% of the GDP in the second quarter of 2017 and 54.1% of the GDP as at the end of 2016.



• STABILIZATION OF THE MONETARY POLICY

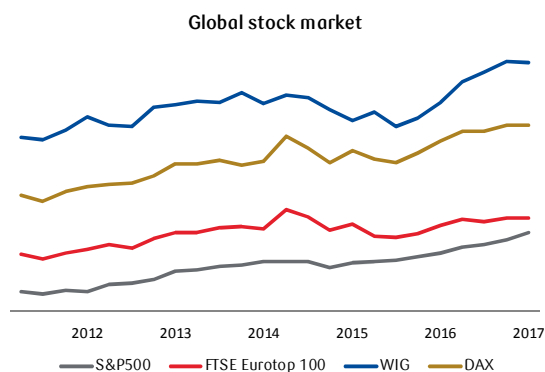
NBP interest rates:

- reference rate – 1.50%
- bill rediscount rate – 1.75%
- lombard rate – 2.50%
- deposit rate – 0.50%

In 2017, the Monetary Policy Council did not change the level of basic NBP interest rates which, with the noticeable increase in inflation, resulted in a drop in the real interest rate to negative levels. The MPC indicated that there is no threat of inflation going up above the acceptable range of variances from the inflation target, that there is some readiness to stimulate investments and that there is no direct negative impact of negative real interest rates on the economy and deposit levels.

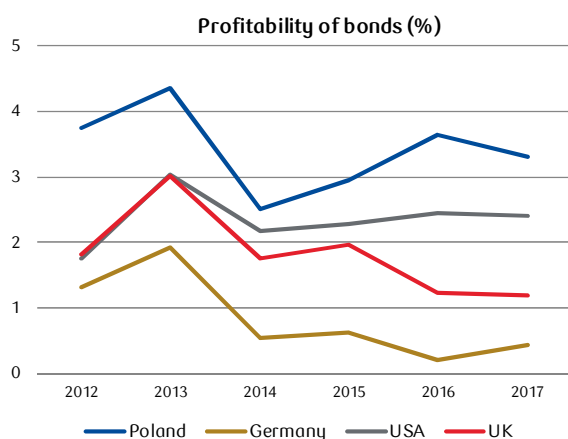
2.2 SITUATION ON THE FINANCIAL MARKET

THE STOCK MARKET



The year 2017 turned out to be very profitable for the majority of stock markets worldwide, including the Warsaw Stock Exchange. The WIG index went up by more than 23% and continued the excellent streak which began last year in the middle of November. The first four months of the year were particularly successful, whereas in the following months the upward tendency weakened considerably. The good situation was a result of global factors (a good situation on the international financial markets) and to local ones (excellent data from the Polish economy and growing profits of companies). The stock exchanges worldwide grew as a result of stable economic growth in nearly all countries, accompanied by the temperate attitude of the majority of the central banks, which indicated there was no hurry in tightening the monetary policy. The inflation pressure remained moderate, which enabled the central banks to maintain mild monetary conditions, in particular low interest rates. Interest rates were raised only in a few countries but the changes were made cautiously, both with regard to their scale and dynamics. It was the same in Poland where the Monetary Policy Council toned down the speculations concerning interest rate increases. Fast economic development which translated into profits for companies, in combination with a mild monetary policy resulted in the WIG index being near a historic record.

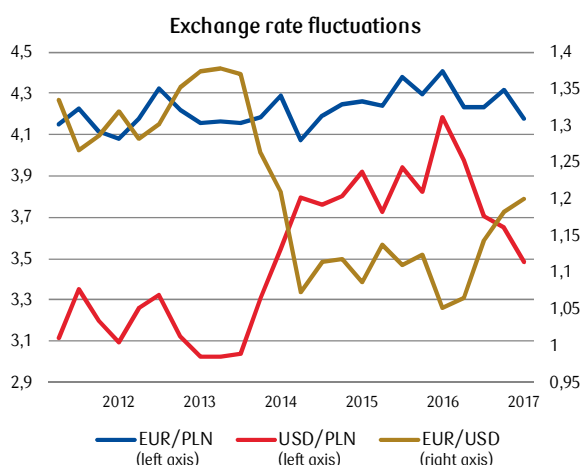
INTEREST RATE MARKET



In 2017, the Monetary Policy Council maintained the reference rate without any changes at a level of 1.50% and suggested a low probability of changes in the monetary policy at least until the end of 2018. As a result, the 3- and 6-month rates on the interbank monetary market remained at 1.72-1.73% and 1.81% respectively. Stabilization of the core interest rates accompanied by the mild rhetoric of the central bank strengthened the valuations of Treasury bonds and neutralized the negative effects of growing inflation and increasing salary pressure in the corporate sector. The decrease in profitability of Treasury securities was additionally due to a clear improvement in public finance. The state budget deficit turned out to be considerably lower than planned which led to a strong drop in the supply of Treasury securities on the primary market in the second half of the prior year and growing interest in these securities on the secondary market, and this in turn translated into a drop in their profitability. The increased profitability of Polish bonds was also due to the mild rhetoric of the main central banks concerning the tightening of the monetary policy. As at the end of December, the profitability of Treasury bonds in the 2-year sector went down by 32 b.p. to 1.71%, in the 5-year sector by 24 b.p. and in the 10-year sector by 33 b.p. to 3.30%.

CURRENCY MARKET

The EUR/USD rate at the start of 2017 amounted to 1.05 and to 1.20 at the year-end. With the exception of the beginning of January, when the rate went down to nearly 1.03, it gradually went up throughout the year. This happened despite the three interest rate increases by the American central bank the Fed (in March, June and December) and starting the process of



reducing the balance sheet in October (by only partially supplementing the gaps in the balance sheet after matured bonds which were taken up as part of three purchase tranches). At the same time, the European Central Bank (ECB) was considering closing the asset purchase programme, which had a positive effect, for some considerable time, on the attitudes towards the Euro on the global markets. However, finally, the ECB decided to extend the programme until September 2018.

The dismissal of the risk of disintegration of the Eurozone was the factor which improved the investment moods towards the common currency in 2017. This resulted from E. Macron's victory in the presidential elections in France and the attitude of the Fed which kept the financial markets in uncertainty as to the perspectives of interest rate increases in the United States.

The EUR/PLN exchange rate at the start of 2017 amounted to 4.40 and at the year-end it amounted to 4.18. Following the drop in the exchange rate to 4.23 at the end of the first quarter, in subsequent months the exchange rate became stable, which was due to improved investment moods on the global markets. The reduced restrictions on buying foreign currencies in China was motivation for the depreciation of the zloty and an increase in the exchange rate to 4.31 as at the end of the third quarter. This translated indirectly into the weakening of the currencies of emerging markets, including the Polish zloty. In the last quarter, the EUR/PLN exchange rate dropped again to around 4.20 thanks to very good data flowing in from the Polish economy and the stabilization of the situation on the Chinese currency market.

2.3 THE SITUATION OF THE POLISH BANKING SECTOR

Net profit and profitability of the banking sector
Statement of financial position

NET PROFIT AND PROFITABILITY OF THE BANKING SECTOR⁵

In 2017, the financial and business results of the banking sector were supported, among other things, by the high growth dynamics of the economy, favourable financial situation of households and good mood among enterprises. Banks continued to function in an environment of low interest rates.

PLN 13.6 billion
net profit of the banking sector
in 2017

-2.3% y/y
dynamics of the net profit
of the banking sector in 2017

+7.1%
return on equity of the banking sector
in 2017

The banking sector generated a net profit of PLN 13.6 billion compared with PLN 13.9 billion in 2016 (-2.3% y/y)⁶. The effect of the high reference base related to income from Visa transactions⁷ had a significant effect on the annual dynamics of the net profit. Without its effect, the net profit would increase by approx. +14% y/y. A strong increase in net interest income (PLN +4.6 billion y/y; +12.1%) and net commission income (PLN +1.2 billion; +9.1%) had a positive effect on the level of net profit generated. Despite the good macroeconomic situation in 2017, net impairment allowances of loans and borrowings were significantly deteriorated (+9.4% y/y). Banks continued

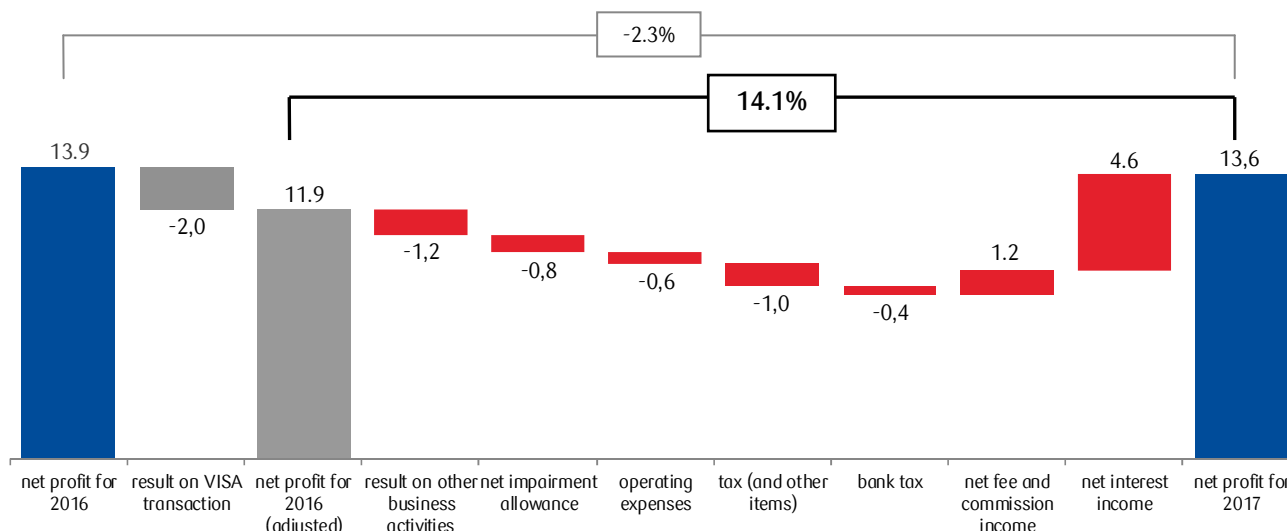
⁵ Based on the data from the PFSA; calculations of PKO Bank Polski SA.

⁶ Data on the banking sector published by the PFSA for 2016 and 2017 is difficult to compare due to one-off events in the banking sector and the changes in presentation introduced by one of the commercial banks. The level of net profit is comparable but the individual income statement items are difficult to compare.

⁷ The Visa transaction: acquisition of Visa Europe Ltd. by Visa Inc.; in June 2016, banks generated income from the sale of shares of Visa Ltd. of approx. PLN 2.5 billion (effect on the net profit of approx. PLN 2.0 billion).

actions aimed at increasing effectiveness, among other things, through optimization of the sales network, which had a positive effect on the level of costs. Despite the burdens related to digitization and cyber security, the growth dynamics of the banking sector's operating expenses amounted to 1.8% y/y (excluding bank tax).

Change in the net profit of the banking sector (PLN billion)



Source: the PFSA, calculations of PKO Bank Polski SA; operating expenses including bank tax

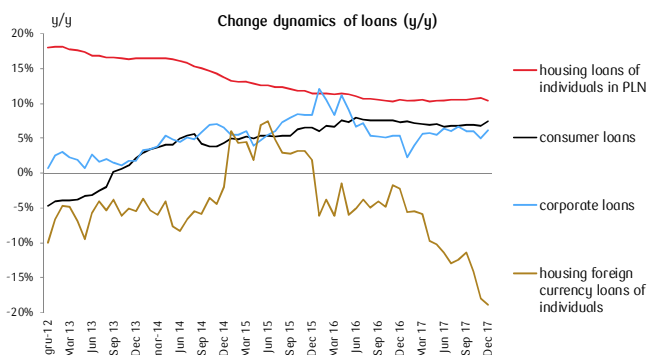
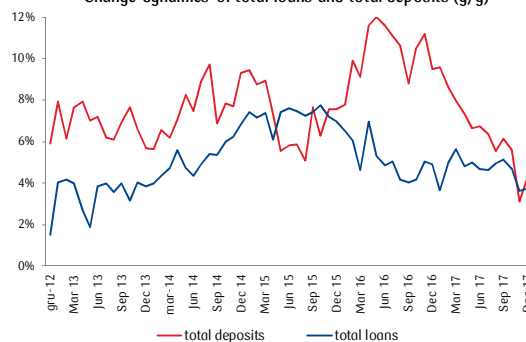
In 2017, the return on equity of the banking sector deteriorated (ROE;⁸ 7.1% compared with 7.8% in 2016) and remained under the influence of high regulatory and supervisory burdens. The decrease in ROE of the banking sector is also related to the effect of the high reference base – after excluding the effect of Visa transactions, ROE in 2016 would amount to approx. 6.6%.

LOAN AND DEPOSIT MARKET⁹

In 2017, there was a revival in lending activity but due to the strengthening of the Polish zloty it was not noticeable in the annual growth dynamics of total loans which slowed down as at the end of 2017 to 3.7% (4.9% as at the end of 2016).

The growth dynamics for the corporate sector increased and amounted to 6.2% y/y compared with 5.4% at the end of 2016 (net of the exchange rate effect).

Change dynamics of total loans and total deposits (y/y)



The strengthening of the zloty had a particularly important effect on the dynamics of aggregate housing loans, the volume of which went down y/y (-1.5%), despite the fact that the growth dynamics of PLN housing loans in 2017 remained at a stable level (10.4% as at the end of 2017 compared with 10.5% as at the end of 2016).

The annual growth dynamics of consumer loans slowed down slightly in the first half of 2017, however, at the end of 2017, their volume went up at a similar pace to that achieved at the end of 2016 (7.4% compared with 7.3% respectively).

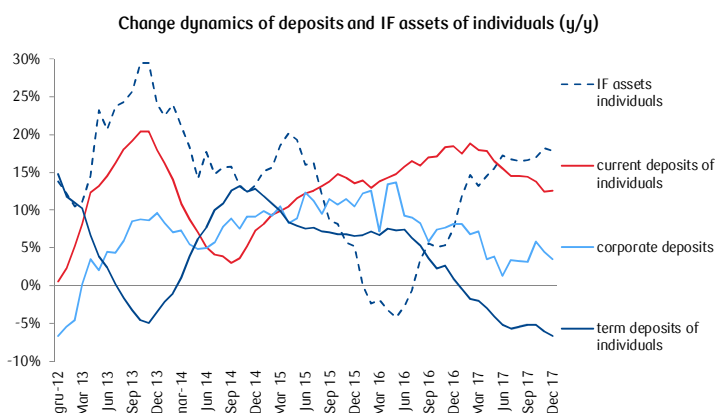
⁸ Return on equity (ROE) – the ratio of the net profit of the banking sector for 2017 to average equity in 2017.

⁹ Based on: NBP data, Analityz Online service; calculations of PKO Bank Polski SA

The low attractiveness of bank deposits resulting from, among other things, a record low level of basic interest rates and regulatory burdens for the banking sector, resulted in a gradual slowdown of the growth dynamics of aggregate deposits in 2017 (to 4.4% y/y compared with 9.5% y/y at the end of 2016).

Households were looking for more profitable forms of investing cash. This resulted in a decrease in term deposits of individuals in 2017 (-6.6% y/y compared with +0.9% y/y as at the end of 2016) and a gradual slowdown in the growth dynamics of their current deposits to 12.6% y/y (18.5% y/y as at the end of 2016).

At the same time, there was an increased net inflow of funds to the investment fund market and a high share of real estate purchases for cash. In 2017, the annual growth dynamics of corporate deposits slowed down significantly (3.4% compared with 8.2% as at the end of 2016).



In 2017, the liquidity of the banking sector remained good. The loan to deposit ratio was below 100% (98.1% as at the end of 2017; -0.6 p.p. y/y). Despite the slowing growth dynamics of deposits, the lower ratio of loans to deposits y/y was possible thanks to the strengthening of the Polish zloty.

2.4 SITUATION OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUND MARKET

In 2017, the assets of Polish investment funds increased by PLN 19.5 billion (+7.5%) to PLN 278.6 billion. The situation on the investment fund market in 2017 was affected by the favourable situation on the Warsaw Stock Exchange (WSE), the decrease in profitability of Polish Treasury bonds, low interest rates on bank deposits and changes in the regulatory environment.

In 2017, the majority of the main segments of the retail funds market generated annual rates of return exceeding the average interest rate of new term bank deposits of households. This affected the attractiveness of the investment fund market as an alternative to placing savings on the banking market and thus resulted in an increase in the share of investment funds in the structure of household savings.

The increase in assets of investment funds in 2017 was mainly a result of a strong net inflow of the funds of individuals (PLN +17.0 billion compared with PLN +5.0 billion in 2016) and a net outflow of funds of other investors (PLN -4.6 billion), which, to a considerable extent, was due to regulatory changes resulting in the lower attractiveness of closed-end funds for investors. Net income from fund management activity (PLN +6.9 billion) also had a significant share in the increase in assets of the investment fund market.

OPEN PENSION FUNDS MARKET

In 2017, assets of open pension funds (OFE) increased by 17% (PLN 26.1 billion) to PLN 179.5 billion compared with a 9.2% (PLN +12.9 billion) increase in 2016. In 2017, the drop in the number of OFE participants continued (-322 thousand to 16.1 million).

The OFE market remained under the influence of: uncertainty as to the terms under which they are going to function in the future, the improved situation on the labour market, regulatory changes (including the change in the structure of OFE investment portfolio) and the improved situation on the WSE (the WIG index increased by 23.2% y/y).

Shares continued to hold a dominant position in the structure of OFE assets (85% as at the end of 2017 compared with approx. 83% as at the end of 2016).

LEASE MARKET

In 2017, the positive development trend on the lease market continued (for the fifth year in a row). The market continued its two-digit growth, despite a slight slowdown.

In accordance with the data of the Polish Leasing Association (Związek Polskiego Leasingu), the value of assets financed by lease companies increased by 15.7% y/y reaching a level of PLN 67.8 billion (compared with a 17.7% increase in 2016). Apart from investment loans, leases constituted the second most important external sources of financing investments. As at the end of 2017, the total value of the active lease portfolio increased to PLN 119.3 billion compared with

bank investment loans of PLN 127 billion. The development of the lease market was supported by accelerated economic growth dynamics in Poland and the improving economic situation in Eurozone countries.

Microfirms and small and medium enterprises with turnover up to PLN 20 million were the main customer group of lease firms. They accounted for more than 71% of lease firm customers.

Leases of light vehicles, mainly passenger cars, had the largest positive impact on the development of the lease market. The value of assets leased out in this segment increased to PLN 30.5 billion (+22% y/y), which constituted 45% of the total leases granted by lease companies. The development of this segment was supported by strong domestic consumer demand stimulated by increased employment and higher salaries and good consumer moods.

Leases of machinery and equipment were the second strongly developing market segment. The total value of new contracts in this sector amounted to PLN 17.6 billion (+20% y/y). The high growth dynamics of this segment was supported, among other things, by the low reference base in the prior year related to the limited investments of firms. The strongest development occurred in leases of agricultural machines (+45% y/y).

Leases of heavy vehicles, the third largest segment of the lease market, developed at a considerably higher pace than the above-mentioned segments. The value of new contracts amounted to PLN 17.5 billion and was +2.3% higher than in the corresponding period of the prior year. However, in the individual quarters of 2017 the annual growth dynamics of the segment noticeably and systematically improved, which was supported by the improving dynamics of economic growth in the Eurozone, the replacement of the used fleet with new vehicles fulfilling the Euro 6 standard, and launching of projects co-financed with EU funds, which resulted in an increased demand for the transport of goods.

In the period under analysis, there was also a strong increase in leases of real estate to PLN 909 million (+26% y/y) and their share in the market structure increased slightly (to 1.3%).

INSURANCE MARKET

As at the end of the third quarter of 2017, the net profit of insurance companies increased by 63.0% y/y to PLN 4.8 billion. The situation of the insurance sector was affected by the improved profitability of automotive insurance, the occurrence of mass losses in connection with violent atmospheric phenomena, as well as the favourable situation on the stock exchange market.

Insurance companies recorded an increase in gross written premium to PLN 46.1 billion (+12.7% y/y). This was a result of an increase in gross written premium in both market segments (+20.4% in the segment of other personal and property insurance and by 4.5% in the segment of life insurance). At the same time, the total value of claims paid by insurance companies (PLN 28.6 billion) was 13.9% higher than in the corresponding period of 2016. The value of claims in the segment of other personal and property insurance increased by +16.5% and in the segment of life insurance by +11.7%.

The increase in the costs of insurance activities (+2.4% y/y) was a result of an increase in costs in the segment of other personal and property insurance (+6.0% y/y) and a decrease in costs in the life insurance sector (-2.8% y/y).

During the three quarters of 2017, the total assets of insurance companies increased by 6.7% to PLN 197.5 billion, which was the result of an 11.2% increase in assets of insurance companies offering other personal and property insurance and a 3.2% increase in the assets of life insurance companies.

FACTORING MARKET

In 2017, the high demand for the services of factoring firms was maintained. The revenue of 22 firms belonging to the Polish Factors Association (Polski Związek Faktorów) grew with a two-digit pace for another year in a row (+16.7% y/y compared with 20.9% y/y in 2016) reaching a level of PLN 185 billion.

Customers of factoring firms mainly availed themselves of domestic factoring, which represented approx. 80% of the market. In 2017, the demand for domestic factoring grew more strongly than for export factoring, the share of which amounted to approx. 20%.

The share of import factoring in the market structure remained on a marginal level (approx. 1.0%).

The share of full factoring in the structure of factoring revenue continued to grow to approx. 55%, which shows the growing appetite of factoring firms for risks when there is a good situation in the

economy and the economic situation of enterprises is good.

The high growth dynamics on the factoring market can be attributed, among other things, to the growing number of customers of factoring firms, which exceeded 9 thousand as at the end of 2017 (8 thousand as at the end of 2016). The factoring services were used most frequently by entities in the food, chemical and metallurgical industries.

2.5 THE UKRAINIAN MARKET

ECONOMIC SITUATION

In 2017, the dynamics of the Ukrainian GDP slowed down slightly (from 2.5% y/y in the first quarter through 2.3% y/y in the second quarter and 2.1% y/y in the third quarter to 1.8% y/y). This was due to an escalation of the tension in Donbas as a result of introducing an embargo on imports from territories occupied by the pro-Russian separatists. Throughout the year, the GDP most probably increased by 2.1-2.2% y/y, slowing down from 2.3% in 2016.

A nearly 40% increase in salaries after raising the minimum salary from UAH 1,500 to UAH 3,200 from January 2017 translated into an accelerated increase in retail sales (and strengthening of consumption growth), whereas industrial production and investments remained limited due to geopolitical tensions.

The improved situation in the economy, increase in salaries, improved collectability of taxes and transfers of subordinated companies resulted in a drop in the deficit of the public finance sector to UAH 40 billion from UAH 53 billion in 2016 (approx. -1.4% and -2.2% of the GDP respectively). The public debt (including guarantees) dropped to 73.4% (as at the end of September) of the GDP from 81.0% as at the end of 2016. At the same time, the share of the central bank in the structure of securities held continued to drop to the benefit of commercial banks (for the first time since June 2011, as at the end of the year, commercial banks held more securities than the central bank).

The CPI inflation level remained within the range of 12-16% y/y (13.7% in December 2017), and the increased volatility of prices resulted from regulatory measures and growing demand and cost pressure (a high increase in salaries, an increase in prices of raw materials and weakening of the UAH rate). The basic inflation, following the stabilization in the first half of the year, accelerated to 9.5% y/y in December. After weakening in January 2017, the hryvnia strengthened against the American dollar until September, after which the exchange rate began to weaken (most strongly in December), closing the year 2017 at 28.07 compared with 27.10 a year before. As a result of the weakening of the hryvnia and a growth in the basic inflation, following two interest rate reductions in the first half of 2017 (by 150 b.p.), the NBU began to increase the interest rates again in autumn (in aggregate by 200 b.p. to 14.50%).

THE UKRAINIAN BANKING SECTOR

According to data from the NBU, the number of banks conducting operating activities in Ukraine dropped in November 2017 to 86 (compared with 96 in December 2016).

The value of total assets in the Ukrainian banking system in 2017 increased to UAH 1.28 trillion from UAH 1.26 trillion. Equity increased to UAH 170.4 from 123.8 billion, representing 13.3% of total equity and liabilities as at the end of November 2017, compared with 9.9% as at the end of December 2016.

In the period from January to November 2017, the volume of loans increased (by UAH 8.4 billion UAH 1034.4 billion). During this period, the volume of loans denominated in foreign currencies dropped strongly (by UAH 40.3 billion), despite the weakening of the hryvnia. The increase in the volume of loans was brought about by non-residents; loans to households remained relatively stable and the volume of corporate loans went down. In 2017, the value of deposits increased by UAH 35.1 billion (to UAH 888.2 billion), which was accompanied by a decrease in the volume of foreign currency deposits of UAH 8.6 billion. The households sector was the main driver of the increase in deposits. The LtD (loans to deposits) ratio dropped to 116.5% as at the end of November 2017 from 120.3% in December 2016.

After the change in classification of non-performing loans, their share in total loans is 54.9% (an increase of about 22% compared with previously published values is the result of, among other things, a sharp increase in allowances for non-performing loans in the nationalized Privatbank). In the same period, ROA and ROE improved (ROA: 0.16% compared with -12.6%; and ROE: 1.31% compared with -116.7%). The capital adequacy ratio of the sector amounted to 15.4% as at the end of November 2017 (in 2017, 7% was required) compared with 12.7% as at the end of December 2016.

2.6 REGULATORY AND LEGAL ENVIRONMENT

The financial and organizational situation of the PKO Bank Polski SA Group and of the financial sector was affected by new legal and regulatory solutions which came into force in 2017, including:

PRUDENTIAL AND CAPITAL REQUIREMENTS

The Regulation of the European Parliament and of the Council No 575/2013 on prudential requirements for credit institutions and investment companies, EBA technical standards and recommendations of the Polish Financial Supervision Authority, in particular to increase the short-term liquidity LCR for 2017 to 80% from 70% in 2016.

The Recommendation of the Polish Financial Supervision Authority of 15 December 2017 concerning the maintenance of own funds to cover an additional capital requirement in order to hedge against the risk arising from foreign currency mortgage loans to households, at the Bank's Group level in an amount of 0.61 p.p., for the aggregate capital adequacy ratio.

The Decree of the Minister for Development and Finance of 25 May 2017 (Journal of Laws of 2017, item 1068) from 1 December 2017 increasing the risk weights for exposures secured by mortgage on real estate, the purchase of which was financed with a foreign currency loan (up to 150%).

An impact on the banks' capital base, supervisory prudential norms, business activity of banks.

RISK MANAGEMENT

Recommendation C of the Polish Financial Supervision Authority (Official Journal of the PFSA of 2016, item 15), from 1 January 2017 changing the principles for managing the risk of loan concentration in universal and mortgage banks.

An impact on managing credit, market, operational and liquidity risks in banks.

INTERNAL CONTROL SYSTEM, RISK MANAGEMENT

The Decree of the Minister for the Development and Finance on risk management system and internal control system, salary policy and policy for estimating internal capital (Journal of Laws of 2017, item 637).

An impact on the organization of the risk management system and internal control system.

REQUIREMENTS CONCERNING GRANTING HOUSING LOANS

Recommendation S of the Polish Financial Supervision Authority concerning loan exposures secured by mortgage (Official Journal of the PFSA of 2013, item 23), from 1 January 2017 increasing the requirement of the borrower's own contribution from 15% to 20%.

The Act on state aid to young people purchasing their first apartment (Journal of Laws of 2015, item 1865, as amended) specifying the maximum limit of aid funds as part of the financing under the Mieszkanie dla Młodych (Apartment for the Young) Programme in 2017.

The Act of 23 March 2017 on mortgage loans and on supervision over mortgage loan brokers and agents (Journal of Laws of 2017, item 819) introducing from 22 July 2017 changes in the granting of mortgage loans (including a ban on combined sales, freedom of early repayment of a loan by a borrower during the period of the loan agreement and solutions related to restructuring customers' debt in justified cases).

An impact on the level of lending activity, interest income, commission income and income from bank fees, and capital requirements.

DE MINIMIS PROGRAMME

An amendment to the Decree of the Minister of Finance (Journal of Laws of 2016, item 1471) concerning granting *de minimis* aid by Bank Gospodarstwa Krajowego in the form of loan repayment guarantees, prolonging the operation of the *De minimis* programme to 2017.

An impact on the level of lending activity to small and medium enterprises.

WINDFARMS

The Act amending the Act on renewable sources of energy and some other Acts (Journal of Laws of 2016, item 925) and the Act on investments relating to windfarms (Journal of Laws of 2016, item 961), having a negative impact on the financial condition of windfarms, also through tax effects.

An impact on the quality of the loan portfolio and the level of impairment provisions.

FINANCING OF AGRICULTURAL ACTIVITIES

The Decree of the Minister of Justice of 5 July 2017 specifying the objects belonging to a farmer running a farm which are not subject to execution (Journal of Laws of 2017, item 1385). The Decree came into force on 2 August 2017.

An impact on the level of lending activity and lease activity for farmers.

PAYMENTS THROUGH A BANK ACCOUNT

The Act on freedom of business activity (Journal of Laws of 2015, item 584, as amended) from 1 January 2017 reducing the limit for transaction values between entrepreneurs conducted via a bank account from EUR 15 thousand to PLN 15 thousand.

An impact on the level of deposits of corporate customers.

TAX ON INVESTMENT FUNDS

The amendment to the Corporate Income Tax Act (Journal of Laws of 2016, item 1926) pursuant to which as of 1 January 2017 some closed-ended funds were covered by CIT.

An impact on the level of investment fund assets and the results of fund management companies.

LIMITING THE OPERATIONS OF OPEN PENSION FUNDS (OFE)

The Act on amending some Acts on the principles for paying out pensions from funds accumulated in open pension funds (Journal of Laws of 2013, item 1717) from 1 January 2017 reducing the minimum limit of exposure of open pension funds in the shares of Polish companies from 35% to 15%.

An impact on the level of assets, business models and results of open pension funds.

BGF – CLASSIFICATION OF COSTS

The Act of 10 June 2016 on the Bank Guarantee Fund, the deposit guarantee system and mandatory restructuring (Journal of Laws of 2016, item 996) amending, among other things, the principles of classifying BGF costs for tax purposes.

An impact on results.

CHANGES IN TAXES

The Act of 5 September 2016 on amending the Personal Income Tax Act and the Corporate Income Tax, introducing an additional condition (actual owner) that determines the right to tax relief on interest income and licence-related receivables obtained by non-residents on the territory of the Republic of Poland.

The Act of 29 November 2016 on amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on amending the General Tax Law, and some other Acts, introducing, among other things, limitation of the scope of the subjective exemption in CIT for investment funds.

An impact on results.

The Act of 1 December 2016 on amending the VAT Act and some other Acts, repealing the VAT exemption which could be applied for services auxiliary to financial services.

The operations and results of the PKO Bank Polski SA Group in 2017 were influenced by new legal solutions introduced in Ukraine (where, among others, the Bank's subsidiary KREDOBANK operates), including:

CHANGES IN BASIC INTEREST RATES

The Resolutions of the Board of Directors of the Central Bank of Ukraine (NBU) no. 232/2017 and 318/2017 reducing the discount rate from 14 April 2017 by 1 p.p. to 14% and from 26 May 2017 by 0.5 p.p. to 12.5% and Resolutions no. 688/2017 and 793/2017 increasing the discount rate from 27 October 2017 by 1 p.p. to 13.5% and from 15 December 2017 by 1 p.p. to 14.5%.

An impact on business activity and their interest income.

CASH SETTLEMENTS

The Decision of the NBU no. 407/2016 reducing from 3 January 2017 the maximum amount of cash settlements performed between individuals and corporate entities from UAH 150 thousand to UAH 50 thousand.

The Decision of the NBU no. 116/2017 putting financial institutions other than banks and sales agents under an obligation to conduct settlements of their business activities with the use of a bank account (from 22 November 2017).

An impact on the level of customer deposits and banks' income.

FOREIGN CURRENCY ADMINISTRATION

The Decision of the NBU no. 7/2016 from 9 February 2017 raising the limit of foreign currency purchases on the interbank market.

The Decisions of the NBU no. 13-15/2017, 19/2017, 30/2017, 33/2017, 41/2017, 44/2017, 65/2017, 67/2017, 74/2017, 81/2017, 101/2017, 129/2017 which specify, among other things, the principles for foreign currency trading by individuals and legal persons, including banks.

An impact on business activities of banks, management of foreign currency position and level of risk.

CAPITAL REQUIREMENTS

Resolution no. 313/2015 of the Board of Directors of the NBU raising the minimum capital adequacy requirement to 7% for the year 2017.

An impact on the capital base, supervisory prudential norms and business activity of banks.

CREDIT RISK

Decision of the NBU no. 75/2017 introducing changes regarding determination of credit risk.

An impact on the level of credit risk.

COOPERATION WITH BROKERS

Decision of the NBU no. 50/2017 regulating the principles for cooperation of banks with loan brokers.

An impact on business activities of banks and level of risk.

REGULATORY SOLUTIONS WHICH WILL AFFECT THE FINANCIAL POSITION OF BANKS AND THEIR GROUPS IN POLAND OVER THE FOLLOWING QUARTERS

The following new regulatory solutions may affect the financial results of the banking sector in the perspective of the nearest quarters:

- from 1 January 2018 the introduction of the systemic risk buffer at 3% of the aggregate risk exposure on the individual and consolidated basis;
- from 1 January 2018 increasing the safety buffer to 1.875% from 1.25% in 2017;
- the coming into force of IFRS9, which introduces, among other things, changes in the calculation and recording of impairment allowances and classification of financial instruments;
- from 30 April 2018 a reduction in the mandatory reserve from 3.5% to 0% for deposits above 2 years and starting from 1 January 2018 a reduction in the interest rate on the mandatory reserve to 0.5% compared with 1.35% before;
- the Act of 15 December 2017 on amending the VAT Act and some other Acts introducing the split payment mechanism to the VAT system from 1 July 2018;
- the MIFID2 Directive introducing new requirements related to the provision of investment services, among others, by banks and investment fund companies;
- the IDD Directive implemented into Polish law by the Act on insurance distribution dated 15 December 2017 introducing, among other things, new obligations for insurance companies with regard to their customers;
- the PSD2 Directive relating to payment services, introducing, among other things, a new category of suppliers providing two types of services: the payment initiation service (PIS) and the account information service (AIS);
- the EU Regulation GDPR on personal data protection;
- continuing uncertainty as to the final shape of the statutory solutions concerning housing loans in foreign currencies;
- the Act of 27 October 2017 amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on flat-rate income tax on some revenues generated by individuals, introducing regulations resulting in increasing the CIT burdens and relating to: categorization of sources of income (from capital gains and from other sources of income), general restriction on the costs of debt financing in place of the so-called thin capitalization provisions, restrictions on classifying expenses on intangible services as tax-deductible costs and changes adapting the regulations in connection with IFRS 9 coming into force;
- the Act of 24 November 2017 on amending some Acts in order to counteract using the financial sector for tax extortions, introducing new obligations for banks and SKOK within the scope of providing information to the IT system of the clearance chamber (STIR) and blocking of accounts;

- the draft Act on amending some Acts in order to introduce simplifications for entrepreneurs in tax and business law, introducing, among other things, an alternative method of taxing issues of bonds and debentures.

2.7 TENDENCIES IN THE POLISH AND GLOBAL ECONOMY IN 2018 AND THEIR IMPACT ON THE BANK'S GROUP RESULTS¹⁰

FAVOURABLE EXTERNAL ENVIRONMENT OF THE POLISH ECONOMY

The external environment of the Polish economy in 2018 should continue to support the development of the Bank's Group. The European political cycle in 2018 should be calmer than in 2017, and the key source of political risk should be the parliamentary election in Italy currently planned for March (other sources of political risk include continued negotiations on Brexit, the tension between the central government and the regional authorities in Spain or the prolonged process of forming the government in Germany). The growing imbalance on the asset markets is an additional source of uncertainty. The leading ratios indicate that the improvement in the economic situation that began in Europe at the end of 2016 should continue, and similarly to the second half of 2017, a greater role in the structure of the GDP growth will be played by internal demand, which indicates that the business cycle is entering a mature phase of expansion. According to the basic scenario, the GDP dynamics in the Eurozone should slow down slightly (to 2.3% in 2018 from 2.5% in 2017). In 2018, the continued economic expansion in Europe should be supported by the ECB maintaining a mild monetary policy. The increase in prices of raw materials (and inflation in general) could be a negative factor that would limit the real buying power of consumers and increase the cost pressure on enterprises.

The American economy should be supported by the tax reform enacted in December 2017 and the announced plan of infrastructural investments (the GDP dynamics in the USA will probably accelerate to 2.7% from 2.3% in 2017). The risk factors still include foreign exchange rate fluctuations and potentially the too high scale and pace of the Fed's interest rate increases (according to Fed projections from December 2017, its members are expecting three rises in 2018) In the face of the considerable involvement of American households and firms in the capital market, potential strong or lasting drops on American stock exchanges could be an additional source of risk for the economy.

The increase in prices of raw materials is a positive factor for a number of emerging economies. In China, it is expected that the structural slowdown in economic growth will continue, but the good condition of the global economy and the reserves in the areas of fiscal and monetary policy should help avoid a "hard landing" scenario. Maintaining strong economic growth and the gradual strengthening of inflation bring about changes in the monetary policies of the main central banks. In the United States it is expected that interest rates will continue to be raised, and in the Eurozone a decision will most probably be made to close the programme of buying up QE assets (reinvestments of cash from maturing securities will be continued).

STABLE ECONOMIC GROWTH

The year 2018 should bring continued economic growth on a level similar to the GDP dynamics in 2017. The structure of economic growth should continue to change towards a growing share in investments at the cost of the lower contribution of private consumption. Although the increase in investments should be stimulated mainly by an increase in expenditure in the public sector (intensification of the absorption of funds from the EU), the high utilization of production capacity and striving towards increased efficiency should also lead to a revival in private investments. Strong internal demand should have a positive effect on an increase in imports. Despite that, the contribution of net export to growth should remain slightly positive, thus reflecting a strong growth in the export of goods and a structural increase in overbalance in the exchange of services. The dynamics of private consumption may gradually slow down, thus reflecting the ending of the effect of the 500+ programme, which was smoothed down over time, and an increase in inflation. However, the heated up labour market and uncommonly good consumer moods should cause private consumption to continue to be a significant source of economic growth.

SITUATION ON THE LABOUR MARKET

The year 2018 will most probably bring a further growth of the imbalance on the labour market. Despite the continued strong growth in the demand for labour, the scale of employment growth will be more and more limited by supply-related factors (running out of the resources of available labour force). These factors will lead to a further increase of the salary pressure and acceleration of the nominal growth of salaries, especially in the corporate sector. The unemployment rate should maintain the downward trend, the strength of which should, however, be weak. The rate of registered unemployment as at the end of 2018 may go down below 6%.

¹⁰ Internal forecasts of PKO Bank Polski SA

THE INCREASE IN CPI INFLATION

At the start of 2018, the CPI inflation will be reduced by the effects of the high base. From March 2018, inflation should return to the upward trend, and should exceed the NBP's inflation target (of 2.5% y/y) about the middle of the year. The basic inflation reflecting, among other things, the increase in prices of services arising from higher labour costs, will be the main factor generating inflation growth. The upward trend of inflation should slow down in the second half of 2018, which to a large extent would be due to the statistical effects of the high reference base. It is expected that throughout 2018, the CPI inflation will remain within the limits of acceptable variances from the NBP's inflation target, and at the end of 2018, it will amount to slightly less than 2.0% y/y.

UNCHANGED INTEREST RATES

Despite continued strong economic growth and inflation remaining close to the inflation target, the Monetary Policy Council will most probably leave the NBP interest rates unchanged throughout 2018. Arguments for the stabilization of interest rates include: the changed function of the MPC's reactions (with a higher weight of GDP growth than in the past, and perceiving the current level of interest rates as neutral), strengthening of the zloty exchange rate, maintaining a stable surplus on the current account, a relatively stable situation on the housing real estate market and – so far – a lack of clear symptoms of the stronger salary pressure translating into inflation.

A STABLE GROWTH IN LOANS AND A SLOWDOWN IN THE GROWTH OF DEPOSITS

The growing regulatory requirements (higher capital requirements, implementation of IFRS 9) in combination with limiting the interest rates on cash deposited on the NBP mandatory reserve account – mean that in spite of continuing economic expansion supported by a low level of interest rates (and a growing demand for loans), the dynamics of loans in the entire banking sector remains moderate. Despite a strong drop in the potential to expand the lending activity of the entire sector, the high demand may bring individual banks (with a higher level of own funds or those issuing subordinated debt) to grant loans more actively. The high payroll dynamics and the continued strong growth of (domestic and export) sales should contribute to a slight acceleration of deposits dynamics. The scenario of stable NBP interest rates means that we will probably continue to observe an outflow of the term deposits of households and the increased interest of households in alternative forms of saving, including shares, investment fund units and real estate.

3. THE FINANCIAL STANDING OF THE PKO BANK POLSKI SA GROUP¹¹

Basic ratios Consolidated income statement Consolidated statement of financial position

3.1 KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group in 2017 enabled the key financial efficiency indicators to achieve the following levels:

¹¹ In this section, any differences in sums, shares or dynamics arise from the rounding of amounts to full PLN millions and rounding of percentage shares in structures to one digital space.

Table 3. Financial indicators of the PKO Bank Polski SA Group

	2017-12-31	2016-12-31	Change
ROA net* (net profit/average total assets)	1,1%	1,1%	0,0 p.p.
ROE net* (net profit/average total equity)	9,0%	9,1%	-0,1 p.p.
C/I (cost to income ratio)*	46,0%	47,4%	-1,4 p.p.
Net interest margin* (net interest income/average interest-bearing assets)	3,3%	3,2%	0,1 p.p.
Share of impaired loans**	5,5%	5,9%	-0,4 p.p.
Cost of risk***	-0,71%	-0,75%	0,04 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	17,37%	15,81%	1,56 p.p.
Tier 1 ratio	16,50%	14,51%	1,99 p.p.

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities and equity.

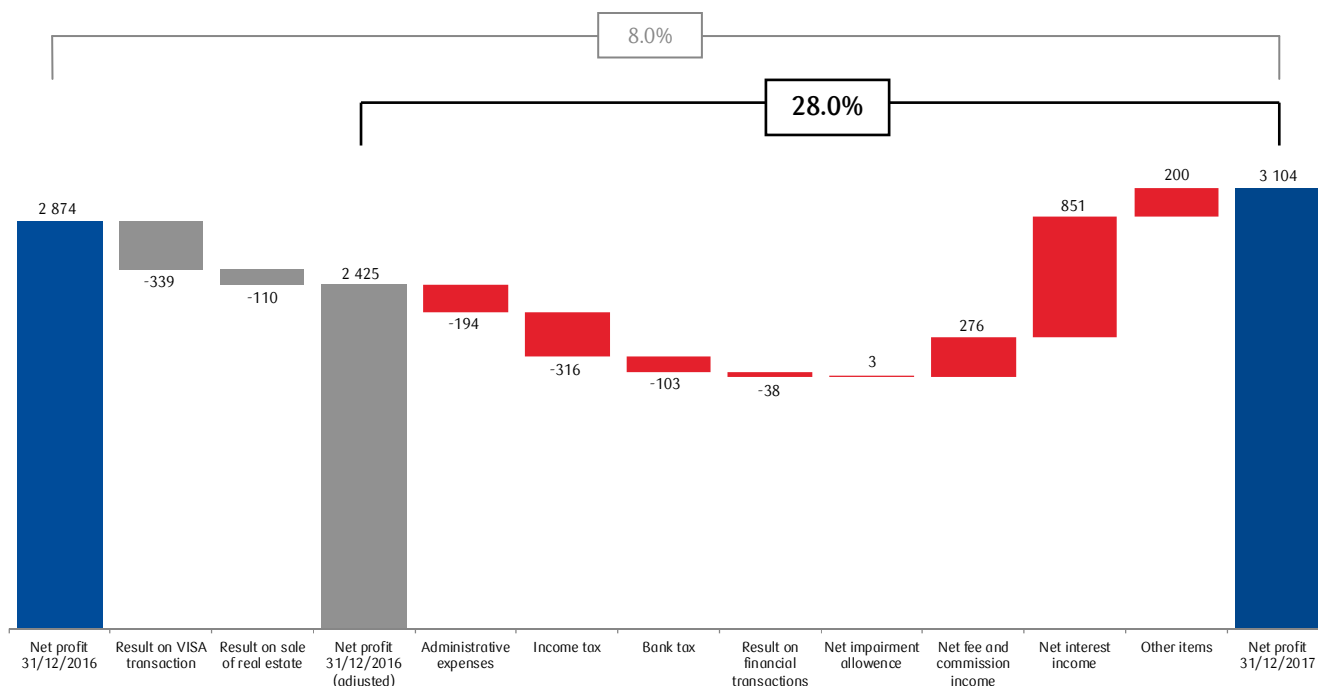
** Calculated by dividing the gross carrying amount of impaired loans and advances by the gross carrying amount of loans and advances to customers.

*** Calculated by dividing the net impairment allowance on loans and advances to customers over period of 12 months by average gross balance of loans and advances granted to customers at the beginning and end of reporting period and quarterly periods in between.

3.2 CONSOLIDATED INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
General administrative expenses
Bank tax
Net impairment allowances

The consolidated net profit of the PKO Bank Polski SA Group achieved in 2017 amounted to PLN 3,104 million and was PLN 230 million (+8.0%) higher than in 2016.



In the income statement of the PKO Bank Polski SA Group for 2017, the result on business activity amounted to PLN 12,563 million and was PLN 773 million, i.e. 6.6% higher than in 2016, mainly due to an increase in net interest income and net commission income.

Table 4. Income statement of the PKO Bank Polski SA Group (in PLN million)

	2017	2016	Change (in PLN million)	Change (in %)
Net interest income	8 606	7 755	851	11,0%
Net fee and commission income	2 969	2 693	276	10,2%
Net other income	988	1 342	-354	-26,4%
Dividend income	12	10	2	20,0%
Net income on financial operations	54	510	-456	-89,4%
Foreign exchange result	452	503	-51	-10,1%
Net other operating income and expenses	470	319	151	47,3%
Result on business activities	12 563	11 790	773	6,6%
General administrative expenses	-5 784	-5 590	-194	3,5%
Tax on some financial institutions	-932	-829	-103	12,4%
Net operating profit/(loss)	5 847	5 371	476	8,9%
Net impairment allowance and write-downs	-1 620	-1 623	3	-0,2%
Share in profits and losses of associates and joint ventures	22	35	-13	-37,1%
Profit before tax	4 249	3 783	466	12,3%
Corporate income tax	-1 140	-907	-233	25,7%
Net profit (including non-controlling interests)	3 109	2 876	233	8,1%
Profits (loss) attributable to non-controlling shareholders	5	2	3	2,5x
Net profit for the year	3 104	2 874	230	8,0%

After eliminating the most significant one-off events from 2016, including:

- the settlement of the acquisition of *Visa Europe Limited* by *Visa Inc.*, in which PKO Bank Polski SA took part; its effect on the Bank's results amounted to PLN 339 million;
- the settlement of the sale of assets of *Qualia Development Sp. z o.o.* and its subsidiaries (PLN 110 million); as a result, the Group recognized additional income of approx. PLN 114 million in net other operating income and expenses;

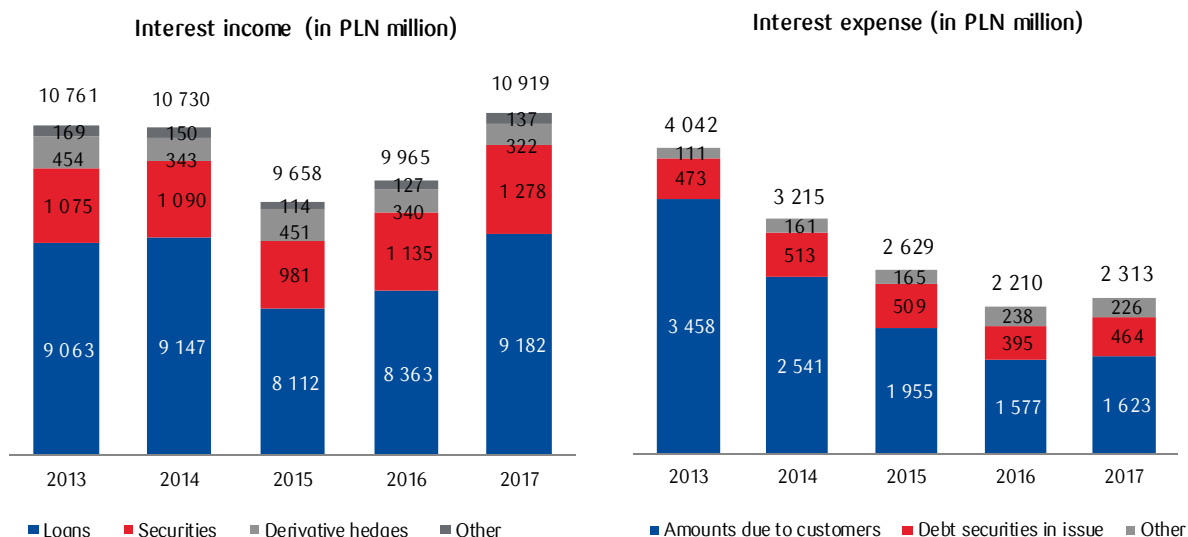
net profit in 2017 was 28% higher than in 2016.

Table 5. Income statement of the PKO Bank Polski SA Group (in PLN million), excluding one-off events

	2017	2016	eliminations	2016 after eliminations	Change (in PLN million)	Change (in %)
Net interest income	8 606	7 755		7 755	851	11,0%
Net fee and commission income	2 969	2 693		2 693	276	10,2%
Net other income	988	1 342	532	810	178	22,0%
Dividend income	12	10		10	2	20,0%
Net income on financial operations	54	510	418	92	-38	-41,3%
Foreign exchange result	452	503		503	-51	-10,1%
Net other operating income and expenses	470	319	114	205	265	2,3x
Result on business activities	12 563	11 790	532	11 258	1 305	11,6%
General administrative expenses	-5 784	-5 590		-5 590	-194	3,5%
Tax on some financial institutions	-932	-829		-829	-103	12,4%
Net operating profit/(loss)	5 847	5 371	532	4 839	1 008	20,8%
Net impairment allowance and write-downs	-1 620	-1 623		-1 623	3	-0,2%
Share in profits and losses of associates and joint ventures	22	35		35	-13	-37,1%
Profit before tax	4 249	3 783	532	3 251	998	30,7%
Corporate income tax	-1 140	-907	-83	-824	-316	38,3%
Net profit (including non-controlling interests)	3 109	2 876	449	2 427	682	28,1%
Profits (loss) attributable to non-controlling share	5	2		2	3	2,5x
Net profit for the year	3 104	2 874	449	2 425	679	28,0%

NET INTEREST INCOME

Net interest income generated in 2017 amounted to PLN 8,606 million and was PLN 851 million higher than in the prior year. The improvement was due to an increase in income related to the increase in the loan portfolio and the securities portfolio, accompanied by increased borrowing costs.



In 2017, interest income amounted to PLN 10,919 million and was PLN 954 million higher than in the prior year, mainly as a result of an increase in:

- income from loans and advances to customers of PLN 819 million y/y – resulting from an increase in an average volume of lease and loan receivables, mainly housing and consumer loans, with unchanged levels of market interest rates for PLN, CHF and EUR;

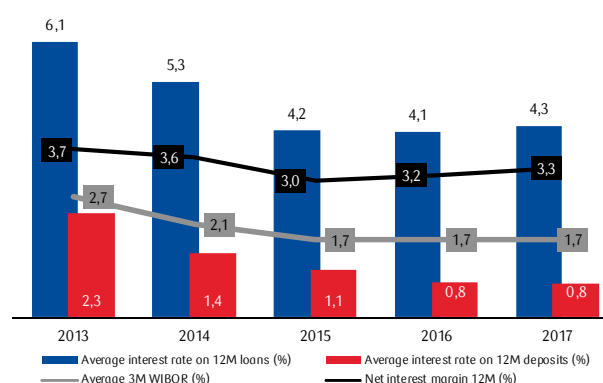
- income from securities of PLN 143 million y/y, resulting from an increase in the portfolio of securities (mainly Treasury bonds) and an increase in their average interest rates in connection with an increased share of longer-term securities in the portfolio.

Interest expense in 2017 amounted to PLN 2,313 million and was PLN 103 million higher than in 2016, which was due to:

- higher own issue costs of debt securities and subordinated liabilities of PLN 69 million y/y, resulting from an increased level of issued medium-term bonds and mortgage bonds;
- an increase in costs related to amounts due to customers of PLN 46 million y/y, resulting from an increase in deposits with slightly lower average interest rates, which was due to an increased share of current deposits in the total deposits;
- higher costs of amounts due to banks of PLN 34 million y/y, related to increased costs of servicing loans received from financial institutions, accompanied by a lower volume of loans received, mainly due to considerable early repayment of a credit line from Nordea Bank AB.

Interest margin increased by ca. 0.1 p.p. y/y to 3.3% as at the end of 2017. Average interest-bearing assets increased by 5.7% y/y (mainly in the portfolio of amounts due from customers and the securities portfolio), whereas net interest income increased by 11.0%, mainly due to an increase in interest income on loans and securities (the effect of an increased volume and profitability of assets).

In 2017, an average interest rate on loans of the PKO Bank Polski SA Group amounted to 4.3% and an average interest rate on deposits amounted to 0.8%, compared with 4.1% and 0.8% respectively in 2016.

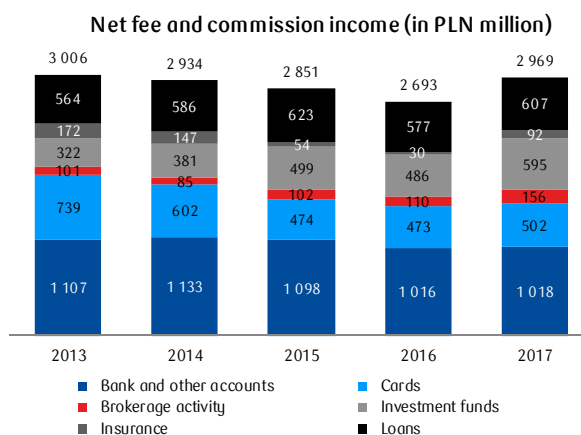


NET FEE AND COMMISSION INCOME

Net fee and commission income in 2017 amounted to PLN 2,969 million and was PLN 276 million higher than in the prior year.

The level of net commission income was largely determined by:

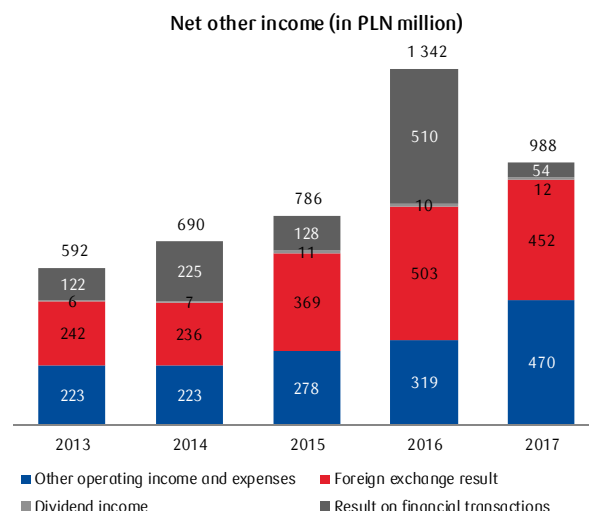
- a higher net commission income on maintaining of investment funds (PLN 109 million y/y), resulting from higher customer interest in this form of saving. This translated into higher income from management commission and fees for unit distribution, accompanied by an increase in the value of managed asset of PKO TFI SA of 29.1% compared with the end of 2016;
- a higher net commission income on loan insurance (PLN 62 million y/y), resulting mainly from increased sales of insurance products linked with consumer loans and advances and lease receivables;
- a higher net commission income on brokerage activities (PLN 46 million y/y), resulting from an increased commission on stock exchange trading due to the improved situation on the WSE. The turnover of Dom Maklerski PKO Banku Polskiego SA on the secondary market of shares in 2017 represented 14.7% of the market's turnover, placing Dom Maklerski on the first position in the ranking of brokerage houses as at the end of 2017. Moreover, there was an increase in income from handling transactions executed on the primary market and an increase in commission for acting as an issuing agent of Treasury bonds as a result of increased interest of the customers in this form of investment;
- a higher net commission income on loans granted (PLN 30 million y/y), mainly housing and consumer loans;
- a higher net commission income on payment and credit cards (PLN 29 million y/y), as a result of a higher number of cards and a higher level of non-cash transactions.



NET OTHER INCOME

In 2017, net other income amounted to PLN 988 million and went down by PLN 354 million compared with the prior year. The level of net other income was largely determined by:

- a decrease in net income on investment securities of PLN 460 million y/y, which was due to settling in June 2016 of an acquisition of Visa Europe Limited by Visa Inc. in which PKO Bank Polski SA participated; on this account the Bank recorded an amount approaching PLN 418 million in the result on financial transactions;
- an increase in net income on other operating activities of PLN 151 million, mainly as a result of developing the operations of insurance companies (PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA) and a higher contribution of the lease activities.

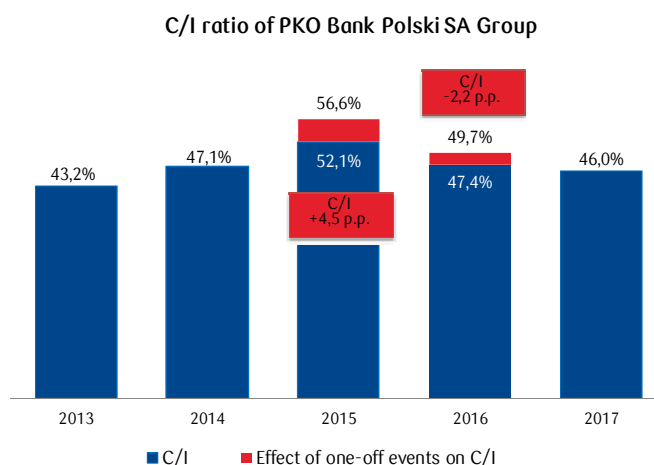
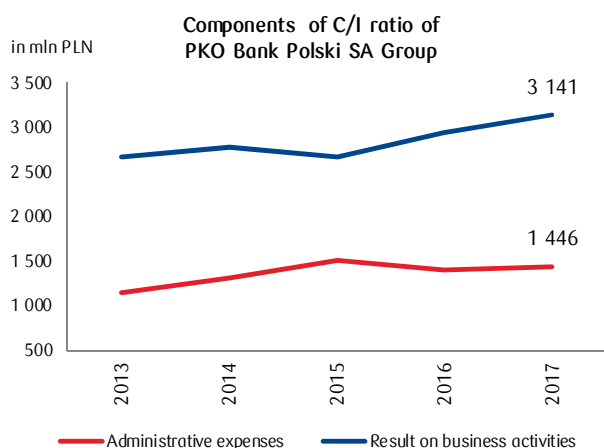
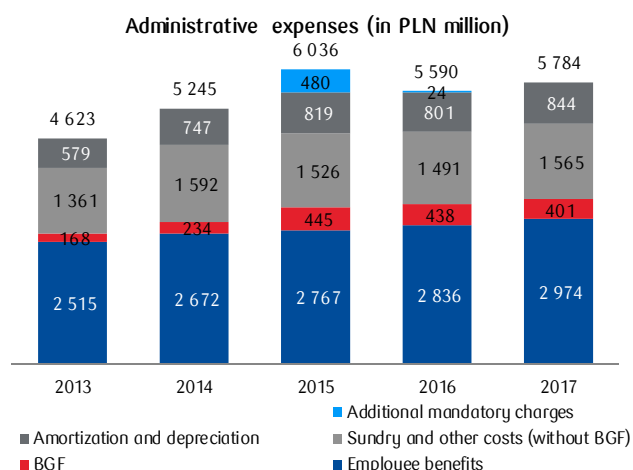


GENERAL ADMINISTRATIVE EXPENSES

In 2017, general administrative expenses amounted to PLN 5,784 million and were 3.5% higher than in the similar period of the prior year.

Their level was mainly influenced by an increase in:

- employee benefits of PLN 138 million, i.e. 4.9%;
 - amortization and depreciation of PLN 43 million, i.e. 5.4%;
 - and taxes and fees (of PLN 87 million, i.e. 126.1%);
- accompanied by a decrease in:
- contributions and payments to the BGF of PLN 37 million y/y, i.e. 8.4% (including PLN 24 million relating to the mandatory payment designated for payment of amounts guaranteed to deponents in connection with the bankruptcy of Bank Spółdzielczy in Nadarzyn carried out in 2016);
 - sundry costs of PLN 13 million, i.e. 0.9%.



