



Bank Polski

The PKO Bank Polski SA Group Directors' Report for the first half of 2016

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1. Financial results of PKO Bank Polski SA Group in the first half of 2016

1.1 Selected financial data

Table 1. Selected financial data of PKO Bank Polski SA Group

	30.06.2016	30.06.2015	change
Net profit	PLN 1 512.1 million	PLN 1 350.1 million	12.0% (y/y)
Result of business activity*	PLN 5 832.4 million	PLN 5 175.1 million	12.7% (y/y)
Interest income	PLN 3 762.5 million	PLN 3 354.1 million	12.2% (y/y)
Fee and commission income	PLN 1 302.0 million	PLN 1 436.5 million	-9.4% (y/y)
Administrative expenses	PLN -2 756.5 million	PLN -2 777.1 million	-0.7% (y/y)
Tax on certain financial institutions (banks tax)	PLN -369.4 million	PLN - million	x
Net impairment allowance and write-downs	PLN -782.4 million	PLN -748.6 million	4.5% (y/y)
Balance sheet total	PLN 272.4 billion	PLN 255.5 billion	6.6% (y/y)
Equity	PLN 31.6 billion	PLN 28.7 billion	9.9% (y/y)
ROA net	1.1 %	1.2 %	-0.1 p.p.
ROE net	9.2 %	10.7 %	-1.5 p.p.
C/I	56.4 %	51.3 %	5.1 p.p.
C/I excluding tax on certain financial institutions	53.1 %	51.3 %	1.8 p.p.
Interest margin	3.1 %	3.2 %	-0.1 p.p.
The share of impaired loans	6.5 %	6.9 %	-0.4 p.p.
Cost of risk	-0.7 %	-0.8 %	0.1 p.p.
The total capital ratio	15.2 %	13.9 %	1.3 p.p.

* Result on business activities defined as operating profit excluding general and administrative expenses, bank tax and net write-downs for impairment. .

The net profit of the PKO Bank Polski SA Group (the Bank's Group, the Group) generated in the first half of 2016 amounted to PLN 1 512.1 million which represents an increase of PLN 162.1 million in comparison to the result of the previous year. The achieved net profit was determined by:

- 1) the business result of the PKO Bank Polski SA Group, which reached the level of PLN 5 832.4 million (+12.7% y/y), mainly due to:
 - increase in net interest income by PLN 408.4 million y/y, realized thanks to a substantial reduction of financing cost along with stable level of income generated on assets,
 - an increase in financial operations by PLN 384.4 million, mainly associated with the acquisition of Visa Europe Limited by the Visa Inc. which was settled in June 2016,
 - decrease in net fee and commission income (decreased by PLN 134.5 million y/y) among others from securities transactions and maintenance of bank accounts,
- 2) introduction of tax on certain financial institutions in February 2016, which resulted in an additional burden on net profit in the amount of PLN 369.4 million.

As a result of actions taken in first half of 2016 the PKO Bank Polski SA Group:

- increased the value of assets by PLN 5.5 billion up to PLN 272 billion,
- maintained a high market share in loans and deposits market at 17.6% and 17.3%, respectively,
- occupied the first position in the housing loans to individuals¹ market with 30.3% share,
- was the largest lender to small and medium-sized enterprises of loan with de minimis guarantees with 23.4% market share²,
- expanded the product range of investment insurance and property insurance products for customers due to start of operation activities by PKO Towarzystwo Ubezpieczeń SA in January 2016,
- increased the number of accounts of individual customers by over 82 thousand, strengthening its leading position in this field,
- strengthened its capital position through the increase of equity due to accumulation of the net profit generated in the year 2015, which resulted in an increase in the total capital ratio of 0.6 p.p. compared to year end of 2015 to a level of 15.2%.

1.2 The main events in the first half of 2016

In the first half of 2016, the banking sector operated in conditions of historically low levels of interest rates and new regulation burdens, under positive macroeconomic environment. The situation on the loan-deposit market was shaped by the favorable situation on the labor market. The level of domestic demand was supported by the government program "Rodzina 500+" and deflation which have been increasing the real purchasing power of households.

In the first half of 2016, PKO Bank Polski SA Group continued sustainable development, focused on improving the quality of customer service by increasing the innovation of products and distribution channels.

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or 'Bank') was the first bank involved in the government program 'Rodzina 500+', allowing customers to apply for the benefit from 'Rodzina 500+' program using electronic channel. PKO Bank Polski SA introduced an account on preferential terms dedicated to customers benefiting from the program.

Another sign of the Bank's involvement in the construction of e-state was signing an agreement with the Social Insurance Institution, through which the Bank's customers will be able to set up a profile on Electronic Services Platform (PUE) of the Social Insurance Institution using banking services iPKO or Inteligo.

PKO Bank Hipoteczny SA, which is operating for one year, conducted two issues of mortgage bonds for institutional investors, both of which met with great interest. Among the institutions that have acquired mortgage bonds were domestic and foreign investors including the European Bank for Reconstruction and Development. PKO Bank Hipoteczny SA mortgage bonds are one of the safest debt securities on the Polish financial market. It is confirmed by the highest possible to achieve for Polish financial instruments Aa3 Moody's rating.

Under the agreement between the consortium of PKO Bank Polski SA and the Center for Electronic Payment Services eService Sp. z o.o. ('eService') and Poczta Polska SA ('Poczta') Poczta's clients get a possibility to pay for Poczta's services using debit cards. Thanks to payment terminals the services of cash withdrawals and mobile top-ups will also be available.

February 2016 was the first anniversary of the mobile payments system BLIK introduction to the Polish market, which is based on IKO payments. BLIK is a universal form of payments and cash withdrawals from ATMs without credit card, built by PKO Bank Polski SA together with partner banks and the National Clearing House. As at 30 June 2016 BLIK allowed to make payments in more than 145 thousand devices, as well as gave the opportunity to withdraw money from more than 14.5 thousand ATMs. In June 2016, PKO Bank Polski SA released new

¹ The date of The Polish Bank Association.

² According to the data from The Centre of Security Pledges and Guarantess of Bank Gospodarstwa Krajowego.

payment option in "Płać z iPKO", thanks to that it is possible to pay with IKO application in most of online shops in Poland. This modification concerned as well the biggest Polish e-commerce auction platform – 'Allegro'.

In the first half of 2016, PKO Bank Polski SA enriched mobile application IKO with modern technology of contactless payments HCE (Host Card Emulation), the implementation of which has been awarded eDukat as 'Event of the year of the cashless world'.

In June 2016, there has been settlement of acquisition of Visa Europe Limited by the Visa Inc. in which PKO Bank Polski SA was involved, the impact on the Group profit before income tax amounted to PLN 417.6 million (net impact amounted to PLN 338.2 million).

In 2016, the Bank strengthened its leading position in the field of services for local governments by signing a contract for complex service for podkarpackie voivodeship and its 23 organizational units. In total, the Bank provides services for 6 voivodeships.

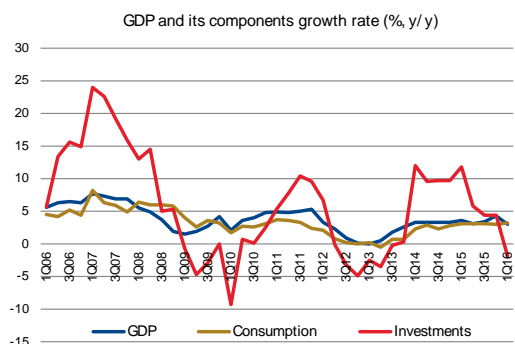
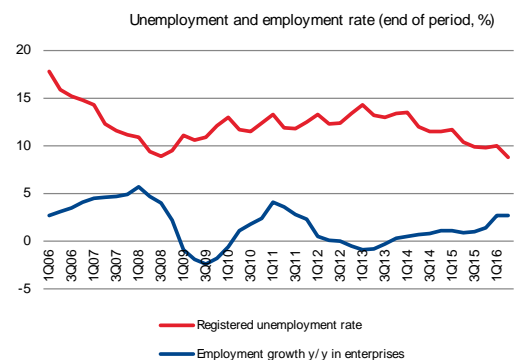
Actions taken by the PKO Bank Polski SA Group in the first half of 2016 despite record low interest rates and significant regulatory changes made it possible to achieve high financial results, allowing the Group to strengthen its position among the largest financial institutions in Poland.

2. External business environment

2.1 Macroeconomic environment

Macroeconomic factors influencing the Group in the first half of 2016:

- Temporary decrease in GDP.** Based on monthly indicators of economic activity for the period April-June it can be estimated that in the second quarter of 2016 the GDP growth amounted to 3.1-3.3% y/y (vs. 3.0% y/y in first quarter of 2016, however it was also effected by the calendar). Growth structure has changed: currently the leading role plays individual consumption stimulated with recovery on labor market and commencing „Rodzina 500+” program. Investments have decreased since the end of the EU’s financial perspectives for 2007-2013. This applies to both public (railway and local governments’ expenditures on infrastructure) and private investments (among others power engineering).
- The favorable situation continues on the labor market.** Registered unemployment rate at the end of June decreased to 8.8% aligning the lowest level from October 2008. Annual growth rate of salaries in the corporate sector reached on average 4,0% in January-July 2016 (compared to 3.5% in 2015) and an average growth rate in pensions and benefits of employees slightly slowed down in the first half of 2016 to the level of 2.2% y/y compared to 2.9% in 2015.
- Temporary deepening of deflation.** CPI inflation in July 2016 amounted to -0.8% y/y vs 0.5% y/y at the end of 2015 (lowest level achieved in April 2016: -1.1% y/y), with the fall in core inflation (-0.2 y/y in July 2016 vs 0.2% y/y in December 2015) as a result of lower prices of television and cell phones subscriptions with rise of oil prices from 37.5 USD/b to 47.5 USD/b and acceleration of food price growth to 0.9% y/y in July 2016 from -0.2% y/y in December 2015.
- Monetary policy stabilization.** Monetary Policy Council left interest rates unchanged, taking a neutral attitude in monetary policy. MPC members speeches tempered interest cut expectations despite the



weakening of economic growth at the beginning of the year and continuing deflation. Result of referendum in the United Kingdom on leaving the European Union by Great Britain where "Brexit" supporters triumphed, increased doubts about perspectives of world economic growth and intensified expectations for further easing of monetary policy in the world, which can extend the stabilization period of the NBP interest rates.

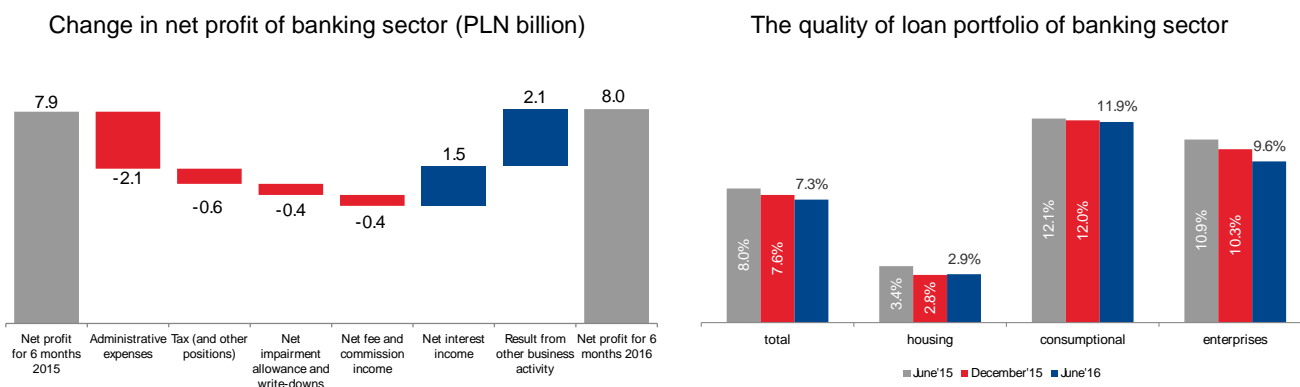
2.2 The situation of the Polish banking sector

The financial result and the quality of the loan portfolio

In the first half of 2016 Polish banking sector was still affected by the following main factors: favorable macro-economic environment, new regulatory burdens and environment of low interest rates. At the same time business and financial models of the banks were influenced by progressive digitalization of social life and changes in customer expectations.

During the first half 2016 banking sector made net profit in the amount of PLN 8.0 billion, which was an increase by 1.1% y/y compared to 29.5% decrease at the end of 2015. The net profit of banking sector was under the positive impact of profit recognized from acquisition of Visa Europa Ltd. by Visa Inc., and also of increase of net interest income by PLN 1.5 billion y/y (8.7% y/y). The negative impact for the net profit of banking sector in the first half of 2016 had also the costs of tax on certain financial institutions ("bank tax")³ and a decrease in net fee and commission income (impact of regulatory solutions and economic downturn on the capital market).

Despite the favourable macro-economic environment in the first half of 2016 net impairment allowance and write-downs result decreased (higher net impairment allowance and write-downs by 13.0% y/y; by PLN 0.4 billion y/y), which was significantly affected by impairment write-down on assets classified as discontinued operations by one of the banks. Under circumstances of newly introduced 'bank tax', which determined the increase in operating cost banking sector also recorded growth in employees costs (+5.5% y/y despite the employment reduction in banking sector).



Source: PFSA, calculation of PKO BP. Administration costs presented with 'bank tax'.

At the end of June 2016 the quality of loan portfolio has improved. Share of non-performing loans in total loans has decreased to the level of 7.3% from 7.6% at the end of 2015. Distinct improvement of loan portfolio since the beginning of 2016 was the effect of favourable macro-economic situation, debt sale made by banks, newly introduced 'bank tax' and, in certain extent, of exclusion of SK Bank from data base. Compared to the end of 2015 the most significant improvement was noted in the quality of corporate-loan portfolio (non-performing loans decreased by -0.7 p.p. to 9.6%).

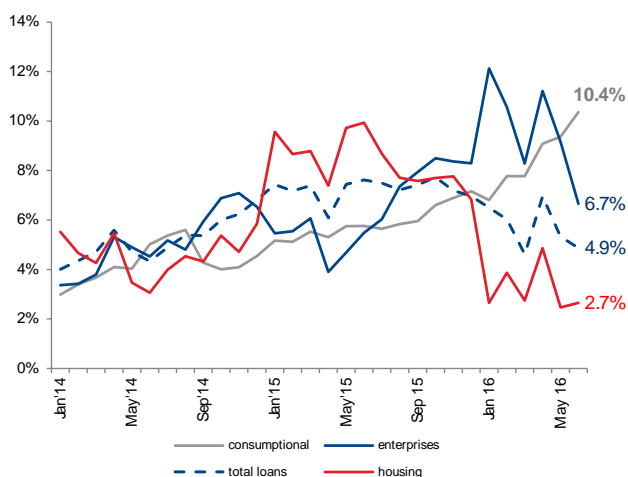
Total assets and business volumes

Total assets of the banking sector at the end of June 2016 rose to PLN 1 663 billion what represents increase of PLN 63 billion compared to the end of 2015. Total assets and structure of assets remained under the influence of the 'bank tax' which is in place since the beginning of February 2016. In the first half of 2016 the volume of securities (mostly state treasury) increased by PLN 48 billion. Rate of loans growth in banking sector y/y was

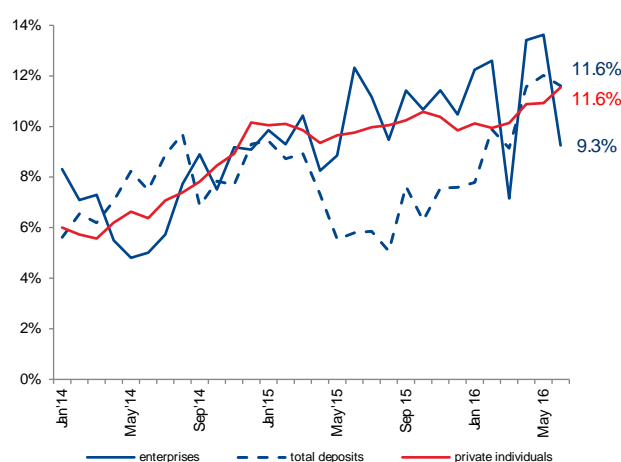
³ According to PFSA data, during the first four months with new tax in force the commercial banks paid PLN 1 173.1 million of tax on certain financial institutions, including the tax paid for May in amount of PLN 284 million.

lower compared to the end of 2015 (due to disappearing of FX effect related to SNB decision from January 2015). At the end of the first half of 2016 the consumer loans still had the highest annual growth rate (increase of 10.4% y/y) with relatively lower growth rate of corporate loans (+6.7% y/y, and after excluding FX effect +5.0 y/y) and housing loans (+2.7% y/y). The dynamic growth in customer loans was a result of focusing of banks on the sale of the most profitable products in an environment of low interest rates. The growth rate of housing loans in PLN continued its downward trend, at the end of the first half of 2016 amounted to 9.4% y/y.

The pace of change in loans of banking sector (y/y)



The pace of change in deposits of banking sector (y/y)



In conditions of low interest rates on new deposits in PLN at the end of the first half of 2016, the volume of banking sector deposits increased to PLN 1 104 billion, while annual growth rate increased to 11.6% y/y compared to 7.6% at the end of 2015. That was among others the effect of continuous increase of growth rate in budget sector deposits volume (up to 20.5% y/y from -16.6% y/y at the end of 2015), deposits of individuals (11.6% y/y at the end of first half of 2016 compared to 9.8% y/y at the end of 2015) and non-monetary financial institutions (up to 10.3% y/y from -3.0% y/y at the end of 2015) with the slowdown in the rate of growth in enterprises deposits (+9.3% y/y at the end of first half of 2016 vs 10.5% y/y at the end of 2015). High growth in deposits of individuals was a result of an improving situation on the labour market, as well as weak economic situation in the capital market resulting in low attractiveness of the alternative forms of investing the savings.

Despite more significant growth of deposits than loans in banking sector, at the end of the first half of 2016 deposits' value was still higher than loans' value (by PLN 1.5 billion); the loans/deposit ratio stood at 100.1%.

2.3 The situation in Polish non-banking sector

Investment fund market

In the first half of 2016 investment funds market continued its upward trend. Assets under management of investment funds increased by approx. 3.6% achieving level of PLN 261.3 billion. The realized growth was significantly less dynamic than in the first and second half of 2015. The growth of investment funds market in the first half of 2016 was mainly the result of both positive balance of payments and redemptions (PLN +7.2 billion). Net inflow of new funds, however, was significantly lower than in the second half of 2015 (PLN +19.4 billion). The value of investment funds' assets in the first half of 2016 was slightly increased by result on management (PLN +0.8 billion).

Investment funds market was affected by lower risk appetite of investors due to poor performance of the stock market on the Warsaw Stock Exchange ('WSE') and volatility of yields in the debt market what influenced valuation of investment funds' units. In the first half of 2016 the WIG index decreased by -3.7% vs -12.9% decrease in second half of 2015. Under the influence of the downturn on the Warsaw Stock Exchange most of the major market segments of the retail funds related to the Polish stock market realized a negative rate of 12M return in the first half of the 2016. At the end of June 2016, the positive rate of return 12M funds was recorded in Polish debt securities funds and the cash and cash equivalents funds, only the Polish debt securities funds

recorded returns in 12M above the average interest rate on households deposits. Thus, the investment fund market did not constitute an attractive alternative to placing savings in the banking market in the first half of 2016.

Institutional investors maintained dominant position in the structure of assets of investment funds in the first half of 2016. In the first half of 2016 the share of individuals' assets fell to 46.8% vs 48.2% at the end of 2015.

Open pension funds market („OFE”)

During the first half of 2016 decrease in open pension fund's net assets was slowed down. Assets value was decreased by 4% (PLN -5.6 billion) to PLN 134.9 billion vs -8.6% decrease in second half of 2015. In the first half of 2016 OFE market was influenced by the improvement in the labour market, regulatory changes and weaker situation on the Warsaw Stock Exchange. In the first half of 2016 WIG index decreased by 3.7% what influenced the valuation of participation units especially given that Polish shares were still dominant in the structure of assets of OFE. At the end of July 2016 it constituted 75% of OFE assets. In the first half of 2016 the number of participants of OFE continued its decline in (-50 thousand to 16.5 million).

Leasing market

In the first half of 2016 the leasing market continued its dynamic development. According to Polish Leasing Association data the value of assets financed by leasing companies amounted to PLN 28.1 billion with a growth rate of 17.7% (vs +16.3% y/y in 2015). Development of this market was supported by continuing good economic situation in Poland despite the temporary slowdown of GDP growth. The largest positive impact on the development of the leasing market had leasing of vehicles, including leasing of light and heavy vehicles. The value of financed assets in this segment amounted to PLN 19.9 billion (+36.1 y/y) what constituted 71% of the whole financing granted by leasing companies. The decrease was recorded in machinery and equipment leasing (-11.9% y/y) with the value of new contracts at PLN 6.8 billion. Decline in financing in this sector, despite a good, stable economic situation of enterprises, relatively high level of capacity utilization and relatively low financing costs, was caused among others, by transitional period between the utilization of EU funds from the 2007-2013 financial framework and new 2014-2020 financial framework. There was a decrease in real estate financing to PLN 343 billion. (-51.5 y/y) in the analysed period.

Factoring market

In the first half of 2016 factoring companies which reported to Polish Factors Association developed their activities. Their turnover reached PLN 73.6 billion which resulted in acceleration of rate of growth up to 21.1% y/y vs 17.6% y/y at the end of 2015 and 18.9% at the end of the first half of the 2015. During this period factoring companies financed approx. 3.4 million invoices (+28.1 y/y) supporting 6 903 customers. Serviced agreements contained more than 141 thousand debtors.

In the first half of the 2016 main trigger of development of factoring market was domestic full factoring with turnover volume amounting to PLN 30.2 billion (+30.8% y/y). In conditions of moderate export growth, the export factoring was developing achieving high double-digit growth rate (24.4% y/y). The market share of full factoring in the structure of factoring turnover increased to 54.1% vs 49.4% at the end of the first half of 2015.

Insurance market

During the first quarter of 2016 assets held by insurance companies increased to PLN 181 billion (+0.5%). Assets changed due to increase of assets in segment of other personal and property insurance (+1.2%) and slight decrease of assets in life insurance segment (-0.1%).

In the first quarter of 2016 financial results of the insurance sector continued downward trend. Net profit decreased by 41.3% y/y to the level of PLN 625 million which was a result of decrease in the technical result by 23.4% y/y to PLN 771 million. In an environment of y/y decrease in paid claims, the net profit remained under the influence of stronger decrease of the gross written premium.

In the first quarter of 2016 insurance companies paid compensations and benefits in the amount of PLN 8.2 billion (-2.6% y/y). During this period value of gross written premium decreased by -6.8% y/y to the level of PLN 13.4 billion.

The financial results of insurance sector were influenced by costs related to tax on certain financial institutions which entered into effect since the beginning of February 2016. According to estimates of the Polish Insurance Association insurance companies paid during the first quarter of 2016 approx. PLN 100 million of this tax.

In the life insurance sector there was noticed an increase in the technical result (23.9% y/y) despite the decrease in the value of gross written premium (-20.2%). Also income from investments was lower (-20.7%). The result was affected by among others lower costs of y/y insurance activity (-19.6%) and y/y decrease in value of paid claims. In the life insurance sector claims and benefits were paid in amount of PLN 4.6 billion (-11.6% y/y).

There was a strong decrease of net profit (-88.1 y/y) and decrease of technical result (-98.8 y/y) in the other personal and property insurance sector. It resulted mainly from strong growth in paid claims (12.0% y/y).

2.4 The situation on the financial market

Interest rate market

On the domestic interest rate market in the first half of 2016 there was a slight flattening of the yield curve. At the end of June 2016 spread 2Y10Y shrunk to 125 bp. on treasury bonds market vs 137 bp. at the end of 2015. The negative impact on the valuation of treasury securities at the short end of the curve had mainly expiring expectations for interest rate cuts in Poland as well as sale of short-term bond by foreign investors. As a result, there has been an increase in yield of 2-year treasury securities by 8 bp. to level of 1.63%. The valuations of 5-year and 10-year bonds were supported by escalating expectations for looser monetary policy of the major world central banks (which was strengthened by the results of 'Brexit' referendum) and the publication of weaker than expected macroeconomic indicators in the Euro zone and the US. The positive impact of decreasing bond yields in the world was more important than capital outflow of foreign investors from the domestic market and an increase in the supply of state treasury securities in the primary market. In effect, there has been a slight 3 bp. decrease in 10-year state treasury bonds yields to the level of 2.90%.

Foreign exchange market

EUR/USD started 2016 at levels similar to those at the beginning of December 2015 (1.09) and stayed at this levels till the mid-February 2016 when negative data from USA and visible economic slowdown in China began to undermine the faith of market in rapid continuation of interest rate increase by the FED. Till the beginning of May it increased the exchange rate of EUR/USD up to 1.16 (half year maximum). Until the end of the second quarter of 2016 EUR/USD was at falling trend related to softening of the ECB position in terms of further monetary policy loosening in the Eurozone and growing concerns in financial markets associated with the possible 'Brexit', which weren't reduced even by FED's suspension of interest rate increase in June 2016. Victory of supporters of 'Brexit' (leaving the UE by Great Britain) in a referendum at 23 June 2016 resulted in EUR/USD ending the first half of 2016 at the level of 1.11.

Zloty from the beginning of the year was in a downward trend to Euro due to fears of global financial markets about the health of emerging markets and the prospect of further tightening of monetary policy in the US. The process of depreciation of the PLN accelerated surprisingly after the Polish debt downgrade by Standards and Poor's rating agency which took place in January 2016. As a result, after few days, the EUR/PLN reached the level of 4.51, however till the end of the first quarter of 2016 EUR/PLN rate returned to the level from the beginning of the year thanks to loosening of monetary policy in Eurozone and FED's suspension of interest rate increase. In the second quarter of 2016 EUR/PLN soon returned to the level of 4.40 due to further deterioration of the economic situation in China and strong depreciation of yuan towards dollar. Victory of 'Brexit' supporters caused the EUR/PLN to grow to 4.54 for a short period of time, but eventually the exchange rate ended the first half of 2016 at 4.38.

Stock market

Stock markets began 2016 with deep declines, due to worsening outlook for the world economy, in particular the Chinese economy. This was reflected by a drop in commodity prices and raised concerns not only about the condition of the mining companies, but the entire global economy and financial markets. Investors were worried about rhetoric of The American Central Bank which suggested incoming growth in interest rate. After the weak January in the following months the price of commodities increased, partially due to better data from China. This, along with more positive comments from FED members, allowed markets to change negative trend. At the end of June markets were shocked by referendum results about future of the Great Britain in the European Union, however after couple of days the markets calmed down.

The Warsaw Stock Exchange also began a year with declines, which was due to a combination of factors, both local and global. Investors had doubts about bringing together social initiatives of the government with the budget constraints, worried about the resolution of 'the Swiss Francs problem', and the atmosphere was additionally worsened by an unexpected country rating cut by Standards & Poor's rating agency. In the second part of the first quarter the improved sentiment on the global financial markets as well as government's assurance to maintain a pro-market economic course, allowed the stock exchange to significantly rebound, but after reaching local maximum at the end of the March in the next months the initiative was taken over again by 'bears' among others due to concerns about changes in OFE and results of 'Brexit'. In the first half of the year WSE index noted decrease of nearly 4%.

2.5 The Ukrainian market situation

In the first quarter of 2016 for the first time since the fourth quarter of 2013 GDP growth was noted (0.1% y/y vs -1.4% y/y in the fourth quarter of 2015 and -9.9% during the entire 2015). Industrial production data (average growth by 0.1% y/y during April-June 2016) and retail sales (+7.2% y/y in the same period) shows a continuation of moderate economic recovery in the second quarter of 2016. During the entire year GDP is running slightly about 1.0% y/y. Due to the expiration of the effects of last year's increases in utility process, CPI inflation dropped from 43.3% y/y in December 2015 to 6.6% y/y in July 2016. The fall in inflation had effect on increase in the real wage growth from 9.0% y/y in December 2015 to 14.7% in May 2016. After the temporary weakening of the exchange rate from 24.03 UAH/USD at the end of December 2015 to 27.35 UAH/USA at the end of February 2016 the exchange rate strengthened to 24.83 UAH/USD at the end of June 2016. This allowed the National Bank of Ukraine ('NBU') to make three cuts of deposit rate: on 22 April 2016 from 22% to 19%, on 27 May 2016 to 18% and on 24 June 2016 down to 16.5%.

Public debt (including government guarantees) increased from 79.4% GDP in December 2015 to 82.1% in April 2016. The scale of its financing by Central Bank had fallen (measured by the share of the NBU in the structure of state treasury security holders) from 77.2% at the end of December 2015 to 68.9% at the end of June 2016 due to increase in share of banks from 16.1% to 24.3% in the corresponding period.

According to NBU data, the number of banks operating in Ukraine fell in May to 106 (compared to 117 in December). The share of foreign capital after a temporary increase to 48.8% in March 2016 from 43.3% in December fell to 39.6% in May 2016.

The value of total assets in the Ukrainian banking sector remained stable during first five months of the year at the level of approx. UAH 1.25 billion. Equity has risen to UAH 139.8 billion from UAH 103.7 billion. At the end of May 2016 capital made 11.2% of total assets compared to 8.3% at the end of December 2015.

In the first half of 2016 volume of loans decreased (by UAH 27.2 billion to UAH 988.5 billion). The volume of foreign currency loans decreased by UAH 17.9 billion to UAH 559.9 billion. Both corporate loans (UAH -8.4 billion) and household loans (UAH -9.3 billion) have decreased in the first half of 2016.

