



Bank Polski

The PKO Bank Polski SA Group Directors' Report on the non-financial information for 2017

(encompassing the Directors' Report on the non-financial information of
PKO Bank Polski SA)

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SUMMARY

The PKO Bank Polski SA Group (the Group) is presenting the Directors' Report on non-financial information (the Report) for the first time.

The obligation to prepare the report on the non-financial information arises directly from the amendment to the Accounting Act of 15 December 2016 (the Act), introduced on the basis of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (as amended), hereinafter referred to as the "Directive". Both the Group and the parent entity, namely PKO Bank Polski SA (the Bank) satisfy the criteria of an entity that is required to draw up a report. Individual issues have been presented in the Report with respect to the Group, highlighting the Bank.

The scope of the report on the non-financial information includes a description of the policies and procedures regarding social and employment and environmental issues, matters regarding respect for human rights and the prevention of corruption. The description of the policies is accompanied by a presentation of the results of their application, as well as an identification of the risks related to the given area and the presentation of the method in which they are managed. The Group's Report in this respect has been prepared in accordance with the Standard Non-Financial Information (SIN) - the environmental regulation, the preparation of which was coordinated by the Polish Association of Listed Companies and the Reporting Standards Foundation.

Of the socio-environmental areas referred to in the Directive and the Act, and as listed in the SIN, 16 key non-financial issues have been identified in the Group and the Bank, mainly of a social and employment nature; the impact of the Group's activities on the natural environment is mainly indirect and applies to the financing of the activities of business and public entities. Five key risks have been defined within the framework of the significant non-financial issues: (1) the risk of non-compliance of the products with the applicable norms, including the risk of inappropriate sales of products to customers (misselling); (2) the risk of the incorrect labelling of products; (3) the risk of unauthorized access to customer funds through electronic banking; (4) the risk of unauthorized access to customer information; (5) the risk related to outsourcing of services to external entities. The Bank and most of the subsidiaries have appropriate policies in all areas encompassed by the Report, while the risks, which are acknowledged as being key, have already been identified in the risk management process.

The most important conclusions from the Report are as follows:

1. With respect to most of the issues encompassed by the Report, the Group's entities are guided not only by the provisions of the law, but also by the accepted higher market standards - this especially applies to the Bank as a company listed on the Warsaw Stock Exchange, Group entities which are subject to Polish Financial Supervision Authority (PFSA) supervision and most of the Group entities applying best practices of the financial market. The applicable regulations and the higher standards are specified in detail in the form of a series of internal regulations.
2. In terms of the direct impact on the environment, an improvement was recorded in 2017 in most of the energy and paper consumption indicators analysed. The Bank implements its responsibility for the environment indirectly through the use of a number of procedures for controlling investment projects in terms of their impact on the environment, as well as through the structure of financing business and public entities.
3. The product safety and customer security policy at the Bank and in the Group encompasses the stage of formulating the product offering, its presentation to the customer, its purchase as well as the stage of use of the product by the customer. The principles and mechanisms of pursuing the compliance policy and the appropriate marking of products apply to the Bank and the whole of the Group.
4. An important element in the management of the social type risks is the complaints process - in 2017, most complaints within the Group, mainly regarding the Bank, were in whole or in part accepted.
5. With regard to their marketing activities, all of the Group's entities have control mechanisms to prevent the risk of an irresponsible or unethical communication from the company. In 2017, no proceedings were conducted in connection with the regulations regarding a breach of ethics in marketing communications.
6. Each of the Group's subsidiaries processing personal data and required to have appropriate regulations on this, has such regulations and applies them in practice. They are in line with the generally applicable regulations and standards applied at the Bank and, to the extent necessary, contain specific regulations which are adequate to the specific nature of the particular subsidiary's business. None of the Group's entities, including the Bank,

- recorded a case of a “leak” or unauthorized use of personal data processed in these organizations in 2017 and no administrative procedures were conducted in this area, which could result in the imposition of a fine.
7. Within the Group, each of the entities, the business of which is related to the risk of corruption, has the appropriate regulations on the prevention of corrupt practices. The regulations on the prevention of corruption are very detailed at the Bank. An important part of the anti-corruption policy is the system of anonymous reporting of breaches, which operates at the Bank, as well as the training of the employees on the principles of preventing corrupt practices. No reports were filed in 2017 and no corruption was identified in the Group’s entities, including the Bank.
 8. The impact of the Bank and the Group on the social environment has been presented with the use of an example of several major channels:
 - influence through the products offered;
 - a special approach to disabled people;
 - job creation in a large number of cities and the payment of substantial taxes, including local taxes;
 - sponsorship and charity activities.
 9. The percentage of women among the employees is very high in the Group, including the Bank. Although there are no women on the Bank’s Management Board, women are in the majority within the group of directors and managers. The diversity of salaries by gender is higher than at the country level. This largely arises from the structure of employment, that is a large share of women employed in positions other than management, especially in the branches. The pay differentials are smaller among the managers and directors throughout the Bank. Salary differentials by gender in the branches are very small in all groups of work posts.
 10. None of the establishments of the Bank or the Group’s entities carries a high occupational risk related to the work performed. The accident rate is at a negligible level. The occupational risk assessment encompassed almost all positions in the Group and all positions at the Bank.

INTRODUCTION

The PKO Bank Polski SA Group is presenting the Directors' Report on non-financial information (the Report) for the first time. The need for business entities to provide non-financial information within the framework of corporate social responsibility and the need to harmonize the standard of this information between the EU Member States was raised in the communications of the European Commission of 2011, as well as the resolution of the European Parliament of 2013. The premise for enterprises to publish non-financial information regarding social and environmental factors is the conviction that

- it is of fundamental significance to the management of change towards a sustainable global economy through a combination of long-term profitability with social justice and environmental protection;
- knowledge of non-financial information enables identifying threats to sustainable development and an increase in the confidence of investors and consumers.

The first Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (as amended), hereinafter referred to as the "Directive" was formulated in 2013. The Directive imposed the need on Member States to introduce national regulations.

The Directive specified that, in addition to a brief description of the business model and the key non-financial performance indicators (KPI), the report on the non-financial information should present a description of the policies and procedures applied by the business entity with respect to:

- social issues;
- employment issues;
- natural environment issues;
- the respect for human rights, and
- anti-corruption matters.

The description of the policies should be accompanied by a presentation of the results of their application, as well as the identification of the risks related to the given area and the presentation of the methods in which they are managed.

The obligation to prepare the report on the non-financial information based on the Directive arises directly from the revision of the Accounting Act dated 15 December 2016 (hereinafter: the Act). Both the PKO Bank Polski SA Group (the Group) and the parent entity, namely PKO Bank Polski SA (the Bank) satisfy the criteria of an entity that is required to draw up a report. The individual issues have been presented in the Report with regard to the Group, with the Bank highlighted, which is consistent with the provisions of the Act, was confirmed in the individual response of the Ministry of Finance and is consistent with the Directors' Report on the Group.

The Report has been prepared in accordance with the Standard Non-Financial Information (SIN) – the environmental regulation, the preparation of which was coordinated by the Polish Association of Listed Companies and the Reporting Standards Foundation. The regulation has been accepted and is supported by a number of capital market institutions and organizations.

The Report in the form arising from the SIN has been prepared by the Group, including the Bank, for the first time. However the Bank, being inspired by the Directive, prepared a Social Report for 2015 and 2016 on its own initiative. The Social Report covered most of issues raised in the Report. The Report can be considered a continuation of the Social Report in a different form and in a scope that is consistent with the Act.

The preparation of the Report was preceded by an analysis of the relevance of the issues specified in the Act and presented in detail in the SIN. In the first stage, the analysis of the significance conducted in the autumn of 2017 was based on a review of the stakeholder groups defined to date who are of importance to the Group, including the Bank, and the areas of the interactions of the Group's entities and the environment. The scope of management of the areas encompassed by the Report and the policies in place at the Bank and all of the Group's subsidiaries were reviewed in the second stage. The following tools were used in the study of significance:

- in-depth interviews with representatives of the Bank's organizational units in the relevant areas (31 units);
- analysis of the database of minutes of meetings with investors in terms of raising social and environmental issues of importance to them;

- sending by the Bank enquiries to the subsidiaries to supplement knowledge (15 enquiries);
- a review of the internal and external regulations (the provisions of the law, the accepted standards of good practice).

The Group, including the Bank, identify the following important groups of stakeholders and key non-financial issues:

Important groups of stakeholders	Key non-financial issues
<ol style="list-style-type: none"> 1) Customers 2) Employees 3) Social environment, including local communities 4) Shareholders 	<p>Managerial</p> <ol style="list-style-type: none"> 1) Ethics 2) Information policy 3) Internal audit <p>Environmental</p> <ol style="list-style-type: none"> 4) Indirect environmental responsibility <p>Social and employment</p> <ol style="list-style-type: none"> 5) Product and consumer safety 6) Marketing communications 7) Protection of privacy 8) Prevention of corruption 9) Human rights 10) Local communities and social involvement 11) Employment, salaries and diversity 12) Relations with the employees 13) Health and safety at work 14) Development and education 15) Collaboration with public entities 16) Relationships with subcontractors and suppliers

The study of significance showed that the Bank and most of the subsidiaries have appropriate policies in all areas encompassed by the Report, while the risks, which are acknowledged as being key, have already been identified in the risk management process. Wherever such policies are being prepared, this was clearly specified. In the presentation of issues in the Report, the principle was adopted that, in order to facilitate its understanding, the information is provided in the appropriate context (this applies to the inclusion of a description of the risks identified in the Group, including the Bank, in the appropriate subchapters regarding the individual social and environmental issues). Attention was drawn in the Report to the principle of “comply or explain”: an explanation was added to information on the lack of full coordination of selected policies at the Group level.



MANAGEMENT AREA

1. DESCRIPTION OF THE BUSINESS MODEL AND DIRECTIONS OF STRATEGIC DEVELOPMENT

1.1 THE BUSINESS MODEL AND THE MARKET ENVIRONMENT

MARKET POSITION OF THE PKO BANK POLSKI SA GROUP, INCLUDING PKO BANK POLSKI SA

The PKO Bank Polski SA Group is a leading financial institution in Central and Eastern Europe. PKO Bank Polski SA, the parent entity in the Group, is the largest commercial bank in Poland in terms of asset value and equity, the value of loans and deposits, the size of the distribution network, market capitalization, as well as the number of customers served and the number of employees.