The operating effectiveness of the PKO Bank Polski SA Group measured with the C/I ratio in annual terms amounted to 46.0% and improved by 1.4 p.p. y/y thanks to an improved result on business activities (+6.6% y/y), accompanied by an increase in administrative expenses (+3.5% y/y).

TAX ON SOME FINANCIAL INSTITUTIONS

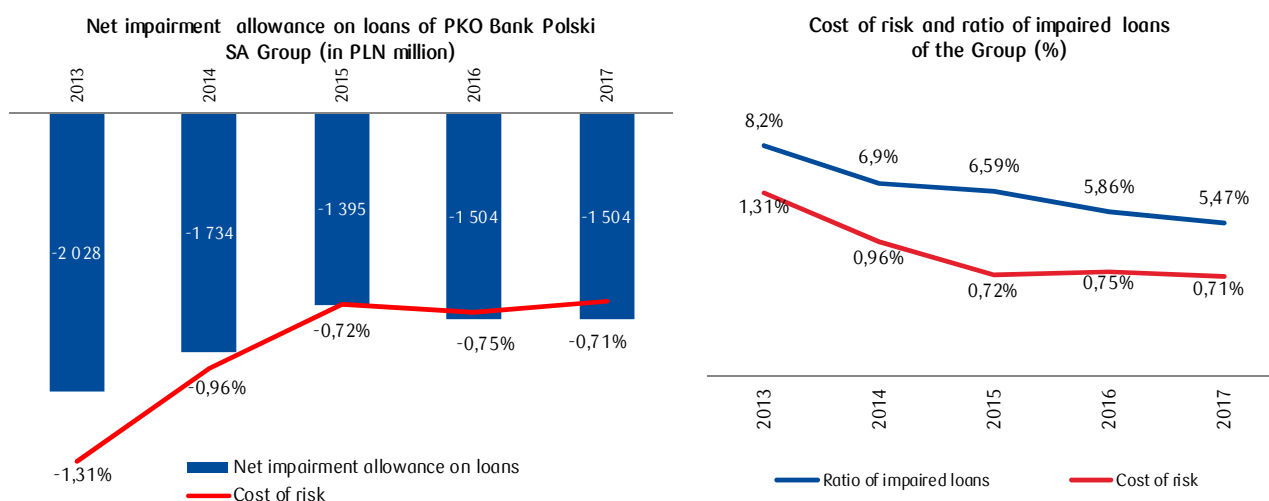
From February 2016, banks and other financial institutions are obliged to pay tax on some financial institutions. The charge to the Bank's Group on account of this tax in 2017 amounted to PLN 932 million, of which the majority was payable by PKO Bank Polski SA (PLN 894 million).

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

Net impairment allowance and write-downs reflects the PKO Bank Polski SA Group's conservative approach to recognition and measurement of credit risk. Net impairment allowance was maintained on a similar level (-0.2% y/y) thanks to the improvement of the allowance on the housing loan portfolio.

The share of impaired loans and coverage of loans with recognized impairment as at the end of 2017 amounted to 5.5% (up by 0.4 p.p. compared with 2016) and 67.0% (up by 1.5 p.p. compared with 2016), respectively. This was due to an improvement of the quality of business loans and the consistent policy of selling irregular receivables.

The cost of risk¹² as at the end of 2017 amounted to 0.71% and was improved by 0.04 p.p. compared with 2016 thanks to an improved result on housing and business loans.



3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The main items of the Statement of financial position
Loans and advances to customers
Securities
Amounts due to customers
Borrowings
Equity and capital adequacy ratio

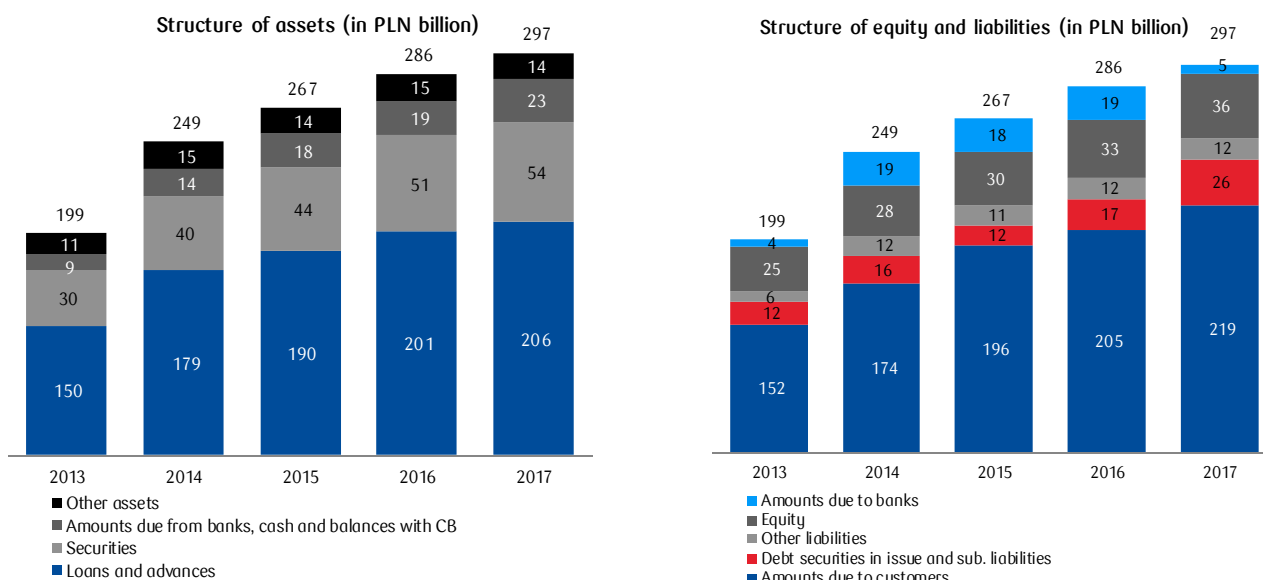
¹² Calculated by dividing net impairment allowances on loans and advances to customers for the 12 months ended 31 December 2017 and 2016 by the average balance of gross loans and advances to customers at the start and end of the reporting period and interim quarterly periods.

THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

The total assets of the PKO Bank Polski SA Group as at the end of 2017 amounted to PLN 296.9 billion, which represents an increase of 4.0% y/y.

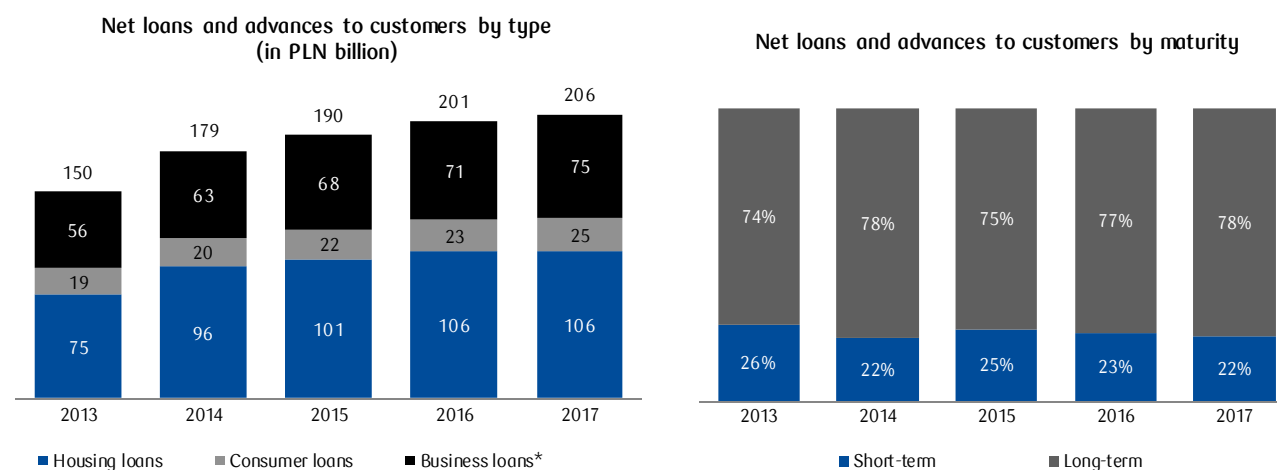
The increase in the Group's assets was mainly due to an increased volume of loans and advances to customers of PLN 5.0 billion y/y, cash and balances with the Central Bank of PLN 4.5 billion y/y and securities of PLN 2.7 billion y/y.

The increase in the total assets was mainly financed with an increase in amounts due to customers of PLN 13.7 billion y/y and an increase in liabilities in respect of securities issued of PLN 9.4 billion y/y.



LOANS AND ADVANCES TO CUSTOMERS

As at the end of 2017, the value of the portfolio of loans and advances to customers of the Bank's Group was PLN 205.7 billion and it increased in annual terms by PLN 5.0 billion.



*including transactions with a repurchase clause, debt securities and finance lease receivables

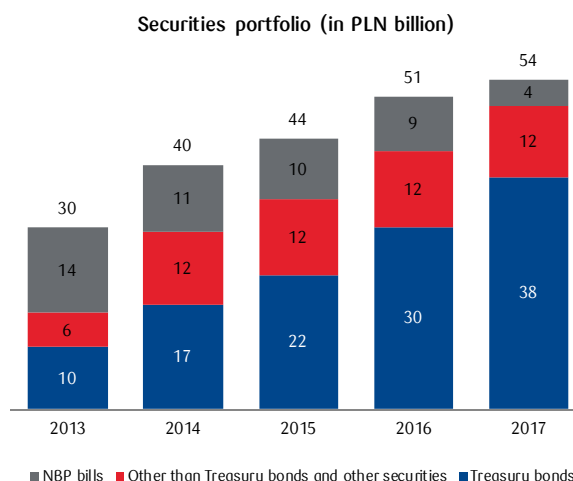
Housing loans are the main item in the structure of net loan portfolio by type (51.6% of the portfolio as at the end of 2017) and their volume remained on a stable level during the year. The increase in the portfolio of PLN housing loans was nearly fully offset by a decrease in the volume of the portfolio of foreign currency housing loans, which remained under a significant influence of the exchange rate effect. In 2017, the most profitable consumer loans increased by PLN 1.4 billion and business loans by PLN 3.6 billion.

Long-term loans played a dominant role in the maturity structure of loans and advances to customers (78.0% of the portfolio), the volume of which increased by 1 p.p. y/y compared with 2016, whereas short-term loans recorded a negative dynamics of -1 p.p. and their share in the structure amounted to 22%.

SECURITIES

As at the end of 2017, the securities portfolio of the PKO Bank Polski SA Group amounted to PLN 54 billion and it went up by nearly PLN 3 billion compared with the end of 2016.

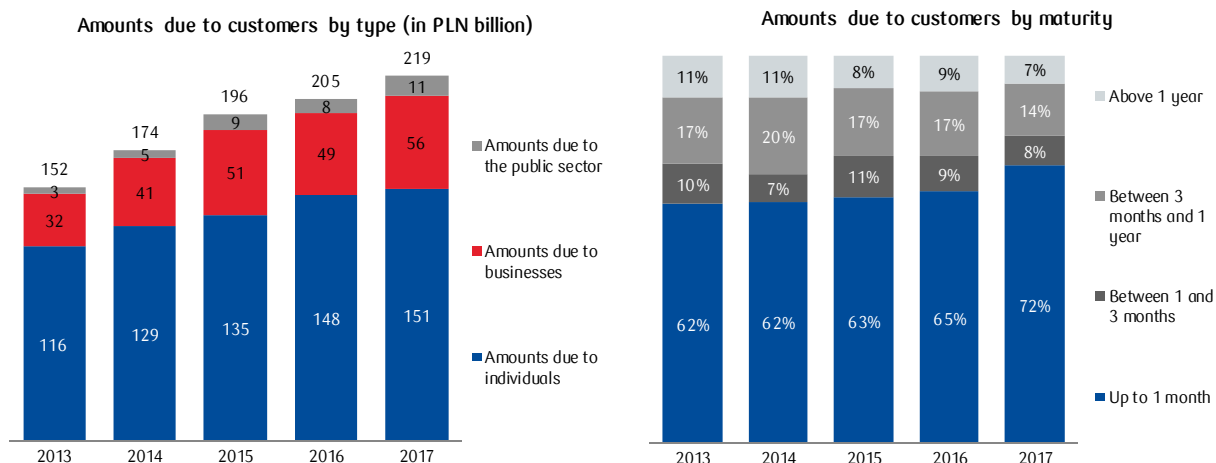
Debt securities issued by the State Treasury dominated in the structure of the portfolio by type, and they went up by over PLN 8 billion in 2017, at the expense of NBP bills (down by PLN 4.9 billion y/y).



AMOUNTS DUE TO CUSTOMERS

Amounts due to customers constitute the main source of financing the assets. Their balance as at the end of 2017 amounted to PLN 218.8 billion and it went up since the start of the year by PLN 13.8 billion. Amounts due to individuals are the main item in the structure of amounts due to customers by type (69.1% of the portfolio as at the end of 2017), which is accompanied by an increase in amounts due to corporate entities and amounts due to state budget entities.

The maturity structure of amounts due to customers changed in 2017. The balance of amounts due to customers maturing up to 1 month increased by PLN 22.7 billion and represented 72% of all amounts due to customers as at the end of 2017. In the remaining items of the maturity analysis there was a drop related to the migration of cash from term deposits to current deposits and to investment fund companies.



EXTERNAL FINANCING

The PKO Bank Polski SA Group is an active participant of the market of debt security issues, both local and international. These actions are intended to diversify the sources of financing of operations and to adapt them to regulatory requirements.

As at the end of 2017, there was a change in the structure of financing. There was a considerable decrease in the share of loans received from monetary financial institutions. These loans amounted to PLN 2.8 billion as at 31 December 2017 and went down by 84.1% y/y as a result of a considerably earlier repayment of the credit line from Nordea Bank AB (publ). It is an element of the transaction under which PKO Bank Polski SA acquired the assets of Nordea Group (the loan was obtained for the financing of the acquired portfolio of mortgage loans).

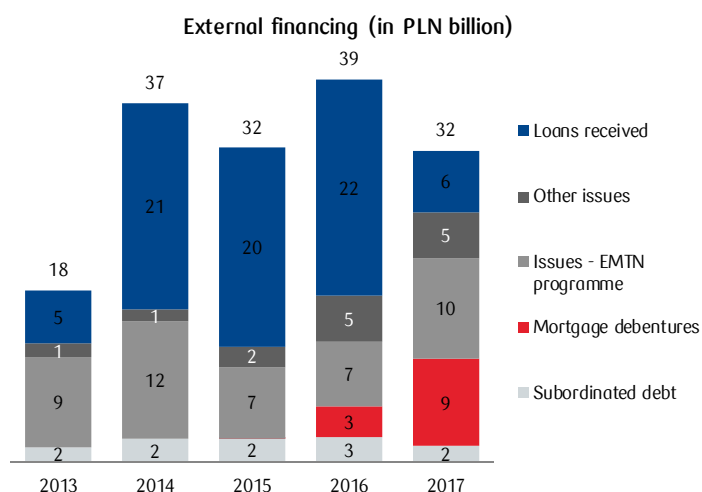
As at the end of 2017, issues of securities were the main item of the said sources of financing, and they went up by PLN 9.4 billion, i.e. by 65.1% compared with the prior year.

The decrease in the level of long-term sources of financing is mainly a result of:

- a considerable repayment of the credit line from Nordea Bank AB;
- utilizing the call option in respect of the subordinated loan of CHF 224 million; accompanied by an increase in:
- issue of own Eurobonds of PKO Bank Polski SA as part of the EMTN programme launched in April 2017, of EUR 750 million and CHF 400 million;
- issue of debentures and short-term bonds by PKO Bank Hipoteczny SA, the balance of which as at the end of 2017 increased by PLN 5.6 billion and PLN 1.1 billion respectively.

The level of the external financing was also affected by ongoing repayments of instalments of other loans and the exchange rate effect.

Detailed information on the issues carried out by the PKO Bank Polski SA Group is provided in Note 35 to the Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2017.



4. THE FINANCIAL STANDING OF PKO BANK POLSKI SA¹³

Basic ratios
Income statement
Statement of financial position

4.1 KEY FINANCIAL INDICATORS

The results achieved by PKO Bank Polski SA in 2017 enabled the key financial efficiency indicators to achieve the levels shown in the table below.

¹³ Any differences in the sums, shares and dynamics in this chapter arise from rounding to PLN million and rounding of percentage shares in structures to one decimal place.

Table 6. Financial ratios of PKO Bank Polski SA

	2017-12-31	2016-12-31	Change
ROA net* (net profit/average total assets)	1,0%	1,1%	-0,1 p.p.
ROE net* (net profit/average total equity)	8,1%	9,2%	-1,1 p.p.
C/I (cost to income ratio)*	44,8%	45,8%	-1,0 p.p.
Net interest margin* (net interest income/average interest-bearing assets)	3,2%	3,1%	0,1 p.p.
Share of impaired loans**	5,6%	5,8%	-0,2 p.p.
Cost of risk***	-0,71%	-0,75%	0,04 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	19,59%	17,19%	2,40 p.p.
Tier 1 ratio	18,62%	15,83%	2,79 p.p.

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities and equity.

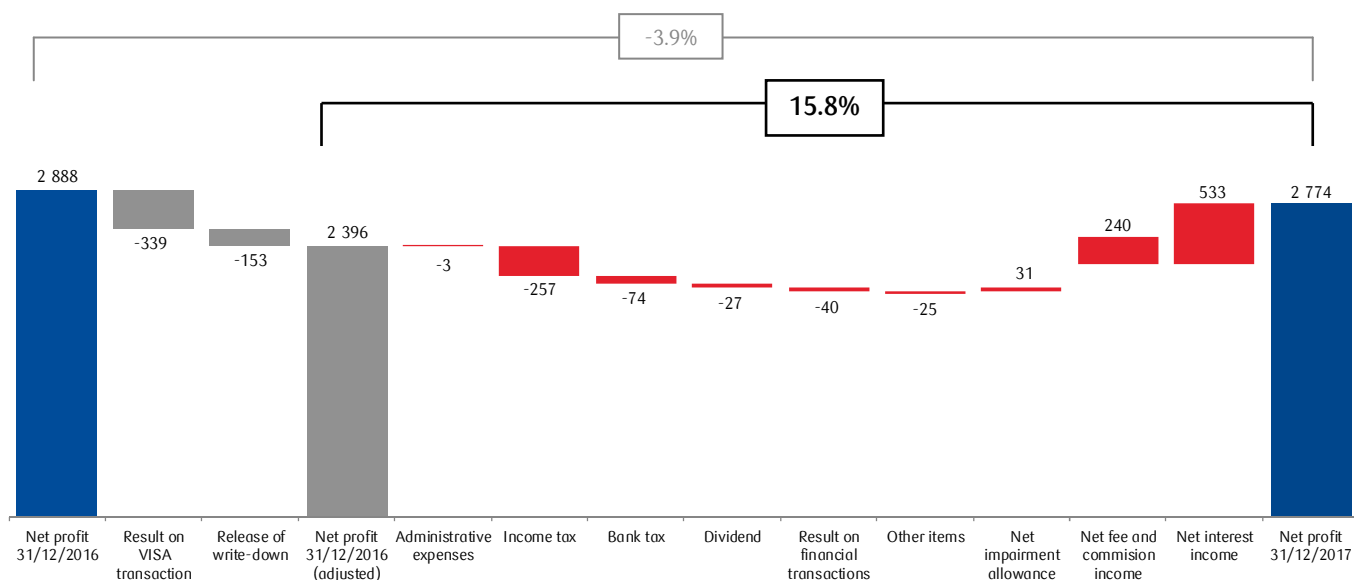
** Calculated by dividing the gross carrying amount of impaired loans and advances by the gross carrying amount of loans and advances to customers

*** Calculated by dividing the net impairment allowance on loans and advances to customers over period of 12 months by average gross balance of loans and advances granted to customers at the beginning and end of reporting period and quarterly periods in between.

4.2 INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
General administrative expenses
Bank tax
Net impairment allowances

In 2017, PKO Bank Polski SA generated a net profit of PLN 2,774 million (-3.9% y/y, i.e. PLN 114 million lower), which was mainly due to a lower result on financial transactions and lower net impairment allowances, partly offset by higher net interest income and net commission income.



The result on business activities in the income statement of PKO Bank Polski SA for 2017 amounted to PLN 11,246 million and was PLN 263 million, i.e. 2.4% higher than in 2016, mainly as a result of an increase in net interest income of PLN 533 million y/y and net fee and commission income of PLN 240 million y/y, accompanied by a decrease of the result on financial transactions of PLN 458 million y/y.

Table 7. Income statement of PKO Bank Polski SA (in PLN million)

	2017	2016	Change (in PLN million)	Change (in %)
Net interest income	7 901	7 368	533	7,2%
Net fee and commission income	2 687	2 447	240	9,8%
Net other income	658	1 168	-510	-43,7%
Dividend income	135	162	-27	-16,7%
Net income on financial operations	47	505	-458	-90,7%
Foreign exchange result	419	501	-82	-16,4%
Net other operating income and expenses	57	0	57	x
Result on business activities	11 246	10 983	263	2,4%
General administrative expenses	-5 037	-5 034	-3	0,1%
Tax on some financial institutions	-894	-820	-74	9,0%
Net operating profit/(loss)	5 315	5 129	186	3,6%
Net impairment allowance and write-downs	-1 530	-1 408	-122	8,7%
Profit before tax	3 785	3 721	64	1,7%
Corporate income tax	-1 011	-833	-178	21,4%
Net profit for the year	2 774	2 888	-114	-3,9%

After eliminating the most significant one-off events from 2016, including:

- the settlement of the acquisition of *Visa Europe Limited* by *Visa Inc.*, in which PKO Bank Polski SA took part and recording its effect on the Bank's results in an amount of PLN 339 million;
- releasing an allowance for the exposure in *Qualia Development Sp. z o.o.* of PLN 153 million in connection with reviewing the fair value of the exposure;

net profit in 2017 was 15.8% higher than in 2016.

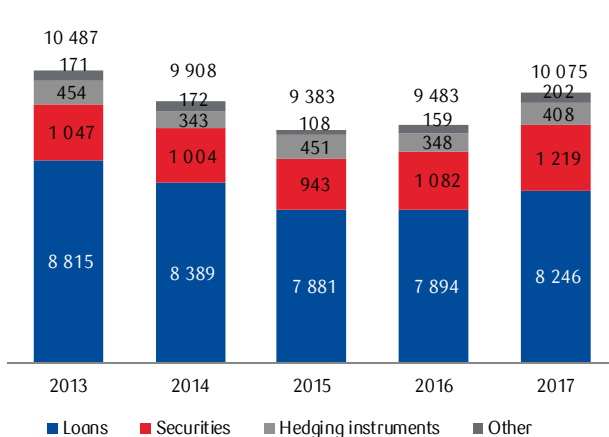
Table 8. Income statement of PKO Bank Polski SA (in PLN million), excluding one-off events

	2017	2016	eliminations	2016 after eliminations	Change (in PLN million)	Change (in %)
Net interest income	7 901	7 368		7 368	533	7,2%
Net fee and commission income	2 687	2 447		2 447	240	9,8%
Net other income	658	1 168	418	750	-92	-12,3%
Dividend income	135	162		162	-27	-16,7%
Net income on financial operations	47	505	418	87	-40	-46,0%
Foreign exchange result	419	501		501	-82	-16,4%
Net other operating income and expenses	57	0		0	57	x
Result on business activities	11 246	10 983	418	10 565	681	6,4%
General administrative expenses	-5 037	-5 034		-5 034	-3	0,1%
Tax on some financial institutions	-894	-820		-820	-74	9,0%
Net operating profit/(loss)	5 315	5 129	418	4 711	604	12,8%
Net impairment allowance and write-downs	-1 530	-1 408	153	-1 561	31	-2,0%
Profit before tax	3 785	3 721	571	3 150	635	20,2%
Corporate income tax	-1 011	-833	-79	-754	-257	34,2%
Net profit for the year	2 774	2 888	492	2 396	378	15,8%

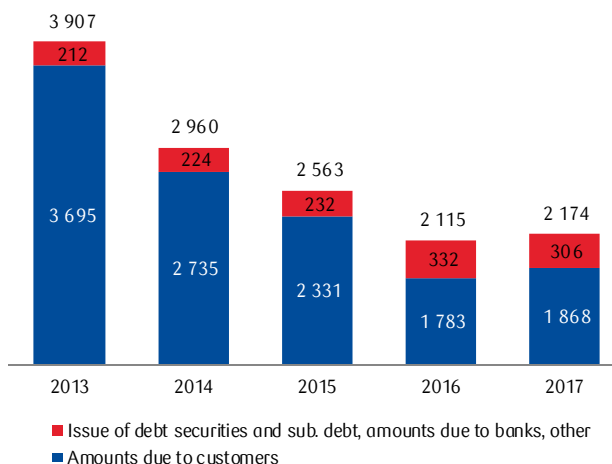
NET INTEREST INCOME

Net interest income generated in 2017 amounted to PLN 7,901 million and was PLN 533 million higher than in the prior year. The improvement was due to an increase in income related to the increase in the loan portfolio and the securities portfolio, accompanied by a slight increase in borrowing costs.

Interest income (in PLN million)



Interest expense (in PLN million)



Interest income in 2017 amounted to PLN 10,075 million and was 6.2% higher than in 2016, which is mainly due to an increase in:

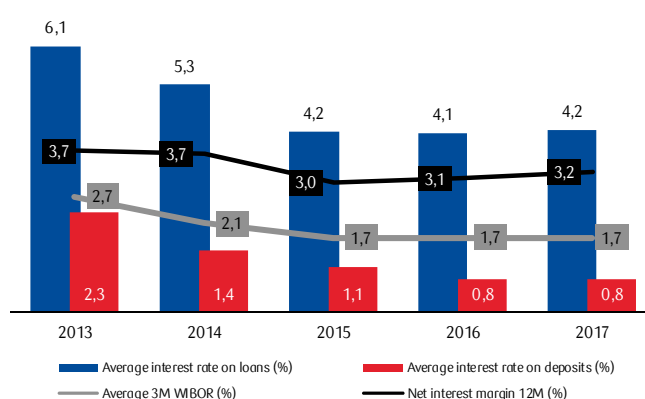
- income from loan and advances to customers (PLN +352 million, i.e. +4.5% y/y) an increase in the average interest rates on the portfolio of loans, arising from positive changes in the structure of the loans (an increase in the share of consumer loans having the highest interest rates) and an increase in the average volume of amounts due from customers, realized in spite of transferring a considerable portfolio of housing loans to Bank Hipoteczny (with a value of approx. PLN 5.6 billion in 2017);
- income from securities of PLN 137 million y/y, resulting from an increased volume of the portfolio of securities (mainly Treasury bonds) and an increase in their average interest rates in connection with an increased share of longer-term securities in the portfolio,
- accompanied by an increase in income from derivative hedging instruments (PLN +60 million y/y), mainly as a result of a higher volume and average interest rate on CIRS hedging transactions.

Interest expense in 2017 amounted to PLN 2,174 million and was 2.8% higher than in 2016, which was mainly due to an increase in:

- an increase in the costs related to amounts due to customers of PLN 85 million y/y, arising from an increase in the costs of customer deposits related to an increase in an average volume of customer deposits and their lower average interest rate – being an effect of changes in the structure of deposits (a higher share of current deposits) and higher costs of financing obtained from non-monetary financial institutions;
- an increase in the costs related to amounts due to banks of PLN 21 million, related to higher costs of servicing the loans received from monetary financial institutions,
- accompanied by a decrease in the costs of premium on securities of PLN 45 million.

In 2017, an average interest rate on loans of PKO Bank Polski SA amounted to 4.2% and an average interest rate on total deposits amounted to 0.8%, compared with 4.1% and 0.8% respectively in 2016.

Interest margin increased by ca. 0.1 p.p. y/y to 3.2% as at the end of 2017. The increase in average assets of 2.3% y/y (mainly the securities portfolio and the portfolio of amounts due from customers) was accompanied by an increase in net interest income of 7.2%, which arose mainly from an increase in interest income on loans and securities (related to an increased volumes and interest rates in these groups of assets).



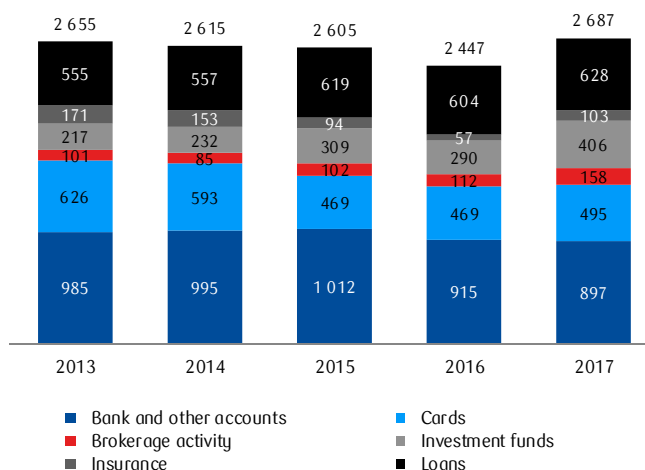
NET FEE AND COMMISSION INCOME

Net commission income in 2017 amounted to PLN 2,687 million and was PLN 240 million higher than in the prior year.

The level of net fee and commission income in 2017 was mainly affected by the following factors:

- a higher net commission income on maintaining of investment funds (PLN 116 million y/y), resulting from higher customer interest in this form of saving. This translated into higher income from management commission and fees for unit distribution, accompanied by an increase in the value of managed asset;
- a higher net commission income on loan insurance (PLN 45 million y/y), resulting mainly from increased sales of insurance products linked with consumer loans and advances;
- a higher net commission income on brokerage activities (PLN 46 million y/y), resulting from an increased commission on stock exchange trading due to the improved situation on the WSE – the turnover of Dom Maklerski PKO Banku Polskiego SA on the secondary market of shares in 2017 represented 14.7% of the market's turnover, placing Dom Maklerski on the first position in the ranking of brokerage houses as at the end of 2017. Moreover, there was an increase in income from handling transactions executed on the primary market and an increase in commission for acting as an issuing agent of Treasury bonds as a result of increased interest of the customers in this form of investment;
- a higher net commission income on payment and credit cards (PLN 26 million y/y), as a result of a higher number of cards and a higher level of non-cash transactions;
- a higher net commission income on loans granted (PLN 23 million y/y), mainly consumer and housing loans;
- a lower net income on handling bank accounts and net other income (PLN -18 million y/y), related to a change in the account structure of those customers who decide to have accounts with lower maintenance fees.

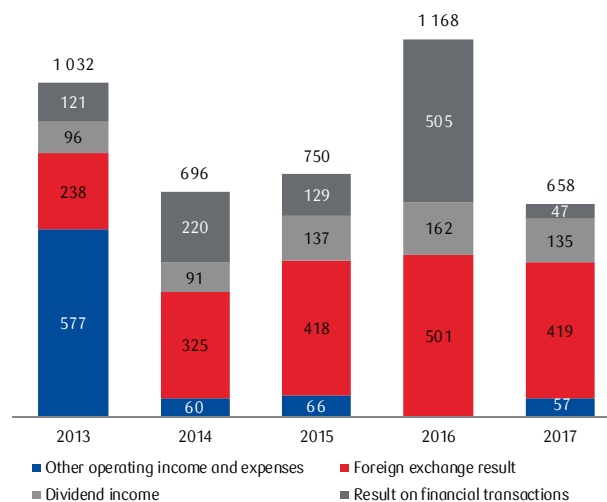
Net fee and commission income (in PLN million)



NET OTHER INCOME

Net other income generated in 2017 amounted to PLN 658 million and was PLN 510 million lower than that generated in 2016. The amount of the net income for 2017 was mainly affected by a decrease in net income on investment securities (PLN -461 million y/y), which was due to the settlement (in June 2016) of the acquisition of Visa Europe Limited by Visa Inc., in which PKO Bank Polski SA participated; on this account the amount of PLN 418 million was recognized in the Bank's result.

Net other income (in PLN million)



GENERAL ADMINISTRATIVE EXPENSES

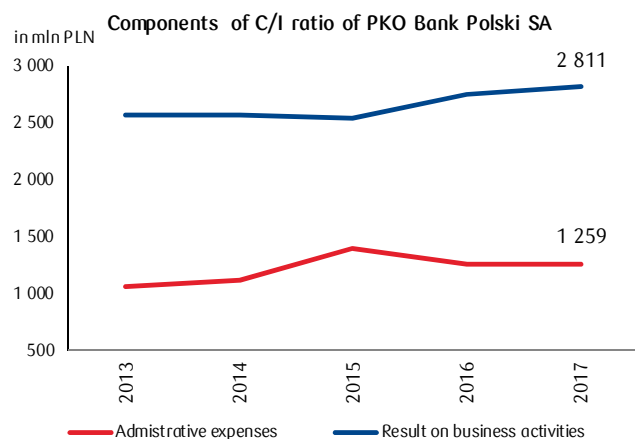
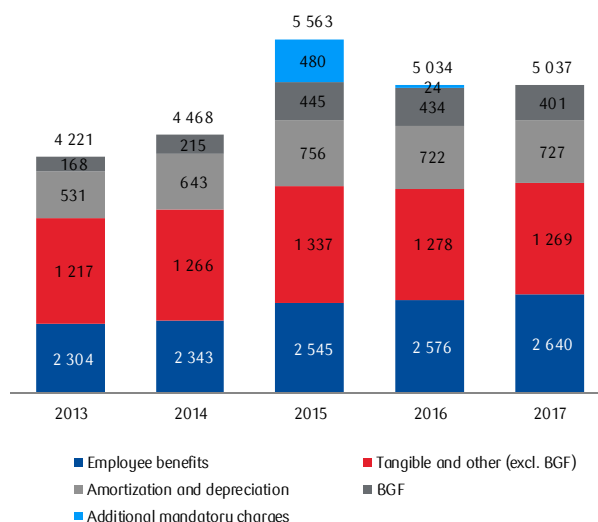
In 2017, general administrative expenses amounted to PLN 5,037 million and were 0.1% higher y/y. Their level was mainly influenced by:

- an increase in employee benefits of PLN 64 million, i.e. 2.5%;
- an increase in amortization and depreciation of PLN 5 million, i.e. 0.7%;
- a decrease in contributions and payments to the BGF of PLN 57 million, i.e. 12.4% (including PLN 24 million relating to the mandatory payment designated for payment of amounts guaranteed to deponents in connection with the bankruptcy of Bank Spółdzielczy in Nadarzyn carried out in 2016);
- a decrease in sundry costs of PLN 10 million, i.e. 0.8%.

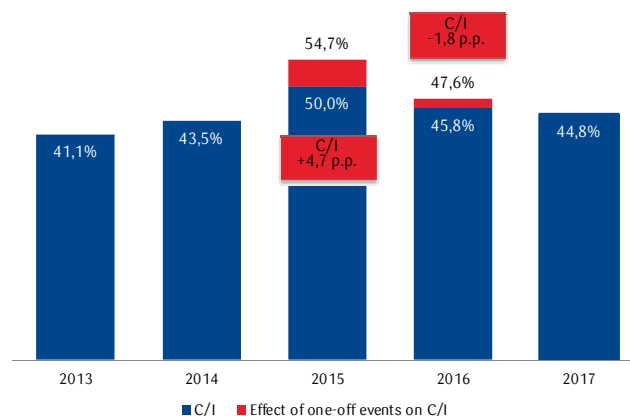
The operating effectiveness of PKO Bank Polski SA measured with the C/I ratio in annual terms amounted to 44.8% and improved by 1.0 p.p. y/y thanks to an improved result on business activity (+2.4% y/y), accompanied by an increase in administrative expenses (+0.1% y/y).

In 2017, the Bank incurred entertainment costs, expenditure on legal services, marketing services, public relations and social communication services and advisory services related to management in the total amount of PLN 138 million, which represented 2.7% of the Bank's total administrative expenses.

Administrative expenses (in PLN million)



C/I ratio of PKO Bank Polski SA



BANK TAX

From February 2016, banks and other financial institutions are obliged to pay tax on some financial institutions. The charge for PKO Bank Polski SA in respect of this tax in 2017 amounted to PLN 894 million and it went up by PLN 74 million, i.e. 9.0% compared with 2016.

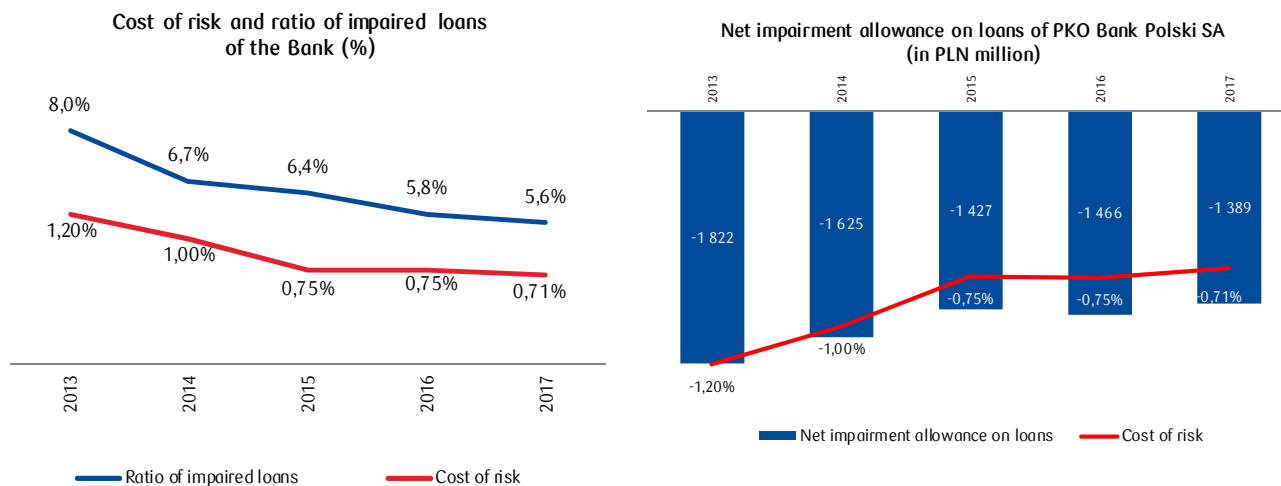
NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

The amount of the net impairment allowance and write-downs is a result of PKO Bank Polski SA continuing its conservative policy applied in the valuation of credit risk and an increase in the loan portfolio.

Net impairment allowance and write-downs in 2017 amounted to PLN -1,530 million and was PLN 121.7 million worse than that obtained in 2016. The deterioration in 2017 occurred as a result of an increase in allowances for depreciation of securities and assets and the deterioration of the result on the portfolio of consumer loans.

The share of impaired loans and coverage of loans with recognized impairment as at the end of 2017 amounted to 5.6% (up by 0.2 p.p. compared with 2016) and 65.9% (up by 2.0 p.p. compared with 2016), respectively.

The cost of risk¹⁴ as at the end of 2017 amounted to 0.71% and it was improved by 0.05 p.p. in 2016 thanks to an improved result on business and housing loans.



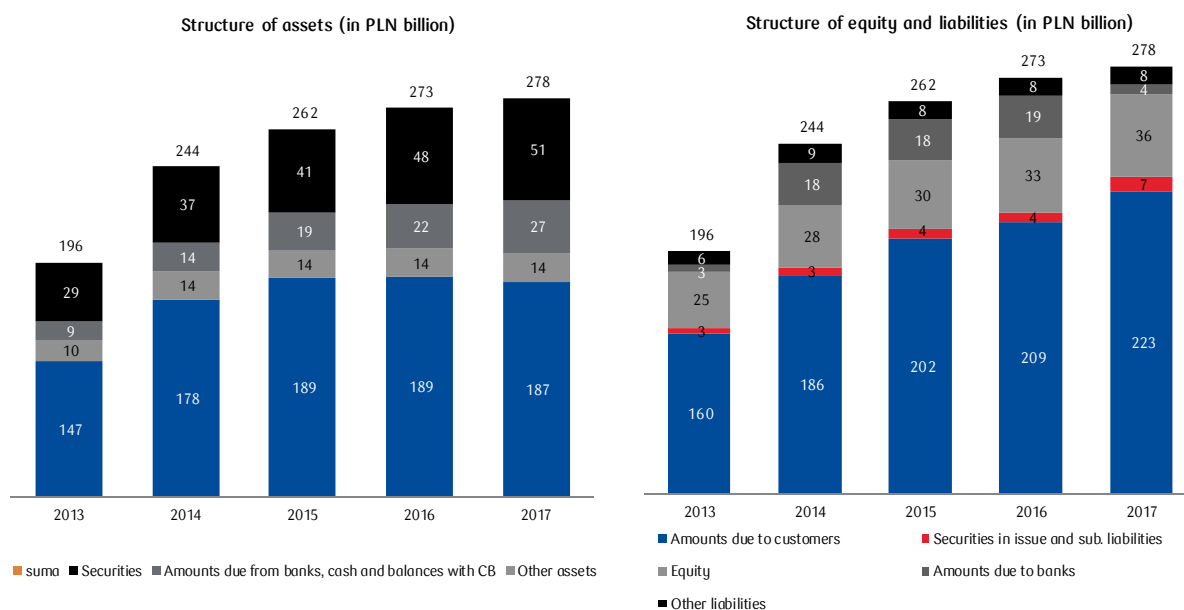
4.3 STATEMENT OF FINANCIAL POSITION

The main items of the Statement of financial position
Loans and advances to customers
Securities
Amounts due to customers
Borrowings

THE MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

The total assets of PKO Bank Polski SA increased by PLN 4.8 billion (+1.8% y/y) compared with 2016 and amounted to PLN 277.8 billion as at the end of 2017. The increase was mainly due to an increase in liquid assets in the form of securities and amounts due from bank, which was financed by an increase in the deposit and capital base. As a result, PKO Bank Polski SA strengthened its position as the largest financial institution in the Polish banking sector.

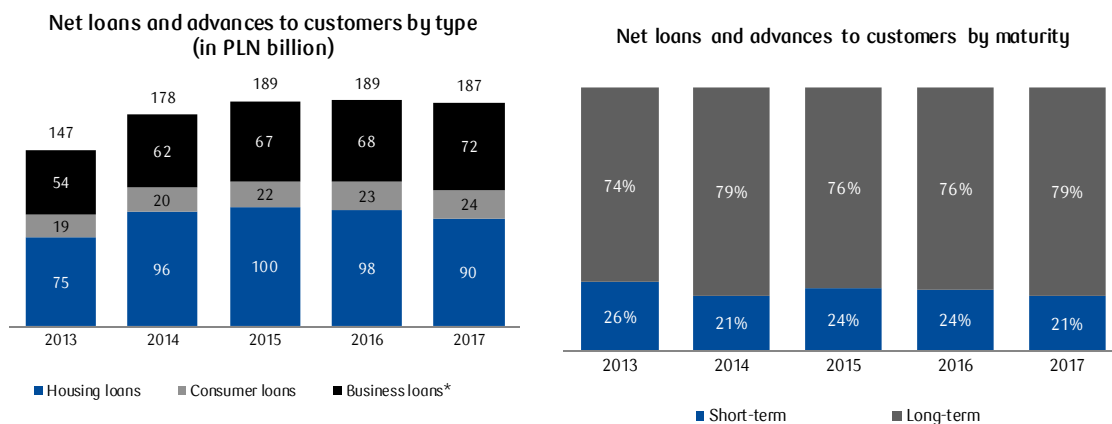
¹⁴ Calculated by dividing net impairment allowances on loans and advances to customers for the 12 months ended 31 December 2017 and 2016 by the average balance of gross loans and advances to customers at the start and end of the reporting period and interim quarterly periods.



The increase in assets was mainly financed with an increase in amounts due to customers of PLN 13.2 billion and issue of securities of PLN 3.5 billion compared with 2016 and an increase in the Bank's equity of PLN 3.4 billion y/y.

LOANS AND ADVANCES TO CUSTOMERS

As at the end of 2017, the portfolio of loans and advances to customers of the Bank amounted to PLN 186.9 billion and it dropped in annual terms by PLN 2.2 billion.



*including transactions with a repurchase clause and debt securities

Housing loans are the main item in the structure of the net loan portfolio by type – their share as at the end of 2017 was 48.3% of the portfolio. A decrease in the volume of housing loans of PLN 7.7 billion compared with the end of 2016 resulted mainly from pooling to PKO Bank Hipoteczny SA the portfolios of housing loans secured by mortgage for a total amount of PLN 5.6 billion and from the foreign exchange result on the portfolio of foreign currency housing loans. In 2017, the most profitable consumer loans increased further by PLN 1.4 billion and business loans by PLN 4.1 billion.

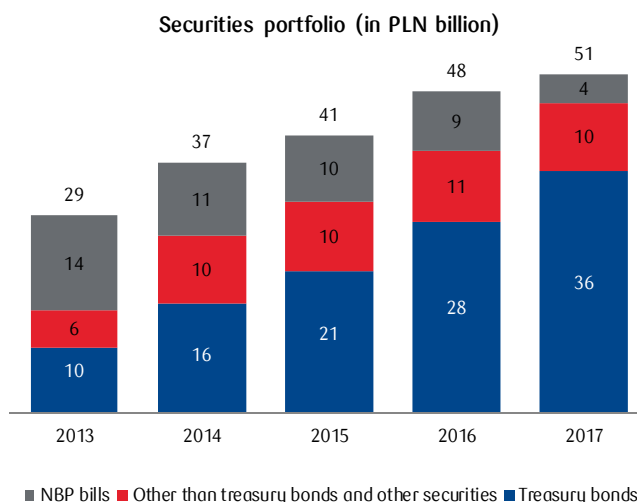
Long-term loans played a dominant role in the maturity structure of loans and advances to customers (79% of the portfolio), which was mainly due to a high share of housing loans in the structure of the loan portfolio.

The detailed information on loans and advances to customers of PKO Bank Polski SA can be found in the Separate financial statements of PKO Bank Polski SA.

SECURITIES

As at the end of 2017, the securities portfolio of PKO Bank Polski SA amounted to PLN 50.5 billion and it went up by PLN 2.5 billion compared with the end of 2016.

Debt securities issued by the State Treasury dominated in the structure of the portfolio by type, and their volume went up by over PLN 7.6 billion in 2017, at the expense of NBP bills (down by PLN 4.8 billion y/y).



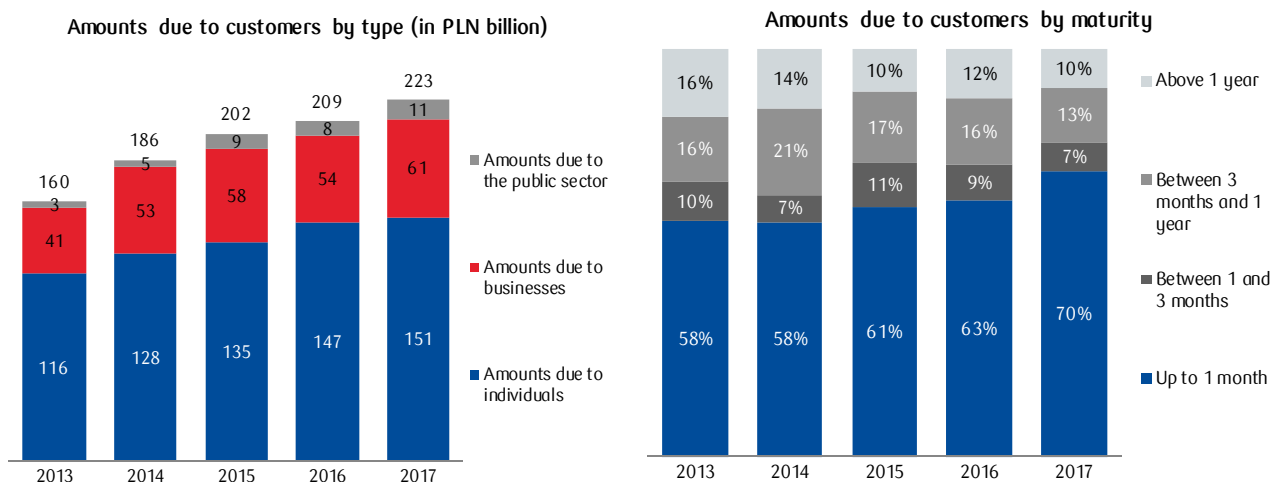
AMOUNTS DUE TO CUSTOMERS

In 2017, amounts due to customers amounted to PLN 222.5 billion and went up by 6.3%, i.e. PLN 13.2 billion, which was mainly due to an increase in amounts due to corporate entities (of PLN 7.0 billion y/y), to individuals (of PLN 3.1 billion y/y) and state budget entities (of PLN 3.0 billion y/y). The increase was mainly related to cash on current accounts (an aggregate increase of PLN 24.9 billion y/y), accompanied by a drop in loans received from non-monetary financial institutions (of PLN 1.8 billion y/y), which was mainly a result of ongoing repayment of loans and the foreign exchange effect.

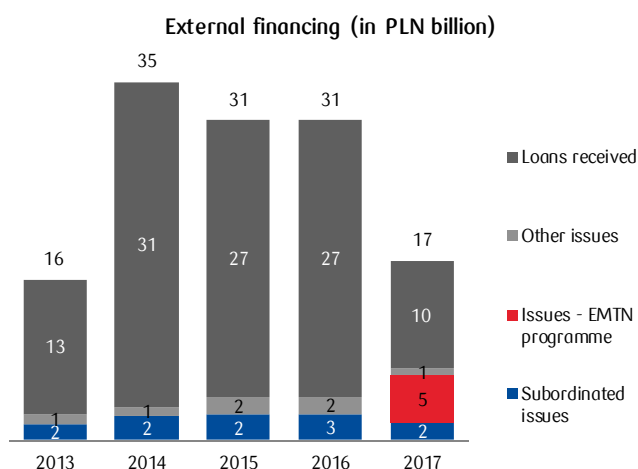
Amounts due to individuals are the main item in the structure of amounts due to customers by type, the share of which in the structure went down compared with the prior year and amounted 67.6%.

The maturity structure of amounts due to customers changed significantly in 2017. The share of amounts due maturing up to 1 month went up and represented 70% of all amounts due to customers as at 31 December 2017, which was a result of an increase in cash accumulated on current accounts.

The share of the remaining maturity ranges went down, which is due to the phenomenon of the migration of funds from long-term deposits to short-term deposits and to investment fund companies. The above shift of funds also resulted in a lower share of amounts due maturing from 1 to 12 months.



EXTERNAL FINANCING



Funds obtained from financial institutions are a supplementary source of financing of PKO Bank Polski SA's activities, next to the deposit base. PKO Bank Polski SA is an active participant of the market of debt security issues, both local and international. The purpose of this activity is to diversify the sources of financing of operations and to adapt them to the regulatory requirements as regards long-term financial stability.

As at the end of 2017, the structure of the sources of long-term financing changed. There was a considerable decrease in the share of loans received from monetary financial institutions, including the credit line from Nordea Bank AB (publ), which was an element of the transaction under which PKO Bank Polski SA acquired the assets of Nordea Group (the loan was obtained for the financing of the portfolio of acquired mortgage loans). The change in the level of these liabilities in annual terms results from considerable repayments of the liability.

Loans received from non-monetary institutions were another significant category of long-term financing and they comprised mainly loans from the subsidiary PKO Finance AB, which deals with issuing securities on foreign markets. The decrease in these liabilities is mainly a result of changes in foreign exchange rates and a gradual repayment of financing obtained from other financial institutions.

Liabilities in respect of securities in issue went up by PLN 3.5 billion compared with the prior year. In 2017, the Bank issued two issues of own Eurobonds as part of the EMTN programme with a value of EUR 750 million and CHF 400 million.

The decrease in subordinated liabilities as a result of utilizing the call option on the loan of CHF 224 million and bonds of PLN 1.6 billion, accompanied by a new bond issue of PLN 1.7 billion.

Detailed information on the issues carried out by the Group is provided in Note 35 to the Consolidated financial statements of the PKO Bank Polski SA Group for the year 2017.

5. EQUITY AND ADEQUACY MEASURES

Equity and return on equity
Capital adequacy measures
Dividend

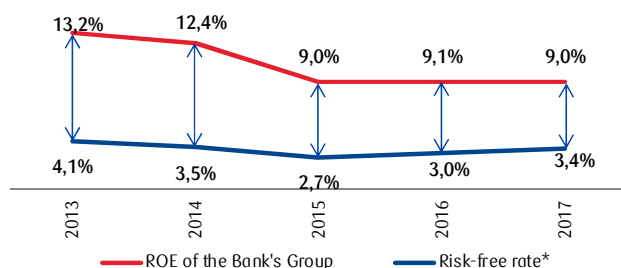
5.1 EQUITY AND RETURN ON EQUITY

Equity of the PKO Bank Polski SA Group went up by 11.3% in annual terms, and constituted 12.2% of the total equity and liabilities as at the end of 2017.

Table 9. Equity and capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

	31/12/2017	31/12/2016	Change (in PLN million)	Change (in %)
Equity, including:	36,256	32,569	3,687	11.3%
Share capital	1,250	1,250	0	0.0%
Supplementary capital	27,374	24,491	2,883	11.8%
General banking risk fund	1,070	1,070	0	0.0%
Other reserves	3,645	3,607	38	1.1%
Available-for-sale financial assets	272	-347	619	x
Share in other comprehensive income of an associate	0	-1	1	x
Cash flow hedge	-116	-109	-7	6.4%
Actuarial gains/losses	-9	-10	1	-10.0%
Currency translation differences from foreign operations	-257	-221	-36	16.3%
Retained earnings	-66	-19	-47	3.5x
Net profit/loss for the year	3,104	2,874	230	8.0%
Non-controlling interests	-11	-16	5	-31.3%
Equity	34,026	30,873	3,153	10.2%
Total capital ratio	17.37%	15.81%		1,57 p.p.

ROE of PKO Bank Polski SA Group



* risk-free rate calculated as the annual average yield of 10-year Treasury bonds.

The reinforcement of the capital base (an increase in average equity of 8.9% y/y) arising from the necessity to comply with the recommendations of the PFSA and the regulatory requirements, with the profit dynamics on the level of 8.0% y/y translated into a slight increase in the return on equity ratio (ROE) to 9.0 p.p.

5.2 THE CAPITAL ADEQUACY MEASURES

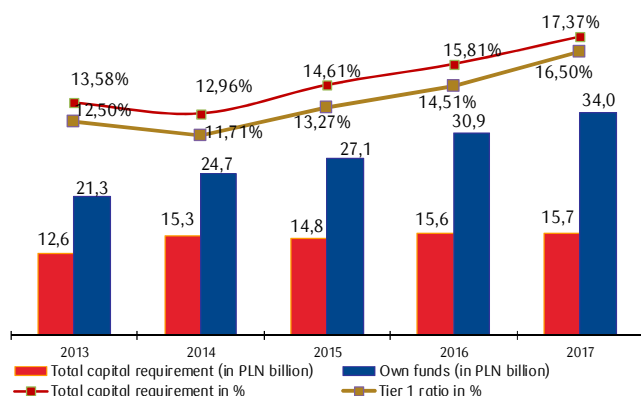
CAPITAL ADEQUACY OF THE PKO BANK POLSKI SA GROUP

The capital adequacy level of the PKO Bank Polski SA Group in 2017 remained on a safe level, considerably above the supervisory limits. As at 31 December 2017, the capital adequacy measures of the PKO Bank Polski SA Group were calculated based on the provisions of the CRR Regulation taking account of prudential consolidation.

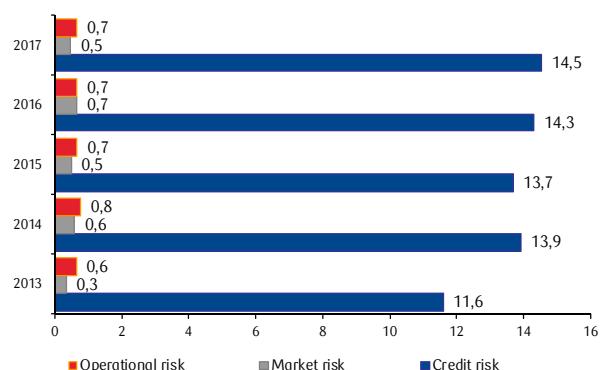
In 2017, the PKO Bank Polski SA Group continued its activities aimed at ensuring an appropriate capital buffer, and strengthened its capital position.

As at 31 December 2017, compared with 31 December 2016, the capital adequacy ratio of the PKO Bank Polski SA Group increased by 1.6 p.p. to 17.37%, and the basic capital Tier 1 ratio went up by 2 p.p. to 16.50%.

Capital adequacy measures of PKO Banku Polski SA Group



Capital requirements for PKO Bank Polski SA Group (in PLN billion)



The increase in the adequacy measures in 2017 was mainly due to an increase in own funds of approx. PLN 3.1 billion as a result of accumulating the entire net profit of the Bank for 2016 and allocating a part of the Bank's profit for 2017 in an amount of approx. PLN 1.8 billion to own funds, upon approval of the PFSA.

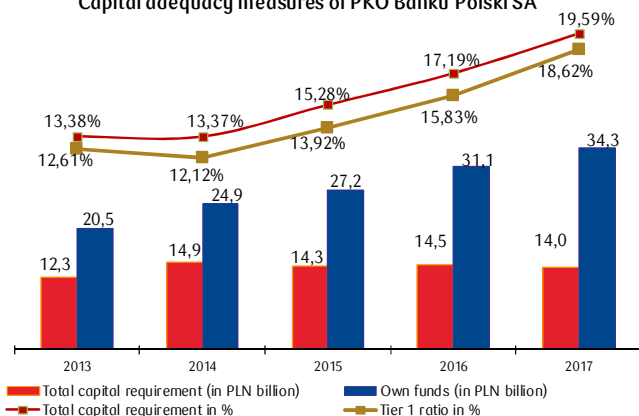
The capital requirements relating to own funds as at 31 December 2017 remained stable compared with the prior year.

CAPITAL ADEQUACY OF PKO BANK POLSKI SA

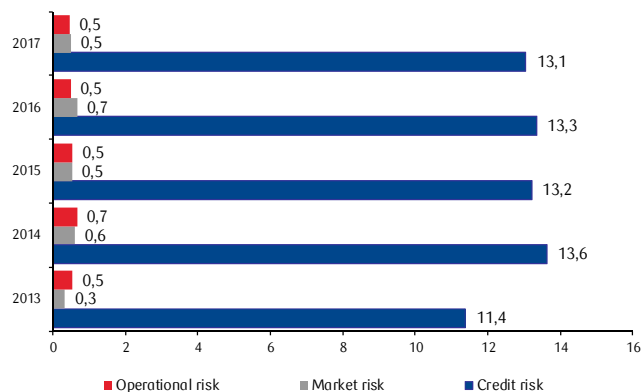
The capital adequacy level of PKO Bank Polski SA in 2017 remained on a safe level, considerably above the supervisory limits. As at 31 December 2017, the capital adequacy measures were calculated based on the provisions of the CRR Regulation. In 2017, PKO Bank Polski SA continued its activities aimed at ensuring an appropriate capital buffer, and maintained and strengthened its capital position.

As at 31 December 2017, compared with 31 December 2016, the capital adequacy ratio of PKO Bank Polski SA increased by 2.4 p.p. to 19.59%, and the basic capital Tier 1 ratio went up by 2.8 p.p. to 18.62%.

Capital adequacy measures of PKO Banku Polski SA



Capital requirements for PKO Bank Polski SA (in PLN billion)



The increase in the adequacy measures in 2017 was mainly due to an increase in own funds of approx. PLN 3.2 billion as a result of accumulating the entire net profit for 2016 and allocating a part of the profit for 2017 in an amount of approx. PLN 1.8 billion to own funds, upon approval of the PFSA. The decrease in the requirements concerning own funds with reference to risk in 2017 of approx. PLN 0.5 billion compared with 31 December 2016 was due to selling approx. PLN 5.6 billion housing loans secured by mortgage to PKO Bank Hipoteczny SA.

5.3 DIVIDEND

On 13 April 2017, the Management Board of PKO Bank Polski SA passed a resolution on presenting to the Annual General Meeting of the Bank recommendations as to the appropriation of profit generated for the period from 1 January 2016 to 31 December 2016 of PLN 2,888.3 million, as follows:

- PLN 2,850.0 million to be transferred to supplementary capital;
- PLN 38.3 million to be transferred to reserves;

The recommendation of the Management Board concerning appropriation of the Bank's profit for 2016 obtained a positive opinion from the Bank's Supervisory Board.