During analysed period value of bank deposits increased by UAH 50.1 billion to UAH 806.8 billion almost equally due to increase in foreign currency loans volumes by UAH 25.2 billion and decrease in deposits in UAH by UAH 24.9 billion. The strongest growth was in corporate deposits (UAH 29.2 billion) – mainly public (UAH 25 billion). Deposits of household increased by UAH 12.3 billion. LTD rate fell to 122.5% at the end of June from 134.2% in December 2015.

Compared to the end of 2015 share of non-performing loans increased (24.3% at the end of May 2016 vs 22.1% at the end of December 2015). In the same period ROA (-1.75% vs -5.46%) and ROE (-17.67% vs -51.91%) improved.

2.6 Regulatory environment

In the first half of 2016, the following legal and regulatory solutions had an impact on financial and organizational situation of the PKO Bank Polski SA Group:

	Description of the regulation	Impact
Tax on certain financial institutions ('bank tax')	Act of 15 January 2016 on tax on certain financial institutions (Journal of Laws of 2016, item 68) obliging banks, insurance companies and other financial market participants to pay tax on adjusted assets since 1 February 2016.	impact on the financial results, profitability of commercial and mortgage banks and insurance companies
Deposit guarantee system fees	- Resolution No. 25 and 26 of the Bank Guarantee Fund ('BGF') Council of 25 November 2015 setting out bank's fees for the deposit guarantee system for 2016: decreasing rate to calculate the annual fee (from 0.189% to 0.167%) and increasing ratio used to calculate prudential fee (from 0.050% to 0.079%), - amendment of the law on the Bank Guarantee Fund (Journal of Laws of 2016, item 381) amending the frequency of determining the rates of mandatory and prudential fees from annually (based on total risk exposure as at 31 December of prior year) to quarterly (based on data as at the end of the last quarter), - Resolution No. 15/2016, 16/2016, 18/2016 and 19/2016 of 23 March 2016 of BGF Council setting rules for bank's fees in favour of the deposit guarantee system in the first and second quarter of 2016 (annual fee of 0.04175%, prudential fee of 0.01975% of the total amount of risk exposure).	operating cost of bank including mortgage banks
Prudential requirements	Regulation of the European Parliament and the European Council No. 575/2013 on prudential requirements for credit institutions and investment companies changing the UE ordinance No. 648/2012, EBA technical standards (supplement to Regulation No. 575/2013) and recommendations of the Polish Financial Supervision Authority (PFSA), in particular to increase the short-term liquidity rate LCR to 70%.	capital base of banks, supervisory prudential standards, business activity of banks, implementation costs
Capital buffers – PFSA additional requirements	Act on macro-prudential oversight of the financial system and crisis management (Journal of Laws of 2015, item 1513), in particular introduction of the safety buffer of 1.25% since 1 January 2016.	capital requirements
Tightening requirements on granting of housing loans	Recommendation S of the PFSA on mortgage secured credit exposures (PFSA Official Journal of 2013, item 23) increasing the requirement for own contribution from 10% to 15% since 1 January 2016.	level of lending, interest income, fee and commission income of banks

Liquidity risk management	Recommendation P of the PFSA concerning financial liquidity risk management in banks (PFSA Official Journal of 2015, item 14), changing the rules of liquidity risk management since 1 January 2016.	measurement and management of liquidity risk
Model risk management	Recommendation W of the PFSA concerning model risk management (PFSA Official Journal of 2015, item 49)	model risk management process: model constructions and evaluation of their performance
Maximum non-interest charge	Amendment to the law on consumer loan (Journal of Laws of 2015, item 1357) that specifies the maximum level of non-interest expenses since 11 March 2016.	the level of non-interest income
“Rodzina 500+” program	Act on state assistance in raising children (Journal of Laws of 2016, item 195) that specifies the right to acquire the right to provide child care benefits since 1 April 2016.	level of individuals deposits, credit standing (consumer loans)
Facilitation of the terms of issue of mortgage bonds	Amendment to the law on mortgage bonds and mortgage banks (Journal of Laws of 2015, item 1259) changing the principles of mortgage bonds issuance from 1 January 2016.	greater opportunities for financing loan business
The cost of capital market supervision	Amendment of the law on Capital Market Supervision (Journal of Laws of 2015, item 1260) and Resolution of Ministry of Finance of 29 December (Journal of Laws of 2015, item 2347) requiring, among others, banks, insurance companies and investment fund companies to participation in the costs of capital market supervision; effective from 1 January 2016.	the level of costs and earnings of investment fund companies
Restrictions for OFE	Law amendment of certain acts determining the principles of pension payment from funds accumulated in OFE (Journal of Laws of 2013, item 1717) changing the rules for payment of pensions from the open pension funds - allowing since 1 January 2016 increased involvement of OFE in shares of companies listed abroad (over 20%) and limiting the involvement of OFE in shares of domestic companies (35%).	the level of open pension fund (OFE) assets, financial results of general pension society (GPS)
Changes in the conduct of insurance business	Amendment to the law on activities of insurance and reinsurance (Journal of Laws of 2015, item 1844), in force since 2016.	changes in the standards of capital and prudential requirements, influencing financial results of insurance companies
Change in the trade of agricultural real estate	Act of 14 April 2016 on cease of real estate sale of Agricultural Property Stock of the Treasury, and on change of some Acts (including Act on land registers and mortgages) effective since 30 April 2016 (Journal of Laws of 2016, item 585).	Loan policy, the level of lending

The activity of the PKO Bank Polski SA Group influenced new legislation introduced in the Ukraine (where operates, among others, a subsidiary KREDOBANK SA), including:

- order No. 278 of 2016 of the Management Board of the National Bank of Ukraine (NBU) decreasing NBUs' discount rate from 22% to 19% since 22 April 2016 and the Management Board resolution No. 88 decreasing NBUs' discount rate from 19% to 16.5% since 24 June 2016,
- order No. 140, 192 and 341 from year 2016 of the Management Board of the National Bank of Ukraine (NBU) introducing a number of changes in conducting transactions on money-lending and currency market, including the transfer of dividends to foreign investors,
- order No. 338 from year 2016 of the NBU specifying inclusion to the bank's share capital of the financial aid provided by shareholders after obtaining permission of the NBU,
- order No. 341 of the NBU changing polices in determining exchanges rates by banks since 15 June 2016.

3. Financial results of the PKO Bank Polski SA Group⁴

3.1 Financial results of the PKO Bank Polski SA Group

3.1.1 Key financial indicators

The financial results, achieved by PKO Bank Polski SA Group in the first half of 2016, resulted in the main financial effectiveness indicators as follows:

Table 2. Financial indicators of the PKO Bank Polski SA Group

	30.06.2016	30.06.2015	Change (p.p.)
ROA net* (net profit/ average total assets)	1.1%	1.2%	-0.1
ROE net* (net profit/ average total equity)	9.2%	10.7%	-1.5
C/I* (cost to income ratio annualized)	56.4%	51.3%	5.1
C/I excluding tax on certain financial institutions* (cost to income ratio annualized)	53.1%	51.3%	1.8
Interest margin* (net interest income/average interest-bearing assets)	3.1%	3.2%	-0.1
The share of impaired loans**	6.5%	6.9%	-0.4
Cost of risk***	-0.7%	-0.8%	0.1
The total capital ratio (own funds/ total capital requirement * 12.5)	15.2%	13.9%	1.3

* Items in the profit and loss account in order to calculate indicators capture the period of the last 4 quarters (annual intake), while items in the statement of financial position capture the average of the last 5 values of the

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

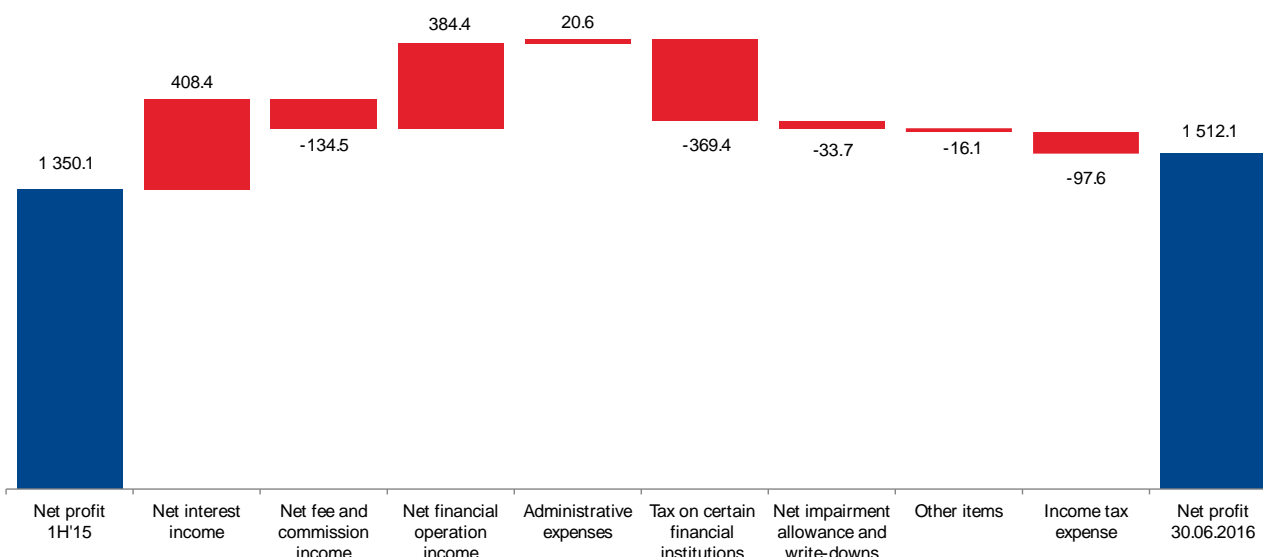
*** Calculated by dividing the net write-downs for impairment of loans due to customers by the average gross balance of loans due to customers.

3.1.2 Consolidated income statement

The consolidated net profit of the PKO Bank Polski SA Group generated in the first half of 2016 amounted to PLN 1 512.1 million and was higher by PLN 162.1 million (by 12.0%) than in the first half of 2015.

⁴ In this chapter, any differences in total balances, percentages and growth rates result from rounding the amounts to PLN million and rounding percentages to one decimal place.

Chart 1. Changes in the income statement of the PKO Bank Polski SA Group (in PLN million)



In the PKO Bank Polski SA Group's income statement for the first six months of 2016, the sum of revenue positions amounted to PLN 5 832.4 million and was by PLN 657.3 million, i.e. by 12.7% higher than in corresponding period in 2015. The main income positions of consolidated statements were as follows:

Table 3. Changes in the income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Interest and similar income	4 852.5	4 788.1	64.4	1.3%
Interest expense and similar charges	(1 090.0)	(1 434.0)	344.0	-24.0%
Net interest income	3 762.5	3 354.1	408.4	12.2%
Fee and commission income	1 754.8	1 805.4	(50.6)	-2.8%
Fee and commission expense	(452.7)	(368.8)	(83.9)	22.8%
Net fee and commission income	1 302.0	1 436.5	(134.5)	-9.4%
Dividend income	8.9	9.7	(0.8)	-8.1%
Net income from financial instruments measured at fair value	(13.7)	8.9	(22.6)	x
Gains less losses from investment securities	476.4	69.4	407.0	6.9x
FX results	203.2	166.7	36.5	21.9%
Net other operating income and expense	93.1	129.9	(36.8)	-28.4%
Net impairment allowance and write-downs	(782.4)	(748.6)	(33.7)	4.5%
Administrative expenses	(2 756.5)	(2 777.1)	20.6	-0.7%
The tax on certain financial institutions	(369.4)	-	(369.4)	x
Operating profit	1 924.1	1 649.4	274.7	16.7%
Share in profit (loss) of associates and joint ventures	10.6	15.8	(5.2)	-32.9%
Profit before income tax	1 934.7	1 665.2	269.5	16.2%
Income tax expense	(425.4)	(327.8)	(97.6)	29.8%
Net profit (including non-controlling shareholders)	1 509.3	1 337.4	171.9	12.9%
Profit (loss) attributable to non-controlling shareholders	(2.8)	(12.7)	9.8	-77.6%
Net profit attributable to equity holders of the parent company	1 512.1	1 350.1	162.1	12.0%

Net interest income

The net interest income generated in first half of 2016 was by PLN 408.4 million higher than in the same period of the previous year, mainly due to decrease in interest expenses by PLN 344.0 million as a result of adjustment of the deposit products pricing to the decrease of market interest rates and higher interest income by PLN 64.4 million determined by higher loans and securities volumes.

Table 4. Interest income and expense of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Interest and similar income	4 852.5	4 788.1	64.4	1.3%
Loans and advances to customers	4 067.9	4 013.6	54.3	1.4%
Investment securities	545.7	504.7	41.0	8.1%
Derivative hedging instruments	182.5	212.2	(29.8)	-14.0%
Deposits in banks	48.5	50.6	(2.1)	-4.1%
Loans to banks	5.3	5.5	(0.2)	-3.1%
Other	2.6	1.5	1.1	71.5%
Interest expense and similar charges	(1 090.0)	(1 434.0)	344.0	-24.0%
Amounts due to customer	(806.4)	(1 081.5)	275.1	-25.4%
Debt securities issuance and subordinated liabilities	(184.2)	(267.3)	83.1	-31.1%
Loans from banks	(36.3)	(36.5)	0.2	-0.6%
Premium from debt securities available for sale	(31.7)	(29.8)	(1.9)	6.3%
Deposits from banks	(3.1)	(2.8)	(0.3)	10.5%
Other*	(28.5)	(16.2)	(12.3)	75.9%
Net interest income	3 762.5	3 354.1	408.4	12.2%

* Including: financial assets available for turnover expenses and financial assets designated upon initial recognition at fair value through profit and loss.

In the first half of 2016, interest income amounted to PLN 4 852.5 million and in comparison with the same period of previous year was higher by 1.3%, mainly as a result of increase:

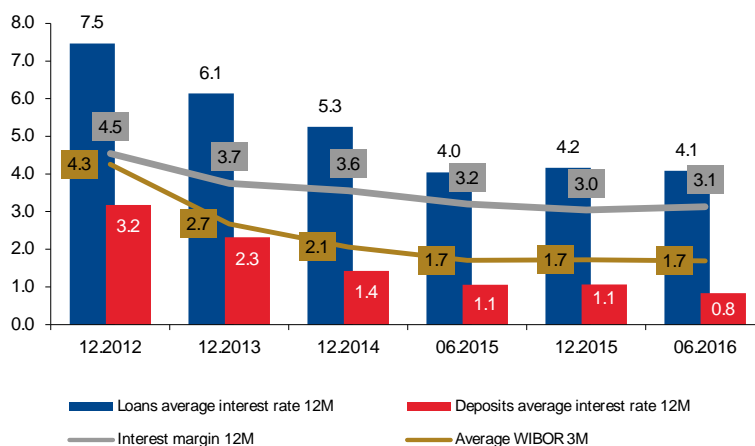
- in income from loans and advances to customers by PLN 54.3 million due to increase in loan portfolio (mainly in PLN housing loans and consumer loans), which fully compensated an effect of decrease of PLN interest rates (WIBOR 1M was lower by 0.2 p.p. and WIBOR 3M by 0.1 p.p.),
- in income from securities by PLN 41.0 million as an effect of increase of securities portfolio,

along with decrease of income from derivative hedging instruments by PLN 29.8 million, as an effect of recalculation of transactions to the lower WIBOR and CHF LIBOR rates and decrease of average volume of transactions involved in hedge accounting.

In the same period the change of interest expenses was -24.0% y/y, mainly as an effect of:

- decrease of interest expense on amounts due to customers by PLN 275.1 million, resulting from lower average interest rate of deposits as an effect of the drop of market interest rates and the adjustment of the deposit products pricing to them,
- decrease of interest expense on debt securities in issue by PLN 83.1 million, mainly related to the decrease of liabilities on bonds issued on foreign financial markets.

At the end of the first half of 2016 interest rate margin was at the level of 3.1%, which means decrease by approx. 0.1 p.p. y/y compared to the end of the first half of 2015 and increase by 0.1 p.p. in comparison to the end of 2015. Increase of average volume of interest bearing assets by 2.7% compared to the end of 2015 (mainly loan portfolio granted to customers and securities portfolio) was accompanied by increase of annualized net interest income, determined by decreasing interest expenses, as a result of adjustment of the deposit products pricing to the decrease of market interest rates.



Net fee and commission income

Net fee and commission income generated in the first half of 2016 was by PLN 134.5 million lower than in the same period of previous year, as a result of PLN 50.6 million decrease in commission income and increase of commission expenses by PLN 83.9 million.

Table 5. Fee and commission income and expense of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Fee and commission income	1 754.8	1 805.4	(50.6)	-2.8%
Payment cards	503.3	460.8	42.5	9.2%
Maintenance of bank accounts	445.1	464.1	(19.0)	-4.1%
Loans insurance	5.4	26.4	(21.0)	-79.5%
Income from loans and advances granted	305.9	314.7	(8.7)	-2.8%
Cash transactions	216.0	229.2	(13.2)	-5.8%
Maintenance of investment and open pension funds (including management fees)	50.3	50.4	(0.1)	-0.3%
Securities transactions	31.3	54.4	(23.0)	-42.4%
Servicing foreign mass transactions	40.9	33.6	7.2	21.5%
Providing services of an agent for the issue of Treasury bonds	14.3	8.2	6.1	74.8%
Commissions of the Brokerage House for servicing Initial Public Offering issuances	11.3	10.8	0.4	4.1%
Sale and distribution of court fee stamps	5.5	5.5	(0.0)	-0.8%
Guarantees and letters of credit	3.3	3.2	0.1	2.2%
Investment and insurance products	50.7	52.4	(1.7)	-3.3%
Other*	71.6	91.7	(20.1)	-21.9%
Fee and commission expense	(452.7)	(368.8)	(83.9)	22.8%
Payment cards	(284.7)	(224.8)	(60.0)	26.7%
Acquisition services	(40.9)	(30.7)	(10.2)	33.2%
Settlement services	(15.3)	(15.6)	0.3	-1.9%
Fee and commissions for operating services provided by banks	(8.9)	(11.8)	2.9	-24.8%
Assets management expenses	(7.8)	(9.2)	1.4	-14.9%
Cost of construction investments control and real estate appraisals	(20.4)	(15.9)	(4.5)	28.2%
SMS sending	(7.4)	(12.8)	5.4	-42.1%
Amounts paid by the Brokerage House to GPW, KDPW and KDPW_CCP	(5.9)	(7.4)	1.5	-20.3%
Servicing foreign mass transactions	(3.1)	(1.8)	(1.2)	67.1%
Commission paid to Poczta Polska	(2.4)	(2.4)	0.0	-1.1%
Other **	(55.9)	(36.3)	(19.6)	53.9%
Net fee and commission income	1 302.0	1 436.5	(134.5)	-9.4%

* Other includes: commissions of the Brokerage House for market maker activities, commissions for servicing indebtedness of borrower against the State budget and fiduciary activities.

The level of net fee and commission income was mainly determined by:

- decrease in the result on payment cards by PLN 17.5 million which was driven by the increase in expenses by PLN 60 million while income increased by PLN 42.5 million. Relatively lower increase in income is mainly effect of the high base (in the second quarter of 2015 Bank received bonuses from payment organizations due to renegotiation of agreements with them). After excluding this single event net result on Group's payment cards is higher by PLN 22 million compared to the end of first half of 2015 among the others as an effect of the income growth due to cards issuance and renewal,
- decrease in the commission income on maintenance of investment and open pension funds by PLN 13.2 million y/y, as effect of decrease of management fees and sales and buyback provisions resulting from adjustment of the offer to market conditions with simultaneous growth in value of assets under management. Group's market share in retail funds (non-dedicated funds) increased to 14.6% at the end of first half of 2016 vs. 14.0% at the end of first half of 2015,
- PLN 19.0 million decrease in commission income on maintenance of bank accounts, mainly decrease in provisions for activities related to the account, along with the increase in commissions for keeping accounts,
- decrease in commission income on securities transactions by PLN 23.0 million y/y, determined among the others by decreased commission on traded securities as a result of reduction of customers' interest in the stock market. In the first half of 2016 securities turnover at WSE reached PLN 182.7 billion (-20.2% y/y), in this market share of PKO Bank Polski Brokerage House was PLN 15.0 billion,
- decrease in commission income on loan insurance (by PLN -21.0 million PLN y/y), mainly due to lower commission on insurance of consumer loans. At the same time, there was an increase in sales of insurance products offered by the Group's companies.

Gains less losses from investment securities

In the first half of 2016 gains less losses from investment securities amounted to PLN 476.4 million (PLN +407.0 million y/y) and was determined by acquisition of Visa Europe Limited by the Visa Inc. in which PKO Bank Polski SA was involved. This operation resulted in recognising PLN 417.6 million revenue in gains less losses from investment securities.

Administrative expenses and tax on certain financial institution

In the first half of 2016, administrative expenses amounted to PLN 2 756.5 million and decreased by 0.7% compared to the same period of previous year.

Table 6. Administrative expenses of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Employee benefits	(1 399.5)	(1 359.5)	(40.0)	2.9%
Overheads and others*	(962.8)	(1 011.9)	49.1	-4.9%
Amortisation	(394.2)	(405.6)	11.4	-2.8%
Total	(2 756.5)	(2 777.1)	20.6	-0.7%

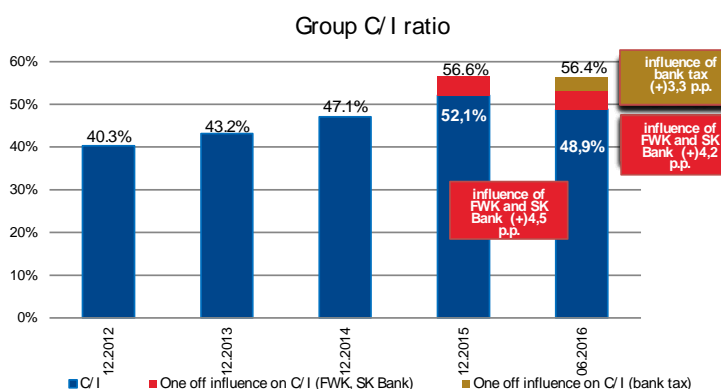
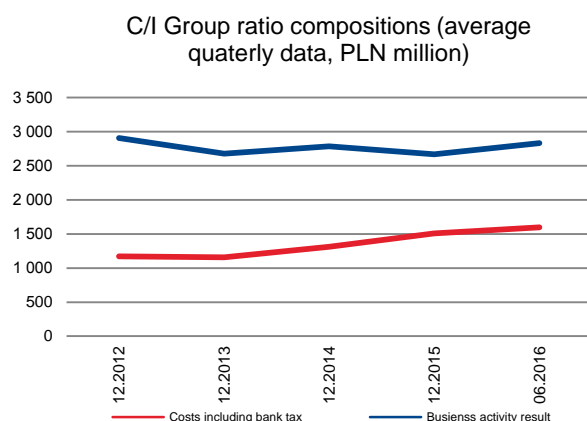
* Others: taxes and other charges, contribution and payments to the Bank Guarantee Fund.

The level of administrative expenses was determined mainly by:

- decrease in overheads and other costs by PLN 49.1 million y/y (by 4.9%), among other due to lower IT, post services, marketing and sheet printing costs,
- lower amortisation and depreciation by PLN 11.4 million y/y (by 2.8%), along with increase in employee benefits by PLN 40 million y/y (by 2.9%).

Starting from February 2016 banks and other financial institution are obligated to pay tax on certain financial institution. During the first half of 2016 Group was charged PLN 369.4 million of this tax of which most was accounted for PKO Bank Polski SA (PLN 367.7 million).

The effectiveness of PKO Bank Polski SA Group's performance measured by annualized C/I ratio reached 56.4%. C/I ratio excluding bank tax was 53.1%. C/I ratio at 30 June 2016 was still under the influence of negative impact of one-off events decreasing Group's result in the fourth quarter of 2015 (PLN 142.0 million due to creation of Borrower Support Fund and PLN 337.9 million payment to Bank Guarantee Fund ('BFG') due to disbursement of guaranteed funds of SK Bank).



Net impairment allowance and write-downs

In the first half of 2016, there was a stabilization of net impairment allowance and write-downs compared to the first half of 2015. Improvement of the portfolio quality ratios accompanied by an increase in the gross loan portfolio by 3.3% y/y reflects a proactive credit risk management policy of the Group, including ongoing development of tools in the credit decision-making processes and close monitoring of receivables.

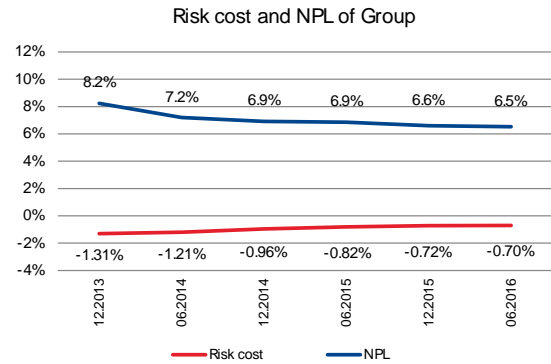
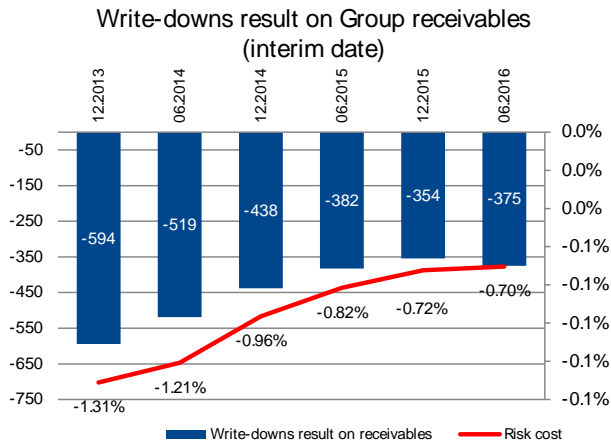
The share of impaired loans at the end of the first half of 2016 was 6.5%, which represents a decrease of 0.4 p.p. y/y resulting from improvement in corporate loans quality.

Table 7. Net impairment allowance and write-downs of the PKO Bank Polski SA Group (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Value of impairment allowance, including:				
loans and advances to customers valuate at amortized cost and amount due from bank	(720.7)	(731.9)	11.3	-1.5%
investments in associates and joint ventures	(2.5)	28.8	(31.3)	x
others	(59.2)	(45.5)	(13.7)	30.2%
Impairment allowance - total	(782.4)	(748.6)	(33.7)	4.5%

The cost of risk⁵ at the end of first half of 2016 amounted to 0.7% and improved by 0.1 p.p. in comparison to the end of first half of 2015.

⁵ Calculated by division of net impairment allowance and write-downs of loans and advances to customers for 12 month per period, ended 30 June 2016 and 2015 by the average gross balance of loans and advances to customers at the beginning and at the end of reporting period and quarterly periods between.



3.1.3 Consolidated statement of financial position

The most significant influence on the statement of financial position of the PKO Bank Polski SA Group has the statement of financial position of the parent entity. It determines both total assets and the structure of assets and liabilities.

As at 30 June 2016 total assets of the PKO Bank Polski SA Group amounted to PLN 272.4 billion and was by PLN 5.5 billion higher in comparison to the end of 2015.

Loans and advances to customers are the most important part of the Group's assets and amounted to PLN 191.5 billion at the end of June 2016 achieving 70.3% share in total assets. Loans volume has risen compared to the end of 2015 by PLN 1.1 billion, mainly due to increase of housing loan volume.

Main financing source were liabilities to customers which reached PLN 199.4 billion at the end of June 2016 forming 82.8% of total liabilities. From the beginning of 2016 volume of commitments to customers has risen by PLN 3.6 billion as effect of increase in liabilities to retail and private customers (PLN +6.1 billion) while corporate deposits have decreased (PLN -2.6 billion).

The summary of results, achieved by PKO Bank Polski SA Group at the end of first half of 2016 is shown in the table below:

Table 8. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	30.06.2016	31.12.2015	Change (PLN million)	Change (%)
Cash and balances with the central bank	12 153.2	13 743.9	(1 590.7)	-11.6%
Amounts due from banks	4 378.8	4 553.0	(174.2)	-3.8%
Loans and advances to customers	191 515.4	190 413.7	1 101.7	0.6%
Securities	50 650.1	44 457.1	6 192.9	13.9%
Other assets	13 744.7	13 772.2	(27.5)	-0.2%
Total assets	272 442.1	266 939.9	5 502.2	2.1%
Amounts due to banks	18 434.2	18 293.0	141.2	0.8%
Amount due to costumers	199 391.5	195 758.5	3 633.1	1.9%
Insurance liabilities	2 409.6	2 400.5	9.1	×
Debt securities in issue and subordinated liabilities	13 334.2	11 932.1	1 402.1	11.8%
Other liabilities	7 283.6	8 290.9	(1 007.3)	-12.1%
Total liabilities	240 853.2	236 675.0	4 178.2	1.8%
Total equity	31 588.9	30 264.9	1 324.0	4.4%
Total liabilities and equity	272 442.1	266 939.9	5 502.2	2.1%
Loans/Deposits (to costumers)	96.0%	97.3%		-1.2 p.p.
Loans/Stable sources of funding*	83.4%	85.0%		-1.6 p.p.
Interest bearing assets/Assets	90.5%	89.7%		0.8 p.p.
Interest paying liabilities/Liabilities	84.8%	84.7%		0.2 p.p.

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

Loans and advances to customers

The gross loan portfolio consisted mainly of mortgage loans (PLN 105.7 billion), which increase by PLN 2.7 billion compared to the end of 2015 was determined by growth in portfolio of total loans to customers. The growth of consumer loans and corporate payments by PLN 2.0 billion and decrease in short-term repurchase agreements by PLN 3.4 billion were noted in the first half of 2016.

The share of housing loans and advances in gross credit portfolio structure increased in the first half of 2016 to 52.9% also the share of consumer loans increased to 12.1%.