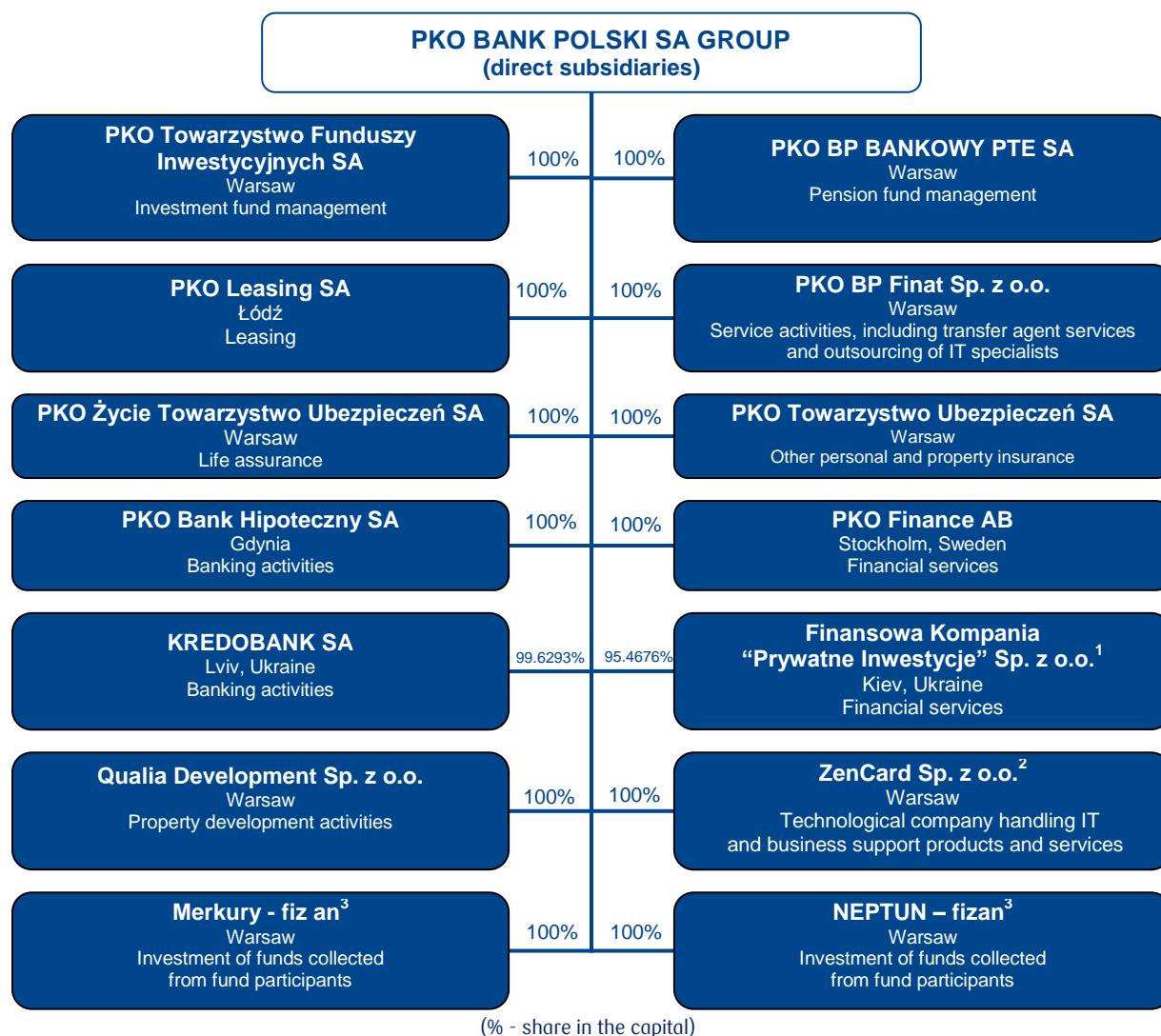
PLN 297bn	17.7%	1,937
assets of the PKO Bank Polski SA Group at the end of 2017	PKO Bank Polski SA's and PKO Bank Hipoteczny's share of the loans market at the end of 2017	number of branches and agencies of PKO Bank Polski SA at the end of 2017
PLN 55.4bn	9.5mn	28.4k
value of market capitalization of PKO Bank Polski SA at the end of 2017	customers of PKO Bank Polski SA at the end of 2017	employees of the PKO Bank Polski SA Group at the end of 2017 ¹

STRUCTURE OF THE PKO BANK POLSKI SA GROUP

At the end of 2017, the PKO Bank Polski SA group consisted of the parent entity, PKO Bank Polski SA and 14 direct subsidiaries with their own subsidiaries. The greatest impact on business activity, as well as the Group's development paths comes from the parent entity – PKO Bank Polski SA.

¹ by FTEs

Chart 1. Direct subsidiaries of the PKO Bank Polski SA (31/12/2017).

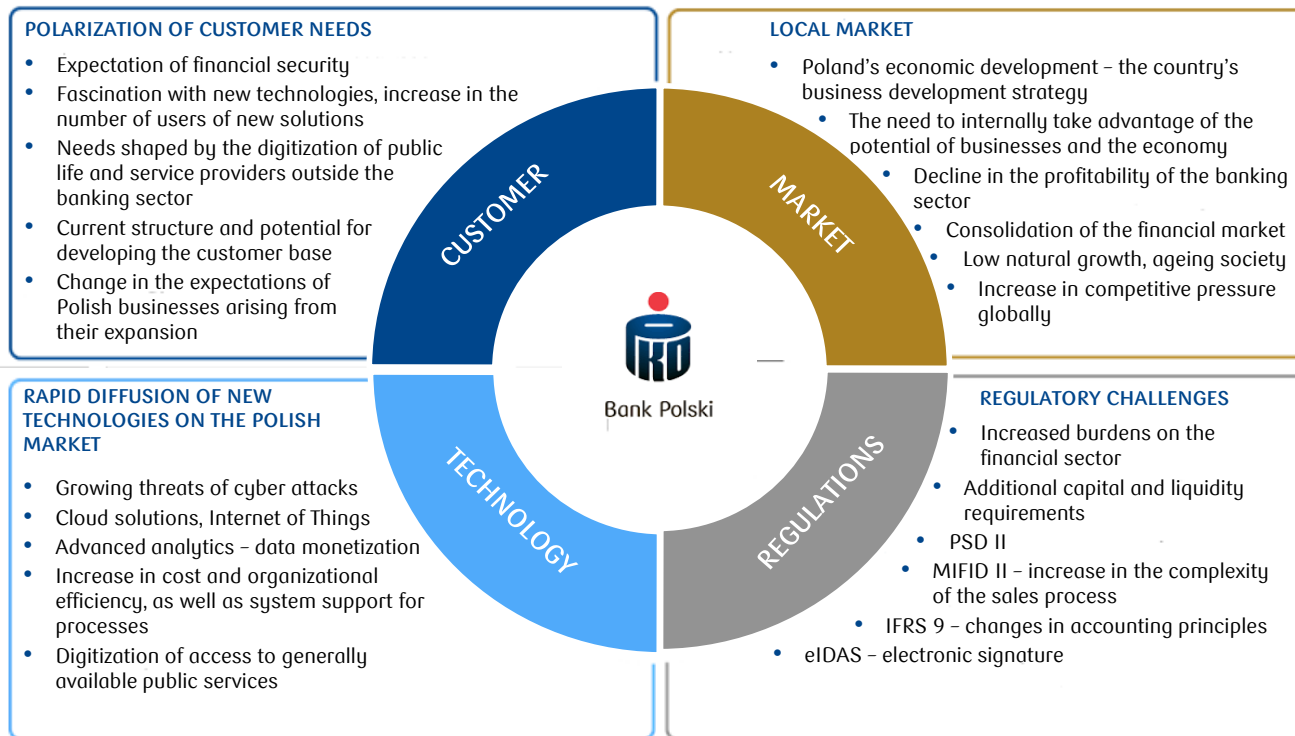


- 1) The company's other shareholder is "Inter-Risk Ukraina" Additional Liability Company.
- 2) The company was acquired on 26 January 2017.
- 3) PKO Bank Polski SA holds the fund's investment certificates; the share capital contains the share of the fund's investment certificates held.

LONG-TERM CHALLENGES OF THE BANKING SECTOR

PKO Bank Polski SA's strategy for 2016–2020 identifies the long-term challenges of the banking sector, which have been taken into account and addressed in the Bank's and the Group's strategic objectives and directions of activity.

Figure 1. Long-term challenges of the banking sector



THE BANKING SECTOR IN POLAND.

The banking sector is the largest proportion of the financial system in Poland – the banking sector's assets (PLN 1,800bn at the end of 2017²) constitute more than two-thirds of the financial system assets.

616 banks were operating in Poland at the end of 2017, of which 35 were commercial, 553 cooperative and 28 were branches of lending institutions.³ A stable, low level of concentration of the banking sector was maintained, measured by the share of the five largest banks in total assets at 47.8%.⁴ In the last three years, acquisitions mainly applied to medium-sized banks, from outside the group of the five largest banks.

47.8%
share of the 5 largest banks
in the assets of the banking sector
at the end of 2017

54.5%
share of domestic investors
in assets of the banking sector
at the end of 3Q, 2017.

A material change took place in the ownership structure of the banking sector in 2017. Following the acquisition by PZU SA and PFR SA of control over Pekao SA, the share of domestic investors in the assets of the banking sector was higher than the share of foreign investors for the first time since 1999. At the end of 3Q, 2017 it was 54.5%⁵ (43.4% at the end of 2016).

The ratio of banking sector assets to GDP in Poland remained stable and amounted to 90.4% at the end of 3Q, 2017. It was still less than a third of that in the euro area (278.9%).⁶ The level of the bank penetration ratio in Poland was

² Source: PFSA.

³ Source: ibid.

⁴ Source: ibid.

⁵ Source: ibid.