On 22 June 2017, the Annual General Meeting of the Bank made the decision concerning the appropriation of the Bank's profit for the year 2016, and designated the profit – in line with the recommendations of the Bank's Management Board – to supplementary capital and reserves, without designating any amount for payment of dividend. The Resolution of the Annual General Meeting of the Bank concerning appropriation of profit for 2016 is also consistent with the recommendations of the PFSA, which recommended increasing own funds to the Bank by retaining the entire profit generated by PKO Bank Polski SA in 2016.

DIVIDEND POLICY

The dividend policy of the Bank and the Bank's Group is specified in the "Principles for management of capital adequacy and equity in PKO Bank Polski SA and in the PKO Bank Polski SA Group."

The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the necessity to ensure an appropriate level of the capital adequacy ratios.

The dividend policy assumes stable dividend payments in a long term in keeping with the principle of prudent management of the Bank and the Bank's Group, and a policy for making payments out of the capital surplus above the minimum capital adequacy ratios arising from the commonly binding provisions of the law and regulatory requirements, and the minimum level of capital ratios set by the Polish Financial Supervision Authority for the purpose of dividend payment by the Bank. The dividend policy takes into account factors related to the operations of the Bank and the Bank's Group companies, and in particular the supervisory requirements and recommendations concerning capital adequacy.

THE RECOMMENDATIONS OF THE PFSA CONCERNING PAYMENT OF DIVIDEND FOR 2017

On 24 November 2017, the Polish Financial Supervision Authority adopted a position on the dividend policy for commercial banks. The criteria for the payment of dividend in 2018 for commercial banks for 2017 set out in the position of the PFSA are as follows:

The PFSA recommends that dividend only be paid by those banks that meet all of the criteria listed below:

- they are not in the process of carrying out a recovery programme;
- they have been positively assessed under the supervisory review and assessment process (BION) – a final BION assessment of not less than 2.5;
- their leverage ratio (LR) is higher than 5%;
- their Tier 1 (T1) capital ratio is not lower than the required minimum plus 1.5 p.p.: 6% + 75%*add-on + combined buffer requirement +1.5%;
- their total capital ratio (TCR) is not lower than the required minimum plus 1.5 p.p.: 8% + add-on + combined buffer requirement +1.5%.

The PFSA recommends that banks which meet all of the above criteria can pay out up to 50% of the net profit generated for 2017.

The PFSA recommended that up to 75% of the profit generated could be paid out by the banks which meet all the above criteria, such as the requirement concerning the security buffer at the target level, i.e. 2.5% of the total risk exposure; and up to 100% could be paid out by banks that meet all the above criteria, including as part of the capital requirements, the bank's sensitivity to the unfavourable macroeconomic scenario.

Moreover, the PFSA indicated that the banks engaged in foreign currency loans should adjust the dividend rate based on two additional criteria:

- Criterion 1 (K1) – which relies on the share of foreign currency housing loans for households in the entire portfolio of amounts due from the non-financial sector;

- Criterion 2 (K2) – based on the share of foreign currency housing loans granted in the years 2007 and 2008 in the portfolio of foreign currency housing loans for households.

The PFSA recommended applying appropriate adjustments, depending on the size of the portfolio held by the bank:

- Criterion 1:
 - banks with a share of over 10% – adjustment of the dividend rate by 20 p.p.
 - banks with a share of over 20% – adjustment of the dividend rate by 30 p.p.
 - banks with a share of over 30% – adjustment of the dividend rate by 50 p.p.
- Criterion 2:
 - banks with a share of over 20% – adjustment of the dividend rate by 30 p.p.
 - banks with a share of over 50% – adjustment of the dividend rate by 50 p.p.

The level of capital ratios required for the Bank to be able to pay 75% out of the profit generated, referred to in the PFSA's position is as follows:

- on a consolidated level:
 - T1 capital ratio = 14.21%
 - total capital ratio TCR = 16.36%
- on a stand-alone level:
 - T1 capital ratio = 14.25%
 - total capital ratio TCR = 16.41%

As at 31 December 2017, the ratios were as follows:

- on a consolidated level:
 - T1 capital ratio = 16.50%
 - total capital ratio TCR = 17.37%
- on a stand-alone level:
 - T1 capital ratio = 18.62%
 - total capital ratio TCR = 19.59%
 - Criterion 1 = 16.09%
 - Criterion 2 = 44.89%

After taking into account the adjustments of the dividend rate for Criteria 1 and 2, according to the data as at 31 December 2017, the Bank meets the requirements for paying out dividend of up to 25% of the net profit for 2017.

In accordance with the practice adopted by the PFSA in the years 2015 and 2016, the Bank expects to receive individual recommendations from the PFSA regarding payment of dividend.

6. ORGANIZATION OF THE PKO BANK POLSKI SA GROUP

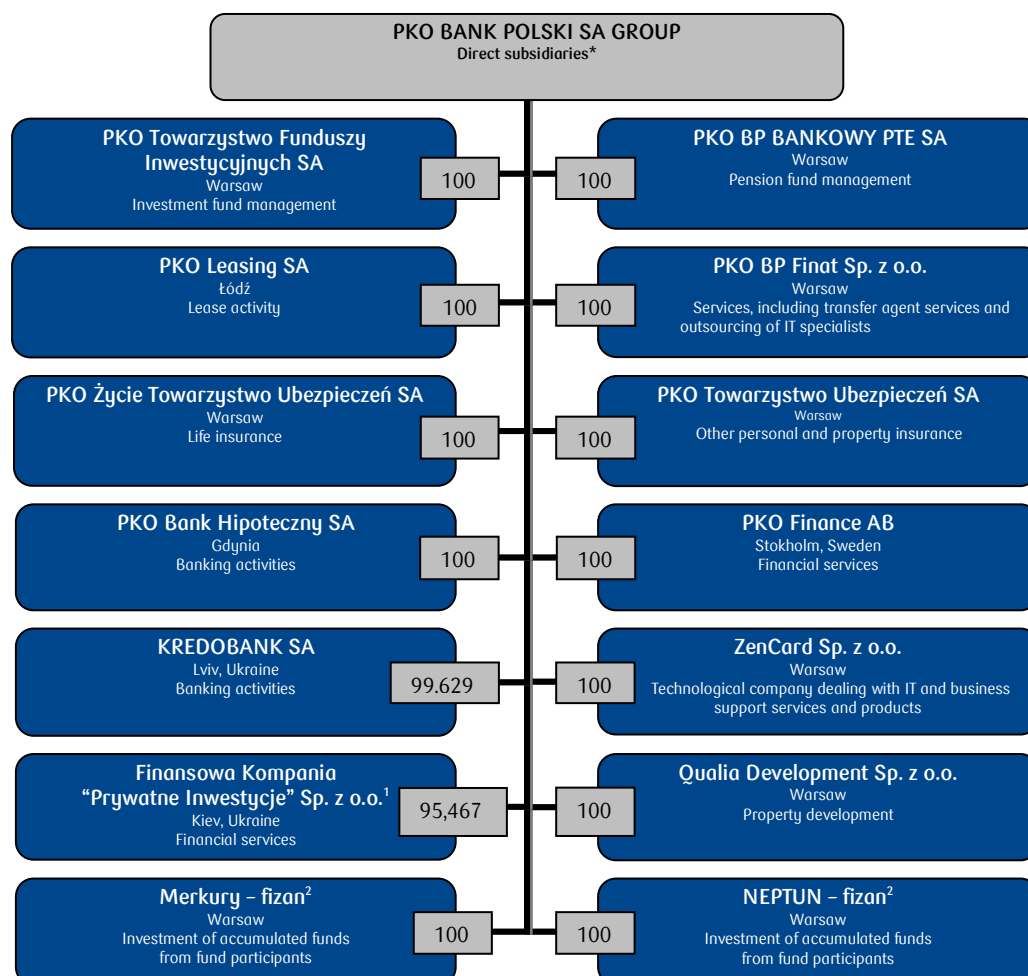
Entities included in the financial statements Organization of PKO Bank Polski SA Key changes in the structure of the Bank's Group Transactions with related entities

6.1 ENTITIES INCLUDED IN THE FINANCIAL STATEMENTS

As at 31 December 2017, the PKO Bank Polski SA Group was composed of the Bank as the parent company and 42 direct or indirect subsidiaries.¹⁵ The consolidated financial statements include PKO Bank Polski SA as the parent company of the PKO Bank Polski SA Group and its subsidiaries as defined in IAS 27, Consolidated and Separate Financial Statements.

¹⁵ The number of subsidiaries includes only first tier indirect subsidiaries.

The PKO Bank Polski SA Group comprises the following direct subsidiaries:



* recognized in the consolidated financial statements of the PKO Bank Polski SA Group under the acquisition accounting method.

- 1) The second shareholder of the Company is "Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością (a company with additional liability).
- 2) PKO Bank Polski SA holds the Fund's investment certificates; the Fund's investment certificates held are presented as the share in equity.

A full description of the Bank's Group is included in the Financial statements of the PKO Bank Polski SA Group for the financial year ended 31 December 2017.

6.2 KEY CHANGES IN THE STRUCTURE OF THE BANK'S GROUP IN 2017

In 2017, the following most significant events affected the structure of the PKO Bank Polski SA Group.

A full description of the changes in the structure of the Bank's Group which occurred in 2017 and which will affect the following quarters, is provided in Note 43 to the Consolidated financial statements of the PKO Bank Polski SA Group for the financial year ended 31 December 2017.

ACQUISITION OF KBC TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA

On 8 September 2017, PKO Bank Polski SA (as the guarantor) and its subsidiary PKO BP Finat Sp. z o.o. (as the purchaser) signed a preliminary agreement with KBC Asset Management NV with its registered office in Belgium (as the seller) for the purchase of 100% of shares in KBC Towarzystwo Funduszy Inwestycyjnych SA (KBC TFI SA).

The transaction was closed on 12 December 2017, after obtaining approval from the President of the Office of Competition and Consumer Protection and the Polish Financial Supervision Authority.

As a result of the above-mentioned transaction, PKO BP Finat Sp. z o.o. purchased 100% of shares in KBC TFI SA, representing 100% of the share capital of KBC TFI SA and entitling it to 100% of votes at the General Meeting of the company.

The company's core business activities include creating and managing of investment funds.

In connection with the acquisition of KBC TFI SA, the PKO BP Finat Sp. z o.o. Group includes its subsidiary Net Fund Administration Sp. z o.o. (NetFA Sp. z o.o.) the operations of which comprise providing transfer agent services.

Eventually, in 2018, KBC TFI SA is to be merged with PKO TFI SA and NetFA Sp. z o.o. is to be merged with PKO BP Finat Sp. z o.o.

The business combination with KBC TFI would additionally accelerate the current dynamic development of PKO TFI SA, which is already a leader in the retail funds segment.

ACQUISITION AND RECAPITALIZATION OF ZENCARD Sp. z o.o.

On 26 January 2017, PKO Bank Polski SA acquired 100% of shares in ZenCard Sp. z o.o. and took up shares in the increased capital of the company. The above-mentioned changes were registered in the National Court Register on 14 March 2017.

ZenCard Sp. z o.o. conducts service activities in the scope of IT and computer technologies. The company developed a platform for creating rebate and loyalty programmes, which at the same time enables the virtualization of loyalty cards. The platform is integrated with the payment terminal and enables resigning from numerous separate loyalty cards or separate applications installed on telephones, as it offers one customer payment card, which at the same time is a virtual loyalty card for each of the sales agents. The company's strategic partner is CEUP eService Sp. z o.o. – one of the largest clearing agents in Poland. The Bank is interested in using the know-how of the company and its founders within the scope of the solutions developed by the company, in particular in the area of loyalty programmes using payment cards and support of own promotions.

BUSINESS COMBINATION BETWEEN PKO LEASING SA AND RAIFFEISEN – LEASING POLSKA SA (RLPL)

On 28 April 2017, a business combination between PKO Leasing SA (as the acquirer) and Raiffeisen-Leasing Polska SA (as the acquiree) was registered in the National Court Register (KRS). The business combination was carried out by transferring all the assets of RLPL to PKO Leasing SA (merger by acquisition), without increasing the share capital of PKO Leasing SA and without an exchange of shares. As a result, PKO Leasing SA entered into all the rights and obligations of RLPL. The integration process will be closed by an operating merger, which will close in 2018.

At the same time, on 28 April 2017, the following changes in the names of companies belonging to the PKO Leasing SA Group were registered in the National Court Register:

- Raiffeisen-Leasing Real Estate Sp. z o.o. to PKO Leasing Nieruchomości Sp. z o.o.;
- "Raiffeisen Insurance Agency" Sp. z o.o. to PKO Agencja Ubezpieczeniowa Sp. z o.o.;
- Raiffeisen-Leasing Service Sp. z o.o. to PKO Leasing Finanse Sp. z o.o.

6.3 TRANSACTIONS WITH RELATED ENTITIES

In 2017, PKO Bank Polski SA provided services on market terms to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issue of debt securities, granting of guarantees and spot exchange transactions and offering units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group, and services offered by Dom Maklerski of PKO Bank Polski SA. PKO Bank Polski SA provided services to PKO Bank Hipoteczny SA within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of the post-transaction services in respect of these loans and support tasks under the outsourcing agreement.

PKO Bank Polski SA offered its infrastructure and IT services and rented office space to selected companies of the Bank's Group. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. (which is a joint venture) it provided payment transaction clearing services.

A summary of the significant transactions between PKO Bank Polski SA and its subordinated entities, including these companies' indebtedness vis-à-vis the Bank as at 31 December 2017 is presented in the separate financial statements of PKO Bank Polski SA for the financial year ended 31 December 2017 (Note 44).

7. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP¹⁶

Segments of the Group
 Sources of financing the operations
 International cooperation
 Operations of the remaining Group companies
 Sponsorship activity
 Charity activity
 Prizes and awards

7.1 SEGMENTS OF THE GROUP¹⁷

Retail segment
 Corporate and investment segment

The PKO Bank Polski SA Group conducts business activities as part of segments offering specific products and services addressed to specific groups of customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers customers a comprehensive product mix comprising both traditional banking products and more complex investment products. Currently, the Bank's Group conducts its business activities in the retail segment as well as in the corporate and investment segments.

RETAIL SEGMENT

The retail segment offers a full range of products and services for individuals as part of retail and private banking. Moreover, it comprises transactions conducted with small and medium enterprises, developers, housing associations and property managers. The products and services offered to customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services, consumer and housing loans, corporate loans and leases.



NUMBER OF CUSTOMERS: 9.5 MN
 LOANS VOLUME: 157 BN
 DEPOSITS VOLUME: 167 BN

¹⁶ The financial data of the PKO Bank Polski SA Group companies is presented in accordance with the IAS/IFRS financial statements of those companies.

¹⁷ The management information of the Bank is presented in this subsection; any differences in the sums, shares and dynamics arise from rounding.

CORPORATE AND INVESTMENT SEGMENT

The corporate and investment segment comprises transactions concluded with large corporate customers and financial institutions. This segment comprises the following products and services: maintaining of current accounts and term deposits, safekeeping of securities, currency products and derivatives, business loans as well as leasing and factoring. As part of this segment's activities, the PKO Bank Polski SA also concludes, on its own or in consortiums with other banks, agreements for financing large projects in the form of loans and issues of non-Treasury securities. Moreover, this segment comprises own activity, i.e. investing activities, interbank transactions as well as transactions in derivative instruments and debt



NUMBER OF CUSTOMERS: 15 K

LOANS VOLUME: 64 BN

DEPOSITS VOLUME: 49 BN

7.1.1 RETAIL SEGMENT

Customers of the segment
The loan offer in the retail segment
Deposit and investment offer
Other products and services in the retail segment
Distribution network and access channels

In 2017, the PKO Bank Polski SA Group continued sustained development in the area of retail segment customers, focused on identifying and satisfying the needs of its customers with whom it builds strong, long-term relationships. It took initiatives aimed at increasing quality of service, among other things, through activities leading to increased innovation in respect of new financial solutions, both in respect of products and distribution channels, in particular with regard to electronic banking and mobile payments.

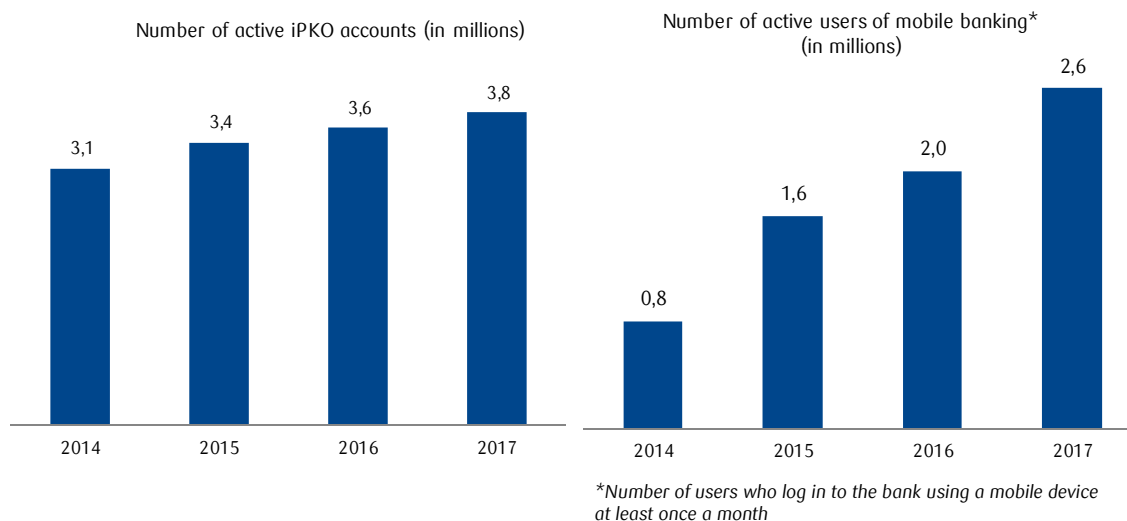
CUSTOMERS OF THE SEGMENT

At the end of 2017, the retail segment served 9.5 million customers, of which 9.0 million were individuals.

Due to the wide distribution network, the majority of the Bank's customers live in municipalities of less than 100k inhabitants. The trustworthy brand of the Bank, the ability to combine tradition with modernity and the transparent product offer that takes into account customer preferences which change with time, make the Bank recognizable also in large urban centres. What is more, in terms of the demographic profile, nearly half of the individual customers are customers aged under 45.

The network of branches remains the most important distribution channel from the perspective of the number of retail customers gained. New customers are acquired mainly through the sale of current accounts.

The proportion of the segment's customers using mobile and internet banking is continually growing. As at the end of 2017, internet banking was actively used by 3.8 million customers, and nearly 2.6 million customers of the Bank logged into the Bank from their mobile device at least once a month.



THE LOAN OFFER IN THE RETAIL SEGMENT

The PKO Bank Polski SA offer covers a wide range of credit products. Individuals can take advantage of the financing offered under:

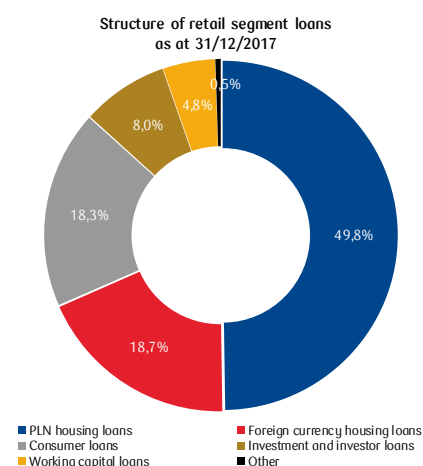
- consumer loans available in the form of cash loans, mortgage-backed loans, revolving loans and credit cards;
- housing loans.

The credit offer for small- and medium-sized enterprises is available in the form of:

- investment and investor loans;
- working capital loans;
- leasing and factoring.

As at the end of 2017, the aggregate financing of retail segment customers amounted to PLN 157 billion and went up by over PLN 3 billion (i.e. 2.1%) since the start of the year.

This was mainly due to the growth of the portfolio of retail and private banking loans (PLN +1.7 billion) and lease receivables (PLN +1.9 billion). Additionally, the increase in the portfolio of PLN mortgage-based loans was almost completely offset by a decrease in the volume of foreign currency loans, which remained under the significant influence of the foreign exchange effect.

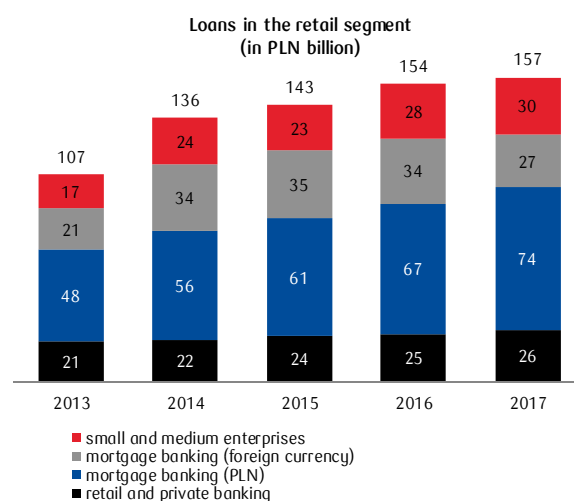


RETAIL AND PRIVATE BANKING LOANS

Retail customers can use both standard cash loans and the current financing available under revolving loans and credit cards. Since May 2017, the Bank has a lease product PKO Zawsze Nowe Auto in its offer to retail customers, which is an alternative to a bank loan or buying a car for cash.

PKO Bank Polski SA systematically takes measures to increase effective access to the credit offer for retail and private banking customers, regardless of the distribution channel. As part of the activities performed:

- regular customers can obtain a loan to an account within 30 minutes in the form of a personalized offer;
- the interest rate formula has been changed for newly concluded cash loan agreements;
- the availability of the revolving loan was increased and the amount to which collateral is not applied was raised to PLN 120 thousand.



In 2017, PKO Bank Polski SA continued its activities supporting sales of consumer loans, and apart from offering attractive pricing terms, enabled access to cash thanks to fast decisions with a minimum of formalities, among others, as part of marketing campaigns entitled:

- “Wybierz swoją drogę do Mini Ratki” – promoting a multichannel offer addressed to customers looking for short-term financing, a fast lending decision and minimum formalities;
- “Pozwól Mini Ratce ścisnąć twoje raty” – promoting the consolidation of loans from outside PKO Banku Polski SA;
- “Jej wygodność Mini Ratka” – promoting a loan of up to PLN 24 thousand without the need to provide an employment certificate level of income – based on a personal ID document and bank statement from the last three months;
- “Mini Ratka na spełnienie życzeń” – promoting express payment of cash and 0% commission up to PLN 10 thousand.

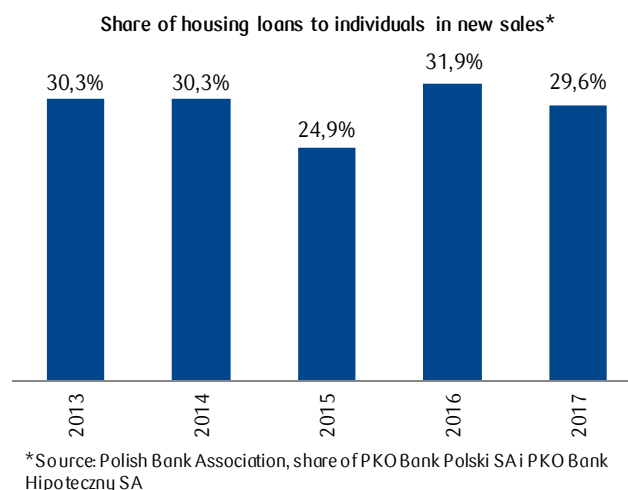
MORTGAGE BANKING LOANS

The PKO Bank Polski SA has been a long-term leader in financing the housing needs of people in Poland.

According to data presented by the Polish Bank Association, at the end of 2017, the Bank's Group was the first on the market with a 29.6% share in sales of housing loans for individuals. In 2017, loans were granted for a total of PLN 13 billion.

Retail segment customers may avail themselves of flagship mortgage products known as “WŁASNY KĄT”, also available in the “Mieszkanie dla Młodych” programme. In 2017, PKO Bank Polski SA granted more than 4.8 thousand loans for a total amount of PLN 0.8 billion as part of the “Mieszkanie dla Młodych” programme. The programme consists of providing additional financing from the State Budget to customers' own contributions and granting additional financial support in the form of repaying a part of the loan.

PKO Bank Polski SA strives to provide customers not only with the widest range of credit products but also to offer attractive prices for mortgage products. In the fourth quarter of 2017, the offer supporting borrowers with CHF mortgage loans was extended until 30 June 2018. The purpose of the offer is to reduce the negative effects of the change in the exchange rate of this currency.



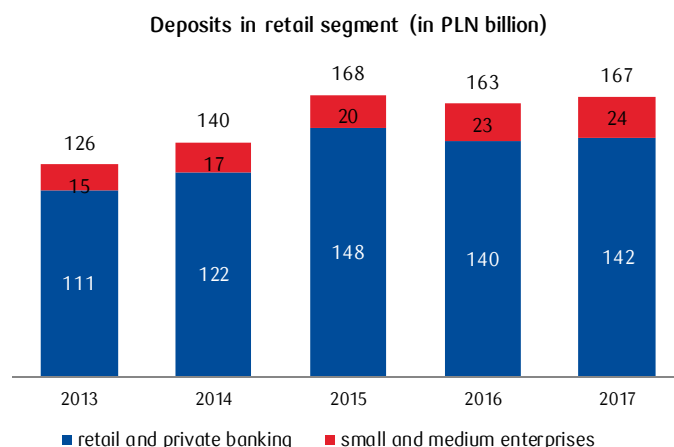
LOANS FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

The PKO Bank Polski SA Group consistently supports Polish entrepreneurship. Companies from the sector of small- and medium-sized enterprises are provided with funding for current and investment needs through a wide and flexible credit offer. Thanks to the agreement “Portfelowa Linia Gwarancyjna *de minimis*” (“*De minimis* Guarantee Line for the Portfolio”) and “Portfelowa Linia Gwarancyjna COSME” (“COSME Portfolio Guarantee Line”) signed between PKO Bank Polski SA and Bank Gospodarstwa Krajowego (BGK) as part of the government and EU aid programme for small- and medium-sized enterprises, entrepreneurs receive support in the form of BGK *de minimis* guarantees and guarantees with counter guarantees granted by the European Investment Fund under the COSME programme. The aim is to increase the availability of credit and activate additional resources for the company's current operations.

In 2017, PKO Bank Polski SA remained the largest lender among 21 banks granting loans with *de minimis* guarantees and obtained a 20.5% market share,¹⁸ therefore each year maintaining the leader's position in sales. The Bank granted total guarantees of approx. PLN 9.2 billion and in 2017 was awarded a prize by Bank Gospodarstwa Krajowego for its share in the total value of guarantees granted since the beginning of the programme's operation, i.e. since March 2013. The prize was presented during the conference “Gwarancje BGK na rzecz odpowiedzialnego rozwoju MŚP” (“BGK guarantees for responsible development of the SME”).

¹⁸ According to the data provided by Centrum Poręczeń i Gwarancji Banku Gospodarstwa Krajowego of 31 December 2017.

The cooperation between the Bank and BGK within the scope of the offer for small- and medium-sized enterprises is developing systematically. Apart from the *de minimis* guarantees, entrepreneurs who are the Bank's customers can avail themselves of the security of repayment for revolving loans, cash loans or investment loans with guarantees under the PLG COSME programme. The amount of the loans granted under the "COSME Portfolio Guarantee Line" as at 31 December 2017 was nearly PLN 254 million and the amount of the guarantee granted was over PLN 201 million.



In 2017, PKO Bank Polski SA introduced the following changes and improvements to its lending offer dedicated to entrepreneurs.

- the Bank created a product called "Pożyczka na Start" – a loan for persons starting a business with a maximum lending period of 60 months and maximum amount of PLN 100 thousand. The characteristics of the products are as follows: an easy and fast way of obtaining money, flexibility of repayment and spending of funds – the funds obtained can be used for any purpose related to the business activities, without the need to present invoices;
- the credit period was extended from 12 to 24 months for the Biznes Partner overdraft granted to individual farmers, provided that tangible collateral is established at 60%;
- for the SME revolving loan, the Bank introduced the possibility of applying an individualized schedule of repayment, adapted to the inflows obtained on the performance of a contract.

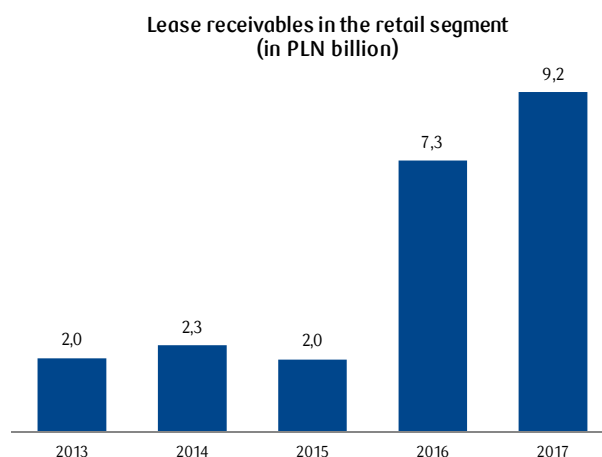
LEASING AND FACTORING FOR SMALL- AND MEDIUM-SIZED ENTERPRISES

As part of the Bank's Group offer, customers from the small and medium-sized enterprises sector may avail themselves of lease products and services. Fixed assets are financed through a lease, depending on customer needs, including:

- vehicles, plant and machinery;
- investment projects (e.g. telephone lines);
- office equipment and furniture;
- computer hardware;
- medical equipment;
- agricultural tools and machines;
- real estate.

Apart from the standard products, the offer comprises fleet leasing services and cooperation with suppliers.

As at the end of 2017, lease receivables in the retail segment amounted to PLN 9.2 billion and increased more than 25% over the year.



To make the offer more attractive in 2017, the Bank's Group introduced:

- "PKO Turboleasing" – an innovative product enabling the leasing of equipment and devices needed by entrepreneurs available in the internet shops. This solution provides the possibility of applying for a lease online. The entire process ensures transaction safety and freedom without leaving home. The lending decision is instantaneous, even 15 minutes from the moment of submitting the application. The customer chooses the place where the agreement is to be signed – in the partner's shop or via a courier. The lease offer covers any chosen object for orders above PLN 2,000 net.
- "Leasing na Start" – for the financing of new or recently formed enterprises up to PLN 120 thousand for new and used cars or trucks up to 3.5 tonnes, available in the Bank's network and in the branches of PKO Leasing SA.

"Pożyczka na Start" in association with "Leasing na Start" is an element of a wider campaign entitled "Mój bank działa na moje konto" ("My bank is acting on my account") undertaken by the Bank's Group to help small and medium-sized enterprises conduct business activities.

DEPOSIT AND INVESTMENT OFFER

The Bank's Group encourages customers to save over a long term, both through a varied product offer (including regular saving products, term deposits, investment products of PKO Towarzystwo Funduszy Inwestycyjnych SA and Treasury bonds) and through educational and information activity.

In 2017, PKO Bank Polski SA continued actions aimed at making the deposit offer more attractive for retail segment customers, in line with the current market situation and competitive position.

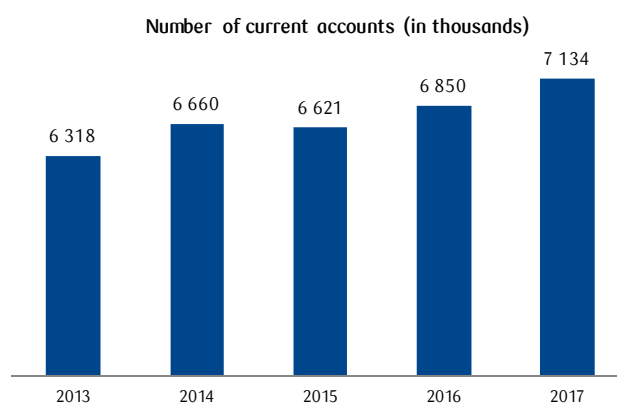
As at 31 December 2017, retail segment deposits amounted to PLN 167 billion and their balance from the start of the year increased by PLN 3.9 billion (i.e. 2.4%). This was due to an increase in retail and private banking deposits, mainly current deposits, accompanied by a decrease in term deposits. The level of deposits of small and medium-sized enterprises also increased during the year.

CURRENT SAVING ACCOUNTS

In 2017, PKO Bank Polski SA strengthened its leader's position on the market in terms of the number of current accounts maintained, which amounted to 7.1 million as at 31 December 2017 and increased by more than 280 thousand during the year.

The continually growing number of accounts of individuals is the effect of a diversified offer taking into account customer preferences, including the following products:

- PKO Konto bez Granic – offering a number of attractive services, including withdrawals from ATMs in Poland and anywhere in the world as part of only one fee;
- PKO Konto na Zero – an account and card for PLN 0 if actively used;
- Aurum and Platinum II account – dedicated to customers of Private Banking;



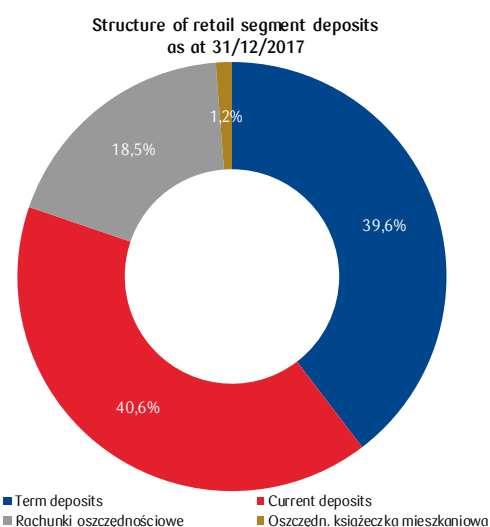
Customer trust is not only an effect of the brand's recognisability and tailored product offer but also of applying leading edge technology. The Bank leaves a transaction service and a mobile application at the disposal of each account holder enabling access to the account at any time of the day or night, the possibility of paying by card, by telephone or even a watch or a pendant with a pay pass function.

In 2017, the Bank launched instantaneous transfers for its customers in the Express Elixir system, which are made to selected banks within a few seconds of the transaction's approval. The transfers can be made at any time – they operate 24 hours a day, 7 days a week, throughout the year.

Children and their parents are a particularly important group of customers for which new products and services are being developed. The intensive development of the offer to the young and youngest customers is based on modern banking with a multi-channelled access, security and a wide educational context. The youngest customers have an opportunity to become acquainted with the banking world from the inside, using financial tools tailored to their needs.

The Bank's offer for young people is a diversified, modern and competitive range of products, comprising among other things:

- saving books for children as part of Szkolna Kasa Oszczędnościowa (SKO) for primary school pupils;
- PKO Junior – with a special account for a child, the internet banking service, the mobile application and payment cards;
- PKO Konto dla Młodych – a fully internet and mobile account for persons aged 16–18;
- PKO Konto Pierwsze – an account for persons aged 13–18 with an IKO mobile application.



PKO Bank Polski SA offers two packages to customers from the small- and medium-sized enterprise sector who are interested in comprehensive, modern and attractively priced services:

- PKO Konto Firmowe – to individuals running a business, freelancers and farmers who appreciate that the finances of their firms are handled using modern electronic banking services and through an individual advisor at the Bank's branch.
- PKO Rachunek dla Biznesu – created for entrepreneurs who are looking for an offer ideally tailored to their needs and who value a relationship with an individual bank advisor. To holders of the PKO Rachunek dla Biznesu account, the Bank offers access to advanced internet banking iPKO biznes and to all cash-management services, low transaction costs for transactions realized via the Internet and many more modern banking products and services, including the cheapest on the market SEPA online transfers and access to simple currency exchange thanks to the free iPKO dealer platform.

In 2017, the Bank created an automatic connection with the register of the Central Register and Information on Economic Activity (CEIDG) operated by the Ministry of Development. Thanks to downloading data directly from the CEIDG, the process of opening a corporate account has been simplified and accelerated.

TERM DEPOSITS AND REGULAR SAVING PRODUCTS

The deposits of retail and private banking customers have a dominant share in the retail segment deposits. The Bank offers, among other things, deposits with progressive and standard interest rates and structured deposits to its individual customers.

The most popular term deposits in the Bank's offer for retail and banking customers in 2017 were:

- offered in the first half of 2017: 12M online deposit, 12M deposit for new funds and 12M deposit with trigger point interest rate;
- 6M deposits;
- term deposit saving account available in 1M 3M, 6M or 12M tenors;
- 3M deposit for new funds.

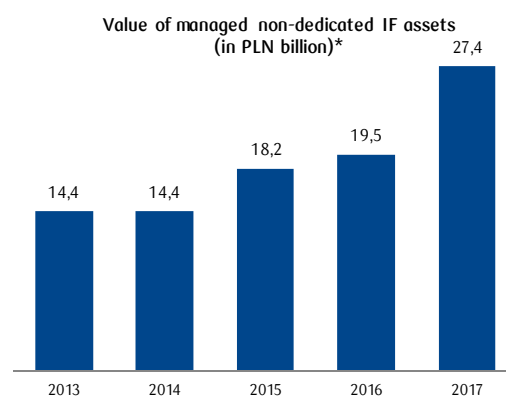
The Bank also has structured instruments in its offer dedicated to individual customers. In 2017, the Bank conducted 22 subscriptions for structured deposits, which included:

- deposits based on the USD/PLN exchange rate (18-month with guaranteed 1% interest and 36-month with guaranteed 2% interest over the life of the product, 18-month with guaranteed 0.9% interest and 36-month with guaranteed 1.8% interest over the life of the product);
- deposits based on the EUR/PLN exchange rate (18-month with guaranteed 0.9% interest, 18-month with guaranteed 1% interest, 36-month with guaranteed 1.8% interest and 36-month with guaranteed 2% interest over the life of the product);
- 36-month structured deposit based on the basket of shares of companies related to the gold extraction sector.

In 2017, the product offer for long-term saving was regenerated. As a result, the term saving deposits offered so far (Kapitał na Marzenia, Kapitał na Emeryturę, Kapitał na Własny Kąt, Kapitał dla Dziecka) were replaced with a new product: a term deposit saving account – Program Budowania Kapitału. The change in the offer in this product group resulted from observations made on the market and from the needs of customers who used the Bank's former offer for saving regularly.

INVESTMENT FUNDS

The Bank's Group offers 66 non-dedicated funds¹⁹ to the customers of retail and private banking in which assets amounting to PLN 27.4 billion have been accumulated.²⁰ The wide offer of investment funds provides access to various classes of assets, geographical areas and strategy types. The individual funds are characterized by a different level of risk, recommended investment horizon and assumed returns.



*in 2017 2.3 billion PLN from KBC TFI SA acquisition

¹⁹ Non-dedicated funds – funds available to retail customers (both firms and individuals) maintained in the form of Open Investment Funds and Closed-end Funds.

²⁰ source: report by the Chamber of Fund and Asset Management as at 31 December 2017.

SALES OF TREASURY BONDS

PKO Bank Polski SA has exclusive rights to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the sales network of PKO Bank Polski SA, which is of great convenience for all those who wish to invest in these instruments. In 2017, almost 69 million bonds were sold (46 million in 2016).

OTHER PRODUCTS AND SERVICES IN THE RETAIL SEGMENT

BANK CARDS

As at the end of 2017, the number PKO Bank Polski SA cards was approx. 8.3 million, including 0.9 million credit cards.

The Bank's offer comprises a number of bank cards, which take into account the customers' needs, including:

- the PKO Ekspres debit card – giving easy access to funds accumulated on accounts and free-of-charge use of the ATMs of PKO Bank Polski SA, also available in the form of a sticker, pendant or a contactless payment watch;
- Karta PKO Junior – the first prepaid contact and contactless card in Poland, which can also be used by children under 13;
- multi-currency card – one intelligent card to 8 accounts, including PLN and 7 currency accounts: EUR, GBP, USD, CHF, DKK, NOK and SEK;
- currency card – available to holders of saving accounts in USD, EUR and GBP;
- credit cards – there are 10 types of credit cards in the offer and they have been constructed to meet the needs of various customer groups, depending on their preferences and financial potential.

The customers can also use HCE cards. As at the end of 2017, PKO Bank Polski SA handled 155 thousand active virtual contactless cards, which enabled payments from mobile devices;

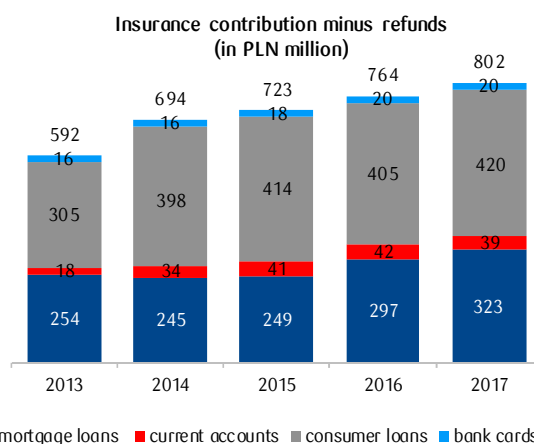
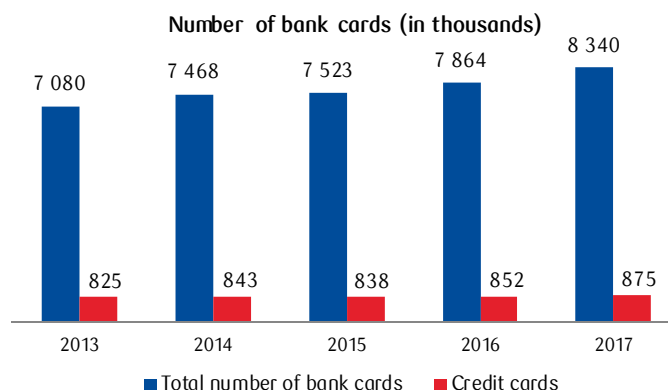
INSURANCE PRODUCTS

The PKO Bank Polski SA Group continuously develops its offer of insurance products increasing the attractiveness of the banking products combined with them and giving the customers an opportunity to provide security for their liabilities and assets and to receive held in an event of emergency. The Bank's Group addresses its insurance services to retail and private banking customers and customers from the small- and medium-sized enterprise segment and corporate banking. These are largely insurance products relating to the following bank products:

- consumer and mortgage loans (life insurance and insurance on loss of source of income, real estate and movable property insurance, third party liability insurance, assistance, low contribution insurance and insurance of SME loan repayment);
- current accounts (ROR) (including life insurance, accident insurance and assistance);
- bank cards (including security package to credit cards, travel insurance, loan repayment insurance).

In 2017, the PKO Bank Polski SA Group introduced into its offer insurance unrelated to bank products, available in the mobile iPKO and IKO channels. These include:

- life insurance "Moje Życie24";
- real estate insurance "Mój Dom24";
- travel insurance "Moje Podróże24".



The insurance offer was prepared for holders of current accounts (ROR) in response to the needs of customers who value attractive pricing terms and the opportunity of simple, fast purchase of insurance, without the need to leave home.

The offer of PKO Bank Polski SA in 2017 was additionally enriched for new insurance products:

- insurance of short-term receivables – KUKE Polisa na świat, a product delivered by KUKE SA;
- life insurance to Mortgage Loans offered by PKO Życie TU SA.

Moreover, the responsibility for foreign travel insurance for cards has been taken over by PKO TU SA.

In the second half of 2017, the Group implemented a new distribution model for insuring leased assets. At the same time, PKO Bank Polski SA renewed its insurance offer for customers in this segment. At present, the scope of insurance which a customer of PKO Leasing SA may obtain via the Bank includes:

- automotive insurance provided by insurance companies from outside the Bank's Group;
- real estate insurance from PKO TU SA;
- GAP insurance in the event of financial loss (invoice, index, casco) in cooperation with PKO TU SA.

Since 2017, insurance with the capital fund has been withdrawn from PKO Bank Polski SA's offer. In the past year the Group undertook intensive work to implement the changes arising from the requirements of the Act on insurance distribution.

PRIVATE BANKING

PKO Bank Polski SA is consistently developing its Private Banking segment, focusing on close cooperation within the Bank's Group, enabling customers to access a wide range of products and financial instruments. The Private Banking Offices serve customers from Poland's nine largest cities: Warsaw, Gdańsk, Kraków, Katowice, Poznań, Wrocław, Łódź, Szczecin and Bydgoszcz (opened as a part of the Private Banking Office in Gdańsk). As at the end of 2017, the Private Banking Centre managed a portfolio of assets with a value of PLN 22.3 billion (PLN 15.8 billion as at the end of 2016).

DISTRIBUTION NETWORK AND ACCESS CHANNELS

As at 31 December 2017, the retail branch network of PKO Bank Polski SA consisted of 1,132 branches grouped in 11 regional divisions and 8 retail banking offices. Compared with the end of 2016, the total number of retail branches decreased by 47. Optimization of the branch network is carried out continually, and the final decisions on a branch remaining on a particular micro-market is made based on the economic rationale for its operation, taking into account the development potential of that micro-market. This optimization is of a multi-faceted nature, comprising activities such as changing the character of the branches or reducing their number. The process of reducing large branches is accompanied by the universalization of smaller branches and the transformation of small branches into agencies in justified cases.

Table 10. Operating data of the retail segment

	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	Change 2017/2016	Change 2017-2016
Number of branches in retail segment	1 151	1 198	1 238	1 280	1 147	-3,9%	-47
retail branches	1 132	1 179	1 219	1 261	1 130	-4,0%	-47
regional retail branches	11	11	11	11	11	0,0%	0
private banking offices	8	8	8	8	6	0,0%	0
Number of agencies	745	837	881	1 001	1 074	-11,0%	-92
Number of ATMs	3 190	3 206	3 196	3 065	2 992	-0,5%	-16

BRANCH NETWORK AND AGENCIES

The Bank is constantly improving customer service conditions in the branch network. In 2017, these activities focused on the modernization of branches and moving them to new attractive locations. As part of the projects carried out by the Bank and as a result of the experience gained, the universally applicable branch format is constantly evolving in the direction of optimal operating conditions, tailored to changing technology. The agency network is an important complementary factor to the network of branches and ATMs. As at 31 December 2017, PKO Bank Polski SA collaborated with 745 agencies and compared to 31 December 2016, the number of agencies dropped by 92. The decrease in the number of agencies is a continuation of the efforts to increase the sales network's efficiency.

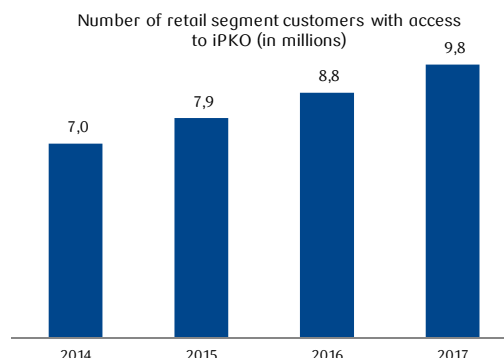
ELECTRONIC BANKING

Customers of the retail segment can use a package of electronic banking services under the name iPKO, and small and medium-sized enterprises can avail themselves of iPKO Biznes electronic banking services. These services provide customers with access to information on their accounts and products, and enable them to effect transactions through the Internet, self-service terminals and by telephone. As at the end of 2017, the number of customers with access to iPKO was 9.8 million.

The Bank systematically promotes the remote use of an Internet account, self-service in account and bank product management in the transaction service, which gives customers faster and easier access to their products and reduces the cost of banking services.

In 2017, the Bank introduced the following new solutions to its offer:

- made available a service in iPKO which allows for an entirely remote process for opening and managing Pierwsze Konto Oszczędnościowe (First Saving Account) dedicated to children and young people aged 0-18 and their parents;
- introduced the possibility of ordering a new debit card in iPKO with a city-card function (for Warsaw and Wrocław), replacing the former traditional card with a card with a city-card function and opening a new account on the Bank's website and at the same time ordering a debit card with a city-card function;
- implemented a service to set up a credit card as a means of payments for the service Płacę z iPKO and Płacę z Inteligo, which enables faster, more convenient and safer shopping through the Internet.
- extended its offer with a new insurance product Moje Życie24, available solely in iPKO and addressed to holders of current accounts (ROR);
- enabled customers to manage their own daily limits of electronic transactions to be effected through the Inteligo online service, mobile and telephone service.
- introduced the possibility of opening a Trusted Profile through iPKO electronic banking and the Inteligo account and thereby making use of additional services, including the e-service "Sprawdź swoje punkty karne" ("Check the number of your penalty points for bad driving");
- introduced the possibility of temporarily blocking a debit or a credit card;
- introduced the possibility of applying for a credit card through iPKO together with signing an agreement for issuing and using the card; and for card holders – the possibility of applying for a card limit increase;
- introduced the possibility of recharging prepaid energy metres through the iPKO service – this service supports state-of-the-art market propositions in the energy sector. The pre-paid metres can be recharged using any card, and the amount is then translated into a specific amount of energy. After providing the metre number in the iPKO service, the Bank recognizes the energy supplier on its own. Users who avail themselves of two-zone solutions can also divide the amount of the recharge into amounts for day and night;
- introduced the possibility of making payment orders in USD to an account in KREDOBANK SA in Ukraine.

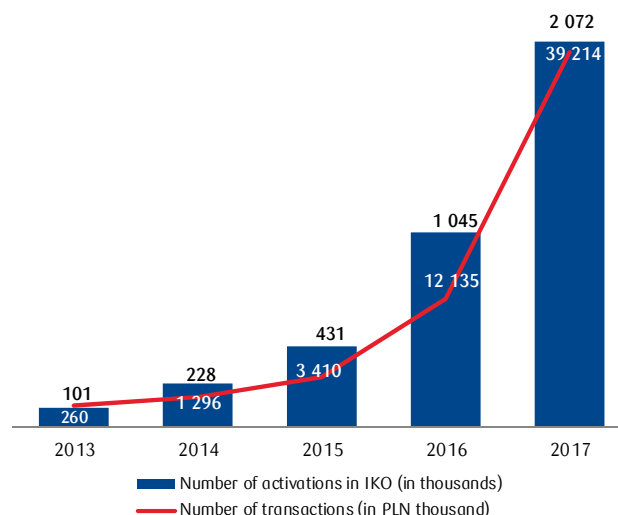


IKO MOBILE BANKING



PKO Bank Polski SA offers modern technological solutions to its customers providing them with complete, simple, functional and safe access to banking services using telephones.

IKO is the most popular and best developed system of mobile payments in Poland. It combines the functions of mobile banking with a possibility of making mobile payments. In 2017, the total number of IKO activations exceeded 2 million and the number nearly doubled compared with 2016. The application is constantly being enriched with new functionalities. The changes transformed IKO from an application used for mobile payments and withdrawals into an application which comprises a "bank in the phone".



For the youngest of customers, under 13, PKO Bank Polski SA enables access to an account in the form of a mobile application PKO Junior. The application is not only convenient but also safe, additionally enhanced with functions supporting financial education and the development of an entrepreneurial attitude in a child; it is modern and intuitive and is the mobile equivalent of the PKO Junior service.

In 2017, IKO was enhanced, among other things, with:

- contactless payments for Mastercard (for Visa cards in 2016);
- payments using the BLIK code from the IKO application in offices throughout Poland;
- online shopping without a code using BLIK (BLIK One Click);
- temporary blockade of a card;
- new types of transfers: instantaneous as part of Expres Elixir, foreign, tax and from a credit card.

Apart from mobile banking and payment functions, IKO is becoming an important sales channel. In 2017, the possibility was introduced of applying for an overdraft, buying a cash loan or travel insurance. Every third cash loan in remote channels is sold via a mobile banking application.

The Polish standard of BLIK mobile payments was developed based on IKO payments. BLIK is a universal form for making payments and cash withdrawals from ATMs without using cash or a payment card, developed together with partner banks and Krajowa Izba Rozliczeniowa (Polish Clearing House). As at 31 December 2017, the mobile payment acceptance network (IKO, BLIK) amounted to more than 225 thousand devices throughout Poland (eService, First Data, PayTel, IT Card terminals). In connection with implementing the BLIK system, the IKO application currently enables withdrawals from more than 17 thousand own ATMs of PKO Bank Polski SA, Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA, Euronet ATMs (about 7 thousand) and IT Card (about 1.8 thousand).

PKO Bank Polski SA provides its customers with an option accompanying payments "Płacę z iPKO" – for authorizing a transaction by entering the BLIK code generated in IKO. Thanks to this service, payments for shopping can be made using IKO in the majority of online shops in Poland, which are served by Dotpay, eCard, PayU, Przelewy24, Tpay.com, First Data, CashBill and Blue Media. "Płacę z iPKO" is also available in the largest Polish e-commerce auction service – Allegro.

TRUSTED PROFILE IN PKO BANK POLSKI SA

The Trusted Profile enables access to services such as ePUAP, PUE ZUS, CEIDG, obywatel.gov.pl, biznes.gov.pl and regional e-administration platforms. The Profile enables submitting an application for a personal ID card or driving licence, notify about selling a vehicle, obtain copies of birth, marriage or death certificates or to register a business. It also enables unrestricted use of all the function of the PUE ZUS service, promptly obtaining a good behaviour certificate or an individual tax interpretation. It can be also used for submitting an online application for an EKUZ card or Large Family card. It also enables the electronic signing of applications and official letters.

The Trusted Profile service was implemented in 2016, and at the end of 2017 more than 200 thousand profiles had been created in the Bank's transaction services.

PKO MASOWE WYPŁATY (PKO MASS PAYMENTS) AVAILABLE IN THE ATMS OF PKO BANK POLSKI SA

PKO Masowe Wypłaty enables payment for services in cash through three thousand of the Bank's own ATMs. PKO Masowe Wypłaty is a service addressed to firms or institutions that perform numerous one-off cash withdrawals, which are ready to outsource this process outside their own network. The service is also offered to customers who perform repeated withdrawals on behalf of beneficiaries who do not have a bank account or prefer to receive cash.

PKO Bank Polski SA offers comprehensive banking services to firms and local government units. The execution of mass payments in ATMs is a service that has not been available on the market so far, and is an additional advantage both to the Bank's customers and, for example, to beneficiaries of the 500+ programme.

SELF-SERVICE DESKS

In 2017, the first self-service points were made available by PKO Bank Polski SA to customers for their convenience: two in Warsaw and two in Jelenia Góra.

The self-service desks can be used by all individual and corporate customers holding cards to these bank accounts. The desks have been equipped with touchscreens and additional software which enables executing more complex transactions other than depositing and withdrawing cash. The pilot programme is carried out in two stages. To start with, the customers may avail themselves of the function of cash payment to their own account, cash withdrawal, transfer between own accounts, transfer to any account, setting up a deposit, checking or printing out the account balance and other transactions currently available in ATMs. Next, the customers will be able to obtain a cash loan,

make cash payments to other accounts, make transfers to the tax office or ZUS and open a savings account. The list of available transactions will be successively enlarged.

PKO BANK POLSKI SA CONTACT CENTRE

The PKO Bank Polski SA Contact Centre (CC) plays an important role in retail segment customer service. The objective of this entity's operations is to conduct sales of products offered by the Bank during incoming and outgoing calls and to provide efficient and effective customer service, using remote communication.

PKO Bank Polski SA's hotline employs several hundred consultants who remain at the customers' disposal 24 hours a day. The consultants not only handle telephone calls but also answer the customers' questions in an electronic form – e-mails and website applications. Customers may also send messages in the iPKO or Inteligo transaction service and through a special Facebook tab.

In 2017, CC remained an unquestioned service leader in the banking sector. In the 15th edition of hotline surveys conducted by ARC Rynek i Opinia, consultants from PKO Bank Polski SA obtained the highest score in nearly all of the categories examined. Pollsters who played the role of potential customers have assessed the service highly in technical terms, quality of service and the competencies of PKO Bank Polski SA consultants, including their professionalism, good manners and commitment. The general assessment of a telephone call was 9.8/10 points, which was due to best knowledge of the products among the banks examined. CC obtained equally high ratings in the examination of email contact, among other things, for the fastest responding time. The consultants of PKO Bank Polski SA answered customers' questions within one hour, with the average for all the banks exceeding 13.5 hours.

7.1.2 CORPORATE AND INVESTMENT SEGMENT

Customers of the segment
Lending activity and structured financing
Deposit activity and transaction banking
Financial Institutions
International banking
Brokerage activities
Treasury products
Interbank market
Fiduciary services
Export Support Platform
Sales network

Thanks to implementing the new management standards in the corporate sales network, the PKO Bank Polski SA Group has been constantly developing its cooperation with customers, extending its scope based on the wide range of products offered. Thanks to launching a modernized iPKO Biznes platform and implementing mobile solutions for business customers, the Bank's Group considerably improved the attractiveness of the transactional offer, which translated into a considerable increase in the transaction volume and related balance sheet and income statement categories.

The Bank's Group also developed its presence abroad and during the first half of 2017 opened a branch of the Bank in the Czech Republic. The presence abroad of the Bank's Group enabled establishing and considerably enhancing relationships with customers who had voiced such expectations. This included leaders in the Polish petrochemical and gas industry.

As part of supporting the Polish export policy, the PKO Bank Polski SA Group successfully offered its customers the Export Support Platform which helps entrepreneurs establish commercial relationships on foreign markets. At the same time, it educates and supports them in the appropriate selection of financial instruments useful in international trade, which are to be found in the product offer of the Bank's Group.

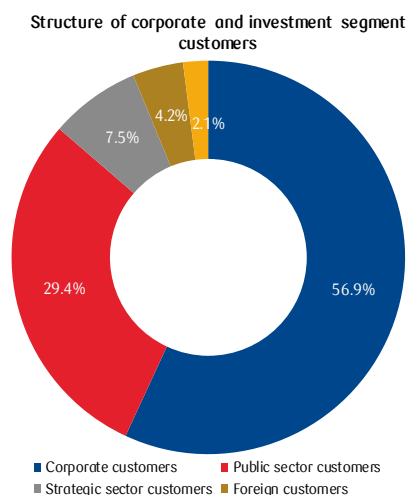
CUSTOMERS OF THE SEGMENT

The Corporate and Investment Segment as at the end of December 2017 served nearly 15 thousand customers, including:

- 8.4 thousand corporate customers;
- 1.1 thousand strategic customers;
- more than 0.6 thousand foreign customers.
- more than 4.3 thousand local government units and central level government institutions, including budget-dependent entities and other related entities;

In 2017, the number of customers served in the segment increased by 0.3 thousand.

In 2017, the Bank confirmed its position as an unquestioned leader in services to local government units, participating in local governments' projects of a non-standard nature and winning tenders for the provision of services to the Pomorskie Voivodeship and the Górnośląsko-Zagłębiowska Metropolis.



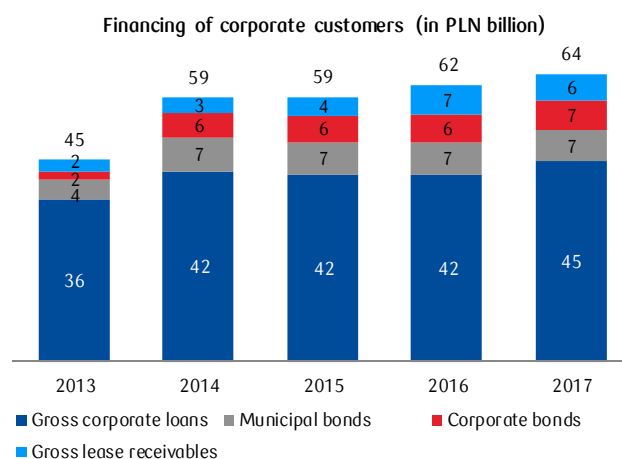
LENDING ACTIVITY AND STRUCTURED FINANCING

As at 31 December 2017, gross corporate loans amounted to PLN 44.6 billion and the balance increased by PLN 3.0 billion since the start of the year, and the total financing of corporate customers, including issued bonds and lease receivables, amounted to PLN 64.0 billion, which represents an increase in annual terms of nearly PLN 2.5 billion (i.e. 4.0%).

The PKO Bank Polski SA Group supports its customers in carrying out strategic investment projects through advice both in selecting the forms of financing and the flexible terms of financing and repayment. The Group collaborates closely with local government units and finances investment projects serving the local community.

PKO Bank Polski SA offers wide access to funds to its customers for financing complex investment projects, and the services of advisors focused on selecting the optimum financing and repayment terms.

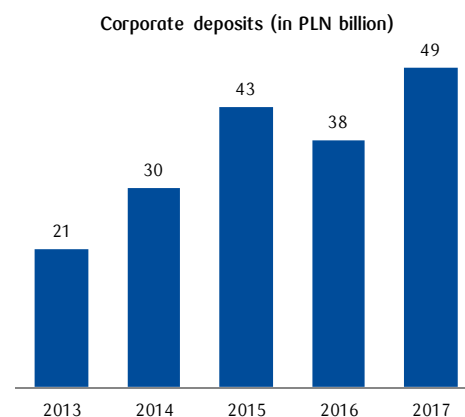
As part of the product offer of the Bank's Group, corporate customers may avail themselves of lease and factoring products and services. Practically all fixed assets are financed through leases, depending on customer needs. Apart from standard products, the offer comprises fleet leasing services and cooperation with suppliers.