Securities

As at the end of the first half of 2016, the securities portfolio amounted to PLN 50.7 billion and recorded an increase by PLN 6.2 billion compared with the end of 2015 and accounted for 18.6% of total assets of PKO Bank Polski SA Group. In the structure of the portfolio by type, the main items were debt securities issued by the State Treasury the share of which in portfolio increased in the first half of 2016 and short-term debt securities issued by central banks (mostly NBP bills).

Amounts due to banks

At the end of the first half 2016, the amount due to banks equalled PLN 18.4 billion and did not change significantly compared to the end of 2015. Growth in received loans and advances was noted (effect of the exchange rate) with simultaneous decrease of funds received as interbank deposits.

Amounts due to customers

As at the end of the first half of 2016 the amount due to customers equalled PLN 199.4 billion and increased by PLN 3.6 billion compared to the end of 2015. In the structure of liabilities due to customers by type, the main items are amounts due to retail customers in amount of PLN 141.3 billion (increase of PLN 5.9 billion compared to the end of 2015), the share of which in the portfolio structure amounted to 70.9%. Another significant category of

liabilities constituted liabilities due to corporate entities in amount of PLN 49.8 billion (decrease of PLN 1.4 billion compared to the end of 2015), the share of which in the structure of liabilities amounted to 25.0%.

External financing

The PKO Bank Polski SA Group is an active participant in 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 the first half of 2016, debt securities in issue and subordinated liabilities constituted 5.5% of total liabilities and their increase compared to the end of 2015 was mainly due to issue of mortgage bonds. In the first half of 2016 PKO Bank Hipoteczny SA conducted two issues of mortgage bonds for institutional customers with the total value of PLN 1.0 billion. Both issues met with great interest of investors. Among the institutions that have acquired letters of pledge issued by PKO Bank Hipoteczny SA were domestic and foreign investors, including European Bank for Reconstruction and Development.

More detailed information about issues made by PKO Bank Polski SA Group can be found in Note No. 31 of the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2016.

Equity and capital adequacy ratio

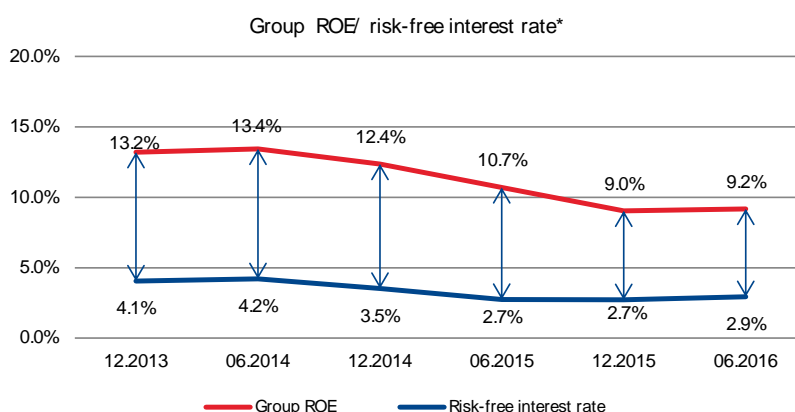
Equity of the PKO Bank Polski SA Group increased by 4.4% in comparison to the end of 2015 and at the end of first half of 2016 amounted to PLN 31.6 billion which accounted for 11.6% of total liabilities and equity of PKO Bank Polski SA Group (increase of share by 0.3 p.p. in comparison to the end of 2015).

As at the end of the first half of 2016, the total capital adequacy ratio of PKO Bank Polski SA Group amounted to 15.2% (an increase of 0.6 p.p. compared to the end of 2015), which was caused by the increase of equity as a result of retaining of net profit for 2015. Capital adequacy was maintained at a safe level in the first half of 2016, significantly higher than required limits.

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

	30.06.2016	31.12.2015	Change (PLN million)	Change (%)
Equity, including:	31 588.9	30 264.9	1 324.0	4.4%
Share capital	1 250.0	1 250.0	-	0.0%
Reverse capital	23 240.6	20 711.2	2 529.4	12.2%
General banking risk fund	1 070.0	1 070.0	-	0.0%
Other capital	3 607.5	3 536.4	71.1	2.0%
Cash flow hedges	115.6	(57.7)	173.2	x
Financial assets available for sale	(192.3)	170.6	(363.0)	x
Currency translation differences from foreign operations	(215.4)	(216.5)	1.1	-0.5%
Undistributed profits	1 231.4	1 222.4	9.0	0.7%
Net profit for the period	1 512.1	2 609.6	(1 097.4)	-42.1%
Actuarial gains and losses	(12.6)	(12.6)	-	0.0%
Profit attributed to non-controlling shareholders	(21.2)	(18.4)	(2.8)	15.4%
Share in other comprehensive income of an associate and joint venture	3.2	(0.2)	3.3	x
Own funds	28 332.2	27 091.4	1 240.8	4.6%
The total capital ratio	15.21%	14.61%	x	0.61 p.p.

In the first half of 2016 return on equity (ROE) decreased by 1.5 p.p. in comparison to the first half of 2015 as a result of lower annualized net profit (-5.9% y/y) along an increase in average equity by 10.9% y/y. Lower rate of return on equity reflects the trend on the market, lower results were recorded by entire banking sector among others due to introducing 'bank tax' since February 2016 with simultaneous strengthening of capital base related to additional regulatory requirements. Compared to the end of 2015 ROE ratio increased annually by 0.1 p.p. Return on assets (ROA) decreased by 0.1 p.p. compared to the end of first half of 2015.



* risk-free interest rate calculated as the annual average from 10 years old treasury bonds.

3.2 Financial results of PKO Bank Polski SA

3.2.1 Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA in the first half of 2016, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 10. Financial indicators of the PKO Bank Polski SA

	30.06.2016	30.06.2015	Change (p.p.)
ROA net* (net profit/ average total assets)	1.1%	1.2%	-0.1
ROE net* (net profit/ average total equity)	9.1%	10.1%	-1.0
C/I* (cost to income ratio annualized)	54.6%	48.3%	6.3
C/I excluding tax on certain financial institutions* (cost to income ratio annualized)	51.2%	48.3%	2.9
Interest margin* (net interest income/average interest-bearing assets)	3.1%	3.2%	-0.1
The share of impaired loans**	6.5%	6.6%	-0.1
Cost of risk***	-0.7%	-0.9%	0.2
The total capital ratio (own funds/ total capital requirement * 12.5)	16.1%	14.3%	1.8

* Items in the profit and loss account in order to calculate indicators capture the period of the last 4 quarters (annual intake), while items in the statement of financial position capture the average of the last 5 values of the respective quarterly assets and liabilities.

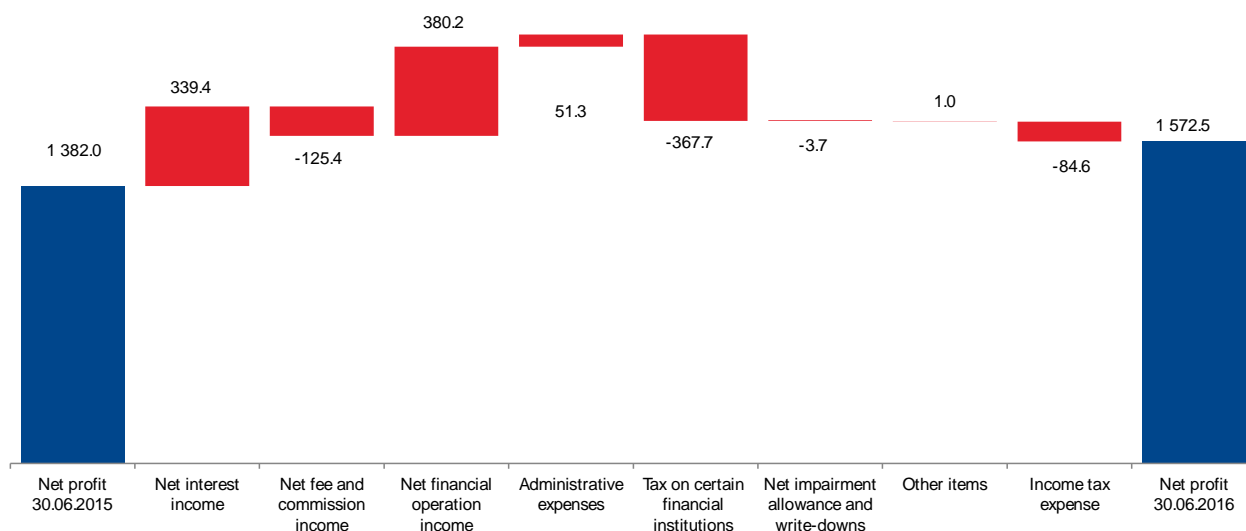
** Calculated by dividing the gross amount of impaired loans and the carrying gross value of loans due to customers.

*** Calculated by dividing the net write-downs for impairment of loans due to customers by the average gross balance of loans due to customers.

3.2.2 Income statement of PKO Bank Polski SA

The net profit of the PKO BP generated in the first half of 2016 amounted PLN 1 572.5 million and was higher by PLN 190.5 million i.e. 13.8% than in the corresponding period of 2015.

Chart 2. Changes in the income statements items of PKO Bank Polski SA (in PLN million)



In the PKO Bank Polski SA income statement for the first half of 2016, the sum of revenue positions amounted to PLN 5 588.6 million and was by PLN 595.2 million, i.e. by 12% higher than in the comparable period of 2015.

Main results were as follows:

Table 11. Changes in the income statement of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Interest and similar income	4 647.8	4 654.4	(6.6)	-0.1%
Interest expense and similar charges	(1 053.4)	(1 399.4)	346.0	-24.7%
Net interest income	3 594.4	3 255.0	339.4	10.4%
Fee and commission income	1 610.9	1 670.1	(59.2)	-3.5%
Fee and commission expense	(426.0)	(359.8)	(66.2)	18.4%
Net fee and commission income	1 184.9	1 310.2	(125.4)	-9.6%
Dividend income	149.4	110.0	39.4	35.8%
Net income from financial instruments measured at fair value	(18.2)	1.2	(19.4)	x
Gains less losses from investment securities	476.5	76.9	399.6	6,2x
FX results	210.2	206.4	3.8	1.8%
Net other operating income and expense	(8.7)	33.6	(42.2)	x
Net impairment allowance and write-downs	(752.8)	(749.2)	(3.7)	0.5%
Administrative expenses	(2 497.9)	(2 549.2)	51.3	-2.0%
The tax on certain financial institutions	(367.7)	-	(367.7)	x
Operating profit	1 970.1	1 695.0	275.1	16.2%
Gross profit	1 970.1	1 695.0	275.1	16.2%
Income tax expense	(397.6)	(313.0)	(84.6)	27.0%
Net profit	1 572.5	1 382.0	190.5	13.8%

Net interest income

The net interest income generated in the first half of 2016 was by PLN 339.4 million higher than in the same period of previous year, mainly due to lower interest expense by PLN 346.0 million along comparable interest income as in the same period of previous year.

Table 12. Interest income and expense of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Interest and similar income	4 647.8	4 654.4	(6.6)	-0.1%
Loans and advances to customers	3 878.1	3 902.0	(23.9)	-0.6%
Investment securities	519.2	485.0	34.1	7.0%
Derivative hedging instruments	182.5	212.2	(29.8)	-14.0%
Deposits in banks	49.3	50.6	(1.2)	-2.5%
Loans to banks	5.4	3.3	2.1	62.6%
Other	13.4	1.3	12.2	10.7X
Interest expense and similar charges	(1 053.4)	(1 399.4)	346.0	-24.7%
Amounts due to customer	(913.8)	(1 280.3)	366.5	-28.6%
Debt securities issuance and subordinated liabilities	(36.1)	(37.9)	1.8	-4.8%
Loans from banks	(38.2)	(32.4)	(5.8)	17.8%
Premium from debt securities available for sale	(31.7)	(29.8)	(1.9)	6.3%
Deposits from banks	(5.2)	(2.8)	(2.4)	87.4%
Other*	(28.5)	(16.2)	(12.3)	75.9%
Net interest income	3 594.4	3 255.0	339.4	10.4%

* Including: financial assets available for turnover expenses and financial assets designated upon initial recognition at fair value through profit and loss.

Net fee and commission income

Net fee and commission income generated in the first half of 2016 was PLN 125.4 million higher than in the same period of previous year, as a result of PLN 59.2 million decrease in commission income and increase of commission expenses by PLN 66.2 million.

Table 13. Fee and commission income and expense of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Fee and commission income	1 610.9	1 670.1	(59.2)	-3.5%
Payment cards	498.7	457.0	41.7	9.1%
Maintenance of bank accounts	437.9	457.3	(19.4)	-4.2%
Loans insurance	24.2	50.9	(26.7)	-52.4%
Income from loans and advances granted	305.5	310.7	(5.2)	-1.7%
Cash transactions	45.6	46.3	(0.6)	-1.4%
Maintenance of investment and open pension funds (including management fees)	129.5	144.9	(15.4)	-10.6%
Securities transactions	31.3	54.4	(23.0)	-42.4%
Servicing foreign mass transactions	40.9	33.6	7.2	21.5%
Providing services of an agent for the issue of Treasury bonds	14.3	8.2	6.1	74.8%
Commissions of the Brokerage House for servicing Initial Public Offering issuances	11.3	10.8	0.4	4.1%
Sale and distribution of court fee stamps	5.5	5.5	(0.0)	-0.8%
Guarantees and letters of credit	3.3	3.2	0.1	2.2%
Investment and insurance products	7.3	9.5	(2.1)	-22.4%
Other*	55.5	77.8	(22.2)	-28.6%
Fee and commission expense	(426.0)	(359.8)	(66.2)	18.4%
Payment cards	(282.1)	(223.3)	(58.8)	26.3%
Acquisition services	(32.7)	(35.0)	2.3	-6.6%
Settlement services	(15.3)	(15.6)	0.3	-1.9%
Fee and commissions for operating services provided by banks	(8.1)	(11.5)	3.4	-29.5%
Cost of construction investments control and real estate appraisals	(20.4)	(15.9)	(4.5)	28.2%
SMS sending	(7.4)	(12.8)	5.4	-42.1%
Amounts paid by the Brokerage House to GPW, KDPW and KDPW_CCP	(5.9)	(7.4)	1.5	-20.3%
Servicing foreign mass transactions	(3.1)	(1.8)	(1.2)	67.1%
Commission paid to Poczta Polska	(2.4)	(2.4)	0.0	-1.1%
Other **	(48.7)	(34.1)	(14.6)	42.9%
Net fee and commission income	1 184.9	1 310.2	(125.4)	-9.6%

* Other includes: commissions of the Brokerage House for market maker activities, commissions for servicing indebtedness of borrower against the State budget and fiduciary activities.

** Other includes: assets management expenses.

Gains less losses from investment securities

At the first half of 2016 gains less losses from investment securities amounted to PLN 476.5 million (PLN +399.6 million y/y) and was determined by acquisition of Visa Europe Limited by the Visa Inc. As a result, in the first half of 2016 in the Bank's profit on investments securities, PLN 417.6 million was recognised.

Administrative expenses and tax on certain financial institutions

In the first half of 2016 administrative expenses amounted to PLN (-)2 497.9 million and decreased by PLN 51.3 million in comparison to the same period of the previous year.

Table 14. Administrative expenses of the PKO Bank Polski SA (in PLN million)

	01.01- 30.06.2016	01.01- 30.06.2015	Change (PLN million)	Change (%)
Employee benefits	(1 281.3)	(1 257.5)	(23.8)	1.9%
Overheads and others*	(858.6)	(919.5)	60.9	-6.6%
Amortisation	(357.9)	(372.2)	14.2	-3.8%
Total	(2 497.9)	(2 549.2)	51.3	-2.0%

* Others: taxes and other charges, contribution and payments to the Bank Guarantee Fund.

Starting from February 2016 banks and other financial institutions are obliged to pay tax on certain financial institutions. Tax burden on the Bank in the first half of 2016 amounted to PLN 367.7 million. The effectiveness of the PKO Bank Polski SA measured with C/I ratio in annual terms amounted to 54.6%. C/I ratio

excluding tax on certain financial institutions amounted to 51.2%.

Net impairment allowance and write-downs

Net impairment allowance and write-downs shows secure approach of PKO Bank Polski SA to credit risk. The slight decrease in impairment allowance and write-downs in the first half of 2016 by 0.5% was due to worse write-downs result on shares depreciation.

The cost of risk⁶ in the first half of 2016 amounted to 0.7% and improved by 0.2 p.p. in comparison to the end of first half of 2015.

3.2.3 Statement of financial position of PKO Bank Polski SA

Total assets of the PKO Bank Polski SA as at 30 June 2016 amounted PLN 266.3 billion and was by PLN 3.9 billion higher than at the end of December 2015.

The main items of the statement of financial position of the PKO Bank Polski in the first half of 2016, are presented in the table below:

⁶Calculated by division of net impairment allowance and write-downs of loans and advances to customers for 12 month period. Ended 20 June 2016 and 2015 by the average, gross balance of loans and advances to customers at the beginning and at the end of reporting period and quarterly periods in between.

Table 15. Main items of the statement of financial position of the PKO Bank Polski SA Group (in PLN million)

	30.06.2016	31.12.2015	Change (PLN million)	Change (%)
Cash and balances with the central bank	12 087.6	13 707.7	(1 620.1)	-11.8%
Amounts due from banks	7 051.4	5 021.9	2 029.6	40.4%
Loans and advances to customers	186 124.5	188 552.4	(2 427.9)	-1.3%
Securities	47 430.3	41 449.0	5 981.4	14.4%
Other assets	13 629.9	13 649.0	(19.1)	-0.1%
Total assets	266 323.8	262 380.0	3 943.8	1.5%
Amounts due to banks	18 409.6	18 254.1	155.5	0.9%
Amount due to costumers	205 160.8	201 809.2	3 351.6	1.7%
Debt securities in issue and subordinated liabilities	4 403.9	4 216.8	187.1	4.4%
Other liabilities	6 728.4	7 882.0	(1 153.6)	-14.6%
Total liabilities	234 702.7	232 162.1	2 540.5	1.1%
Total equity	31 621.2	30 217.9	1 403.3	4.6%
Total liabilities and equity	266 323.8	262 380.0	3 943.8	1.5%
Loans/Deposits (to costumers)	90.7%	93.4%	x	-2,7 p.p.
Loans/Stable sources of funding*	82.2%	84.8%	x	-2,6 p.p.
Interest bearing assets/Assets	90.3%	89.6%	x	0,8 p.p.
Interest paying liabilities/Liabilities	85.6%	85.5%	x	0,1 p.p.

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

The biggest part of assets of PKO Bank Polski SA Group are loans and advances granted to customers which amounted to PLN 186.1 billion at the end of June 2016, with 69.9% share in total assets. During the first half of 2016 PKO Bank Hipoteczny SA purchased housing loans secured by mortgages for PLN 2.7 billion what resulted in a decrease in volumes by PLN 2.4 billion in comparison to the end of 2015. Still, the main source of assets financing are liabilities due to customers, which amounted to PLN 205.2 billion at the end of June 2016 (PLN +3.4 billion compared to the end of 2015) with 87.4% share in total liabilities. A significant increase in amounts due to customers is associated with maintaining a secure balance sheet structure of PKO Bank Polski SA.

4. Activities of the PKO Bank Polski SA Group⁷

4.1 Activities of PKO Bank Polski SA – the parent company of the PKO Bank Polski SA Group

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 areas are divided ensures consistency with the sales management model and offers customers a comprehensive product offer comprising both traditional banking products and more complex investment products. Currently, the Group conducts its business activities as part of the retail segment and the corporate and investment segment.

⁷ In this sub-chapter any differences in total balances, shares and growth rates result from rounding of balances to PLN million and percentage shares to one decimal place.

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. The products and services offered to customers in this segment include, i.a.: current accounts, saving accounts, term deposits, *private banking* services, insurance and investment-insurance products, credit and debit cards, electronic banking services, consumer and housing loans, as well as corporate loans to small and medium enterprises, developers, cooperatives and property managers.

Corporate and investment segment

The corporate and investment segment comprises transactions conducted with large corporate customers and financial institutions. This segment comprises, i.e. the following products and services: maintaining current accounts and term deposits, holding securities, foreign exchange and derivative products, corporate loans, as well as leases 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 activities, i.e. investing activities, brokerage activities, interbank transactions, as well as transactions in derivative instruments and debt securities.

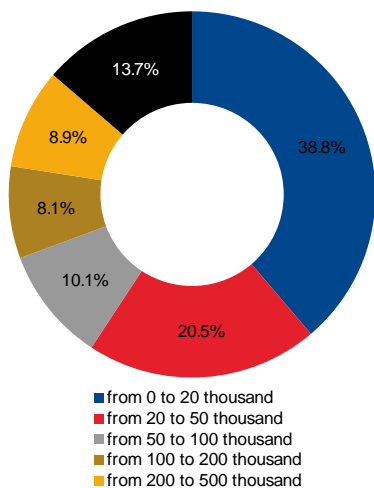
4.1.1 Retail segment

During the first half of 2016 performed actions in retail segment were focused on increasing the attractiveness and competitiveness of offered products, with flexible response to changing market environment. The Bank continued sustainable development, focused on identifying and satisfying consumers' needs, with whom Bank builds strong, long-term relationship. Efforts has been taken to improve the quality of customer service, actions leading to increased innovation in the new financial solutions, not only in the products but also at the distribution channels, in particular in the field of electronic banking and mobile payments. At the end of June 2016 number of serviced customers in retail segment reached 9.1 million, in which 8.6 million were individuals. More than a half of retail segment customers regularly use electronic banking. The most active group of users are customers aged between 18 and 25.

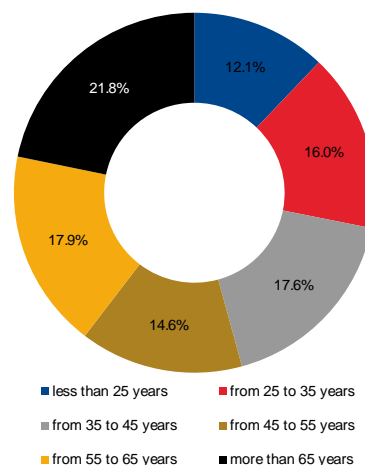
Due to the wide range of distribution channels most of Banks customers (69%) lives in municipality under 100 thousand citizens. Trustworthy bank's brand, ability in combining tradition with modernity and transparent product offer, which includes time-varying customer preferences, makes bank recognizable not only in urban centers. What is more, due to the demographic profile c.a. 46% of customer base are aged under 45.

The most important distribution channel, from the point of view of acquired retail customers, was branch network. Acquisition of new customers is carried out mainly through the sale of current accounts (almost 97%).

The distribution of the bank's customers by place of residence



The age structure of the bank's customers



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, and Platinum loans, mortgage-backed loans, revolving loans and credit cards as well as the funding available in the form of mortgage loans. Offer for small and medium-sized enterprises is available in the form of investment and investor, as well as working capital loans. By the end of June 2016 gross loans of retail segment of PKO Bank Polski SA amounted to PLN 144.0 billion and since the beginning of the year increased by PLN 3.5 billion (i.e. 2.4%). Mainly due to growth in mortgage portfolio (PLN +2.8 billion since the beginning of the year) and retail and private banking (PLN +0.7 billion).

Table 16. Gross loans of the PKO Bank Polski SA – in the retail segment (in PLN million)

	30.06.2016	31.12.2015	30.06.2015	Change from:	
				31.12.2015	30.06.2015
Gross loans and advances granted, of which:					
retail and private banking	24 022	23 340	22 180	2.9%	8.3%
small and medium enterprises	21 301	21 313	21 905	-0.1%	-2.8%
mortgage banking including PKO Bank Hipoteczny SA loans	98 692	95 940	95 505	2.9%	3.3%
Total loans	144 015	140 593	139 590	2.4%	3.2%

Retail and private banking loans

Retail Retail customers can use both the standard cash loan, as well as the current financing available under the revolving loans and credit cards. A special offer of the Platinum loans with high amounts of loans and competitive pricing parameters, is available for affluent clients.

In the first half of 2016, PKO Bank Polski SA continued its activity to support sales of consumer loans as part of a marketing campaign under the slogan 'Mini Ratka with guaranteed fixed installment' promoting the sale of short-term cash loan for up to 6 months. The offer was addressed to customers looking for short-term financing, rapid credit decision and a minimum of formalities.

PKO Bank Polski SA systematically takes measures to increase effective access to credit offer for retail customers and private banking, regardless of distribution channel. The waiting time for the credit decision and disbursement of funds was shortened. Regular customers of the Bank can obtain the expected amount of the loan to an account even within 30 minutes through access to personalized credit offer.

In the first half of 2016 the Bank also introduced an offer with promotional pricing terms for customers, who were granted a revolving credit facility:

- for a loan up to PLN 1 thousand for the first six months 0% interest rate,
- commission reduction for limit increase of revolving credit down to PLN 0 for agreements with renewal date not longer than 4 months,
- the possibility of request application in one of the branches, through the Contact Centre (CC) or online.

Additionally in the new sales process for renewal loans new service One Click was introduced, owner of saving account can sent request via iPKO transaction system or CC and accept agreement with authorization tool.

Mortgage banking loans

In the analysed period, the Bank maintained its dominant position in the market for housing loans. According to the data presented by the Polish Bank Association it shows that in the first half of 2016 PKO Bank Polski SA was the first on the market with 30.3% share in sales of mortgage loans for individuals. Since the beginning of the year a total amount of granted loans equalled to approx. PLN 6.0 billion.

Retail banking customers can use flagship mortgage product known as 'WŁASNY KĄT' available in "Mieszkanie dla Młodych" program as well.

PKO Bank Polski SA strives to provide customers not only with the widest range of credit products, but also to offer attractive prices of mortgage products available in the Banks offer. In promotional periods 'Mortgage Loans' Open Days' it introduced a periodic decrease in margins. These actions are noticed and appreciated by the clients confirmed by award granted in mortgage category (the winner of mortgage loan ranking prepared by redactors of

financial comparator 'Comperia.pl', Golden Banker Award granted to PKO Bank Polski SA for 'Własny Kąt Hipoteczny' housing loan).

In the first half of 2016 PKO Bank Polski SA granted under the 'Mieszkanie dla Młodych' program more than 3.5 thousand loans for a total amount of PLN 1.0 billion. The program consists of subsidies from the state budget to own contribution and additional financial support in the form of repayment of part of the loan.

Processes and actions in support of borrowers with housing loans

- In connection with the entry into force on 19 February 2016 the law on support for borrowers in a difficult financial situation, the Bank implemented the process of granting support. The new solution is dedicated to borrowers in a difficult financial situation, who have a mortgage loan - either in local currency or in foreign currency, secured by mortgage on the credited property.

From the support will benefit those who on the day of submission of the application fulfil, among others, the following conditions:

- they will have the status of unemployed,
- the monthly cost of servicing the loan exceeds 60% of monthly household income,
- monthly household income net of loan instalment does not exceed the thresholds entitling to benefit from social assistance.

The solutions enable financial support by the Bank Gospodarstwa Krajowego for a period not longer than 18 months, the equivalent of mortgage loan installments (principal and interest), but no more than PLN 1.5 thousand per month. As at 30 June 2016 there were 111 requests for support registered in the Bank's system.

- According to a previous declaration the Bank continued to apply operations to compensate clients for an increase in loan installments due to the strengthening of the Swiss franc, including:
 - 1% spread in handling mortgage loans in this currency,
 - taking into account the negative rate of LIBOR CHF in the cost of a mortgage loan,
 - extending the repayment date within the maximum term of the loan without charging a fee for extension of the term of the loan.

In addition, the Bank provided customers with the opportunity to apply for change of collateral of the loans in CHF in order to allow the sale of real estate secured with mortgage, associated with the granting of a new loan in PLN and the establishment of a mortgage on a newly purchased property.

Loans for small and medium enterprises

PKO Bank Polski SA 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 range of loans. Thanks to the cooperation between the PKO Bank Polski SA and Bank Gospodarstwa Krajowego agreement 'Portfelowa Linia Gwarancyjna de minimis' and 'Portfelowa Linia Gwarancyjna COSME' under the government and EU aid program for small and medium-sized businesses, entrepreneurs receive support in the form of BGK guarantees - *de minimis* and guarantees of counter guarantees granted by the European Investment Fund under the program COSME. The aim is to increase the availability of credit and the mobilization of additional resources for current operations of the company.

As at 30 June 2016 the 'Portfelowa Linia Gwarancyjna de minimis' was used by over 12 thousand customers. The value of loans amounted to PLN 4.4 billion. PKO Bank Polski SA was the largest lender of the twenty-one banks providing loans with *de minimis* guarantees and held 23.4% market share (according to the data provided by the Center of Sureties and Guarantees in Bank Gospodarstwa Krajowego, as at 30 June 2016). Guarantee limit currently granted to PKO Bank Polski SA was risen by PLN 1.0 billion and amounts now PLN 5.8 billion. As at 30 June 2016, the exposure measured by the value of active signed contracts amounted to PLN 2.4 billion. The value of loans granted under the 'Portfelowa Linia Gwarancyjna COSME' as at 30 June 2016 amounted to over PLN 79 million, and the amount of granted guarantees amounted to over PLN 63 million.

On 24 February 2016, PKO Bank Polski SA and Bank Gospodarstwa Krajowego signed an annex to the portfolio guarantee *de minimis* agreement, on the basis of which innovative entrepreneurs will be granted *de minimis* guarantees financed from by the Operational Program Innovative Economy (OPIE) Guarantee Fund. The pool of available funds in PKO Bank Polski SA is PLN 55 million. The selling the above guarantee has begun in May 2016.

In the first half of 2016 PKO Bank Polski SA offered to small and medium enterprises the number of promotions, which supposed to support financing of investments and business objectives. One of them was a promotional offer with competitive pricing. Scope of documents was decreased to minimum (entrepreneurs haven't got to present financial forecast or business plan) and the credit decision with fund transferring took place even in one day.