⁶ Source: PFSA, CSO, ECB

below the average for the euro area – the share of the population aged over 15 years having a bank account with a financial institution was in Poland approximately 78% compared to approximately 95% in the euro area.⁷

In 2017, PKO Bank Polski SA and its subsidiaries operating in Poland functioned in conditions of a favourable macroeconomic situation. The continuing economic recovery created favourable conditions for the stable development of business. The good business climate arose mainly from rapidly growing private consumption, export growth and an increasingly stronger recovery of investments. An important factor affecting banking in Poland was the environment of low interest rates, which had a negative impact on the level of interest margin achieved, with a positive impact on the quality of the loans portfolio. The return on equity in the banking sector (ROE) in 2017 declined to 7.1% (7.8% in 2016) remaining under the influence of high regulatory charges.

PKO BANK POLSKI SA'S MISSION AND VALUES

Mission: "We support the development of Poland and Poles"

"We have been providing financial solutions to our customers every day for 100 years, so we understand the needs of Poles and Polish firms. We are consistently changing; we invest in development and responsibly introduce modern technologies to enable our customers to conveniently manage their finances at any place and time. We are proud of our history and Polish roots. We want to continue to have a positive impact on Poland – the people, firms, culture and the environment. As one of the largest banks in Central and Eastern Europe, we responsibly take care of the interests of the shareholders, customers, employees and local communities."



PKO Bank Polski SA's values:

- Customer satisfaction
- Credibility
- Continuous improvement
- Entrepreneurship

PKO BANK POLSKI SA GROUP'S BUSINESS SEGMENTS

The PKO Bank Polski SA Group conducts business in the retail segment, as well as the corporate and investment segment. Despite the diversity of each of these areas, they are interconnected by the maximum concentration on the needs of customers and the assurance of top quality of service for them.

The Group has an integrated model of development in which the Bank's subsidiaries constitute product centres, enabling the extension of the offering of financial services offered to customers. Such a model enables the Group to provide other than strictly banking and brokerage activities, such as: lease services and factoring, investment funds, pension and insurance funds, as well as transfer agent services, IT professional outsourcing and support in doing business. The Group also conducts property development activities and manages property and, through its subsidiaries, it conducts banking activities and provides financial and debt recovery services in Ukraine.

Retail segment

The retail segment encompasses products and services for private individuals as part of the retail and private banking, as well as transactions with small and medium sized enterprises (SMEs), property developers, cooperatives and property managers.

The main products and services⁸: current accounts and savings accounts, term deposits, private banking services, insurance and investment/insurance products, credit and debit cards, electronic banking services, consumer and housing loans, business loans and leasing.⁹

Corporate and investment segment

The corporate and investment segment encompasses transactions conducted with large corporate customers and financial institutions.

The main products and services: current accounts and term deposits, storage of securities, foreign currency products and derivatives, business loans, as well as leasing and factoring. Within this segment, PKO Bank Polski SA also enters into contracts individually or in consortia with other banks for financing of large projects in the form of loans and non-treasury security issues. Furthermore, the segment includes its own activities, i.e. investment activity, brokerage activities, interbank transactions, transactions with derivatives and debt securities.

⁷ Source: NBP

⁸ The term "products and services" has hereinafter been replaced by the term "products".

⁹ A detailed description of the products in the context of the impact on the social environment has been presented in subchapter 12.1

[31/12/2017]

9.5mn

number of the Bank's customers
in the retail segment

PLN 157.4bn

volume of receivables
from the Group's customers in the retail segment

PLN 166.6bn

volume of the Group's deposits
in the retail segment

14.8k

number of the Bank's customers
in the corporate and investment segment

PLN 64.0bn

volume of receivables
from the Group's customers in the corporate and investment segment

PLN 48.6bn

volume of the Group's deposits
in the corporate and investment segment

The PKO Bank Polski SA Group is developing by supporting customers and implementing projects which match the country's economic strategy. In response to the expectations of the stakeholders, the Group is not only responsibly conducting business, but is also involved in important initiatives, including social and environmental initiatives (more on this in Chapter 12).

1.2 DEVELOPMENT STRATEGY

PKO BANK POLSKI SA'S STRATEGY

PKO Bank Polski SA's development path is set by the Strategy for 2016–2020 "We support the development of Poland and Poles". In the Strategy, the bank addresses the challenges for 2020 in the main strategic objectives:

- ✓ SUPPORTING THE DEVELOPMENT OF POLISH ENTREPRENEURSHIP, ESPECIALLY IN THE SME SEGMENT
- ✓ CUSTOMER SATISFACTION
- ✓ THE INCREASE IN THE NUMBER OF CUSTOMERS USING DIGITAL SOLUTIONS
- ✓ SIMPLE AND EFFICIENT PROCESSES – "FASTER AND PAPERLESS"
- ✓ THE BEST EMPLOYER
- ✓ INNOVATIVENESS AND NEW SOURCES OF REVENUE
- ✓ LEADER OF COOPERATION IN THE AREA OF CYBER SECURITY

CONSOLIDATED FINANCIAL OBJECTIVES FOR THE GROUP UNTIL 2020

- RETURN ON EQUITY (ROE) OF OVER 10%
- COST TO INCOME (C/I) RATIO OF LESS THAN 45%
- THE COSTS OF RISK OF BETWEEN 75 AND 85 BP
- THE LEVELS OF TCR AND CET1 ABOVE THE REGULATORY AND SUPERVISORY REQUIREMENTS ENABLING THE PAYMENT OF A DIVIDEND

The Strategy is being implemented through the implementation of strictly defined and quantified strategic objectives. These objectives apply to the business benefits and the financial and non-financial (quantitative or qualitative) results that PKO Bank Polski SA is planning to achieve. They are expressed in the form of ratios, descriptive criteria or other measures. The objectives specified in the Strategy are supported in particular by the Bank's and the Group's financial plan, programmes, initiatives and strategic projects, as well as the motivation system that encompasses, among other things, the setting of and accounting for bonus tasks related to the Strategy for managerial positions. Furthermore, the Bank monitors the strategic objectives quarterly in order to ensure that they are accounted for on an ongoing basis. Reports on the results of the monitoring of the strategic objectives are presented to the Bank's Management Board and Supervisory Board for approval. The extent to which the specified indicators and tasks are achieved and fulfilled is assessed in this process, taking into account their impact on the implementation of the Strategy.

The strategy of the Bank as the parent entity in the Group, which has an integrated model of development, sets the directions for the strategies of the individual entities in the Group.

The implementation of the Strategy gains support from six levers of sustainable development:

1. CLOSE TO THE CUSTOMER

PKO Bank Polski SA focuses on promoting the development of Polish entrepreneurship, especially in the segment of small and medium-sized enterprises, as well as customer satisfaction, understood as building lasting relationships in contacts with the Bank. This is supported by a simple and transparent offering of high-class advice, flexible pricing solutions, intuitive and quick sales processes, as well as a reduction in the number of paper documents.

2. EXCELLENCE OF DISTRIBUTION

Distribution channels are being developed on the basis of the diagnosed needs of customers, by creating a holistic omni-channel model of a service system. The Bank aims to ensure cohesive customer experience in all contact channels. These plans are being implemented by continuing the process of modernizing and upgrading the network of branches, which play a key role in building a relationship with customers and the market position, as well as the further development of remote contact channels and an increase in the number and activity of customers benefiting from digital solutions.

3. OPERATING EFFICIENCY

The strategy envisages the further improvement of the internal processes. Speed and efficiency in decision-making promotes high quality analysis of data, automation and dematerialization of processes and innovative identification and authorization methods, as well as tackling bureaucracy.

4. MODERN ORGANIZATION

The key to achieving the strategic objectives is a well-motivated and committed team. The strategy places a great deal of emphasis on creating a friendly, supportive and open working environment. This is supported by committed leadership, modern knowledge management and the promotion of solutions facilitating cooperation within the organization.

5. INNOVATION AND TECHNOLOGY

PKO Bank Polski SA is consistently investing in innovative solutions, being actively involved in the creation of new standards throughout the market, innovative tools for customers and organizations, as well as the reinforcement of the role of public trust and tackling cyber threats. The Bank supports the development of Polish innovators in the segment of companies (micro, small and medium-sized enterprises, as well as corporates), and is involved in projects with good prospects, as well as areas and sectors of the future.

6. EXPANSION OF THE BUSINESS MODEL

The implementation of this strategic lever is supported by the active monitoring of the domestic market for potential acquisitions, expansion of the availability of the offering of the Group's companies, foreign development supporting the expansion of customers, alliances with strategic partners including through loyalty platforms and cooperation with public institutions in e-State solutions. While aiming towards the position of leader of technology solutions, the Bank also assumes investment in selected companies from the new technology sector.

ACTIVITIES IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY

PKO Bank Polski SA's priority is sustainable development, implemented by combining business objectives with activities supporting all groups of stakeholders. The Bank has defined its lines of action in the area of corporate social responsibility in the Strategy for 2016–2020.