DEPOSIT ACTIVITY AND TRANSACTION BANKING

The level of corporate deposits as at the end of 2017 exceeded PLN 48.6 billion and increased by PLN 10.9 billion during the year, mainly due to an increase in the cash maintained on current accounts by customers.

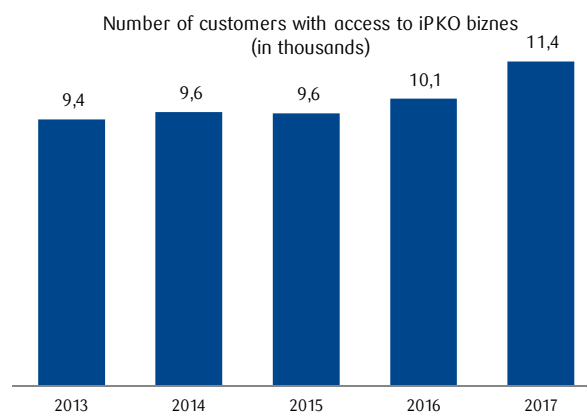
The Bank extends its offer for corporate customers with complex organizational structures and offers them the use of various types of products and services facilitating settlements with Polish and foreign business partners, and develops dedicated products based on cash pooling solutions. Thanks to its presence in Germany and the Czech Republic the tool can be used to manage financial resources in cross-border transactions.



PKO Bank Polski SA continues to increase the quality of the services provided within the scope of transaction banking, which is visible, among other things, in the increased number of customers using iPKO biznes. As at the end of 2017, 11.4 thousand customers of the segment used electronic banking. As part of extending the offer concerning the electronic channels for corporate customers, in 2017, the Bank introduced a new version of the iPKO biznes electronic banking system.

New iPKO biznes is:

- a new homepage, the so-called "Kokpit" which provides users with fast and aggregated access to basic information on their accounts and services.
- personalization of the information displayed, summaries, listings, sorting, filters, import and export of data;
- intuitive navigation;
- advanced search engines with developed search criteria, presenting data in synthetic or analytical format;
- a system adapted to the needs of capital groups with a complex structure, including those having group entities in different countries;
- two language versions – Polish and English.



New iPKO biznes services:

- tax-related standing orders;
- standing orders executed through SORBNET;
- foreign transfers: SEPA;
- configuration of trusted counterparties in the system.

After transferring to the new version of iPKO biznes, users can install the mobile application iPKO biznes, which provides online access to the firm's financial information, including:

- a view of the list of accounts, available balance and accounting balance;
- transactions to be signed and sent;
- transactions awaiting realization and rejected transactions;
- account history.

At present, the iPKO biznes application enables customers to monitor and manage their accounts, payment cards and loans and to place orders for all types of transfers.

FINANCIAL INSTITUTIONS

PKO Bank Polski SA has a wide and efficient network of *nostro* accounts, more than 1400 established SWIFT relations with banks in various countries and markets. At the same time, the Bank maintains about 200 *loro* accounts for foreign banks, which are used for settling the transactions concluded by these banks both in Poland and in other countries.

The Bank actively cooperates with the market participants, supporting the activities of its customers on foreign markets and extends the range of currencies available to the Bank's customers, for example, the New Zealand dollar (NZD) was introduced to the Bank's offer.

The actions are focused on introducing optimal methods of performing international settlements, implementing new solutions in foreign banking and seeking out new attractive markets (for example, the Persian Gulf, South-Eastern Asia, South Africa).

INTERNATIONAL BANKING

The Bank's Group actively participates in the development of the international expansion of its customers, offering them support on foreign markets. Initiatives are undertaken to facilitate financial services for Polish firms operating on international markets. One of these was opening corporate branches in the Federal Republic of Germany and in the Czech Republic. The branches' offer includes a full range of services and products for corporate customers, comprising among other things:

- transaction banking (including the international cash pooling);
- electronic banking;
- treasury products;
- trade finance;
- corporate loans.

Launching the Bank's foreign branches is an element of the Bank's Group strategy for international expansion, which is based on following the customers and their needs. Based on strong relationships with the majority of the leading Polish capital groups, the Bank provides support for their activities and investments abroad, and effectively participates in the development of the international expansion of its customers.

In the case of enterprises conducting business activities in Ukraine, the banking services are offered through KREDOBANK SA which belongs to the PKO Bank Polski SA Group.

Moreover, the Bank ensures specialist support to foreign firms operating in Poland, among others, those from Scandinavian countries, South Korea and Ukraine. To serve this end, teams of experts have been appointed which are dedicated to serving firms from these countries, which helps build business relations. The broad range of products offered and the high class team of advisors make PKO Bank Polski SA increasingly appreciated by foreign customers.

BROKERAGE ACTIVITIES

Thanks to its activities on the WSE, Dom Maklerski PKO Banku Polskiego SA (the Brokerage House) is the unquestioned leader on the capital market in Poland. The high share in the transaction volume on the secondary market of shares and bonds is particularly worth emphasizing. In 2017, in the case of the share market it was 15% and in the case of the bond market it was 45%. In both these areas, the Brokerage House was ranked first in the ranking of brokerage houses as at the end of 2017.

As at the end of 2017, the Brokerage House maintained 139 thousand securities accounts and cash accounts and 188 thousand registration accounts. The Brokerage House comes fourth on the market out of 39 participants in terms of the number of securities accounts (according to data published by KDPW).

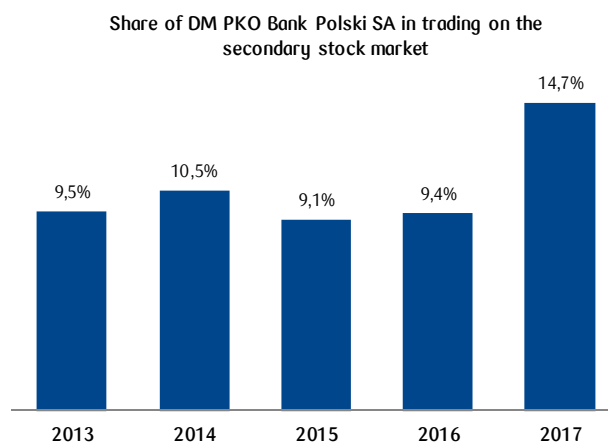
In 2017, the value of transactions executed on the primary market in which the Brokerage House participated was PLN 7.3 billion. In particular, it is worth noting that BH participated in the issues of the following companies: PLAY Communications SA, DINO POLSKA SA, Rafako SA, CCC SA, Famur SA, Elemental Holding SA. Moreover, the Brokerage House mediated in introducing the shares of Polimex Mostostal SA to public trading. The shares were issued as part of a non-public offering with a value of PLN 0.3 billion.

In the area of mergers and acquisitions, the Brokerage House finalized the purchase of Polish heating assets and the Rybnik power plant from the EDF concern by PGE S.A. The value of the transaction was PLN 4.3 billion.

In 2017, Dom Maklerski PKO Banku Polskiego SA was active on the bonds market. The value of all debt securities sold, in transactions in which BH participated was nearly PLN 1.0 billion. The transactions were related to debt securities of the following companies:

- Polski Koncern Naftowy ORLEN SA – bond issues with a total value of PLN 400 million in which the Brokerage House acted as the Lead Manager;
- Echo Investment SA – bond issues with a total value of PLN 300 million in which the Brokerage House acted as the Lead Manager;
- BEST SA – bond issues with a total value of PLN 205.8 million in which the Brokerage House acted as the Lead Manager;
- Giełda Papierów Wartościowych w Warszawie SA – bond issue with a total value of PLN 60 million in which the Brokerage House acted as member of the distribution consortium.

The Brokerage House also executed calls related to the sale of shares, purchase and redemption totalling PLN 2.3 billion – the largest transactions related to Synthos SA, Macrologica SA, VANTAGE DEVELOPMENT SA, BENEFIT SYSTEMS SA, MCI Capital SA.



TREASURY PRODUCTS

PKO Bank Polski SA has a wide range of treasury products dedicated to individuals and institutional customers, such as negotiated deposits and spot and forward currency exchange products, foreign exchange, interest rate and product

price hedges. The Bank may adapt the products offered to the individual needs of its customers and deliver them through any convenient distribution channel.

In 2017, as part of its customer-focused activity, the Bank conducted intensive works related to implementing the MIFID II Directive and finalized the project of online currency exchange eKANTOR.

INTERBANK MARKET

The Bank is the Treasury Securities Dealer and Money Market Dealer. It also acts as the market maker on the domestic interest rate and foreign exchange market. The Bank was ranked fourth in the competition for the selection of Treasury Securities Dealer 2018.

The Bank has a significant portfolio of securities, which represents about 18% of its total assets. The portfolio is financed with funds not allocated in the lending activity and comprises mainly Treasury securities and NBP securities denominated in PLN. The functions of the securities portfolio are related to current liquidity management and the function of the investment portfolio.

FIDUCIARY SERVICES

The Bank maintains security accounts for customers and facilitates domestic and foreign market transactions, and acts as a depositee for pension and investment funds. As at the end of 2017, the value of the customers' assets held on fiduciary accounts was more than PLN 111 billion and it was about 60% higher than the value achieved in the corresponding period of the prior year.

EXPORT SUPPORT PLATFORM

The Export Support Platform (available under www.wspieramyekSPORT.pl) is a comprehensive analytical tool implemented in 2017 for firms which plan foreign expansion containing up to date business data and analyses and a knowledge abstract on markets and industries. The Exporter's Guide contains information on how to develop a firm's strategy or properly utilize marketing for the firm's promotion abroad. Entrepreneurs who are looking for detailed business information about new potential sales markets will find them in the section "Znajdź rynki" ("Find markets"). On filling in a short questionnaire, they will be able to find financial products offered by PKO Bank Polski SA that are best suited to the current needs of their firm.

SALES NETWORK

The sales network of the corporate segment comprises 32 Regional Corporate Centres concentrated in seven Corporate Macroregions and branches in the Federal Republic of Germany and the Czech Republic.

Table 11. Operating data of the corporate segment

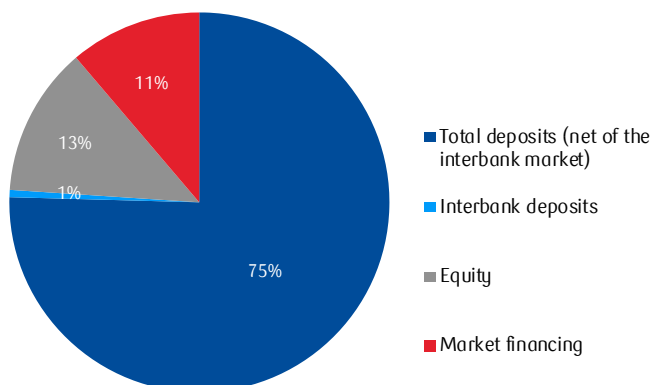
	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	Change 2017/2016	Change 2017-2016
Number of branches in corporate and investment segment	41	40	40	39	39	2.5%	1
regional corporate branches	7	7	7	7	7	0.0%	0
corporate centres	32	32	32	32	32	0.0%	0
foreign branches	2	1	1	x	x	100.0%	1

The branch of PKO Bank Polski SA in the Czech Republic with its registered office in Prague commenced operations in April 2017. The branch in the Czech Republic is the Bank's second branch abroad. The branch's offer includes: maintaining current accounts, handling non-cash transactions, placing cash surpluses as deposits, short-, medium- and long-term financing and providing services in the area of liquidity management and trade finance products.

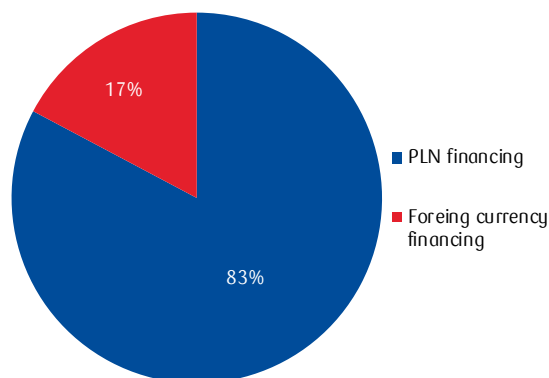
7.2 SOURCES OF FINANCING

The PKO Bank Polski SA Group finances its operations with domestic and foreign sources from deposits (also from the interbank market), equity and market financing covering liabilities in respect of issuing securities, subordinated liabilities and loans and borrowings received from monetary and non-monetary institutions. The main source of the Bank's Group's financing are customer deposits which unwaveringly constitute three quarters of the sources of finance.

Structure of sources of financing the operations of PKO Banku Polski SA Group



Currency structure of financing the operations of PKO Banku Polski SA Group



Maintaining an optimal financing structure enables the PKO Bank Polski SA Group to fully realize its investment plans, including capital expenditure projects. To complete a capital expenditure project the Bank's Group uses mainly funds from its equity and from the issuance of securities.

7.3 INTERNATIONAL COOPERATION

Funds to cover the needs of the PKO Bank Polski SA Group, which follow from the development of international business activities, including financing the MSE segment projects, are also obtained through international cooperation.

The Bank's Group obtains funds from foreign financial markets, among other things, by drawing loans from international financial institutions (*inter alia*, The Council of Europe Development Bank and the European Investment Bank).

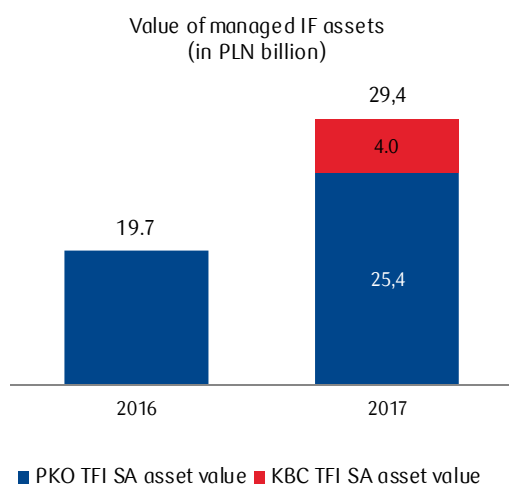
In 2017 PKO Bank Polski SA continued to participate in the 2020 European Fund for Energy, Climate Change and Infrastructure project ("Marguerite Fund") established in 2009. The Marguerite Fund is the first example of a pan-European model for financing infrastructure projects in history. Its investment policy focuses on road, energy and renewable energy infrastructure projects. The fund is made up of six key investors who are lead financial institutions, including PKO Bank Polski SA and the European Investment Bank, as well as the remaining three investors, including the European Commission. The Bank's share in the Fund's capital is 14%. To-date, infrastructure projects of nearly PLN 2 billion were completed in Poland with the participation of the Marguerite Fund and important projects were carried out in the territory of the European Union, which facilitate access to the market for Polish companies and increase safety in the region.

7.4 OPERATIONS OF THE REMAINING PKO BANK POLSKI S.A. GROUP SUBSIDIARIES

Apart from strictly banking operations, the PKO Bank Polski SA Group provides financial services related to leases, factoring, investment funds, pension funds, insurance, and debt collection services, transfer agent services, IT outsourcing and business outsourcing services, and conducts development and real estate management operations.

CHARACTERISTICS OF SELECTED SUBSIDIARIES OF THE PKO BANK POLSKI SA GROUP²¹

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA



In 2017, the Company generated net profit of PLN 64.6 million (in 2016 net profit was PLN 59.8 million).

The value of the fund's net assets under the Company's management amounted to PLN 25.4 billion as the end of 2017 which represents a 29.1% increase compared to the end of 2016. The increase in the net asset value was mainly the effect of net profit from sales and the result on asset management.

PKO Towarzystwo Funduszy Inwestycyjnych SA ranks second in terms of net asset value and has a 9.1% share in the market of investment funds; in terms of non-dedicated funds' asset management it ranks first with a 15.7% share*.

In the fourth quarter of 2017, the Bank Group acquired 100% of the shares in KBC TFI SA. In accordance with the plans of PKO Towarzystwo Funduszy Inwestycyjnych SA, the investment funds operating within the Bank Group will be merged in the first half of 2018.

After accounting for the acquisition of KBC TFI SA the share in the investment fund market amounted to 10.5%, and the share in the non-dedicated funds' assets amounted to 17.2%.

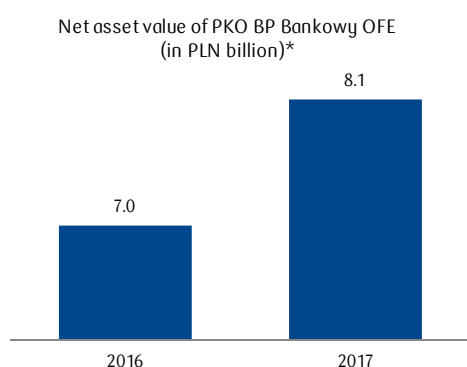
As at 31 December 2017 the Company managed 47 investment funds and subfunds. In 2017 the Company's offer was expanded by six investment funds/subfunds: PKO Obligacji Wysokodochodowych Globalny – a closed-ended investment fund, and five subfunds isolated under the PKO Portfele Inwestycyjne – specialist open-ended investment fund.

In 2017 the Company performed 27 issues of investment certificates of closed ended funds, under which it obtained assets with a total value of PLN 661.9 million.

*Source: *The Chamber of Fund and Asset Managers (Izba Zarządzających Funduszami i Aktywami - IZFA)*.

PKO BP BANKOWY PTE SA

In 2017, the Company generated net profit of PLN 8.5 million (compared with PLN 5.2 million in 2016).



Results of the Open Pension Fund (OFE)*:

As at the end of 2017 the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 8.1 billion, which is an increase of 15.1% compared with the end of 2016. The increase in the net asset value is related mainly to the rate of return earned on the Fund's assets.

As at the end of 2017 PKO BP Bankowy OFE had approximately 923 thousand members.

PKO BP Bankowy OFE ranks 9th on the pension fund market in terms of OFE net asset value and in terms of the number of OFE members.

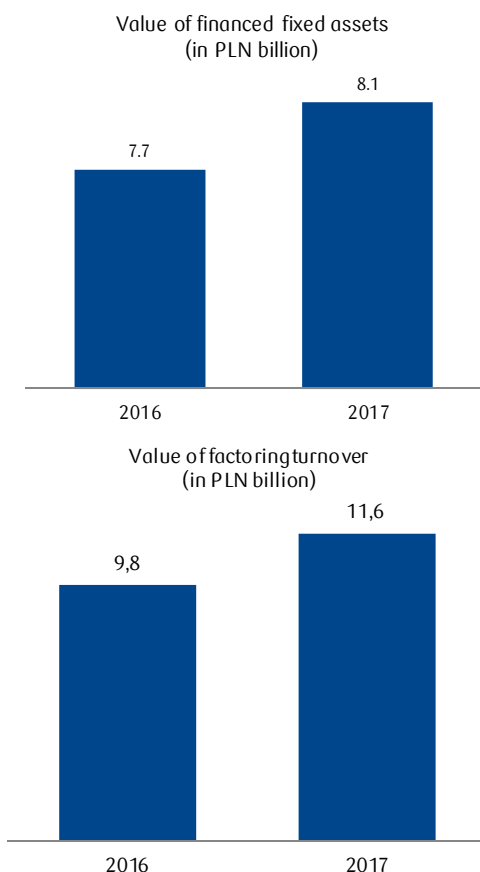
In 2017 the Polish Financial Supervision Authority (PFSA) announced the rates of return of OFE as at the end of March and September, for a 36 month period. In accordance with the PFSA announcement PKO BP Bankowy OFE earned a rate of return of 16.318% from 31 March 2014 to 31 March 2017 compared with the weighted average rate of return for all funds of 12.921%, ranking second among the pension funds operating on the market. In the second listing, which covered the period from 30 September 2014 to 29 September 2017, the Fund earned a rate of return of 21.660% with a weighted average for all funds at 19.128%, coming third in the ranking of open pension funds.

*Source: www.knf.gov.pl

²¹ The financial results presented in the description are derived from the financial statements of particular companies prepared according to IFRS, and for insurance companies, according to PAS. In respect of the groups, the presented financial results are the results attributable to the Group's parent.

THE PKO LEASING SA GROUP

The PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) earned net profit of PLN 77.2 million in 2017. In 2016 the net profit of the PKO Leasing Group was PLN 18.6 million, and it included the results of the new companies, i.e. the Raiffeisen-Leasing SA Group – only for December 2016, i.e. for the period when it was part of the PKO Leasing SA Group.



Lease activities:

In 2017 the leasing companies of the PKO Leasing SA Group financed fixed assets of PLN 8.1 billion in total, i.e. 5.4% more than in the corresponding period of 2016 (data for 2016 is calculated in consideration of the current structure of the PKO Leasing SA Group). The change mainly results from an increase in financing assets in the category of passenger cars, and plant and machinery.

As at the end of 2017 the carrying amounts of receivables from customers in respect of fixed asset leases (matured and not matured) and the carrying amount of fixed assets under operating leases in the PKO Leasing SA Group amounted to PLN 15 billion in total.

In terms of the value of fixed assets leased to customers in 2017 the PKO Leasing SA Group ranked first on the market of lease services with a 12.0% market share*.

*Source: Polish Leasing Association (Związek Polskiego Leasingu)

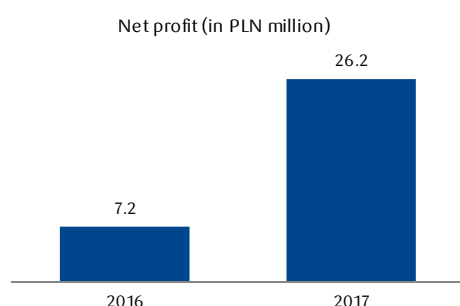
Factoring activities:

PKO Faktoring SA provides domestic and export factoring services with and without recourse, reverse factoring and a factoring program service for suppliers.

In 2017 the value of factoring turnover was PLN 11.6 billion (in the corresponding period of 2016 the Company's turnover was PLN 9.8 billion); as at the end of December 2017 the company had 512 customers.

As at 31 December 2017 PKO Faktoring SA ranked ninth (by turnover) among the factoring companies associated in the Polish Factors' Association, with a market share of 6.3%.

THE PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA GROUP



The PKO Życie Towarzystwo Ubezpieczeń SA Group (i.e. PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary Ubezpieczeniowe Usługi Finansowe Sp. z o.o.) generated net profit of PLN 26.2 million in 2017 (in 2016 the net profit was PLN 7.2 million).

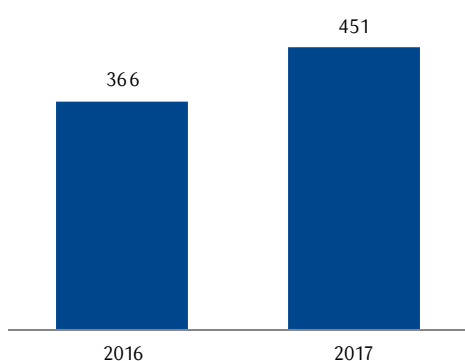
PKO Życie Towarzystwo Ubezpieczeń SA engages in insurance activities in sector I insurance – life insurance.

PKO Życie Towarzystwo Ubezpieczeń SA offers a wide range of insurance products: The Company focuses on insuring the lives and health of its customers, it offers independent products and products linked to the banking products offered by PKO Bank Polski SA.

Gross written premium on insurance contracts written by the Company was PLN 471 million in 2017, and the number of insured exceeded 722 thousand in 2017.

PKO TOWARZYSTWO UBEZPIECZEŃ SA

Gross written premium (in PLN million)



In 2017 the Company earned net profit of PLN 9.0 million (in 2016 the Company incurred net loss of PLN 6.6 million; 2016 was the first year of the Company's operations).

The Company mainly engages in sector II insurance activities - other personal and property (non-life) insurance.

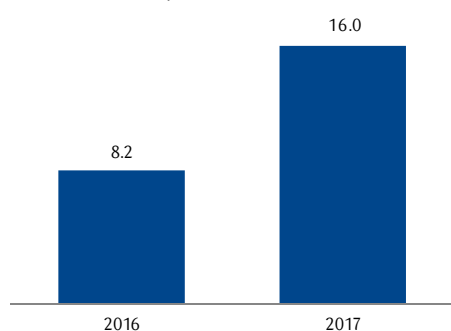
PKO Towarzystwo Ubezpieczeń SA focuses on insuring risk of loss of income, results of accidents and sickness, and on insuring properties for borrowers taking out mortgage loans. The Company offers a wide range of insurance products addressed to the Bank's customers and other entities belonging to the Bank's Group.

In 2017, the Company expanded its offer with the insurance of assets constituting the subject matter of lease contracts for PKO Leasing SA customers, and individual and group GAP Insurance in the event of a financial loss related to total damage to the leased vehicle. It also launched sales of travel insurance "Moje Podróże24" in the e-banking service IPKO and mobile banking service IKO.

Gross written premium on insurance contracts written by the Company was PLN 451 million in 2017, and the number of insured was 581 thousand in 2017.

PKO BANK HIPOTECZNY SA

Gross loan portfolio (in PLN billion)



In 2017, PKO Bank Hipoteczny SA generated net profit of PLN 51.4 million (compared with PLN 13.2 million in 2016).

PKO Bank Hipoteczny SA engages in operating activities since April 2015. The basic purpose of PKO Bank Hipoteczny SA is the issuance of mortgage bonds which are to constitute the main source of long-term finance for mortgage loans. The Company specializes in granting mortgage housing loans to individual customers, it also purchases receivables in respect of such loans from PKO Bank Polski SA. It acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA.

In 2017, under the Framework Receivables Sales Agreement signed with PKO Bank Polski SA in 2015, PKO Bank Hipoteczny SA acquired portfolios of housing loan receivables secured with mortgages of PLN 5.6 billion. The total gross value of the PKO Bank Hipoteczny SA loans portfolio as at 31 December 2017 amounted to PLN 16 billion, including PLN 10.8 billion of mortgage housing loans purchased under the agreement concluded with PKO Bank Polski SA.

In 2017 the Company conducted seven issues of mortgage bonds, including:

- a) four foreign issues addressed to institutional investors, in the total nominal value of EUR 1 079 million;
- b) three domestic issues addressed to institutional investors, in the total nominal value of PLN 1,265 million.

Foreign issues are conducted under the International Mortgage Bond Issuance Program addressed to the European market and launched pursuant to the Base Prospectus, the update of which was approved in September 2017 by *Commission de Surveillance du Secteur Financier* (CSSF) in Luxembourg. Domestic issues are conducted under the National Mortgage Bonds Issuance Program addressed to the domestic market launched pursuant to the Base Prospectus approved in November 2015 by the PFSA.

PKO Bank Hipoteczny SA is the leader on the Polish mortgage bank market in terms of total assets and the balance of mortgage loans. The Company is also the largest and most active Polish issuer of mortgage bonds on Polish and foreign markets. The total value of mortgage bonds issued and outstanding (at nominal value) as at the end of 2017 amounted to PLN 8.9 billion.

PKO BP FINAT SP. Z O.O. GROUP

The PKO BP Finat Sp. z o.o. (i.e. PKO Finat Sp. z o.o. and its subsidiaries) Group earned net profit of PLN 45.8 million in 2017. This result includes the results of the KBC TFI SA Group earned in the period from 12 to 31 December 2017. In 2016 PKO Finat Sp. z o.o. earned net profit of PLN 45.7 million.

PKO BP Finat Sp. z o.o. provides comprehensive services to financial sector companies, among other things, transfer agent services, fund and company accounting services, servicing group insurance dedicated to the products offered by PKO Bank Polski SA. It also specializes in outsourcing based on the competencies of its IT specialists, outsourcing of project teams and IT processes.

On 12 December 2017 PKO BP Finat Sp. z o.o. acquired KBC Towarzystwo Funduszy Inwestycyjnych SA (KBC TFI SA). As a result of acquiring KBC TFI SA, the subsidiary, Net Fund Administration Sp. z o.o. (NetFA Sp. z o.o.), became part of the PKO BP Finat Sp. z o.o. Group.

The basic business of KBC TFI SA is establishing, representing vis-à-vis third parties and managing opened-ended and closed-ended investment funds and customer portfolios comprising one or more financial instruments. As at the end of 2017 the net asset value of the funds managed by KBC TFI SA was PLN 4 billion. As at 31 December 2017 the Company managed 22 investment funds and subfunds.

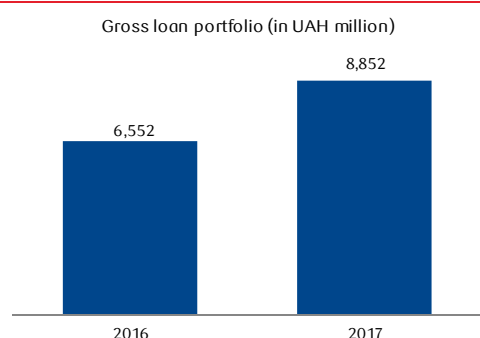
NetFA Sp. z o.o. provides transfer agent services and IT services.

Ultimately, in 2018, KBC TFI SA is to merge with PKO TFI SA, and NetFA Sp. z o.o. with PKO BP Finat Sp. z o.o.

*Source: *The Chamber of Fund and Asset Managers (Izba Zarządzających Funduszami i Aktywami - IZFA)*.

THE KREDOBANK SA GROUP

(DATA ACCORDING TO IFRS BINDING FOR THE PKO BANK POLSKI SA GROUP)



In 2017 the KREDOBANK SA Group (i.e. KREDOBANK SA and its subsidiary Finansowa Kompania "Idea Kapitał" Sp. z o.o.) generated net profit of UAH 401 million (PLN 56 million). In 2016 the net profit of the KREDOBANK SA Group amounted to UAH 224 million (PLN 34 million). These results are the effect of the development of KREDOBANK SA in all business segments, and the effective management of liquidity, margins and risks.

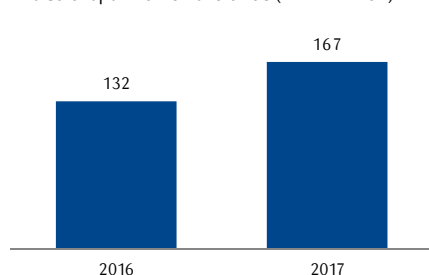
The credit portfolio of the KREDOBANK SA Group (gross) increased by UAH 2,300 million, i.e. 35.1% in 2017 and as at 31 December 2017 it amounted to UAH 8,852 million (the gross credit portfolio in PLN amounted to PLN 1,094 million as at the end of 2017). The increase in the credit portfolio in UAH is mainly the result of an increase in sales of new loans.

Term deposits of the customers of the KREDOBANK SA Group increased by UAH 1,113 million, i.e. 27.7% in 2017 and amounted to UAH 5,133 million as at 31 December 2017 (term deposits in PLN amounted to PLN 634 million as at the end of 2017). The increase in UAH deposits is the effect of increasing the reliability and ranking of KREDOBANK SA on the Ukrainian banking market.

As at 31 December 2017 the network of KREDOBANK SA outlets comprised the Head Office in Lviv and 102 branches in 22 of 24 provinces of Ukraine. In 2017 the locations of three branches were changed, three branches were established and 12 branches were closed.

THE QUALIA DEVELOPMENT SP. Z O.O. GROUP

Value of apartments transferred (in PLN million)



The Qualia Development Sp. z o.o. Group (i.e. Qualia Development Sp. z o.o. and its subsidiaries) generated net profit of PLN 64.9 million in 2017 (in 2016 net profit was PLN 30.8 million).

In 2017 the Group focused its operations on:

- selling and transferring apartments from projects completed in Warsaw (Nowy Wilanów – Royal Park) and Gdańsk (4th stage of the Neptun Park project),
- conducting operations in respect of the lease of apartments based on the projects completed in Gdańsk and Międzyzdroje, under the Golden Tulip brand,
- conducting sales of selected properties and companies of the Qualia Development Sp. z o.o. Group

ZENCARD SP. Z O.O.

ZenCard Sp. z o.o. conducts IT and computer operations. It specialises in developing discount and loyalty program solutions using payment cards. The Company developed a loyalty platform which operates in e-stores and payment terminals in traditional stores.

In 2017 its technical integration with the eService terminal network was completed. The ZenCard 2.0. platform was launched based on which the first promotional campaign for the MAKRO chain customers paying with Visa cards was conducted.

7.5 SPONSORSHIP ACTIVITIES OF PKO BANK POLSKI SA

Business supporting projects
Sponsorship of culture and arts
Sports sponsoring
Education, science and innovation

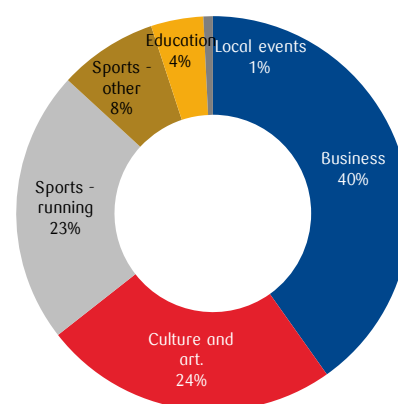
The sponsorship activities of PKO Bank Polski SA are aimed at forming the Bank's image as a reliable financial institution, socially involved, modern and open to its customers' needs.

Due to its almost one-hundred year history, the Bank treats participation in initiatives which introduce society to national heritage, and culture and art, as a priority. The experience and leadership in the financial market also obliges the Bank to support young Poles in their education and development. Co-financing innovative projects and setting development trends in respect of Polish education is the ultimate goal of the Bank's sponsorship.

In 2017 the Bank completed 360 projects of different scale: from nationwide – communicated in the media, supported with promotional actions, to smaller, dedicated to local communities which have problems in acquiring funds for organizing meetings with culture, exhibitions, science picnics.

Expenditure on financing projects which support business and promote culture and art take up the largest share of the Bank's sponsorship budget.

Involvement in sponsorship activities (budget share)



BUSINESS SUPPORTING PROJECTS

For many years now PKO Bank Polski SA has engaged in sponsorship of important events which promote business patriotism, national business and innovativeness in the area of finance. As one of the leaders on the Polish financial market, PKO Bank Polski SA actively participates in the organization of congresses and conferences which enable exchanging experiences and solutions among various business circles.

In 2017 the Bank was Strategic Partner in the second edition of Congress 590, which is becoming one of the most important business events and a meeting place for representatives of large and small business, science, politics and public administration. The Bank also engaged in the new economics congress IMPACT'17, during which global experts pondered over how the Fourth Industrial Revolution may impact the development of the economy, technology and society in Poland in the future.

The Bank's Group engages heavily in conferences during which actions aimed at strengthening Poland's and the EU's financial safety and stability are discussed, the activity of Polish companies on foreign markets is promoted, and the use of new technologies and development trends in industries prospective for the Bank are pondered. Examples of such projects include: "The 23rd Economic Forum in Krynica", "European Financial Congress", "Retail Banking Congress", "Local Government Capital and Finance Forum" and the "Polish Chemistry" Congress.

The Bank has been partner in many industry competitions promoting entrepreneurs, exporters, managers, philanthropists and experts supporting the development of the Polish economy and contributing to the promotion of economic patriotism. These include: "Polish Entrepreneur of the Year 2016 of *Gazeta Polska Codziennie*", "Entrepreneur of the Year" – organized by EY, "Polish Company – International Champion", "Wprost Eagles" or "Wprost Innovators".

In 2017 the Bank, in cooperation with the media, completed projects aimed at the financial and banking education of readers. These included: the educational cycle "Financial Vademecum" published in *Gazeta Polska Codziennie* or the cycle "Finances" on the business service website wGospodarce.pl.

In 2017 the Bank has participated in many local projects which were important for the communities of those regions. The Bank also engaged in initiatives organized by regional chambers of commerce which associate representatives of local business. The Bank's participation in projects which are important for local communities is aimed at integrating various circles, building a platform for sharing experiences, developing entrepreneurship among citizens. The actions taken contribute to reinforcing the Bank's image as an institution engaged in the development of communities and care for customers' needs.

SPONSORSHIP OF CULTURE AND THE ARTS

Sponsorship of culture and the arts is one of the most important areas of the sponsorship activities of PKO Bank Polski SA. The Bank engages in important cultural events and acts as a patron in the activities of cultural institutions therefore it has a real impact on forming the recipients' tastes and sensitivities. Additionally, popularizing cultural values, the Bank promotes awareness of the role of heritage in the development of the country and the society.

The Bank engages in valuable cultural events and supports many cultural institutions throughout Poland. Its actions comprise constant sponsorship cooperation, patronage over exhibitions, plays, festivals. The Bank strives to ensure that the projects pursued have an impact on promoting patriotic attitudes in our society, reinforce ties with our Polish heritage and deepen knowledge about Polish history. The key sponsorship activities in this area comprise:

COOPERATION WITH CULTURAL INSTITUTIONS

The Bank supports numerous cultural institutions throughout Poland, such as: museums, theatres, operas, philharmonic orchestras. Repertoire events of particular institutions draw large numbers of music and art lovers from local, nationwide and international communities.

- **The National Museums in Warsaw and Kraków**

In November 2017 an exhibition was opened at the National Museum in Kraków presenting the whole of Stanisław Wyspiański's work, of which the Bank is patron. The collection consisting of more than 900 works is of unprecedented value artistically and there are no similar exhibitions of Wyspiański's artwork either in Poland or abroad.

- **The National Philharmonic**

Over the past year the Bank continued its cooperation with the National Philharmonic, promoting both the musical achievements of Polish composers and young talents, and a passion for coming into contact with classical music.

- **The Kraków Opera**

The Bank continued its cooperation with this prestigious cultural institution, which apart from repertoire performances engages in several educational projects, exhibitions and music projects.

- **Cultural Meeting Centre in Lublin**

The Bank continued its cooperation with this prestigious cultural institution in south-eastern Poland, which because of its geographic location unites and promotes the most significant values of many cultures.

Opera theatres and philharmonic orchestras are also on the list of cultural institutions cooperating with the Bank, such as: Opera Nova in Bydgoszcz, the Podlasie Opera and Philharmonic Theatre – the European Centre of Arts in Białystok, the Raczyńskis Library in Poznań, the Feliks Nowowiejski Warmińsko-Mazurska Philharmonic Theatre in Olsztyn, the Łódź Philharmonic Orchestra, the Silesian Philharmonic Orchestra, the Artur Malawski Podkarpacka Philharmonic Orchestra in Rzeszów. With regard to theatres, we supported theatres such as: the Arnold Szyfman Polish Theatre in Warsaw, the Stefan Jaracz Theatre in Łódź, the Drama Theatre in Wałbrzych, the Silesian Theatre in Katowice. In 2017 the exhibition "The new gallery of Polish rulers. Świerzy versus Matejko" which presented a collection of portraits by Professor Waldemar Świerzy, sponsored by the Bank, was presented to the public in the National Museum in Gdańsk and in the Municipal Museum in Wrocław.

SUPPORTING THE ORGANIZATION OF MUSIC FESTIVALS

The Bank actively supports important musical events in Poland and is patron of many festivals with the participation of world-renowned artists. The most important of these include:

- The Bydgoszcz Opera Festival organized since 1994 by Opera Nova in Bydgoszcz;
- The Grzegorz Fitelberg International Orchestra Directors' Competition at the Silesian Philharmonic Orchestra in Katowice;
- The Summer Kraków Opera Festival which also attracts people to plays performed in outdoor theatres;
- The International Festival of the Meeting of Cultures organized by the H. Wieniawski Philharmonic Orchestra in Lublin;

- the Travelling Festival of the Łódź Philharmonic Orchestra “Colours of Poland” – the largest enterprise in Poland connecting high culture with tourism and marketing particular places;
- The Summer Jazz Festival in Kraków;
- The Music Festival in Łańcut, which has been taking place for the past 56 years, organized by the Podkarpacka Philharmonic Orchestra.

SUPPORTING PROJECTS WHICH PROMOTE PATRIOTIC ATTITUDES

Historical education and forming patriotic attitudes are significant aspects of the Bank’s sponsoring activities. In 2017 the Bank continued projects related to celebrating the memory of Cursed Soldiers, such as the NNW Film Festival “Niepokorni, Niezłomni, Wyklęci”. The Bank sponsored the concert “Wilczy Ślad. Piosenki Niezłomnych” organized under the patronage of the President of the Republic of Poland. In 2017 the Business Associations in Warsaw organized the 1st Congress of Business Patriotism addressed to Polish entrepreneurs and family businesses.

SUPPORTING THE ORGANIZATION OF FILM FESTIVALS

Since 2011 the Bank has been the patron of projects aimed at consolidating, promoting and popularizing Polish cinema. In 2017 support was continued for the 42nd Film Festival in Gdynia, the Gdynia Film Academy, the Film Festival NNW “Niepokorni, Niezłomni, Wyklęci” and the 34th International Festival for the Young Viewer ALE KINO! organized by the Children’s Centre of Arts in Poznań.

The Bank engages in competitions and festivals, promoting new creative talents. In 2017 for the third time the Bank was the sponsor of the event “FRAZY. Festival of the Word in Songs” (“Festiwal Słowa w piosence FRAZY”) organized by the Raczyński Library in Poznań, and sponsored the 5th International Theatre Festival of World Classics organized by the Stefan Jaracz Theatre in Łódź.

SPORTS SPONSORING

CARRYING OUT THE BANK’S PROPRIETARY PROGRAM “PKO RACE ALONG”

Under the “PKO Race Along” program, which has been active since 2013, the Bank encourages Poles to engage in joint activities. The purpose of the program is to convey the message that running is the investment with the best interest which will bring lifelong profits in the form of improved physical condition. Running—in particular long-distance running—builds one’s character, improves fitness, teaches humility and perseverance in achieving goals. Running can also help the needy by participating in charity events organized by the Bank during sponsored runs.

In 2017 several running events took place throughout Poland under the programme, the most important of which were:

- PKO Wrocław Maraton, PKO Nocny Wrocław Półmaraton, PKO Silesia Marathon, PKO Poznań Maraton, PKO Bydgoski Festiwal Biegowy, PKO Półmaraton Szczecin and the following running events: PKO Rzeszów Biega and PKO Grand Prix Gdyni. The following runs commemorating historical events are especially significant: Tropem Wilczym Bieg Pamięci Żołnierzy Wyklętych commemorating the Cursed Soldiers, and Warszawska Triada Biegowa “Zabiegaj o pamięć”, which comprises three runs: Bieg Konstytucji 3 maja (The 3 May Constitution Run), Bieg Powstania Warszawskiego (The Warsaw Rising Run) and Bieg Niepodległości (The Independence Run),
- 3. PKO Bieg Charytatywny – the third of the proprietary charity runs organized by the Bank in 12 Polish cities at the same time. The participants ran to jointly help children who are the most in need.

The Bank not only sponsors the biggest running events but also enables appropriate preparation for the runs. For this purpose, the Bank once again became strategic partner in the educational action “BiegamBoLubię” (I run because I like to). The action constitutes free-of-charge running meets at 80 athletic grounds throughout Poland.

“Helping with each step” is the motto of events sponsored by the Bank. The participants could join the charity actions “running for...” organized on behalf of those who need support to save their lives or regain their health. After the run has been completed by a specific number of participants wearing a “running for...” label, PKO Bank Polski SA Foundation donated money for that specific purpose.

SPONSORSHIP PARTICIPATION IN OTHER SPORTS INITIATIVES

Apart from the running events which definitely dominated in the sports sponsorship category, the Bank also supported other prestigious sports events, such as:

- The Piast Race (Bieg Piastów) – for the 41st time the annual Piast race took place in Szklarska Poręba-Jakuszyce – it is the oldest and at the same time the most popular skiing race in Poland, in which nearly 6000 runners participated. Bieg Piastów is global in nature, contestants from 27 countries from Europe and North America participated,

- Cavaliada – is a series of International Show Jumping Contests, which enjoy immense popularity among viewers. It is the largest event of its kind in Poland. In 2017 the Bank was the main sponsor of the event which took place in Poznań, Lublin, and the finals of the competition – in Warsaw.
- Tall Ship Races in Szczecin – one of the largest outdoor events in Poland. In 2017 fine yachts and sailing boats were moored at the representative pier on the Odra river. Over 2 million people participated in the event.

EDUCATION, SCIENCE AND INNOVATION

Supporting education and science are natural directions of the Bank's sponsorship activities, in which it cooperates with universities, colleges and schools throughout Poland. Key projects relate to promoting the exact sciences (mainly mathematics and economics) and educational projects aimed at developing entrepreneurship and promoting innovation.

Important projects in this area comprise:

- Contest about Poland and the Modern World organized by the University of Warsaw;
- Polish Academic Championships in Team Programming, organized by the University of Wrocław;
- Ekonomia na Bank (Banking on Economics), project carried out by the Silesian University in Katowice with the participation of the Bank's experts, expanding young people's knowledge of economics, finance and banking;
- Silesian Festival of Science constituting demonstrations, presentations, experience in all areas, prepared by the Silesian University and all the Silesian higher education institutions.
- Partnership cooperation with the Warsaw School of Economics, and support for projects realized by the University of Warsaw and the Jagiellonian University.

Projects aimed at building awareness of the huge potential of startups and coaching of the most promising young entrepreneurs, such as Startup Weekend Warsaw, HackYeah, the acceleration program MassChallenge and Acceleration Program MIT Enterprise Forum Poland, which unites the potential of novice creative entrepreneurs with the infrastructure, experience and resources of large companies, are also important.

In 2017 the Bank sponsored many educational projects addressed to young students. These initiatives promoted creativity, entrepreneurship, mathematics and the economy. The most important of these include: "Decius' Ducats" in Kraków, Mathematical Conference for the Young TriMAT in Tricity, Warmia and Masuria Mathematical Competition organized by the Ambassador of School Inventiveness organized by the Warmia and Masuria University in Olsztyn, Colourful University organized by the Adam Mickiewicz University in Poznań, and the Bydgoszcz Science Festival organized by the Kazimierz Wielki University in Bydgoszcz.

7.6 CHARITY ACTIVITIES OF THE PKO BANK POLSKI SA FOUNDATION

OBJECTIVES OF THE FOUNDATION



Fundacja

The aim of the PKO Bank Polski Foundation (Foundation) is to strengthen customer relationships, understood as co-financing projects aimed at building social solidarity. The Foundation sees the common good in building a civic society and participates in social projects, often initiated by the employees of the Bank – Volunteers, technically and financially supports the projects of numerous circles and communities that are important for the development of Poland.

Charity impacts the formation of the image of PKO Bank Polski SA as a socially-responsible business. The support provided by the Foundation contributes to building strong relationships between the Bank and the environment and strengthening mutual trust.

ACTIVITIES OF THE FOUNDATION

The main source of financing the Foundation are donations from the Founder. Additional funds for charitable purposes are transferred based on other agreements and derived from the profit generated on non-cash transactions concluded by the customers of Inteligo and associated with the affinity card: 'Goodness brings profit' ('Dobro procentuje') (since 2013). PKO Bank Polski SA shares the profit from each non-cash transaction concluded using the charity card.

In the seven years from the start of its operations, the Foundation has earmarked more than PLN 92.5 million for social activities. Subsidized initiatives are part of one of the seven programme areas: EDUCATION, TRADITION, HOPE, HEALTH, CULTURE, ECOLOGY and SPORT.

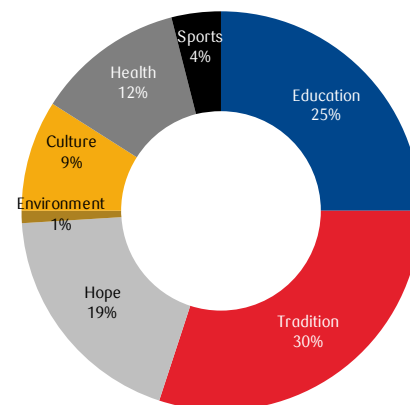
In 2017 the Foundation transferred PLN 12.7 million to finance 90 strategic projects, including nine special strategic projects (which did not require engaging in a partnership with an external organization), e.g. the Banking Blood Donation Action, Integration Meetings with Santa, "Buckles and Buttons with a Rusted Eagle". The Foundation makes every effort to ensure that the strategic projects evolve and reach as many beneficiaries as possible.

In partnership at the local level the Foundation transferred PLN 3.5 million for the completion of 292 projects. At local level, a special project, the PKO Charity Run, was conducted for the third time. As in 2016, the project took place in 12 stadiums throughout Poland at the same time.

At the individual level aid was offered to 119 people, both children and adults, under the PKO Charity Runs - a special project of the Foundation. The support offered exceeded PLN 1.3 million.

The Foundation is also a go-between in the transfer of tangible donations in the form of IT equipment and furniture which are branches of PKO Bank Polski SA cease to use. In 2017 computers with a total value exceeding PLN 17 thousand were sent to 11 organizations. Furniture with a value of nearly PLN 88 thousand was offered to 84 beneficiaries.

Foundation's involvement in the completion of projects in particular program areas (budget share)



CORPORATE VOLUNTEERING

Since 2013 the Corporate Volunteering system has been functioning in the Bank and 1,365 active Volunteers are registered. These persons may suggest their own local or individual social projects. Cooperation between the Foundation and the Volunteers is aimed at verifying the reliability of the proposer and building relations between the Bank and the local community. Additionally, all Volunteers may register their extra-banking engagement, sharing good practices and inform the Foundation of local initiatives that are worth supporting.

7.7 PRIZES AND AWARDS GRANTED TO THE PKO BANK POLSKI SA GROUP

In 2017 the PKO Bank Polski SA Group received many prizes and awards. The social activities of the Group's companies were acknowledged, as were its innovative services and products, excellent customer service, and the Bank's management. The Bank's excellent financial results and the Bank's and the Group's overall operations gained several honourable mentions.

DYNAMIC DEVELOPMENT AND EXCELLENT FINANCIAL RESULTS

50 TOP BANKS IN POLAND

For another consecutive year, PKO Bank Polski SA won the ranking of the monthly *Miesięcznik Finansowy* BANK - "50 top banks in Poland". The ranking is developed by independent financial analysts who - based on the banks' financial data for the previous year - assess the market position of financial institutions against the entire banking sector.

LEADER OF POLISH BANKING

According to data from the "Polish banking in numbers" report compiled by PRNews.pl and Bankier.pl, PKO Bank Polski SA is the unquestioned leader in Polish banking, among other things, in terms of the number of customers, issued debit cards. It also ranks first in the sector in terms of mobile and internet banking.

8.8 million customers, i.e. over 28% of all the customers of Polish banks with access to online banking have access to this service, and as at the end of 2017 the IKO application had over 2 million activations.

BANKING STARS 2017	<p>PKO Bank Polski SA ranked first in the business structure category in the “Banking stars” ranking organized by <i>Dziennik Gazeta Prawna</i>. It won thanks to the excellent result concerning the value of credit granted and deposits placed. Also PKO Bank Hipoteczny ranked first in the specialist bank category and became leader in terms of the volume of issued and outstanding mortgage bonds. The technical partner in the ranking was PwC.</p>
BOOK OF LISTS	<p>According to the Book of Lists 2017/2018 ranking prepared by the <i>Warsaw Business Journal</i>, PKO Bank Polski SA once again became a leader in the banks in Poland category. The Book of Lists is the largest and most long-lasting (over 20 years) business publication on the Polish publishing market which presents the best companies from various business sectors in Poland in the form of rankings. Each year it gives awards to the best, largest and most dynamic enterprises.</p>
BUDGET PILLAR	<p>The <i>Rzeczpospolita</i> daily honoured PKO Bank Polski SA with the Budget Pillar for last year's CIT contributions to the State budget. The Bank is the largest CIT payer among all financial institutions and the second largest among all companies included in the ranking. In 2016 it contributed approx. PLN 2.5 billion to the State budget. Over the past three years the Bank paid PLN 5.2 billion in taxes, including CIT of over PLN 2.6 billion. The Budget Pillar award constitutes an element of the annual ranking of the largest companies in the Polish economy – “List 500”.</p>
NATIONAL TREASURE	<p>In the first edition of the Business Awards of the Polish Radio PKO Bank Polski SA was acknowledged for its commitment to the re-Polonization of Pekao S.A. and won the National Treasure award. The Business Awards of the Polish Radio constitute honourable mentions for the best enterprises which contribute materially to the development of the Polish economy and to the promotion of Poland on the international arena, engage in charitable actions, social and ecological actions.</p>
SALES MASTER	<p>In the BGK competition for Leader in Sales of Guarantees from the POIG Guarantee Fund PKO Bank Polski SA won the title of Sales Master for the largest number of guarantees granted. Thus, it used most funds from the de minimis guarantee limit from among the ten banks participating in the program. Salespersons who granted the loans covered by the maximum guarantee amount from the POIG Guarantee Fund were also awarded in the competition. Agnieszka Lorek, Corporate Account Manager in the Regional Corporate Centre of PKO Bank Polski SA in Ciechanów.</p>

ACTIONS AWARDED IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

BUSINESS AWARD OF THE PRESIDENT OF THE REPUBLIC OF POLAND	<p>PKO Bank Polski SA gained an honourable mention in the responsible business category in the competition for the Business Award of the President of the Republic of Poland. The jury acknowledged the Bank's active efforts for the country's business development and improvement of the quality of social life, in particular for initiatives supporting sustainable growth, responding to different needs of the market, conducive to the employees and their families, and serving the local community. This is a subsequent award in the competition for the Business Award of the President of the Republic of Poland. In 2012 the Bank was nominated in the corporate governance category and corporate social responsibility. A year later, it also won the award and received a nomination in the innovation category. The award is granted to those companies that significantly contribute to the development of the national economy, building a positive image of Polish entrepreneurship throughout the world, and one which is a model for others.</p>
TOP INDUSTRY DIAMONDS	<p>PKO Bank Polski SA is the best bank financing the Polish economy and the winner of the prize in this category in the Top Industry Diamonds competition. The jury acknowledged the Bank's activity in financing the strategic sectors of the Polish economy, supporting the development of technological start-ups and acting for the promotion of the country as the centre of development of entrepreneurship and innovation. The purpose of the competition organized by the Executive Club is to award companies and entrepreneurs who have particularly distinguished themselves in Polish industry and have achieved success in the new technological and business reality.</p>
STUDENTS' LAUREL 2016	<p>The jury of the students' self-government of the Silesian University awarded PKO Bank Polski SA with the Students' Laurel 2016 in the category Student-Friendly Institution. The award is an acknowledgment of the Bank's activity in Silesian academic life. This relates mainly to commitment – financial and employee – in the educational program “Ekonomia na bank” aimed at supporting students and doctoral students in developing skills in economics and finance, including using financial services and products.</p>
STRATEGIC PATRON OF THE YEAR	<p>PKO Bank Polski SA was honoured with a statuette of the Strategic Patron of the Year 2017 of the National Philharmonic Orchestra in Warsaw. It received the statuette for supporting the Philharmonic Orchestra's artistic activities (artistic season 2016/2017), contributing to performances of outstanding artists. The Bank has been cooperating with the National Philharmonic Orchestra in Warsaw for over a decade. For the past five years it has been a Strategic Patron.</p>

BUSINESS AWARD OF THE MAYOR OF THE MUNICIPALITY OF LUBLIN

In the 10th competition for the Mayor of the Municipality of Lublin's Business Award – the idea being to promote the best entrepreneurs and organizations supporting the economic development of a municipality actively investing in Lublin and transferring new solutions to the local market – PKO Bank Polski SA received an honourable mention in the category “Large Corporations – the City's Business Locomotives”.

PKO BANK POLSKI SA – LEADER AMONG EMPLOYERS

SOLID EMPLOYER OF THE YEAR 2017

PKO Bank Polski SA was awarded the title Solidny Pracodawca Roku 2017 (solid employer of the year) in the banking industry. The jury of the 15th edition of the program mainly appreciated the work conditions offered by the Bank, its training policy, development capacity and non-salary benefits. The incentive system, corporate social responsibility and employer branding were also appreciated. Apart from the Bank, also PKO Leasing SA received this award.

The Solidny Pracodawca Roku program is a prestigious nationwide research program in the HR area, aimed at honouring best employees, fair in terms of employment policy, employment solutions and human resources management. The jury also takes into account the external and internal opinions about the institution and its organizational culture.

PKO BANK POLSKI SA AMONG THE MOST WANTED EMPLOYERS

In the 7th edition of Antal's “The most wanted employers in the opinion of specialists and managers” survey PKO Bank Polski SA ranked second in the banking industry. It was acknowledged mainly for its management style, innovativeness and organizational culture.

The votes of more than 3,000 specialists and managers from all of Poland, representing different industries, decided the Bank be awarded the title.

BUSINESS TOP 100 UNIVERSUM GLOBAL

PKO Bank Polski SA is the first Polish commercial institution chosen as the workplace by students. In the Business TOP 100 Universum Global ranking the Bank was among the best employers in Poland. Universum Global prepares a ranking of the best global employers every year. 27.6 thousand young people participated in the survey from 64 Polish university-level schools. Based on their opinion, the 100 best employers in Poland were selected.

EMPLOYER OF THE YEAR

PKO Bank Polski SA was once again awarded the title of Employer of the Year in the survey of the international students' organization AIESEC. The Bank was in a high fifth place in the ranking and was the only Polish company in the top five.

In the 25th jubilee ranking students from more than 30 Polish university-level schools participated. Among the most important factors for selecting the most wanted employer they indicated, among other things, a good atmosphere, financial conditions, satisfaction gained from the work performed. A clear career path was also important to them as well as promotion criteria and training and professional development options.

NOMINATION FOR THE TALENTS PROGRAM

In the EB Kreator competition, in the category internal employer branding campaign, PKO Bank Polski SA gained a honourable mention and was nominated for the Talents Program. The idea behind the Program was to ensure that employees have the opportunity of using their professional potential by supporting their intense development, excelling in the competencies needed to pursue the Bank's strategy, i.e. innovativeness and management of the sales network and encouraging them to build their career in the Bank. The EB Creator competition is organized by GoldenLine, one of the key recruitment service sites.

PKO BANK POLSKI SA – LEADER OF MODERN TECHNOLOGIES

MOBILE TRENDS AWARDS 2016

PKO Bank Polski SA was honoured with the Mobile Trends Awards 2016 statuette in the mobile banking category for the IKO application (proprietary mobile application of PKO Bank Polski SA, which became the basis for constructing the interbank standard for mobile payments BLIK).

The Mobile Trends Awards for the best mobile solutions have been awarded for the sixth time. The Jury of the Competition which included IT and mobile experts, selected the winners, but Internet users also had their say.

IKO – NUMBER 1 IN POLAND

The IKO application of PKO Bank Polski SA in the three largest stores: Google Play, App Store and Windows Phone Store gained over 100 thousand assessments from users – customers of PKO Bank Polski and Inteligo – and ranked first among mobile banking applications.

For nearly two years the number of stars earned by IKO has not fallen below 4.5 out of a possible 5. The high rating of the application is all the more measurable in that it is the average of more than 100,000 opinions of customers from all over Poland.

SAP INNOVATION AWARD 2017

PKO Bank Polski SA received the SAP Innovation Award 2017 for BEHEX – a Big Data solution serving the collection and analysis of the IKO mobile banking application. The competition committee comprising SAP experts acknowledged the innovativeness of the project and the excellent combination of banking know-how and SAP technology.

BAI GLOBAL INNOVATION AWARDS

In the international competition for financial institutions BAI Global Innovation Awards, PKO Bank Polski SA was awarded in the crucial cooperation category. The project for making available e-administration services on e-banking sites, an innovative approach thanks to which customers have access to entirely new services (they may, among other things, quickly and easily use e-administration services) gained the jury's recognition.

The BAI Global Innovation Award is one of the most prestigious international competitions for financial sector companies. The Awards are organized by the Bank Administration Institute (BAI). PKO Bank Polski SA received the award for a project making e-administration services available on e-banking sites together with Bank Millennium.

LEADER 2016

The jury of the technological competition Leader 2016 recognized PKO Bank Polski SA for its proprietary project Fabryka Ofert, acknowledging the innovativeness of the solution used to analyse customer needs, automatically generate personalized offers and their distribution through all sales channels.

The purpose of the competition organized by Gazeta Bankowa is to award companies and institutions from the most dynamically developing sectors of the Polish economy, which have exceptional achievements in the area of modern and innovative technologies.

PORTFOLIO OF THE YEAR OF WPROST 2017

In the 3rd edition of the contest Portfolio of the Year, organized by Wprost weekly, PKO Bank Polski SA won in the safety category. The jury acknowledged the Bank's actions aimed at ensuring simple and safe access for millions of Poles to financial services and secure access to financial services, applying new technologies in security systems and educating customers. This is the third time the Bank has won this contest. Last year the Bank was awarded the title of "Bank for the individual customer", and in 2015 its private banking offer was considered to be the best. The purpose of the contest is to promote financial institutions which offer the most interesting financial products and services which are new on the market and to honour sector leaders.