Deposit and investment offer

In the first half of 2016, PKO Bank Polski SA continued activities aimed at offering more attractive deposits and investments for changing retail segment customer's needs, taking into account current market conditions and competitive position. At the same time, activities aimed at diversifying sources of financing were carried out. As at 30 June 2016 the deposits of the retail segment of PKO Bank Polski SA amounted to PLN 154.0 billion and from the beginning of the year increased by PLN 6.0 billion (i.e. 4.3%). The increase in deposits of retail and private banking contributed to this, due to growth of current and term deposits volume, with current deposits growing apparently faster.

Table 17. Deposits of the PKO Bank Polski SA – in the segment (in PLN million)

	30.06.2016	31.12.2015	30.06.2015	Change from:	
				31.12.2015	30.06.2015
Customer deposits, of which:					
retail and private banking	133 866	127 833	125 332	4.7%	6.8%
small and medium enterprises	20 101	19 803	17 585	1.5%	14.3%
Total deposits	153 967	147 636	142 917	4.3%	7.7%

Current and saving accounts

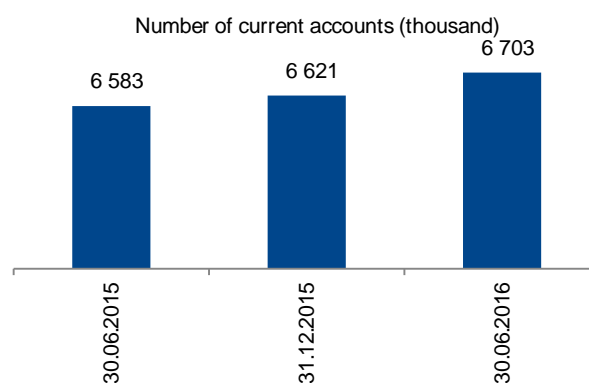
PKO Bank Polski SA is the market leader in terms of the number of current accounts, which at 30 June 2016 amounted to 6.7 million. The number of accounts results from the varied offer in terms of customer preferences.

The offer consists of, among others, products such as: PKO Konto bez Granic, PKO Konto za Zero, PKO Konto dla Młodych and PKO Junior.

PKO Bank Polski SA adjusted its offer to beneficiaries of "Rodzina 500+" program introducing dedicated 'Konto za Zero Rodzina 500+'. Using an account is free of charge. During the first half of 2016 14 thousand of this type of accounts were opened.

What is more bank extended 'PKO Konto dla Młodych'

offer. As for now not only students and graduates aged between 18 and 26 can participate in the offer but everyone in specified age group.



Small and medium enterprises interested in complex, modern and price attractive PKO Bank Polski SA services are offered with two packages:

- PKO Corporate Account for individuals running one-man business, freelancers and professional farmer who appreciate support of their finances with modern banking services, as well as with individual advisor in bank branch,

- PKO Business Account was created for enterprises with larger requirements which needs offer perfectly suited to their needs and appreciate the cooperation with individual bank advisor. Bank offers to PKO Business Account owners access to advanced online banking iPKO business, all *cash-management* services, low transaction costs realized via Internet and many more modern banking products and services including the cheapest on the market SEPA online transfers or even access to simple currency exchange thanks to free iPKO dealer platform.

Account maintenance fees depend on customer activity and cash flow.

Term deposits and regular saving products

The dominant share of deposits in the retail market are deposits of retail and private banking. Customers in this segment allocated their resources primarily in term deposits. In the first half of 2016, the Bank offered to individual customers, among others, deposits with progressive interest rate and standard and structured deposits.

The most popular term deposits among clients in e Bank's retail and private banking offer were:

- 24M term deposits with negotiated interest rates,
- 6M internet deposit available in the electronic banking system,
- term deposit account 3+3 for new funds, deposit 3+3 with negotiated interest rate,
- 1M special term deposits available via online transaction services iPKO and Inteligo (offered during I quarter 2016),
- structured deposits.

Bank extended its product range of term deposit to encourage customers to regular savings by:

- introducing to the offer a term deposit 'Kapitał na Własny Kąt' as a product which is designed for customers, who are planning to take out a mortgage in the future, the possibility of regular saving for their own contribution,
- introducing to the offer a term deposit „Kapitał dla Dziecka” addressed to customers receiving „Rodzina 500+” program benefits as well as those not covered by the program, who want to build financial security of their children from earliest years.

Structured instruments are part of the standard offer of the Bank dedicated to individual clients. In the first half of 2016 the Bank has conducted 10 subscriptions of 10 structured deposits, including deposits based on the USD/PLN exchange rate (9 and 15-month with guaranteed 1% interest rate) and a deposit based on the EUR/PLN exchange rate (9-month, 15-month and 15-month with 1% guaranteed interest rate).

The attractiveness of offered products provide achieved results: structured deposit based on basket of shares of new technology companies, which PKO Bank Polski SA offered to customers in 2014, at the end of investment period, which fell on 30 May 2016 brought to investors 10% profit for the wholes investment period, which is c.a. 5% annually.

Investment funds

As a result of cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA ('TFI') customers of retail and private banking are offered 38 nondedicated funds, with total assets of PLN 18.5 billion⁸.

PKO Bank Polski SA constantly extends offer in the area of investment funds. In the first half of 2016 PKO Bank Polski SA conducted issuance of investment certificates of closed-end investment funds PKO Globalna Strategia.

Sales of state treasury bonds

PKO Bank Polski SA is the only bank 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 expansive sales network of PKO Bank Polski SA, which is a great convenience for all persons who wish to invest in bonds. In the first half of 2016, over 21 million of bonds were sold.

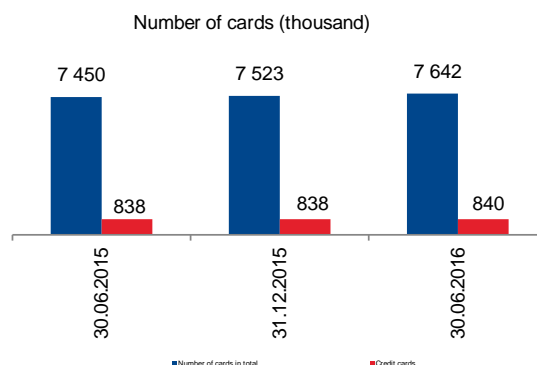
⁸ source: report of the Chamber of Fund and Asset Managers, as at 30 June 2016

Other products and services in the retail segment

Banking cards

As at 30 June 2016 the number of PKO Bank Polski SA bank cards amounted to approx. 7.6 million, including 0.8 million credit cards.

During period under analysis, PKO Bank Polski SA introduced the possibility to order a credit card through the Contact Center and iPKO online banking. Simultaneously reduced sales process of credit cards called 'one-click' has been implemented by the Bank. With the new solutions when establishing new bank account in iPKO for euro, dollar and pounds customer got possibility to order "multicurrency" VISA debit card. Card can be connected to all foreign currency accounts owned by the customer, thanks to that one card can make payments from three accounts, according to the currency in which transactions was made.



What is more PKO Bank Polski SA implemented free of charge 3D-Secure service, due to payments realized in online shops marked with "Mastercard SecureCod" or "Verified by VISA" are additionally secured by single use code.

In the first half of 2016 consortium of PKO Bank Polski SA and eService won tender for servicing banking cards at Poczta Polska SA posts. As a result of this cooperation payment terminals will be installed across the posts of Poczta Polska SA and this year Poczta Polska SA customers will be able to pay by banking cards for bills and shipping.

Insurance products for retail segment

PKO Bank Polski SA continuously develops an offer of insurance products increasing attractiveness of banking products combined with them and giving customers opportunity to secure their debts, assets and to receive help due to accident. PKO Bank Polski SA offers insurance products to retail and private banking as well as to the small and medium enterprises segment connected with products such as:

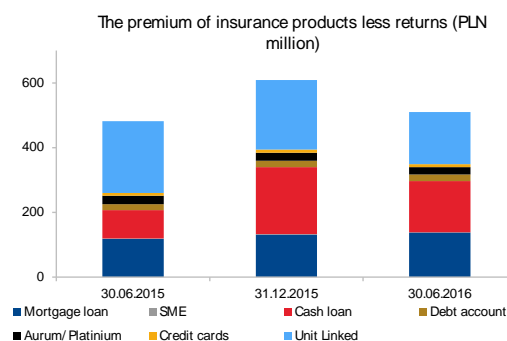
- current accounts (ROR) (i.a. life and accident insurance, property insurance, civil liability insurance, assistance insurance),
- banking cards (i.a. security insurance package for credit, charge and debit cards, travel insurance, loans payment insurance),
- consumer and mortgage loans (life and job loss insurance, low own contribution insurance, bridging insurance, property insurance, assistance insurance).

PKO Bank Polski SA in its saving products portfolio has also one of the most beneficial solutions for insurance with capital fund in the market, which is offered through the branches to Bank's customers.

In terms of life insurance, the Bank offers products mainly developed in cooperation with PKO Życie Towarzystwo Ubezpieczeń SA. However, in the area of property insurance, the Bank established in the first quarter 2015 PKO Towarzystwo Ubezpieczeń S. A.

In the first half of 2016 to Bank offer joined new insurance products:

- loss of income source or hospital treatment due to accident insurance for credit card holders,
- other retail insurance:
 - loss of income insurance for 'Pożyczka Gotówkowa',



- property insurance for loans or mortgages loans,
- loss of income insurance for loans or mortgage loans.

Works are underway on the implementation of next PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA products and as a consequence synergy effect will increase due to cooperation with two insurance companies belonging to the Bank Group.

During this period PKO Bank Polski SA took action to adapt to changes resulting from amendment of the Act on insurance and reinsurance activities.

Private banking

In the first half of 2016, PKO Bank Polski SA was consistently developing Private Banking segment, focusing on close cooperation within the Group, allowing customers access to a wide range of products and financial instruments. During the period under analysis eight closed-end investment funds issues were offered to Private Banking clients – four issues of PKO Corporate bonds and two each issues: PKO Easter-Wester Europe and PKO Global Macroeconomic. Customers participated as well in issue of corporate bonds of: Best SA, Ghelamco SA and Kruk SA.

Currently, the team that provides services to the most affluent customers consists of 63 counselors and 27 business analysts. Private Banking offices are located in 9 major cities in Poland: Warsaw, Gdansk, Krakow, Katowice, Poznan, Wroclaw, Lodz, Szczecin and Bydgoszcz (institution was launched as a part of the Private Banking Office in Gdansk). Private Banking Center of PKO Bank Polski SA manages assets portfolio worth PLN 14.0 billion.

Distribution network and access channels

As at 30 June 2016, the retail branch network of PKO Bank Polski SA consisted of 1 219 branches and 8 retail banking offices. Compared with the end of 2015 the total number of retail branches decreased by 11.

Table 18. Branch network and ATM's PKO Bank Polski SA

	30.06.2016	31.12.2015	30.06.2015	Change from:	
				31.12.2015	30.06.2015
Total number of branches	1 227	1 238	1 272	(11)	(45)
regional retail branches	11	11	11	-	-
retail branches	1 208	1 219	1 253	(11)	(45)
private banking offices	8	8	8	-	-
Number of ATMs	3 200	3 196	3 217	4	(17)
Number of agencies	857	881	926	(24)	(69)

Branch network and agencies

The Bank is constantly improving conditions for customers in the branch network. In the first half of 2016 these activities focused on the modernization of branches and moving them to the new attractive locations. As part of the projects of the Bank and as a result of gained experience, universally applicable branch format is constantly evolving in the direction of optimal operating conditions, tailored to the changing technology. Essential complement to the network of branches and ATMs is a network of agencies. As at June 30, 2016 PKO Bank Polski SA collaborated with 857 agencies and in comparison to 31 December 2015 the number of agencies has decreased by 24 units. The decrease in the number of agencies is a result of efforts to increase network's efficiency

Electronic banking

Customers of the iPKO retail service can benefit from a package of electronic banking services. In addition to small and medium-sized enterprises there is a possibility of using electronic banking services under the name iPKO Biznes. These services provide customers with access to information about their accounts and products, as well as allows them to make transactions through: Internet, self-service terminals, telephone. At the end of March 2016 the number of clients with access to iPKO was 8.0 million.

Bank systematically promotes the remote use of the Internet account, separate account management and banking products in the transaction service, which allows customers faster and easier access to their products, as well as lowering the cost of using banking services. One of the campaign popularizing modern banking channels was

conducted in the first quarter of 2016 to promote 'Replace scratch card for 10 PLN', which the aim was encouraging customers to use other authorization tools than the transaction authentication codes, such as SMS or token.

New possibilities implemented to Bank offer during the first half of 2016:

- quick and simple assumption on the iPKO website foreign currency account in US Dollars, Swiss Francs, Euro, British Pounds, Swedish, Danish or Norwegian Kroner,
- presentation to regular customers personalized offer of 'Mini Ratka' at iPKO transaction service.

PKO Bank Polski SA was the first bank to become involved in the government program 'Rodzina 500 plus.' The relevant agreement was signed between the Ministry of Family, Labor and Social Policy and PKO Bank Polski SA. As a result, the Bank's customers with access to the Internet service both iPKO and Inteligo can apply for the benefit of program 'Rodzina 500 plus' electronically. During very first three months of program applications submitted through PKO Bank Polski SA application were 1/3 applications submitted via internet.

The participation of PKO Bank Polski SA in the program 'Rodzina 500 plus' is just one of the signs of the Bank's involvement in the construction of e-state. Thanks to an agreement signed with the Social Insurance Institution, through which the Bank's customers from May 13, 2016 are able to set up a profile on Electronic Services Platform (ESP) of Social Insurance Institution from banking services level or online via iPKO or Inteligo

Mobile banking IKO

PKO Bank Polski SA provides customers with modern technological solutions giving them full, simple, functional access to banking services by using the mobile that is safe and accessible everywhere at the same time. IKO is the most popular and the most developed system of mobile payments in Poland. It combines the functions of mobile banking with the ability to make mobile payments. IKO application has more than 620 thousand users. The application is constantly enriched with new functionalities. The changes have transformed the IKO application used for payments or withdrawals to mobile application being the bank in the phone. Currently application enable:

- payment services,
- establishment of investment and use of dedicated for customers using IPKO term deposits at 1, 3, 6 or 12 months with an attractive interest rate,
- perform contactless payments through mobile application IKO enriched with HCE technology (Host Card Emulation),
- receiving Western Union money transfers – new service can be used by all PKO Bank Polski SA customers which have access to their private accounts via IKO application,
- making money transfers on the phone of people using BLIK in other banks, what allows instant money transfers,
- view details of standing orders (including repayment of credit card debt) and loans (including mortgages),
- to see the balance before logging in,
- sending requests for transfer to other application users, which is convenient option to remind the other person of outstanding debt,
- recharge mobile phone prepaid card,
- to personalize application through main screen management,
- single-touch login with TouchID function available for iOS systems users equipped with fingerprint reader.

On the basis of IKO, Polish standard of mobile payments, BLIK, was created. BLIK is a universal form of payments and cash withdrawals from ATMs without using cash or credit card, created together with partner banks and the National Clearing House. As at 30 June 2016, the network of acceptance of mobile payments (IKO, BLIK) included more than 145 thousand devices (eService terminals and First Data) throughout the country. In connection with the implementation of the BLIK system, IKO application now enables cash withdrawal from more than 14,5 thousand of PKO Bank Polski SA ATMs and Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA, Euronet ATMs (about 5.8 thousand) and IT Card (about 1.5 thousand). In June 2016 PKO Bank Polski gave new option to customers in "Place z iPKO" method – transaction authorization through entering BLIK code generated in IKP application. Thanks to implemented method payments can be performed in most of online shops in Poland, including the biggest integrator PayU. Change appeared as well in the biggest Polish e-commerce bidding platform – Allegro.

What is more Bank allowed its youngest customers – under 13, using PKO Konto Dziecka and PKO Junior transaction service, access to bank account through PKO Junior mobile application. Application is not only handy but safe as well, additionally is enriched with financial education and development of entrepreneurial attitudes functions. Modern and intuitive is mobile equivalent of PKO Junior service.

The PKO Bank Polski SA Contact Center

Contact Center plays an important role in the retail segment client's service. The aim of this unit is to conduct the sale of products offered by the Bank during incoming and outgoing calls and to provide efficient and effective customer service, using remote communication. The tasks of the Contact Center are in particular:

- sale of banking products during incoming and outgoing calls,
- supporting remote sales processes initiated on the web,
- handling of incoming calls from customers of the retail segment,
- outgoing calls initiated by the Bank (information tasks),
- handling security issues (incoming and outgoing),
- support for e-mail correspondence,
- answering questions asked via customers infosite and iPKO service,
- internal customer service (professional helpdesk for branch employees),
- early monitoring of receivables.

4.1.2 Corporate and investment segment

In the first half of 2016 PKO Bank Polski SA as in previous periods based the development of corporate business on building stable relationships with customers through high quality services, cooperation based on partnership and specialized competence of the sales network. Current business financing (through working capital loans), as well as openness to participation in the implementation of their future projects (through investment loans) and support in the implementation of local government projects, invariably constitute the main priorities of the Bank's corporate segment.

In the period under consideration, PKO Bank Polski SA offer for podkarpackie voivodeship and its subordinate entities was considered to be the best on the market. This allowed the Bank to win the tender and start providing services for these entities. Once again, by participating in local projects with custom character, the Bank strengthened its position as an undisputed leader in providing services for local governments. In total, the Bank provides services for 6 voivodeships.

The Bank analyzed market expectations systematically and, in order to meet customer expectations, tailored its current product and service offer so as to cope with increasing competitive pressure. As a result, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency and commodity price risks) were being developed consistently, and financing structure needs were addressed in a flexible manner.

In the second quarter of 2016 the Bank started cooperation with one of the biggest discount retail clients, which currently placed PKO Bank Polski SA in the lead of the three relationship banking institutions in Poland.

At the end of June 2016 in the segment nearly 14 thousand customers were serviced, including a thousand of strategic customers and more than 4 thousand units of local government and central government institutions together with budget-related and affiliated entities. The Bank on the basis of newly acquired competences services also over 0.6 thousand affiliates and subordinated units with their registered office abroad.

Lending activity and structured financing.

As at the end of June 2016 total financing provided to corporate customers including bonds issued amounted to PLN 61 billion and since the beginning of the year increased by PLN 1.3 billion (i.e. by 2.2%).

Table 19. Financing of corporate customer

	30.06.2016	31.12.2015	30.06.2015	Change from:	
				31.12.2015	30.06.2015
Corporate loans, gross	48 186	46 763	46 506	3.0%	3.6%
Debt securities*	13 021	13 132	12 712	-0.8%	2.4%
municipal	7 158	7 309	7 181	-2.1%	-0.3%
corporate	5 864	5 823	5 531	0.7%	6.0%
Total financing	61 207	59 895	59 218	2.2%	3.4%

* Data presented together with securities classified as loans and advances to customers.

The highest loan transactions concluded by the Bank in the first half of 2016 included financing in the form of investment and working capital loans granted to entities from the energy, logistics, financial, raw materials sector and to public finance sector entities. The unit values of the largest transactions ranged from PLN 50 million to PLN 300 million. In the first half of 2016 in the corporate and investment segment new loan products were launched that allow customers adjusting their pre-approved credit limits to their working capital and investment financing needs in the certain moment and specialised loan and treasury products for agricultural industry reducing market risk. PKO Bank Polski SA supports their customers' strategic investment projects realisation through advisory regarding financing form choice as well as flexible terms of financing and repayment. The Bank is working closely with local government units and finances investment projects contributing to the local community.

In the first half of 2016 PKO Bank Polski SA participated in consortiums within which 1 corporate bond issue agreement was signed amounting to PLN 1.1 billion in total (with the Bank's share amounted nearly to PLN 90 million) and also 10 loan agreements were signed where the financing amount in total exceeded PLN 6 billion (share of the Bank exceeded PLN 1.6 billion). In addition, the following have been organized:

- Two bond issues without guarantee of closing amounting to PLN 4.3 billion in total,
- nearly 70 agreements to issue municipal bonds annexes to prolong the period of financing for an amount of over PLN 0.4 billion,
- investment loan agreements amounting to PLN 0.6 billion,
- 5 working capital loan agreements with related parties amounting to PLN 6.5 billion.

Deposit activities and transaction banking

The level of deposits at the end of June 2016 amounted to PLN 40 billion and decreased by PLN 2.8 billion as compared to the end of the last year. This is the result of liquidity management policy applied by the Bank.

Table 20. Corporate deposits (in PLN million)

	30.06.2016	31.12.2015	30.06.2015	Change from:	
				31.12.2015	30.06.2015
Corporate deposits	40 140	42 908	31 754	-6.5%	26.4%

PKO Bank Polski SA is constantly enhancing the quality of its transaction banking services.

In the first half of 2016 the Bank developed services dedicated to entities characterized by extensive organizational structure (e.g. capital groups), allowing customers to use various kinds of products and services to facilitate settlement of transactions with domestic and foreign partners. Among others, customers were given ability to freely manage their limits for the consolidated accounts through electronic banking channels. In case of electronic services provided by PKO Bank Polski SA for customers, the leading product for corporate banking is the iPKO biznes banking system. In 2016, the iPKO biznes application has been expanded with new functionalities to improve the comfort of use, including among others simplified and redesigned possibilities of key operations on the site, so they were even more user-friendly and intuitive. Currently iPKO biznes application allows customers to monitor and manage accounts, payment cards and loans and to submit orders for all kinds of transfers.

In the first half of 2016 the consortium of PKO Bank Polski SA and eService won the call for tender regarding card payment service facility in Poczta Polska SA post offices. Under the cooperation payment terminals will be installed in the entire post office network. By this year Poczta Polska customers will be able to make card payments for services such as paying bills or sending parcels.

Financial institutions

Currently PKO Bank Polski SA holds a leading position in the field of foreign banking in Poland. It has a broad and efficient network of nostro accounts in banks around the world, has more than 1 400 SWIFT established relationships

with banks in different countries and in different markets. The Bank provides approx. 200 loro accounts for foreign banks, which are utilized to settle transactions of banks, both in Poland and in other markets.

In order to adjust their transaction settlement infrastructure to the National Bank of Poland requirements, in the first half of 2016 the Bank signed an arrangement regarding consolidated text of the Agreement on opening and maintaining conditions of accounts in Euro in the TARGET2-NBP system concluded between the National Bank of Poland and TARGET2 User.

The Bank actively cooperates with market participants supporting their customers' activities on foreign markets. Such actions are focused on implementing optimum methods of foreign settlements realization, introducing new solutions in international banking and seeking new appealing markets (f.e. Persian Bay, South-East Asia).

International banking

PKO Bank Polski SA participates actively in the development of the international expansion of its clients, offering them support in foreign markets, acting virtually everywhere in the world. International activities of the Bank take place on various levels. Initiatives are taken to facilitate financial support for Polish companies operating on the international markets. One of them was the opening of a corporate branch in Germany.

The branch offers a full range of services and products for corporate customers comprising i.a.: transaction banking (including international cash pooling), electronic banking, treasury products, trade finance and corporate loans. Opening another corporate branch abroad, in Czech Republic is a subject of ongoing work. The Bank has submitted a notification form to the Polish Financial Supervision Authority.

For the entities operating in the territory of Ukraine banking services are being provided via KREDOBANK SA which is a part of the PKO Bank Polski SA Group.

Moreover the Bank provides specialized support to foreign companies operating in Poland, e.g. from the Scandinavian countries, South Korea and Ukraine. For this purpose teams of experts dedicated to serve companies from these countries have been appointed, which favors tightening economic relations. The wide range of products offered and the team of high quality advisors make PKO Bank Polski SA increasingly appreciated by foreign customers.

The Bank's clients appreciate the wide network of correspondent banks around the world, which translates into speed and cost of the service of international settlements. Thus the Bank develops their relationships with banks in distant regions, i.a. Far East. PKO Bank Polski SA cooperates with 11 Japanese banks. There also are activities in South Korea, Australia and Antipodes where since June 2016 additional indirect transaction settlements in New Zealand dollar has been implemented.

Due to new opportunities of trade exchange with Iran arising PKO Bank SA has launched services for enterprises interested in this destination. The Bank has exchanged SWIFT codes with a few Iranian banks which opened a way of running financial settlements between Poland and Iran. The Bank's offer includes i.a. an ability to add confirmations to letters of credit and issuing warrants based on counterwarrants from an Iranian bank which would significantly limit risk of Polish exporters and would make transaction conducting easier.

In the period taken to consideration PKO Bank Polski SA has executed a cooperation arrangement with one of the biggest Chinese banks which includes indirect settlements of payments in Polish zloty and yuan, transactions trade finance and trade services maintenance. The arrangement is complementing previous activity of PKO Bank Polski SA in China where it cooperates with circa 70 correspondent banks already.

Brokerage activities

The Brokerage House of PKO Bank Polski SA ('BH') is one of the leading brokerage houses in the domestic financial market speaking of market share, range of products offered as well as service accessibility regarding the extensive sales network.

In the first half of 2016, the share of BH in trading on the secondary stock market amounted nearly to PLN 15 billion which means 8.20% of the market and translates to the third position in the market.

When it comes to turnover in the bond and option market BH is in the first place, and in the second place regarding market maker role for the NewConnect market.

In the first half of 2016 the most significant transactions in which BH took a part were:

- stock sales of Alior Bank SA where value of papers issued amounted to PLN 2.2 billion.
- coorganisation of the bond issue of the company KRUK SA - the value of the offer amounted to PLN 265 million, and one of the members of the consortium conducting sales of bonds of BEST SA worth PLN 90 million and Ghelamco Invest Sp. o.o. worth PLN 80 million.
- service of call to sell of Rovese SA shares announced by FTF Galleon SA.,
- offer of following series of certificates of 'PKO Absolutnej Stopy Zwrotu Europa Wschód-Zachód FIZ', "PKO Globalnej Strategii FIZ" and "PKO Strategii Obligacyjnych FIZ".
- offer of covered bonds of PKO Bank Hipoteczny SA sales of which amounted to PLN 1 billion in total.

At the end of June 2016 BH provided more than 168.4 thousand securities accounts and cash accounts and had 168.3 thousand active accounts in the registry. BH, in terms of securities accounts, ranks in the fourth position among 40 participants in the market.

Treasury Products

Knowledge, experience and the Bank's activity in the financial markets allows to offer to institutional clients a wide range of the Bank's treasury products tailored to the needs of current operations as well as those related to the protection against financial risk. Another advantage of the Bank in this area of activity is its extensive network of specialists and access to the most modern web platform iPKO dealer.

Foreign exchange SPOT transactions have the largest share in sales of treasury products. Good results are generated by the Bank in the sale of derivative instruments, such as forwards, options, IRS, CIRS or commodity. Along with the implementation of modern electronic platform, the Bank recorded an increase in the number and value of the FX transactions in the segment of small and medium-sized enterprises.

Interbank market

The Bank is the Treasury Securities Dealer and Money Market Dealer, which acts as a market maker on the domestic interest rate and foreign exchange market. In the competition for the selection of Treasury Securities Dealer 2016 the Bank took fourth place and third place in the contest for the Money Market Dealer.

The Bank has a significant portfolio of securities, which is funded from the deposit surplus. The function of portfolio is related to the current liquidity management of the Bank and the function of the investment portfolio.

The major part of the portfolio are Treasury securities.

Fiduciary services

The Bank maintains security accounts and facilitates domestic and foreign market transactions, provides fiduciary services and acts as a depositee for pension and investment funds. As at the end of June 2016 assets held by the customers on fiduciary accounts maintained by the Bank amounted to PLN 65.7 billion and was higher by circa 1.4% as compared to the value noted as at the end of June 2015. The amount of security accounts maintained amounted to 2 thousand of unique accounts.

Sales network

The sales network of the corporate segment includes seven Corporate Macroregions covering 32 Regional Corporate Centers and Branch in Frankfurt, which serves corporate clients of PKO Bank Polski SA in Germany. In the first half of 2016, the Bank continued to implement a strategic program for the development of corporate sales successfully based on modern mechanisms of planning the development of customer relations, cooperation in the designing of strategies and financial support.

Table 21. Branches of PKO Bank Polski SA

	30.06.2016	31.12.2015	30.06.2015	Change from:	
				31.12.2015	30.06.2015
Number of branches in corporate and investment segment:	40	40	39	-	1
regional corporate branches	7	7	7	-	-
corporate center	32	32	32	-	-
PKO Banku Polskiego SA branch in Federal Republik of Germany	1	1	x	-	1

4.2 Market share of PKO Bank Polski SA

As at the end of the first half of 2016, deposits market share of PKO Bank Polski SA declined in comparison to the end of 2015 by 0.6 p.p. to the level of 17.3%, mainly due to the decrease in the share of deposits of institutional entities.

The market shares of PKO Bank Polski SA in loans market decreased by 0.2 p.p. compared to the end of 2015 to the level of 17.6%, which was determined by the decrease in share of institutional loans.

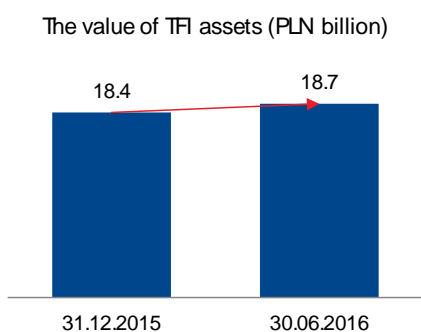
Table 22. Market share (in %)*

	30.06.2016	31.12.2015	30.06.2015	Change 30.06.2016/ 31.12.2015	Change 30.06.2016/ 30.06.2015
Loans	17.6	17.8	17.8	-0,2 p.p.	-0,2 p.p.
private individuals	22.8	22.9	22.9	-0,1 p.p.	-0,1 p.p.
housing	25.8	25.6	25.6	0,2 p.p.	0,2 p.p.
PLN	29.0	28.8	29.1	0,2 p.p.	-0,1 p.p.
foreign currency	21.5	21.5	21.6	0 p.p.	-0,1 p.p.
consumptional and other	15.6	16.0	15.7	-0,4 p.p.	-0,1 p.p.
institutional entities	12.5	13.0	12.9	-0,5 p.p.	-0,4 p.p.
Deposits	17.3	17.9	17.5	-0,6 p.p.	-0,2 p.p.
private individuals	20.6	20.7	21.4	-0,1 p.p.	-0,8 p.p.
institutional entities	12.7	14.0	12.0	-1,3 p.p.	0,7 p.p.