Table 1. Lines of action in the area of corporate social responsibility included in PKO Bank Polski SA's Strategy for 2016–2020

Stakeholders	Lines of action taken	Selected initiatives taken up to the end of 2017
Customers	<ul style="list-style-type: none"> Education in cyber security and economics Activities contributing to an increase in confidence and customer satisfaction Initiation of measures to improve security of the financial sector Involvement of customers in important social initiatives Promotion of the development of the family business 	<ul style="list-style-type: none"> Simplifying access for customers to public services and e-government (trusted profile, 500+ programme) Preferential conditions of products for holders of a Large Family Card Understandable and brief documents "without stars" Cyber Guard Programme – warning Internet users about making their personal details known in the web Bankomania.pkobp.pl communications platform Financial education of children based on comprehensive and innovative products:

		<ul style="list-style-type: none"> PKO Junior and SKO Educational cycle for entrepreneurs “Good morning business” Collaboration with Microsoft in the Enterprise Customers Cyber Threat Intelligence Program (ECCTIP) Collaboration with the start-up environment (including within the MIT Enterprise Forum Poland) Export Support Platform – a comprehensive analytical tool for businesses
Employees	<ul style="list-style-type: none"> Building a friendly working environment Assurance of a competitive salary and professional development Diversity management Care for the balance between private and professional life Involvement of employees in social activities 	<ul style="list-style-type: none"> “PKO after hours” programme E-learning and traditional training programme Employee satisfaction and commitment surveys Employee Pension Programme (EPP) MyBenefit platform supporting an active lifestyle and personal development Medical care packages for the employees “Zdrowie jak w Banku” [Health as in the Bank] prophylaxis programme Employee volunteering Managerial staff development programmes
Social environment	<ul style="list-style-type: none"> Counteracting financial exclusion Social and philanthropic commitment Requirement of responsible conduct from partners Support of local communities 	<ul style="list-style-type: none"> Bankomania.pkobp.pl educational platform Educational cycle for entrepreneurs Collaboration with universities Cyber Guard Programme – warning Internet users about making their personal details known in the web PKO Bank Polski SA Foundation’s activities: Sponsorship “PKO Biegajmy razem” [PKO let’s run together] programme Patronage and promotion of the achievements of Polish artists Involvement in events promoting economic patriotism, family business and innovativeness in the area of finance The purchasing policy Rules of entrusting the performance of activities for the Bank to external entities
Shareholders	<ul style="list-style-type: none"> Caring for transparent reporting Assurance of sustainable growth of value Educating investors and other participants of the capital market Initiation of the implementation of the highest regulatory standards 	<ul style="list-style-type: none"> Reporting financial results, presentation of the results Constant cooperation, including organizing meetings, conference calls and meetings with foreign investors Involvement in industry congresses and conferences

Matters related to environmental protection are not explicitly formulated in the Strategy, as the Bank conducts business in the financial services sector, which has a limited impact on the environment. However, the lines of development specified in the Strategy, such as the increase in the number of customers using digital solutions or the simple and efficient processes – “faster and paperless” also indirectly have the objective of being environmentally friendly.

1.3 KEY NON-FINANCIAL PERFORMANCE INDICATORS

In the process of implementing the Strategy, the Bank's Management Board monitors a number of performance indicators which have been acknowledged as being key (KPI). A list of non-financial KPIs is presented below, broken down into areas (customer, innovation and employment).

Table 2. Key non-financial performance indicators monitored in 2017 in the process of implementing the PKO Bank Polski SA Strategy

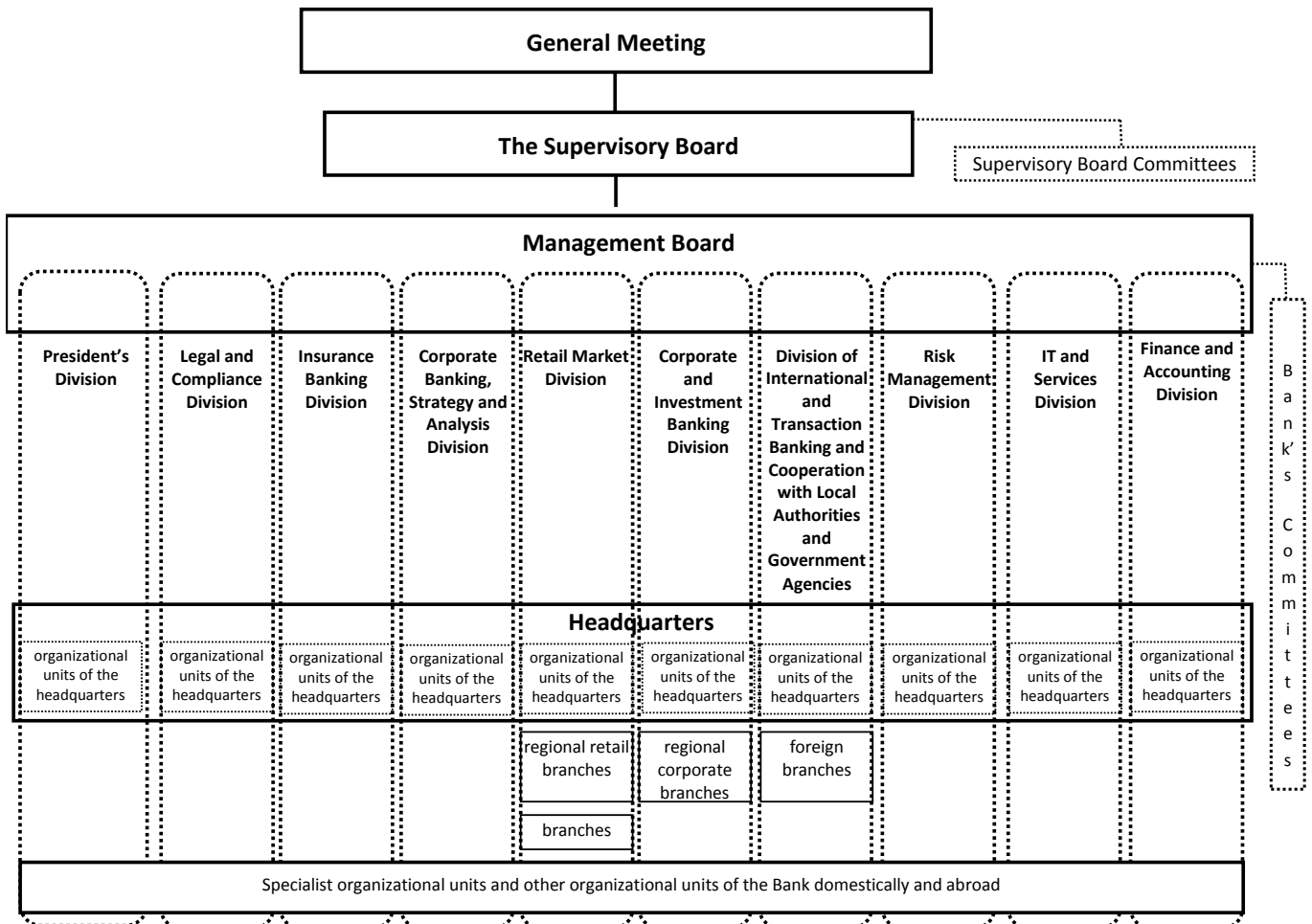
KPIs	Definition
<i>Customer area</i>	
Churn	The ratio of the number of lost active customers to the number of active customers at the start of the period.
Individual customer churn	The ratio of the number of lost active individual customers to the number of active individual customers at the start of the period
SME churn	The ratio of the number of lost active SME customers to the number of active SME customers at the start of the period
Corporate customer churn	The ratio of the number of lost active customers from the corporate segment to the number of active customers from the corporate segment at the start of the period
Corporate customer NPS	The indicator of the willingness of corporate customers to recommend the Bank
Response rate	The percentage of customers who replied to the questionnaire
<i>Innovation area</i>	
Activity in digital channels	Percentage of active users in digital channels among customers from the corporate segment
Share of active individual digital customers	Percentage of customers who logged in to remote channels within a specified time
Sales in remote channels	Share of sales in remote channels
Electronization of products	Range of CMGT products (cash management products) not supported comprehensively in electronic channels
Increase in the transaction rate of iPKO business	Share of the number of transfers made by corporate customers through iPKO business in the total number of transfers made electronically
The number of innovations implemented	Number of innovative solutions implemented for use by business projects
Number of self-service cash desks	Number of self-service cash desks at the Bank's branches
<i>Employment area</i>	
Employment in the branch network	Number of employees in the branches
Level of commitment of the employees	Level of commitment on a scale of 0-100 points
Fluctuation rate	Percentage of workers who left the company during the given year (all types of initiatives for leaving)
Employee resignations	Fluctuation rate reflecting employee resignations, excluding retirement
Average time for recruiting an employee	Time measured from the moment of the employer's formal requirement of the employee to the moment of acceptance of the proposed terms of employment
Sick leave index	Percentage of working days in which employees were on sick leave
<i>Area of environmental protection</i>	
Optimizing of printing costs	Scale of the decline in the cost of printouts during the analysed period
Number of paper documents	Number of paper documents in optimized processes

2. CORPORATE GOVERNANCE

MANAGEMENT STRUCTURE

The management structure of PKO Bank Polski SA and remaining entities of the PKO Bank Polski SA Group is based on standard, market management principles. The Bank's organizational structure is divided into ten areas which reflect the sphere of the Bank's activity.

Chart 2. PKO Bank Polski SA's organizational chart (31/12/2017).



Management of social and environmental issues of the Bank and the Group is not concentrated in one organizational cell; activities in this respect at the Bank are performed by the substantively competent organizational units in all ten business areas.

ARTICLES OF ASSOCIATION OF THE BANK AND THE GROUP'S ENTITIES

The Bank's statutory assumption is to conduct business on the basis of the generally applicable provisions of the law, in accordance with the market standards adopted by the Bank, retaining its national character.

The Bank's Articles of Association indicate that the same rights and obligations arise from all of the Bank's shares. None of the shares are preference shares, in particular, with regard to voting rights or a dividend. However, the Articles of Association restrict the voting rights of the shareholders with more than 10% of the total number of votes at the General Meeting and prohibit such shareholders from exercising more than 10% of the total number of votes at the General Meeting. This restriction does not apply to the State Treasury and shareholders acting jointly with that entity.

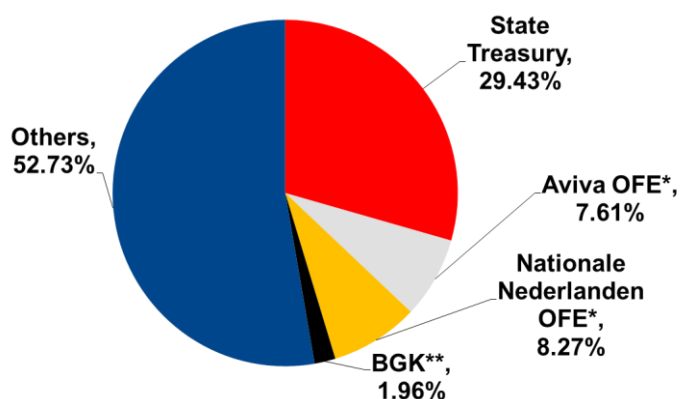
The Annual General Meeting in 2017 accepted the amendments to the Bank's Articles of Association to take account of the provisions of the Act on the principles of managing State property of 16 December 2016. The changes apply, *inter alia*, to the competencies of the Bank's authorities and the principles of disposing of fixed assets. These changes meant that some of the Bank's business has been subjected to the detailed control of the Supervisory Board e.g. by the need to obtain the consent of this authority for the Bank to conclude agreements that have a cap on their amount (but also those with no cap) for legal services, marketing services, public relations and public communication, as well as management consulting services.