BEST PRODUCTS AND SERVICES

GOLD BANKER 2016

In the 8th edition of the Gold Banker ranking PKO Bank Polski SA won the statuette in the category mortgage loan for the housing loan 'Własny Kąt Hipoteczny', which was unrivalled in terms of availability, costs, terms for overpayment of debt and lending period. The Bank was also acknowledged for its best and most ergonomic electronic channels - iPKO and IKO. It also gained the recognition of Internet users - becoming the runner-up in voting for the advertising spot (Dużo za zero - Much for zero), communication in social media and charity actions (PKO Charity Race). The efficiency of the Contact Center also had good ratings.

The Gold Banker is the largest ranking assessing banking products and services in Poland. It blazes the trail for the development of Polish banking, indicating those banks which, in their operations, choose the best market practices, and their products and services respond to the expectations and needs of their customers. The ranking is organized by *Bankier.pl* and *Puls Biznesu*.

LIDER COMPERIA STARS 2016

PKO Bank Polski SA won in the mortgage loan category in the Comperia Stars 2016 project. The loan Własny Kąt hipoteczny offered by the Bank won in seven of 12 monthly schedules prepared by the Comperia.pl portal.

Under the Comperia Stars 2016 project selected financial products, such as mortgage loans, cash loans, deposits and savings accounts were analysed on a monthly basis. The banks' customers decided on the product selection. Companies which won the most often in a given category were the winners of the whole project.

FINANCIAL BROKERS' LAUREL

In the 2nd edition of the Financial Brokers' Laurel competition (Konkurs o Laur Pośredników Finansowych) the Bank was awarded in the category of mortgage banks. The award is an acknowledgment of the offer of financial intermediaries associated in Konferencja Przedsiębiorstw Finansowych (Conference of Financial Enterprises) and of the cooperation standards used by the Bank, as well as the efficiency and transparency of the mortgage loan selling processes.

QUALITY RECOGNITION AWARD

The American Bank JP Morgan awarded two prestigious Quality Recognition Awards to PKO Bank Polski SA. The Bank gained the award for the highest quality of interbank dollar transactions.

The Quality Recognition Award has been awarded since 1997 to key clients of JP Morgan, who achieve the highest level of operating services. The high number of finalized banking transactions is an additional criterion.

CESSIO LAUREL 2017

PKO Bank Polski SA ranked first among the initial creditors of the banking sector in the 5th edition of the CESSIO Laurel competition. The tender process, measurement of the debt portfolio, the draft contract for its sale and transparency of the offer, its comprehensive nature and post-sales services were highly ranked.

CESSIO Laurel is an initiative of the Conference of Financial Enterprises in Poland, the aim of which is to promote best practices, consolidate the potential and development perspectives of the receivables management market and to strengthen trust of the parties to the receivables sales contracts.

PKO TFI OFFER ONE OF THE BEST IN THE ANALYZY ONLINE RANKINGS	The pension package Pakiet Emerytalny PKO TFI came second both in the IKE Ranking and in the IKZE ranking developed by an independent research centre Anality Online. The analysts ranked highly mainly the effectiveness of the funds offered under the programs and access to special categories of entities with competitive management fees.
DE MINIMIS GUARANTEE SALES LEADER	PKO Bank Polski SA was honoured by Bank Gospodarstwa Krajowego with the title "Leader in De Minimis Guarantee Sales" for the highest share in the total amount of guarantees granted since the launch of the program (March 2013). From the launch of the program PKO Bank Polski SA serviced over 20% of all customers (35 thousand customers) who used the de minimis guarantees, maintaining the lead position from year to year. In total, the Bank granted guarantees for approx. PLN 8.9 billion, and generated over PLN 16 billion in respective loans.
BEST CONTACT CENTRE	The Contact Center of PKO Bank Polski SA remains the unquestioned leader of services in the banking sector. In the 15th round of examinations of call centres ARC Rynek i Opinia received 97.7 points out of 100, much above average (79.2) for all 12 banks participating in the examination. The Bank's Contact Center was one of the winners of the survey for the 12th time, and ranked first for the 11th time. PKO Bank Polski SA consultants were given high marks, among other things, for technical servicing, professionalism, courtesy and commitment. The Contact Center also received high marks in the mail contact assessment. They obtained 29.4 points out of 30 for response time.
STRONG BRAND	
BRAND OF BRANDS	PKO Bank Polski SA is the banking institution most frequently and best described in the media – as follows from the "Top Brand" ranking. It gained the most points for the number and scope of publications. The analysis covered information in the press, on the internet, and in social media. In the period under analysis (July 2016 – June 2017), over 770 thousand hits in the media and on Internet portals related to PKO Bank Polski SA. The Advertising Value Equivalency for all publications in which references were made to the Bank proved the highest among the banks and amounted to more than PLN 230 million. The purpose of the listing prepared by the <i>Press</i> monthly and Press-Service Monitoring Mediów is selecting brands which are the most popular in the press and in internet media.
STRONGEST FINANCIAL BRAND	PKO Bank Polski SA is still the strongest brand in the finance industry in Poland. This is confirmed by the results of the 14th edition of the prestigious "Best and Strongest Polish Brands 2017" ranking of the <i>Rzeczpospolita</i> daily, where the market recognition, popularity of products and mainly the brand value were assessed. The Bank's brand was valued at PLN 3.2 billion. PKO Bank Polski SA is the third most valuable brand in Poland. Participation in the Most Valuable Brands Ranking is open only to those brands formed in Poland, regardless of the country of origin of their current owner.
SUPERBRANDS	In the 12th edition of the Superbrands Polska poll PKO Bank Polski SA was awarded the Superbrands 2018 and Superbrands Polska Marka 2018 titles and was ranked one of the three most recommended banks. The distinctions received attest to the strength of the brand, trust and acknowledgment of its quality. The Superbrands titles were awarded according to the decisions of consumers in the largest independent brands survey in Poland. The key criterion was the recommendation of the brand. The survey, covering almost 2,000 consumer brands, was performed by the ARC Rynek i Opinia institute.
KREATURA FOR THE PKO BANK POLSKI SA CAMPAIGN	In the 21st edition of the independent advertising creation Kreatura the campaign of the product PKO Konto dla Młodych #Miłość Mamy Za Zero (account for the young #love for zero) won in the category Digital – projects with bloggers and vloggers. The contest of independent Polish creations Kreatura is organized by Media&Marketing Polska. Its aim is to award and honour the creators of Polish advertising art. The projects are evaluated in terms of their originality and innovativeness of the idea, as well as the more than average quality of production. This year the jury evaluated as many as 132 works.
HONOURABLE MENTION FOR THE PKO BANK POLSKI SA SPOT	The advertising spot <i>Miłość mamy za zero</i> with the participation of Martin Stankiewicz from the PKO Bank Polski SA campaign for the PKO Konto dla Młodych (accounts for young people), was recognized by the Nowy Marketing service as one of the best St. Valentine's films. The advertisement touched millions of internet users. Its central theme was a street survey conducted by Martin Stankiewicz, one of the most popular representatives of the Polish vlog sphere.
EXCELLENT COMMUNICATION WITH THE MARKET	
LEADER IN INVESTOR RELATIONS SURVEY	PKO Bank Polski SA won in the survey of investor relations of WIG30 companies carried out among individual investors by <i>Gazeta Giełdy Parkiet</i> and Izba Domów Maklerskich (Chamber of Brokerage Houses). The Bank was assessed on an average level of 4.4 points (on a scale of 1 to 6) and became the leader in the ranking according to individual investors and <i>Parkiet</i> readers.

TRANSPARENT COMPANY OF THE YEAR

PKO Bank Polski SA was awarded the title "Transparent Company of 2016" in the ranking of public companies' from the WIG20 index communications with the market prepared by Instytut Rachunkowości i Podatków (Institute of Accounting and Taxation) and *Gazeta Giełdy Parkiet*. The Bank achieved a high ranking for financial and other reporting, investor relations and corporate governance principles. The "Transparent Company of the Year" ranking is an initiative addressed to public companies from the WIG 20, 40 and 80 indices. Its purpose is to assess the transparency of companies, and it is performed on the basis of a survey.

THE BEST ANNUAL REPORT

For the fifth time already the Annual Report of PKO Bank Polski SA was honoured with a special award "The Best of The Best" in the competition for the Best Annual Report organized by the Institute of Accounting and Taxation. It was considered to be a model of excellent communication with the market. The jury of the competition awarded the Bank the highest number of points (91.88 out of 100) in the category banks and financial institutions. The Bank was also awarded for the best Group Directors' Report which received 29 points out of 30.

GOLDEN COLUMNS (ZŁOTE SZPALTY)

PKO Bank Polski received two Golden Columns in the Power of Content Marketing Awards Szpalty Roku competition. The project "PKO Bank Polski. Biegajmy razem" (Let's jog together) was awarded first prize in the category Content marketing – sport, for the charity commercial campaign, involving employees and good PR. The "#zkopyta" campaign which promoted Cavaliada was unrivalled in the category Social media campaign as an autonomous project. The jury acknowledged it for the volunteers' commitment, reaching the target group and non-aggressive promotion of the brand. Szpalty Roku is a competition organized by the Content Marketing Polska Association. Its aim is to promote standards for the creation of content marketing projects.

TWO FIRST PLACES IN THE AGAPE COMPETITION

The publications of PKO Bank Polski: the educational quarterly for the youngest *Brawo Bank* in the augmented reality (AR) version and the printed magazine for employees *Nasz Bank* with a special edition *Strategia 2020* – were ranked first in their categories (best external electronic bulletin and one-off project, printed bulletin) in this year's competition for company bulletins of the Agape agency. In assessing the submissions, the jury took into consideration the purposes, addressees and image, as well as language, edition of the texts, visual attractiveness and use of innovative solutions.

BROKERAGE ACTIVITIES

SALES LEADER ON THE MARKET FOR SHARES AND BONDS

In November Dom Maklerski PKO Banku Polskiego SA became the sales leader on the shares market in the WSE session trading, with a share of 10.83 percent. As of the beginning of the year it was the runner up in sales on the WSE, with a 9.52 percent share. In November the Brokerage House was also the leader on the bonds market and its share in the segment amounted to 39.92 percent. It also had the largest share in options trading of 32.90 percent.

BEST BROKER IN THE CEE REGION

Dom Maklerski PKO Banku Polskiego won in the category Top Broker for CEE in the CEE Capital Markets Awards competition. The international jury appreciated the offer addressed to investors and contribution to the development of capital markets in the EEC region. CEE Capital Markets Awards have been awarded for the third time. Their purpose is to draw the attention of global investors to dynamically developing firms and the economy of the CEE region, and to appreciate institutional investors.

ACTIVE PARTICIPANTS OF THE CAPITAL MARKET

The Warsaw Stock Exchange and the Central Securities Depository (KDPW), in their conclusions about 2016 on the exchange honoured PKO Bank Polski SA and Dom Maklerski PKO Bank Polski SA with prizes. DM won the prize for the highest turnover of a market maker in session trading with non-Treasury bonds on the Catalyst market and the highest share of a market maker in the trading volume of options for indices. PKO Bank Polski SA won first prize in the category Highest OTC transaction value settled by KDPW_CCP in 2016.

NATIONWIDE INVESTOR SURVEY 2017

Dom Maklerski PKO Banku Polskiego SA was awarded the highest grades in six out of seven categories assessed by investors in the Nationwide Investor Survey in 2017. The investors appreciated the access to information and quotations, foreign markets and IKE/IKZE accounts, the educational offer and quality of the analyses and recommendations. The quality of direct services also earned high grades, as well as the functionality of the internet platform and professionalism of employees. The Brokerage House as the only entity assessed was awarded grades exceeding 4 points. This is yet another victory of DM PKO Banku Polskiego SA in the Nationwide Investor Survey. Since 2010 none of the brokerage houses has won the survey three times.

BEST EXCHANGE ANALYSTS

Piotr Łopaciuk and Artur Iwański of Dom Maklerski PKO Banku Polskiego SA ranked first and second, respectively, in the ranking for the best exchange analysts organized by *Gazeta Giełdy Parkiet*. In total, analysts of the Brokerage House won 9 places on the podium in sector classifications, and the entire team of analysts came second. The awards were granted by managers of TFI, OFE and asset managers. All in all, 133 specialists were assessed.

BEST SPECIALISTS ON THE MARKET

BANK MANAGER OF THE YEAR 2016

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA, won in the competition for Bank Manager of the Year 2016 organized by the *Gazeta Bankowa* editorial office. The winner is selected by a jury, taking into consideration – among other things – management effectiveness, financial results, abiding by fair competition rules. The voices of competitors, who assess the nominees, are also taken into account.

This is Zbigniew Jagiełło's third prize in the competition – he also was Manager of the Year in 2015 and in 2012.

MOST VALUED MANAGER ON THE WSE

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA is leader of the Martis Consulting ranking "Valuation of Polish TOP 30 managers, edition 2017". His value was assessed at PLN 521 million. The model for assessing the value of company managers was based on three key factors: share price dynamics, EBITDA dynamics and assessment of managerial competencies.

This was the first edition of the ranking of value of managers of companies quoted on the WSE. Presidents of the largest companies listed on the WSE from the WIG20 and mWIG40 indices were covered by the ranking.

LESŁAW A. PAGA AWARD

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA, received the Lesław A. Paga Award. He was awarded for his commitment to the development of the Polish economy and promotion of high standards of operation of the financial market in Poland.

Businessmen, business and public activists, visionaries, persons who are dynamic and effective, who promote organizational culture and management style models based on best practices and high ethical and professional standards are nominated for the Lesław A. Paga award.

THE ASSOCIATION OF POLISH BANKS' NICOLAUS COPERNICUS MEDAL

Piotr Mazur, Vice President of the Management Board of PKO Bank Polski SA responsible for the Risk Management Area was awarded the Nicolaus Copernicus Medal by the Association of Polish Banks. He was awarded the medal for his input into the development and safety of Polish banking.

The Nicolaus Copernicus Medal was also awarded by the Association of Polish Banks to: Piotr Galas, Director of the Corporate Customer Department, and Paweł Bizoń of the Public Sector Customer Department. The Medals were awarded for their input in the development of the banking system which reinforces the Polish economy.

LEADER OF FOREIGN EXCHANGE FORECASTS

The Market Strategy Office Team of PKO Bank Polski SA under the management of Director Mariusz Adamiak came first in Bloomberg's ranking of quarterly foreign exchange forecasts. The team won in the category of 13 key currency pairs and in the category of G10 foreign exchange forecasts. The ranking took into consideration the deviation of the forecasts of market values and consistency with trends, also accounting for the date of sending the forecasts.

PKO BANK POLSKI SA ECONOMISTS ON THE PODIUM

In *Parkiet*'s ranking of the accuracy of forecasts, PKO Bank Polski SA economists came second, both in the macroeconomic indices category and in the general ranking. Their economic forecasts in the first quarter of the year once again correctly anticipated the values of key macroeconomic ratios. The team of the Bank's chief economist, Piotr Bujak, distinguished himself, among other things, by accurate forecasts of wage and salary dynamics, money supply, production prices and WIG20.

23 teams of economists from banks, brokerage houses and investment fund management companies (TFI) participate in the forecasting competition organized by *Parkiet*.

SECURITY EXCELLENCE AWARD 2017

Piotr Kalbarczyk, Director of the Information Security Office at PKO Bank Polski, received an honourable mention in the Security Excellence Award 2017 competition. The jury acknowledged Piotr Kalbarczyk and his team for fully monitoring events and early detection of threats, and consistent pursuit of the Bank's security strategy.

The Security Excellence Award 2017 competition is a joint initiative of the *Computerworld* magazine and ISSA and ISACA associations – organizations of professionals engaged in information security.

AWARDS WON BY THE COMPANIES OF THE BANK'S GROUP

AWARD FOR EXCELLENCE

The editorial office of "The Covered Bond Report" honoured PKO Bank Hipoteczny SA with the Award for Excellence in the Pioneer category.

The pioneer role of PKO Bank Hipoteczny SA in the development of the market for mortgage bonds in Poland and Central and Eastern Europe was appreciated, and it was emphasized that the "long awaited debut of mortgage bonds denominated in euros started a new era in the history of the Polish market".

The Awards for Excellence are granted to institutions which contributed the most to the development of the mortgage bonds market.

**LEADER ON THE
INVESTMENT FUND
MARKET**

PKO TFI SA was announced the leader among investment fund management companies in terms of number of customers by an independent opinion-forming centre Analizy Online. In the first quarter of 2017 the number of customers of PKO TFI SA increased by nearly 18 thousand. This is one-third of all new fund customers. Therefore, the TFI became market leader, at the same time outdistancing the runner up in terms of the increase in the number of the competitor's new customers.

**MARKET LEADER IN
FINANCIAL INSTRUMENTS
IN THE EU**

PKO Leasing SA was awarded by Krajowy Punkt Kontaktowy ds. Instrumentów Finansowych UE – the Polish centre of excellence in respect of EU renewable instruments, in the Lease Companies category for the best results in market development.

PKO Leasing SA is the most effective distributor of EU funds in the lease sector in Poland. In the 2016–2018 perspective it launched PLN 670 million preferential funds in lease activities with EU support from the European Investment Fund, COSME guarantee programmes and Horizon 2020.

**HIGH RANKINGS OF
KREDOBANK SA IN
THE UKRAINE**

In 2017 KREDOBANK SA was highly ranked in various rankings in Ukraine, including:

- first place in the mortgage loans category and second place in the automotive loan category in the “50 lead Ukrainian banks” ranking organized by the Financial Club;
- second place in the “Best product for SMEs” ranking organized by *Biznes* magazine;
- title of “Bank of 2017: for innovations” awarded by MasterCard for achievements in the development of payment services;
- second place in the category “Small and Medium Enterprises Pillar” in the ranking organized by *Biznes* magazine.

SUCCESSES OF ZENCARD

ZenCard Sp. z o.o. was appreciated for its innovative activities and received the Main Prize of the Chairman of the Council of Ministers in the startup for export competition in Impact'17 4.0 Economy.

In 2017 the company was also awarded the “Best Startup 2017” award at the FutureTech 2017 congress in Warsaw.

**BRONZE EFFIE FOR
KREDOBANK'S
CAMPAIGN**

In the 12th edition of the Effie Awards Ukraine KREDOBANK SA's campaign “Rational loans for emotional purposes” won a bronze Effie and was the only project awarded in the finance and business services category. The marketing team of KREDOBANK SA was also appreciated and acclaimed one of the most effective. In the jury's opinion, personalization of the message and selection of the correct media greatly contributed to the effectiveness of the marketing campaign of the company's product. Special emphasis was placed on the creation and innovative idea.

Effie Awards constitute one of the most prestigious competitions in which the effectiveness of marketing campaigns are assessed. This year's 12th edition of Effie Awards Ukraine received over 300 applications.

8. RISK MANAGEMENT

8.1 PRINCIPLES OF RISK MANAGEMENT

Risk management is one of the key internal processes, both in PKO Bank Polski SA, and in other entities of the PKO Bank Polski SA Group. Risk management is aimed at ensuring the profitability of business activities while ensuring control over the risk level and maintaining it under the risk tolerance framework and the limits system adopted by the Bank and the Group in the changing macroeconomic and legal environment. The risk level is a significant factor in the planning system.

In the PKO Bank Polski SA Group the following risks were identified which are subject to management (risks considered to be material are underlined²²): credit, credit concentration, risk of foreign currency mortgage loans, interest rate risk, currency risk, liquidity risk (including risk of financing), commodity price risk, equity securities price risk, other price risks, derivatives risk, operational risk, non-compliance risk, macroeconomic risk, models risk, business (including strategic) risk, reputation risk, risk of proceedings, equity risk, risk of excessive leverage and insurance risk.²³

A detailed description of management policies for particular risks is presented in the Report on Capital Adequacy and Other Information Subject to Publication of the PKO Bank Polski SA Group.

²² Risk assessment in respect of the Bank's and the Group's operations is conducted at least once a year. This assessment may be performed more frequently, in particular in the event of material changes in the scope of operations or risk profile of the Bank, Group entity or the whole Group. In determining the criteria of recognizing a risk as material the impact of the materiality of the risk both on the Bank's and the Group's operations is taken into account.

²³ The risk relates to the Group's companies.

OBJECTIVES OF RISK MANAGEMENT

The objective of risk management by striving to keep the level of risk within the accepted level of tolerance is:

- to protect shareholder equity;
- to protect customer deposits;
- to support the Group in conducting effective activities.

The objectives of risk management are achieved, in particular, by providing appropriate information about risk, so that decisions can be made with the full awareness of the individual risks they carry.

THE MAIN PRINCIPLES OF RISK MANAGEMENT

Risk management at the Group is based, in particular, on the following principles:

- the Group manages all identified types of risk;
- the risk management process is appropriate to the scale of operations and to the materiality, scale and complexity of the given risk and is constantly adapted to new factors and sources of risk;
- risk management methods (in particular, models and their assumptions), as well as risk measurement or assessment systems are adapted to the scale and complexity of the risk, the current and planned operations of the Group and the environment in which the Group operates and are periodically verified and validated;
- the area of risk management and debt recovery is kept organizationally independent of business operations;
- risk management is integrated with the planning and controlling systems;
- the risk level is constantly monitored;
- the risk management process supports the implementation of the Bank's strategy while complying with the risk management strategy, in particular regarding the level of tolerance of risk.

RISK MANAGEMENT PROCESS

The risk Group's management process comprises the following elements:

■ RISK IDENTIFICATION

Risk identification involves the identification of current and potential sources of risk and estimating the materiality of its potential impact on the Bank's and the Group's financial position. As a part of the risk identification, those types of risk, which are considered material in the Bank's and the Group's activities, are taken into consideration

■ RISK MEASUREMENT AND ASSESSMENT

Risk measurement encompasses the definition of the measures of risk which are adequate to its type, the materiality of the risk and the availability of data as well as quantitative risk quantification with the use of the defined measures and risk assessment involving the determination of the size or scope of risk from the point of view of the objectives of risk management. Within the framework of risk measurement, work related to the valuation of the individual types of risk for the purposes of the pricing policy is conducted, as are stress tests based on assumptions assuring reliable risk assessment. The stress testing scenarios include the requirements arising from the recommendations of the Polish Financial Supervision Authority. Additionally, comprehensive assessment stress tests (CASTs) are conducted in the Group, which constitute an integral part of risk management and supplement the stress tests which are peculiar to the individual types of risk. CASTs include an analysis of the impact of changes in the environment (especially the macroeconomic situation) and the functioning of the Bank on the Group's financial position.



▪ **RISK CONTROL**

Risk control involves the definition of the tools used to diagnose or reduce the level of risk in individual areas of the Group's operations. It includes the determination of the risk management mechanisms which are adapted to the scale and complexity of the Bank's and Group's activities, in particular in the form of strategic limits of tolerance for individual types of risk.

▪ **RISK FORECASTING AND MONITORING**

Risk forecasting and monitoring involves preparing forecasts of the level of risk and monitoring variances from the forecasts or assumed reference points (e.g. limits, threshold values, plans, measurements from the previous period and recommendations issued by the supervisory and control body), as well as testing extreme conditions (specific and comprehensive). Risk level forecasts are subject to verification. Risk is monitored at a frequency which is adequate to the materiality of a given type of risk and its volatility.

▪ **RISK REPORTING**

Risk reporting involves periodically informing the Bank's authorities about the results of risk measurement or risk assessment, the steps taken and the recommended actions. The scope, frequency and form of reporting are adapted to the management level of the recipients.

▪ **MANAGEMENT ACTIONS**

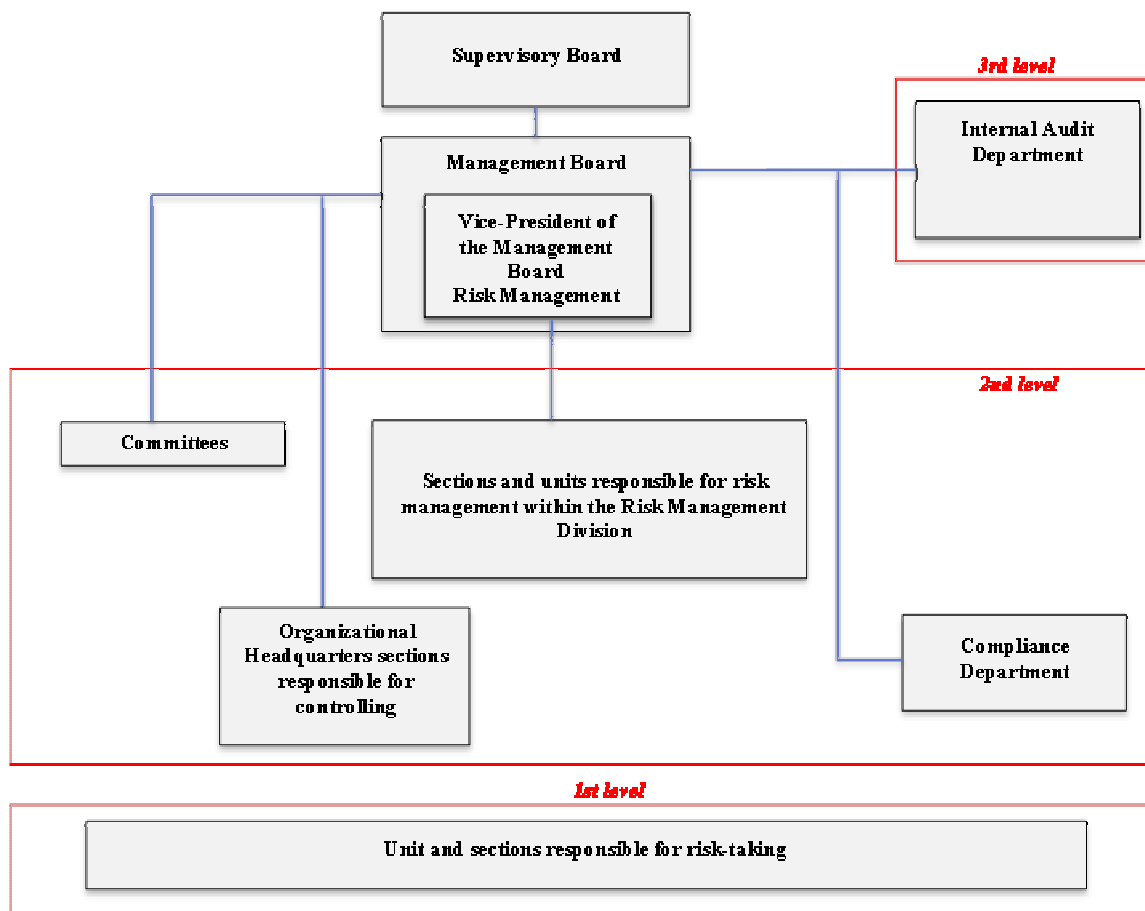
Management actions involve, in particular, issuing internal regulations determining the process of managing individual types of risk, determining the level of risk tolerance, setting the level of the limits and threshold values, issuing recommendations, and decision-making, including on the use of tools supporting risk management. The objective of taking management actions is to define the risk management process and the level of risk.

THE GROUP'S RISK MANAGEMENT PROCESS

The Bank supervises the operations of the PKO Bank Polski SA Group. This supervision consists of the Bank supervising risk management systems in entities and supporting their development, as well as accounting for the level of operational risk of particular entities under the risk monitoring and reporting system at the Bank's Group level.

In the Bank, risk management is performed in all entities and organizational units of the Bank.

The organization of risk management in PKO Bank Polski SA is shown in the diagram below:



The risk management system is supervised by the Bank's Supervisory Board, which controls and assesses its adequacy and effectiveness. The Supervisory Board assesses whether individual elements of the risk management system are used to ensure the correctness of the process of specifying and implementing the Bank's specific objectives. In particular, it verifies whether the system uses formalized principles for determining the level of risk accepted and the principles of risk management, as well as formalized procedures which have the objective of identifying, measuring or estimating and monitoring the risk appearing in the bank's operations, including the expected level of risk in the future. It verifies whether the risk management system uses formalized limits that reduce the risk and rules of conduct if these limits are exceeded and whether the accepted management reporting system enables the level of risk to be monitored. The Supervisory Board assesses whether the risk management system is continuously adapted to new factors and sources of risk. The Supervisory Board is supported, *inter alia*, by the following committees: the Supervisory Board's Remuneration Committee, the Supervisory Board's Risk Committee and the Supervisory Board's Audit Committee.

In terms of risk management, the Bank's Management Board is responsible for strategic risk management, including supervision and monitoring of activities undertaken by the Bank regarding risk management. It makes the most important decisions that affect the Bank's risk profile and adopts the Bank's internal rules on risk management. In risk management, the Management Board is supported by the following committees operating at the Bank:

- 1) the Risk Committee
- 2) the Asset and Liability Management Committee;
- 3) the Bank's Credit Committee;
- 4) the Operational Risk Committee.

The risk management process is performed on three independent, complementary levels:

- **THE FIRST LEVEL** – consists of the product management organization structures selling products and supporting customers, as well as other structures performing operational tasks that generate risk, which operate under separate internal rules. The function is performed in all of the Bank's organizational units, at the organizational units of the Headquarters and entities of the Group. The entities and organizational units of the Head Office implement appropriate risk controls designed by the Second Line of Defence entities and organizational units of the Head Office, in particular limits, and make certain that they are abided by through implementing appropriate controls. At the same time, the Bank's Group companies are bound by the cohesion and comparability of risk assessment and control in the Bank and in entities of the Bank's Group, taking into consideration the specific nature of the entity and the market on which it operates.
- **THE SECOND LEVEL** – encompasses the activities of the compliance unit, as well as the identification, measurement, assessment or control, monitoring and reporting of material risks, as well as the threats and irregularities that are identified – the tasks are performed by specialized organizational structures operating on the basis of the Bank's applicable internal regulations; the objective of these structures is to ensure that the activities implemented at the first level are properly regulated in the Bank's internal regulations and effectively reduce risk, as well as supporting the measurement, assessment and analysis of risk and the efficiency of operations. The second level supports activities undertaken which are intended to eliminate unfavourable variances from the financial plan in terms of the amounts affecting the quantified strategic risk tolerance limits contained in the financial plan. This function is performed in particular in the Risk Management Area, Compliance Department, and the respective committees.
- **THE THIRD LEVEL** – is the internal audit, which performs independent audits of elements of the Bank's management system, including the risk management system, as well as the internal control system; the internal audit operates separately from the first and second levels and can support the activities performed there through consultations, but without the ability to influence the decisions that are made.

Independence of the levels involves maintaining organizational separateness in the following areas:

- the second level function regarding the creation of system solutions is independent of the first level functions,
- the third level function is independent of the first and second level functions.

THE GROUP'S RISK MANAGEMENT

Internal regulations relating to managing particular risks in entities of the Group are specified in the internal regulations implemented by those entities after consulting the Bank for an opinion and in consideration of the Bank's recommendations. Entities' internal risk management regulations are implemented based on the principle of cohesion and the comparability of assessing particular risks to which the Bank and Group entities are exposed, taking into consideration the scope and type of relations between Group entities, the specific nature and scale of their operations and the market on which they operate.

Risk is managed in the Group entities in particular by:

- engaging entities from the Bank's Risk Management Area or relevant Bank committees to give opinions on large transactions of the Group entities,
- giving opinions on and reviewing the internal regulations relating to risk management in particular entities of the Bank's Group by entities from the Bank's Risk Management Area;
- reporting on the Group's risks to appropriate committees of the Bank or the Management Board;
- monitoring strategic limits of risk tolerance in the Group.

SPECIFIC ACTIONS IN RESPECT OF RISK REPORTING IN THE GROUP TAKEN IN 2017

The Bank's Group's priority is to maintain a strong capital position, including effective capital adequacy management, maintaining stable sources of financing which form the basis of developing business activities, supporting Polish entrepreneurship, customer satisfaction, commitment to creating new market scale standards, counteracting cyberthreats with simultaneous maintenance of priorities in respect of operating effectiveness, effective cost control and appropriate assessment and levels of risks.

For this purpose, in 2017 the Group took the following action:

- The Bank converted its own maturing short-term bonds to medium-term bonds in the amount of PLN 670 million (in May) and PLN 650 million (in November) and redeemed its own short-term bonds of EUR 200 million (in April).
- Under the EMTN program, the Bank issued: on 25 July 2017 own bonds of EUR 750 million maturing in 4 years, and on 2 November 2017 own bonds with a nominal value of CHF 400 million, maturing in 4 years,
- on 28 August 2017 the Bank floated an issue of subordinated bonds with a total nominal value of PLN 1.7 billion, maturing in ten years, with a call option in respect of all the bonds 5 years after the issue date with the consent of

the PFSA. On 30 August 2017 the Bank obtained the consent of the Polish Financial Supervision Authority ("PFSA") to exercise a call option in respect of subordinated notes, and on 14 September 2017 it redeemed all the subordinated OP0922 series bonds with a total nominal value of PLN 1,600.7 million, issued by the Bank on 14 September 2012. The terms and conditions of issuance of the OP0922 series subordinated bonds constitute the legal basis for exercising the call option in respect of all OP0922 series subordinated bonds after the lapse of 5 years of their issue;

- on 21 December 2017 after obtaining all the corporate consents, the Bank concluded a guarantee agreement with its counterparty ensuring unfunded credit protection in respect of a portfolio of selected corporate credit dues of the Bank, in accordance with CRR. The total value of the portfolio of the Bank's credit dues covered by the Guarantee is (after rounding) PLN 5,494.73 million, and the portfolio consists of a bond portfolio with a value (after rounding) of PLN 1,097 million, and a portfolio of other dues with a value (after rounding) of PLN 4,398 million;
- PKO Bank Hipoteczny SA conducted three issues of PLN mortgage bonds addressed to institutional investors, in the total nominal amount of PLN 1,265 million, with a maturity period of 4-6 years as of the date of issue;
- PKO Bank Hipoteczny SA conducted four issues of mortgage bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 1,079 million and maturity of 5 to 7 years as of the issue date.

In 2017 in the area of operational risk management, the Bank conducted preparatory work to begin operating from the new branch in the Czech Republic. As part of that work, in February 2017 the Bank obtained the consent of the PFSA for joint application of the advanced measurement approach (AMA) and the base indicator approach (BIA) to calculate the own funds requirement in respect of operational risk using BIA in respect of the operations of the Bank's branch in the Federal Republic of Germany and the Bank's branch in the Czech Republic, and using AMA for the Bank's other operations.

As a result of a legal merger between PKO Leasing SA and Raiffeisen-Leasing Polska SA (28 April 2017) action was taken to integrate risk management in the joint PKO Leasing SA Group. In 2017 the work covered such issues as making part of the management regulations in respect of material risks taken (in particular credit, market, operational risk) cohesive, and implementing new tools for their measurement and assessment, understood as IT systems made available also to PKO Leasing SA Subsidiaries.

8.1.1 CREDIT RISK

Definition Purpose of management Measurement and assessment of credit risk Managing foreign currency risk of mortgage loans for households

DEFINITION

Credit risk is defined as the risk of the occurrence of losses due to the counterparty's default in payments to the Bank or as a risk of a decrease in the economic value of amounts due to the Bank as a result of a deterioration in the counterparty's ability to repay amounts due to the Bank.

MANAGEMENT OBJECTIVE

The objective of credit risk management is to minimize losses on the credit portfolio as well as to minimize the risk of exposure to loans threatened with impairment, while maintaining the expected level of profitability and the value of the credit portfolio.

In the credit risk management process the Bank and the Group mainly follow the following credit risk management principles:

- each loan transaction requires comprehensive credit risk assessment, which is reflected in internal rating or credit scoring'
- credit risk relating to loan transactions is measured at the stage of examining loan applications and on a regular basis, as part of the monitoring process taking into consideration the changes in external conditions and in the financial standing of the borrowers;
- assessing the credit risk of exposures is subject to additional verification by ensuring an appropriate organizational structure, independence of the construction and validation of the tools which support the assessment of credit risk, and independence of the decisions for accepting deviations from the indications of those tools,

- the terms and conditions of a credit transaction offered to the customer depend on the assessment of the credit risk generated by the transaction;
- lending decisions may only be taken by appropriately authorized persons;
- credit risk is diversified in particular in terms of geographical area, business sector, products and customers;
- the expected level of credit risk is secured by security accepted by the Bank, risk margins charged to customers and impairment allowances for credit exposures.

The above-mentioned principles are executed by the Bank through the use of advanced credit risk management methods, both on the level of individual credit exposures and on the level of the Bank's entire credit portfolio. These methods are verified and developed to ensure compliance with the requirements of the internal rating method (IRB), i.e. advanced credit risk measurement method, which can be used while calculating requirements regarding own funds for credit risk after being approved by the Polish Financial Supervision Authority.

Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA and a subsidiary: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.) manage their credit risk individually, but the methods used by them for assessing and measuring credit risk are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature these companies' activities.

Any changes to the solutions used by the Bank Group's subsidiaries are agreed every time with the Bank's units responsible for risk management.

The PKO Leasing SA Group, the KREDOBANK SA Group and the subsidiaries: Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. and PKO Bank Hipoteczny SA regularly measure credit risk, and submit the results of such measurements to the Bank.

The KREDOBANK SA Group and the PKO Leasing SA Group have organizational units responsible for risk in their organizational structures, which are, in particular, responsible for:

- developing methods of credit risk assessment, recognizing provisions and allowances;
- controlling and monitoring credit risk during the lending process;
- the quality and efficiency of restructuring and collection of the amounts due from customers.

In these companies, the credit decision limits depend primarily on: the amount of exposure to a given customer, the amount of an individual credit transaction and the period of credit transaction.

The process of credit decision-making in the KREDOBANK SA Group, the PKO Leasing SA Group and in PKO Bank Hipoteczny SA is supported by credit committees, which are involved in the event of credit transactions which generate an increased credit risk level.

Appropriate organizational units of the Risk Management Area participate in managing the credit risk in the Group entities by giving their opinions on projects and periodically reviewing the internal regulations of these companies relating to the assessment of credit risk and preparation of recommendations relating to amendments in the drafts of regulations. The Bank supports the implementation of the recommended changes in the principles for assessing credit risk in the Group entities.

MEASUREMENT AND ASSESSMENT OF CREDIT RISK

METHODS OF MEASUREMENT AND ASSESSMENT OF CREDIT RISK

In order to assess the level of credit risk and profitability of loan portfolios, the Bank's Group uses different credit risk measurement and valuation methods, including:

- Probability of Default (PD);
- Expected credit loss (EL);
- Unexpected credit loss (UL);
- Loss Given Default (LGD);
- Credit Value at Risk (CVaR),
- Share and structure of impaired loans;
- Coverage ratio;
- Cost of credit risk.

The Group regularly extends the scope of credit risk measures used, taking into account the internal rating-based method (IRB) requirements, and extends the use of IRB measures to fully cover the whole Group's loan portfolio with these methods.

The portfolio credit risk measurement methods allow, among other things, to reflect the credit risk in the price of products, determine the optimum conditions of financing availability and determine the rate of impairment allowances.

The Group performs analyses and stress-tests regarding the influence of potential changes in the macroeconomic environment on the quality of the Group's loan portfolio. The above-mentioned information enables identifying and taking measures to limit the negative influence of unfavourable market changes on the Group's performance.

RATING AND SCORING METHODS

The Group assesses the risk of individual credit transactions with the use of scoring and rating methods. These methods are supported by specialist IT application software. The scoring method is defined by the Group's internal regulations whose main aim is to ensure the uniform and objective assessment of credit risk during the lending process.

The Group assesses the credit risk of individual customers in two dimensions: creditworthiness assessed quantitatively and qualitatively. The assessment of creditworthiness in quantitative terms consists of analysing the customer's financial position, and assessment in qualitative terms covers scoring and assessment of the credit history of the customer acquired from the Group's internal records and external databases.

In respect of institutional customers from the small- and medium-sized enterprise segment who met the specific criteria, the Bank assesses credit risk using the scoring method. This assessment relates to low-value, uncomplicated credit transactions and relates to two dimensions: a customer's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the customer's financial position, whereas the creditworthiness assessment involves scoring and evaluating the customer's credit history obtained from the Group's internal records and external databases.

In other cases, in respect of institutional customers, the rating method is used.

The evaluation of credit risk related to financing institutional customers is performed in two areas: in respect of the customer and of the transaction. The assessment measures comprise assessing the customer's credibility, i.e. rating, and assessing the transaction, i.e. liability repayment capacity in the specified amount and timing.

Rating models for institutional customers are developed using the Group's internal data which ensures that they are adapted to the risk profiles of the Group's customers. The models are based on the statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The customer's risk assessment depends on the size of the enterprise which is analysed. In addition, the Group uses a model for assessing credited entrepreneurs in specialist financing, which allows the appropriate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

The rating models are implemented in the IT tool supporting the Group's credit risk assessment related to financing institutional customers.

In order to examine the correctness of functioning of method applied by the Group, the methodologies of credit risk assessment connected with individual credit exposures are subject to regular reviews.

The process of assessing the Group's credit risk accounts for the requirements of the Polish Financial Supervision Authority specified in Recommendation S concerning good practices related to mortgage-secured credit exposures and Recommendation T concerning good practices in managing retail credit exposures.

The information about ratings and scoring is widely used in the Group for the purposes of credit risk management, the system of credit decision making competencies, determining the conditions in which credit assessment services are activated and in the credit risk assessment and reporting system.

CREDIT RISK MONITORING

Credit risk is monitored at individual credit transaction level and at portfolio level.

The monitoring of credit risk at the individual credit transaction level is governed, in particular, by the Group's internal regulations concerning:

- principles for the recognition of impairment allowances for credit exposures and allowances in respect of matured amounts due in respect of unsettled forward transactions;
- the rules for the functioning of the Bank's Early Warning System;
- early monitoring of delays in the collection of receivables;
- the principles for the classification of credit exposures and determining the level of specific provisions.

To shorten the reaction time to the warning signals observed, signalling an increase in the level of credit risk, the Group uses and develops an IT application – Early Warning System (EWS).

Monitoring credit risk at the portfolio level consists of:

- supervising the level of the portfolio credit risk based on the tools used for measuring credit risk, taking into consideration the identified sources of credit risk and analysing the effects and actions taken as part of systemic management;
- recommending preventive measures in the event of identifying an increased level of credit risk.

CREDIT RISK REPORTING

The Group prepares monthly and quarterly credit risk reports. The reporting of credit risk covers informing about the risk exposure of the credit portfolio on a cyclical basis. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for Group entities in which significant credit risk levels have been identified: (among others: the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA).

MANAGEMENT ACTIONS CONCERNING CREDIT RISK

The basic credit risk management tools used by the Bank's Group include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral);
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the creditworthiness assessment process using a scoring system (for retail customers and SMEs) or the customer's rating class (for institutional customers), which a customer must obtain to receive a loan;
- concentration limits – the limits defined in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and in the Banking Law, or internal limits determining the concentration risk appetite;
- industry limits – limits which reduce the risk level related to financing institutional customers that conduct business activities in industries characterized by a high level of credit risk;
- limits on credit exposures related to the Group's customers – limits defining the appetite for credit risk resulting, among other things, from Recommendations S and T;
- credit limits defining the Group's maximum exposure to a given counterparty or country in respect of wholesale operations and settlement limits, and limits regarding the period of exposure;
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank Group's customers, the limits depend primarily on the amount of the Bank's exposure to a given customer (or a group of related customers) and the loan transaction period, the competence limit depends on the credit decision-making level (in the Bank's organizational structure);
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank's Group with a given institutional customer, but the interest rate offered to a customer cannot be lower than the reference rate plus credit risk margin.

USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL

The collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. Collateral management conducted by the Bank and the entities of the Bank's Group is meant to properly secure the credit risk to which the Group is exposed, including first and foremost establishing collateral that will ensure the highest possible level of recovery in the event of the need to conduct debt collection activities.

In assessing collateral, the following factors are taken into account in particular:

- the asset, economic and financial or social and financial condition of the entities providing personal guarantees;
- the condition and market value of the assets accepted as collateral and their vulnerability to depreciation in the period of maintaining the collateral (the impact of the technological wear and tear of a collateralized asset on its value);
- the potential economic benefits of the Bank's Group resulting from a specific method of securing receivables, including, in particular, the possibility of reducing impairment allowances;
- the method of establishing collateral, including the typical duration and complexity of formalities, as well as the necessary costs (the costs of maintaining collateral and of collateral enforcement), using the Group's internal regulations concerning the assessment of collateral;
- the complexity, necessary time and economic and legal conditions of the effective realization of collateral, in the context of enforcement restrictions and the applicable principles for the distribution of the sums obtained from individual enforcement or in the course of bankruptcy proceedings, the prioritization of claims.

The type of collateral depends on the product and the customer segment.

In granting loans earmarked for financing housing and commercial properties, mandatory collateral is set up in the form of mortgage on the property.

Until the effective setting up of the collateral (depending on the type of loan and its amount) the Bank's Group may accept temporary collateral in another form.

In granting consumer loans, personal security is most often used (surety, promissory note) or security on the bank account, car or securities is established.

Loans financing small- and medium-sized enterprises and corporate customers are secured, among others, as follows: with business receivables, bank accounts, chattels, real estate or securities, or in the form of a BGK guarantee (universally used in respect of small- and medium-sized enterprises). Policies in respect of collateral have been determined in the Bank Group's subsidiaries' internal regulations.

In concluding lease agreements the PKO Leasing SA Group, as the owner of the leased assets, treats them as collateral in the transactions.

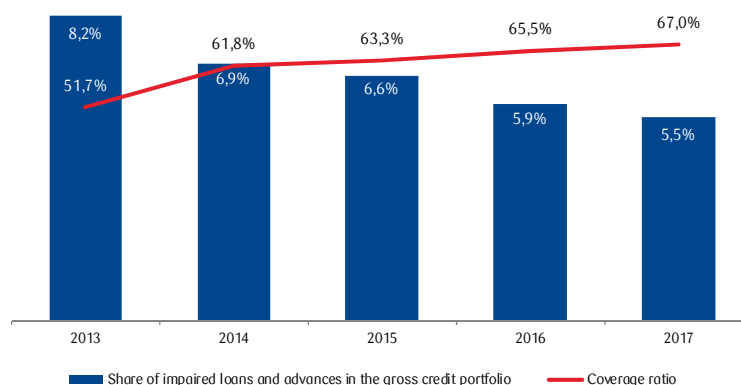
Table 12. Structure of the loan portfolio and the recorded impairment allowances in respect of PKO Bank Polski SA Group's loan exposures (in PLN million)

	31/12/2017			31/12/2016		
	Gross amount	Allowances	Net amount	Gross amount	Allowances	Net amount
Loans and advances to customers						
individual method, including:	5 420	-2 103	3 317	6 551	-2 608	3 943
impaired	4 346	-2 097	2 249	5 049	-2 594	2 455
not impaired	1 074	-6	1 068	1 502	-14	1 488
portfolio method	7 354	-5 000	2 354	7 183	-4 766	2 417
impaired	7 332	-5 000	2 332	7 171	-4 766	2 405
not impaired	22	0	22	12	0	12
group method (IBNR)	200 678	-720	199 958	194 875	-629	194 246
Loans and advances granted, net	213 452	-7 823	205 629	208 609	-8 003	200 606

In 2017 gross loans extended by the Bank's Group measured using the individual method dropped by PLN 1,131 million, and using the portfolio method increased by PLN 171 million, whereas using the group method increased by PLN 5,803 million.

PKO Bank Polski SA Group's share in impaired loans in the gross credit portfolio amounted to 5.5% as at 31 December 2017 and dropped by 0.4 p.p. compared with the share as at 31 December 2016.

The coverage ratio for the PKO Bank Polski SA Group amounted to 67.0% as at 31 December 2017 compared with 65.5% as at 31 December 2016.



MANAGING THE FOREIGN CURRENCY RISK OF MORTGAGE LOANS FOR HOUSEHOLDS

As a result of abandoning the EUR/CHF peg by the Swiss National Bank in January 2015 there was a significant appreciation of the Swiss franc against foreign currencies, including the Polish zloty. In 2017, the exchange rate of the Swiss franc dropped. The bank constantly analyses the impact of these events on the financial results including the risk of deterioration in the quality of the portfolio of mortgage loans denominated in CHF. The risk is partly mitigated by a decline in reference interest rates, CHF LIBOR.

Due to the fact that significant appreciation of the CHF against the Polish zloty constitutes the risk of an excessive burden being placed on households which took housing loans indexed to the CHF, and therefore also their timely servicing of debt, as of the beginning of the 2015 the public debate continues on how to reduce the risk of the insolvency of those borrowers. Emerging proposals for systemic solutions, submitted in the form of civic or parliamentary bills, as well as presented by the public and supervisory authorities, may result in the Bank incurring losses on this portfolio in the future.

The Group has taken (and continues to take) a number of actions designed to help customers and at the same time to reduce the growth of the credit risk associated with the appreciation of the CHF – among other things, lowering the transactional CHF/PLN exchange rates at which the amounts payable in CHF are translated (i.e. the currency spread) and taking into account the negative LIBOR for all customers.

The Group monitors the volatility of the exchange rate of the CHF, the value of the portfolio of housing loans denominated in CHF and the impact of the changes in foreign exchange rates on the capital adequacy on a current basis.

As at the end of 2017 the value of the portfolio of loans for households denominated in CHF amounted to PLN 23.6 billion compared to PLN 29.8 billion as at the end of 2016.

8.1.2 INTEREST RATE RISK

DEFINITION	Interest rate risk is the risk of incurring losses on the Bank's assets and liabilities sensitive to interest rate fluctuations, as a result of changes in interest rates on the market.
MANAGEMENT OBJECTIVE	To mitigate the risk of potential losses arising from market interest rate fluctuations to an acceptable level by appropriately shaping the structure of the statement of financial position and off-balance sheet items.
RISK IDENTIFICATION AND MEASUREMENT	<p>The Bank's Group utilizes such interest rate risk measures as:</p> <ul style="list-style-type: none"> • sensitivity of interest income; • sensitivity of economic value; • value at risk (VaR); • stress testing; • repricing gap.
MONITORING	Monitoring interest rate risk covers determining the value at risk (VaR), interest rate risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to interest rate risk.

FORECASTING AND MONITORING	The following, in particular, are monitored by the Group on a regular basis: <ul style="list-style-type: none"> the level of interest rate risk; the degree of utilization of the strategic limit of interest rate risk tolerance; the degree of utilization of internal limits and threshold values relating to interest rate risk.
REPORTING	The reports on interest rate risk are developed on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	The main tools used in interest rate risk management in the Bank's Group include: <ul style="list-style-type: none"> procedures for interest rate risk management; limits and thresholds for interest rate risk. <p>The Bank's Group established limits and thresholds for interest rate risk comprising, among other things, the following: sensitivity of interest income, sensitivity of the economic value and loss.</p>

As at 31 December 2017 the PKO Bank Polski SA Group's exposure to interest rate risk was within the accepted limits. The Bank's Group was mainly exposed to the PLN interest rate risk. The most unfavourable interest rate scenario from among all the stress tests applied by the Bank's Group consisting of parallel shifts in the interest rate curves was the scenario of the PLN interest rate curves shift.

Interest rate risk generated by the Bank Group entities had no material impact on the interest rate risk of the whole of the Bank's Group, and therefore it did not change its risk profile significantly.

The Bank's VaR and stress-test analysis of the Group's exposure to interest rate risk is shown in the table below:

Table 13. VaR of PKO Bank Polski SA and stress-test analysis of the Bank Group's exposure to interest rate risk

	31/12/2017	31/12/2016
10-day VaR with a 99%* confidence level (in PLN million)	301	269
Parallel shift of interest rate curves by 200 b.p. (in PLN million) (stress test)**	2,150	2,059

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies. As at 31 December 2017 the value of VaR in KREDOBANK SA amounted to approx. PLN 9.6 million, and as at 31 December 2016 PLN 8.9 million.

** The table presents the value of the most adverse scenario of the stress test: movement of interest rate curves in particular currencies by 200 b.p. up and by 200 b.p. down.

As at 31 December 2017 the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 301 million, and as at 31 December 2016, VaR for the Bank amounted to PLN 269 million.

8.1.3 CURRENCY RISK

DEFINITION	Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.
MANAGEMENT OBJECTIVE	To mitigate the risk of potential losses arising from foreign exchange rate fluctuations to an acceptable level by appropriately shaping the currency structure of the statement of financial position and off-balance sheet items.
RISK IDENTIFICATION AND ASSESSMENT	The Bank's Group utilizes the following currency risk measures: <ul style="list-style-type: none"> value at risk (VaR); stress tests.
MONITORING	Monitoring currency risk covers determining currency risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to currency risk.
FORECASTING AND MONITORING	The following, in particular, are monitored by the Group on a regular basis: <ul style="list-style-type: none"> the level of currency risk; the degree of utilization of the strategic limit of currency risk tolerance; the degree of utilization of internal limits and threshold values relating to currency risk.

REPORTING	The reports on currency risk are developed on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	<p>The main tools used in currency risk management in the Group include:</p> <ul style="list-style-type: none"> • procedures for currency risk management; • currency risk limits and threshold values; • defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions. <p>The Bank's Group has set limits and threshold values for currency risk for among other things currency positions, Value at Risk calculated for a 10-day time horizon and loss from transactions on the currency market.</p>

Table 14. VaR of PKO Bank Polski SA and stress test analysis of the Bank Group's exposure to foreign currency risk, jointly for all currencies

	31/12/2017	31/12/2016
10-day VaR with a 99%* confidence level (in PLN million)	3	10
20% change in the exchange rates of foreign currencies to PLN (in PLN million) (stress test)**	48	25

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Parent does not calculate consolidated VaR. These companies apply their own risk measures in currency risk management. KREDOBANK SA uses the 10-day VaR. As at 31 December 2017 the value of VaR in KREDOBANK SA amounted to approx. PLN 0.11 million, and as at 31 December 2016 to approx. PLN 0.35 million.

** The table presents the value of the most adverse scenario of the stress test: PLN appreciation of 20% and PLN depreciation of 20%.

Table 15. The currency position for particular currencies in the Bank's Group (in PLN million)

Currency position	31/12/2017	31/12/2016
EUR	-157	-170
USD	-28	30
CHF	8	-36
GBP	11	9
Other (global, net)	61	89

The amount of foreign currency positions is the key (apart from the volatility of foreign exchange rates) factor determining the level of currency risk to which the PKO Bank Polski SA Group is exposed. All foreign currency transactions concluded, both balance-sheet and off-balance sheet, have an impact on the foreign exchange position. The Bank's exposure to currency risk is low.

8.1.4 LIQUIDITY RISK

DEFINITION	<p>Liquidity risk is defined as the lack of possibility to pay debts on time due to the lack of liquid assets. Lack of liquidity may result from an inappropriate structure of the statement of financial position, misfit of cash flows, payments not received from counterparties, sudden withdrawal of cash by customers or other market events.</p> <p>The Bank's Group also manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.</p>
PURPOSE OF MANAGEMENT	To ensure the necessary level, the funds to pay present and future debts (also potential) on time, taking into account the nature of the activities performed and requirements which may occur due to changes in the market environment, by appropriately shaping the structure of the statement of financial position and off-balance sheet liabilities.
RISK IDENTIFICATION AND ASSESSMENT	<p>The Bank's Group utilizes the following liquidity risk measures:</p> <ul style="list-style-type: none"> • the contractual and adjusted to real terms liquidity gap; • liquidity reserve; • liquidity surplus; • ratio of stable funding to illiquid assets; • liquidity coverage ratio (LCR); • national supervisory liquidity measures (M1-M4); • measure of stability of deposit and loan portfolios; • stress-tests (liquidity stress-tests).

MONITORING

Monitoring liquidity risk covers determining liquidity risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limits of tolerance to liquidity risk.

FORECASTING AND MONITORING

The following are monitored by the Group on a regular basis:

- the degree of utilization of the strategic limit of currency risk tolerance;
- the degree of utilization of supervisory liquidity standards;
- the degree of utilization of internal limits and threshold values relating to liquidity risk;
- concentration of sources of financing;
- early warning signals – monitoring their level is aimed at the early discovery of unfavourable phenomena which could have a negative impact on the Bank Group's or the financial sector's liquidity position (which, when exceeded, launch liquidity contingency plans).

The Group also performs cyclic forecasts of liquidity risk levels, in consideration of the current developments in the Group's operations. Liquidity forecasts account mainly for the level of particular liquidity risk measures in conditions of realizing the statement of financial position forecasts and realizing selected stress-test scenarios.

REPORTING

Reports relating to liquidity risk are developed on a daily, weekly, monthly and quarterly basis, and once a year an in-depth long-term liquidity analysis is conducted.

MANAGEMENT ACTIONS

The main tools used in liquidity risk management in the Group include:

- procedures for liquidity risk management, in particular emergency plans;
- limits and thresholds for mitigating short-, medium and long-term liquidity risk;
- national and European supervisory liquidity standards;
- deposit, investment, securities sale and purchase and derivative transactions, including structured Forex transactions, and purchase and sales transactions of securities;
- transactions ensuring the long-term financing of lending activities.

The Group's policy concerning liquidity is based on maintaining an appropriate level of liquidity surplus through increasing its portfolio of liquid securities and stable sources of financing (a stable deposit base, in particular). In liquidity risk management money market instruments, including NBP open market operations, are also used.

The Group's liquidity reserve and excess liquidity as at 31 December 2017 and 31 December 2016 are shown in the Table below.

Table 16. Liquidity reserve and excess liquidity of the PKO Bank Polski SA Group (in PLN billion)

	31/12/2017	31/12/2016
Liquidity reserve up to 1 month*	37	31
Excess liquidity in a 30-day time horizon**	14	13

* Liquidity reserve – the difference between the most liquid assets and expected and potential liabilities which mature in a given period.

** Excess liquidity – excess liquidity determines the Bank's ability to maintain liquidity on each day during the period called the "horizon of survival" if predefined stress test scenarios occur.

The Group's supervisory liquidity measures as at 31 December 2017 and 31 December 2016 are shown in the Table below.

Table 17. Supervisory liquidity measures

	31/12/2017	31/12/2016
M1	22,446	24,464
M2	1.66	1.89
M3	13.92	11.63
M4	1.19	1.19
LCR	156.0%	136.3%
NSFR	113.9%	115.2%

In 2017 liquidity measures were maintained above supervisory limits.

On 31 December 2017 the level of core deposits constituted approx. 93.6% of all deposits invested with the Bank (with the exception of the interbank market), which is a drop of approx. 0.2 p.p. compared with the end of 2016.

8.1.5 OTHER MARKET RISKS

Commodity price risk
Equity securities price risk
Other price risks

COMMODITY PRICE RISK

DEFINITION	Commodity price risk is the risk of incurring a loss due to changes in commodity prices, generated by maintaining open positions on particular types of goods.
MANAGEMENT OBJECTIVE	To reduce potential losses resulting from changes in commodity prices to the acceptable level by shaping the appropriate structure of these items.
RISK IDENTIFICATION AND ASSESSMENT	In respect of the measurement of the prices of commodities, information on the positions taken by the Bank's Group in particular commodities is utilized, and stress-test analyses are performed.
MONITORING	Monitoring commodity prices covers determining respective limits and threshold levels tailored to the scale and complexity of the Group's operations.
FORECASTING AND MONITORING	In respect of commodity prices in the Group the following in particular are monitored on a regular basis: open commodity positions, results of stress-tests and the degree of utilization of external limits imposed on the risk.
REPORTING	Reports on commodity price risks are developed on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	Commodity price risk is managed by imposing limits on instruments generating the commodity price risk, monitoring their use and reporting the risk level. The effect of commodity price risk on the Group's financial position is immaterial.

EQUITY SECURITIES PRICE RISK

DEFINITION	The price risk of equity securities is the risk of incurring a loss due to changes in the prices of equity securities on the public market, or stock exchange indices, generated by maintaining open positions in instruments sensitive to changes in these market parameters. The price risk of equity securities results from operations conducted as part of the trading activities of the Bank's Brokerage House, investing activities and from other operations constituting part of the banking activities which generate a position in equity securities.
MANAGEMENT OBJECTIVE	To limit possible losses due to changes in the prices of equity securities on the public market, or stock exchange indices to an acceptable level, by optimizing the positions taken in instruments sensitive to changes in these market parameters.
RISK IDENTIFICATION AND ASSESSMENT	For the purpose of equity securities price risk management the Bank Group utilizes: <ul style="list-style-type: none"> • analyses of stress tests, in consideration of changes in market prices of the base instrument and changes in its volatility; • information on the utilization of limits of positions taken in the equity securities portfolio.
MONITORING	Monitoring over equity securities risk covers determining equity securities price risk limits and thresholds tailored to the scale and complexity of the Bank Group's operations.
FORECASTING AND MONITORING	The Bank's Group regularly monitors the level of price risk of equity securities and the level of utilization of the limits on positions taken in the equity securities portfolio.
REPORTING	Reports on equity securities price risk are developed on a monthly and quarterly basis.
MANAGEMENT ACTIONS	The risk is managed by imposing limits on the activities of the Bank's Brokerage House and by monitoring the utilization thereof. The effect of the price risk of equity securities on the financial position of the Bank's Group was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and are not expected to increase significantly.