* Data according to NBP reporting system - Webis.

4.3 Activities of other entities of the PKO Bank Polski SA Group⁹

PKO Towarzystwo Funduszy Inwestycyjnych SA



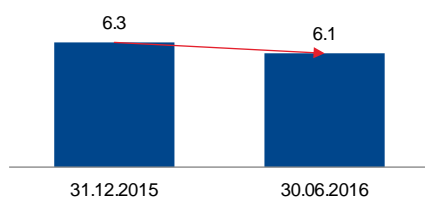
- In the first half of 2016 PKO Towarzystwo Funduszy Inwestycyjnych SA generated a net profit in amount of PLN 30.1 million (in comparable period of 2015 Company's net profit amounted to PLN 26.4 million).
- The value of fund assets under management of the Company as at the end of June 2016 amounted to PLN 18.7 billion which represents an 1.7% increase in the value of assets compared to the end of 2015. The increase in the value of assets was mainly associated with the significant net profit from sales and the result from assets management.
- PKO Towarzystwo Funduszy Inwestycyjnych SA ranks 3rd in terms of the net assets value with a 7.2% share in the investment funds market and the 2nd place with a 12.7% share in managed assets of nondedicated funds*.
- As at 30 June 2016 PKO Towarzystwo Funduszy Inwestycyjnych SA managed 40 investment funds and sub-funds.

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

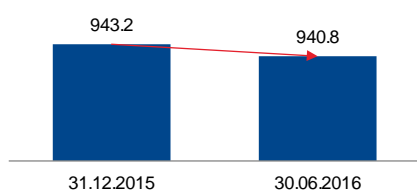
⁹ Financial results presented in the description are taken from financial statements of individual companies which were prepared in accordance with IFRS, excluding financial statements of insurance companies which were prepared in accordance to Polish Accounting Standards. In terms of capital groups the presented financial result is the result of parent company of this group.

PKO BP BANKOWY PTE SA

The value of PKO BP Bankowy OFE net assets (PLN billion)*



The number of PKO BP Bankowy OFE members (thousand)*

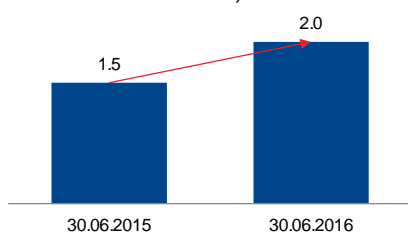


1. PKO BP BANKOWY PTE SA in the first half of 2016 induced net profit amounting to PLN 3.9 million (net profit of the Company in the first half of 2015 amounted to PLN 3.8 million).
2. As at the end of June 2016, the net assets value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA, amounted to PLN 6.1 billion, which is a decrease of 3.8% in comparison to the end of 2015. The decrease of net asset value results mostly from the general downturn in Polish economy.
3. As at the end of June 2016, the number of members of PKO BP Bankowy OFE amounted to 940 thousand.
4. PKO BP Bankowy OFE holds the ninth place on the pension funds market regarding the OFE's net assets value and the ninth regarding the number of members.
5. According to the ranking of the Polish Financial Supervision Authority, PKO BP Bankowy OFE for the period from 29 March 2013 to 31 March 2016 reached the rate of return at the level of 9.074% (the weighted average rate of return of 6.344%) holding thereby first place in the OFE ranking for that period.

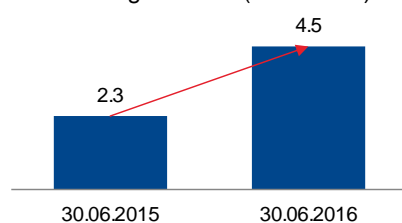
* Source: www.knf.gov.pl

PKO Leasing SA Group

The value of lease objects (PLN billion)



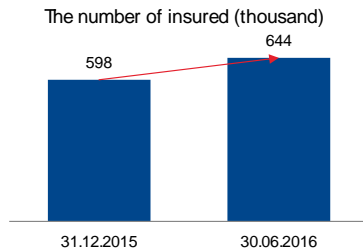
The value of subsidiary factoring turnover (PLN billion)



1. In the first half of 2016 the PKO Leasing SA Group entities (ie PKO Leasing SA and its subsidiaries: PKO Bankowy Leasing Sp. z o.o. and PKO Leasing Sverige AB and PKO BP Faktoring SA) generated net profit of PLN 22.7 million.
leasing activities:
2. In the first half of 2016 the PKO Leasing SA Group entities leased out assets with a total value of PLN 2 billion PLN, ie. 35,3% more than in the first half of 2015. The increase is a result of organic growth of the Company and the Bank's sales network utilization.
3. As at the end of June 2016 the total carrying amount of the lease investments of the PKO Leasing SA Group entities amounted to PLN 5.8 billion.
4. In terms of the value of assets leased the PKO Leasing SA Group at the end of June 2016 ranked 3rd position with a leasing services market share of 7.1%*.
factoring activity:
5. In 2016 the company has been providing domestic and export factoring services with both takeover of the risk and no risk taken, reverse factoring and factoring program service for contractors.
6. In the first half of 2016 the value of factoring turnover amounted to PLN 4.5 billion (for comparable period of the previous year the Company's turnover was PLN 2.3 billion); at the end of June 2016 the number of customers amounted to 277 (the number of customers as at 31 December 2015 was 208).
7. PKO BP Faktoring SA as at 30 June 2016 ranked ninth place among factoring companies associated in the Polish Factors' Association with a market share of 6,1%.

* Source: Company's calculations and Polish Leasing Association data

PKO Życie Towarzystwo Ubezpieczeń SA Group

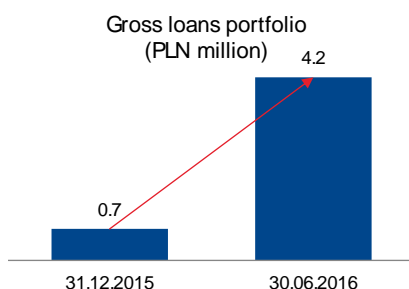


1. PKO Życie Towarzystwo Ubezpieczeń SA Group (i.e. PKO Życie Towarzystwo Ubezpieczeń and its subsidiary Ubezpieczeniowe Usługi Finansowe Sp. Z o.o.) in the first half of 2016 reported net profit of PLN 6.4 million (for the first half of 2015 the net loss amounted to PLN 6.5 million). The net profit is the result of the strategy of creating a portfolio of insurances offered via distribution chain of PKO Bank Polski SA and achieved cos synergies in the area of insurance services provided by companies from the Group.
2. PKO Zycie Towarzystwo Ubezpieczen SA offer protective, savings and investment products. As a part of investment products the company offers a wide range of Insurance Capital Funds, in which customers can invest their savings. The investment offer includes 166 domestic and foreign insurance Capital Funds, including model portfolios and 9 Insurance Capital Funds developed by PKO TFI SA experts.
3. The value of gross assigned contributions from insurance contracts as at 30 June 2016 amounted to PLN 351 million.
4. As at the end of June 2016 the Company insured more than 644 thousand individuals.

PKO Towarzystwo Ubezpieczeń SA

1. PKO Towarzystwo Ubezpieczeń SA began their operating activity in January 2016.
2. The company offers:
 - group insurance against loss of income or hospital treatment following a misadventure for the clients of PKO Bank Polski SA, who are holders of credit,
 - cash loan repayment insurance against loss of income or disability following a misadventure for PKO Bank Polski SA borrowers (via branch network and agencies),
 - mortgage payment insurance, mortgage loan insurance in case of loss of income, disability following an misadventure and hospital treatment for clients of PKO Bank Polski SA or PKO Bank Hipoteczny SA,
 - property insurance for customers of PKO Bank Polski SA and PKO Bank Hipoteczny SA who have entered into credit agreements or have loans secured with a mortgage.
3. The company closed the first half of 2016 with the net loss in the amount of PLN 3.4 million.
4. The value of gross written premiums from insurance contracts concluded by the company as at 30 June 2016 amounted to PLN 143 million.
5. At the end of 2016 the Company insured 172 thousand people.

PKO Bank Hipoteczny SA



1. PKO Bank Hipoteczny SA started its operational activity In April 2015. It specializes in providing mortgage loans, and also acquires mortgage loan portfolios from PKO Bank Polski SA. The Bank acquires loans to its portfolio via strategic cooperation with PKO Bank Polski SA. The principal purpose of the Bank is to issue covered bonds, which serve as the main source of long-term financing of mortgage loans.
2. PKO Bank Hipoteczny SA for the first half 2016 generated net profit in the amount of PLN 0.25 million.
3. In the first half of 2016, PKO Bank Hipoteczny SA acquired within the Framework Agreement of Sale Debts signed in 2015 with PKO Polish Bank SA

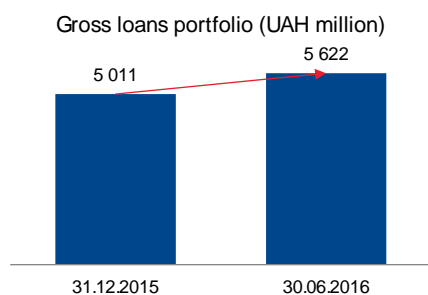
the portfolios of mortgage loans secured by mortgages on the total amount of PLN 2.7 billion.

4. In the first half of 2016 the Company carried out two issues of covered bonds targeting institutional investors with the total nominal value of PLN 1 billion maturing under the period of 5 years and one day from the issuance date. Interest rate based on variable yield equalled to respectively WIBOR 3M + 0.65 p.p. margin and WIBOR 3M + 0.59 p.p. margin
5. As at the end of June 2016 PKO Bank Hipoteczny SA had its rating of Aa3 for its covered bonds issued, granted on 11 December 2015 by the rating agency Moody's Investors Service.

PKO BP Finat Sp. z o.o.

- 1 PKO BP Finat Sp. z o.o. in the first half of 2016 generated net profit in the amount of PLN 18.7 million (in the comparable period of 2015 net profit of the Company was calculated at PLN 8.4 million).
- 2 The Company provides complex services for the financial sector firms – such as transfer agent services, bookkeeping for funds and companies. It specializes also in outsourcing of IT specialists, project teams and IT processes.
- 3 In March 2016 the Company started providing group insurance dedicated to products offered by PKO Bank Polski SA.
- 4 In February 2016 the Company has been accepted as one of the supporting bodies for Chamber of Fund and Asset Management.
- 5 In April 2016 the Company successfully passed a supervision audit and kept the Certificate of Registration - Information Security Management System valid, in line with requirements of ISO/IEC 27001:2013.

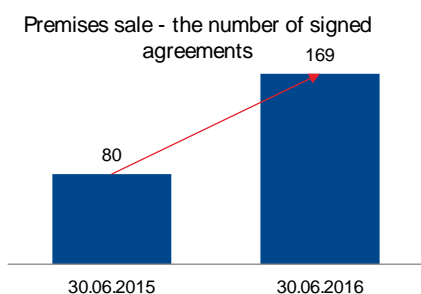
KREDOBANK SA Group*



1. In the first half of 2016 the KREDOBANK SA Group (ie. KREDOBANK SA and its subsidiary Finansowa Kompania „Idea Kapital” Sp. z o.o.) generated net profit of UAH 144.6 million (PLN 22.2 million). In the first half of 2015 net profit of the KREDOBANK SA Group was UAH 112.8 million (PLN 19.5 million). Such results are the effect of KREDOBANK SA development in all business segments along with effective liquidity, margin and risk management.
2. Loan portfolio of the KREDOBANK SA Group (gross) in the first half of 2016 increased by UAH 611 million, ie. by 12.2% and at the end of June 2016 amounted to UAH 5 622 million (loan portfolio gross expressed in PLN at the end of June 2016 was equal to PLN 901 million). Increase of the loan portfolio value in UAH was mainly a result of the increase of new loans sales .
3. The value of term deposits of the KREDOBANK SA Group of customers in the first half of 2016 increased by UAH 106 million, ie. by 3.6 % and at the end of June 2016 amounted to UAH 3 045 million (term deposits expressed in PLN as of the end of June 2016 amounted to PLN 488 million). Increase of the deposit value is the effect of credibility increase and the position of KREDOBANK SA on the Ukrainian banking market.
4. As at 30 June 2016 branch office network of KREDOBANK SA comprised the Central Branch in Lviv and 110 subordinated branches in 22 out of 24 Ukrainian districts. In the first half of 2016 location of the 4 subordinated branch was changed, 2 new branches were opened and two branches were closed.

*date according to IFRS/IAS utilised by PKO Bank Polski SA Group

Qualia Development Sp. z o.o. Group



1. Qualia Development Sp. z o.o. Group (ie. Qualia Development Sp. z o.o. and its subsidiaries) in the first half of 2016 generated net profit in the amount of PLN 6.3 million (the Group closed the first half of 2015 with net loss of PLN 9.7 million). The net profit for 2016 is primarily the effect of final completion of the project Royal Park in Warsaw and start of the passing of premises to clients.
2. In the first half of 2016 the Group was focused on:

- completion of the final stage of the Royal Park investment implemented as part of the Nowy Wilanów project in Warsaw, obtaining perpetual usufruct and handover of units to clients,
- completion of the fourth stage of the project Neptun Park in Gdańsk,
- running hospitality business on the basis of completed projects in Gdańsk and Międzyzdroje,
- conducting sales of investments realised in Międzyzdroje and Sopot, as well as investments in Warsaw (Nowy Wilanów - Royal Park) and Gdańsk (Neptun Park Stage IV),
- conducting sales process for selected properties or entities of the Qualia Development Sp. z o.o. Group.

4.4 Sponsorship, charity and promotional activities

Sponsorship activity

Sponsorship activities realized in the first half of 2016 are aimed at building the image of PKO Bank Polski SA as a trustworthy financial institution, open to the client needs and expectations, socially engaged in the development of the country and contributed to local societies. According to the plan of sponsorship activity the Bank focused especially on those projects that support development of Polish heritage, culture, art, broaden knowledge on history and national legacy, promote patriotic attitudes, adhere education, future challenges innovative projects, entrepreneurial orientation amongst the Polish youth and also encourage active and healthy lifestyle.

Culture and history

PKO Bank Polski SA engages in cooperation with the National Museum in Warsaw by taking patronage over Gallery of Medieval Art and "Brescia. Renaissance in northern Italy. Moretto-Savoldo-Moroni-Rafael-Tital-Lotto" temporary exhibition. Bank continues strategic relationship with the National Music Forum and supports The National Philharmonic in Warsaw, Warmia and Mazury Philharmonic in Olsztyn, Łódź Philharmony, Podlaska Opera and Philharmonic – European Art Center in Białystok, Podkarpacie Philharmonic in Rzeszów, Krakow Opera, Nova Opera in Bydgoszcz, Castle Opera in Szczecin and Polish Theatre in Warsaw. Bank also supports: Cinematography Museum in Łódź, Castle Museum in Pszczyna and Raczyński Library in Poznań.

Important direction in sponsorship is commemoration of distinguished figures and events in Polish history. Bank participated in: celebration of National Day of Cursed Soldiers, "The Unbroken Honor" and "Woolf footprint" concerts, an interactive history lesson about Cursed Soldiers were prepared, audiobooks with "Klamara – my father" novel were recorded. Bank contributes to the monument of Danuta "Inka" Siedzikówna in Miłomłyn. Other patriotic-historical projects are: 95th anniversary of Silesian Uprising concert, series of lectures titled "Thoughts of free Pole", "Polish Great Project" congress, support of "The battle of Wrocław" documentary movie and "Jesus Christ Superstar" concert due to 1050th anniversary of Christening of Poland.

Science and education

As a socially responsible company the Bank gets involved in the projects supporting science and education, promoting entrepreneurship and innovation amongst the Polish youth. In the first half of 2016 important educational cooperation were continued: School Online Stock Market Game and Contest of Knowledge on Poland and The Modern World. In cooperation with UW the Bank sponsored IT teams which were successful in the Academic World Championships in Team Programming. RED the Martial Crawler made by Białystok University of Technology was built thanks to Bank's continuous support. The Bank became involved as well in LSE SU Polish

Economic Forum, the biggest conference on Polish economy taking place abroad. PKO Bank Polski SA was diamond sponsor of: "Enactus Poland 2016" student content. For the third time Bank cooperated with Warsaw Banking School in Wrocław on the "My first business before my 20" project addressed to secondary school student from Wrocław and Opole. The Bank also became involved in series of educational workshops "Decius Ducats".

In the first half of 2016 Bank was involved in organization of 1st edition of the Acceleration Program in MIT Enterprise Forum Poland, program is aimed at promoting and supporting implementation of technological projects. At the same time Bank took up cooperation with Polish scientists at "Graphene Week 2016" conference organized by Warsaw University of Electronic Materials Technology. Bank became a strategic partner in organization of the 200th anniversary of University of Life Science in Warsaw.

As one of the leaders of the financial market in Poland, PKO Bank Polski SA participated in organization of congresses and conferences which enabled the exchange of experience and creative solutions between the business communities. The most important were: 6th European Financial Congress in Sopot, V SEG Congress of CFOs of Listed Companies, IMPACT'16 congress, 4th international sea congress, Wall Street 20 or "Cities on the Internet" conference. Bank sponsored 1st Polish Cyber-security Forum in Warsaw. The Bank supports also small events which are addressed to entrepreneurs and local authorities important to local communities.

Sports

PKO Bank Polski SA has been supporting important sports events for years. Under the „PKO Bank Polski – run together” program the Bank supports dozens of various running events in the whole Poland. The ones especially worth mentioning are: Constitution of May 3 Run, Half Marathon PKO Night Wrocław, PKO halfmarathon Poznań, PKO halfmarathon Rzeszów and Gdynia PKO Grand Prix Runs – Birthday Run with PKO Bank Polski, European Run with PKO Bank Polski, Świętojański Run with PKO Bank Polski. Besides running events the Bank also supported other prestigious sports events such as Dni Morza and Cavaliada – International Horse Jumping Competition series.

Promotional activity

Promotional activity realized during the first half of 2016 were meant to support sales of already existing banking products. Media communication were customized to different needs of every campaign. Additional support were leaflets and posters in banks branches and internal communication channels.

Bank carried out activities in 2 directions: sales and image-building. Sales activities included support to cash loans, IKO application and accounts which were mainly on TV and on the Internet. Image-building actions were supposed to show Banks products available for everyone – included among others family products campaign (deposit for start), Christmas wishes, withdrawal of "scratch cards" (authorization of online transactions).

At the turn of March and April Corporate Banking image campaign was performed, which included spot emissions in business profiled TV stations and press adverts. Campaign was based on already checked testimonials, co-created with partners which are corporate clients of the Bank.

In the first half of 2016, promotional activities of the subsidiaries of PKO Bank Polski SA were meant mainly for products and services promotion and focused on publications or advertising in press and e-media and on participation in industry events, including 6th Fund Forum Analiz Online and IZFiA Funds Forum.

In the first half of 2016, KREDOBANK SA supported many different cultural and scientific projects of Lviv, including among the others IV Lviv International Media Forum which following subject was to "Explain the world through the media" and became a partner of the world premiere of II cello concert with the orchestra of the Ukrainian composer Myroslav Skoryk. In April 2016 KREDOBANK SA joined Ukrainian Pact for youth – 2020 what is initiative of the leading Ukrainian companies in creating partnership between business and education sphere and the organization of internships and employments of young people.

Charity activity

The Bank's tasks concerning charity activities are carried out through PKO Bank Polski SA's Foundation. Foundation operates under the slogan 'Good brings profit' ('Dobro procentuje'). In the first half of 2016, the foundation was engaged in realization of 15 strategic projects, supported 104 local projects and aided 55 individuals. What is more, Foundation realized 3 own projects which are: Banking Honourable Blood Donation, Charity Running Events, The Bank Collections. The total cost of the projects was PLN 6 355.9 thousands. The

Foundation, realizing Strategic, Local and Individuals Projects, has awarded beneficiaries with grants within seven programme areas:

1. **24% - EDUCATION** (the support of education and alternative forms of education in Poland) – Support was given to 6 strategic and 12 local projects realised with such activities as: education in science, education in entrepreneurship and in building of social solidarity with kids and youths endangered with social exclusion (Strategic Partner – Siemacha, Jagiellonian Club, Foundation for Enterprise Technology, PTE and others).
2. **17% - TRADITION** (tradition cultivation, protection of the historical heritage, upbringing with a focus on patriotism) – Support was given to 5 strategic and 6 local projects, for i.a. educational-patriotic and journalistic projects to cultivate national and historical values and tasks carried out by young people acting on behalf of the country (The Polish Scouting and Guiding Association (ZHP), Foundation of Macte Animo, Redoubt of Good Name Foundation – Polish Anti-Defamation League and others).
3. **13% - HEALTH** (health care and health prophylactics) – mainly on Banking Honourable Blood Donation ('BHBD') conducted in 10 Polish cities. In the first stage of this year's BHDH almost 1000 people donated blood, including 111 employees of PKO Bank Polski SA. A total amount of blood collected is 440 litre. In the first half of 2016, 31 Charity Runs were organized for individuals, which were attended by 19 225 runners including 228 employees of the Bank. Foundation also individually supported 19 people.
4. **7% - HOPE** (social assistance, addressed in particular to disabled and harmed persons, and at the risk of exclusion) - support was given to 1 strategic and 65 local projects, mainly on the professional activation disabled people, on social assistance including giving extra meals to children at school as well as supporting children's house pupils. Among HOPE projects permanent help was set for four pupils (Integration Foundation and other).
5. **35% - CULTURE** (protection of cultural and art heritage and support of young, Polish artists work made pro bono) - Support was given to 2 strategic, 1 special and 9 local projects, i.a. promotion of young, Polish artists work and artistic projects as: shows, lectures, presentations. In the area of culture is being realized the project to promote young and talented Polish modern artists, whose art is presented during vernissages and exhibitions at the Bank (Polish Heritage Foundation and Archdiocese of Kraków, Towot SQUAT Foundation).
6. **3% - ECOLOGY** (undertaking social initiatives aimed at promoting knowledge in the field of environmental protection, in particular water reservoirs) - Support was given to 1 strategic and 3 local projects, Foundation cooperate with Ecological-Cultural Association - Klub Gaja within the 'Adopt a river' ('Zaadoptuj rzekę') project.
7. **1% - SPORT** (encouraging physical activity, especially children and youth, as well as disabled persons) – support of the building of recreational infrastructure in smaller towns.

According to the policies implemented by The Foundation, all local project have to be realized with the involvement of Volunteer- the employee of PKO Bank Polski SA or The Group. The volunteer who is in charge of the project gives aid for local society, is the final confirmation of the credibility of a potential beneficiary, contributes in building the relationship with local environment and supports the evaluation process of the project. As at 30 June 2016 there were 1249 volunteers.

Above these activities the Foundation is involved in making non-current donations as withdrawn IT or office equipment and PKO Bank Polski SA transfers funds from Visa PayWave 'Dobro Procentuje' for charity in 4 areas: EDUCATION, HOPE, ECOLOGY and HEALTH.

4.5 Prizes and awards received by the PKO Bank Polski SA Group Entities

In 2016, the PKO Bank Polski SA Group's entities received multiple awards, that confirm that the brand of PKO Bank Polski SA Group is being appreciated by customers as well professionals:

Products and services	
Złoty Bankier of 2015	In the seventh edition of the ranking of the Złoty Bankier PKO Bank Polski SA won the award in the mortgage category for housing loan 'Własny Kąt Hipoteczny'. It has been praised for its access to financing also in the case of low own contribution, as well as the conditions for early repayment and promotional reducing the margin in the first year of the contract.

	<p>Złoty Bankier is the highest ranking assessed banking services and products in Poland. For seven years the Bank determine the direction for Polish banking indicating the best offer on the market. The organizers of the ranking are: Bankier.pl and the 'Puls Biznesu'.</p>
eDukat 2016 for contactless payments HCE	<p>The jury eDukaty 2016 4th International Congress of Non-cash Payments awarded the PKO Bank Polski SA in the category: Event of the year of the non-cash world for implementing contactless payments to mobile application HCE IKO. The recognition gained scale, on which users of IKO use this method of transaction and benefit from the convenience and safety solutions. eDukat symbolizes the evolution of money to its electronic form.</p>
Ergonomics of electronic channels ranking	<p>PKO Bank Polski SA was announced the winner of the ergonomics of electronic channels ranking and awarded for the best mobile application. Throughout the audit done by „Puls Biznesu” and Bankier.pl very high notes were given to PKO Bank Polski SA electronic channels - IKO i iPKO. Regarding ergonomics, comfort and usability of the main processes with the result of 71,9 points PKO Bank Polski SA has outdistanced its competitors by nearly 10 points. Mobile application IKO was recognised as the best one on the market.</p>
Comperia Stars statuette for 'WŁASNY KĄT hipoteczny'	<p>The offer 'WŁASNY KĄT hipoteczny' took the winning position in the mortgage loan ranking prepared by editors of Comperia.pl – online tool to compare financial products available on the market. Comperia Stars is a new project of Comperia.pl, which aim is to frequently award financial institutions offering the best products on the market – winners of the online comparison tool ranking.</p>
PKO Bank Polski SA the best bank for individual customer	<p>In the contest 'Wprost' Portfolio the Bank became the winner in one of the main categories - „Bank for individual customer”. The leader's position was ensured by modern and transparent product offer, tailored to meet customers' needs. The purpose of the contest 'Wprost' Portfolio is to promote financial institutions with the most attractive offer, new financial products and services on the market as well as to honour leaders of the sector.</p>
Brokerage activity	
Bulls and Bears	<p>The Brokerage House of PKO Bank Polski SA has won the title of 'Brokerage House of the Year' in the 22nd edition organized by the newspaper 'Parkiet' in the Bulls and Bears competition. The purpose is to honour companies, institutions and people who have most distinguished themselves in the capital market contributing to its development. Last year, the Brokerage House was the most active on the stock market and bonds. It was the leader in terms of number and value of transactions carried out on the capital market. Offer for individual customers expanded to include modern and comfortable tool to invest in foreign markets.</p>
Financial results	
50 largest banks in Poland	<p>PKO Bank Polski SA won, in another consecutive year, the ranking of the Financial Monthly BANK - "50 largest banks in Poland." The Bank was the best in terms of total assets, which last year amounted to nearly PLN 267 billion. In this year's 21st edition of the ranking the Bank got a prize in the category Consumer Finance. Moreover, Adam Marciniak, the Director of the Development and Maintenance Application Division, was honoured with the title of „Banking Market Innovator 2015”. The ranking is prepared by independent market analysts based on financial data of banks for the previous year.</p>
Ranking of Corporate Income Tax Payers	<p>PKO Bank Polski SA was placed in the ranking of the biggest stock market CIT payers published by the stock market magazine „Parkiet”. Every year the Bank provides state budget with hundreds of millions polish zloty as tax payments. In the past year the Bank has paid nearly PLN 600 million corporate income tax and took the fourth position in the ranking. The purpose of the ranking is to honour companies listed on Warsaw Stock Exchange and inject the largest tax payments to the budget.</p>