The Articles of Association and agreements of entities from the Group are based on the appropriate provisions of the law on this. The Articles of Association of the direct subsidiaries are standardized in accordance with the Bank's recommendations with regard to the particularities of the operations of the given entity.

SHAREHOLDERS

The State Treasury is the majority shareholder in the structure of the Bank's shareholders. Its share has been gradually reduced from 62.3% at the time of its stock exchange debut in 2004, through ownership of approximately 52% in 2005–2008, to 29.43% currently.

Figure 2. PKO Bank Polski SA's structure of shareholders (31/12/2017)



Notes:

*) Shareholding published in the annual information about the structure of assets of the Aviva and Nationale Nederlanden funds

**) Bank Gospodarstwa Krajowego has held 24,487,297 shares since 26 August 2015, which constitutes 1.96% of the share capital

In view of the still significant share of the State Treasury in the Bank's structure of equity and the quantitative restrictions on exercising rights attached to the shares of the other shareholders, a risk factor for the Bank is the perception of it being a State institution, which may be subject to the risk of the unequal treatment of shareholders. According to the Bank, the risk of unequal treatment of shareholders is eliminated by numerous management and structural assumptions, the policy and principles adopted by the Bank and the Group's entities. The minimization of these risks not only involves the strict observance of the statutory requirement to treat all shareholders equally, but also for the use of higher standards, good practices and policies:

- the activities of the compliance services and the internal audit;
- additional standards of corporate governance.

Their objective is to obtain full transparency and to preserve the principle of clear and equal access to information for each of the shareholders, regardless of their capital commitment.

THE INTERNAL AUDIT SYSTEM

The management system at both the Bank and the Group is subject to internal audit and the operation of the compliance services with respect to the compliance of the activities of individual subsidiaries with the provisions of the law and the applicable standards in force regarding conducting specific business activities.

The Bank operates an internal audit system that is part of the Bank's management system. The Bank's Management Board is responsible for the development, implementation and assurance of operation of an adequate and effective internal audit system. The Supervisory Board supervises the implementation and assurance of the functioning of an adequate and effective internal audit system and conducts an annual assessment of this system.

The objective of the internal audit system is to ensure:

- effectiveness and efficiency of the Bank's activities;
- reliability of the financial reporting process;
- observance of the principles of risk management at the Bank;
- compliance of the Bank's activities with the generally applicable provisions of the law, the Bank's internal rules, supervisory recommendations and the market standards adopted at the Bank.

The Bank's internal audit system distinguishes three levels:

1. the first level consists of the Bank's organization structures performing operational activities, in particular: sales of products and customers service, as well as the Bank's other organizational structures performing operational tasks that generate risk, which operate under separate internal rules at the Bank;
2. the second level encompasses the activities of cells regarding compliance and the identification, measurement or estimation, control, monitoring and reporting of significant types of risk and irregularities found – the tasks are performed by specialized organizational structures, the objective of which is to ensure that the first level activities are properly designed and do not generate excessive risk, while ensuring effectiveness of the Bank activities;
3. the third level is an internal audit section involving the independent audit of the elements of the Bank's management system, including the risk management system and the internal audit system.

In order to reduce the probability of occurrence of risks and the potential impact of their occurrence on the Bank's objectives and its financial position, objectives and course of its internal processes, control mechanisms are applied at the Bank which are adapted to the objectives of the internal audit system and to the peculiarities of the Bank's business.

Information on irregularities identified within the individual components of the Bank's internal audit system, the results of evaluations and other important issues regarding the operation of elements of the internal audit are presented in the reports assigned for the Bank's Management Board, the Audit Committee of the Supervisory Board or the Bank's Supervisory Board.

The remaining Group's entities have internal audit systems which encompass the individual processes and areas of activity. These systems are not structurally uniform. In most entities, they are separate organizational units or positions performing these functions, reporting directly to the Management Board of the given company or to the Supervisory Board. In situations justified by the profile of the company's activities and its organizational structure (small entities with a limited spectrum of operation) the internal audit system is exercised by the management staff, without structurally separating this function. The lack of uniform practice in this area arises from the differentiated structure of the Group, the different sizes and business of the entities from the Group, justifying the structuring of the audit system in the given entity.

Within the Group, in the case of several entities, the quality management systems, internal audit systems and information security management are certified.

INCREASED STANDARDS OF CORPORATE GOVERNANCE

The entities from the Group are subordinated to standard audit procedures. In addition, similar to the Bank, they accepted other, higher standards of corporate governance.

The Bank builds relationships with the market on the basis of mutual trust, transparency and equal treatment of shareholders. Therefore, the Bank accepted Good Practices of WSE Listed Companies 2016 (apart from the principle of holding electronic general meetings because of the technical and legal risk). In implementing the principles, it aimed to satisfy the recommendations and principles set out in the table of good practices as far as possible with regard to relationships and communication with shareholders and investors, general meetings, Management Board and Supervisory Board, as well as conflicts of interest and salaries. The Bank monitors the scope of observance of the principles and reports on (incidental) breaches. In accordance with the internal regulation, the Bank's units are required to monitor and inform the designated organizational section of a threat of non-compliance with or a breach of a principle at a time that enables the publication of a possible report on this matter. Under the internal regulations, the Bank has a system of regular monitoring and annual reviews of the application of the recommendations and principles of Good Practices.

In the last three years, the Bank only once breached one of these principles. This applied to a case of specifying a conditional dividend payment date, about which it immediately informed the market participants.

In addition, both the Bank and the Group's companies which are subject to the supervision of the Polish Financial Supervision Authority (PFSA) adopted the "Principles of corporate governance for supervised institutions" issued by this supervisory authority, with a few exceptions.

The Bank presents the results of the assessment of the application of the principles at the Bank's Annual General Meetings.

INFORMATION POLICY

In view of the Group's ownership structure, in which 14 entities are direct subsidiaries (including 12 in which the Bank has a 100% stake), the companies report to the Bank as a parent entity within the limits of the applicable laws.

In order to maintain correct relations with all shareholders the Bank, whose shareholders are largely fragmented, has adopted principles of an information policy. According to its provisions, the Bank's overriding aim regarding the performance of information activities is to guarantee high standards of communication with the participants of the capital market, which are a sign of respect for the principles of universal and equal access to information. Within the context of the information policy, the Bank takes into account the interests of all the investors, provided that they are not in conflict with the Bank's interests, while the objective of the information policy is to define the mechanisms of communicating with the participants of the capital market to ensure appropriate, fair and complete access to information about the Bank for all investors by not applying preferences with respect to any of them.

The transparency and effectiveness of the Bank's information policy are confirmed by numerous awards and distinctions regarding the broadly-understood corporate governance and investor relations:

- according to the latest "Survey of Satisfaction of Analysts with their cooperation with PKO Bank Polski" by Partner in Business Strategies which was conducted in 2016 on contract to the Bank, the analysts appreciate very highly the cooperation with the Bank. 94% of respondents gave positive assessments. The top rated elements of the cooperation is the substantive value of the presentations for analysts and investors – 88% of positive indications and the substantive competence of the employees contacting the analysts – 82%.
- in 2017, the Bank received an award granted by the Institute of Accounting and Taxation and Gazeta Giełdy Parkiet in the category of Transparent Company of the year 2016 from the WIG 20 index.
- in 2017, the Bank took first place in the category of The best investor relations according to individual investors in 2016 (organizers of the survey: Gazeta Giełdy Parkiet and Chamber Brokerage Houses).

3. RISK MANAGEMENT

3.1 RISK MANAGEMENT SYSTEM

The risk management system is a key process for the business areas in the creation of permanent value for PKO Bank Polski SA and the PKO Bank Polski SA Group. One of the main objectives of risk management is to ensure an appropriate balance between the expected rate of return for stakeholders and the security of the Bank and the Group in the long term. These expectations require an integrated approach to risk management which takes into account social, environmental and regulatory aspects, as well as capital security and the assurance of profitability of the business conducted.

In accordance with the Risk Management Strategy at the Bank and the Group, the Bank supervises the functioning of the Group's entities. Under this supervision, the Bank oversees the risk management systems at the Group's entities and supports the development of these systems, as well as taking into account the risk profile of the operations of the individual entities in the monitoring and reporting of risk at Group level. The principles and method of assessment of the individual types of risk in the Group's entities are specified by the internal regulations introduced by these entities. The Group's entities create and update internal regulations regarding the management of the individual types of risk after consulting the Bank and taking into account the recommendations formulated by the Bank, as well as taking into account the provisions of the risk management strategy at the Bank and in the Group.

The risk management system is adapted to the nature, scale and complexity of the Group's operations, as well as the regulatory, social and natural environment. The Bank's Management Board is responsible for the functioning of an effective risk management system. The Management Board regularly monitors whether the methods

of identifying, measuring or estimating risk, controlling, monitoring and reporting risk are adapted to the Bank's and the Group's size and risk profile, as well as the external environment.

Measures of capital adequacy for the Bank and the Group are at a safe level, which assures a stable position on the market and enables a lending campaign to be handled to support the economy and society.

By appropriately managing market risk (primarily interest rate risk and forex risk), the Bank ensures the stability of its financial result and the strengthening of the Bank's market position. These activities directly affect the feeling of stability and security of the funds entrusted by more than 9 million customers using the Bank's services. Therefore, market risk management positively affects public issues by maintaining Poles' high sense of security.

As an institution of public confidence, PKO Bank Polski SA constantly manages liquidity risk in order to uninterruptedly perform the obligations it has assumed, thereby ensuring that the funds deposited by customers are safe. As the largest bank in Poland, the Bank has an influence on the liquidity of the banking sector, thereby increasing its security and positively affecting the development of the national economy – it has a positive impact on social issues.