OTHER PRICE RISKS

Taking into consideration other price risks, at the end of the year 2017, the Bank Group was exposed to the price risk of investment fund participation units in collective investment funds. The effect of this risk on the Bank Group's financial position is immaterial.

8.1.6 DERIVATIVE INSTRUMENTS RISK

DEFINITION	The risk of derivative instruments is a risk resulting from the Bank Group's taking up a position in financial instruments.
MANAGEMENT OBJECTIVE	Limiting potential losses in respect of changes in factors specific for derivatives (other than foreign currency rates or interest rates) to acceptable levels by the appropriate formation of the structure of positions taken in those instruments.
RISK IDENTIFICATION AND ASSESSMENT	For the purpose of managing derivative instruments risk, the Bank Group uses: <ul style="list-style-type: none"> • value at risk (VaR) model; • analyses of stress tests, in consideration of changes in market prices of the base instrument, changes in its volatility, and changes in the interest rates; • sensitivity ratios of options.
MONITORING	Monitoring derivatives risk covers determining derivatives risk limits and thresholds tailored to the scale and complexity of the Bank Group's operations.
FORECASTING AND MONITORING	Monitoring the risk of derivative instruments takes place as part of monitoring other types of financial and credit risk. The Bank's Group puts particular emphasis on monitoring financial risks related to the maintained currency options portfolio and customer credit risk resulting from amounts due to the Bank in respect of derivative instruments.
REPORTING	The reports on derivatives risk are developed on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	<p>The main tools used in derivative risk management are as follows:</p> <ul style="list-style-type: none"> • procedures for derivative risk management; • limits and thresholds set for the risk related to derivative instruments; • master agreements specifying, among other things, settlement mechanisms; • collateral agreements, under which selected customers of the Bank are required to establish collateral on exposures in respect of derivative instruments. <p>Risk management is carried out by imposing limits on the derivative instruments, monitoring limits and reporting risk level.</p> <p>The derivative risk management process is integrated with management of the following types of risk: interest rate, currency, liquidity and credit risk. However, due to the specific nature of derivatives it is subject to special control specified in the internal regulations of the Bank's Group.</p>

8.1.7 OPERATIONAL RISK

DEFINITION	Operational risk is defined as the risk of occurrence of a loss due to the non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into account legal risk, and does not include reputational risk and business risk.
MANAGEMENT OBJECTIVE	The objective of operational risk management is to enhance the security of the operational activity pursued by the Bank's Group by improving effective, tailored to the profile and the scale of operations mechanisms of identifying, assessing, measuring, controlling, monitoring, mitigating and reporting operational risk.
RISK IDENTIFICATION AND ASSESSMENT	Operational risk management comprises the identification of operational risk in particular through: <ul style="list-style-type: none"> • collecting data about operational risk; • self-assessment of operational risk. <p>In order to manage the operational risk, the Bank gathers internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on KRI and data related to the quality of internal functional controls.</p>

The operational risk self-assessment comprises the identification and assessment of operational risk for the Bank's products, processes and applications as well as organizational changes and it is conducted cyclically and before implementing new or changed Bank's products, processes and applications. The measurement of operational risk comprises:

- calculating Key Risk Indicators (KRI);
- calculating the operational risk requirement relating to own funds in accordance with the AMA approach (the Bank) and the BIA approach (the Branch in Germany and in the Czech Republic, and companies of the Group covered by prudential consolidation);
- stress testing;
- calculating Bank Group's internal capital.

MONITORING

Monitoring operational risk includes determining operational risk limits tailored to the scale and complexity of the Group's activities, in particular the strategic limits of tolerance of operational risk, losses limits, KRI with thresholds and critical values.

The following are monitored by the Group on a regular basis:

- the utilization level of strategic tolerance limits for the Group and operational risk loss limits for the Bank;
- operational events and their consequences;
- self-assessment of operational risk;
- the operational risk requirement relating to own funds in accordance with the BIA approach in respect of the operations of the Branch in Germany and in the Czech Republic, and the AMA approach in respect of the Bank's remaining operations, and the BIA approach in respect of the Group companies covered by prudential consolidation;
- stress test results;
- Key Risk Indicators (KRI), in relation to threshold and critical values;
- the level of risk for the Bank and the Bank's Group, and the areas and tools for managing operational risk in the Bank;
- effectiveness and timeliness of management actions undertaken to reduce or transfer the operational risk;
- management activities, related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.

FORECASTING AND MONITORING

The following entities had a decisive impact on the operational risk profile of the Bank's Group: PKO Bank Polski SA, Qualia Development Sp. z o.o., Grupa Kapitałowa PKO Leasing SA and the KREDOBANK SA Group. Other Bank Group entities, due to their much smaller scale and type of operations, generate only limited operational risks.

REPORTING

Information relating to the Group's operational risk is reported for the purpose of senior management, the Operational Risk Committee, the Risk Committee, the Management Board and the Supervisory Board. Information on operational risk is prepared in monthly cycles and addressed to the Operational Risk Committee, senior management, organizational units of the Head Office and specialist organizational units responsible for the systemic management of operational risk. The scope of information is diversified and adapted to the scope of responsibilities of particular addressees.

Management actions are taken in the following instances:

- on the initiative of ORC or the Management Board;
- on the initiative of organizational units and cells of the Bank responsible for managing the operational risk;
- when operational risk exceeded the levels described by the Management Board or ORC.

Especially when the operational risk level is elevated or high, the Bank uses the following approaches and instruments to manage operational risk:

MANAGEMENT ACTIONS

- 1) risk reduction – mitigating the impact of risk factors or the consequences of their materialization by introducing or strengthening various types of instruments for managing operational risk such as:
 - control instruments;
 - human resources management instruments;
 - determination or verification of threshold values and critical KRIs;
 - determination or verification of operational risk levels;
 - contingency plans;
- 2) risk transfer – transfer of responsibility for covering potential losses on a third-party:
 - insurance;
 - outsourcing;
- 3) risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

8.1.8 OTHER RISKS

Compliance and conduct risk
Business risk
Reputation risk
Model risk
Macroeconomic risk
Capital risk
Insurance risk
Risk of excessive leverage

COMPLIANCE RISK AND CONDUCT RISK

DEFINITION	<p>The compliance risk is the risk of legal sanctions, financial losses, or loss of reputation or credibility, if the Bank's Group, the Group's staff or entities acting on behalf of the Bank's Group or entities acting on its behalf fail to comply with the universally applicable provisions of law, internal regulations, or market standards adopted by the Group.</p> <p>Conduct risk means a risk which arises on the part of:</p> <ul style="list-style-type: none"> • the customer; • the Bank's Group, including its credibility; • financial markets, with regard to their credibility, as a result of inappropriate action (also unintentional) or any omission by the Bank's Group, its staff or related entities, with regard to offering purchase and provision of financial services.
MANAGEMENT OBJECTIVE	<ul style="list-style-type: none"> • reinforcing among shareholders, customers, the Group's staff, business partners, and other market participants, an image of the Group as an institution which abides by the law and market standards, which is trustworthy, reliable and honest; • countering financial losses or legal sanctions, or loss of reputation, reliability in particular, which can result from the violation of the law, internal regulations of the Group, and market standards adopted by the Group; • Counteracting losses on the part of the Bank's Group's customers, which can result from inappropriate conduct (also unintentional) or omission by the Group, its staff or related entities, with regard to offering purchase and provision of financial services.
RISK IDENTIFICATION AND MEASUREMENT	<p>Risk is identified and assessed through the use of information on cases of non-compliance and conduct risk events, including the reasons for their occurrence, and information being the result of an internal audit, a functional internal control and external inspections.</p>
RISK FORECASTING AND MONITORING	<p>This involves:</p> <ul style="list-style-type: none"> • an analysis of cases of non-compliance and conduct risk events in the Group and in the banking sector, the causes and effects thereof; • evaluation of key provisions of the law affecting the operations of the Group; • evaluation of activities undertaken by the Bank and members of the Group as part of the management of the compliance risk; • evaluation of the effectiveness and adequacy of the controls related to mitigation of the compliance risk; • an analysis of information about the status of the major adaptation work performed by the Group to adapt to the universally applicable provisions of law, market standards adopted by the Group and notices of external supervisory and control authorities; • an analysis of information about operating events, security incidents, disputes, including litigation, against the Group, complaints and irregularities related to the conduct risk.
REPORTING	<p>In the form of quarterly management reports designated for the Risk Committee, the Management Board, the Supervisory Board Risk Committee, the Supervisory Board Audit Committee and the Supervisory Board, as well as ad hoc information on discovered cases of noncompliance identified by the controls, classified as 'material' or 'critical', non-financial information presented in the Bank's and the Bank's Group's financial reports, and information submitted for the purposes of external supervision and control authorities.</p>
MANAGEMENT ACTIONS	<p>The management of this risk comprises in particular:</p> <ul style="list-style-type: none"> • preventing the Group from engaging in illegal activities; • promoting ethical standards and monitoring their functioning; • managing conflicts of interest; • preventing situations in which the conduct of the Group's employees in official matters could give the

- impression of pursuing a private interest;
- professional, fair, and transparent wording of the product offer, as well as advertising and marketing messages;
- ensuring protection of information;
- immediate, fair and professional handling of customer complaints, requests and grievances;
- preventing situations in which a product incompatible with the customer's needs could be offered.

BUSINESS RISK

DEFINITION

Business risk (strategic) is the risk of not achieving the assumed financial goals, including incurring losses, due to adverse changes in the business environment, taking bad decisions, incorrect implementation of the decisions taken, or not taking appropriate actions in response to changes in the business environment.

MANAGEMENT OBJECTIVE

Maintaining potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, on an acceptable level, which would be a response to changes in the business environment.

RISK IDENTIFICATION AND MEASUREMENT

Identification consists of recognizing and determining factors, both current and potential, resulting from current and planned activities of the Bank's Group, which may significantly affect the financial position of the Group, generating or changing the amount of the Group's income and expenses. Business risk is identified by identifying and analysing the factors that had an impact on significant deviations of income and expenses realized from their forecast amounts.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risks, using predetermined risk measures. Business risk measurement covers: calculation of internal capital, conducting stress tests and reverse stress tests.

CONTROL

The purpose of the control of business risk is to strive to maintain an acceptable level of the risk. It involves determining and periodically reviewing the risk controls in the form of business risk tolerance limits and its thresholds and critical values, adequate to the scale and complexity of the Bank's Group's operations.

RISK FORECASTING AND MONITORING

Forecasting business risk is aimed at determining an anticipated scenario of the degree of achievement of planned results by the Group. The forecast is prepared once a quarter in an annual time horizon and covers forecasting internal capital.

Once a quarter, the business risk forecast (so-called backtesting) is verified.

Monitoring of the business risk is aimed at diagnosing the areas which require management actions. Monitoring of business risk includes in particular:

- strategic limits of business risk tolerance;
- stress test results;
- reverse stress test results;
- levels of internal capital;
- deviations of actual business risks from forecasts;
- results of qualitative assessment of the business risk.

REPORTING

Reporting is performed on a quarterly basis. The reports on the business risk level are addressed to the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.

MANAGEMENT ACTIONS

Management activities consist mainly of:

- verifying and updating quarterly financial forecasts, including actions aimed at mitigating the business risk level in accordance with the limits;
- monitoring the level of the strategic limit of tolerance to business risk.

REPUTATION RISK

DEFINITION

Reputation risk is the risk of damage to reputation with customers, counterparties, investors, regulators, inspectors, and the public, as a result of business decisions, operating events, instances of non-compliance, or other events.

MANAGEMENT OBJECTIVE

To protect the Group's reputation by preventing reputation losses and limiting the impact of adverse publicity events on the Group's reputation.

RISK IDENTIFICATION AND ASSESSMENT

Reputation risk identification concerns developments in the Group's internal processes and in its external environment, in the first instance adverse publicity events and business environment factors, i.e. quantitative and qualitative information, including in the first instance any data on the Group and the Group's external environment, which provides reputation risk information.

	Reputation risk assessment involves assessing the impact of adverse publicity events on the Group's reputation, in the first instance by assessing the severity of reputation losses caused by such events. Reputation risk assessment takes account of the tone, credibility or opinion-making potential and reach of revealing of adverse publicity events to the public.
MONITORING	Reputation risk monitoring involves defining and regularly assessing the level of reputation risk measures in relation to the limits adopted. The level of reputation risk is determined based on the level of such reputation risk measures.
REPORTING	Reputation risk reporting takes the form of: <ul style="list-style-type: none"> • semi-annual management reports intended for the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board; • ad hoc reporting of current events with considerable impact on the Group's reputation, intended for the Member of the Management Board in charge of the Legal and Compliance Area; • information contained in the Group's financial statements and provided on request to external regulators and inspectors.
MANAGEMENT ACTIONS	A specified reputation risk level triggers management actions, including: <ul style="list-style-type: none"> • analysis of the causes of a specific risk level; • assessment of the impact of such a level; • development of proposed management actions aimed at reducing reputation risk or providing a rationale for not taking action, e.g. in case of incidental, extraordinary events.

MODEL RISK

DEFINITION	Model risk is the risk of losses resulting from taking incorrect business decisions based on the models in place. Model risk is managed within the Group both at the level of the given member of the Group (the model owner) and at the level of the Bank as the Group's parent company.
MANAGEMENT OBJECTIVE	The objective of model risk management is to mitigate the risk of losses resulting from taking incorrect business decisions on the basis of the models in place at the Group, using a well-defined and implemented model management process. Regular, independent validation of all the models significant to the Group is one of the elements of the model management process.
RISK IDENTIFICATION, AND ASSESSMENT	Model risk identification in the first instance involves collecting information about the models which are in place or which are intended to be implemented, and periodically determining their significance. Model risk assessment is intended to gauge the scale of threats posed by model risk. Model risk is assessed at the level of each model and in aggregate, at the level of each member of the Group.
MONITORING	Model risk monitoring is aimed at maintaining an aggregated model risk assessment at a level which is acceptable to the Group. Model risk control involves establishing the mechanisms used to diagnose the level of model risk and tools for reducing the level of such risk. The tools used to diagnose model risk in the first instance include a strategic limit of tolerance to model risk, and model risk thresholds.
MONITORING	Periodical model risk monitoring is aimed at diagnosing the areas which require management actions and in the first instance includes: <ul style="list-style-type: none"> • model risk level updates; • assessing the utilization of the strategic limit of tolerance to model risk and the model risk thresholds; • verifying the status of implementation and evaluating the effectiveness of model risk mitigation activities.
REPORTING	Model risk monitoring results are periodically presented in reports intended for the RC, the Management Board, the Supervisory Board.
MANAGEMENT ACTIONS	The purpose of management actions is to influence the model risk management process and the level of such risk, in the first instance by setting acceptable risk levels and taking decisions to use risk management support tools.

MACROECONOMIC RISK

DEFINITION	Macroeconomic risk is the risk of deterioration in the Group's financial situation as a result of an adverse impact of changes in macroeconomic conditions.
MANAGEMENT OBJECTIVE	The objective of macroeconomic risk management is to identify macroeconomic factors which have a significant impact on the Group's activities and take action to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Group.

RISK IDENTIFICATION, AND ASSESSMENT	<p>Macroeconomic risk identification involves determining scenarios of potential macroeconomic changes and risk factors having the greatest impact on the financial situation of the Group. Macroeconomic risk arises from the interaction of factors dependent on the Group's activities (in the first instance, the balance sheet structure and response plans developed for stress scenario purposes) and independent thereof (macroeconomic factors). The Bank identifies factors affecting the level of macroeconomic risk during comprehensive stress tests.</p> <p>Macroeconomic risk measurement is intended to gauge the scale of threats posed by macroeconomic risk and includes:</p> <ul style="list-style-type: none"> • calculation of results of operations and their components, and risk measures, as part of comprehensive stress tests; • reverse stress tests; • internal capital calculation. <p>The level of macroeconomic risk is assessed on an annual basis using the results of periodical comprehensive stress tests. Macroeconomic risk level may be moderate, increased or high.</p>
MONITORING	<p>The objective of macroeconomic risk monitoring is to attempt to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Group.</p> <p>Macroeconomic risk control involves determining an acceptable risk level commensurate with the scale of the Group's operations and its impact on the operation and financial situation of the Group. An acceptable level of macroeconomic risk is a situation where comprehensive stress test results do not point to the need to take any remedial action or the necessary remedial measures will be sufficient to improve the Group's financial situation.</p>
FORECASTING AND MONITORING	<p>The objective of macroeconomic risk forecasting is to determine the anticipated impact of materialization of an adverse scenario on the Bank's results of operations, including its capital level. A forecast includes an internal capital forecast and it is prepared once a quarter as an annual rolling forecast based on comprehensive stress test results.</p> <p>Macroeconomic risk monitoring involves analysing the macroeconomic situation, the macroeconomic factors to which the Group is sensitive, the level of macroeconomic risk, and the results of comprehensive stress tests.</p>
REPORTING	<p>Macroeconomic risk is reported on a quarterly basis. Reports on the level of macroeconomic risk are intended for the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.</p>
MANAGEMENT ACTIONS	<p>Management actions in the first instance involve:</p> <ul style="list-style-type: none"> • setting acceptable risk levels; • taking steps to reduce the level of risk in the event of increased or high macroeconomic risk.
CAPITAL RISK	
DEFINITION	<p>Capital risk is the risk of failing to ensure an appropriate level and structure of own funds and of being unable to reach a level of them which is adequate for the risk involved in the Bank's operation, necessary for the absorption of unexpected losses, and meeting the supervisory requirements to enable the Bank to continue to operate unaided.</p>
MANAGEMENT OBJECTIVE	<p>The objective of capital risk management is to ensure an appropriate level and structure of own funds for the scale of the Group's operations and risk exposure, taking into account the objectives of the Group's dividend policy and supervisory recommendations concerning capital adequacy.</p>
RISK IDENTIFICATION AND ASSESSMENT	<p>The level of the Group's capital risk is determined based on the thresholds and strategic tolerance limits, including the total capital ratio and the Common Equity Tier 1 capital ratio.</p> <p>The level of capital risk is defined in the following way:</p> <ul style="list-style-type: none"> • low level – when all the capital adequacy measures are above the thresholds; • increased level – when at least one capital adequacy measure is below the threshold and no capital adequacy measure is below the strategic tolerance limit; • high level – when at least one capital adequacy measure is below the strategic tolerance limit.
MONITORING	<p>The Group regularly monitors the level of its capital adequacy measures in order to determine the extent to which the regulatory standards and internal strategic limits are met, and to identify cases which require that capital emergency actions be launched.</p> <p>If a high level of capital risk is identified, the Group takes action to bring its capital adequacy measures down to a low level, taking into account the objectives of the Group's dividend policy and regulatory recommendations concerning capital adequacy.</p>

INSURANCE RISK

DEFINITION	Insurance risk is the risk of losses or an adverse change in the value of insurance liabilities due to incorrect pricing and provisioning assumptions (in the first instance for technical provisions).
MANAGEMENT OBJECTIVE	<p>The objective of insurance risk management is to achieve the company's goals while at the same time maintaining retained exposure to the risk in question at an acceptable level and ensuring the company's solvency.</p> <p>The Group's exposure to insurance risk, involving its insurance companies, is monitored and determined in accordance with the risk management strategy adopted.</p> <p>In PKO Życie Towarzystwo Ubezpieczeń S.A. (PKO Życie), the prevailing type of insurance risk for each type of product in the company's portfolio is as follows:</p> <ul style="list-style-type: none"> insurance products where benefits are determined on the basis of specific indices or other bases, and insurance products involving Unit Linked Insurance Plans – mainly contract discontinuation risk; protection products – mortality and claims risks, negative selection (decreasing risk); for all products – the risk associated with the volatility of future unit costs (driven by the size of the portfolio and the company's total costs). <p>PKO Towarzystwo Ubezpieczeń SA (PKO TU), which commenced its operating activities in 2016, is exposed to the following types of insurance risk:</p> <ul style="list-style-type: none"> unearned premium and reserve risk; catastrophic risk; contract discontinuation risk. <p>The prevailing type of insurance risk for each product type is as follows:</p> <ul style="list-style-type: none"> multi-year loss of source of income insurance contracts – unearned premium and reserve risk; property insurance – catastrophic risk (flood). <p>In order to mitigate their insurance risk exposure, PKO Życie and PKO TU use, among others, the following:</p> <ul style="list-style-type: none"> reinsurance of insurance risks (mortality, morbidity), including catastrophic risk; grace periods; exemptions; retention activities. <p>Outward reinsurance of insurance companies is placed using the following contracts:</p> <ul style="list-style-type: none"> quota share and surplus treaty reinsurance contracts; proportional treaty reinsurance contracts, with a partial or complete transfer of risk; catastrophic reinsurance and excess of loss reinsurance contracts. <p>For new products and risks, PKO Życie and PKO TU choose the reinsurer, the scope of protection, the terms and conditions of reinsurance, or make changes to the existing reinsurance contracts and conclude new reinsurance contracts for the newly offered or modified insurance products and new risks.</p> <p>Insurance risk is measured at the insurance companies as part of a contract termination analysis, a claims ratio analysis, an analysis of the amount of assets to cover technical provisions (APR), and as part of an annual analysis of shock scenarios – stress tests as part of the process of self-assessment of risk and solvency. PKO Życie and PKO TU have implemented the requirements arising from the new Solvency II system and have been calculating capital ratios under the new regime as from 1 January 2016, maintaining own funds at an adequate level.</p>
RISK IDENTIFICATION, AND ASSESSMENT	
MONITORING	PKO Życie and PKO TU have implemented several risk monitoring mechanisms, including: limit establishment and control, ensuring the operation of relevant processes and seeing to it that reinsurance products and programmes are adequate.
REPORTING	PKO Życie and PKO TU report insurance risks in periodical reports addressed to the Management Board, the Risk Management Committee, and the Risk Committee of the Supervisory Board.

Assets to cover technical provisions (APR) were at a sufficient level (more than 100%) and had an appropriate structure. As at the end of 2017, the aggregate assets to provisions ratio amounted to 106% for PKO Życie and 132% for PKO TU.

RISK OF EXCESSIVE LEVERAGE

DEFINITION	Excessive leverage risk is the risk resulting from vulnerability to financial leverage or conditional financial leverage threats which may require taking previously unintended actions to adjust business plans, including an emergency sale of assets, which could result in losses or the need for valuation adjustments to other assets.
MANAGEMENT OBJECTIVE	The objective of excessive leverage risk management is to ensure an appropriate relationship between the amount of the Common Equity Tier 1 capital and the total of on-balance sheet assets and off-balance sheet liabilities granted by the Group.
RISK IDENTIFICATION, AND ASSESSMENT	<p>Excessive leverage risk identification involves identifying current and potential risk sources and factors and determining the potential impact of such risk on the operation of the Bank and the Group.</p> <p>For the purpose of measuring excessive leverage risk, a leverage ratio is calculated as a measure of Tier 1 capital divided by the measure of total exposure and expressed as a percentage ratio. The Group calculates its leverage ratio as at each reporting reference date. The leverage ratio as at 31 December 2017 is calculated both with reference to Tier 1 capital and in accordance with the transitional definition of Tier 1 capital.</p> <p>Excessive leverage risk assessment also uses the ratio of mismatch of assets and liabilities.</p>
MONITORING	The objective of excessive leverage risk control is to attempt to maintain the Bank's excessive leverage risk at an acceptable level. A strategic tolerance limit and a threshold are set for the leverage ratio in order to maintain excessive leverage risk at an acceptable level.
MONITORING AND FORECASTING	<p>Risk of excessive leverage is monitored on a quarterly basis when the following is verified:</p> <ul style="list-style-type: none"> • current level of the leverage ratio in relation to the strategic tolerance limit and threshold; • deviation of the leverage ratio from forecast. <p>A leverage ratio forecast is prepared once a quarter. The level of risk of excessive leverage is defined as "low" when the leverage ratio is equal to or higher than the threshold, as "increased" when the leverage ratio is below the threshold and equal to or higher than the strategic tolerance limit, and as "high" when the leverage ratio is below the strategic tolerance limit.</p>
REPORTING	Reporting takes place on a quarterly basis. Excessive leverage risk reporting includes the current and forecast leverage ratio in relation to the strategic tolerance limit and threshold. Excessive leverage risk information is presented in <i>Capital adequacy at PKO Bank Polski SA</i> reports. Reports on excessive leverage risk are intended for the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.
MANAGEMENT ACTIONS	<p>In the event of a high or increased risk of excessive financial leverage, management actions are proposed, taking into account the current macroeconomic situation and the cost of proposed actions. The impact of such recommended management actions on the level of risk of excessive leverage is determined.</p> <p>As part of updating quarterly financial forecasts and creating a financial plan, management actions aimed at reducing the level of excessive leverage risk so that it does not exceed the thresholds and strategic tolerance limits are taken into account.</p>

As at 31 December 2017, the financial leverage ratio was:

- at the consolidated level: 10.54;
- at the standalone level: 11.38.

8.1.9 COMPREHENSIVE STRESS TESTS

Comprehensive stress tests are an integral part of the Group's risk management process and they complement stress tests specific to particular risk types. They collectively take account of the risk types considered by the Group to be material. They include an analysis of the impact of changes in the environment and the operation of the Group on the Group's financial position, in the first instance: its income statement, statement of financial position, own funds, capital adequacy, including own funds requirements, internal capital, capital adequacy measures, and selected liquidity measures.

Comprehensive stress tests comprise cyclical and supervisory tests. Cyclical tests are carried out once a year, in a three-year time horizon. Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided thereby. Cyclical and thematic comprehensive stress tests are carried out taking into account changes in the value and structure of balance sheet and income statement items.

8.1.10 CAPITAL ADEQUACY²⁴

Capital adequacy management is a process whose objective is to ensure that the level of risk which the Bank and the Group take in connection with the development of their business may be covered with their capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in the first instance, compliance with the applicable regulations of the supervisory and inspection authorities, as well as the risk tolerance level set within the Bank and the Group and the capital planning process, including the policy concerning the sources of capital.

The objective of capital adequacy management is to maintain own funds at all times at a level that is adequate for the scale and risk profile of the Group's business.

The Group's capital adequacy process involves:

- specifying and pursuing the desirable capital objectives;
- identifying and monitoring material types of risks;
- measuring or estimating internal capital for each type of risk and the total internal capital;
- establishing strategic tolerance limits and thresholds for each capital adequacy measure;
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy;
- managing the structure of the balance sheet in terms of optimization of the quality of the Bank's own funds;
- emergency capital actions;
- stress tests;
- planning and allocating own funds and internal capital requirements to each business area and customer segment of the Bank and each Group member;
- assessing the profitability of each business area and customer segment.

The capital adequacy measures are:

- total capital ratio (TCR);
- ratio of own funds to internal capital;
- Common Equity Tier 1 capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio.

The objective of monitoring the level of the capital adequacy measures is to determine the extent to which the supervisory standards are met and identify cases which require that capital emergency actions be launched.

The key regulations applicable to assessing capital adequacy are:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR);
- Banking Act of 29 August 1997;
- Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015 (hereinafter referred to as "the Act on Macroprudential Supervision").

As required by Article 92 of the CRR, the minimum levels of the Group's capital ratios are:

- total capital ratio – 8.0%;
- Tier 1 capital ratio – 6.0%;
- Common Equity Tier 1 capital ratio (CET1) – 4.5%.

As required by the CRR and the Act on Macroprudential Supervision, the Group must meet the combined buffer requirement, which is the sum of the applicable buffers, i.e.:

- the capital conservation buffer, applicable to all banks. It will be gradually raised each year until it reaches the ultimate, permanent level of 2.5% (in 2019). As at 31 December 2017, the capital conservation buffer amounted to 1.25% and, effective from 1 January 2018, the capital conservation buffer will be 1.875%;
- the countercyclical buffer, which is imposed to reduce the systemic risk arising from the credit cycle. The Bank calculates its countercyclical buffer in the amount set by the competent national authority of the country in which

²⁴ Own funds are calculated for capital adequacy purposes on the basis of the Banking Act and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

the Bank is exposed. Effective from 1 January 2017, the countercyclical buffer has been 0% for credit exposures in the territory of the Republic of Poland;

- the systemic risk buffer - used to prevent and mitigate long-term non-cyclical systemic or macroprudential risks, which may have serious negative consequences for the financial system and the real economy in the given country. As at 31 December 2017, the systemic risk buffer was 0%. Effective from 1 January 2018, the systemic risk buffer has been 3%;
- the buffer arising from identifying the Bank as a systemically important institution ("O-SII") - on 24 November 2017, based on an assessment of the Bank's systemic importance, under the Act on Macroprudential Supervision, the Group obtained an individual decision of the PFSA to impose a buffer of 0.75% of the total risk exposure, calculated in accordance with the CRR, on the Group.

Moreover, the Group must maintain own funds for the additional capital requirement for the risk of foreign currency mortgage loans for households, the so called "additional capital requirement". On 15 December 2017, the Group received a letter from the PFSA including the individually recommended additional own funds requirement, the so called "additional capital requirement", for the consolidated capital ratios: the total capital ratio: 0.61 pp, the Tier 1 capital ratio: 0.46 pp, and the Common Equity Tier 1 capital ratio: 0.34 pp.

The Group calculates own funds requirements for the following risk types:

CREDIT RISK	<p>under the Standardised Approach, using the following formulas for the following items:</p> <ul style="list-style-type: none"> • on-balance sheet exposures - the product of the carrying value (taking account of adjustments for specific credit risk), the risk weight assigned to the given exposure under the Standardised Method of calculation of the own funds requirement for credit risk, and 8% (taking into account eligible collateral); • off-balance sheet liabilities (obligations) granted - the product of the liability amount (taking account of adjustments for specific credit risk), the risk weight of the product, the risk weight assigned to the given off-balance sheet exposure under the Standardised Method of calculation of the own funds requirement for credit risk, and 8% (taking into account eligible collateral); • off-balance transactions (derivative instruments) - the product of the risk weight assigned to the given off-balance sheet transaction under the Standardised Method of calculation of the own funds requirement for credit risk, the on-balance sheet equivalent of the given off-balance sheet transactions, and 8% (the value of the on-balance sheet equivalent is calculated under the market valuation method).
OPERATIONAL RISK	<ul style="list-style-type: none"> • under the AMA - in respect of the Bank's operations, excluding foreign branches in Germany and the Czech Republic; • under the BIA - in respect of the operation of the foreign branches in Germany and the Czech Republic and in respect of the Group companies which are covered by prudential consolidation.
MARKET RISK	<ul style="list-style-type: none"> • foreign-exchange risk - calculated under the basic approach; • commodities risk - calculated under the simplified approach; • equity instrument risk - calculated under the simplified approach; • specific debt instrument risk - calculated under the basic approach; • general debt instrument risk - calculated under the duration-based approach; • other risks, other than the delta risk (non-delta risks) - calculated under the scenario approach for options for which the Bank uses its own valuation models, and under the delta plus approach for other options.
OTHER RISKS	<ul style="list-style-type: none"> • settlement risk and delivery risk - calculated under the approach defined in Title V "Own funds requirements for settlement risk" of the CRR; • counterparty credit risk - calculated under the approach defined in Chapter 6 "Counterparty credit risk" of Title II "Capital requirements for credit risk" of the CRR; • credit valuation adjustment risk - calculated under the approach defined in Title VI "Own funds requirements for credit valuation adjustment risk" of the CRR; • risk of exceeding the limit to large exposures - calculated under the approach defined in Articles 395 to 401 of the CRR; • for exposures to a central counterparty, a requirement for transactions and default fund contributions for a central counterparty is calculated.

In 2017, the PKO Bank Polski Group maintained a safe capital base, above the supervisory and regulatory limits.

Table 18. Capital adequacy at the PKO Bank Polski Group

	31/12/2017	31/12/2016
Total own funds	34,026	30,873
Tier 1 capital	32,326	28,350
Tier 1 capital before regulatory adjustments and deductions, of which:	35,270	32,060
Share capital	1,250	1,250
Other reserves	30,891	27,970
General banking risk reserve	1,070	1,070
Retained earnings	2,059	1,770
(-) Goodwill	-1,160	-1,160
(-) Other intangible assets	-1,654	-1,821
Accumulated other comprehensive income	-113	-709
Deferred tax assets dependent on future profitability which, however, do not result from temporary differences	0	-1
Common Equity Tier 1 adjustments due to prudential filters	55	30
Other Common Equity Tier 1 capital adjustments in the transitional period	-72	-49
Tier 2 capital	1,700	2,523
Equity instruments and subordinated loans qualifying as Tier 2 capital	1,700	2,523
Own funds requirements	15,670	15,626
Credit risk	14,499	14,271
Operational risk	656	657
Market risk	474	651
Credit valuation adjustment risk	41	47
Total capital ratio	17.37%	15.81%
Tier 1 capital ratio	16.50%	14.51%

9. REMUNERATION POLICY AND HUMAN RESOURCE MANAGEMENT

Remuneration policy in PKO Bank Polski SA and subsidiaries of the Bank's Group
Training policy
Number of employees
Benefits for supervisors and managers

9.1 REMUNERATION POLICY IN PKO BANK POLSKI SA AND SUBSIDIARIES OF THE BANK'S GROUP

As an institution of public trust, the Bank carries out its activities with the utmost care, and pays special attention to the professional skills and ethics of its employees. Consequently, the Bank's Management Board, with the active participation of the Supervisory Board, followed a remuneration policy that is an important element of the development and safety of the Bank's functioning.

The Remuneration policy for Employees of the Bank and the PKO BP Group, adopted by resolution no. 42/2017 of the Supervisory Board of 14 June 2017, is a key internal document pertaining to the remuneration policy. The policy ensures a consistent remuneration system by:

- introducing a remuneration system complying with market trends;
- targeting optimum candidates for work;
- adjusting remuneration mechanisms, tools and levels to the strategy and objectives of the Bank and the Bank's Group;
- making an allowance for the potential of the Bank's Group to develop desirable remuneration mechanisms and remuneration levels;
- defining fixed salaries based on job grading;
- making the remuneration structure dependent on the performance and assessment of the employees' competencies;
- developing a sense of responsibility among employees for the tasks performed, assessed based on objective criteria;
- guaranteeing that variable remuneration components are parameterized in such a way as to include the costs of risk, cost of capital and liquidity risk of the Bank and the Bank's Group in the long-term perspective;
- ensuring that remuneration components in cash or non-cash form do not encourage interested persons to favour their own interests or the interests of the Bank and companies of the Bank's Group, to the detriment of customers.

The Collective Bargaining Agreement concluded with trade union organizations on 28 March 1994 (as amended) provides a basis for the following remuneration components due to the Bank's employees:

- basic salary;
- allowances for overtime work as well as for work in especially onerous conditions and conditions harmful to health;
- bonuses and awards for special professional achievements.

Depending on the employment level, the principles of remuneration of employees are specified in remuneration rules and in employment contracts or just in employment contracts. Additionally, the Collective Bargaining Agreement for the years 2015-2017, concluded with trade unions, was binding in KREDOBANK SA, in 2017.

In 2017, the following changes to the Bank's remuneration policy took place:

- The Supervisory Board of the Bank adopted the "Policy for remuneration of Employees of the PKO BP Bank and Group." The Policy is superior to all other internal remuneration regulations of the Bank and the Bank's Group. The purpose of the Policy is to ensure a consistent remuneration system, allowing for the adjustment of remuneration mechanisms and levels to individual position categories and local labour market conditions, as well as the economic and financial position of the Bank and companies of the Bank's Group, as well as regulatory requirements of the Banking Law and the EBA.
- Principles for employment and remuneration of Members of the Bank's Management Board were adjusted to the requirements imposed on the Bank by the Act of 9 June 2016 on the terms for setting the remuneration of managers of certain companies, and provisions of the aforementioned Remuneration Policy resulting therefrom.

BASIC SALARY

In the process of setting basic salaries, the Bank applies internal job grading categories. These categories are determined using an independent and objective scoring method. Jobs are evaluated on an ongoing basis, in particular in the case of major organizational changes in the Bank.

The Bank verifies the adequacy of basic salaries by regular benchmarking analyses carried out by specialised external entities.

In order to ensure the security of and control over the salaries, the Bank endeavours to avoid setting fixed remuneration components above the market level, while avoiding an excessive outflow of employees and increased costs of the staff turnover that could result from setting remuneration below the market level. In order to achieve the aforementioned objectives, the Bank monitors the turnover ratios for individual positions so as to potentially adjust the assumptions of the remuneration system in the event of negative employment variations.

A limited and precisely identified group of employees, defined in the Bank's internal regulations, is authorised to define and change remuneration.

VARIABLE REMUNERATION

The process for awarding variable remuneration components in the Bank is governed by the Principles for setting variable remuneration components for persons in managerial positions in the Bank, Rules of variable remuneration components for Members of the Management Board and MRTs (Material Risk Takers), and in the Rules for awarding bonuses to employees of the Bank.

The process of awarding variable remuneration components is based primarily on bonus targets set within the framework of four bonus pillars:

PILLAR I, the so-called MbO (Management by Objectives) covering managers and experts responsible for achieving objectives of key importance to the Bank. The MbO involves a bonus depending on the quality and degree of achieving the targets set.

PILLAR II, the so-called BBP (Business Bonus Programme) – a bonus system, in which the bonus depends on the degree of completion of specific tasks related to sales and effectiveness. It covers the employees performing business tasks, mainly sales tasks in the area of corporate and investment banking, as well as debt collection tasks.

PILLAR III, the so-called SBS (Sales Bonus System) has been designated for positions in retail branches selling banking products.

PILLAR IV, the so-called ABS (Additional Bonus System), covers remaining employees not included in the MbO, BBP and SBS systems.

The purpose of the targets set is to guarantee that the risk related to the activities of the Bank is taken into account. All targets arise from target grids approved by the Management Board of the Bank that have to be cascaded down to employees of individual structures. MRTs are additionally responsible for special projects aimed at implementing the Bank's strategy.

MRTs, as the persons having particular influence on the security level and stable development of the Bank, are subject to additional remuneration limitations. Variable remuneration components are awarded to MRTs, including the Management Board, for a given assessment period (calendar year), after settling bonus targets, in non-deferred and deferred form. In order to ensure the sustainability of results, it is possible to reduce deferred variable remuneration components in the event of a deterioration in the financial results, loss incurred by the Bank or deterioration in other variables.

Additionally, fifty percent of every component is paid in financial instruments, the value of which is linked to the value of the Bank's shares. In the case of good and stable results, the Bank's value grows, which results in an increase in the ultimate cash payment. Otherwise, the payment may be reduced. This mechanism encourages MRTs and Members of the Management Board to focus on the results and development of the Bank and the Bank's Group.

The bonus parameters are set taking into account the position of the Bank and market benchmarks of the financial sector. Bonus parameters (bonus ratios, bonus adjustment ratios, target achievement level entitling to a bonus) for the Management Board could have been set by the Supervisory Board, and for MRTs and other employees – only by the President of the Management Board.

Dedicated periodic incentive solutions are introduced for projects of key importance to the security and development of the Bank.

Incentive and bonus systems, in the case of which the degree of achieving individual targets determines the bonus level, function in companies of the PKO Bank Polski SA. Group. The target setting method and allocation to a particular system depends on the tasks performed, including sales, tasks, and the size of the company. Managers of the majority of companies of the PKO Bank Polski SA Group and directors of selected companies of the Bank's Group participate in the MbO system.

Additionally, in relation to Directive 2013/36/EU of the European Parliament and of the Council and the Commission Delegated Regulation (EU) No. 604/2014, the Bank introduced separate regulations setting the policy of variable remuneration components for persons in positions having significant influence on the Bank's risk profile.

In 2017, the regulations setting the policy of variable remuneration components for positions having a significant influence on the risk profile also functioned in selected companies of the PKO Bank Polski SA Group.

NON-PAY BENEFITS

The Bank and companies of the Bank's Group offer a wide range of additional non-pay benefits, comparable to the average market offer, including:

Employee Pension Scheme (EPS) – this scheme offers the employees an opportunity of long-term saving in order to supplement their retirement income received from the obligatory pension system. The EPS is based on an agreement for a basic contribution made by the Bank and an additional contribution made by employees to investment funds managed by PKO TFI SA.

Additional health care to which the employees are entitled, including various service packages dedicated to certain position categories. Employees may also use the “Zdrowie jak w Banku” prevention programme, aimed at early detection of diseases and promotion of a healthy lifestyle.

Group insurance offering an option to participate in cost-effective group insurance; payments for this insurance are made by employees via the Bank.

MyBenefit cafeteria system – within the framework of this system, every employee has an opportunity to independently use the funds awarded from the Company's Social Benefits Fund using an Internet platform. The platform offers a wide range of benefits to be selected by the employee. The amount allocated depends on the family per capita income.

9.2 TRAINING POLICY

All activities carried out within the framework of the training policy of PKO Bank Polski SA support the implementation of the Bank's strategy and are adjusted to the current development needs of the employees and the potential of the organization. Consequently, objectives of training projects performed in PKO Bank Polski SA included, in particular:

- development of competencies supporting the implementation of the strategy of PKO Bank Polski SA;
- development of knowledge and skills supporting the business objectives of the Bank;
- increasing the commitment of employees to ongoing business activities;
- taking care of maintaining the highest possible quality of customer services;
- supporting a positive attitude to changes among the Bank's employees.

The Bank's employees may develop their professional qualifications using various methods. The Internal Training Bureau, comprised of internal Bank trainers, offers group training, position training and internal workshops aimed at the development of sales skills, as well as product and application knowledge. At the same time, external training companies, which signed framework agreements with the Bank, implement comprehensive development programmes focused on soft skills and growth of specialised knowledge available in the market. In 2017, more than 58 thousand employees participated in training arranged by PKO Bank Polski SA, which means that every employee of the Bank participated in 2 training sessions on average.

The internal e-learning platform is actively used in the Bank, mainly for the purposes of training on product knowledge, processes and IT application operation. In 2017, 146 thousand employees participated in e-learning training.

Training sessions and workshops arranged in the Bank are designed for employees of the PKO Bank Polski SA Group and the agency network of PKO Bank Polski SA. As a result employees of the Bank's Group and the agency network have access to high-quality training consistent with the training methodology and standards of the Bank. Moreover,

framework agreements signed with training companies ensure attractive terms and conditions, including training rates favourable to the Bank.

In 2017, in order to adjust the internal regulations and bank processes to EU directives, the following training activities were implemented:

- MiFID II – preparation and implementation of the e-learning training – “Investment product certification.” More than 13 thousand employees from various business lines completed the training.
- MiFID II – a team of internal trainers designed and implemented on-site training for selected employees of the retail network. The purpose of this training was to prepare for discussing investment products with customers, in the context of new regulations. In 2017, 2,537 employees of the retail network participated in on-site training.
- Implementation of provisions of the Act on mortgage loans – preparation of the e-learning training titled “Mortgage banking training – Act on mortgage loan,” which was open to employees of the Bank, as well as Agents and employees of the agencies. In total, 5,460 people (including 1,830 agency network employees) completed the training.

General training, available to all employees of the Bank’s Group, are offered in cooperation with training companies and with the support of the Bank’s internal trainers. This training is aimed at the development of soft skills, project management knowledge and knowledge of MS Office tools. In 2017, 1,291 employees participated in general training.

In 2017, the following large training/development projects were carried out in the Bank:

- Retail Network Management Development Programme – comprehensive programme aimed at the development of management competencies in the retail network, launched in May 2017;
- induction programme – comprehensive programme of induction training for new employees in the retail network;
- “New Manager” programme – induction programme aimed at ensuring that new managers in the Bank have up-to-date knowledge, skills and management tools;
- incentive training programme for the agency network comprising the “START Knowledge” e-learning training stage and the stage including on-site “Quest for Points” training.

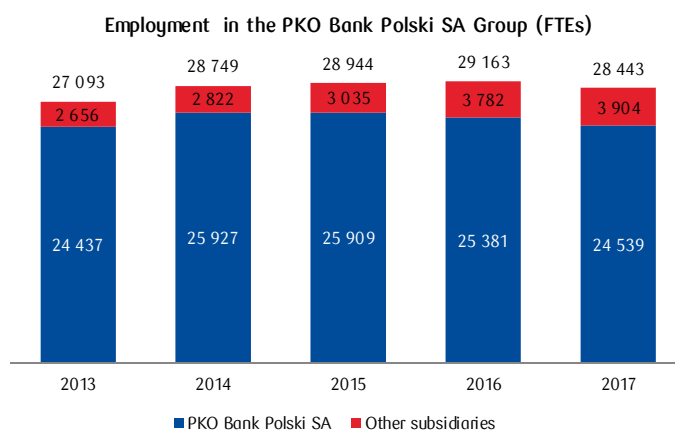
In 2017, in addition to the aforementioned projects, many other training initiatives were implemented, in relation to market business requirements and the strategy of the Bank. The major ones included:

- Bid Factory 3.0 (Fabryka Ofert 3.0) and New Customer Register;
- SME Advisory Model;
- MOBilization Programme (for IKO Leaders);
- SME Certification;
- Direction on Quality;
- Multimanager (Multikierownik);
- Financial analysis 2.0;
- Multimodal biometric system of authentication of a ban Customer;
- Corporate Banking Centre.

9.3 NUMBER OF EMPLOYEES

As at 31 December 2017, the employment in the PKO Bank Polski SA Group was 28,443 FTEs, which means a drop by 721 FTEs y/y (including a drop in employment in the Bank by 842 FTEs, mainly in the retail network, together with an increase of employment in companies by 121 FTEs, among other things as a result of the acquisition of KBC TFI and Net Fund Administration Sp. z o.o.).

In 2017, employment contracts were terminated by the Bank for reasons not attributable to employees, with respect to 771.6 FTE.



Employment restructuring was carried out, in particular, for the following reasons:

- reorganization in respect of the allocation of tasks to the units;
- higher effectiveness of the Bank employees;
- universalization of positions;
- changing the typology of branches;
- centralization of the tasks which were conducted in field offices.

9.4 BENEFITS FOR SUPERVISORS AND MANAGERS

Principles for remunerating Members of the Bank's Management Board

Variable remuneration components for Members of the Management Board and key managers having a material impact on the Bank's risk profile

Information on non-pay remuneration components due to individual Members of the Management Board

Principles for remunerating Members of the Supervisory Board

Agreements concluded between the Bank and management members

Liabilities due to pensions for former supervisors and managers

PRINCIPLES FOR REMUNERATING MEMBERS OF THE BANK'S MANAGEMENT BOARD

In the first half of 2017, principles for remunerating Members of the Bank's Management Board, set by the Supervisory Board, applied to Members of the Bank's Management Board. In accordance thereto, the following remuneration components were due to Members of the Management Board:

- basic salary in the amount specified in the resolution of the Supervisory Board for each Member of the Management Board separately;
- benefits due to the Bank's employees (except for benefits due to employees under the Collective Bargaining Agreement):
 - based on generally binding legal regulations;
 - based on the internal regulations of the Bank, showing standardised or exceptional features, awarded on a basis of factors other than an assessment of the performance of a Member of the Bank's Management Board or performance in the area supervised by this Member of the Management Board;
- performance-related variable remuneration components, in particular bonuses, awards for special professional achievements, severance pays;
- insurance financed by the Bank, in particular life insurance, insurance against serious illness, permanent disability, permanent or long-term damage to health, incapacity to work (a detailed scope of insurance will arise from the insurer's offer and conditions negotiated by the Bank).

Principles for setting the remuneration of Members of the Management Board were defined by resolution no. 2/2017 of the Extraordinary General Meeting of Shareholders of the Bank of 13 March 2017. Based on the resolution of the General Meeting of Shareholders on the principles for setting the remuneration of Members of the Management Board, the Supervisory Board adjusted the employment form and method of remunerating Members of the Bank's Management Board to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies (Journal of Laws of 2016, item 1202, as amended).

Based on the above, as of July 2016, the Principles for employment and remuneration of Members of the Bank's Management Board came into force. In accordance with these Principles, Members of the Management Board are entitled to:

- fixed remuneration in the amount specified in the resolution of the Supervisory Board for the President of the Management Board, Vice-President of the Management Board in charge of the Risk Management Area and remaining Members of the Management Board separately;
- variable remuneration – additional remuneration awarded and paid after the performance assessment period, in particular bonuses, awards for special professional achievements, severance pay (excluding fixed remuneration and benefits awarded based on the applicable legal regulations).

The fixed remuneration amounts to:

- in the case of the President of the Management Board – times 15;
- in the case of the Vice-President of the Management Board in charge of the Risk Management Area – times 14;
- in the case of remaining Members of the Management Board – times 13;

the average monthly remuneration in the enterprise sector without out of profit payments in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.

Table 19. Benefits for Members of the Management Board of the Bank, paid in 2017 and 2016 (in thousands PLN)

	Period	2017			2016			
		Fixed remuneration	Variable remuneration	Other benefits*	Fixed remuneration	Variable remuneration	Other benefits*	
1. Zbigniew Jagiełło	01/01/2017 - 31/12/2017	1 341	1 126	862	01/01/2016 - 31/12/2016	1 951	948	130
2. Piotr Alicki	-	5	828	512	01/01/2016 - 30/10/2016	1 219	741	1 120
3. Rafał Antczak	02/07/2017 - 31/12/2017	342	0	0	-	0	0	0
4. Janusz Derda	01/01/2017 - 09/08/2017	436	12	45	01/01/2016 - 31/12/2016	55	0	0
5. Bartosz Drabikowski	01/01/2017 - 21/12/2017	1 126	965	283	01/01/2016 - 31/12/2016	1 626	804	115
6. Maks Kraczkowski	01/01/2017 - 31/12/2017	1 073	144	133	04/07/2016 - 31/12/2016	683	0	15
7. Mieczysław Król	01/01/2017 - 31/12/2017	1 066	165	80	06/06/2016 - 31/12/2016	786	0	19
8. Adam Marciniak	01/10/2017 - 31/12/2017	172	0	0	-	0	0	0
9. Piotr Mazur	01/01/2017 - 31/12/2017	1 094	835	301	01/01/2016 - 31/12/2016	1 463	619	104
10. Jarosław Mjajak	-	0	495	15	01/01/2016 - 22/03/2016	364	590	1 399
11. Jacek Oblękowski	-	4	641	19	01/01/2016 - 21/03/2016	367	734	1 626
12. Jakub Papierski	01/01/2017 - 31/12/2017	1 066	892	296	01/01/2016 - 31/12/2016	1 446	757	108
13. Jan Emeryk Rościszewski	01/01/2017 - 31/12/2017	1 066	132	120	18/07/2016 - 31/12/2016	629	0	1

* Other benefits include: additional insurance, Employee Pension Scheme (EPS), health care and social fund, as well as payments after the employment period (holiday equivalent, non-competition agreement, severance pay). In 2017, the holiday equivalent was paid as a result of amendments to Principles for employment and remuneration of Members of the Bank's Management Board, settlements of previous employment contracts and conclusion of management agreements.

Full information on remuneration components and other benefits for individual Members of the Management Board of PKO Bank Polski SA during the reporting period is published in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2017 (note 45).

VARIABLE REMUNERATION COMPONENTS FOR MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS HAVING A MATERIAL IMPACT ON THE BANK'S RISK PROFILE (MATERIAL RISK TAKERS – MRTs)

In accordance with the requirements of CRD IV and the Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, the Bank updates the principles for setting variable remuneration components on an ongoing basis.

Variable remuneration components are awarded primarily based on bonus targets set within the framework of the Management by Objectives (MbO) programme.

The purpose of the targets set is to guarantee that the risk related to the activities of the Bank is taken into account. Risks are reflected both by determining the appropriate risk-sensitive criteria for work effectiveness assessment, and reducing or clawback of the variable remuneration component in the case of a deteriorated financial result, loss or deterioration in other ratios.

Variable remuneration components for the particular assessment period (calendar year) are awarded after settling bonus targets, in:

- non-deferred form – 60% of the variable remuneration component (in the first year after the assessment period);
- deferred form – 40% of the variable remuneration component (in equal instalments over the net years after the first year after the assessment period);

while both the non-deferred and deferred remuneration is awarded in equal parts in cash and in financial instruments, i.e. the phantom shares (that are converted into cash based on the updated price of the Bank's shares after the period of retention, and in the case of the deferred remuneration component – after a deferral period).

If the variable remuneration component for the particular year exceeds PLN 1 million, PLN 400 thousand plus 60% of the excess over the amount of PLN 1 million shall be deferred. Variable remuneration components cannot exceed 100% of the annual basic salary.

Each of the components of accrued variable remuneration may be reduced as a result of:

- breach of the obligations arising from the contract;
- lack of compliance with legal regulations or customer service standards;
- improper performance of professional duties;
- attitude towards other employees breaching social coexistence rules.

The bonus amount:

- for a member of the Management Board can be adjusted (decreased or increased) by a certain ratio, depending on the results achieved by the Bank, specified in the Bank's Annual Note (a set of key management indicators specified for a given calendar year);
- for an MRT, who is not a member of the Board, it can be adjusted (increased) by a certain ratio, depending on the results achieved by the Bank, specified in the Bank's Annual Note.

In the case of:

- a significant deterioration in the Bank's results;
 - identifying a significant adverse change in equity;
 - MRT breaching the law or making serious errors;
 - adjustment of the achievement and degree of achievement of the results or targets of MRT;
 - deterioration in the performance of the structures supervised or managed by the aforementioned persons;
 - granting the variable remuneration component based on incorrect or misleading information or MRT fraud;
- the Supervisory Board or the Management Board respectively may apply a malus solution reducing the amount of the variable remuneration component due, deferred to subsequent settlement periods.

Material Risk Takers (except Members of the Bank's Management Board) may benefit from health care services financed by the Bank, the social benefits fund, and the Employee Pension Scheme (EPS).

In the case of severance pay related to dismissal (other than resulting from generally applicable laws), the amount reflects the performance assessment for the last three years of employment. At the same time, the Bank's internal regulations stipulate the maximum amount of the severance pay.

A Member of the Management Board shall be entitled to severance pay subject to fulfilling the function of Member of the Bank's Management Board for at least twelve months before termination of the aforementioned contract. A MRT can receive the severance pay subject to being employed as an MRT for at least twelve months before termination of the employment contract.

Members of the Management Board and certain MRTs are additionally subject to non-competition agreements. These agreements provide for payment of the compensation equivalent to 100% of the basic salary arising from the contract for refraining from employment in a competitive firm after the termination of employment with the Bank, for no more than six months.

INFORMATION ON NON-PAY REMUNERATION COMPONENTS DUE TO INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD AND KEY NON-FINANCE MANAGERS

Since 1 July 2017, as a result of adjusting the principles for employment and remuneration of Members of the Bank's Management Board to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies (Journal of Laws of 2016, item 1202, as amended), Members of the Management Board are not entitled to non-pay remuneration components.

PRINCIPLES FOR REMUNERATING MEMBERS OF THE SUPERVISORY BOARD

The monthly remuneration of Members of the Supervisory Board was set by resolution no. 3/2017 of the Extraordinary General Meeting of Shareholders of PKO Bank Polski Spółka Akcyjna of 13 March 2017, as a product of the average monthly remuneration in the enterprise sector without out of profit payments in the fourth quarter of the previous year, announced by the President of the Central Statistical Office, and the following ratios:

- for the Chairman of the Supervisory Board – 2.75;
- for the Deputy Chairman of the Supervisory Board – 2.5;
- for the Secretary of the Supervisory Board – 2.25;
- for the remaining Members of the Supervisory Board – 2.

The remuneration shall be increased by 10% if a Member of the Supervisory Board sits on at least one standing committee of the Supervisory Board.

In addition to their remuneration, Members of the Supervisory Board shall be entitled to reimbursement for the costs incurred in connection with their function, in particular travel costs from the place of residence to the location of the Supervisory Board's meeting and back, costs of accommodation and food.

Table 20. Remuneration of Members of the Supervisory Board (in thousands PLN).

	2017	2016
Supervisory Board		
Remuneration received due or potentially due from PKO Bank Polski SA	1 315	1 268
Remuneration received, due or potentially due from related entities*	0	0
Total remuneration received, due or potentially due	1 315	1 268

* Other than the State Treasury and related entities of the State Treasury

Full information on remuneration components and other benefits for individual Members of the Management Board of PKO Bank Polski SA and the Supervisory Board during the reporting period is published in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2017 (note 45).

AGREEMENTS CONCLUDED BETWEEN THE BANK AND MANAGEMENT MEMBERS

In accordance with the definition included in § 2 section 1 point 30 letter a of the Regulation of the Minister of Finance of 9 February 2009 on current and periodical information submitted by issuers of securities and the conditions for recognising as equivalent the information required by the law of a non-member country (Journal of Laws No. 33, item 259, as amended), Members of the Management Board are persons managing the Bank.

In the period until 30 June 2017, two agreements were concluded with each Member of the Management Board of PKO Bank Polski SA, binding in 2017:

- employment contract;
- non-competition agreement.

After 1 July 2017, as a result of adjusting the principles for employment and remuneration of Members of the Bank's Management Board to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies (Journal of Laws of 2016, item 1202, as amended), every Member of the Bank's Management Board has concluded a management agreement with the Bank, laying down, among other things, the remuneration terms and competition ban. Taking into account the above changes, the previously binding employment contracts were discharged.

LIABILITIES DUE TO PENSIONS FOR FORMER SUPERVISORS AND MANAGERS

Within the meaning of § 2 section 1 point 30 letter a of the Regulation of the Minister of Finance of 9 February 2009 on current and periodical information submitted by issuers of securities and the conditions for recognising as equivalent the information required by the law of a non-member state (Journal of Laws No. 33, item 259, as amended), in 2017, no liabilities due to pension and similar benefits for former managers, supervisors or former members of the administrative authorities and liabilities incurred in relation to these pensions occurred.

10. CORPORATE GOVERNANCE

Information for investors
Statement of compliance with the corporate governance principles
Shares of PKO Bank Polski SA held by the Bank's authorities
Diversity policy

10.1 INFORMATION FOR INVESTORS

Share capital and ownership structure of PKO Bank Polski SA
Listings of shares of PKO Bank Polski SA on the Warsaw Stock Exchange
Restrictions imposed on shares of PKO Bank Polski SA
Assessment of the creditworthiness of PKO Bank Polski SA
Investor relations

10.1.1 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF PKO BANK POLSKI SA

As at 31 December 2017, the share capital of PKO Bank Polski SA amounted to PLN 1,250,000 thousand and comprised 1,250,000 thousand shares with a par value of PLN 1 each; the shares are fully paid-up. The share capital of PKO Bank Polski SA remained unchanged compared with its status as at the end of 2016. The issued shares of PKO Bank Polski SA are not preference shares.

Table 21. Structure of the share capital of PKO Bank Polski SA

Series	Type of shares	Number of shares	Nominal value per share	Series value at nominal value (PLN)
Series A	ordinary registered shares	312,500,000	PLN 1	312,500,000
Series A	ordinary bearer shares	197,500,000	PLN 1	197,500,000
Series B	ordinary bearer shares	105,000,000	PLN 1	105,000,000
Series C	ordinary bearer shares	385,000,000	PLN 1	385,000,000
Series D	ordinary bearer shares	250,000,000	PLN 1	250,000,000
		1,250,000,000		1,250,000,000

According to PKO Bank Polski's best knowledge, as at 31 December 2017, three shareholders: The State Treasury, Aviva Otwarty Fundusz Emerytalny and Nationale-Nederlanden Otwarty Fundusz Emerytalny held, directly or indirectly significant parcels of shares (at least 5%).