200 Greatest Polish Firms 2015	PKO Bank Polski SA was awarded in the second edition of the Weekly „Wprost” ranking of 200 the greatest polish firms. Position in the ranking was determined by sales revenue induced in the previous year. With the revenue amounting to circa PLN 15 billion PKO Bank Polski SA was the 1 st amongst banks in the ranking and preserved last year's 8th position in the whole ranking.
Brand	
Trustworthy Brand	PKO Bank Polski SA was given the title of „Trustworthy Brand 2016” in the category of loans and advances for enterprises in the ranking of the Monthly „My Company Polska” created by the research institute Millward Brown.
Lamparty 2016	PKO Bank Polski SA was awarded with „Lampart 2016” statuette with the contest for most admired development of banking and insurance branding. It gained appreciation for brand image rejuvenation, consistence and coherent marketing message. In this year's edition the Bank took the 3 rd place. The main idea behind award from Polish research agency TNS is to distinguish those banks and insurance agencies, which most effectively developed their brand during the given year. Winners are selected in TNS Polska survey among the representatives of the banking and insurance industry.
Stars of Banking 2016	In the second edition of 'Stars of Banking' ranking created by Dziennik Gazeta Prawna PKO Bank Polski SA was awarded with the second place prize for business structure standing out in terms of loans and deposits. The ranking was evaluating development pace, profitability and efficiency as well and business structure and levels of innovation. Ranking methodology was developed in collaboration with PwC Advisory Poland.
PKO Bank Polski SA, one of the most recognizable and active brands	The Bank was awarded the prize 'Global Poland' in the category 'Polish brand with a tradition that still have a strong tradition.' The aim of the competition was to honour the most recognizable and active in foreign markets Polish brands. Plebiscite 'Global Poland' is this year's initiative of monthly management magazine 'Manager'.
Employer	
PKO Bank Polski SA, the Ideal Employer	In the 8th edition of students' ranking of the most desirable polish employees Trendence Graduate Barometer 2016 PKO Bank Polski SA took the 4th position in the category <i>Business</i> improving previous year's position. The Bank was only outwent by such international giants as Google, Apple and the National Bank of Poland. The position in TOP 100 trendence Graduate Barometer ranking is determined by students' choice who pick the most wanted employees. In this year's polish edition there was over 20 thousand students voting from 53 universities, mostly providing business, technical and IT studies.
PKO Bank Polski SA, Reliable Employer of 2015	PKO Bank Polski SA was awarded in the XIII edition of the national contest organized within the framework of the Program of Reliable Employer of the 2015 for effective personnel policy of the Bank, which is reflected in the quality of our products and services. Especially appreciated was the modernization of the structure of HR in a large and stable organization in a manner corresponding to the latest global trends and implement a human capital management system SAP. PKO Bank Polski SA was also recognized for actions in the field of CSR: linking business goals with social commitment. The Company was the only financial institution which received two awards.
Other	
Szpalty Roku	PKO Bank Polski SA won three awards in Power of Content Marketing Awards “Szpalty Roku” competition. Golden statuette was awarded in the category of Content marketing – finance and insurance for unique Bankowiki project, interactive economic glossary. Jury paid special attention to the uniqueness of the project, its unique formula, professional preparation and unobstructive form of presentation. In the same category, the Bank received the “Brązową Szpalta” for PR campaign and promotion of money saving philosophy, lead under “Save for your longest holidays in a

	lifetime" slogan. Once again Bankomiana portal was appreciated and awarded with „Brązowa Szpalta” in 'The thematic portal for customers' category.
Leader of 2015	Implemented by PKO Bank Polski SA IT solution adjusting to the Bank requirements of EU Regulation EMIR won in the category 'Banking and Finance' in the 'Gazeta Bankowa' competition. The aim of this comprehensive software is to reduce credit and operational risk in derivatives market. The Leader 2015 competition identifies companies and financial institutions, which are distinguished by special achievements in the field of modern and innovative technologies
The title of Ethical Company of 2015 for PKO Bank Polski SA	PKO Bank Polski SA in the second edition of the 'Ethical Company' was awarded for responsibility and organizational culture. This distinction is granted to companies that comprehensively and systematically carry out activities to build and enhance an organizational culture based on ethics and values in the most comprehensive and systemic way, showing the highest activity in this area compared to other companies in Poland. The competition is organized by 'Puls Biznesu' with substantial support of PwC Poland, responsible for controlling the audit of processes and procedures of participants.
Odpowiadam Polsce	The journalists of 'Gazeta Bankowa' distinguished PKO Bank Polski SA in the Ranking of Socially Responsible Companies 'Odpowiadam Polsce' in Health and Society for popularizing the idea of blood donation as part of the Bank since 2009. Banking shares Honorary Blood Donation. The 'Odpowiadam Polsce' Ranking is a new initiative, in which the jury distinguished projects that support the development of the country. For the jury also the scale of commitment was important - in the winning projects employees of the winning companies were actively involved.
The Bank recognized for the highest safety standards	PKO Bank Polski SA was awarded in the competition BIG DATA: Think Big CEE in the category of Solution of the Year, for raising the level of security in cyberspace and minimizing the risks to which consumers may be exposed on the network. This is the result of the bank participation in the Microsoft Enterprise Customers Cyber Threat Intelligence Program (ECCTIP). PKO Bank Polski SA was the first bank in Europe to begin working with Microsoft on the program ECCTIP. Its aim is to raise the level of security in cyberspace through the exchange of information on potential risks.
PKO Bank Polski SA, Partner of the Year 2015	The contest jury of 11 th Electronic Economy Convention organised under the auspices of The Polish Bank Association, chosen PKO Bank Polski SA as the Partner of the Year 2015. The victory was earned with the Bank's involvement and contribution to the sector's integration around digital economy, support for innovative solutions enabling access to important services and benefits improving comfort of everyday life of millions of Polish citizens.
Awards granted to other entities of the Group	
Forbes funds rating	Five sub-funds managed by PKO Towarzystwo Funduszy Inwestycyjnych SA found themselves in the group funds evaluated in the rating – PKO Akcji Małych i Średnich Spółek (1st place out of 53 funds rated in the group of shares funds of small and medium companies), PKO Zrównoważony (4 th place out of 32 rated in the group of balanced funds), PKO Akcji Plus (5 th place out of 53 funds rated in the group of stock funds), PKO Stabilnego Wzrostu (5 th place out of 32 rated in the group of stable growth funds), PKO Strategicznej Alokacji (15 th place out of 32 rated in the group of balanced funds).
'ALFA 2015'	Three sub-funds managed by PKO Towarzystwo Funduszy Inwestycyjnych SA were distinguished with special mentions in the 'ALFA 2015' including: PKO Akcji Małych i Średnich Spółek in category of polish small and medium companies fund, PKO Akcji Nowa Europa in category of New Europe shares fund and PKO Strategicznej Alokacji in category of active allocation funds. Awards and special mentions for the best funds are being given by the independent research body Analizy Online. Each of the funds was evaluated in terms of efficiency, repeatability of results and levels of costs.



KREDOBANK SA, reliable Bank	KREDOBANK SA took a second place in the ranking of Ukrainian banks taking into consideration the reliability and stability of the largest and large Ukrainian banks, organized among tohers by the magazine 'Hroshi' and the magazine 'Własny Rachunek', and third place in the reliability ranking of bank deposits prepared by the agency 'Standard-rating'.
50 Ukraine's leading banks – car loans	KREDOBANK SA took second place in „car loans” category in the annual survey Ukraine's „50 leading banks” conducted by „Financial Club”.

5. Organisation of the PKO Bank Polski SA Group

5.1 Entities comprising the PKO Bank Polski SA Group

As at 30 June 2016, the PKO Bank Polski SA Group consisted of the PKO Bank Polski SA, as the parent company and 47 direct and indirect subsidiaries.

Table 23. Entities comprising the PKO Bank Polski SA Group

No	Name of entity	Head Office	Range of activity	Share in equity (%)
Parent company				
1	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna			
Direct subsidiaries				
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment funds management	100.00
3	PKO BP BANKOWY PTE SA	Warsaw	pension funds management	100.00
4	PKO Leasing SA	Łódź	leasing services	100.00
5	PKO BP Finat Sp. z o.o.	Warsaw	services, including transfer agent services and outsourcing of IT specialists	100.00
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	life insurance	100.00
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	other personal and property insurance	100.00
8	PKO Bank Hipoteczny SA	Gdynia	banking activities	100.00
9	PKO Finance AB	Stockholm, Sweden	financial services	100.00
10	KREDOBANK SA	Lviv, Ukraine	banking activities	99.6293
11	„Inter-Risk Ukraina” Spółka z dodatkową odpowiedzialnością	Kiev, Ukraine	debt collection services	100.00
12	Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o. ¹	Kiev, Ukraine	financial services	95.4676
13	Qualia Development Sp. z o.o.	Warsaw	real estate development	100.00
14	Merkury - fiz an ²	Warsaw	placement of funds collected from fund members	100.00
15	NEPTUN - fizan ²	Warsaw	placement of funds collected from fund members	100.00
Subsidiaries of PKO Leasing SA				
16	PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing services	100.00
17	PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100.00
18	PKO BP Faktoring SA	Warsaw	factoring services	100.00
Subsidiaries of PKO Życie Towarzystwo Ubezpieczeń SA				
19	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	services	100.00
Subsidiaries of KREDOBANK SA				
20	Finansowa Kompania „Idea Kapital” Sp. z o.o.	Lviv, Ukraine	financial services	100.00
Subsidiaries of Qualia Development Sp. z o.o.³				
21	Qualia 3 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 3 spółka z ograniczoną odpowiedzialnością -- Neptun Park Sp. k.	100.00
22	Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975
23	Qualia 2 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp.k.	100.00
24	Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp. k.	Warsaw	real estate development	99.9750
25	Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of other entities of the Qualia Development Group	100.00
26	Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	real estate development	99.9902
27	Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw		99.9770
28	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw		99.9123
29	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw		50.00
30	Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	Warsaw		50.00
31	Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00
32	Qualia - Residence Sp. z o.o.	Warsaw		100.00
33	Sarnia Dolina Sp. z o.o.	Warsaw		100.00
34	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00
35	„Fort Mokotów Inwestycje” Sp. z o.o. ⁴	Warsaw	real estate development	99.9987
36	FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	in liquidation	51.00
Subsidiaries of Merkury - fiz an				
37	„Zarząd Majątkiem Górczewska” Sp. z o.o.	Warsaw	real estate management	100.00
38	Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00
39	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw		100.00
40	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw		100.00
41	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchase and sale of real estate for own account,	100.00
42	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	real estate management	100.00
43	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw		100.00
44	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw		100.00
Subsidiaries of NEPTUN - fizan (directly and indirectly)				
45	Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100.00
46	„CENTRUM HAFNERA” Sp. z o.o.	Sopot	subsidiaries' real estate management	72.9766
47	„Sopot Zdrój” Sp. z o.o.	Sopot	real estate management	100.00
48	„Promenada Sopocka” Sp. z o.o.	Sopot	rental services and real estate management	100.00

1) The other shareholder of the company is 'Inter-Risk Ukraina' Sp.z o.o.

2) The Bank owns investment certificates of the Fund, which allows, according to IFSR, to control the Fund; as 'share in equity' the Bank presents shares of held investment certificates.

3) In limited partnership companies in Qualia Development Group as 'share in equity' the Bank presents share of partner - Qualia Development Sp. z o.o. as value of contributions.

4) The other shareholder of the company is Qualia Sp. z o.o.

All the above entities are fully consolidated in the financial statements of PKO Bank Polski SA.

Table 24. Other subordinated entities included in the consolidated financial statements

No	Name of entity	Head Office	Range of activity	Share in Equity (%)	Consolidation Method*
Join ventures of PKO Bank Polski SA					
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	activities supporting financial services, including servicing transactions made by using payment instruments	34.00	equity method
Join ventures of NEPTUN - fizan					
2	„Centrum Obsługi Biznesu” Sp. z o.o.	Poznań	hotel management	41.44	equity method
Associates of PKO Bank Polski SA					
3	Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	equity method
4	„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	Poznań	guarantees	33.33	equity method
5	FERRUM SA	Katowice	production of welded steel pipes, production of structural hollow section and delivering coating services	22.14	equity method
Subsidiaries of Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.					
6	EVO Payments International Sp. z o.o.	Warsaw	activities supporting financial services	100.00	full
7	EVO Payments International s.r.o.	Prague, Czech Republic	activities supporting financial services	100.00	full
Subsidiaries of Bank Pocztowy SA					
8	Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	full
9	Spółka Dystrybucyjna Banku Poczтового Sp. z o.o.	Warsaw	intermediary financial services	100.00	full
Subsidiaries of FERRUM SA					
10	Zakład Konstrukcji Spawanych FERRUM SA	Katowice	production of steel structures and their parts	100.00	full
11	FERRUM MARKETING Sp. z o.o.	Katowice	marketing services	100.00	full

* Recognition in consolidation in financial statement of direct parent

5.2 Changes to the organization of subsidiaries

Detailed information regarding changes in shares in equity of subsidiaries in the first half of 2016 was presented in note 42 ‘Changes to the entities of the Group’ of the condensed interim financial statements of PKO Bank Polski SA for the six months ended 30 June 2016

5.3 Related party transactions

In the first half of 2016 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 in investment funds, lease products, factoring products and insurance products offered by the PKO Bank Polski SA Group entities. Simultaneously PKO Bank Polski SA provided for PKO Bank Hipoteczny SA services of brokering the sales of mortgage loans to individuals, providing post sales service activities to these loans and support activities within an outsourcing agreement. PKO Bank Hipoteczny SA rented office space to selected entities of Banks Group and along with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. 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 30 June 2016, was presented in notes 38, 39 and 40 of the Condensed interim financial statements of PKO Bank Polski SA for the six months ended 30 June 2016.

6. Risk management

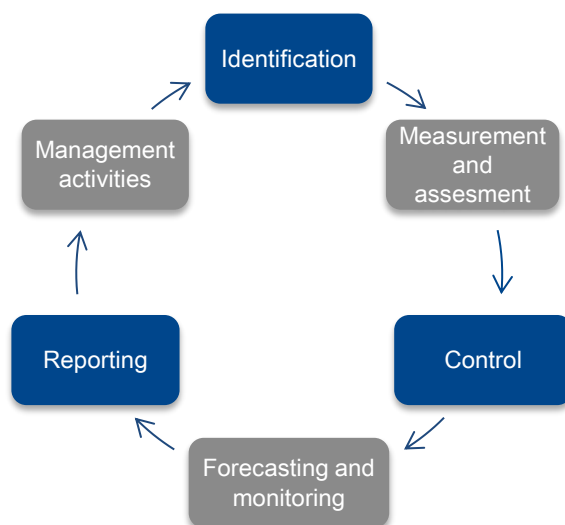
6.1 Principles of risk management

Risk management is one the most important internal processes both in PKO Bank Polski SA and in other entities of the PKO Bank Polski SA Group. Risk management aims at ensuring profitability of business activity, while ensuring control of risk level and maintaining it within risk appetite and system of limits adopted by the Bank, in the changing legal and macroeconomic environment. The level of the risks is an important component of the planning process.

In the PKO Bank Polski SA Group, the following types of banking risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk (including financing risk), commodity price risk, price risk of equity securities, derivative instruments risk, operational risk, compliance risk, risk of macroeconomic changes, model risk, business risk (including strategic risk), reputation risk, capital risk, leverage

and insurance risk. In the first half of 2016 risk index was extended by foreign currency mortgage loans for households

Risk management process presents scheme below:



Risk management in the Group is based especially on the following principles:

- Group manages all of the identified types of risk,
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and verified and validated on a periodical basis,
- the area of risk and debt recovery remains organisationally independent from business activities,
- risk management is integrated with the planning and controlling systems,
- the risk level is monitored on a current basis,
- the risk management process supports the implementation of the Group's strategy in keeping with the risk management strategy, in particular with regard to the level of tolerance of the risk.

The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank as well as of the PKO Bank Polski SA Group and the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for the risk management, including supervising and monitoring of activities taken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting the risk level of the Bank and enacts internal regulations regarding the risk management.

The risk management process is carried out in three, mutually independent lines of defence:

- the first line of defence, which is mainly the risk management has set limits based on Banks internal regulations with implemented control mechanisms, internal control and compliance of the activities with the generally applicable laws, Banks internal regulations and market standards accepted by the Bank,
- the second line of defence, which is mainly measurement or evaluation, controlling, monitoring and reporting of significant risks for Bank determining rules, methods, tools and risk management mode and also measurement of operating effectiveness,
- the third line of defence is an internal audit.

The independence of the lines of defence consists of preserving organisational independence in the following areas:

- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence,
- the function of the third line of defence is independent of the functions of the first and second lines of defence,
- the function of managing the compliance risk reports directly to the President of the Management Board.

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank sets out and approves development strategies of the entities, including the level of the risk. The Bank also supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk of the particular entities in the risk reporting and risk monitoring system of the entire Group.

The internal management regulations of certain types of risk in the Group entities are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued by the Bank. The internal regulations of the entities concerning risk management are introduced based on consistency principle and comparable assessment of particular types of risk within the Bank and Group entities, including the scope and nature of the link entities included in the Group, the specificity and scale of the entity's activity and the market on which it operates.

The top priority of the PKO Bank Polski SA Group is to maintain its strong capital position and to increase of its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control and appropriate risk assessment.

In the Group in the first half of 2016 following actions were taken:

- On ordinary general meeting of PKO Bank Polski SA shareholders on 30 June 2016 the decision for dividend distribution from profit generated in 2015 and retained profit from previous was taken. Dividend can be distributed if until 8 December 2016 (included) bank will not take control over other Bank or other entity of financial sector, and there will be no regulatory or supervisory recommendation affecting the requirements for the Bank's own funds, which – due to capital adequacy ratios in the financial statement for III quarter of 2016 – would resulted in impossibility to distribute a dividend in line with regulatory requirements and supervisory recommendations,
- PKO Bank Hipoteczny SA issued two mortgage bounds in total amount of PLN 500 million each with changeable interest rate with added margin. Maturity of mortgage bounds were set for 5 years and one day,
- in the first half of 2016, short-term bonds were rolled with a current maturity of six months in the amount of PLN 800 million and issued additional PLN 200 million of these securities,
- in the first half of 2016 a one-year maturity bonds were issued at amount of EUR 200 million.

In the first half of 2016 PKO Bank Polski SA and PKO Bank Hipoteczny SA continued works on adjusting to Recommendation W of Polish Financial Supervisory Authority on the model risk management of banks. All adjustment actions have been completed within expected date i.e. 30 June 2016.

External regulations and factors are constantly monitored. The Bank continues to monitor emerging legislative concerning aid for loan takers who took loans in foreign currency, analysing their impact on the Banks situation and its customers. In the IV quarter of 2015 and I quarter of 2016, Bank was involved in analysis ordered by Polish Financial Supervisory Authority which examined the impact of entry into force of the presidential act draft 'on restoring equality in certain credit and loan agreements'.

PKO Bank Polski SA as the only Polish bank took part in another edition of EBA European-wide Stress Tests. These test is supposed to give supervisory units and participants' coherent data on Banks resistance to unfavourable conditions on the market in common methodology prepared by EBA. Test results proved high resistance of PKO Bank Polski as well as to negative macroeconomic scenarios. In the shock scenario the Bank noted slight decline of CET1 ratio, only by 1.9 p.p., which places the Bank fourth among 51 European banks which took part in the research.

What is more, in the first half of 2016, the Bank implemented rules for the performance of reverse stress tests for every single Banks risk. Reverse stress tests rely on formulating potential, negative scenarios for the Bank and than finding events which affect their materialization.

The Group counter reacts to the incidents due to cyber crime in the financial sector, which could affect losses for the Group and its customers and has undertaken a number of initiatives both inside the Bank and in the sector by collaboration with IT companies.

6.2 Credit risk

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

The objective of credit risk management is to reduce losses on the credit portfolio as well as to minimise the risk of occurrence of loan exposures threatened with impairment, while keeping expected level of profitability and value of credit portfolio at the same time.

Identification and risk assesment

The Bank and subsidiaries of the Group applies mainly the following principles of credit risk management:

- the credit transaction requires complex risk assessment, which results in internal rating or scoring,
- credit risk assessment related to loan transactions is measured on the stage of loan request review and on a cyclical basis during the monitoring process, taking into consideration changes in external conditions and in the financial standing of the borrowers,
- credit risk assessment of exposures is separated from sales function by proper organizational structure, independent development and validation of tools supporting the assessment of credit risk and independence of accepting person of deviations from this tools,
- terms of loan contracts that are offered to a client depend on the credit risk level generated by the contract,
- loan granting decisions are made only by the authorised persons,
- credit risk is diversified particularly by geographical location, by industry, by product and by clients,
- expected credit risk level is mitigated by collaterals received by the Bank, credit margins collected from clients and impairment allowances on loan exposures.

The above mentioned policies are executed by the Bank through the use of more advanced credit risk management methods, both on the level of individual exposures and on the level of the whole credit portfolio of the Bank.

These methods are developed to ensure compliance with the internal rating based method (IRB) requirements, i.e. advanced credit risk measurement method, which can be used while calculating capital requirements for credit risk after being approved by the Polish Financial Supervision Authority.

The Bank assesses the credit risk of retail clients on two dimensions: the client's borrowing capacity and creditworthiness. The assessment of borrowing capacity involves an examination of the client's financial situation, whereas the creditworthiness assessment involves scoring and evaluating the client's credit history obtained from internal records of the Bank and external databases.

The evaluation of credit risk related to financing institutional clients is performed in two dimensions: in respect of the client and of the transaction. The assessment measures comprise ratings of clients and transactions.

The models were prepared using internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and the

customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The client's risk assessment depends on the size of the enterprise for which analysis is made. In addition, the Bank has implemented a model for assessment of credited entrepreneurs in the formula of specialist financing, which allows adequate 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 and scoring models are implemented in an IT tool that supports the Bank's credit risk assessment related to financing corporate clients.

Risk monitoring and reporting

In order to assess the correctness of functioning of methods used in the Bank, methodologies of assessment of credit risk related to individual credit exposures, are reviewed on a periodical basis.

In case of small and medium enterprises that meet certain criteria, the Bank assesses credit risk using the scoring method. This assessment is dedicated to low-value, uncomplicated loan transactions and it is performed in two dimensions: clients' borrowing capacity and creditworthiness. The borrowing capacity assessment involves examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external databases.

The information about ratings and scoring is widely used in the Bank for the purposes of credit risk management, in particular in the system of credit decision-making and in the credit risk assessment and reporting system.

The Bank implements a number of improvements in respect of the ongoing portfolio monitoring regarding to small and medium enterprises, corporate and investment segment, which allows for faster response to changes in the existing portfolio of the Bank and complex information of its quality.

Since 2015 assessment process of non-residents (German entities) is in progress that includes entities which keeps their books in accordance with HBG (HandelGesetzBuch).

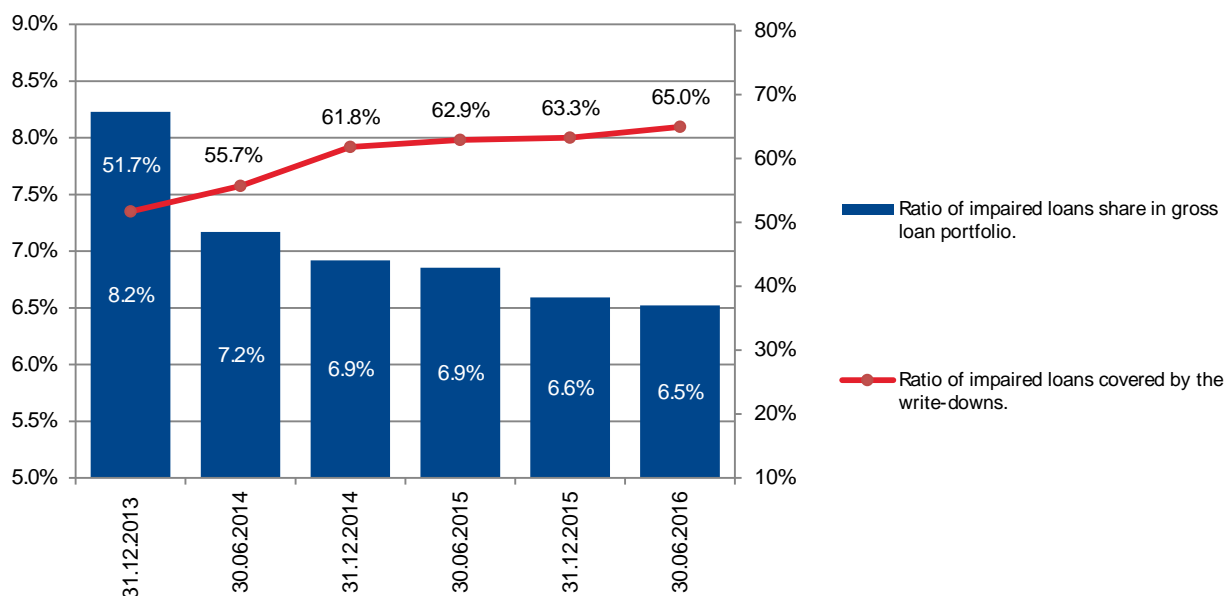
Table 25. The structure of loan portfolio and impairment allowances of the PKO Bank Polski SA Group (in PLN million)

	30.06.2016	31.12.2015	Change (PLN million)	Change (%)
Loans and advances to customer:				
Assessed on an individual basis, of which:	8 202.5	7 549.6	652.8	8.6%
impaired	5 261.2	5 412.8	(151.6)	-2.8%
not impaired	2 941.3	2 136.9	804.4	37.6%
Assessed on a portfolio basis, of which:	7 784.6	7 688.1	96.4	1.3%
impaired	7 784.6	7 688.1	96.4	1.3%
Assessed on a group basis (IBNR)	184 005.0	183 463.1	541.9	0.3%
Loans and advances to customers, gross	199 992.0	198 700.9	1 291.1	0.6%
Impairment allowances on exposures assessed on an individual basis, of which:	(2 783.2)	(2 895.9)	112.6	-3.9%
impaired	(2 771.5)	(2 882.4)	110.9	-3.8%
Impairment allowances on exposures assessed on a portfolio basis	(5 118.4)	(4 822.2)	(296.2)	6.1%
Impairment allowances on exposures assessed on a group basis (IBNR)	(575.1)	(569.2)	(5.9)	1.0%
Impairment allowance - total	(8 476.7)	(8 287.2)	(189.5)	2.3%
Loans and advances to customers, net	191 515.4	190 413.7	1 101.7	0.6%

In the first half of 2016, the gross value of loans granted by the Group and assessed on the individual basis increased by PLN 652.8 million, those assessed on the portfolio basis increased by PLN 96.4 million, and those assessed on the group basis increased by PLN 541.9 million.

The participation ratio of impaired loans and coverage ratio are shown in scheme below:

Chart 3. The share of impaired loans and advances in the PKO Bank Polski SA Group and the coverage ratio to total allowances



The share of impaired loans and advances in the PKO Bank Polski SA Group's gross loan portfolio as at 30 June 2016 amounted to 6.5% and in comparison to 31 December 2015 increased by 0.1 p.p.

The coverage ratio of impaired loans for the PKO Bank Polski SA Group as at 30 June 2016 amounted to 65.0% in comparison to 63.3% as at 31 December 2015.

The Group entities, which have significant credit risk levels (the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA, Finansowa Kompania "Prywatne Instytucje" Sp. z o.o.) manage their credit risk individually, but the methods used by them for credit risk assessment and measurement are adjusted to the methods used by PKO Bank Polski SA, taking into account the specific nature of the activities. Any changes to the solutions used by the Group's subsidiaries are agreed each time with the Bank's units responsible for risk management.

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

The process of credit decision-making at the KREDOBANK SA Group, the PKO Leasing SA Group and BKO Bank Hipoteczny SA is supported by credit committees, which are activated in case of transactions which generate increased credit risk.

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

6.3 Interest rate risk

The interest rate risk is the risk of incurring losses on items of statement of financial position and off-balance sheet sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

The objective of interest rate risk management is to mitigate potential losses arising from market interest rate changes to an acceptable level by appropriate adjusting of the structure of statement of financial position and off-balance sheet items.

In the process of interest rate risk management, the Group uses in particular the Value at Risk (VaR) model, interest income sensitivity measure, measure of price sensitivity, stress-testing and the repricing gap.

The Group established limits and thresholds for interest rate risk comprising i.a.: price sensitivity, interest income sensitivity, limits and threshold for losses and limits on instruments sensitive to interest rate fluctuations.

Methods of interest rate risk management in the Group's subsidiaries are defined by internal regulations implemented by those entities which are characterised by significant values of interest rate risk measure outcomes. These regulations are developed after consultation with the parent company and taking into account recommendations issued to the entities by the Bank.

The PKO Bank Polski SA Group's exposure to interest rate risk as at 30 June 2016 and 31 December 2015 consisted mainly of PKO Bank Polski SA exposure. Interest rate risk for USD was changed significantly by the exposure of the Group entities, in which the most significant exposure concerned KREDOBANK SA Group. This exposure, as well as other exposures in other Group entities, does not impact the risk profile of the entire Group.

Table 26. VaR of PKO bank Polski SA and stress-tests analysis of the Group's exposure to the interest rate risk (in PLN thousand)

Name of sensitivity measure	30.06.2016	31.12.2015
VaR for a 10-day time horizon*	269 380	271 674
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	2 016 124	2 013 781

* Due to the nature of the activities carried out by other Group entities generating significant interest rate risk and the specific nature of the market in 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 10-day interest rate VaR and the value of VaR indicator for KREDOBANK SA amounted to approximately PLN 11 435 thousand as at 30 June 2016, and PLN 11 468 thousand at 31 December 2015.

** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves by 200 p.b. up and by 200 p.b. down.

As at 30 June 2016, PKO Bank Polski SA interest rate Value at Risk for a 10-day time horizon (VaR) amounted to PLN 269 380 thousand, which accounted for approximately 0.95% of the Bank's own funds. As at 31 December 2015, the Bank's VaR amounted to PLN 271 674 thousand which accounted for approximately 1.00% of the value of the Bank's own funds (own funds calculated in accordance with regulations governing calculation of the capital adequacy ratio).

6.4 Currency risk

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.

The objective of currency risk management is to mitigate the risk of incurring losses arising from exchange rate fluctuations to an acceptable level by respective shaping of the structure of statement of financial position and off-balance sheet items.

The Bank measures currency risk using the Value at Risk (VaR) model and stress-tests.

The Group has set limits and threshold values for currency risk for i.a.: currency positions, Value at Risk calculated for a 10-day time horizon and daily loss from transactions on currency market.

Methods of currency risk management in the Group's subsidiaries are defined by internal regulations implemented by the entities, which are characterised by the significant values of currency risk measures. These regulations are prepared after consultation and include recommendations issued to the entities by the parent company.

Table 27. *Var of PKO Bank Polski SA and stress-tests analysis of the Group's exposure to the currency risk. Cumulatively for all currencies (in PLN thousand)*

Name of sensitivity measure	30.06.2016	31.12.2015
VaR for a 10-day time horizon*	18 827	25 384
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)**	12 134	1 941

* Due to the nature of the activities carried out by other Group entities generating significant interest rate risk and the specific nature of the market in 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 10-day interest rate VaR and the value of VaR indicator for KREDOBANK SA amounted to approximately PLN 1 490 thousand as at 30 June 2016, and PLN 4 570 thousand as at 30 December 2015.

** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

Table 28. *The Group's currency position for particular currencies (in PLN thousand)*

Currency	Currency position as at 30.06.2016	Currency position as at 31.12.2015
EUR	(217 964)	94 134
USD	(3 842)	(87 336)
CHF	(41 866)	(72 465)
GBP	(319)	(1 798)
Other (Global Net)	189 354	171 137

6.5 Liquidity risk

The liquidity risk is defined as the lack of possibility to pay the debts on time due to the lack of liquid assets. Lack of liquidity may arise from inappropriate structure of statement of financial position, misfit of cash flows, not received payments from counterparties, sudden withdrawal of cash by clients or other market events.