OBJECTIVES OF RISK MANAGEMENT

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

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

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

THE MAIN PRINCIPLES OF RISK MANAGEMENT

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

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

RISK MANAGEMENT PROCESS

The risk management process in the Group consists of the following elements:

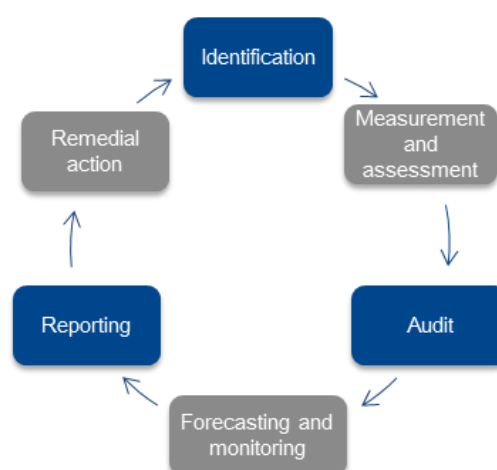
- Risk identification

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

- Risk measurement and assessment

Risk measurement encompasses the definition of the measures of risk which are adequate to its type, the materiality of the risk and the availability of data as well as quantitative risk quantification with the use of the defined measures and risk assessment involving the determination

Chart 3. Risk management process in the Group



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

- Risk control

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

- Risk forecasting and monitoring

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

- Risk reporting

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

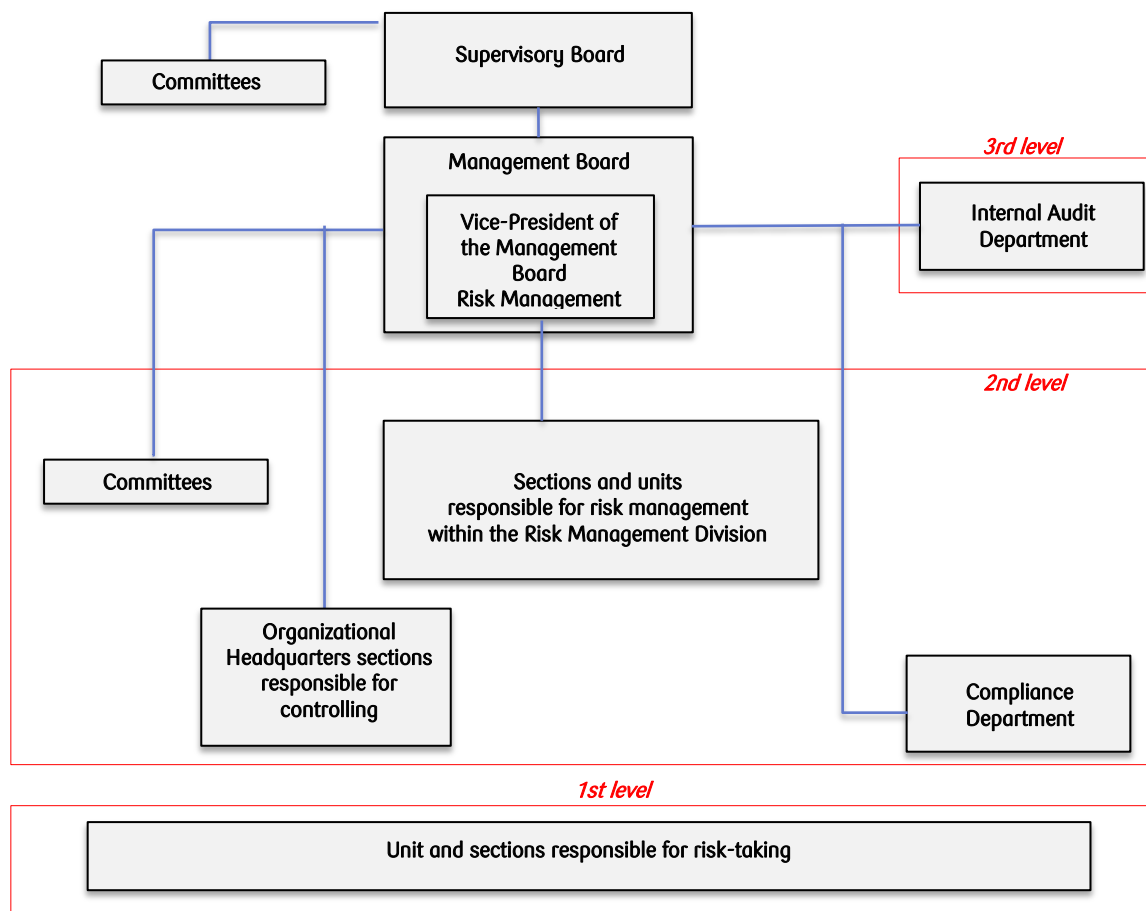
- Management actions

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

RISK MANAGEMENT ORGANIZATION

Risk management at PKO Bank Polski SA is conducted at all of the Bank's organizational units in accordance with the following chart.

Chart 4. Risk management organization at PKO Bank Polski SA.



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

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

- the Risk Committee;
- the Asset and Liability Management Committee;
- the Bank's Credit Committee;
- the Operational Risk Committee.

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

- the first level consists of the product management organization structures selling products and supporting customers, as well as other structures performing operational tasks that generate risk, which operate under separate internal rules. The function is performed in all of the Bank's organizational units, at the organizational

units of the Headquarters. Units and organizational units of the Headquarters implement appropriate risk control mechanisms designed by the second level organizational units and sections of the Headquarters, in particular, limits, and ensure their observance through appropriate control mechanisms;

- the second level encompasses the activities of the compliance unit, as well as the identification, measurement, assessment or control, monitoring and reporting of material risks, as well as the threats and irregularities that are identified – the tasks are performed by specialized organizational structures operating on the basis of the Bank's applicable internal regulations; the objective of these structures is to ensure that the activities implemented at the first level are properly regulated in the Bank's internal regulations and effectively reduce risk, as well as supporting the measurement, assessment and analysis of risk and the efficiency of operations. The function is conducted in particular in the Risk Management Division and the Compliance Department, as well as the respective committees. The second level supports activities undertaken which are intended to eliminate unfavourable variances from the financial plan in terms of the amounts affecting the quantified strategic risk tolerance limits contained in the financial plan;
- the third level is the internal audit, which performs independent audits of elements of the Bank's management system, including the risk management system, as well as the internal control system; the internal audit operates separately from the first and second levels and can support the activities performed there through consultations, but without the ability to influence the decisions that are made. The function is implemented in accordance with the Bank's internal regulations regarding the principles of operation of the internal control system.

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

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

3.2 SOCIO-ENVIRONMENTAL RISKS

Risks have been identified in the Group which are to be managed and some of them are considered significant. The significance of the risk appearing in the Bank's and the Group's activities is assessed at least once a year. This assessment may be conducted more frequently, in particular, in the case of a significant change in the scope of activity or the risk profile of the Bank, the Group's entity or the Group. The impact of this risk on the Bank's and Group's activities is taken into account when specifying the criteria for recognizing a given type of a risk as being significant. The list of significant risks to be monitored and non-significant risks at the level of the Bank and the Group is specified during the assessment of the significance of the Bank's and Group's risks. All risks identified as significant at the Bank are significant to the Group. The credit insolvency risk, forex risk, interest rate risk, liquidity risk, including financing risk, operational risk, business risk, risk of macroeconomic changes and model risk are considered significant at the Bank. Entities from the Group may consider other types of risk than those mentioned above as being significant at these entities, taking into account the specificity and the scale of their operations, as well as the market on which the entity conducts business. The Bank verifies the significance of the risk for these types of risk at the Group level. The Group's entities take part in the assessment of the significance of the types of risk initiated by the parent company which is assessed at the level of the Group.

The Group, including the Bank, manages these risks, including social aspects (with regard to customers and the products offered to them and the employees) and environmental aspects (with regard to property management activities). The methods of managing types of risks related to social and environmental aspects have been discussed later in the Report. The key risks related to social and environmental aspects arising from the Group's activities include:

- the risk of non-compliance of products with the applicable norms, including the risk of misselling;
- the risk of the incorrect labelling of products;
- the risk of unauthorized access to customer funds through electronic banking;
- the risk of unauthorized access to customer information;
- the risk related to outsourcing services.

Given the specific nature of the Group's activities, the impact on the environment is marginal.

3.3 COMPLAINTS PROCESS

An important element in managing social risks is the complaints process.

COMPLAINTS PROCESS AT THE BANK

Reporting complaints or appeals by the customer

The submission of notices or appeals by customers may take various forms, depending on the customer's decision:

- 1) in writing (personal or postal delivery);
- 2) oral (to the report as part of a personal contact during a visit to the Bank's branch or telephone contact with an employee of the Bank);
- 3) electronic (via the online banking service or other electronic means of communication, indicated in the agreement or product regulations).

Complaints and appeals handling process

The complaint handling process is conducted along two lines:

- the first line consists of units dealing with the first complaint of a customer in accordance with the tasks performed. It applies to notices:
 - filed by retail customers;
 - filed by corporate and investment banking customers;
 - cases of a breach of banking secrecy or personal data protection directed by the Inspector General for Personal Data Protection (GIODO);
- the second line is the Customer's Ombudsman and the Office of the Customer's Ombudsman, who considers:
 - appeals of customers from the position of the Bank's first line in the complaints process;
 - customer reports directed by the institutions:
 - the PFSA;
 - external institutions dealing with the protection of customer rights (such as the Banking Consumer Arbitration, the Arbitration Court at the Polish Banks Association, the Arbitration Court at the PFSA, the Municipal or County Consumer Ombudsman and the Financial Ombudsman);
 - Individual cases, in particular, when the application can have an adverse impact on the Bank's image or there is a possibility of the customer escalating the notice to the banking supervision authority.

Notices or appeals are dealt with promptly, with due diligence, reliable, thoroughly and punctually. The PKO Bank Polski Code of Ethics, the Code of Good Banking Practice and the standards of customer service quality are additionally applied when considering notices and appeals.

The consideration of a notice / appeal is based, in particular, on:

- an analysis and assessment of its validity;
- taking appropriate steps to eliminate identified irregularities;
- giving a comprehensive response.

Pursuant to the Act on handling complaints by financial market entities and on the Financial Ombudsman, the Bank is guided by the principle that the response to customer complaints should be formulated in a clear and understandable manner and should include:

- 1) a factual and legal justification, unless the notice / appeal was considered in line with the customer's wishes;
- 2) exhaustive information about the position of the Bank with regard to the reservations submitted, including an indication of the respective parts of the agreement or the product regulations;
- 3) the specification of the date on which the customer's claim, if accepted by the Bank, will be fulfilled.