Table 22. Ownership structure of PKO Bank Polski SA

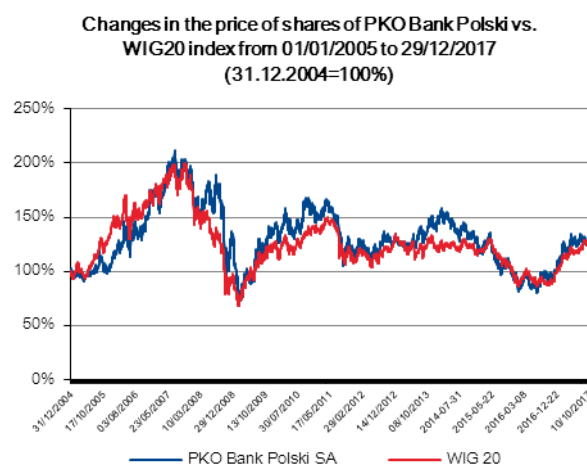
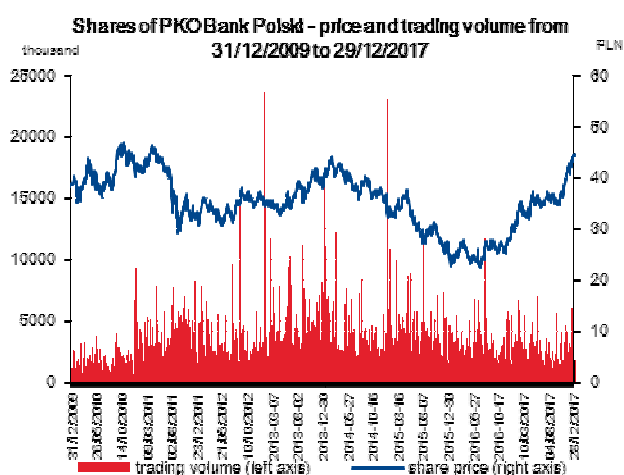
	As at 31/12/2017		As at 31/12/2016		Change of the share in the number of votes at the GMS
	Number of shares	Share in the number of votes at the GMS	Number of shares	Share in the number of votes at the GMS	
State Treasury	367,918,980	29.43%	367,918,980	29.43%	-
Aviva Otwarty Fundusz Emerytalny ¹⁾	95,163,966	7.61%	87,463,966	7.00%	+0.62 p.p.
Nationale-Nederlanden Otwarty Fundusz Emerytalny (until 23/06/2015, ING Otwarty Fundusz Emerytalny) ¹⁾	103,388,120	8.27%	120,748,753	9.66%	-1.39 p.p.
Other shareholders ²⁾	683,528,934	54.68%	673,868,301	53.91%	+0.77 p.p.
Total	1,250,000,000	100.00%	1,250,000,000	100.00%	-

1) Calculated taking into account the number of shares held as at the end of the particular year, published by PTE in the annual information on the structure of assets of the fund and the price from the stock exchange list.

2) Including Bank Gospodarstwa Krajowego that, as at 31/12/2017, held 24,487,297 shares entitling to 1.96% of the votes at the General Meeting.

Shares of PKO Bank Polski SA do not give any special controlling rights to their holders.

10.1.2 LISTINGS OF SHARES OF PKO BANK POLSKI SA ON THE WARSAW STOCK EXCHANGE



In 2017, as in previous years, the Bank focused on consistently generating attractive business results for investors and on adjusting the business model to the new market environment, in order to ensure a return on capital above the cost of capital, and thus, build shareholder value.

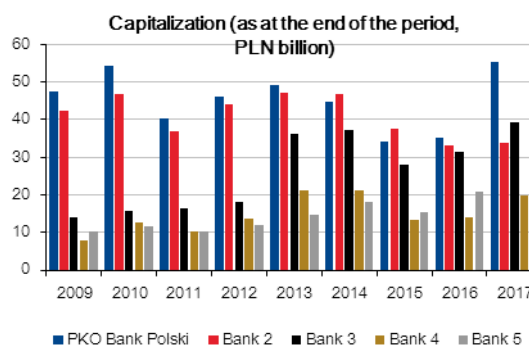
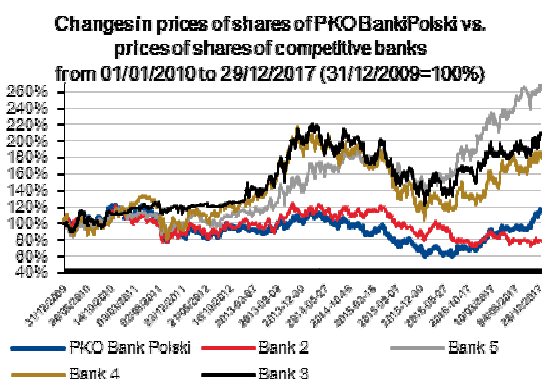
As at the end of 2017, PKO Bank Polski SA was the most valuable company on the Warsaw Stock Exchange. The Bank's capitalisation exceeded PLN 55 billion.

In 2017, the price of shares of PKO Bank Polski SA increased by 57.5%, and as at the end of 2017, it was PLN 44.3, while WIG20 and WIG Banki indices increased by 26.4% and 35.4% respectively.

Such changes in the prices of shares of banks on the Warsaw Stock Exchange, including shares of PKO Bank Polski SA, were due mainly to:

- regulatory factors – in particular planned regulatory solutions for borrowers, who incurred housing loans in CHF. This is confirmed, for instance, by maintaining the Bank's rating by Moody's. In the justification, the agency referred to greater clarity of the legislative proposal in this respect and the lower potential costs of the project. The resulting mitigation of the negative impact of new proposed solutions of the issue of mortgage loans in foreign currencies on the banks' costs supported the growth in prices of the banks' shares;
- market factors – in particular the high economic growth and good perception of the banking sector by the investors. Share prices were also supported by the good financial results of the banks, and interest rate increases expected in subsequent years. The level of the Bank's result forecasted by analysts also increased during the last year.

PRICE OF SHARES AND CAPITALISATION OF PKO BANK POLSKI SA COMPARED TO COMPETITIVE BANKS



10.1.3 RESTRICTIONS IMPOSED ON THE SHARES OF PKO BANK POLSKI SA

All shares of PKO Bank Polski SA carry the same rights and obligations. No shares are preference shares, in particular with respect to voting rights or dividend. The Articles of Association of PKO Bank Polski SA limit the voting right of shareholders holding more than 10% of the total number of votes at the General Meeting of Shareholders and prohibits these shareholders from exercising more than 10% of the total number of votes at the General Meeting of Shareholders. The aforementioned limitation does not apply to:

- shareholders, who held shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK) on the date of passing the resolution of the General Meeting of Shareholders introducing a limitation to the voting rights;
- shareholders who are entitled based on A-series registered shares (the State Treasury); and
- shareholders acting jointly with the shareholders referred to in the second bullet point, based on an agreement concerning the joint execution of voting rights on shares. Moreover, the limitation to the voting rights will expire when the State Treasury's share in the Bank's share capital drops below 5%.

In accordance with § 6 section 2 of the Articles of Association of PKO Bank Polski SA, the conversion of A-series registered shares into bearer shares or their transfer requires the approval of the Council of Ministers expressed in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after obtaining the aforementioned approval, will result in the expiry of the above mentioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

Pursuant to Article 13 section 20 of the Act of 16 December 2016 on the principles for public property management, the shares of PKO Bank Polski SA held by the State Treasury cannot be sold. Furthermore, under Article 14 of the aforementioned Act, the shares of PKO Bank Polski SA (which was considered a company significant for the national economy, in accordance with the regulation of the Prime Minister on the list of companies significant for the national economy), held by the State Treasury, cannot be donated to a local government unit or an association of local government units.

10.1.4 ASSESSMENT OF CREDITWORTHINESS

Rating of PKO Bank Polski SA Rating of PKO Bank Hipoteczny SA Rating of the PKO Leasing SA Capital Group
--

RATING OF PKO BANK POLSKI SA

In 2017, the creditworthiness of PKO Bank Polski was assessed by Moody's Investors Service rating agency which awards a paid rating to the Bank, in accordance with its own bank assessment procedure.

On 16 May 2017, Moody's Investors Service rating agency published a press release on its website at www.moody.com, in which it notified of changing the outlook to stable from negative on the Bank's long-term deposit ratings, and affirming the Bank's ratings of long- and short-term deposits on the A2/P-1 level. Moody's also notified that the Bank's other ratings were unaffected.

The Bank's long-term deposit rating outlook was increased as a result of a similar increase in the outlook of Poland's rating, announced on 12 May 2017.

In accordance with the press release:

- A2 long-term deposit rating was affirmed, while the outlook was changed to stable from negative;
- P-1 short-term deposit rating was affirmed;
- A3 senior unsecured debt rating remained unaffected with a stable outlook;
- (P)A3 MTN program rating remained unaffected;
- (P)P-2 other short term program rating remained unaffected;
- A2(cr)/P-1(cr) Counterparty Risk Assessment (CR assessment) remained unaffected.

On 19 December 2017, Moody's notified of affirming the Bank's long- and short-term deposit ratings of "A2" and "Prime-1" respectively. The stable outlook for the long-term deposit rating and the Bank's financial strength rating was affirmed. Moody's also notified that the remaining ratings of the Bank were unaffected. The rating action taken by Moody's was driven by greater clarity, in the agency's opinion, on the legislative proposal regarding foreign currency mortgages at Polish banks, and Moody's assessment that the potential costs associated with the draft legislation will be manageable for the banks.

Table 23. Ratings as at 31 December 2017 (paid rating)

Moody's Investors Service	
Long-term deposit rating	A2 with stable outlook
Short-term deposit rating	P-1
Senior unsecured debt rating	A3 with stable outlook
MTN programme rating	(P)A3
Other short-term programme rating	(P)P-2
Counterparty risk assessment - long-term	A2(cr)
Counterparty risk assessment - short-term	P-1(cr)

RATING OF PKO BANK HIPOTECZNY SA

As at the end of 2017, PKO Bank Hipoteczny SA had the following ratings granted by Moody's Investors Service rating agency (paid rating):

- Baa1 long-term issuer rating with a stable outlook and Prime-2 short-term issuer rating, granted on 7 September 2015, and affirmed on 19 December 2017;
- A3(cr) long-term Counterparty Risk Assessment and Prime-2(cr) short-term Counterparty Risk Assessment, granted on 7 September 2015, and affirmed on 19 December 2017;
- Aa3 rating for PLN mortgage bonds issued by PKO Bank Hipoteczny SA, granted on 11 December 2015 and affirmed upon each issue;
- Aa3 rating for EUR mortgage bonds issued by PKO Bank Hipoteczny SA, granted on 24 October 2016 and affirmed upon each issue.

RATING OF THE PKO LEASING SA CAPITAL GROUP

As at 31 December 2017, bonds issued by ROOF Poland Leasing 2014 DAC, special purpose vehicle established within the PKO Leasing SA Capital Group for the purposes of the asset securitization programme, had the following ratings (paid rating):

- A1 and A2 bonds issued in December 2014 and in December 2015 respectively - AA rating granted by Fitch and AAA rating granted by Scope;
- B bonds issued in December 2015 - BBB rating granted by Fitch and BBB+ rating granted by Scope.

Ratings for all class bonds were updated for the last time in November 2017.

10.1.5 INVESTOR RELATIONS

Key objectives of investor relations Activities in 2017
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PKO Bank Polski SA maintains regular contact with investors and financial market analysts. As part of its relations with the market, representatives of the Bank provide answers to the questions of investors and analysts concerning the Bank's operations in a broad sense, its financial results and the situation in the banking sector. Additionally, the Bank allows various forms of contact preferred by the investors and analysts.

KEY OBJECTIVES OF INVESTOR RELATIONS

In 2017, the Bank's investor relation activities focused on the following areas:

- strengthening the positive image of PKO Bank Polski SA as a reliable and transparent company among existing and potential investors, financial market analysts and rating agencies, through the use of various market communication tools;
- providing exhaustive information on the Bank's financial results and activities, including changes in the market environment, in order to allow a reliable assessment of the Bank's current situation and perspectives, as well as the correct valuation of its shares;
- fulfilling the information duties of the Company as an issuer of securities, as required by the law;
- arranging the General Meetings of Shareholders and providing information to the Bank's shareholders;
- ensuring the Bank's cooperation with responsible governmental bodies, organizations and capital market institutions in connection with the Bank's presence on the public securities market;
- coordination of work and preparation of the statement on non-financial information.

ACTIVITIES IN 2017

In 2017, as part of market communication:

- after the end of each quarter, the financial results of the Bank and the Bank's Group were presented by the Bank's Management Board in meetings with investors and capital market and debt securities analysts, held at the Bank's registered office, and via teleconferences, in each case with the participation of about 60 analysts and investor representatives in total;
- Members of the Management Board and key managers participated in regular meetings (and teleconferences) with investors and analysts, both at the Bank's registered office and during investor conferences. In 2017, about 60 meetings at the Bank's registered office and about 100 teleconferences were held. Additionally, Members of the Bank's Management Board answered the investors' questions during investor conferences held both in Poland and abroad. In 2017, in total, approximately 140 meetings were held during 18 investor conferences arranged in: Austria (1 conference), Czech Republic (1 conference), Germany (2 conferences), Poland (3 conferences for institutional investors and 1 conference for individual investors), United States (5 conferences) and the UK (5 conferences). In addition to meetings at investor conferences, Members of the Bank's Management Board talked to investors during 3 roadshows, involving in total in 25 meetings with investors in Hong Kong, Singapore, the United States and the UK;
- the Investor Relations Office maintained on-going contacts with analysts as well as institutional and individual investors, by answering numerous telephone or email inquiries pertaining to business operations and the financial performance of PKO Bank Polski SA;
- all information of significant importance to the Bank's investors and shareholders was immediately published on the Investor Relations website at www.pkobp.pl/inwestorzy (www.pkobp.pl/investors);
- in 2016, the Bank again made available its online annual report in the form of a dedicated website in two language versions: Polish and English (www.raportroczny2016.pkobp.pl). The annual report published in the form of a separate website facilitates finding key financial and business information on the PKO Bank Polski SA Capital Group.

10.2 STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

Corporate governance principles and the scope of application
Control systems in the process of preparation of the financial statements
Articles of Association of PKO Bank Polski SA
General Meeting of Shareholders
Supervisory Board of PKO Bank Polski SA
Management Board of PKO Bank Polski SA

10.2.1 CORPORATE GOVERNANCE PRINCIPLES AND THE SCOPE OF APPLICATION

Corporate governance principles included in the document titled "Best Practice for GPW Listed Companies 2016"
Corporate governance principles for supervised Institutions issued by the PFSA

CORPORATE GOVERNANCE PRINCIPLES INCLUDED IN THE DOCUMENT TITLED "BEST PRACTICE FOR GPW LISTED COMPANIES 2016"

In relation to the Best Practice for GPW Listed Companies 2016 coming into force as of 1 January 2016, the Bank adopted the principles and recommendations contained in this document, with the reservation that recommendation IV.R.2., which concerns enabling the shareholders to participate in the General Meeting of Shareholders using electronic communication means would not be applied, unless the General Meeting of Shareholders makes appropriate amendments to the Bank's Articles of Association authorizing the Management Board to organize a General Meeting of Shareholders using electronic communication means. The Bank applies recommendation IV.R.2 in part concerning the real-time broadcast of General Meetings of Shareholders. According to the Bank's experience, its shareholders do not expect more extensive use of means of electronic communication during General Meetings of Shareholders. PKO Bank Polski SA enables participation by shareholders, who are interested in taking part in General Meetings of Shareholders, by setting convenient dates and times for such meetings. In 2017, no incidental breaches of the Principles occurred in the Bank.

The text of the Best Practice for GPW Listed Companies 2016 is publicly available on the official website of the Warsaw Stock Exchange, at <https://www.gpw.pl/dobre-praktyki>.

Since 1 January 2016, information on the status of the Bank's application of recommendations and principles included in the Best Practice for GPW Listed Companies 2016 is available on the Bank's website, at (<http://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-na-gpw-2016>). This information is prepared on the form prepared by the Warsaw Stock Exchange and shows the detailed status of compliance or non-compliance with each of the recommendations and principles, and results directly from the application of principle I.Z.1.13.

KEY ACTIVITIES UNDERTAKEN BY PKO BANK POLSKI SA IN ORDER TO ENSURE COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS INCLUDED IN THE BEST PRACTICE FOR GPW LISTED COMPANIES 2016

INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

The Bank continued activities aimed at ensuring that the recommendations and principles contained in this section of the Best Practice are applied as broadly as possible, both in the area of communication with investors and enabling them to use modern communication channels, and in the area of information policy and providing the required information by its publication on the website.

PKO Bank Polski SA maintains regular contact with investors, using various communication means preferred by investors. Questions can be asked by e-mail, by telephone or during face-to-face meetings with the Bank's representatives. Additionally, in accordance with the Best Practice for GPW Listed Companies 2016, the Bank publishes the information on its sponsorship and charity activities.

The Bank also has the recommended internal regulations pertaining to explanations and clarification in relation to untrue, inaccurate or detrimental information disseminated in the media.

In accordance with the principles specified by the Best Practice for GPW Listed Companies 2016, the Bank maintains its corporate website in two language versions: Polish and English. All information and corporate documents required by the Best Practice for GPW Listed Companies 2016 are published on the website, including, among other things, information on the status of the application of the recommendations and principles included in the Best Practice for GPW Listed Companies 2016.

In 2017, as part of the organisation of the Bank's General Meetings of Shareholders, materials to be submitted to the General Meeting of Shareholders were published on the Bank's website, including, among other things, assessments, reports and positions submitted by the Supervisory Board of the Bank, justifications for all draft resolutions, in particular resolutions pertaining to matters and decisions of significant importance or potentially giving rise to any doubt of shareholders. Information about the planned transmission of a general meeting of shareholders was published no later than 7 days before the date of the General Meeting of Shareholders. Audio or video recordings of General Meetings of Shareholders of the Bank are also available on the Bank's website.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Principles and recommendations contained in this section were complied with. Both the Management Board and the Supervisory Board adopted the Best Practice for GPW Listed Companies 2016.

In particular, persons, who have high qualifications and experience are appointed to the Bank's Management Board and Supervisory Board. The internal allocation of responsibilities for individual areas of activities to Members of the Management Board is published on the Bank's website. In 2017, the functions on the Bank's Management Board were the main area of professional activity of Members of the Bank's Management Board.

In 2017, Members of the Supervisory Board devoted the time necessary to perform their duties. Nine meetings of the Supervisory Board of the Bank were held in 2017.

In accordance with the Best Practice for GPW Listed Companies 2016, the required number of members of the Board met the independence criteria. In accordance with their declarations, 8 out of 11 Members of the Supervisory Board are independent.

In 2017, the Supervisory Board took steps duly in advance of the expiration of the term of office of the Management Board in order to ensure the efficient operation of the Bank's Management Board, by selecting Members of the Management Board for the next term of office.

Additionally, the Supervisory Board prepared and presented to the General Meeting of Shareholders the required assessment of the Bank's standing, report on activities of the Supervisory Board, assessment of the manner of fulfilment of information duties by the Bank with respect to the application of corporate governance principles, and an assessment of the rationality of the policy pursued by the Bank with respect to sponsorship and charity activities.

INTERNAL SYSTEMS AND FUNCTIONS

The regulations and practices binding in PKO Bank Polski SA fully satisfied the requirements specified in the section of Best Practice for GPW Listed Companies 2016.

In particular, the Bank's organisational structure is adequate to the size and nature of activities, as well as risk incurred. Independent units responsible for the performance of tasks in individual systems or functions, or parts thereof, were separated. Relevant internal regulations of the Bank describe the Management Board's responsibility for the internal control system and risk management system, direct subordination of persons responsible for risk management, internal audit and compliance, the possibility of reporting directly to the Supervisory Board or the audit committee, the application of independence principles with regard to the manager of the internal audit function and other persons responsible for that function. In accordance with the requirement of the Best Practice for GPW Listed Companies 2016, the effectiveness of systems and functions is verified and monitored.

GENERAL MEETING OF SHAREHOLDERS AND SHAREHOLDER RELATIONS

Taking into account the organisation of the General Meeting of Shareholders, the Bank decided not to apply the recommendation which concern enabling the shareholders to participate in the General Meeting of Shareholders using electronic communication, unless the General Meeting of Shareholders makes appropriate amendments to the Bank's Articles of Association authorizing the Management Board to organize the General Meeting of Shareholders using electronic communication means. This decision was due to the organizational and legal risk related to this method of communication.

Within the remaining scope, in the opinion of the Bank, General Meetings of Shareholders were arranged in compliance with the requirements of the Best Practice for GPW Listed Companies 2016.

In particular, the Bank endeavoured to ensure that, as far as possible, Annual General Meetings of Shareholders are held within a reasonably short period from the publication of the annual report.

The places and dates of the Annual General Meeting of Shareholders (22 June 2017) and the Extraordinary General Meeting of Shareholders (13 March 2017) were set to allow the greatest possible number of shareholders to participate. Draft resolutions of the Annual General Meeting of Shareholders convened for 22 June 2017 were prepared and published together with the justification thereof. The Extraordinary General Meeting of Shareholders was convened for 13 March 2017 at the request of the eligible shareholder – the State Treasury. The said shareholder presented draft resolutions with statements of grounds together with the request for convening the Extraordinary General Meeting of Shareholders.

The Bank also ensured a real-time broadcast of both the Annual General Meeting of Shareholders on 22 June 2017 (also, after the break, on 20 July) and the Extraordinary General Meeting of Shareholders on 13 March 2017, and allowed the media to be present.

CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS

The internal regulations of PKO Bank Polski SA guarantee compliance with the recommendations and principles included in the Best Practice for GPW Listed Companies 2016. The Bank has regulations on conflict of interest management, including carrying out professional or other activities which might cause a conflict of interest. The rules of the Management Board and Supervisory Board define the principles for excluding members of these authorities from participation in the examination of matters involving conflicts of interest. If a situation that could lead to a potential conflict of interest has occurred, the persons concerned are obliged to disclose the situation.

Moreover, the Bank has internal regulations in place for monitoring and restricting the possibilities of receiving benefits or gifts which could affect the independence and objectivity of decision makers or have an adverse effect on the independence of opinions and judgements.

Transactions with related parties and significant shareholders are concluded on an arm's length basis, in accordance with consistent and uniform policies, based on the Bank's internal regulations. Furthermore, the Bank's Articles of Association stipulate that the Bank cannot conclude a significant agreement with a shareholder holding at least 5% of the total number of votes at the Bank

without the prior approval of the Supervisory Board. This requirement shall not apply to standard transactions or transactions concluded on an arm's length basis in the course of the Bank normal operating activities, if they are concluded with members of the Bank's Group.

REMUNERATIONS

The Bank follows the principles of the Best Practice for GPW Listed Companies 2016 with respect to remuneration. In accordance with the requirements thereof, the Bank's Directors' Report includes a report on the remuneration policy comprising elements specified in the Best Practice for GPW Listed Companies 2016 and the regulation on current and periodical information.

In the Bank's opinion, the remuneration policy is connected with the strategy as well as short- and long-term goals, long-term interests and financial results, and takes into account the solutions necessary to avoid discrimination on whatever grounds. The Bank also assesses the policy in this respect.

The remuneration of Members of the Bank's Management Board and its key managers is directly linked to the Bank's financial situation and the growth of its value through appropriate bonus targets and payment deferral and suspension mechanisms, as well as the relevant financial instrument used to settle part of the remuneration.

In accordance with the Best Practice for GPW Listed Companies 2016, the remuneration of Members of the Supervisory Board is not linked to any options, other derivatives or any other variable factors, nor is it dependent on the Bank's results.

Additionally, the Remuneration Committee functions within the Supervisory Board of the Bank, within the scope governed by the principles specified in the Best Practice for GPW Listed Companies 2016.

CORPORATE GOVERNANCE PRINCIPLES FOR SUPERVISED INSTITUTIONS ISSUED BY THE POLISH FINANCIAL SUPERVISION AUTHORITY

The Bank accepted for use the "Principles of Corporate Governance for Supervised Institutions" (adopted by the Polish Financial Supervision Authority on 22 July 2014) with respect to the competencies and obligations of the Management Board, i.e. managing the Bank's affairs and its representation, in compliance with the generally binding laws and the Bank's Articles of Association, with the provision that paragraph 8, section 4 of the Principles, insofar as it relates to allowing the shareholders the possibility of participating in the meetings of the decision-making authority electronically, will not be applied unless the General Meeting of Shareholders makes appropriate amendments to the Bank's Articles of Association authorizing the Management Board to organize the General Meetings of Shareholders using electronic means of communication. Chapter 9 of the Principles, concerning the managing of assets at the customer's risk, will not be applied due to the fact that the Bank does not conduct such activities.

The Bank's Supervisory Board adopted for use the "Corporate Governance Principles for supervised institutions" concerning the responsibilities and obligations of the Supervisory Board, i.e. supervising the conducting of the Bank's affairs in compliance with the generally binding laws and the Bank's Articles of Association.

In resolution no. 50/2015, the General Meeting of Shareholders declared that, acting in line with its competencies, it will follow the "Principles of corporate governance for supervised institutions" issued by the Polish Financial Supervision Authority," although it ruled out the application of the principles set out in:

- § 8 section 4 of the Principles, within the scope pertaining to ensuring the possibility of the electronic participation of shareholders in meetings of the decision-making body;
- § 10 section 2 of the Principles, with respect to the introduction of personal rights or other special rights for shareholders;
- § 12 section 1 of the Principles pertaining to the responsibility of shareholders for immediate recapitalization of the supervised institution;
- § 28 section 4 of the Principles with respect to assessing by the decision-making body whether the determined remuneration policy promotes the development and security of the institution supervised.

Waiving the application of the principle set out in § 8 section 4 was in line with the prior decision of the Annual General Meeting of Shareholders of PKO Bank Polski SA of 30 June 2011, reflected in not adopting the resolution on amendments to the Articles of Association of the Bank, the aim of which was to enable participation in the General Meeting through electronic means of communication. The decision not to apply this principle was taken because of the legal and organizational-technical risks, which could jeopardize the proper conduct of the General Meeting. Exclusion of the application of this principle by the AGM was consistent with the opinion of the Bank's Management Board not to apply it, adopted due to the fact that the current rules of the Bank about participation in General Meetings allow shareholders the effective enforcement of all rights from shares, and protect the interests of all shareholders.

The application of other "Principles of Corporate Governance for supervised institutions" was waived based on the presentation of these proposals by an eligible shareholder of the Bank – State Treasury, and then their acceptance by the General Meeting of Shareholders by passing resolution no. 50/2015. In accordance with the justification presented

by the State Treasury together with the proposed draft resolution of the Annual General Meeting of Shareholders, waiving the application of the principle specified in § 10 section 2 and § 12 section 1 was justified by the uncompleted process of the Bank's privatisation by the State Treasury.

Waiving the application of the principle specified in § 28 section 4 was justified, in accordance with the motion of the State Treasury, by the excessive scope of the remuneration policy in question, subject to the assessment of the decision-making authority. In the opinion of the above mentioned shareholder, the policy for remunerating employees performing key functions but not being members of the supervisory and management authorities, should be assessed by the employer or the principal, i.e. the bank represented by the Management Board, the activities of which are supervised by the Supervisory Board.

The text of the Principles is available on the website of the Polish Financial Supervision Authority, at:
https://www.knf.gov.pl/dla_rynkuzasady_ladu_korporacyjnego

10.2.2 CONTROL SYSTEMS IN THE PROCESS OF THE PREPARATION OF THE FINANCIAL STATEMENTS

Internal control system Controls in the process of the preparation of the financial statements Entity entitled to audit the financial statements
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PKO Bank Polski has an internal control system functioning as part of the Bank's management system. Designing, implementing and ensuring the functioning of the adequate and effective internal control systems is the responsibility of the Bank's Management Board. The Supervisory Board supervises the implementation and ensures the functioning of an adequate and effective internal control system, and performs an annual assessment of this system.

The objectives of the internal control system are as follows:

- ensuring the efficiency and effectiveness of the Bank's operations;
- reliability of the financial statements;
- compliance with risk management principles in the Bank;
- compliance of the Bank's activities with the generally binding legal regulations, internal regulations of the Bank, supervisory recommendations and market standards adopted in the Bank.

INTERNAL CONTROL SYSTEM

The following functions and units are separated within the internal control system of PKO Bank Polski SA:

- control function ensuring compliance with controls pertaining in particular to risk management at the Bank, covering all units of the Bank and the organisational positions in these units responsible for the performance of tasks allocated to this function;
- compliance unit, the objective of which is to develop compliance solutions and to manage compliance risk, as well as to identify, evaluate, control, monitor and report compliance risk;
- independent internal audit unit responsible for ensuring the assessment of the adequacy and effectiveness of the risk management system and internal control system as part of assurance activities, as well as for adding value and improving the effectiveness of processes at the Bank as part of advisory activities.

In order to reduce the probability of the materialisation of risk and the impact of its potential materialisation on achieving the objectives by PKO Bank Polski SA, its financial position, goals and internal processes, PKO Bank Polski SA uses controls adjusted to the objectives of the internal control system and the specifics of the activities of PKO Bank Polski SA.

The irregularities identified in individual elements of the Bank's internal control system, assessment results and other material issues pertaining to the functioning of the internal control system elements are presented in the reports for the Management Board of PKO Bank Polski SA, the Audit Committee of the Supervisory Board and the Supervisory Board of PKO Bank Polski SA.

CONTROLS IN THE PROCESS OF THE PREPARATION OF THE FINANCIAL STATEMENTS

In order to ensure the reliability and correctness of the process of preparing the financial statements, the Bank designed and implemented a number of controls that are built into the functions of reporting systems and internal regulations concerning this process. These controls involve among others things the use of continuous verification and reconciliation of reporting data to the accounting records, sub-ledger accounts and other documents providing a basis for financial statements as well as with the applicable regulations pertaining to accounting principles and the preparation of financial statements.

The process of preparing financial statements is subjected to regular multi-level functional internal control, in particular with regard to the correctness of the account reconciliation, substantive analysis and reliability of the information. In accordance with the internal regulations, the financial statements are accepted by the Management Board of PKO Bank Polski SA and the Audit Committee of the Supervisory Board appointed by the Supervisory Board of PKO Bank Polski SA in 2006.

The tasks of the Audit Committee of the Supervisory Board include, among other things, monitoring the financial reporting process including the review of standalone and consolidated interim and annual financial statements, with particular emphasis on:

- information on substantial changes in the accounting and reporting policy and the method of making significant management estimates and judgements for the purposes of financial reporting, as well as compliance of the financial reporting process with the applicable law;
- significant adjustments resulting from the audit and the auditor's opinion on the audit of the financial statements, discussion of any issues, qualifications and doubts resulting from the audit of financial statements and analysis of the external auditor's recommendations addressed to the Management Board and responses of the Management Board in this regard.

The description of cooperation between the Audit Committee and the external auditor and its assessment is included in the report on activities of the Audit Committee drawn up on an annual basis and attached to the report on activities of the Supervisory Board.

ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

On 26 January 2017, the Supervisory Board of PKO Bank Polski SA appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorized to audit the financial statements of PKO Bank Polski SA and the consolidated financial statements of the PKO Bank Polski SA Capital Group for the years 2017-2019. This entity audited the financial statements of the Bank and the Group for the years 2015-2016. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its registered office in Warsaw, ul. Inflancka 4a, is entered in the list of audit firms kept by the National Council of Statutory Auditors with the number 3546. The audit firm for the purposes of the audit and review of the financial statements was selected by the Supervisory Board in accordance with the applicable legal regulations and professional standards, based on § 15 section 1 point 4 of the Bank's Articles of Association.

On 12 April 2017, PKO Bank Polski SA and KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa – the audit firm selected to audit the financial statements concluded the next contract for the audit and review of financial statements of the Bank and the PKO Bank Polski SA Capital Group for the years 2017-2019.

The total amount of net fees of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. for the audit of the financial statements and the consolidated financial statements of PKO Bank Polski SA for 2017 was PLN 1.39 million (2016: PLN 1.25 million). In 2017, fees for assurance services, including the review of the financial statements totalled PLN 2.05 million (2016: PLN 2.38 million). In 2017, net fees for other services equalled PLN 0.07 million (2016: PLN 0.07 million).

10.2.3 ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

Principles for amending the Articles of Association of PKO Bank Polski SA
Amendments to the Articles of Association made in 2017

PRINCIPLES FOR AMENDING THE ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

Amendments to the Articles of Association of PKO Bank Polski SA fall within the competence of the General Meeting of Shareholders and require passing a resolution by a three-quarter majority of votes, the consent of the Polish Financial Supervision Authority in instances specified in the Act – Banking Law, and making an entry in the register of entrepreneurs in the National Court Register. Moreover, in accordance with Article § 10 section 4 of the Articles of Association of PKO Bank Polski SA resolutions of the General Meeting of Shareholders on share preferences and issues concerning the Bank's merger by transferring all of its assets to another company, its liquidation, reduction in the share capital by redeeming some of its shares without a simultaneous increase in the share capital or changing the scope of the Bank's activities resulting in the Bank ceasing its banking activities requires a 90% majority of the votes cast.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION MADE IN 2017

13 MARCH 2017 – RESOLUTION OF THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS ON AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION

On 13 March 2017, the Extraordinary General Meeting of Shareholders of PKO Bank Polski SA passed resolution no. 4/2017 on the amendments to the Articles of Association of PKO Bank Polski SA. The amendments were aimed at enabling a Member of the Management Board other than the President of the Management Board to supervise the activities of the Bank related to legal support and compliance risk. As part of the amendments to the Articles of Association, the areas of the Bank's activities supervised by the President were clarified by including safety, strategy and human resource management matters.

On 10 April 2017, the aforementioned amendments to the Articles of Association of PKO Bank Polski SA were entered into the register of entrepreneurs in the National Court Register.

14 JUNE 2017 – DRAFT RESOLUTION OF THE EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS ON AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION

On 14 June 2017, the State Treasury represented by the Minister of Development and Finance, submitted a draft resolution for the Annual General Meeting of Shareholders of PKO Bank Polski SA convened for 22 June 2017, pertaining to the amendments to the Bank's Articles of Association in relation to the competencies of the authorities of the Bank, manner of appointing Members of the Management Board and principles for disposing of tangible fixed assets consistent with the Act of 16 December 2016 on the principles of state assets management. The amendments to the Bank's Articles of Association were also aimed at adjusting its contents to the requirements arising from new legal regulations applicable to the Bank, and in particular the Regulation of the Minister of Finance of 6 March 2017 on the risk management system and internal control system, remuneration policy and detailed method of estimating the internal capital in banks, Regulation (EU) No. 537/2014 of the European Parliament and of the Council on specific requirements regarding the statutory audit of public-interest entities and the Act on statutory auditors, audit firms and public supervision. In relation to a break in the Annual General Meeting of Shareholders, the decision on amendments to the Bank's Articles of Association was made at the resumed meeting on 20 July 2017. Amendments to the Bank's Articles of Association were accepted, as specified in detail in resolution no. 50/2017 of the Annual General Meeting of Shareholders published on the website of the Bank at: http://www.pkobp.pl/media_files/b21fa41e-d2b2-4bc6-bfa1-ea333c089b8c.pdf.

On 15 December 2017, the aforementioned amendments to the Articles of Association of PKO Bank Polski SA were entered into the register of entrepreneurs in the National Court Register.

10.2.4 GENERAL MEETING OF SHAREHOLDERS

Authorisations of the General Meeting Of Shareholders Principles of functioning

The General Meeting of Shareholders of PKO Bank Polski SA is held as an annual one or extraordinary one, in accordance with the provisions of the Code of Commercial Companies and the Articles of Association, in keeping with the principles set out in the Rules of the General Meeting of Shareholders.

AUTHORISATIONS OF THE GENERAL MEETING OF SHAREHOLDERS

In addition to matters stipulated in generally binding legal regulations, principal competencies of the General Meeting of Shareholders include passing resolutions on the following matters:

- appointing and dismissing Members of the Supervisory Board;
- approving the Rules of the Supervisory Board;
- purchasing shares for the purposes of their redemption and setting the amount of the remuneration for the shares redeemed;
- establishing and releasing special funds created from net profit;
- disposal of real estate, share in real estate or perpetual usufruct right by PKO Bank Polski SA if the value of the real estate or the right being subject to such an act exceeds 25% of the share capital (excluding statutory exceptions);
- issuance of convertible bonds, bonds with a pre-emptive right or subscription warrants;
- laying down the principles for remuneration of Members of the Supervisory Board and the Management Board.

PRINCIPLES OF FUNCTIONING

Persons entitled based on registered shares, as well as pledgees and users entitled to voting rights, entered into the share register on the date of registration, as well as holders of bearer shares provided that they were the Bank's shareholders on the date of registration and, within the statutory deadline specified in the announcement convening the General Meeting of Shareholders, they requested that the entity keeping their securities account issue a registered certificate confirming their right to participate in the General Meeting of Shareholders shall be entitled to participate in the General Meeting of Shareholders.

A shareholder being a natural person may participate in the General Meeting of Shareholders and exercise his/her voting right in person or by proxy. A shareholder, who is not a natural person, may participate in the General Meeting of Shareholders and exercise its voting right by a person authorised to make declarations of will on its behalf or by proxy.

A power of attorney shall be issued in writing, otherwise null and void, and shall be enclosed with the minutes of the General Meeting of Shareholders, or shall be issued in electronic form. The right to represent a shareholder, who is not a natural person, shall arise from the original or copy of the excerpt from the relevant register presented possibly with a power of attorney or a chain of powers of attorney. These documents shall be presented upon drawing up the register of attendance or sent in electronic form no later than on the day preceding the date of the General Meeting of Shareholders, to email address indicated on the announcement convening the General Meeting of Shareholders.

The person(s) granting the power of attorney on behalf of a shareholder, who is not a natural person, should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

A Member of the Management Board and an employee of PKO Bank Polski SA may act as a proxy for shareholders at the General Meeting of Shareholders of PKO Bank Polski SA.

The Bank shall publish on its website draft resolutions submitted in compliance with the provisions of the Code of Commercial Companies by an entitled shareholder or shareholders before the date of the General Meeting of Shareholders, immediately after their receipt.

A shareholder or shareholders representing at least one-twentieth of the share capital of the Bank may request certain matters be included on the agenda of the General Meeting of Shareholders. The request may be sent in electronic form.

Before the date of the General Meeting of Shareholders, a shareholder or shareholders of PKO Bank Polski SA representing at least one-twentieth of the share capital may submit to the Bank, in writing or using electronic communication means, draft resolutions on matters included on the agenda of the General Meeting of Shareholders or matters that are to be included on the agenda. Additionally, during the General Meeting of Shareholders, shareholders shall have the right to present draft resolutions or propose amendments or additions to draft resolutions on matters included on the agenda of the General Meeting of Shareholders.

Removing a matter from the agenda or desisting from further discussion on a matter included on the agenda at the request of shareholders shall require a resolution of the General Meeting of Shareholders, adopted by a three-quarter majority of votes, after obtaining the prior consent of all shareholders, who requested the matter be included on the agenda, present at the General Meeting of Shareholders.

Resolutions of the General Meeting of Shareholders shall be passed by an absolute majority of votes unless generally binding legal provisions or provisions of the Articles of Association of PKO Bank Polski SA decide otherwise.

The General Meeting of Shareholders shall adopt resolutions in an open voting, with the reservation that a secret ballot shall be ordered in respect of:

- elections of members of the company's authorities;
- motions to dismiss members of the authorities or liquidators of PKO Bank Polski SA;
- motions to bring members of the authorities or liquidators of PKO Bank Polski SA to justice;
- personnel matters;
- at the request of at least one shareholder present or represented at the General Meeting of Shareholders;
- in other instances specified in generally binding legal regulations.

A shareholder cannot, either personally or by proxy, or while acting as a proxy of another person, vote on resolutions concerning this shareholder's liability to PKO Bank Polski SA on whatever account, including the acknowledgement of the fulfilment of this shareholder's duties, exemption from any of duties towards PKO Bank Polski SA, or any dispute between this shareholder and PKO Bank Polski SA.

Shareholders shall have the right to ask questions, through the Chairman of the General Meeting of Shareholders, to the Members of the Management Board and Supervisory Board of PKO Bank Polski SA and statutory auditor of PKO Bank Polski SA.

In the discussion on each point of the agenda, each shareholder shall have the right to one speech and one reply. Shareholders may, during the course of discussion on each point of the agenda, apply for closing the list of speakers or closing the discussion on a given point of the agenda.

10.2.5 SUPERVISORY BOARD OF PKO BANK POLSKI SA IN THE REPORTING PERIOD

Composition of the Supervisory Board of PKO Bank Polski SA
Changes in the composition of the Supervisory Board in 2017
Principles of the functioning of the Supervisory Board
Competencies of the Supervisory Board
Amendments to the Rules of the Supervisory Board
Committees of the Supervisory Board

The Supervisory Board of PKO Bank Polski SA consists of 5 to 13 members each appointed for a three-year term of office. Members of the Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders.

On 22 June 2017, the State Treasury, as an Entitled Shareholder, based on § 11 section 1 of the Bank's Articles of Association, set the number of Members of the Supervisory Board at 11, of which the Bank notified in current report no. 23/2017. As at 31 December 2017, the Supervisory Board consisted of 11 persons.

The current term of office of Members of the Supervisory Board started on 22 June 2017.

COMPOSITION OF THE SUPERVISORY BOARD OF PKO BANK POLSKI SA AS AT 31 DECEMBER 2017

PIOTR SADOWNIK – CHAIR OF THE BANK'S SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office, and on the same day, the State Treasury appointed him Chair of the Supervisory Board.

Graduated from the University of Warsaw's Faculty of Law and Administration and the University of Paris II Panthéon-Assas. Admitted to the Warsaw Bar in 1996. In 1993, he started his professional career in the Warsaw office of the law firm Gide Loyrette Nouel.

Currently, he is a partner in the Warsaw office of Gide Loyrette Nouel where he heads the Dispute Resolution, Infrastructure, Public Law and Intellectual Property departments.

He represents the law firm's customers in court disputes and advises both Polish companies and international investors on infrastructure and public procurement projects. He also specializes in intellectual property law.

He is recommended by Legal 500 EMEA and Chambers Europe in dispute resolution. Legal 500 also recommends him for energy and natural resources as well as intellectual property. Member of the Supervisory Board of Bank Ochrony Środowiska SA.

GRAŻYNA CIURZYŃSKA – DEPUTY CHAIR OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 30 June 2016.

Graduated from the Foreign Trade Faculty of the Warsaw School of Economics and Post-graduate Studies in European Banking Law at the Institute of Law Studies of the Polish Academy of Sciences. In 1991, she began her professional career in government administration, in the Ministry of Ownership Transformations.

On 22 June 2017, she was re-appointed to the Supervisory Board for the current term of office, and on the same day, the State Treasury appointed her Deputy Chair of the Supervisory Board.

Since 1996, for 20 years, she has been working within the banking sector. She held managerial positions in the corporate business area of Powszechny Bank Kredytowy SA and Kredyt Bank SA, supervising, among other things, cooperation with strategic customers and the development of enterprise financing programmes. Subsequently, as a director in the retail area of Bank BGŻ SA, she was responsible for the retail business strategy, sales and pricing policy, bancassurance development, sales network management, designing and implementing products. She also served as an advisor to the President of the Management Board of the Bank.

Since 2007 she has been focusing on the banking payments and cards market. As a department director at Bank BGŻ SA and then at Bank BGŻ BNP Paribas SA, she was responsible for the card activity, cooperation with international payment organizations and providers of card technologies and services.

Moreover, she was a member of the Executive Committee of the Council of Banking Card Issuers and previously the Executive Committee of the Council of Cash Management at the Polish Bank Association. For more than 15 years she was involved in teaching and research at the Warsaw School of Economics, in the Institute of International Economic Relations.

Currently, she is a Department Director at the Ministry of Development and Technology, coordinating the implementation of the investment policy as well as service processes and cooperation with Polish and foreign investors and financial institutions.

ZBIGNIEW HAJŁASZ – SECRETARY OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 30 June 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

On 24 August 2017, he was re-appointed Secretary of the Supervisory Board.

Expert with hands-on experience and consultant specializing in management and development. Has over 20 years' experience in managing commercial companies and as an analyst and expert in planning, management and development of financial institutions, industrial restructuring, privatization and international projects. Academic degrees: MPhil in Economics (London University, 2002) and M.Sc. Eng. in Mathematics (Wrocław University of Technology, 1982).

In 1993-96 and since 2005 - academic lecturer (Wrocław University of Technology, University of Wrocław, Academy of Fine Arts in Wrocław). Since August 2011 - President of the Management Board of Zakład Gospodarki Komunalnej sp. z o.o. in Św. Katarzyna (winner in the Business Gazelles ranking in 2015 and 2016); since January 2016 - Deputy Chairman of the Supervisory Board of Polskie Radio SA.

He has held, among other things, the following positions: Director of the Department of Economic Development at the Voivodeship Office in Wrocław (1991-1993); Director of the Regional Privatization Office of Bank BWP SA (1994-1996), Vice-President of the Management Board of Wrocławska Agencja Rozwoju Regionalnego SA - Managing Director, President of the Management Board of PRW SA in Wrocław, President of the Management Board of TBS sp. z o.o. in Głogów, and Director of the OPDRO Project Coordination Office.

He was a member of the Supervisory Boards of state-owned companies and companies with the participation of local government authorities, such as: Dolnośląskie Konsorcjum Handlowo-Finansowe SA in Wrocław, Polskie Radio Wrocław SA in Wrocław, TBS sp. z o.o. in Lubin (the best social building society in Poland in the BGK ranking), Siechnicka Inwestycyjna Spółka Komunalna sp. z o.o., and Polskie Radio SA. Author of expert opinions for the Sejm (the Polish Parliament), Government of the Republic of Poland and for financial institutions.

MARIUSZ ANDRZEJEWSKI – MEMBER OF THE SUPERVISORY BOARD

On 22 June 2017, he was appointed to the Supervisory Board for the current term of office.

Professor at the Kraków University of Economics, Dean of the Faculty of Finance and Law and Head of the Department of Financial Accounting. Holds a full doctoral degree in economics. Since 2013 he has been also working as associate professor at the School of Banking and Management in Kraków.

He majored in accounting at the Faculty of Management at the Kraków University of Economics (CUE), automatics and robotics, specializing in artificial intelligence, and computer science at the Faculty of Electrical Engineering, Automatics and Electronics at the AGH University of Science and Technology in Kraków. During his studies, he was a three-time recipient of a scholarship of the Ministry of National Education. In 2001, within the framework of the grant awarded by KBN (the State Committee for Scientific Research), he prepared and completed a doctoral thesis entitled "Information disclosure requirements for listed companies in Poland vs. global requirements."

He obtained business experience while sitting on supervisory boards of companies including: Tauron Sprzedaż Sp. z o.o., Zakłady Chemiczne Alwernia SA, Kombinat Koksochemiczny Zabrze SA, Północ Nieruchomości SA (company listed on NewConnect), PolRest SA (a company listed on the Warsaw Stock Exchange), Media Nieruchomości SA, Przedsiębiorstwo Inżynierii Miejskiej Sp. z o.o. in Czechowice-Dziedzice, AWSA Holland II BV. He was also President of the Management Board of Altair Sp. z o.o., Member of the Management Board in charge of finance of TBS Złocień Sp. z o.o. and advisor to the Management Board at the Institute of Business Law and Foreign Investments (Instytut Prawa Spółek i Inwestycji Zagranicznych - IPSiZ Sp. z o.o.). He was an Arbitrator at the Arbitration Court at the Polish Financial Supervision Authority. Currently he is Chairman of the Supervisory Board of PKP PLK SA. In 2005-2006 he was Undersecretary of State in the Ministry of Finance.

He is a member of the Polish Economic Society (PTE) and the Main Board of the Accountants Association in Poland. He is also a member of the European Accounting Association (EAA), the International Association for Accounting Education & Research (IAAER) and the Scientific Council of SKwP.

MIROSLAW BARSZCZ – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Graduated from the Catholic University of Lublin with an M.A. in Law. Currently, he is President of the Management Board of BGK Nieruchomości SA. From 2014 to 2016, he was an advisor in the Strategy Department at PGNiG SA. From 2013 to 2014, he was an independent advisor in strategy, finances, negotiations, project management and change management. He has extensive professional experience gained in audit firms (1996–1997 Ernst & Young, 1998–2001 Arthur Andersen, 2001–2004 PricewaterhouseCoopers), law firms (2005 Baker & McKenzie, 2008–2013 GWW Legal) and government administration (2005–2006 Undersecretary of State in the Ministry of Finance, 2007 – Minister of Construction, 2011–2013 advisor to the Minister of Justice). He completed over 30 training courses (organized by Ernst & Young, Arthur Andersen, PricewaterhouseCoopers), including training in taxes, finance, human resources management, negotiations, project management, change management, cultural differences, and communication. He has consulting experience in many industries, including finance, information technology, telecommunications, energy, construction, real estate development, pharmaceutical, manufacturing, banking, commerce, logistics, and tourist industries. He participated in various projects pertaining to government administration.

ADAM BUDNIKOWSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

In 1971 graduated from the Higher School of Economics in Poznań (currently Poznań University of Economics and Business) with an M.Sc. in the economics of foreign trade. In 1975, he completed his doctoral thesis at the Faculty of Foreign Trade of the former Main School of Planning and Statistics (currently the Warsaw School of Economics). In 1983 was awarded a full doctorate at the same faculty. In 1992, he was awarded the title of professor of economic sciences by the President of the Republic of Poland.

Since the beginning, his professional career has been connected with Warsaw School of Economics. He started working at the Warsaw School of Economics as an assistant in the Institute of International Trade Relations, in 1974. In subsequent years, together with successive academic degrees, he was promoted to assistant professor, associate professor, and finally to full professor. In 1996, he was elected Dean of the World Economy College of the Warsaw School of Economics and held that position for two consecutive terms of office until 2002. In 2005, he was elected Chancellor of the Warsaw School of Economics, and on 5 March 2008 he was re-elected for the second term of office for the years 2008–2012. Since 2012, he has yet again been Dean of the World Economy College of the Warsaw School of Economics.

During his professional career, he has also collaborated with other academic and educational institutions, including the Polish Academy of Sciences, the Polish Economic Society, the Institute for Business Cycles and Prices in International Trade (was Deputy Director of the Institute in 1992–1993), the Catholic University of Lublin, Radom Academy of Economics, Academy of Diplomacy in Warsaw, and the National School of Public Administration. Since 2001 he has been a member of the Association of Polish Economists, and since 2012 – a member of the Executive Committee of the Economic Sciences Board of the Polish Academy of Sciences. Member of the Board of the Sławomir Skrzypek Foundation.

During his academic and research career, he has frequently lectured and been a visiting researcher at Western universities. He was, among other things, a Fulbright scholar, and in 1996 he took part in the World Bank's missions in Turkey and Romania.

His main areas of academic interest are related to international business. They include, among other things, international business relations (with a special emphasis on trade policy and international finances), transformation in Central and Eastern Europe, and environmental protection policy.

WOJCIECH JASIŃSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Graduated from the University of Warsaw's Faculty of Law and Administration (1972). From 1972 to 1986, he worked in Płock, among other things, at the National Bank of Poland, the Branch in Płock, at the Town Hall, also as legal counsel in the Tax Chamber. In 1990–1991, he established the local government structures in the Płockie Voivodeship, as a Representative of the Government Plenipotentiary for Local Government Reform. From 1992 to 1997 he worked in the Supreme Audit Office (NIK), as director of the NIK Branch Office in Warsaw, Finance and Budget Team, and State Budget Department. In 1997–2000, he was a member and then President of the Management Board of Srebrna, a company with its registered office in Warsaw. He was a member of the Supervisory Board of Bank Ochrony Środowiska in 1998–2000. From September 2000 to July 2001 he

was Undersecretary of State at the Ministry of Justice. In 2006–2007, he was Minister of the State Treasury.

Since 2001, he has been a member of the Polish Parliament (during the 4th, 5th, 6th, 7th and 8th terms of office) where he was Chairman of the Standing Subcommittee for the Banking System and Monetary Policy, Chairman of the Economy Committee, and Chairman of the Public Finance Committee. He was also a member of the State Treasury Committee in the Sejm.

President of the Management Board of PKN Orlen SA since 16th December 2015 till 5th February 2018.

ANDRZEJ KISIELEWICZ – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Professor of Mathematical Sciences. He works at the University of Wrocław, at the Faculty of Mathematics and Computer Science. He obtained his full doctoral degree from the University of Wrocław, and was awarded a Ph.D. in mathematical sciences from the Polish Academy of Sciences. Graduated from the University of Wrocław. He gained his professional experience in various academic centres, including: the University of Opole, Vanderbilt University (Nashville, USA), Polish Academy of Sciences, Technische University (Darmstadt, Germany), The University of Manitoba (Winnipeg, Canada), Wrocław University of Technology. He has experience as a member of supervisory boards. He is the author of more than 60 academic publications in foreign journals on mathematics, logistics and computer science as well as many books (e.g. 'Sztuczna inteligencja i logika' [Artificial Intelligence and Logic], 'Wprowadzenie do informatyki' [An Introduction to Computer Science], etc.). He is also the author of many opinions, reviews and expert opinions, including for the National Science Centre and the European Commission. His research interests include the application of mathematics, logic and computer science in practice, artificial intelligence, business intelligence, informatization and argumentation theory.

ELŻBIETA MAĆZYŃSKA-ZIEMACKA – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 20 June 2013.

On 22 June 2017, she was re-appointed to the Supervisory Board for the current term of office.

Graduated from the University of Warsaw (Political Economy Department, specialization: econometrics). Professor PhD in economic sciences, employed at the Institute of Economic Sciences of the Polish Academy of Sciences (since 1990) and the Warsaw School of Economics (since 1998) as Head of the Department of Research of Enterprise Bankruptcy at the Institute of Corporate Finance and Investments at the Collegium of Business Administration of the Warsaw School of Economics (since 2008) and the Head of Postgraduate Studies: "Property Valuation." Chair of the Economic Strategic Thinking Committee of the Ministry of Economy (since 14 June 2013), President of the Polish Economic Society (since 2005), and member of the Executive Committee of the "Poland 2000 Plus" Forecast Committee and the Committee of Economic Sciences of the Polish Academy of Sciences (since 2011). Member of the National Development Council.

In 1994–2005, academic secretary and member of the Executive Committee of the Social and Economic Strategy Council of the Council of Ministers. In 2005–2007, independent member of the Supervisory Board of BGŻ; in 1996–1998 independent member of the Supervisory Board of Polski Bank Rozwoju; in 1990–1991 advisor and consultant to the Polish-Swedish limited liability company SWEA SYSTEM. She has completed academic and research internships, among others, in Germany (University of Mannheim) and Austria (WIIW, Wirtschaftsuniversität Wien). Three-time recipient of a DAAD scholarship. Author, co-author and editor of approx. 200 publications and expert opinions in the area of economic analysis, finance and enterprise appraisal, as well as in the area of economic systems and strategies of social and economic development. Member of the Editorial Committee of the bi-monthly "Ekonomista" published by the Polish Economic Society and the Committee of Economic Sciences of the Polish Academy of Sciences, member of the Editorial Board of the quarterly "Kwartalnik Nauk o Przedsiębiorstwie" published by the Collegium of Business Administration of the Warsaw School of Economics, member of the editorial team of the quarterly International Journal of Sustainable Economy (IJSE), Inderscience Publishers Editorial Office, UK.

JANUSZ OSTASZEWSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Director of the Institute of Finance, Head of the Faculty of Finance in 2001–2013, a member of the Senate of the Warsaw School of Economics, a renowned expert in finance. In 2005–2012, he was Dean of the College of Management and Finance for two terms of office.

Graduated from the Main School of Planning and Statistics in 1978. In 1982, completed his doctoral thesis at the Faculty of Internal Trade of the former Main School of Planning and Statistics (currently the Warsaw School of Economics). In 1990 was awarded a full doctoral title at the same faculty. In 1992, he was awarded the title of the professor of economic sciences by the President of the Republic of Poland.

He completed post-graduate studies in finance and management at Scuola Superiore Enrico Mattei in Milan. His main areas of research include corporate operations, corporate financial management and strategy. This is reflected in the courses he has taught for many years: corporate finance, finance, management, and in numerous teaching materials and books he has published. His considerable

academic achievements include over 140 various types of academic papers, including 40 books. So far, 22 people have written and defended their PhD theses under his tutelage. His knowledge of finance was further developed during several years of work at the Ministry of Finance, as Director of the Property Matters Department and his subsequent professional activity as an advisor to the President of Kredyt Lease SA – a company of the Kredyt Bank SA Group – and his work in the Finance Office of the Chancellery of the Polish Parliament. Member of the Board of the Sławomir Skrzypek Foundation.

JERZY PALUCHNIAK – MEMBER OF THE SUPERVISORY BOARD

On 22 June 2017, he was appointed to the Supervisory Board for the current term of office.

Graduated from the Wrocław University of Economics, Faculty of Management and Information Technology, Management and Marketing Department, specializing in corporate management. Since 2003 a Certified Internal Auditor (CIA). In 2005, he obtained the licence of a statutory auditor (no. 10649) and passed all ACCA exams.

From 1999 to 2000 he gained professional experience as an assistant brand manager with Zielona Budka Zbigniew Grycan S.A. In 2000, he continued his professional career in the Wrocław-based audit division of Arthur Andersen/Ernst&Young, holding positions from assistant to manager (promoted to manager in 2005).

From 2007 to January 2016 he worked for the Wrocław-based audit division of KPMG where he was promoted to senior manager in 2008. Apart from working as a key certified auditor in financial audit engagements, he assumed managerial roles in projects related to process reviews and audits, the implementation of an internal audit function and forensic audit engagements. He received the title of Certified Trainer from KPMG. He conducted training courses in auditing, accounting as well as personal and interpersonal skills for clients and employees of KPMG as well as handling corporate social responsibility issues in KPMG's Wrocław Office.

From 2016 to 2017 he was a member of the Supervisory Board and of the Supervisory Board Audit Committee of PZU SA.

In 2016–2017, he also worked for Tauron Polska Energia SA as the Executive Director of Internal Audit in charge of the internal audit area in all the subsidiaries of the Tauron Polska Energia SA Group, where he effected a thorough change of the internal audit function, aligning it with the new business model of the Tauron Group. Since 4 September 2017, he works as Director of the Audit and Risk Analysis Office in Agencja Rozwoju Przemysłu SA.

Additionally, since 2010, member of the Regional Statutory Auditor Council in Wrocław. Member of the Supervisory Board of IDA Management sp. z o.o. since 23 November 2017.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD IN 2017

On 22 June 2017, the Extraordinary General Meeting of Shareholders of PKO Bank Polski SA dismissed Mr Piotr Sadownik, Mrs Grażyna Ciużyńska, Mr Zbigniew Hajłasz, Mr Mirosław Barszcz, Mr Adam Budnikowski, Mr Wojciech Jasiński, Mr Andrzej Kisielewicz, Mrs Elżbieta Mączyńska-Ziemacka and Mr Janusz Ostaszewski as members of the Supervisory Board, and then re-appointed the aforementioned persons to the Supervisory Board of PKO Bank Polski SA for the next joint term of office of the Supervisory Board that started as of the day of the Annual General Meeting of Shareholders convened for 22 June 2017. Additionally, on 22 June 2017, the Annual General Meeting of Shareholders of PKO Bank Polski SA appointed Mr Mariusz Andrzejewski and Mr Jerzy Paluchniak to the Supervisory Board of PKO Bank Polski SA for the next joint term of office of the Supervisory Board that started as of the day of the Annual General Meeting of Shareholders convened for 22 June 2017.

The entity entitled to exercise rights on shares held by the State Treasury, as an Entitled Shareholder, set the number of Members of the Supervisory Board of PKO Bank Polski SA at 11.

In accordance with the declarations made by Members of the Supervisory Board, Piotr Sadownik, Zbigniew Hajłasz, Mariusz Andrzejewski, Mirosław Barszcz, Adam Budnikowski, Andrzej Kisielewicz, Elżbieta Mączyńska-Ziemacka and Janusz Ostaszewski meet the criteria of independence for members of a supervisory board specified in the Best Practice for GPW Listed Companies 2016. The remaining Members of the Supervisory Board, i.e. . Grażyna Ciużyńska, Wojciech Jasiński and Jerzy Paluchniak declared they did not meet the criteria of independence vis-à-vis the Bank and major related entities of the Bank.

PRINCIPLES OF THE FUNCTIONING OF THE SUPERVISORY BOARD

The Supervisory Board functions based on generally applicable legal regulations, the Articles of Association and the Rules passed by the Supervisory Board and approved by the General Meeting of Shareholders. Meetings of the Supervisory Board are held at least once a quarter.

The Supervisory Board adopts resolutions by an absolute majority of votes, in the presence of at least half of the Members of the Supervisory Board, including the Chair or Deputy Chair of the Supervisory Board, except for

resolutions specified in the Articles of Association of the Bank concerning those matters that are to be accepted by, apart from the quorum indicated, a qualified majority of 2/3 of the total votes. Those members of the Supervisory Board to whom the given voted matter relates are excluded from the vote.

The works of the Supervisory Board is managed by the Chair, and in his absence – by the Deputy Chair. The Chair represents the Supervisory Board before all other authorities of PKO Bank Polski, supervisory authorities and other persons.