The objective of liquidity risk management is to ensure the necessary level of funds to pay present and future debts (also potential) on time, taking into account the nature of performed activities and requirements which may occur due to changes in market environment by appropriate form of statement of financial position and off-balance sheet liabilities structure.

The Group's policy concerning liquidity is based on keeping portfolio of liquid securities and increasing stable sources of financing (in particular stable deposit base). In liquidity risk management, money market instruments including NBP open market operations are also used.

To ensure an adequate liquidity level, the Bank and subsidiaries of the PKO Bank Polski SA Group have accepted limits and thresholds for liquidity risk. The limits and thresholds were set for short-, medium- and long-term liquidity measures.

Methods of liquidity risk management in subsidiaries of the Group are defined by internal regulations implemented by the entities which are characterised by the significant value of liquidity risk measures. These regulations are prepared after consultation and include recommendations issued to the entities by the parent company.

The table below presents the Bank's liquidity reserve as at 30 June 2016 and as at 31 December 2015.

Table 29. Liquidity reserve of Bank (in PLN million)

	30.06.2016	31.12.2015
Liquidity reserve up to 1 month* (in PLN million)	29 770	30 186

* Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 30 June 2016 the minimum level of excess liquidity in 30 day horizon was PLN 15 051 million. Measure of excess liquidity determines the ability to cover the Bank's liquidity needs in assumed survival period with defined stress scenarios.

In the first half of 2016 the Bank continued adoption works on the requirements specified by the FSA, among others in the Recommendation P of Polish Financial Supervision Authority – they concerned:

- implementation of limit which secures inter-day liquidity
- implementation of limit which reduce financing source concentration
- taking into consideration in scenarios emergency plan of deposit rate influence available through electronic channels.

6.6 Commodity price risk

Commodity price risk is the risk of incurring a loss due to changes in commodity prices, which is generated by maintaining open positions on particular types of goods.

The objective of commodity price risk management is to reduce potential losses resulting from changes in commodity prices to the acceptable level by forming the structure of statement of financial position and off-balance sheet commodity items.

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.

6.7 Equity securities price risk

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 index, 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 trading activities (the Brokerage House of PKO Bank Polski SA), investing activities and from other operations as part of banking activities generating a position in equity securities.

Managing the equity securities price risk is aimed at limiting possible losses due to changes in the prices of equity securities on the public market or stock exchange index to the acceptable level acceptable for the Bank, by optimising taken positions instruments sensitive to changes in these market parameters. Risk management of equity securities prices is carried out by imposing limits on the activity of the Brokerage House and banking portfolio. Monitoring their utilisation and reporting its level of risk

An influence of the price risk of equity securities on the financial position of the Bank was assessed as immaterial. The positions taken in equity securities and index instruments are limited, and are not expected to increase significantly.

6.8 Derivative instruments risk

The risk of derivative instruments is a risk arising from taking up a position in financial instruments, which fulfill all of the following conditions:

- the value of an instrument changes with the change of the underlying instrument,
- it does not require any initial net investment or requires only a small initial net investment compared with other types of contracts which similarly respond to changes in market terms
- it is to be settled at a future date.

The process of derivative risk management is integrated with risk management of: interest rate, currency, liquidity and credit risks. However, due to the specific nature of derivatives it is subject to special control described in the internal regulations of the Bank.

The Bank measures the derivative instrument risk using, i.e., the Value at Risk (VaR) model, which is discussed in the chapter concerning interest rate risk or in the chapter concerning currency risk, depending on the risk factor which affects the value of the instrument.

Risk management is carried out by imposing limits on derivative instruments divided into banking and trading portfolio, monitoring the use of limits and reporting risk level.

Master agreements concluded by the Bank with the major business partners based on the standards developed by the Polish Bank Association (domestic banks) and ISDA (foreign banks and credit institutions), which allow offsetting mutual liabilities, both due (mitigation of settlement risk) and not yet due (mitigation of pre-settlement risk), are particularly important for mitigating the risk associated with derivative instruments. Additional collateral for exposures, resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreements (Credit Support Annex).

Methods of derivative risk management in the Group's subsidiaries are defined by internal regulations implemented by these entities which take up positions in derivative instruments or plan to take positions in such instruments. These regulations are developed after consultation with the Bank and take into account the recommendations issued to entities by the Bank.

Positions taken by the other Group entities in particular derivative instruments are determined in a similar manner to positions taken by the Bank in such instruments, taking into account the specified economic activity of the entities.

6.9 Operational risk

Operational risk is defined as the risk of occurrence of a loss due to non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into consideration legal risk, but yet does not comprise risk of losing reputation and business risk.

The objective of operational risk management is to enhance security of the operational activity pursued by the Bank by improving the efficient, adjusted to the profile and scale of operations mechanisms of identification, assessment and measurement, monitoring, reduction and reporting of operational risk.

Identification and risk measurement

The process of operational risk management is carried out at the level of the entire Bank and at the levels of each system-based operational risk management areas. System-based operational risk management involves creation of solutions served for exercise of control by the Bank over the level of operational risk, enabling accomplishment of Bank's objectives. The ongoing operational risk management is conducted by every employee of the Group in respect of their roles and responsibilities. The aim of the current operational risk management is preventing the materialisation of operational events and detecting and reacting to occurring operational events.

For the purposes of operational risk management, the Bank collects external and internal data about operational events, causes and consequences of their appearance, data on business environment, scores of self-assessment adaption risk, data on Key Risk Indicators (KRI) of operational risk and data on quality of the functional internal control.

The operational risk management also includes the self-assessment of operational risk for Bank's products, processes and applications as well as organisational changes.

Measurement of operational risk comprises calculation of KRI, calculation of own funds requirement for the Bank in respect of operational risk in accordance with the BIA in the activities of Bank's branch in Federal Republic of Germany and AMA with respect to the other operations of the Bank and for the Group entities under the precautionary consolidation in accordance with BIA stress-tests and calculation of internal capital for the Group.

Monitoring and risk reporting

The control of operational risk includes setting tailored to the scale and complexity of the Group's activity, the mechanisms in the form of limits on operational risk, in particular the strategic limits of tolerance on operational risk, losses limit, KRI along with thresholds and critical.

The Bank monitors the operational risk level to diagnose areas requiring management and monitoring actions and in particular relates to operational risk limits, operational events and their effects, results of self-assessment, own funds requirement in respect of operational risk in accordance with the AMA and BIA approach, stress-tests and value of KRI.

The Bank uses various solutions to limit its exposure to operational risk, including the following:

- control instruments (including authorization, internal control, separation of functions),
- human resources management instruments (staff selection, enhancement of professional qualification of employees, incentive systems),
- setting or verification of thresholds and critical values of KRI,
- setting or verification of operational risk for the Group,
- contingency plans,
- insurance,
- outsourcing.

If the risk level is elevated or high, the Bank applies the following approach:

- risk reduction – mitigating the impact of risk factors or consequences of its materialisation,
- risk transfer – transfer of responsibility for covering potential losses on a third-party,
- risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

The correctness of the process of operational risk management is verified in the review of strategy and process of operational risk management, self-assessment of compliance with AMA approach requirements, validation of AMA approach and internal audit.

The Group entities manage the operational risk in accordance with the rules of managing this risk implemented in PKO Bank Polski SA, taking into account the scope and nature of the relation of the Group entities, specific nature and scale of the business conducted by individual entities

In the first half of 2016, the dominant impact on the operational risk profile of the Group was exercised by 3 entities: PKO Bank Polski SA, the PKO Leasing SA Group and the KREDOBANK SA Group. The other Group entities, considering their significantly smaller scale and type of activity, generate only reduced operational risk

6.10 Compliance risk

Compliance risk is defined as the risk of legal sanctions, incurring financial losses or losing reputation or reliability due to failure of the Group, its employees or entities acting on its behalf to comply with the provisions of the law, internal regulations, standards adopted by the Group, including market standards.

The objective of the compliance risk management is ensuring the Group proper application the provisions of the law, adopted market standards and functioning the Bank as a reliable, fair and honest institution through elimination compliance risk, preventing the possibility of losing reputation or reliability of the Group and preventing the risk of occurring financial losses or legal sanction risk, which may result from breach of regulations and standards of conduct.

Compliance risk management in the Group involves in particular the following:

- preventing involvement of the Bank in illegal activity,
- ensuring data protection,
- promoting ethical standards and monitoring their functioning,
- conflict of interest management,

- preventing situations where the Bank's employees could be perceived as pursuing their own interest in the professional context,
- professional, fair and transparent formulation of product offers, advertising and marketing messages,
- prompt, fair and professional consideration of complaints, requests and claims of clients.

Consistent principles of compliance risk management exist in all entities in the PKO Bank Polski SA Group.

The Group entities have adopted a zero tolerance policy against compliance risk, which means that the Group entities focus their actions towards preventing cases of materialisation of that risk.

6.11 Business risk

Business risk is understood as the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment, it includes in particular strategic risk.

The purpose of managing the business risk is maintaining on an acceptable level, the 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, which would be a response to changes in the business environment.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk comprises:

- conducting stress-tests,
- conducting reverse stress-tests,
- calculation of internal capital.

The main tools used in business risk management include:

- verification and update of quarterly financial forecasts,
- monitoring of level of strategic tolerance limit.

6.12 Reputation risk

The reputation risk is understood as the risk of losing reputation among clients, counterparties, investors, supervisory and control authorities, and the general public as a result of business decisions, operating events, instances of non-compliance or other events.

The objective of managing the reputation risk is to protect the Group's reputation by countering the occurrence of reputation losses and limiting the negative effect of image-related events on the Group's reputation. Risk management is used in companies whose impact on the reputation of the Group has been identified as important:

- information monitoring of image-related events, taking into account every identified, negative information about the Group, in the form of information disseminated in the media,
- recording image-related events and their effects in the form of reputation losses,
- analysing and evaluating reputation losses and determining the level of reputation risk losses,
- execution of communication protective measures,
- identifying potential reputation threats.

The activities related to reputation risk are undertaken on the basis of periodical management reports. They concern, in particular, avoiding or discontinuing activities which generate reputation risk and communication activities undertaken by the Group for protection purposes.

6.13 Model risk

Model risk is the risk of incurring losses as a result of making incorrect business decisions on the basis of the models functioning. As a part of the Group model risk is managed both at the level of the entity of the Group (the owner of the model), and at the level of the Bank as the parent company of the Group.

The objective of models management and model risk management is to mitigate the level of model risk in the Group through a well-defined and implemented process of models management. Model risk management is performed through identification, assessment and monitoring of model risk, reporting and taking management actions. Solutions functioning in the Bank are used in the Group with the possibility of their individual adaptation to the specific nature of the particular entities.

Model risk identification is based especially on gathering information about used and as well planned to implementation models and cyclic determination of model signification.

The purpose of the model risk evaluation is to determine the scale of threats associated with the occurrence of the model risk. The assessment of the risk level is performed on the level of a single model and aggregate assessment of the model risk at the Group entities and Group level.

Control of model risk is based on determining mechanism used to diagnose of model risk levels and tools which reduce this type of risk, which stands out in particular: strategic limit of tolerance to model risk and threshold values for model risk.

Risk monitoring of models includes in particular: update of the level of risk models, verification of the implementation status and evaluation of the implementation effectiveness of the risk reduction models.

The purpose of management actions is to form a model risk management process and the level of this risk in particular by setting acceptable levels of risk, making decisions about the use of tools that support risk management.

All significant models in the Bank and model of the Group entities are covered by regular process of independent validation carried out by the validation PKO Bank Polski SA.

6.14 Risk of macroeconomic changes

Risk of macroeconomic changes is the risk of deterioration of the Bank's financial position as a result of the negative impact of changes in macroeconomic conditions

The objective of risk of macroeconomic changes management is identification of macroeconomic factors with a significant impact on the Bank's operations and taking actions by mitigating the unfavourable impact of potential changes in macroeconomic conditions on the Bank's financial position.

For the purposes of measuring the risk of macroeconomic changes, the Bank uses risk measurements based on the results of comprehensive stress-tests, in particular:

- financial result and its components,
- capital adequacy measures and their components,
- selected liquidity measures.

Management activities related to the risk of macroeconomic changes consist specifically of:

- issuing internal regulations within the Bank,
- setting acceptable risk levels,
- proposals of actions aimed at reducing the level of risk in the occurrence of increased or high risk of macroeconomic changes.

6.15 Insurance risk

Insurance risk is the risk of loss or negative change in value of insurance liabilities, due to inadequate pricing and provisioning assumptions (in particular for technical provisions).

The objective of insurance risk management is to maintain insurance risk on an acceptable level and to limit potential loss caused by the change in the value of insurance liabilities.

Identification and insurance risk management

Exposure to insurance risk occurs in two insurance companies of the Group. In PKO Życie Towarzystwo Ubezpieczeń SA (PKO Życie) and it relates to the following sub-types of risk:

- mortality,
- morbidity,
- agreement cancellation,
- cost increment,
- catastrophically.

Exposure to insurance risk of PKO Życie was set as follows:

- mortality and morbidity risk were estimated as low due to small share of protecting insurances in the whole company portfolio and used reinsurance,
- agreement cancellation risk is relates mainly to „Capital Insurance Funds” and its insurance products. As a result of actions taken by UOKiK (Office of Competition and Consumer Protection) and agreements as a results of this actions, the company evaluate the change in future resignation distribution. Future liquidation payments were also corrected accordance with this agreement. Until the date of this report, there was no increase in agreement termination over company expectations. Due to data collected in the first half of 2016 and in the UOKiK stand the termination level of this agreements is stable but endangered by acceleration.

In 2016 new entity od PKO Bank Polski SA – PKO Towarzystwo Ubezpieczeń SA (PKO TU) started operational activity in section II, what is property and personal insurance. Entity is exposed mainly to following sub-types of risk:

- reserve and contribution risk,
- catastrophic risk,
- agreement cancellation risk.

Exposure to insurance risk of PKO TU was as follows:

- provision and premium risk – is related mainly to long-term insurance of income loss contracts and means the risk of loss or negative change of insurance liabilities, resulting from variability of frequency and scale of insured incidents and variability of compensation frequency and values,
- catastrophic risk – it relates mainly to property insurance and means the risk of loss or negative change of insurance liabilities, which result from significant uncertainty about pricing and provisioning assumptions related to extreme and exceptional events.

The insurance risk measurement in PKO Życie and PKO TU is being realised on analysis of contract termination, claims, technical-insurance reserves coverage by assets, and annual shock scenarios, based on the methodology required by the UKNF. As a part of implementation of the new “Solvency II” system, which is in force from 1 January 2016, both companies calculated the minimum capital requirement (MCR) and standard capital requirement (SCR) as at 1 January 2016 and as at 30 March 2016 and prepared report on forward looking assessment of own risk – FLAOR in 2015. According to these analyses the Company’s forecast capital adequacy ratios in accordance to “Solvency II” system at appropriate level.

Monitoring and reporting of insurance risk

Assets covering technical provisions (APR) were at sufficient levels (above 100%). As at 31 March 2016 the level of total coverage provision ratio in the PKO Życie Towarzystwo Ubezpieczeń SA was 103.18%. For insurance products of Capital Insurance Funds and structured products, which comprise the majority part of the portfolio of PKO Towarzystwo Ubezpieczeń SA, the excess of assets is not required, therefore the combined ratios remained at more than 100%. The coverage ratio of provisions in PKO Towarzystwo Ubezpieczeń SA in the first months of the company's activity was at an extremely high, unrepresentative level.

In PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA the reporting of insurance risk is realized in the form of a monthly report to the Board of Directors and the quarterly report for the Committee of Assets and Liabilities Management, the Local Risk Committee and the Risk Committee of the Supervisory Board. Additionally, the information needs to PKO Bank Polski SA are performed.

In order to reduce exposure to insurance risks PKO Życie Towarzystwo Ubezpieczeń SA should include:

- reinsurance risks (mortality, morbidity)
- grace periods,
- exclusion,
- customer retention.

Passive Reinsurance of PKO Życie Towarzystwo Ubezpieczeń SA is realized on the basis of:

- obligatory-optional, quota-excedental reinsurance contracts on the basis of risk - premiums,
- facultative reinsurance contracts on the basis of risk-premium,
- obligatory proportional reinsurance contracts based on a risk-premium.

Reinsurance on optional basis is applied to all insurance contracts and risks not covered by reinsurance contracts obligatory-optional, in which the total risk exceeds the gross amount.

In the case of new products and the risks of PKO Życie Towarzystwo Ubezpieczeń SA selects the reinsurer, the scope of protection, the conditions of reinsurance, changes in reinsurance agreements and to conclude new reinsurance contracts in relation to the newly introduced to the market or modified insurance products and new risks.

PKO Towarzystwo Ubezpieczeń SA in order to reduce exposure to insurance risks should include:

- proportional reinsurance,
- suitable design of insurance products,
- reinsurance catastrophic.

6.16 Risk of excessive financial leverage

The risk of excessive leverage is defined as the risk resulting from vulnerability due to leverage or contingent leverage that may require corrective business plan actions, including emergency sale of assets which could result in losses or result in the need for valuation adjustments of other assets.

Leverage is defined as a relative - relative to the Bank's own funds - the amount held by the Bank assets, contingent liabilities and contingent liabilities relating to payment or delivery or provide security, including liabilities from financial resources, liabilities, derivative contracts or agreements with repurchase agreements, but excluding obligations which can be enforced only in the event of liquidation of the Bank.

The risk of excessive leverage materialized by mismatch of scale and structure of the sources of funding and insufficient facilities of the Bank and the Group's own funds.

For the purpose of measuring the risk of excessive leverage the Bank leverage calculates ratio in accordance with item 429 of European Parliament and of the Council Regulation (EU) No. 575/2016 as at 26 June 2013, named further "CRR Regulation" (changed Regulation which was delegated to Commission (EU) 2015/62 EU), as a measure of Tier I divided by the measure of total exposure and is expressed as a percentage rate. The Bank calculates the leverage ratio at the reporting reference date. The leverage ratio is calculated both in terms of Tier 1 and according to the temporary definition of Tier 1.

6.17 Mortgage loans to households in foreign currency risk

Bank specifically analyses the foreign currency mortgage loans to households portfolio. Bank constantly control the quality of this portfolio and analysis its possibility of deterioration of this quality. As for now the quality holds on acceptable level. The Bank continuous monitor emerging legislative concerning help for loan takers who took loans in foreign currency, analysing their impact on the Banks situation and its customers.

Bank consider the risk of mortgage loans to household in foreign currency in adequacy and capital management.

6.18 Capital risk

Capital risk is defined as the risk of failing to ensure an appropriate level and structure of own funds, with respect to the scale of PKO Bank Polski SA's operations and risk exposure and, consequently, insufficient for the absorption of unexpected losses, taking into account development plans and extreme situations.

Therefore, the objective of managing the capital risk is to ensure an appropriate level and structure of own funds, with respect to the scale of the operations and risk exposure of PKO Bank Polski SA and the PKO Bank Polski SA Group, taking into account of the assumptions behind PKO Bank Polski SA's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The level of capital risk for the Bank and the Group is determined based on the minimum and maximum measures of capital adequacy among others: total capital ratio and the core-capital ratio Tier 1.

Additionally, the maximum thresholds for capital adequacy measures are set as a surplus over the minimum values which are the strategic tolerance limits for capital adequacy measures.

The Bank monitors the level of capital adequacy measures regularly in order to determine the degree of compliance with supervisory standards, internal limits of the strategic and identifying cases that require capital emergency mobilisation.

In the case of high level of capital risk, the Bank takes actions to capital adequacy measures reach the safe level, complying with internal standards of PKO Bank Polski SA and supervisory recommendations concerning capital adequacy.

6.19 Comprehensive stress-test

Comprehensive stress-tests are an integral part of the risk management in the PKO Bank Polski SA Group and are complementary for stress-test specific to particular types of risks.

Comprehensive stress-tests collectively include the following risks considered by the PKO Bank Polski SA Group to be relevant, including: credit risk, market risk, liquidity risk, operational risk, business risk.

Comprehensive stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the PKO Bank Polski SA Group, in particular on: income statement, statement of financial position, own funds, the capital adequacy and selected measures of liquidity.

Comprehensive stress-tests for the own use of the Group are carried out at least once a year in the three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

6.20 Capital adequacy

Capital adequacy is a process which objective is to ensure that the level of risk, which is assumed by the PKO Bank Polski SA Group associated with development of its business activity, may be covered with capital held, taking into account given risk tolerance level and time horizon. The process of capital adequacy management comprises in particular compliance with prevailing regulations of supervisory authorities and risk tolerance level determined within the Group and the Bank as well as the process of capital planning, including policy of capital acquiring sources.

The objective of capital adequacy management is to maintain capital in a continuous manner on a level adequate to the risk scale and profile of the Group's activities.

The process of managing the Group's capital adequacy comprises:

- term and realisation of Bank's capital desired purposes,
- identification and monitoring of all significant risks,
- assessing internal capital to cover the particular risk types and total internal capital,
- establishing the internal limits on the capital adequacy level,
- forecasting, monitoring and reporting of level and own funds structure and capital adequacy,
- managing the balance structure based on a quality optimization of the Bank's own funds,
- capital emergency operations,
- allocation of own funds and internal capital requirement to business sectors and client segments by the Bank and individual Group entities,
- assessment of business sectors and client segments profitability.

The fundamental regulation applicable in the capital adequacy assessment process as at 31 December 2015 is the Regulation (EU) No. 575/2013 of the European Parliament and of the Council as of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending the Regulation (EU) No. 648/2012, hereinafter called 'CRR Regulation'

PFSA in a letter about the additional requirement of own funds related to foreign currency mortgage loans to households dated on 10 May 2016 informed the Bank about the amount of additional capital requirement for the Bank Group. In relation to this letter, the minimum capital ratios of the Bank and the Group take into account the additional capital requirement and new supervisory requirements under the security buffer should be at least:

- T1 [stand-alone] = 10.82%
- T1 [consolidated] = 10.81%
- TCR [stand-alone] = 14.01%
- TCR [consolidated] = 13.99%.

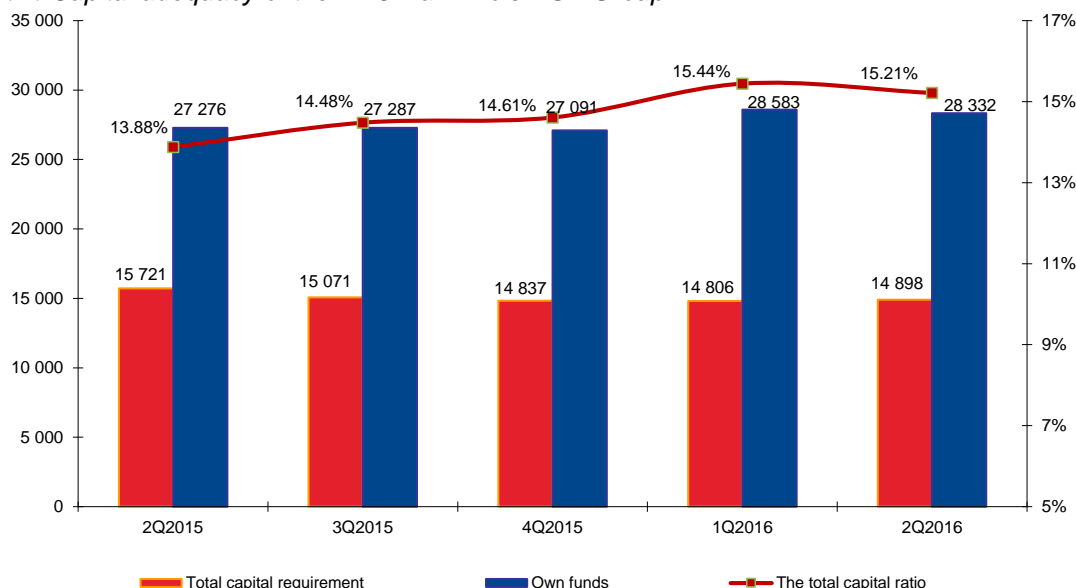
An additional requirement of own funds related to foreign currency mortgage loans to households should be included in the amount of capital ratios used for dividend payment of 50% of profits. The minimum amount of capital ratios used for the dividend payment to 50% of its profit including the individual offset capital arising from the mortgage loan portfolio and an additional security buffer amounts to 13.82% for T1 ratio and 14.01% for the TCR ratio. At the same time the Bank received a recommendation to increase equity by retaining at least 50% of the profit earned in 2015.

Additional, on 25 April 2016 the EBA published a list of O-SIIs in the European Union, where was the notification, that EBA expects the information from the Bulgarian and Polish. The Bank will be subject to the institution buffer requirement of the system importance under local jurisdiction (O-SII).

As at 5 August this year, the Bank was informed that the Polish Financial Supervision Authority decided to ask the Financial Stability Committee to express an opinion about the identification of the Bank as another institution of systemic importance (O-SII) and to apply to the Bank the buffer in the amount of equivalent to 0.75% of the total risk exposure.

The level of the PKO Bank Polski SA Group's capital adequacy in the 6 months of 2016 remained at a safe level, significantly above the supervisory limits.

Chart 4. Capital adequacy of the PKO Bank Polski SA Group



As at 30 June 2016 compared with 31 December 2015, the Group's capital ratio increased by 0.6 p.p. to the level of 15.21%, which was caused mainly by an increase in equity of PLN 1 241 million as a result of the accumulation of profit for the year 2015 and to take action affecting the reduction of risk-weighted assets (RWA).

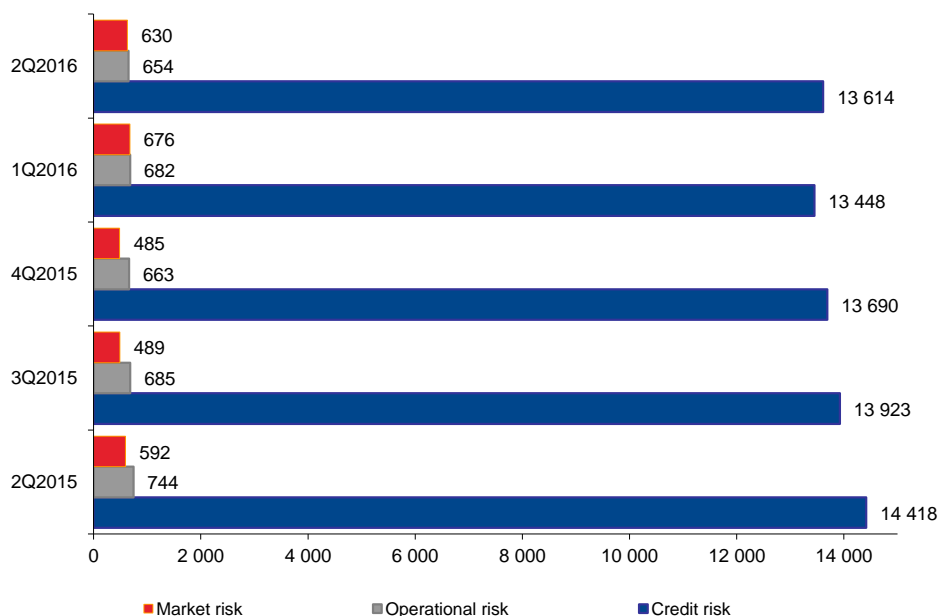
In accordance with the CRR Regulation being in force since 1 January 2014 the Group calculates requirements in respect of own funds of the following risk types:

- credit– using the standardised method,
- operational for the Bank – in accordance with the Advanced Measurement Approach (AMA) in respect of other activities of the Bank and in accordance with the Base Indicator Approach (BIA) in the activities of the branch of the Bank in the Federal Republic of Germany, and for the entities of the Group taken under prudential consolidation – under BIA approach,
- market– using basic methods.

The total requirement in respect of Group's own funds comprises the sum of the own funds capital requirements in respect of:

- 1) credit risk, including counterparty credit risk,
- 2) market risk,
- 3) risk of credit valuation adjustment (CVA),
- 4) the risk in relation to exposures to a central counterparty (CCP),
- 5) settlement and delivery risk,
- 6) operational risk.

Chart 5. Capital requirements of the PKO Bank Polski SA Group (in PLN million)



The holdup in the capital requirement of the own funds of credit risk in first half of 2016 at the similar level to the end of 2015 was an effect of continuation of actions taken by the Bank (started in 2015) that affects the reduction of risk-weighted assets (RWA).

The decrease in own funds requirement in respect of operational risk for the Group of the amount of PLN 663 million (as at 31 December 2015) to approx. PLN 654 million (as at 30 July 2016) is mainly due to the completion of the merger process of the Bank with Nordea Bank Polska SA and assessment of the risk after accomplishment of the integration process.

7. Information for investors

Shareholders that hold directly, indirectly or throughout subsidiaries significant block of shares at least 5% of the total number of votes at the General Shareholders' Meeting

To the best knowledge of PKO Bank Polski SA, as at the date of this report issue there were three shareholders that hold, directly or indirectly, significant block of shares (at least 5%): the State Treasury, Aviva Otwarty Fundusz Emerytalny and Nationale-Nederlanden Otwarty Fundusz Emerytalny

Table 30. Shareholding structure of PKO Bank Polski SA

Shareholders	Condition on a date of report publication 1H 2016		Condition on a date of report publication 1Q2016		Change of the share in the number of votes at GSM (p.p.)
	Number of shares	Share in the number of votes at GSM	Number of shares	Share in the number of votes at GSM	
State Treasury	367 918 980	29.43%	367 918 980	29.43%	0.00
Aviva Otwarty Fundusz Emerytalny ¹⁾	83 952 447	6.72%	83 952 447	6.72%	0.00
Nationale-Nederlanden Otwarty Fundusz Emerytalny (until 23.06.2015. ING Otwarty Fundusz Emerytalny) ²⁾	64 594 448	5.17%	64 594 448	5.17%	0.00
Other shareholders ³⁾	733 534 125	58.68%	733 534 125	58.68%	0.00
Total	1 250 000 000	100.00%	1 250 000 000	100.00%	0.00

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of shares in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 153.1 million of PKO Bank Polski SA's shares by BGK and State Treasury.