The dates of replying are in line with the above Act.

Reporting of the complaints process.

The complaints process is regularly monitored by the Bank's authorities. The Customer Relations Office, in cooperation with the Office of the Customer's Ombudsman, presents information to the Bank's authorities on customer notices and appeals in the form of reports containing statistical data.

Analysis of notices / appeals to identify possible irregularities

The process of handling customer notices and appeals is supplemented by the initiation of beneficial changes at the Bank.

Every unit at the Bank, which examines applications and appeals of customers,

- analyses notices to identify possible irregularities, causes and places of their occurrence and to identify products, services or activities affected by such irregularities,
- takes remedial action.

The appropriate unit as a result of its responsibilities and the subject matter of the notice

- takes remedial action to eliminate irregularities;
- provides information on the remedial action taken and the date and method of its implementation to the Office of the Customer's Ombudsman and to the unit handling the complaint.

This approach to the complaint handling process means that individual notices lead to the implementation of beneficial solutions for not only the notifying person, but also other customers.

The implementation of remedial action is monitored by the Office of the Customer's Ombudsman.

COMPLAINTS PROCESS IN THE REMAINING ENTITIES OF THE GROUP

Procedures for accepting and handling customer complaints are implemented and followed in all the Group's entities. These procedures

- have been specified in the form of internal entity procedures / regulations,
- are included in the regulations and contained in the agreements concluded with customers or
- arise from the provisions of the generally applicable law.

Complaints are handled reliably and objectively, taking into account all the information and documents related to the problem reported by the customer and in accordance with the provisions of the law and concluded agreements.

Most entities in the Group are subject to the Act on handling complaints by financial market entities and on the Financial Ombudsman, which regulates this process in detail.

INDICATORS OF THE COMPLAINTS PROCESS

In 2017, the Group received a total of over 213k notices (including over 202k received by the Bank, mainly customer complaints). Of all the cases, over 60% have been fully or partially settled in the customer's favour.

Table 3. Number of complaints in the Group, including the Bank (2017)

	GROUP	of which BANK
Total number of notices	213,156	202,041
customer complaints	n.a.	195,394
customer appeals	n.a.	5,629
support of the PFSA and other external institutions of customer cases	n.a.	1,018
Number of cases fully or partially settled in the customer's favour	128,614¹	124,805
share in the total number of notices/appeals/appearances in support (%)	61.3 ²	61.8

Notes:¹ The number does not include KREDOBANK SA, which is planning to introduce a distinction between accepted and rejected complaints in 2018.

² The share of the number of cases accepted in the total number of notices does not include the data for KREDOBANK SA.

4. ETHICS MANAGEMENT

CODE OF ETHICS AT THE BANK

The main document governing the issue of ethics at PKO Bank Polski SA is the Code of Ethics. The Bank's Code of Ethics is a set of internal rules, standards and models of conduct specifying the method in which the Bank conducts business activities and shapes relationships between employees and between employees and customers. This code

is a supplement to the Bank's organizational culture and is a tool supporting the dissemination and implementation of values, according to which all employees of the Bank should behave. The principles contained in the Code of Ethics apply to all of the Bank's employees, regardless of their position or function.

The Bank's Code of Ethics was implemented for the first time by a resolution of the Management Board of PKO Bank Polski SA of 16 May 1995. The last update was in 2017.

The Code of Ethics and the Bank's Employment Regulations contain provisions, *inter alia*, regarding the prevention of discrimination by:

- gender;
- age;
- disability;
- religion and creed;
- race;
- ethnic origin;
- nationality;
- political convictions;
- union membership;
- sexual orientation;
- employment for a definite or indefinite term;
- full-time or part-time employment.

Other than these issues, about which the Bank also provides notice on its website, the Code of Ethics also addresses such issues as:

- the fair treatment of all suppliers (not discriminating against and not favouring selected entities);
- not using confidential information for private purposes;
- not taking steps by employees that would be in conflict with their employment duties;
- the pursuit of an objective and reliable information policy by the Bank;
- the prohibition to conduct lobbying activities;
- the prevention of corrupt practices.

In its investment policy, the Bank applies a number of solutions that ensure the ethical functioning of the Bank, which extend beyond the Code of Ethics. The most important ones include:

- compliance with the applicable law and recommendations of the PFSA;
- the introduction of appropriate changes to the internal regulations and the customer service process, in accordance with the requirements of MiFID II;
- the prevention of the appearance of a situation of a conflict of interests.

COUNTERACTING BREACHES OF ETHICAL PRINCIPLES

In order to identify and counteract breaches of the principles of ethics contained in the Code, a number of separate internal regulations are applicable, in particular:

- The principles of counteracting mobbing (more in Chapter 17);
- The principles of managing conflicts of interests;
- The principles of conducting internal and external communication;
- The principles of compliance risk management.

The principles of reporting and handling complaints, as well as a description of the remedial actions are set out in separate internal procedures related to the collecting information on non-compliance cases. So far, the Bank has only kept a register of complaints about a breach of employee rights (including mobbing). During the review of the individual cases, they were not analysed in terms of ethics, but purely employee rights and applicable regulations, so the number of breaches of ethical principles is not known. Monitoring of complaints for a potential breach of ethics standards started in January 2018.

An important element of the dissemination of ethical conduct is the building of employee awareness of the need to comply with them. The content of the Code of Ethics is available in a specially created tab in the intranet portal, which is accessible to all of the Bank's employees.

In 2017, modules regarding the issue of ethics were included in 2 training programmes:

1. Certification regarding investment products;
2. Training on mortgage banking.

Conduct, which is inconsistent with the regulations and the provisions of the law, are subject to appropriate sanctions arising from the provisions of the Labour Code and the Employment Regulations. The code of ethics in force at the Bank is one of the internal regulations, so the obligation to comply with it arises from the Employment Regulations. Penalties for failure to comply with the principles of ethics may be a reduction of the bonus.

The Bank's objective is to collaborate only with trading partners who observe the principles of ethics in their activities. According to the Bank's enquiry, when entering into the procurement procedure, suppliers declare, among other things, that they observe ethical principles (more in the subchapter 14.1).

ETHICS MANAGEMENT IN THE REMAINING ENTITIES OF THE GROUP

Within the Group, individual entities create ethics policies which are adapted to the nature of their activities. When implementing the ethics management policy, some entities from the Group use a formalized set of norms and principles of ethical conduct in the form of a Code of Ethics. Some entities, which do not have a Code of Ethics, include issues on ethical standards in additional internal regulations. This applies, for example, to internal procedures for performing the legal obligation to act in the best interests of the customers and to implement practices and processes for managing reputation risk or compliance risk. The provisions on ethical standards of conduct are often included in the compliance risk management policy.

In the Group's entities that have a Code of Ethics, it is most frequently made available in the intranet, to which all employees have access. In some entities, employees are familiarized with the Code of Ethics at the stage of introduction into the company (on-the-job training). In most entities, there is no obligation for the employees to confirm that they are familiar with the Code of Ethics.

Conduct, which is inconsistent with the regulations and the provisions of the law, are subject to appropriate sanctions arising from the provisions of the Labour Code and the Employment Regulations. The code of ethics in force at the Companies is one of the internal regulations, so the obligation to comply with it arises from the Employment Regulations.

In some of the Group's entities, responsibility for managing ethical issues lies with the personnel management units. In some entities, the Board passes responsibility for ethical issues to the President. The delegation of responsibility to teams responsible for compliance / assurance of compliance of activities with legal regulations is also a solution that is encountered.

Reporting ethical issues and irregularities in this area is related in some entities to the compliance risk management policy.

Caring for the selection of trading partners who act ethically applies to all entities from the Group. Just as in the case of the Bank, in accordance with the supplier's enquiry - by entering into the purchasing procedure - they declare, among others, that they will pursue ethical principles.

Companies operating in the insurance industry apply additional tools communicating ethical principles to their trading partners:

- the insurance distribution policy contains a description of ethical principles, which, in addition to employees taking part in the sales process, are also obligatory for anyone performing agency activities;
- in contracts with a business partner (i.e. the Bank) there are references to the ethical principles described in the insurance distribution policy;
- during training, information is provided to the advisers about the principles of ethical sales, which means informing the customer not only about the benefits, but also exclusions and limitations of liability.

ENVIRONMENTAL AREA

5. DIRECT ENVIRONMENTAL IMPACT

SCALE OF THE IMPACT ON THE NATURAL ENVIRONMENT

The nature of the business activity means that the Bank's and Group's direct impact on the natural environment is marginal. Fundusz Merkury – fiz [the Mercury Fund – closed-ended investment fund] identified the risk of environmental contamination as significant as a result of its property management activity. The object of the Mercury Fund's activity is the investment of money collected through a non-public offering of purchase of investment certificates. The fund is managed by PKO TFI SA and conducts investment activities through subsidiaries, which buy and sell real property to their own account, as well as property management. Within the framework of the management of the above risk, properties are analysed for potential sources of pollution, tenants are checked with regard to their business and properties and equipment that may contribute to pollution are regularly inspected.

In 2017, none of the entities of the Group's entities conducted a project that could significantly affect the environment. However, there was a failure in the heating installation in 2017 in one of the properties managed by the Mercury Fund. The failure resulted in a heating oil leak, even though the boiler installation, as well as the whole building underwent the inspections required by law and good practice. According to the preliminary analysis, the heating oil did not penetrate into the ground. The property manager took remedial action and secured the site. The failure in the boiler was repaired and the remnants of the oil were removed. In addition, an environmental and technical audit was commissioned, in order to independently check the causes of the failure and specify the steps to be taken to prevent similar events at this and other sites in the future.