COMPETENCIES OF THE SUPERVISORY BOARD

In addition to authorizations and duties stipulated by generally applicable legal regulations and the provisions of the Articles of Association of PKO Bank Polski SA, the competencies of the Supervisory Board include passing resolutions pertaining, in particular to:

- approving the strategy of PKO Bank Polski SA and the annual financial plan accepted by the Management Board;
- approving the risk management strategy adopted by the Management Board and acceptance of the overall risk tolerance level;
- appointing an entity to conduct the audit or review of the financial statements and giving consent to concluding contracts with such entity or its related entities;
- passing the Rules:
 - of the Supervisory Board;
 - specifying the principles for granting loans, advances, bank guarantees and warranties to a member of the Management Board, the Supervisory Board and a person holding a managerial position in the Bank, and to entities related by capital or organisation with these persons;
- appointing and dismissing the President of the Management Board, Vice-Presidents and other Members of the Management Board, as well as suspending Members of the Management Board and delegating Members of the Supervisory Board to temporarily carry out the duties of Members of the Management Board;
- approving the Rules of the Management Board, and principles for managing special funds created from net profit, and the Organisational Rules of the Bank;
- expressing prior consent to acts which meet specific criteria, including, among other things, purchasing and selling tangible fixed assets and real estate, establishing a company, taking up or acquiring shares, concluding transactions between PKO Bank Polski SA and a shareholder holding at least 5% of the total number of votes in the Bank or with a related entity;
- applying to the Polish Financial Supervision Authority for consent to the appointment of the President of the Management Board and a Management Board member supervising the management of risk material to the Bank's activities, and to entrusting the function of Management Board member supervising the management of risk material to the Bank's activities to a current Management Board member who has not supervised the management of this risk;
- evaluation of the functioning of the Bank's remuneration policy and submission of a report in this regard to the Annual General Meeting of Shareholders;
- opinion on the application of "Principles of Corporate Governance for supervised institutions" by the Bank.

COMMITTEES OF THE SUPERVISORY BOARD

In accordance with the Bank's Articles of Association, the Supervisory Board appoints from among its members an Audit Committee, and a Remuneration Committee. The Supervisory Board may also appoint other committees from among its members.

In line with the Rules of the Supervisory Board, it is entitled to appoint, and in cases, when the provisions of the law require, it appoints standing committees whose members act as members of the Supervisory Board delegated to fulfil certain supervisory activities in the Bank. In particular, the Supervisory Board appoints the following standing committees:

AUDIT COMMITTEE OF THE SUPERVISORY BOARD

TASKS	<ol style="list-style-type: none"> 1) monitoring the financial reporting process including the review of interim and annual financial statements of the Bank and the Bank Group (standalone and consolidated); 2) monitoring the effectiveness of the internal control system, including with respect to financial reporting; 3) monitoring the activities of the Internal Audit Department and the level of remunerations of the director and employees of the Internal Audit Department; 4) monitoring the activities of the Compliance Department and the remuneration level of the director and employees of the Compliance Department, as well as approving the level of remuneration of the director of the Compliance Department; 5) monitoring the effectiveness of the risk management system with respect to financial reporting, in particular by analysing information received from the Risk Committee; 6) monitoring the financial audit activities, in particular performance of the audit by the audit firm, taking into account any conclusions and findings of the Audit Supervision Committee referred to in the Act on statutory auditors, resulting from the inspection carried out at the audit firm; 7) verifying and monitoring the independence of the statutory auditor and the audit firm carrying out the audit of the financial statements, in particular when the audit firm provides services other than audit to the Bank and companies of the Bank Group; 8) obtaining an annual declaration of independence of the audit firm, referred to in Article 6 section 2 letter a of Regulation no. 537/2014; 9) obtaining a declaration, included in the audit report, that no prohibited non-audit services were provided; 10) obtaining information on the scope of services provided to the Bank and companies of the Bank Group, as well as an analysis in view of compliance with the requirement of Article 4 section 2 of Regulation no. 537/2014; 11) ensuring compliance with the applicable legal regulations pertaining to rotation and a cooling-off period of the audit firm and the key statutory auditor; 12) discussing with the audit firm threats to the independence of the audit firm or the key statutory auditor, as well as safeguards applied to mitigate these threats in the case specified in Article 4 section 3 of Regulation no. 537/2014.
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COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2017	<p>Zbigniew Hajłasz (Chair of the Committee), Grażyna Ciużyńska (Deputy Chair of the Committee), Mariusz Andrzejewski (member of the Committee), Andrzej Kisielewicz (member of the Committee), Janusz Ostaszewski (member of the Committee), Jerzy Paluchniak (member of the Committee), Piotr Sadownik (member of the Committee).</p>
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REMUNERATION COMMITTEE

TASKS	<p>Expressing opinions on monitoring the remuneration policy adopted by the Bank and supporting the Bank's authorities in developing and implementing this policy. In particular, the Committee shall be responsible for the performance of the following tasks:</p> <ol style="list-style-type: none"> 1) expressing opinions on the general rules to be approved by the Supervisory Board of policy of variable components of the remunerations of persons in managerial positions, within the meaning of § 28 section 1 of Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed principles of the functioning of the risk management system and internal control system and detailed conditions of internal capital assessment by banks and of reviewing the process of internal capital assessment and maintenance and the principles of determining the policy on variable components of remuneration of persons holding managerial positions at a bank, including the amount of remuneration and components, having in mind sound and prudent risk management, capital and liquidity and with special attention to the long-term interests of the Bank itself and its shareholders and investors; 2) conducting a periodical review of the general principles of the variable salary components policy for persons holding managerial positions at the Bank and presenting the results of the review to the Supervisory Board; 3) presenting to the Supervisory Board proposals of principles for remunerating Members of the Management Board, including the variable salary components policy and basic salary of Members of the Management Board; 4) presenting to the Supervisory Board proposals pertaining to appropriate forms of contracts with the Members of the Management Board; 5) expressing opinions on motions for consent to a Member of the Management Board becoming involved in competitive business activities or participating in a competitive company as a shareholder of a civil law company, a partnership or as a member of a body in a corporation, or participating in another competitive legal person as a member of its body; 6) expressing opinions on a report on the review of the variable remuneration component policy carried out by the Internal Audit Department;
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- 7) compiling a draft report evaluating the functionality of the remuneration policy in the Bank, to be presented to the General Meeting by the Supervisory Board.

COMPOSITION OF THE COMMITTEE

AS AT

31 DECEMBER
2017

Piotr Sadownik (Chair of the Committee),
Grażyna Ciużyńska (member of the Committee),
Wojciech Jasiński (member of the Committee),
Elżbieta Mączyńska-Ziemacka (member of the Committee),
Janusz Ostaszewski (member of the Committee).

RISK COMMITTEE

TASKS

- 1) evaluating the overall current and future readiness of the Bank to take risks, taking into account the risk profile of the Bank Group, in particular expressing opinions on strategic limits of tolerance for individual types of risks for the Bank and the Bank Group, adopted by the Management Board, the approval of which falls within the competence of the Supervisory Board;
- 2) expressing opinions on the Bank operational risk management strategy adopted by the Management Board, and information on the implementation of this strategy submitted by the Management Board, as well as other periodic reports on risk management and capital adequacy;
- 3) expressing opinions on other resolutions of the Management Board pertaining to risk management and capital adequacy, the approval of which is the competence of the Supervisory Board;
- 4) supporting the Supervisory Board in overseeing the implementation of the Bank operational risk management strategy by senior management;
- 5) reviewing whether the price of assets and liabilities offered to customers fully envision the Bank's business model and its strategy in terms of risk, and if these prices do not adequately reflect the risks in accordance with this model and this strategy, an indication of the directions of corrective measures to restore the adequacy of the price of assets and liabilities to the business model and risk strategy of the Bank; the Committee monitors the implementation of these actions by the Management Board;
- 6) expressing opinions on solutions for reducing business risk with the use of the Bank's property insurance and civil liability insurance for members of authorities and proxies of the Bank;
- 7) ongoing monitoring of the risk management system and providing the Supervisory Board with information on the results of this monitoring;
- 8) expressing opinions on the Bank's information on risk management strategy and risk management system, addressed to the public;
- 9) carrying out an annual review of the remuneration policy for employees of the Bank and the Bank Group, and in particular evaluating whether incentives arising from this policy and remuneration practice take into account risk, capital and liquidity, as well as the probability and time perspective of generating profits by a company of the Group, as well as approving the report on this review, submitted for information to the Supervisory Board;
- 10) performing other tasks related to risk management in the Bank, allocated by the Supervisory Board.

COMPOSITION OF THE COMMITTEE

AS AT 31 DECEMBER
2017

Andrzej Kisielewicz (Chair of the Committee),
Grażyna Ciużyńska (Deputy Chair of the Committee),
Mariusz Andrzejewski (member of the Committee),
Adam Budnikowski (member of the Committee),
Elżbieta Mączyńska-Ziemacka (member of the Committee),
Jerzy Paluchniak (member of the Committee).

STRATEGY COMMITTEE

TASKS

- 1) expressing opinions on the Bank's strategy adopted by the Management Board, the approval of which is the competence of the Supervisory Board;
- 2) supporting the Supervisory Board in overseeing the implementation of the strategy, in particular by analysing periodic information on the implementation thereof, presented by the Management Board;
- 3) expressing opinions on strategic activities of the Bank, which require the prior consent of the Supervisory Board, in particular on their consistency with the binding strategy of the Bank;
- 4) performing other tasks related to pursuing strategic objectives and key projects of the Bank, allocated by the Supervisory Board.

COMPOSITION OF THE COMMITTEE

AS AT

31 DECEMBER
2017

Grażyna Ciużyńska (Chair of the Committee),
Zbigniew Hajłasz (Deputy Chair of the Committee),
Mirosław Barszcz (member of the Committee),
Adam Budnikowski (member of the Committee),
Elżbieta Mączyńska-Ziemacka (member of the Committee),
Janusz Ostaszewski (member of the Committee),
Piotr Sadownik (member of the Committee).

10.2.6 MANAGEMENT BOARD OF PKO BANK POLSKI SA IN THE REPORTING PERIOD

Composition of the Management Board of PKO Bank Polski SA
Changes in the composition of the Management Board in 2017
Principles of the functioning of the Management Board of the Bank
Competencies of the Management Board of the Bank
Committees of the Management Board of the Bank

In accordance with § 19 sections 1 and 2 of the Articles of Association of PKO Bank Polski SA, Members of the Management Board shall be appointed by the Supervisory Board each for a joint three-year term of office.

The Management Board consists of 3 to 9 members. Appointing two members of the Management Board, including the President of the Management Board, requires the consent of the Polish Financial Supervision Authority. As at 31 December 2017, the Management Board consisted of 8 persons. The current term of office of the Management Board started on 2 July 2017.

COMPOSITION OF THE MANAGEMENT BOARD OF PKO BANK POLSKI SA AS AT 31 DECEMBER 2017

ZBIGNIEW JAGIEŁŁO – PRESIDENT OF THE MANAGEMENT BOARD

Member of the Management Board since 1 October 2009.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

President of the Management Board of PKO Bank Polski SA since October 2009, appointed for subsequent terms of office in 2011, 2014 and 2017. Before that, for almost 9 years he was President of the Management Board of Pioneer Pekao TFI SA. Within the global structure of Pioneer Investments he was also responsible for distribution in the CEE region. In the second half of the 1990s, as Vice President of the Management, he co-participated in the process of establishing PKO/Credit Suisse TFI SA.

In his twenty years of working in the financial markets he was responsible, among other things for: (-) successfully steering PKO Bank Polski SA through a critical period of turmoil in the international financial markets, while strengthening the Bank's position as leader in terms of assets, equity and earnings in Poland and the CEE region; (-) development and implementation of the PKO Bank Polski SA's strategy for the years 2010–2012 and 2013–2015, which resulted in a significant increase in assets and strong business efficiency gains as well as in increased interest in the company among domestic and international investors; (-) adjustment of PKO Bank Polski SA to the requirements of the ever more competitive financial market through the increased attractiveness of its product offer and quality of its customer service; (-) refocusing of the PKO Bank Polski SA Group's operational model toward its core activity of providing financial services.

He is actively involved in the development and promotion of high standards of operations of the financial market in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institute International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, among other things, that of Chairman of the Chamber of Fund and Asset Management.

He graduated from the Wrocław Technical University's Faculty of Computer Science and Management. He also completed Postgraduate Management Studies at the Gdańsk Foundation for Management Development and the University of Gdańsk, with an Executive MBA certified by the Rotterdam School of Management, Erasmus University.

He was awarded the Officer's Cross of the Order of Polonia Restituta by the President of the Republic of Poland, and the Social Solidarity Medal for promoting the idea of corporate social responsibility. He was Chairman of the Programme Council of the PKO Bank Polski's Foundation that was established on his initiative, in 2010.

Recipient of several awards and titles. Chosen as the 2011 CEO of the Year by *Parkiet*. Was awarded the Wektor 2011 prize granted by the Polish Employers' Chapter, and the Golden Banker prize in the Personality of the Year 2011 category. He was also a recipient of the Manager of the Year 2011 and 2014 awards in a competition organized by *Gazeta Bankowa*. In 2012, 2014 and 2015, Bloomberg Businessweek Polska singled him out as one of the Top 20 Managers in the Polish Economy. In 2013, he was honoured by Bank – financial monthly – with the title of “Innovator of the Banking Sector 2012.” He also received the special award of “Man of the Year 2013” from *Brief* monthly and “Visionary 2013” from *Dziennik Gazeta Prawna*. In 2014, he received an honourable mention from *Gazeta Finansowa* as one of “25 Most Valuable Managers in the World of Finance.” In 2015, he received a medal from the Polish Chamber of Commerce (KIG) for supporting the development of economic self-government and entrepreneurship, and he was awarded an eDucat statuette by the Foundation for the Development of Non-cash Payments for his vision of the development of non-cash payments and the effective building of a coalition for the mobile payment standard. The industry service Mediarun.com recognized him as the most promarketing president, and the chancellery of Responsible Business Awards awarded him the title of Outstanding CEO

Philanthropist. In 2017, he was awarded the Lesław A. Paga Prize for his contribution to the development of the Polish economy and promotion of high standards of operations of the financial market in Poland.

Other functions: Chair of the Assets and Liabilities Management Committee
Chair of the Transformation Committee
Chair of the IT Security Committee
Chair of the Risk Committee
Chair of the Strategy Committee

RAFAŁ ANT CZAK – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE ENTERPRISE BANKING, STRATEGY AND ANALYSES AREA

On 14 June 2017, he was appointed to the Management Board for the current term of office. Economist and manager with more than 20 years of experience in international and domestic projects for companies in the financial and real economy sectors, governments and research institutions. He graduated from the Faculty of Economic Sciences at the University of Warsaw and a Comprehensive Course in Market Economics at the Joint Vienna Institute (1997). From October 2008 to January 2017, he was a Member of the Management Board of Deloitte Consulting S.A., responsible, among other things, for research, micro and macroeconomic projections, strategic and business consulting. From 2006 to 2008, he was Managing Director and Chief Economist of the PZU Group and Member of the Supervisory Boards of PZU Asset Management, PZU-Ukraina, PZU-Ukraina Ubezpieczenia na Życie and UFG. In 2006–2008, active lecturer at the Faculty of Management and the MBA Programme of the University of Warsaw. In 1994–2006, economist with the Centre for Social and Economic Research CASE Science Foundation. Author of many publications on economics and market research.

Other functions: Member of the Strategy Committee

MAKS KRACZKOWSKI – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE INTERNATIONAL AND TRANSACTION BANKING, AND COOPERATION WITH LOCAL GOVERNMENT AUTHORITIES AND GOVERNMENT AGENCIES

Member of the Management Board since 4 July 2016. He graduated from the University of Warsaw's Faculty of Law and Administration. A member of the Polish Parliament for the 5th, 6th, 7th and 8th terms of office: since 2015 – Deputy Chairman of the Commission of Economy and Development of the Polish Parliament, in 2005–2007 – Chairman of the Commission of Economy of the Polish Parliament, as well as: Member of the Legislative Commission of the Polish Parliament, and Chairman of the Standing Sub-Committee of the Constitutional Tribunal. On 14 June 2017, he was re-appointed to the Management Board for the current term of office. He has many years' experience in establishing laws and knowledge of business matters in Poland and abroad. As an MP for four terms of office in the Polish Parliament, in his activities he has focused on economic and financial market matters.

Other functions: Deputy Chair of the Bank's Loan Committee
Member of the Strategy Committee

MIECZYŚLAW KRÓL – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF BANCASSURANCE AS WELL AS THE LEGAL AND COMPLIANCE AREA

Member of the Management Board since 6 June 2016. Banker, finance specialist, manager, holder of an MA in economics, a graduate of the Warsaw School of Economics (the Faculty of Finance and Statistics) and the International School of Management. He completed his post-graduate studies at the Warsaw School of Economics (Collegium of Management and Finance). On 14 June 2017, he was re-appointed to the Management Board for the current term of office. He has been working in banking and finance for over thirty years. He has worked, among other things, at the National Bank of Poland. He was a director at PKO Bank Polski SA for many years. In 2006–2010, he was the Director of the Audit Department at PKO Bank Polski SA, then, in 2011–2015, he was Director of the Audit Department at Bank Ochrony Środowiska SA in Warsaw. In 2006–2007, he was a member of the Supervisory Board of the Financial and Banking Centre in Warsaw. In 2007, he was Chairman of the Supervisory Board of Zakłady Chemiczne Organika Sarzyna in Nowa Sarzyna and of the Monument Preservation and Conservation Workshops. He has lectured at the Academy of Business Activity in Warsaw. He has authored many articles about banking and economics. In 1998–2002, he was a councillor for the City of Warsaw. He was Deputy Chairman of the Budget Committee and a member of the Audit Committee. In 2002–2014, he was a councillor on the Warsaw City Council where he was, among other things, Deputy Chairman of the Budget and Finance Commission and a member of the Health Commission. As part of his social activities, he managed the Social Council of the Father Jerzy Popiełuszko Hospital in Bielany.

Other functions: Member of the Strategy Committee

ADAM MARCINIAK – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE IT AND SERVICE AREA

On 21 September 2017, he was appointed to the Management Board for the current term of office, as of 1 October 2017.

He has worked for PKO Bank Polski SA since 2011. As Director of the Application Development and Maintenance Division, he is responsible for the management, development and maintenance of the IT systems. He successfully reorganized operations of the IT structures, focussing on the efficiency of processes, cost optimization and dynamic business growth.

From 2011 to 2014, as the Vice-President of Inteligo Financial Services SA, he was also responsible for the development of IT systems, the reorganisation, optimisation and integration of the company into the Bank's structures. Previously, he worked for Pekao SA as the Operating Director of the Electronic Channels Development and Management Office and the Director of the IT Department in the Central Brokerage House of Pekao SA.

He is a member of the Executive Committee of the Electronic Banking Council of the Polish Bank Association, the IT Architecture Council of the Government's Digitization Committee and an expert in the Task Force for the evaluation of IT projects of the Government's Digitization Committee.

He is a member of the supervisory boards of PKO Bank Hipoteczny SA and PKO BP Finat Sp. z o.o. He has won numerous industry awards, including the title of the Ambassador for Electronic Economy at the 10th Congress of Electronic Economy, the Nicholas Copernicus Medal awarded by the Polish Bank Association for special merits in the construction and development of the banking sector and of the special title of "Banking Market Innovator 2015" in the Top 50 Banks in Poland ranking.

He graduated from the Military Technical Academy in Warsaw and the Warsaw University of Technology.

Other functions:

Chair of the IT Architecture Committee
Deputy Chair of the IT Security Committee
Deputy Chair of the Transformation Committee
Member of the Strategy Committee
First Deputy Chair of the Operational Risk Committee
Member of the Risk Committee
Member of the Data Quality Committee

PIOTR MAZUR – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF PKO BANK POLSKI IN CHARGE OF THE RISK MANAGEMENT AREA

Member of the Management Board since 8 January 2013.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He is Vice-President of the Management Board of PKO Bank Polski SA in charge of the Risk Management Area, upon the approval of the Polish Financial Supervision Authority on 8 January 2013. He graduated from the Faculty of Organization and Management at the Academy of Economics in Wrocław. He has over 20 years' experience in banking; since 2000, he has been working as manager, mainly in charge of risk, restructuring and loans. He has worked for international financial groups operating in Europe, the USA and South America. He is a member of supervisory boards, creditors' committees, a member and chairman of key risk management committees. He participated in the development of the strategy of Bank Zachodni WBK SA, was directly responsible for risk management, the optimization of debt collection and restructuring processes, and cooperated with the regulators in Poland and abroad.

After graduating in 1991, he began his professional career in Bank BPH SA, in the loan area. In 1992, he started work at Bank Zachodni SA, and then, after the merger with Wielkopolski Bank Kredytowy SA he worked for BZ WBK SA. In the years 1992–2000 he was employed in the Department of Capital Investments, and then in the years 2000–2005 he was the Director of the Department of Credit Quality Control. In the years 2005–2008 he was the Director of Business Intelligence and Risk Management Area, and in the years 2008–2010 – the Deputy Chief Risk Officer. Since January 2011 he was the Chief Credit Officer and since March 2012 also the Deputy Chief Risk Officer. Moreover, he was the Chairman of the Credit Committee at BZ WBK SA, Deputy Chairman of the Credit Risk Forum, and Deputy Chairman of the Risk Model Forum.

Other functions:

Chair of the Bank's Loan Committee
Chair of the Operational Risk Committee
Deputy Chair of the Risk Committee
First Deputy Chair of the Assets and Liabilities Management Committee
Member of the IT Security Committee
Member of the Strategy Committee
Chair of the Data Quality Committee
Deputy Chair of the Transformation Committee

JAKUB PAPIERSKI – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE CORPORATE AND INVESTMENT BANKING AREA

Member of the Management Board since 22 March 2010.	Graduated from the Warsaw Scholl of Economics. Has the Chartered Financial Analyst (CFA) licence. He started his professional career in 1993 in the Pro-Invest International consulting company. From 1995 to 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started work for Deutsche Morgan Grenfell/Deutsche Bank Research, where he was responsible for the banking sector in Central and Eastern Europe.
On 14 June 2017, he was re-appointed to the Management Board for the current term of office.	From November 2001 to September 2003, he worked for Bank Pekao SA as Executive Director of the Financial Division, directly supervising the financial and fiscal policy of the bank, management information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Assets and Liabilities Management Committee in the Bank. In October 2003, he was appointed President of the Management Board of Centralny Dom Maklerski Pekao SA. In September 2006, he also took up the position of Deputy Chairman of the Supervisory Board of Pioneer Pekao TFI SA. From May 2009, he was acting President of the Management Board of Allianz Bank Polska SA and in October 2009 he became President of the Management Board. From 2005 to 2009, he was Chairman of the Programme Council of the Capital Market Leader Academy established at the Lesław Paga Foundation and is now a member of the Programme Council.
Other functions:	Deputy Chair of the Bank's Loan Committee Third Deputy Chair of the Assets and Liabilities Management Committee Member of the Risk Committee Member of the Strategy Committee Member of the Data Quality Committee Rotating member of the Bank's Loan Committee in charge of credit risk models

JAN EMERYK ROŚCISZEWSKI – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE RETAIL MARKET AREA

Member of the Management Board since 18 July 2016.	Polish entrepreneur, manager in the insurance industry. In 1988, he graduated from the Faculty of Humanities of the Catholic University of Lublin, with an MA in history. In 1990, he earned a DEA diploma from the Paris Institute of Political Studies (Institut d'Etudes Politiques de Paris). He completed various training courses in finance, insurance and management in France, Great Britain and Poland. In 1996, he qualified as an insurance broker. Since the first half of the 1990s, he has been working for international banking and insurance institutions, among other things for AXA and Azur. In 1990-1991, he worked for AXA Banque and AXA International in France, and in 1991-1993 for Groupe Azur. From 1993 to 1996, he was the Member of the Management Board of TU Azur Ostoja SA and TUnŻ Azur Życie SA. Since 1996 he worked for Paribas. In 1998-2016, he managed – as the President of the Management Board – Towarzystwo Ubezpieczeń na Życie Cardif Polska SA, which is part of the BNP Paribas at present. Simultaneously, in 2001-2016 he held the position of Director General of Cardif Assurance Risques Divers in Poland.
On 14 June 2017, he was re-appointed to the Management Board for the current term of office.	He has held many additional professional positions, such as Chairman of the Supervisory Board of Pocztynion-Arka Pension Fund Company (since 1999), Deputy Chairman of the Supervisory Board of Postal Financial Services Agency SA (2000-2014), member of the Audit Committee of the Polish Insurance Association (2012-2016), member of the Supervisory Board of BBI Development NFI SA (since 2011), deputy Chairman of Bank Pocztowy SA (since 2017). From 1981 to 1983, he was active in the charity organization of the Primate's Committee for Help to People Deprived of Liberty. Since 2009 he has been a Knight of Honour and Devotion of the Sovereign Military Order of Malta, whereas since December 2012 he has held the position of hospitaller of the Polish Association of the Sovereign Military Order of Malta. He is a member of the Management Board of the Page of History Foundation (since 2007) and a member of the Warsaw Mountaineering Club, the Polish Heraldic Society, Domus Polonorum. In 2010, he was awarded the Officer's Cross of the Order of Polonia Restituta for outstanding achievements in the development of the insurance market in Poland. He is an author and co-author of historical books and articles on finance and management.
Other functions:	Deputy Chair of the Data Quality Committee Rotating member of the Bank's Loan Committee in charge of credit risk models Member of the Strategy Committee Member of the Risk Committee

In addition to the aforementioned functions, Members of the Bank's Management Board were also members of steering committees established within the framework of projects being implemented.

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD IN 2017

- On 14 June 2017, the Supervisory Board of PKO Bank Polski SA appointed Mr Rafał Antczak as Vice-President of the Management Board of PKO Bank Polski SA for a joint term of office of the Management Board which began on 2 July 2017.
- On 9 August 2017, Mr Janusz Derda resigned as a member of the Management Board of PKO Bank Polski SA as of 9 August 2017.
- On 21 September 2017, the Supervisory Board appointed Mr Adam Marciniak, as of 1 October 2017, as Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of office of the Management Board which began on 2 July 2017.
- On 21 December 2017, Mr Bartosz Drabikowski was dismissed as a member of the Management Board of PKO Bank Polski by a resolution of the Supervisory Board of 21 December 2017.
- On 21 December 2017, the Supervisory Board appointed Mr Rafał Kozłowski, as of 1 January 2018, as Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of office of the Management Board which began on 2 July 2017.

RAFAŁ KOZŁOWSKI – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE FINANCE AND ACCOUNTING AREA

On 21 December 2017, he was appointed to the Management Board for the current term of office, as of 1 January 2018.

He has been working for PKO Bank Polski since 2012. He was responsible, among other things, for establishing the mortgage bank. Since the establishment of PKO Bank Hipoteczny, as President of the Management Board, he was responsible for the development of this institution, and under his leadership, PKO Bank Hipoteczny soon became the leader among the largest mortgage banks in Poland. Before long, under his management, the bank became the largest issuer of mortgage bonds on the domestic market and conducted the largest issues of mortgage bonds abroad.

Rafał Kozłowski comes from Łomża. He graduated from the Warsaw School of Economics (majoring in Quantitative Methods and Information Systems), as well as the University of Warsaw and University of Illinois where he completed Executive MBA studies in 2008. Has been working in the banking industry since 1995. He held managerial positions in Powszechny Bank Kredytowy, Bank BPH PBK, Bank Pekao S.A. and PKO Bank Polski. He was also the Finance Director and member of the Management Board in the Corporation of European Pharmaceutical Distributors N.V. in Amsterdam, where he managed the international holding of 160 companies located in Poland, Lithuania and Great Britain.

In the course of his professional career, he participated in the development of strategies and bank budgets, along with monitoring, the preparation of financial analyses and stock exchange reports as well as preparing public contracts and foreign entity acquisition transactions. He is a leading expert in controlling, accounting, reporting, financial risk and mortgage banking.

PRINCIPLES OF THE FUNCTIONING OF THE MANAGEMENT BOARD OF THE BANK

The Management Board makes decisions in the form of resolutions.

Declarations on behalf of the Bank shall be made by:

- the President of the Management Board acting independently;
- two members of the Management Board acting jointly or one member of the Management Board with a proxy;
- two proxies acting jointly;
- attorneys acting independently or jointly, within the framework of the power of attorney granted.

COMPETENCIES OF THE MANAGEMENT BOARD OF THE BANK

In accordance with § 20 section 1 of the Articles of Association of PKO Bank Polski SA, the competencies of the Management Board include all matters related to managing the affairs of PKO Bank Polski SA that do not fall within the competencies of the General Meeting of Shareholders or the Supervisory Board, in accordance with the provisions of the generally applicable law or provisions of the Articles of Association of PKO Bank Polski SA.

Resolutions of the Management Board are required with respect to all matters exceeding the scope of the Bank's normal activities. Resolutions of the Management Board will be passed by an absolute majority of votes. In the event of an equal number of votes, the President of the Management Board has the casting vote. The Management Board's working procedures and matters that require a resolution passed by the Management Board are specified in the Rules of the Management Board. Members of the Management Board participate in managing the activities of the Bank in

line with the principles set out in the Rules of the Management Board and the Organizational Rules of the Bank. Members of the Management Board supervise the areas of activities allocated to them, and take decisions on matters of ordinary management within the supervised activity areas.

COMMITTEES OF THE MANAGEMENT BOARD OF THE BANK

As at the end of 2017, the following standing committees functioned in the Bank with the participation of Members of the Management Board:

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE OF PKO BANK POLSKI SA

PURPOSE	Managing assets and liabilities by influencing the structure of the balance sheet of PKO Bank Polski SA and its off-balance sheet items in a manner conducive to achieving the optimum financial result.
TASKS	Supporting the Management Board in the Bank's following activities: <ul style="list-style-type: none"> • shaping the structure of the Bank's balance sheet; • capital adequacy management; • managing profitability, taking into account the specific nature of individual areas of activity and the respective risks; • managing financial risk, including market and liquidity risks, business risk, and credit risk (settlement and pre-settlement risk) of the transaction on the wholesale market.

RISK COMMITTEE

PURPOSE	Setting strategic directions and tasks in the scope of banking risk in the context of the Bank's strategy and circumstances arising from the macroeconomic situation and the regulatory environment, analyzing periodic reports related to the banking risks and developing appropriate guidance based thereon, as well as preparing the banking risk management strategy and its periodic review.
TASKS	<ul style="list-style-type: none"> • monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy pursued as part of the adopted Strategy of the Bank; • analysing and evaluating the utilization of strategic risk limits set in the Banking Risk Management Strategy; • expressing opinions on periodic risk reports submitted for approval to the Supervisory Board and taking into account information in the reports when issuing opinions.

LOAN COMMITTEE OF THE BANK

PURPOSE	Management of credit risk occurring when taking lending decisions or decisions concerning liabilities managed by responsible units of the Bank, as well as management of the risk of occurrence of negative financial or reputation effects as a result of taking incorrect business decisions on the basis of the credit risk models.
TASKS	<ul style="list-style-type: none"> • taking decisions in matters relating to the segregation of competencies for lending and selling decisions, management of non-performing loans, industry and customer limits, and securing the debt of PKO Bank Polski SA; • taking decisions pertaining to credit risk models; • issuing recommendations to the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, customer internal limits, management of non-performing loans, credit risk models, particularly in the field of credit policy parameters, which, due to external regulations, require the approval of the Management Board or the Supervisory Board; • issuing opinions concerning applications pertaining to lending transactions, leasing transactions or factoring transactions submitted by the entities of the Bank's Group, restructuring and debt collection with respect to the customers of KREDOBANK SA and significant credit risk models in the companies of the Bank's Group.

OPERATIONAL RISKS COMMITTEE

PURPOSE	Effective management of operational risk, improving the safety of the Bank's operating activities.
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TASKS	<ul style="list-style-type: none">• determining the directions of operational risk management development;• supervising the functioning of operational risk management;• coordination of operational risk management;• determining measures to be taken in the event of an emergency which exposes the Bank to reputational risk and results in operating losses.
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TRANSFORMATION COMMITTEE

TASKS	<ul style="list-style-type: none">• ensuring the effective transformation of the Bank by operational management of the implementation of the Bank's Strategy and management of the limit of investment outlays for and costs of projects in accordance with the Bank's accepted development directions;• taking decisions pertaining to the implementation of and changes to strategic programmes and projects, as well as decision pertaining to material costs and other operating costs related to current activities;• issuing recommendations and guidelines;• supervision and monitoring of the implementation of strategic programmes, strategic projects, operational projects and projects carried out within the framework of the replacement portfolio, in particular of the status of works, project budgets, financial and non-financial benefits;• initiating activities enhancing the Bank's effectiveness;• managing the annual financial limit for the implementation of projects;• resolution of disputes within the area of competencies of the Committee, on lower decision-making levels.
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STRATEGY COMMITTEE

PURPOSE	Oversight of the strategic planning process and management of the Bank's strategy.
TASKS	<ul style="list-style-type: none">• managing the activities related to strategy development and implementation;• approving the strategy development schedule and the strategy implementation schedule;• taking key decisions necessary to ensure the implementation of the strategy, including the implementation of strategic programmes;• resolution of potential disputes arising when working on individual strategic programmes.

IT ARCHITECTURE COMMITTEE

PURPOSE	Development of the IT architecture ensuring the implementation of the Bank's Strategy.
TASKS	<ul style="list-style-type: none">• development of key assumptions of the IT architecture of the Bank (principles);• periodic evaluation of the IT architecture functioning in the Bank;• development of a target architecture model;• initiating activities aimed at implementing the target architecture model.

IT SECURITY COMMITTEE

PURPOSE	Increasing the effectiveness of supervision and control over the IT system safety in PKO Bank Polski SA (SIB).
TASKS	Issuing recommendations on the SIB safety, in particular related to: <ul style="list-style-type: none">• coordination and monitoring of work related to the SIB safety;• setting the directions of the activities of the Bank with respect to SIB safety;• specifying desirable activities, which in the Committee's opinion should be undertaken in the event of emergency situations which put the Bank's image at risk and cause operating or financial losses in the area of SIB safety;• monitoring the risk related to SIB safety.

DATA QUALITY COMMITTEE

PURPOSE	Setting strategic directions of the activities relating to data quality management and data architecture in the Bank in the context of the Data Management System (DMS), oversight of its functioning and assessment of its effectiveness and the activities undertaken by the individual organizational units.
TASKS	Taking decisions on data management in the Bank, including in particular decisions pertaining to: <ul style="list-style-type: none">• DMS development directions;• recommendations to organizational units of the Head Office, regarding data management activities;

- detailed data management solutions;
- assessing the effectiveness of the operations of the DMS, determining priority measures as part of the DMS, and drawing up periodical action plans;
- allocation of the ownership of data groups;
- resolution of disputes pertaining to the DMS at the request of the Committee members;
- approving – in cases justified especially by the need to ensure the continuity of the Bank's operations – deviations from data quality criteria and rules as well as data quality solutions standards.

In addition to the aforementioned functions, Members of the Management Board were also members of non-standing committees, including steering committees established within the framework of projects being implemented.

10.1 SHARES OF PKO BANK POLSKI SA HELD BY THE BANK'S AUTHORITIES

The table below presents the shares in the Bank held by Members of the Management Board and Supervisory Board of PKO Bank Polski SA as at 31 December 2017. The nominal value of each share is PLN 1.

Table 24. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	First name and surname	Number of shares as at 31/12/2017	Purchased	Sale	Number of shares as at 31/12/2016
Management Board					
1.	Zbigniew Jagiełło, President of the Management Board	11,000	0	0	11,000
2.	Rafał Antczak, Vice-President of the Management Board*	0	0	0	x
3.	Maks Kraczkowski, Vice-President of the Management Board	0	0	0	0
4.	Mieczysław Król, Vice-President of the Management Board	5,000	0	0	5,000
5.	Adam Marciniak, Vice-President of the Management Board*	0	0	0	x
6.	Piotr Mazur, Vice-President of the Management Board	4,500	0	0	4,500
7.	Jakub Papierski, Vice-President of the Management Board	3,000	0	0	3,000
8.	Jan Emeryk Rościszewski, Vice-President of the Management Board	0	0	0	0

*) members of the Management Board of the Bank, who did not hold the office as at 31/12/2016

As at 31 December 2017, Members of the Supervisory Board of PKO Bank Polski SA did not hold any shares in PKO Bank Polski SA.

As at 31 December 2017, Members of the Supervisory Board and the Management Board of PKO Bank Polski SA did not hold any shares in related companies of PKO Bank Polski SA, understood as its subsidiaries, jointly controlled companies and associated companies.

10.2 DIVERSITY POLICY

Diversity management in the Bank pertains to all employees, its authorities and key managers. Diversity-related activities relate to many aspects of the activities of the Bank's Group, and take into account respect for other people, equal treatment and the utilization of employee potential. Once a year, these initiatives are presented to the Supervisory Board and the Management Board of the Bank.

Diversity means that people are important irrespective of gender, age, health condition, sexual orientation, religion, marital status or country of origin.

Therefore, the following solutions were implemented within the framework of HR regulations, processes and policy:

RULES OF ETHICS, COUNTERACTING DISCRIMINATION AND MOBBING

The Bank's Code of Ethics and Work Rules include provisions pertaining to, among other things, counteracting discrimination due to gender, age, disablement, race, religion, nationality, political views, trade union membership, ethnic origin, sexual orientation or due to employment for a fixed or indefinite period or on a full-time or part-time basis.

RECRUITMENT STANDARDS CONSISTENT WITH THE EU EMPLOYMENT EQUALITY DIRECTIVE

When carrying out recruitment projects, the Bank's Group complies with provisions on equal treatment in employment and occupation. Processes related to candidate selection are based on objective grounds, and their subsequent stages are carried out in compliance with the agreed procedures and rules.

JOB VALUATION BASED ON OBJECTIVE CRITERIA

The essence of the job valuation process in the Bank's Group is the job valuation based on substantial criteria, which prevents discrimination.

REGULATIONS ON ADJUSTING WORKSTATIONS FOR DISABLED STAFF

Principles for the implementation of occupational health and safety tasks, as well as technology and technical solution standards require implementing the steps necessary to adjust workstations for disabled staff.

INTERNSHIP PROGRAMME

The Bank's Group employs and provides opportunities for pupils, students and graduates of secondary schools and universities with various profiles.

COMPETENCE MODEL AND EMPLOYEE APPRAISAL SYSTEM BASED ON COMPETENCIES AND PERFORMANCE

Employee appraisals are carried out on an annual basis, based on a competence model including general corporate, leadership and specific competencies. Within the framework of the periodic appraisal system, every employee together with his/her superior agrees on an individual development plan during the periodic interview.

DIVERSITY POLICY WITH RESPECT TO MANAGERS AND SUPERVISORS AS AT 31 DECEMBER 2017

Diversity management also pertains to members of the Supervisory Board and the Management Board of PKO Bank Polski SA and key managers. Managers and supervisors are persons of different gender, age and experience.

Gender	Women	Men
Supervisory Board	2	9
Management Board	-	8
Key managers	126	186

Age	30-40 years	41-50 years	51-60 years	over 60 years
Supervisory Board	-	5	-	6
Management Board	2	1	5	-
Key managers	86	164	55	7

Years of services with PKO Bank Polski SA	up to 5 years	5-10 years	10-15 years	15-20 years	over 20 years
Supervisory Board	11	-	-	-	-
Management Board	4	4	-	-	-
Key managers	101	97	32	44	38

11. OTHER INFORMATION

Non-financial statement
Purchase of treasury shares
Information about activities of the Bank's Group by EU member states and third countries
Published forecasts of financial results for 2017
Significant agreements and significant agreements with the central bank or supervisory authorities
Underwriting agreements and guarantees granted to subsidiaries
Enforcement titles issued
Debt write-offs
Information on proceedings at court, before an arbitration tribunal or a public administration body
Loans incurred and loan, warranty and surety agreements
Financial and guarantee liabilities granted
Information on related-party transaction or transactions concluded by the issuer or its subsidiary if it is or they are material and was / were concluded on terms other than an arm's length basis
Proxies, meetings of the Management Board and implementation of resolutions of the General Meeting of Shareholders
Seasonality or cyclicity of activities during the reporting period
Significant post-balance sheet events
Statement of the Management Board

NON-FINANCIAL STATEMENT

In accordance with Article 49b section 9 of the Accounting Act of 29 September 1994 (Journal of Laws of 2017, item 621), an undertaking can be exempt from preparing a non-financial statement when, together with the Directors' report, it draws up a separate report on the non-financial information and publishes it on its website, within 6 months of the balance sheet day.

In accordance with the aforementioned regulations the Group of PKO Bank Polski SA has drawn up a separate report on the non-financial information.

PURCHASE OF TREASURY SHARES

PKO Bank Polski SA did not purchase any treasury shares on its own account during the period covered by the report.

INFORMATION ABOUT ACTIVITIES OF THE GROUP OF PKO BANK POLSKI SA BY EU MEMBER STATES AND THIRD COUNTRIES

	Turnovers (revenues)*	Profit/Loss before tax	Income tax	Net profit/loss	Employment (FTE)
In EU member states:					
- Poland	15 701	4 129	-1 102	3 029	26 057
- Sweden	239	2	0	2	0
- Ireland	33	0	0	0	0
In third countries:					
- Ukraine	296	68	-13	55	1 932

* turnovers (revenues) defined as a sum of interest income, commission and fee income and other operating income

The Bank and subsidiaries of the Bank, on a consolidated basis, within the meaning of Article 4(1)(48) of Regulation no. 575/2013 of the European Parliament and of the Council, have their registered offices on the territory of Poland, Ukraine, Sweden and Ireland. In accordance with the Regulation, for the purposes of prudential consolidation, the Bank Group comprises: PKO Bank Polski SA, PKO Leasing SA Group, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, KREDOBANK SA Group, PKO Finance AB, Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., PKO BP Finat Sp. z o.o., PKO Bank Hipoteczny SA and Bankowe Towarzystwo Kapitałowe SA.

PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2017

PKO Bank Polski SA did not public forecasts of financial results for 2017.

SIGNIFICANT AGREEMENTS AND SIGNIFICANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY AUTHORITIES

In 2017, PKO Bank Polski SA notified in the current reports of all agreements concluded with customers, in the case of which the total value of benefits arising from long-term agreements concluded with the particular customer met the criteria referred to in the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information submitted by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws No. 33, item 259), as well as notified of concluding significant agreements in accordance with the requirements of the binding Regulation (EU) no. 596/2014 of the European Parliament and of the Council on market abuse.

On 30 May 2017, PKO Bank Polski SA concluded a loan agreement for PLN 3.2 billion with a customer of the Bank. By concluding the agreement, the Bank fulfilled its obligations arising from the promise issued to the customer on 7 December 2016.

In relation to the aforementioned loan agreement, the Bank concluded a trilateral understanding with the customer and the institution in cooperation with which the customer is implementing a joint investment project, co-financed from funds raised under the loan agreement. The understanding specifies the rules of conduct with respect to one of the collaterals securing the loan agreement. The understanding stipulates that the investor would have the right of priority regarding the acquisition of the collateral item, in whole or in part, if the Bank exercises its right as a secured creditor. The right of priority is voluntary, but in certain instances, defined in the understanding, the investor's failure to exercise this right or its forfeiture at a later date will result in the expiration of the Bank's obligation to ensure the investor the contractual right of priority. The understanding will remain in force for the whole term of the loan agreement, provided that the Bank is entitled to terminate the understanding under the circumstances defined therein. The loan granted based on the agreement shall be finally repaid by the customer no later than within 3 years of the granting date. The discharge date may be postponed twice, on each occasion by 12 months, subject to the Bank's consent. The interest rate on the loan granted under the agreement is based on WIBOR plus a margin of the Bank. The agreement is secured, among other things, with financial and registered pledges on the investment, and the documents concerning loan collateral include a declaration by the customer on submission to enforcement.

During the past 12 months, the Bank has not entered in any other loan agreements with the customer and related parties of the customer, therefore the total amount committed by the Bank (including the amount of the agreement) is PLN 3.2 billion.

In 2017, the Bank did not conclude any significant agreements with the central bank or supervisory authorities. In 2017, subsidiaries of PKO Bank Polski SA did not conclude any significant agreements and any significant agreements with the central bank or supervisory authorities.

UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

On 30 August 2017, PKO Bank Hipoteczny SA concluded with PKO Bank Polski SA, an amending agreement to the agreement of 9 November 2015 on the National Mortgage Bond Issue Programme, based on which it entrusted the PKO Bank Polski SA Brokerage House with the function of underwriter (until that time, the aforementioned mortgage bonds were offered as standard-issue bonds).

As at the end of 2017, the total value of issued mortgage bonds of PKO Bank Hipoteczny SA (at nominal value) was PLN 8,881 million, including the value of issued mortgage bonds (at nominal value) underwritten by the Brokerage House of PKO Bank Polski SA of PLN 500 million.

As at 31 December 2017, issues of bonds of PKO Bank Hipoteczny SA were governed by the Agreement on the Bond Issue Programme of 30 September 2015, signed with PKO Bank Polski SA (acting as, among other things, the issue agent, depositary and dealer), pursuant to which the maximum value of bonds issued and not redeemed based on the programme is PLN 3 billion, and the Guarantee Agreement of 30 September 2015, pursuant to which PKO Bank Polski SA is the underwriter of the bonds issue up to a total value of PLN 2 billion.

In 2017, the annex to the Agreement on the Bond Issue Programme was signed, increasing the programme issue amount from PLN 2 billion to PLN 3 billion, as well as the annex to the Guarantee Agreement, increasing the Guarantee Amount from PLN 1 billion to PLN 2 billion.

As at 31 December 2017, the liability of the company due to issued bonds, at nominal value, was PLN 2,440 million. Bonds with a nominal value of PLN 15 million were acquired by PKO Bank Hipoteczny SA under the Warranty Agreement.

In 2017, PKO Bank Polski SA granted the following guarantees relating to its subsidiaries, active as at the end of 2017:

- it issued a guarantee of up to EUR 115 million for the repayment of the loan granted to PKO Leasing SA; this guarantee was issued for the period to 30 June 2027;
- it issued a guarantee of up to EUR 72.3 million for the repayment of the loan granted to PKO Leasing SA; this guarantee was issued for the period to 30 September 2021;
- it issued a guarantee of up to PLN 233.8 million for the repayment of the loan granted to PKO Leasing SA; this guarantee was issued for the period to March 2022;
- it issued to PKO Finance AB a guarantee of up to EUR 6.05 million for the repayment of the loan granted to PKO Leasing Sverige AB; this guarantee was issued for the period to 31 January 2024;
- it issued two guarantees of up to USD 1.5 million in total to KREDOBANK SA for the repayment of loans granted by KREDOBANK SA to its customers and one guarantee of up to EUR 22 thousand related to granting a tender bond to a customer; the guarantees were issued for a maximum period to May 2019;
- it issued a guarantee of up to EUR 326 thousand for the repayment of liabilities due to PKO Leasing SA renting the office space and parking places, and a guarantee of up to EUR 27 thousand for the repayment of liabilities due to the rental of office space; the guarantees were issued for the period to 31 May 2023 and 31 March 2021 respectively;
- it issued a guarantee of up to EUR 170 thousand for the repayment of liabilities due to PKO Życie Towarzystwo Ubezpieczeń SA renting the office space and parking places; the guarantee was issued for the period to 28 February 2023;
- it issued a guarantee of up to PLN 36 thousand securing the liability of PKO Towarzystwo Funduszy Inwestycyjnych SA, related to the lottery; the guarantee was issued for the period to 7 September 2018.

ENFORCEMENT TITLES ISSUED

As of 27 November 2015, the amendment to the Act – Banking Law waived the banks' rights to issue bank enforcement titles. The Bank does not issue any other enforcement titles – it only applies for such title (mainly in the form of a court ruling) or it receives it from a customer (a Notarial Deed with a statement of submission to enforcement).

In the case of KREDOBANK SA, the Ukrainian law does not allow issuing enforcement titles within the meaning of the Polish Banking Law. In accordance with the Ukrainian law, bank liabilities are pursued in a court of law based on the provisions of the Code of Civil Procedure and Code of Economic Procedure.

DEBT WRITE-OFFS

In 2017, in the PKO Bank Polski SA Group, impairment write-off on loans and advances granted to customers decreased by 1,392 million.

INFORMATION ON PROCEEDINGS AT COURT, BEFORE AN ARBITRATION TRIBUNAL OR PUBLIC ADMINISTRATION BODY

As at 31 December 2017, the total amount in litigation where the Bank is the defendant, and litigation in which other PKO Bank Polski SA Group companies are defendants (suits) was PLN 1,709 million, including PLN 17 million in respect of litigation in Ukraine (as at 31 December 2016 the total amount of the said litigation was PLN 449 million), and the total amount of litigation (suits) as at 31 December 2017 where the Bank is the plaintiff and litigation where other PKO Bank Polski SA Group companies are plaintiffs was PLN 1,363 million, including PLN 18 million in respect of litigation in Ukraine (as at 31 December 2016 the total amount under the said litigation was PLN 1,232 million).

The Bank and the Group companies were not parties to any proceedings in court, before an arbitration tribunal or public administration body with respect to liabilities and receivables, the value of which would be equivalent to at least 10% of equity of PKO Bank Polski SA.

LOANS INCURRED AND LOAN, WARRANTY AND SURETY AGREEMENTS

On 21 December 2017, PKO Bank Polski SA concluded a guarantee agreement with a business partner ensuring unfunded credit protection for a portfolio of selected corporate credit liabilities of the Bank, in accordance with the CRR.

The total value of the Bank's liabilities subject to the guarantee is (after rounding) PLN 5,494.73 million, and the portfolio comprises the portfolio of bonds of (after rounding) PLN 1,096.6 million (Portfolio A) and portfolio of other liabilities of (after rounding) PLN 4,398.13 million (Portfolio B). The guarantee coverage ratio is 90% for the Portfolio A and 80% for the Portfolio B, as a result of which the total guarantee amount is (after rounding) PLN 4,505.44 million. The maximum guarantee term is 60 months, whereas the Bank shall be entitled to terminate the guarantee before the expiry of its term.

In 2016, PKO Bank Polski SA and companies of the Bank Group did not incur any loans and advances, and did not receive any guarantees or sureties that would not be related to operating activities.

FINANCIAL AND GUARANTEE LIABILITIES GRANTED

As at 31 December 2017, financial and guarantee liabilities were PLN 54.6 billion, of which 81.4% were financial liabilities. The overall dynamics of financial and guarantee liabilities granted was -6.0% y/y, mainly as a result of a drop in guarantee liabilities granted to non-financial entities, and a drop in financial liabilities granted to non-financial entities.

Table 25. Off-balance sheet liabilities granted (in PLN million)

	31/12/2017	31/12/2016	Change (in PLN million)	Change (%)
Financial commitments granted:	44 471	46 145	-1 674	-3,6%
financial entities	2 824	2 764	60	2,2%
non-financial entities	37 374	39 525	-2 151	-5,4%
state budget entities	4 273	3 856	417	10,8%
<i>including: irrevocable</i>	33 607	31 078	2 529	8,1%
Guarantees granted:	10 140	11 931	-1 791	-15,0%
financial entities	572	345	227	65,8%
non-financial entities	9 221	11 225	-2 004	-17,9%
state budget entities	347	361	-14	-3,9%
Total	54 611	58 076	-3 465	-6,0%

INFORMATION ON RELATED-PARTY TRANSACTION OR TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARIES IF IT IS OR THEY ARE MATERIAL AND WAS OR WERE CONCLUDED ON TERMS OTHER THAN AN ARM'S LENGTH BASIS

In 2017, PKO Bank Polski SA provided, on an arm's length basis, the following services to related (subordinated) entities: services regarding maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and concluding foreign exchange transactions and offering participation units and certificates of investment funds, lease products, factoring products and insurance products offered by the PKO Bank Polski SA Group entities, as well as services offered by the Brokerage House of PKO Bank Polski SA. Simultaneously, the Bank provided to PKO Bank Hipoteczny SA services involving intermediation in sales of housing loans to natural persons, post-sales service in relation to these loans and support activities within an outsourcing agreement. The Bank made available teleinformatics infrastructure and provided teleinformatics services, as well as rented office space to selected entities of the Banks Group. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o., it provided payment transaction settlement services.

The list of significant transactions between PKO Bank Polski SA and its subsidiaries, including credit debt of these entities to the Bank as at 31 December 2017, is presented in the standalone financial statements of PKO Bank Polski SA for the year ended 31 December 2017.

PROXIES, MEETINGS OF THE MANAGEMENT BOARD AND IMPLEMENTATION OF RESOLUTIONS OF THE GENERAL MEETING OF SHAREHOLDERS

As at 31 December 2017, there were 5 proxies in the Bank:

In 2017:

- one proxy was cancelled – granted to Błażej Borzym;
- one proxy was granted – to Maciej Wyszoczarski.

In 2017, 45 meetings of the Management Board of the Bank were held, and the Management Board passed 730 resolutions.

Major actions and decisions of the Management Board, which affected the Bank's economic and financial position, as well as operations, are presented in various sections of this Directors' Report.

SEASONALITY OR CYCLICALITY OF ACTIVITIES DURING THE REPORTING PERIOD

PKO Bank Polski SA is a universal bank, which provides services on the whole territory of Poland, and thus its activities are exposed to similar seasonal fluctuations to those affecting the entire Polish economy. The operations of the other PKO Bank Polski SA Group companies do not show any material traits of seasonality or cyclicity.

SIGNIFICANT POST-BALANCE SHEET EVENTS

1. On 30 January 2018, the Bank passed a resolution granting consent to the issue of 10NC5 subordinated bonds, i.e. bonds with a maturity of 10 years, with the right of the Bank to early redemption of all bonds within 5 years of the issue date (call), upon the consent of the PFSA. The total nominal value of the bonds issued will not exceed PLN 1 billion. Bonds will be issued based on the Act on bonds, and funds from the issue will be allocated – after obtaining the consent of the PFSA – for increasing supplementary funds (Tier 2) of the Bank. The nominal value of one bond shall be PLN 500 thousand. The bonds shall bear interest on market terms, due for semi-annual interest periods; interest on bonds will be calculated on the nominal value.
2. On 8 February 2018, the Bank made an early repayment of the whole amount of the loan facility extended by Nordea Bank AB (publ) based on the agreement of 1 April 2014. The loan facility has been granted primarily for 7 years, therefore the Bank prepays the loan facility 3 years before the primary due date. As a result of the repayment of the loan facility, the collateral including receivables from the mortgage portfolio will be released based on a separate agreement.

12. FINANCIAL INFORMATION

FINANCIAL DATA OF THE PKO BANK POLSKI SA GROUP

Table 26. Income statement of the PKO Bank Polski SA Group (in PLN million)

	2017	2016	Change (in PLN million)	Change (%)
Interest income	10 919	9 965	954	9,6%
Interest expenses	-2 313	-2 210	-103	4,7%
Net interest income	8 606	7 755	851	11,0%
Fee and commission income	3 918	3 579	339	9,5%
Fee and commission expense	-949	-886	-63	7,1%
Net fee and commission income/(expense)	2 969	2 693	276	10,2%
Dividend income	12	10	2	20,0%
Net gain/(loss) on financial instruments measured at fair value	8	4	4	100,0%
Gain/(loss) on investment securities	46	506	-460	-90,9%
Net foreign exchange gains/(losses)	452	503	-51	-10,1%
Net other operating income and expenses	470	319	151	47,3%
Net impairment allowances and provisions	-1 620	-1 623	3	-0,2%
Administrative expenses	-5 784	-5 590	-194	3,5%
Tax on certain financial institutions	-932	-829	-103	12,4%
Operating profit/(loss)	4 227	3 748	479	12,8%
Share in profits and losses of associated entities and joint ventures	22	35	-13	-37,1%
Profit before income tax	4 249	3 783	466	12,3%
Income tax expense	-1 140	-907	-233	25,7%
Net profit (including non-controlling shareholders)	3 109	2 876	233	8,1%
Profit (loss) attributable to non-controlling shareholders	5	2	3	2,5x
Net profit	3 104	2 874	230	8,0%

Table 27. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	31/12/2017	31/12/2016	Change (in PLN million)	Change (%)
Assets (in PLN million)				
Cash and cash balances with the Central Bank	17 810	13 325	4 485	33,7%
Amounts due from banks	5 233	5 345	-112	-2,1%
Loans and advances to customers	205 628	200 606	5 022	2,5%
Securities	54 075	51 405	2 670	5,2%
Other assets	14 166	14 892	-726	-4,9%
Total assets	296 912	285 573	11 339	4,0%
Liabilities and equity (in PLN million)				
Amounts due to banks	4 564	19 212	-14 648	-76,2%
Amounts due to customers	218 800	205 066	13 734	6,7%
Issues of securities and subordinated liabilities	25 652	17 032	8 620	50,6%
Liabilities in respect of insurance activities	2 999	2 944	55	1,9%
Other liabilities	8 641	8 750	-109	-1,2%
Total liabilities	260 656	253 004	7 652	3,0%
Total equity	36 256	32 569	3 687	11,3%
Total liabilities and equity	296 912	285 573	11 339	4,0%
Financial ratios				
Loans/Amounts due to customers	94,0%	97,8%		-3,8 p.p.
Loans/Stable sources of financing*	83,2%	83,7%		-0,5 p.p.
Interest-bearing assets/Assets	89,2%	90,1%		-0,9 p.p.
Interest-bearing liabilities and equity/Liabilities and equity	83,9%	84,5%		-0,6 p.p.
Capital adequacy ratio	17,4%	15,8%		1,6 p.p.

* Stable sources of financing include amounts due to customers and external financing including: issues of securities, subordinated liabilities and loans received from financial institutions.

FINANCIAL DATA OF PKO BANK POLSKI SA

Table 28. Income statement of PKO Bank Polski SA (in PLN million)

	2017	2016	Change (in PLN million)	Change (%)
Interest income	10 075	9 483	592	6,2%
Interest expenses	-2 174	-2 115	-59	2,8%
Net interest income	7 901	7 368	533	7,2%
Fee and commission income	3 611	3 298	313	9,5%
Fee and commission expense	-924	-851	-73	8,6%
Net fee and commission income/(expense)	2 687	2 447	240	9,8%
Dividend income	135	162	-27	-16,7%
Net gain/(loss) on financial instruments measured at fair value	3	0	3	x
Gain/(loss) on investment securities	44	505	-461	-91,3%
Net foreign exchange gains/(losses)	419	501	-82	-16,4%
Net other operating income and expenses	57	0	57	x
Net impairment allowances and provisions	-1 530	-1 408	-122	8,7%
Administrative expenses	-5 037	-5 034	-3	0,1%
Tax on certain financial institutions	-894	-820	-74	9,0%
Operating profit/(loss)	3 785	3 721	64	1,7%
Profit before income tax	3 785	3 721	64	1,7%
Income tax expense	-1 011	-833	-178	21,4%
Net profit	2 774	2 888	-114	-3,9%

Table 29. Main items of the statement of financial position of PKO Bank Polski SA (in PLN million)

	2017-12-31	2016-12-31	Change (in PLN million)	Change (%)
Assets (in PLN million)				
Cash and cash balances with the Central Bank	17 765	13 277	4 488	33,8%
Amounts due from banks	8 769	8 471	298	3,5%
Loans and advances to customers	186 892	189 067	-2 175	-1,2%
Securities	50 512	48 032	2 480	5,2%
Other assets	13 846	14 110	-264	-1,9%
Total assets	277 784	272 957	4 827	1,8%
Liabilities and equity (in PLN million)				
Amounts due to banks	4 305	18 721	-14 416	-77,0%
Amounts due to customers	222 524	209 371	13 153	6,3%
Issues of securities and subordinated liabilities	6 924	4 232	2 692	63,6%
Other liabilities	8 044	8 043	1	0,0%
Total liabilities	241 797	240 367	1 430	0,6%
Total equity	35 987	32 590	3 397	10,4%
Total liabilities and equity	277 784	272 957	4 827	1,8%
Financial ratios				
Loans/Amounts due to customers	84,0%	90,3%		-6,3 p.p.
Loans/Stable sources of financing*	80,5%	81,8%		-1,3 p.p.
Interest-bearing assets/Assets	88,6%	90,0%		-1,3 p.p.
Interest-bearing liabilities and equity/Liabilities and equity	84,1%	85,1%		-1 p.p.
Capital adequacy ratio	19,6%	17,2%		2,4 p.p.

* Stable sources of financing include amounts due to customers and external financing including: issues of securities, subordinated liabilities and loans received from financial institutions.

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of PKO Bank Polski SA declares that in accordance with its best knowledge:

- the annual financial statements and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of the PKO Bank Polski SA Group, and of its financial result;
- the annual Directors' Report of the PKO Bank Polski SA Group for 2017, prepared together with the Directors' Report of PKO Bank Polski SA, includes an accurate description of the development and achievements, as well as the situation of the PKO Bank Polski SA Group and PKO Bank Polski SA, including a description of the main risks and threats.

The Management Board of PKO Bank Polski SA declares that the entity entitled to audit financial statements, carrying out the audit of the annual consolidated financial statements has been selected in accordance with legal regulations, and that this entity and statutory auditors carrying out the audit satisfied the conditions to issue an unbiased and independent opinion on the audit, in keeping with the binding regulations and professional standards.

This Directors' Report of the PKO Bank Polski SA Group for 2017, prepared together with the Directors' Report of PKO Bank Polski SA, comprises 158 sequentially numbered pages.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

27/02/2018	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	MIECZYŚLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
27/02/2018	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)