2) Number of shares held as at 24 July 2012, reported by ING OFE after exceeding 5% of shares in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

3) Includes 24 487 297 shares held by BGK as at the publication date of this report, which is 1.96% in number of votes at GSM.

Changes in ownership of PKO Bank Polski SA shares by the Bank's authorities

Table 31. Shares of PKO Bank Polski SA held by the Bank's authorities

No	Name	Number of shares on the date of report publication 1H2016	Purchase	Disposal	Number of shares on the date of report publication 1Q2016
I. The Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Management Board of the Bank	11 000	0	0	11 000
2.	Piotr Alicki, Vice-president of the Management Board of the Bank	2 627	0	0	2 627
3.	Bartosz Drabikowski, Vice-president of the Management Board of the Bank	0	0	0	0
4.	Maks Kraczkowski, Vice-president of the Management Board of the Bank*	0	x	x	x
5.	Mieczysław Król, Vice-president of the Management Board of the Bank*	5 000	x	x	x
6.	Piotr Mazur, Vice-president of the Management Board of the Bank	4 500	0	0	4 500
7.	Jakub Papierski, Vice-president of the Management Board of the Bank	3 000	0	0	3 000
8.	Jan Emeryk Rościszewski, Vice-president of the Management Board of the Bank*	0	x	x	x
II. The Supervisory Board of the Bank					
1.	Piotr Sadownik, President of the Supervisory Board of the Bank	0	0	0	0
2.	Grażyna Ciużyńska, Vice-president of the Supervisory Board of the Bank*	0	x	x	x
3.	Mirosław Barszcz, Member of the Supervisory Board of the Bank	0	0	0	0
4.	Adam Budnikowski, Member of the Supervisory Board of the Bank	0	0	0	0
5.	Zbigniew Hajłasz, Member of the Supervisory Board of the Bank*	0	x	x	x
6.	Wojciech Jasiński, Member of the Supervisory Board of the Bank	0	0	0	0
7.	Andrzej Kisielewicz, Member of the Supervisory Board of the Bank	0	0	0	0
8.	Elżbieta Mączyńska-Ziemacka, Member of the Supervisory Board of the Bank	0	0	0	0
9.	Janusz Ostaszewski, Member of the Supervisory Board of the Bank	0	0	0	0

*) Members of the Supervisory Board who did not hold function as at the publication date of report for first quarter of 2016, which is as at 9 May 2016.

Assessment of financial credibility of PKO Bank Polski SA

Rating agencies Moody's Investors Service and Standard & Poor's assign a rating PKO Bank Polski SA at a charge, in accordance with its own bank assessment procedure

Table 32. The rating of PKO Bank Polski SA as at 30 June 2016 (paid rating)

Moody's Investors Service	
Long-term deposits rating	A2 z with negative perspective
Short-term deposits rating	P-1
Long-term liabilities rating	A3 with stable perspective
Short-term liabilities rating	(P)P-2
Long-term rating for customer risk	A2(cr)
Short-term rating for customer risk	P-1(cr)

As at 29 January 2016 rating agency Standard and Poor's withdrew rating assigned to Bank upon its own request from 17 December 2015. Bank terminated the cooperation with rating agency Standard and Poor's what lead to ratings withdrawal due to reduction plan of bond issue on international markets, especially in the United States. Within the rating withdrawal, Standard and Poor's has made final analysis of the Banks and its environment current situation and confirmed short-term rating at "A-2" and decreased long-term rating from "BBB+" to "BBB". At the moment of rating withdrawal perspective was stable. Standard and Poor's announced that Bank's long-term rating reduction was due to rating reduction for Poland (sovereign) on 15 January 2016. Agency's analysis

confirmed that the Bank has a strong business position, adequate capital and liquidity strength for the next 2 years, the quality of assets and strong funding base, which based mainly on retail deposits.

On 16 May 2016 rating agency Moody's Investors published at www.moody.com a press note which confirmed ratings for Bank's both long- and short-term deposits at A2/P-1, liabilities at A3 and corrected perspective of Bank's long-term deposits on negative from stable. At the same time agency has maintained a stable perspective for Bank's long-term liabilities. Perspective correction of Bank's long-term deposits was the consequence of similar correction of rating for Poland. According to notes:

- long-term deposit rating was held at A2 level, perspective was corrected to "negative" from "stable",
- short-term deposit rating was held at P-1 level,
- rating for senior unsecured liabilities was held at A3 level, perspective was hold as „stable”,
- MTN program liability rating was held at (P)A3 level,
- rating of other short-term liabilities was held at (P)P-2 level,
- counterparty risk rating was held at A2(cr)/P-1(cr) level.

In the note Moody's agency informed that Bank's deposit and liabilities rating were held intact due to agency's expectation of continuous moderate support from the government. Intact ratings for Bank are connected with good quality of assets and adequate level of write-downs of impaired loans, which parameters improved in recent years. At the same time, Moody's indicated that the Bank has strengthened its capital base.

As at the end of June 2016 KREDOBANK SA had, granted on 26 April 2016, the following Standard and Poor's rating:

- international long-term loan rating at CCC+ level,
- positive perspective,
- international short-term rating at C level,
- Ukrainian rating at uaBB- level.

As at the en of June 2016 PKO Bank Hipoteczny SA had following Moody's Investors Service ratings:

- long-term issuer rating at Baa1 level and short-term issuer rating at Prime-2 level with stable perspective given on 7 September 2015,
- long-term counterparty risk opinion rating at A3(cr) level and short-term at Prime-2(cr) level both granted on 7 September 2015,
- rating for bonds issued by the PKO Bank Hipoteczny SA at Aa3 level granted on 11 December 2015 with stable perspective.

Compliance with corporate governance

Corporate governance principles contained in „Best Practices GPW Listed Companies 2016” („Dobre Praktyki Spółek Notowanych na GPW 2016”)

- Due to entry into force on 1 January 2016 Best Practices GPW Listed Companies 2016 the Bank has accepted rules and recommendations contained in this document, with reservation about IV.R.2 recommendation, which enable shareholders for participations on-line in general meeting of shareholders will not be applied unless the general meeting of shareholders make appropriate changes in the Bank's statutes authorizing the Management Board to organize general meeting of shareholders with electronic communication.
- From 1st January 2016 on Bank's website are available information about the status of the application by the Bank of recommendations and principles contained in „Best Practices 2016 (<http://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-na-gpw-2016/>). This information is made on the GPW form, which indicates detailed status of compliance and non-compliance of the rules of each recommendations and principles and it is a directly execution of I.Z.1.13 rule.

- As at 30 June 2016, the Bank published report on a single misapplication of the IV.Z.17 principle contained in Best Practices GPW Listed Companies 2016, according to which "A resolution of the general meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment takes place before the dividend record date".

The Bank's Management Board informed that ordinary general meeting of shareholders held on 30 June 2016 took up resolution on profit share for 2015, according to which dividend will be paid as long as until the 8 December 2016 (inclusive) all conditions described in this resolution will be fulfilled. The ordinary general meeting of shareholders set 30 September 2015 as the dividend date and 9 December 2016 as the latest date on which the statement will be fulfilled or not. The time limits for fulfillment of the conditions provided in the resolution were chosen to allow Bank to carry out the necessary research, as well as taking into consideration possible deadlines for submitting new Supervisory Board requirements regarded to own funds and determining their impact on capital adequacy ratios concerned in Bank's financial statement for the third quarter of 2016, which is necessary to confirm fulfillment or lack of fulfillment of these conditions.

These assumptions determined the dividend payment date. The dividend payment date cannot be earlier than date which will be reliable for verification of statements which determine its payment. Taking this into consideration dividend payment date has been set on 20 December 2016.

Corporate governance principles for supervised institutions, issued by the Polish Financial Supervision Authority

The Bank's Management Board adopted for use the Corporate Governance Principles for supervised institutions ("Rules") concerning the responsibilities and obligations of the Management Board, i.e. conducting the Bank's affairs and representing it, in compliance with the generally binding laws and the Bank's Articles of Association, with the provision that paragraph 8, item 4 of the Principles, insofar as it relates to allowing the shareholders the possibility to participate in the meetings of the decision-making authority electronically, will not be applied unless the General Shareholders' Meeting makes appropriate amendments to the Bank's Articles of Association authorising the Management Board to organise the General Shareholders' Meeting using electronic means of communication. Chapter 9 of the Principles, concerning the managing of assets at the client'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.

The Annual General Shareholders' Meeting convened for 25 June 2015, declared in the Resolution that by acting in the exercise of its powers is to be guided by the principles of corporate governance for supervised institutions issued by the Polish Financial Supervision Authority, which refrained from applying the rules set out in:

- § 8 paragraph. 4 Rules of providing the possibility of electronic participation in meetings of shareholders decision-making body,
- § 10 paragraph. 2 Rules on the introduction of personal rights or other special rights for shareholders,
- § 12 paragraph 1 of the Rules of the liability of shareholders for the immediate recapitalization of institutions supervised,
- § 28 paragraph. 4 Rules of entering the evaluation authority whether the established remuneration policy promotes the development and security of institutions supervised.

Information on dividend

Changes in dividend policy

As at 22 March 2016, the Management Board adopted a new version of "Principles of capital adequacy management and equity in PKO Bank Polski SA and PKO Bank Polski SA Group", which takes into the account i.a. the dividend policy. The overall objective of the dividend policy of the Bank is implementing stable dividends in the long term with the principle of prudent management of the Bank and the Group, according to the defined criteria of financial capacity of the Bank and the Group. The objective of the dividend policy is optimal shape of the structure of the own funds of the Bank and the Group, taking into account the return on capital and its cost, capital needs associated with the development, along with the need to ensure an appropriate level of capital adequacy ratios. Dividend Policy envisages the possibility of realizing payments from the Bank's profit for shareholders in the long term as the excess capital above the minimum capital adequacy ratios with an additional capital cushion.

The dividend policy takes into account factors related to the activities of the Bank and Group companies, in particular, the requirements and recommendations of supervisory capital adequacy. The rules has changed due to Polish Financial Supervision Authority statement of Banks dividend policy in 2016 for 2015 from 15 December 15 2016, which recommends higher minimal levels of capital adequacy ratios that enables dividend payment and statement introduced new condition for payment of dividend – leverage ratio. Therefore, due to introduced changes capital adequacy ratios are determined be the dividend criteria are as follows::

- total capital ratio above 14.01%,
- basic capital ratio Tier 1 above 13.82%, and
- leverage ratio above 5%.

These principles were approved by the Supervisory Board.

FSA recommendations on the dividend distribution

As at 12 May 2016 Bank's Management Board announced that it had received from Polish Financial Supervision Authority information that Bank (in accordance with the conditions set by the FSA) fulfill requirements for dividend distribution from the profit generated by the Bank in 2015 and among the other conditions set by FSA, consolidated Banks capital ratio is higher than 13.25% plus 100% of the capital to offset the risk of foreign currency loans. At the same time the Bank received recommendation to increase the equity by holding 50% of profit earned in 2015.

Dividend distribution

As at 30 June 2016, the Ordinary General meeting of Shareholders took resolution No. 7/2016 to distribute the profit of the Bank for the year 2015 and retained profit from previous years. It was consistent with Management Board's recommendation from 2 June 2016. Profit for 2015 (amounted to PLN 2 571 142 thousand) and retained profit from previous years (amounted to PLN 1 250 000 thousand) in total amounted to PLN 3 821 142 thousand will be distributed:

- PLN 1 250 000 thousand to shareholders,
- PLN 2 500 000 thousand to reserve capital,
- PLN 71 142 thousand to other reserves.

Profit distribution described above will be executed under condition, that up to 8 December 2016 (inclusive) all following circumstances will be fulfilled:

- 1) bank will not take control over other Bank or other entity of financial sector through direct or indirect shares acquisition and will not acquire rights and obligation for this takeover and
- 2) regulatory or supervisory recommendation affecting the requirements for the Bank's own funds will not change, which – due to capital adequacy ratios in the financial statement for the third quarter of 2016 – would affect the lack of possibility in dividend distribution due to regulatory requirements and supervisory.

If the conditions described above will not be met, Bank's net profit for 2015 amounted to PLN 2 571 142 thousand and retained profit from previous years amounted to PLN 1 250 000 thousand, in total amount of PLN 3 821 142 thousand will be distributed:

- PLN 3 750 000 thousand to reserve capital,
- PLN 71 142 thousand to other reserves.

The Management Board is obligated to take up resolution on Fulfillment of Dividend Conditions or lack of Fulfillment of Dividend Conditions on 9 December 2016. This term was chosen to allow Bank to carry out the necessary research, as well as taking into consideration possible deadlines for submitting new Supervisory Board requirements regarded to own funds and determining their impact on capital adequacy ratios concerned in Bank's financial statement for the third quarter of 2016, which is necessary to confirm fulfillment or lack of fulfillment of conditions for dividend.

If following conditions are fulfilled, the dividend distributed to one share will be PLN 1.00 gross.

This profit distribution assumed for 2015 depends on potential factors that may affect Bank's capital needs. These include possible actions of the Bank concerning possible involvement in the process of acquisition of entities operating in the banking or financial sector, as well as external factors related to regulatory changes and supervisory recommendations which influence on the requirements for the Bank's own funds.

8. Other information

Identification data

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA) with its registered office in Warsaw at Puławska 15 Street is registered in the District Court for the Capital City of Warsaw in Warsaw, XIII Economic Department of the National Court Register, under entry No. KRS 000026438. The Company's was granted a statistical No. REGON 016298263 and tax identification number (NIP) 525-000-77-38, share capital (the paid share capital) PLN 1 250 000 000.

The authorities of PKO Bank Polski SA in the reporting period

Table 33 The Management Board of PKO Bank Polski SA as at 30 June 2016

No.	Name	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	Re-appointed on 8 January 2014 to the position of President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board.
2.	Piotr Alicki	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board.
3.	Bartosz Drabikowski	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board.
4.	Mieczysław Król	Vice-President of the Management Board	Appointed on 2 June 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board.
5.	Piotr Mazur	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board.
6.	Jakub Papierski	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA, for the joint term of the Management Board.

On 21 March 2016 Jacek Obłąkowski resigned from the position of Vice-President of the Management Board of PKO Bank Polski SA with the effect from 21 March 2016.

On 22 March 2016 Jarosław Myjak resigned from the position of Vice-President of the Management Board of PKO Bank Polski SA with the effect from 22 March 2016.

On 30 June 2016 the Supervisory Board of PKO Bank Polski SA appointed Maks Kraczkowski to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board with the effect from 4 July 2016.

On 14 July 2016 the Supervisory Board of PKO Bank Polski SA appointed Jan Emeryk Rościszewski to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board with the effect from 18 July 2016.

According to the rule No. 111a point 4 of The Banking Law Act, every person appointed to the Supervisory Board and the Management Board meet the requirements determined in the rule No. 22.aa of this Act.

Table 34 The Supervisory Board of PKO Bank Polski SA as at 30 June 2016

No.	Name	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	Appointed on 25 February 2015 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
2.	Grażyna Ciurzyńska	Deputy Chairman of the Supervisory Board	Appointed on 30 June 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
3.	Agnieszka Winnik - Kalemba	Deputy Chairman of the Supervisory Board	Appointed on 25 February 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014. On 30 June 2016 the General Shareholders' Meeting of PKO Bank Polski SA dismissed Agnieszka Winnik – Kalemba from Supervisory Board.
4.	Zbigniew Hajłasz	Secretary of the Supervisory Board	Appointed on 30 June 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014. Chosen on 14 July 2016 for the secretary of the Supervisory Board.
5.	Małgorzata Dec-Kruczkowska	Secretary of the Supervisory Board	Appointed on 25 June 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014. On 30 June 2016 the General Shareholders' Meeting of PKO Bank Polski SA dismissed Małgorzata Dec-Kruczkowska from Supervisory Board.
6.	Mirosław Barszcz	Member of the Supervisory Board	Appointed on 25 February 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
7.	Adam Budnikowski	Member of the Supervisory Board	Appointed on 25 February 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
8.	Wojciech Jasiński	Member of the Supervisory Board	Appointed on 25 February 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
9.	Andrzej Kisielewicz	Member of the Supervisory Board	Appointed on 25 February 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
10.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	Re-appointed on 26 June 2014 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.
11.	Janusz Ostaszewski	Member of the Supervisory Board	Appointed on 25 February 2016 for the term of the Supervisory Board, which began on the day of the General Shareholders' Meeting convened as at 26 June 2014.

On 25 February 2016 Extraordinary General Meeting of PKO Bank Polski SA dismissed Jerzy Góra, Mirosław Czekaj, Piotr Marczak, Marek Mroczkowski, Krzysztof Kilian and Zofia Dzik from the Supervisory Board.

Moreover, on 25 February 2016 Extraordinary General Meeting of PKO Bank Polski SA appointed Mirosław Barszcz, Adam Budnikowski, Wojciech Jasiński, Andrzej Kisielewicz, Janusz Ostaszewski, Piotr Sadownik and Agnieszka Winnik-Kalemba to members of the Supervisory Board.

The State Treasury, as the Eligible Shareholder has appointed Piotr Sadownik as Chairman of the Supervisory Board and Agnieszka Winnik-Kalemba as Deputy Chairman of the Supervisory Board.

Seasonality or cyclicity of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the territory of Poland, and thus its activities are exposed to similar seasonal fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group also do not show any particular seasonality or cyclicity characteristics.

Underwriting agreements and guarantees granted to subsidiaries

As at 30 June 2016 issues of PKO Leasing SA (the Bank's subsidiary) bonds were regulated by the Underwriting Agreement for the Organisation, Conducting and Servicing of the Bond Issuance Programme as at 10 November 2011, in accordance with the maximum value of the programme is PLN 600 million. As at 30 June 2016 PKO Leasing SA issued bonds with a nominal value of PLN 161.68 million. All of the bonds were sold on the secondary market.

As at 30 June 2016 issues of PKO Bank Hipoteczny SA (the Bank's subsidiary) bonds were regulated by the Agreement of the Bond Issuance Programme as at 30 September 2015, in accordance with the maximum value of the issued bonds based on The Agreement is PLN 2 billion and Guarantee Agreement as at 30 September 2015 amounts of PLN 500 million due to which PKO Bank Polski SA provides underwriting services on behalf of Subsidiary. As at 30 June 2016 PKO Bank Hipoteczny issued bonds with nominal value of PLN 247 million, including 75 bonds from PKO Bank Polski SA portfolio worth PLN 7.5 million. Remaining bonds were obtained by other investors.

In the first half of 2016 PKO Bank Polski SA:

- granted 2 guarantees up to total PLN 111 thousand to PKO Leasing SA and 2 guarantees up to total EUR 20 thousand in respect of office space renting; the guarantees are valid maximally until 2021,
- granted guarantee up to EUR 212 thousand to PKO Życie Towarzystwo Ubezpieczeń SA in respect of office space renting; the guarantee is valid until 30 April 2017.

Loans and advance contracts, warranties and guarantees not related to the Bank's operating activity

In the first half of 2016, PKO Bank Polski SA has not taken any loans, advances, and has not received any guarantees or warranties which do not relate to its operating activities.

In the first half of 2016, subsidiaries of PKO Bank Polski SA have not taken any loans, advances, and have not received any guarantees or warranties which do not relate to their operating activities.

Significant contracts and important agreements with the central bank or supervisory authorities

In the first half of 2016 PKO Bank Polski SA did not conclude any important agreements with the Central Bank or with its supervisory authorities.

In the first half of 2016 the subsidiaries of PKO Bank Polski SA did not conclude any important agreements with the Central Bank or with their supervisory authorities.

On February 2016 KREDOBANK SA has agreed with National Bank of Ukraine on schedule for bringing short currency position limit to regulatory requirements till 31 December 2018.

In the 1st quarter of 2016, National Bank of Ukraine has conducted planned inspection in KREDOBANK SA of its business activity from 1 July 2013 till 31 December 2015 and all of the essential events which occurred during inspection. The target of inspection, among others, was evaluation of risk and risk management system, applied principles of accountancy and credibility of reports, compliance with Ukraine Law and Acts of National Bank of

Ukraine, and conduction of diagnostics in accordance with Memorandum of Economical and Financial Policy concluded between Ukraine and International Monetary Fund. In a result of the inspection KREDOBANK SA has received recommendation in the scope of following activity improvement and minimizing of risk.

Benefits for supervisors and managers

Full information regarding the remuneration and other benefits on behalf of the members of the Management Board of PKO Bank Polski SA and the Supervisory Board of PKO Bank Polski SA in the reporting period was disclosed in Note 41 to the PKO Bank Polski SA Group condensed consolidated interim financial statements for the six-month period ended 30 June 2016.

Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group

As at 30 June 2016, employment in the PKO Bank Polski SA Group amounts to 28 867 full time equivalents, which means decrease by 42 compared to the first half of 2015. Employment in PKO Bank Polski SA decreased by 298 full time equivalents compared to the first half of 2015, while at other subsidiaries (without PKO Bank Polski SA) increased by 256 full time equivalents. The change of employment compared to first half of 2015 at subsidiaries resulted from business activity development and changes in structure of the PKO Bank Polski SA Group.

Table 35. Number of employees in PKO Bank Polski SA and in the PKO Bank Polski SA Group

	As at 30.06.2016	As at 30.06.2015	Change in the number of vacancies
PKO Bank Polski SA	25 443	25 741	(298)
Other companies from Group Capital	3 424	3 168	256
Total	28 867	28 909	(42)

Results of changes in the entity's structure, including the effects of business combination, takeover or disposal of the Group entities, long-term investments, division, restructuring and discontinuation of activities

The results of changes in the entity's structure, including the results of merger, takeover or disposal of the Group entities have been described in point 5.2 of this report.

Factors which may affect future financial performance within at least next quarter

In the perspective of the nearest quarters, economic processes, which will take place in Polish and in the global economy, and reactions of the financial markets, will have an impact on the results of the PKO Bank Polski SA Group. The interest rate policy applied by the Monetary Policy Council and by other key central banks will have a large impact on future performance.

Substantial factor which will affect situation of Bank and the whole financial and economic sector is 'Bank tax'. Additional tax burden imposed on February 2016 will have influence on decrease of net profit of Bank and the sector in 2016 and in the mid-term perspective it will affects in decrease of lending in the industry and profitability of equities, mostly of banks with the lowest profitability rate of assets with at the same time highest financial leverage.

Negative impact on the results and profitability of banks may be affected by regulations on mortgage loans in foreign currencies. At the beginning of August 2016 the President Office presented a new project in this area, which involves partial currency spread returns to the borrowers. The current project does not predict compulsory loan conversion. Instead of it, there will be applied an alternative regulatory and supervisory solution (higher capital requirements and higher risk weights for foreign currency loans) to encourage banks to perform voluntary conversion. The effectiveness of such a solution will be assessed after one year. According to analysts, the new project of the act does not pose a threat to the stability of the financial system and does not create a risk of excessive volatility in the currency market. However, it may contribute to a reduction in loans in the coming years as a result of the pressure on the capital position of banks.

In the next quarter in financial results will affect following regulations:

- Act of 9 October 2015 on change of Banking Law Act and some other Acts (Journal of Laws of 2015, item 1864) introducing from 1 July 2016 changes in the treatment of inactive accounts (so-called asleep accounts),
- Resolutions No. 36/2016 and 37/2016 of BGF Council of 15 June 2016 sustaining the rate of mandatory fees and prudential fee rate paid by banks in the III quarter of 2016 to the Bank Guarantee Fund in amount of 0.04175% and 0.01975% of total exposure to risk
- Act on BGF, deposit guarantee system and obligatory restructuring (Journal of Laws of 2016, item 996) entering 8 October 2016,
- Resolution No. 351/2016 from 2016 of Polish Financial Supervisory Authority (Official FSA Journal, item 15 about recommendation C concerning the management of concentration risk) which relates to loans and other areas of universal and specialist banks, including mortgage,
- Act amending the Act on investment funds and certain other acts (Journal of Laws, item 615) which is implementation of EU law, in force since 5 June 2016 that will effect on the costs of services provided by depositors,
- Transfer window opening for period from April to July 2016 giving the possibility of transferring part of pensions from ZUS to OPF,
- FSA recommendations from March 2016 for insurance companies (about product adequacy analysis and product management) in force from 1 July 2016 influencing on rules of product management and investment product adequacy analysis to customer potential and needs.

The results of the PKO Bank Polski SA Group will be impacted also by the political and economic situation in Ukraine where operate the Group entities: KREDOBANK SA and financial and debt collection companies. It is conducted current analysis of impact of political and economic situation in Ukraine on financial results and on risk of assets deterioration of the PKO Bank Polski SA Group. PKO Bank Polski SA continues its activities to provide safe functioning its subsidiaries in Ukraine i.a. through enhance of their controlling activities, including monitoring of regulatory requirements determined by the National Bank of Ukraine.

Information on warranties on loan or advance granted by the issuer or by the issuer's subsidiary or on guarantee granted – cumulatively to a single entity or its subsidiary, if the total value of outstanding warranties or guarantees constitutes at least 10% of the issuer's equity

In the first half of 2016, subsidiaries of the PKO Bank Polski SA Group has not granted any warranties on loans nor granted any guarantee to a single entity or its subsidiary which total value constitutes at least 10% of the Bank's equity.

Information on transaction or a number of transactions concluded by the issuer or its subsidiary with related parties, if they are significant and were concluded not on arm's length

In the first half of 2016, subsidiaries of the PKO Bank Polski SA Group has not concluded any significant transactions with related parties not on arm's length.

Proceedings pending before the court, arbitration tribunal or public administrative authority

As at 30 June 2016 the total value of dispute in court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) act as a defendant amounted to PLN 541 161 thousand, of which PLN 45 638 thousand concerning court proceedings in the Ukraine (as at 31 December 2015 the total value of dispute of the above mentioned court proceedings amounted to PLN 638 019 thousand), and the total amount of court proceedings initiated by the Group entities (including the Bank) as plaintiffs at 30 June 2016 amounted to PLN 1 326 614 thousand, of which PLN 82 105 thousand which concerned court proceedings in the Ukraine, mainly related to the recovery of loans granted by KREDOBANK SA (as at 31 December 2015 the total value of the above-mentioned court proceedings amounted to PLN 697 041 thousand).

The Bank does not have any proceedings pending before the court, the value of which amounts to at least 10% of its own funds. Other Group entities have not conducted any proceedings pending before court, arbitration tribunal or public administration authority concerning liabilities or receivables, the value of which amounts to at least 10% of the own funds of PKO Bank Polski SA.

Position of the Management Board of PKO Bank Polski SA as regards to the possibility of achieving previously published forecast for the given year

PKO Bank Polski SA did not publish any financial forecasts of its results for the year 2016.

Other information of particular importance to the assessment of the human resources, proprietary and financial situation of the issuer; its financial results and changes thereto

On 16 June was the final confirmation of the amounts due to the Bank in connection with the participation of the Bank in the acquisition of VISA Europe Limited by Visa Inc. On 21 June 2016 Bank received from Visa Europe Limited information about ending of acquisition Visa Europe Limited by Visa Inc.

Ultimate part of PKO Bank Polski SA in above mentioned transaction includes:

- EUR 70 528 thousand paid in cash on the Banks' account on 21 June 2016,
- Received Series C of preference shares in amount of 25 612,
- Amount due in adjourned cash payment in the amount of approx. 0.54% of EUR 1,12 billion, which is amount per every participant of transaction, paid in the 3rd anniversary of transaction, with limitation of possible adjustments possible to happen in the terms of transaction.

Received Series C of preference shares of Visa Inc. will be converted on regular Series A shares of Visa Inc., wherein terms of transaction provide for gradually conversion of shares. Conversion of all preference shares will take place at the latest in 2028. Current conversion rate amounts to 13.952 and it might decreasing till 2028 which is related to occurrence of potential liabilities due to judicial proceedings regarding the acquired company Visa Europe Limited during this period.

Declaration of the Management Board of PKO Bank Polski SA

The Management Board of PKO Bank Polski SA certifies that to the best of its knowledge:

1. the condensed consolidated interim financial statements of PKO Bank Polski SA Group for the six month period ended 30 June 2016 and the comparative data have been prepared in accordance with the binding accounting and reporting standards present a true and fair view of financial condition and results of the PKO Bank Polski SA Group,
2. this interim Directors' Report on the activities of PKO Bank Polski SA Group for the first half of 2016 presents a true view of the development and achievements, as well as condition of the PKO Bank Polski SA Group, including a description of basic risks and threats.

The Management Board of PKO Bank Polski SA certifies that the entity authorized to audit the financial statements and which is performing the review of consolidated interim financial statements, has been elected in compliance with applicable laws. The entity as well as the certified auditor performing the review fulfilled all criteria for providing unbiased and independent audit report in compliance with applicable laws and professional norms.

The PKO Bank Polski SA Group Directors' Report for the first half of 2016 consists of 81 sequentially numbered pages.

Signatures of all Members of the Management Board

17.08.2016	Zbigniew Jagiełło	President of the Management Board (signature)
17.08.2016	Piotr Alicki	Vice-President of the Management Board (signature)
17.08.2016	Bartosz Drabikowski	Vice-President of the Management Board (signature)
17.08.2016	Maks Kraczkowski	Vice-President of the Management Board (signature)
17.08.2016	Mieczysław Król	Vice-President of the Management Board (signature)
17.08.2016	Piotr Mazur	Vice-President of the Management Board (signature)
17.08.2016	Jakub Papierski	Vice-President of the Management Board (signature)



17.08.2016

Jan Emeryk Rościszewski

Vice-President of the
Management Board

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(signature)