INDICATORS

Table 4. Energy consumption and production of waste at the Group, including at the Bank in 2016 and 2017

	GROUP			including the BANK		
	2016	2017	2017/2016 (% change)	2016	2017	2017/2016 (% change)
Energy consumption (boiler rooms, generators and vehicles)						
gas ('000 m ³)	2,045	1,885	-8	1,821	1,689	-7
heating oil (m ³)	436	413	-5	429	404	-6
coal (Mg)	40	43	8	40	43	8
fuel ('000 l)	3,871	3,957	2	2,667	2,683	1
electricity (MWh)	-	-	-	81,113	74,948	-8
Production of waste other than municipal waste (Mg)	824	894	9	783	850	9

Apart from electricity consumption arising from the work of the offices / branches, energy consumption in the Group is related to the use of boiler rooms and electricity generators (consumption mainly by the Bank) and travelling with its own car fleet. In 2017, the consumption of natural gas declined by 8%, which is related to the sale of some of the properties heated with gas boilers. At the same time, the heating oil consumption declined (by 5%) despite an (insignificant) increase in the number of boiler rooms. The level of fuel consumption for vehicles has remained stable. Although diesel fuel consumption increased at the Bank, but its level was several times smaller than in the case of petrol – less harmful to the environment, because it contains lower concentrations of harmful gases than diesel fuel. In line with the principles of vehicle management at the Bank, the ability to lease cars was extended in 2017 to include hybrid cars, which will be conducive to improving the composition of the fuel consumed.

Electricity consumption declined by 8% at the Bank in 2017, which was mainly due to the reduction in the number of properties and weather factors ("cool" summer generating a lower demand for air-conditioning of premises).

The main place for generating non-municipal waste is the Bank. The increase in its volume in 2017 arose from the liquidation of unnecessary equipment, including the process of emptying vacant possessions and holiday centres,

as well as the modernization or liquidation of branches. The Bank entrusts the task of recycling or neutralizing non-municipal waste to specialist companies.

In terms of municipal waste, selective collection was conducted in four of the Group's companies. The Bank conducts selective collection of waste in some branches.

In 2017, no administrative proceedings related to a breach of the environmental regulations have ever been conducted with respect to any of the Group's entities (including the Bank).

Agreements with contractors of the Group's entities (including the Bank) do not contain clauses explicitly referring to respect for the natural environment. However, according to the enquiry of every entity of the Group, by joining the purchasing procedure, the suppliers state, among other things, that they "... care for the natural environment and its resources, including complying with the law in this respect and have clearly defined and written objectives to minimize the negative impact on the environment and monitoring progress in their pursuit."

One company leases space in a building that has received a BREEAM certificate.

PROGRAM OF OPTIMIZING ENERGY CONSUMPTION AT THE BANK

The Bank does not have a formal energy saving policy or, for example, an ISO 5001 System regarding an energy management system. However, the Bank is working towards optimizing energy consumption with a simultaneous cost optimization policy.

An energy efficiency audit of the business was conducted at the Bank in 2017 (in accordance with the Energy Efficiency Act), on the basis of which the areas of the greatest energy-saving potential were identified and the action plan developed.

- 1) In terms of electricity, the main objectives of these activities include:
 - the modernization of large refrigeration installations: the first investments were made in 2017, while the next projects are planned for 2018;
 - the modernization of lighting: LED lighting has been introduced into the standard; a gradual replacement of lighting from fluorescent luminaires to LED lighting is planned in the largest properties after taking into account the economic calculation and successive replacement in the branches in accordance with the modernization plans;
 - the analysis and modernization of other installations at technical infrastructure facilities, e.g. electric air humidifiers for ventilation units;
 - further design optimization during modernizations and investments.
- 2) With regard to the other energy media (gas, heat energy, heating oil and diesel fuel) the main objectives of these activities include:
 - an analysis of the opportunities and the possible implementation of a change in the supply of central heating boilers from heating oil to gas – a cleaner and cheaper source of heat energy (a detailed technical and financial analysis of the individual locations has been planned for 2018);
 - standardization of hot water temperature settings to reduce "overheating" of hot domestic water;
 - modernization of the infrastructure of central heating installations supplied with heat energy from external suppliers, e.g. by modernizing of heat exchangers, control automation systems, etc., taking into account the economic calculation;
 - other modernizations in accordance with the modernization plans for the entire infrastructure of facilities;
 - finalization of analyses regarding the introduction of hybrid cars into the Bank's fleet (the first hybrid cars are already being used by the Bank);
 - the introduction of training at eco-friendly driving for the employees, which should lead to reduced amount of fuel consumed.

An important element of the energy saving strategy at the Bank is the rationalization of ownership of premises and office space.

The nature of the Bank's business activities (high degree of dispersion of small properties) and the accepted principle that cost-saving measures should also be economically sensible (taking into account the life cycle of the facility) means that the optimization of energy consumption is a process which the Bank is trying to conduct in parallel with other processes, e.g. planned investments.

Most entities from the Group located in Poland use the Bank's property, so the Bank's activities regarding the optimization of energy consumption apply partly to the office space occupied by these companies.

PROGRAM FOR OPTIMIZING PRINTOUTS AND A REDUCTION IN PAPER CONSUMPTION

"Optimization of processes" – "faster and paperless" is embedded into the Bank's Strategy. The SMARTOP project regarding the digitization of sales and support processes was launched in 2017. The project is being implemented in three streams of work:

1. Paperless;
2. Channels;
3. Automation / Robotics.

The objectives of the SMARTOP project include:

- preparation of IT infrastructure for digitization and automation of the sales and support processes;
- the implementation of solutions enabling the elimination of paper documents from processes;
- strengthening the role of remote channels with regard to the support of after-sales processes and standardization of customer service in all channels;
- robotization (implementation of fully independent software for handling sales and support processes without the involvement of an employee), automation (total or partial limitation of the role of the employee in the implementation of the processes) and standardization (optimization of the duration of the process) of selected support processes.

Activities implemented in 2017 included, among others:

- the withdrawal from some paper correspondence to the customer, as well as replacing it with communication in the form of text messages;
- the encouragement of customers to switch from paper statements to electronic statements;
- the combination of communications with two borrowers in one envelope (if legally permissible and acceptable in business terms);
- the combination of instructions and confirmations for payment and withdrawal transactions on one document;
- the reduction in the need to print reports in the cash flow process.

All the activities conducted at the Bank (including the SMARTOP project) resulted in a 7% reduction in paper consumption in the branches, i.e. by 37.4k reams of paper.

6. INDIRECT ENVIRONMENTAL RESPONSIBILITY: PRODUCTS AND SERVICES

The indirect environmental responsibility of the Group, including the Bank, is mainly included in the policy of financing the activities of business and public entities.

Social responsibility, including environmental responsibility, is a part of the Bank's activities. The Bank has been taking initiatives with the objective of caring for the environment for years. This applies to several areas of activity:

1. The Bank, together with other entities from the Group, supports the development of the economy by financing individual customers and enterprises, including, in particular, investments in new technologies, the modernization of technological lines and energy-saving projects.
2. The Bank influences the attitudes of customers by participating in the financing of pro-ecological projects, including the construction of waste incineration plants, sewage treatment plants and power generation systems using modern, pro-ecological technologies.
3. The Bank has been actively involved for many years in cooperation with local authority units (LAUs), including through the financing of projects of local authority units and entities related to these entities regarding environmental protection or the pro-environmental modernization of public service facilities.
4. Issues related to the environmental impact in the credit products offered by the Bank to enterprises are taken into account in the assessment of the customers and transactions. Such an assessment is conducted in the case of all transactions related to the financing of investment projects.

5. In the case of specialist financing, in its investment project assessment, the Bank analyses the impact of the project on the environment, including in particular:
 - possession of all administrative permits regarding environmental protection arising from the applicable law (e.g. environmental decision, water permit, permit for the production of waste, integrated permit for installations that can cause significant pollution of individual elements of nature or the environment as a whole and permit for emitting gases or dust into the air);
 - geographic and environmental conditions within the area of impact of the project (e.g. the project's location, the presence of landfills and sewage treatment plants, ecological and social aspects).
6. In the process of analysing property valuations constituting security of its receivables, the Bank pays attention to whether the valuation report contains a description of the environmental factors affecting the value of the property, including the type and degree of contamination of the environment and the presence of harmful substances at the property or in its immediate vicinity (e.g. petrol, oil, solvents and paints).
7. At the stage of implementation of investment projects, the Bank monitors their course, including through an independent technical consultant (ITC). In his reports, the ITC assesses whether the conditions of all the required permits have been satisfied, especially with regard to environmental protection.

In order to better manage environmental risk, the Bank and the Group's entities integrated it with the credit risk management process.

The share of environmental protection investments in the total amount of financing of the sector of business and public entities (including loans and debt securities) by the Bank, as at 31 December 2017, was 0.9%. The list of areas included in the indicator includes:

- the generation of energy from renewable sources;
- the discharge and treatment of sewage;
- waste collection, processing and treatment activities, as well as recovery of raw materials;
- activities related to reclamation and other service activities related to solid waste management.

In addition, some pro-ecological projects are included in the LAU portfolio.¹⁰ As at 31 December 2017, the share of LAUs in the total amount of financing of business and public entities (including loans and debt securities) was 11.4% (10.1% for the Group). Simultaneously, the Bank's commitment to the financing of the mining sector is gradually declining: at the end of 2017, its share in the loan portfolio of business and public entities was 1.9%, compared to 2.3% at the end of 2016.

INVOLVEMENT IN THE MARGUERITE FUND

In 2017, PKO Bank Polski SA continued to participate in the project named "The 2020 European Fund for Energy, Climate Change and Infrastructure" ("Marguerite Fund"). The Bank's share of the fund's capital is 14%. The Marguerite Fund is the first example of a pan-European model of financing infrastructure projects in the history of the European Union, especially in the area of road and energy infrastructure, as well as infrastructure related to renewable energy sources. Since the beginning of its existence (i.e. 2009), infrastructure projects worth almost PLN 2 billion have been implemented in Poland with the involvement of the Marguerite Fund, and important investments have been conducted in the European Union countries, for example:

- construction of a municipal waste thermal treatment plant in Poznań (considered to be the largest project implemented to date in Poland in the Public-Private Partnership formula);
- construction of wind farms in Kukinia and Tychów;
- construction of a flight terminal in Zagreb;
- the acquisition of shares in Latvia Gas, which enabled the separation of gas transmission assets previously controlled by Gazprom from distribution assets and the construction of a Poland-Lithuania cross-border gas pipeline, contributing to an increase in energy security.

¹⁰ It would be excessively time-consuming to separate the pro-ecological projects from the LAU portfolio.

SOCIAL AREA

7. PRODUCT SAFETY AND CUSTOMER SECURITY

In terms of the products offered, PKO Bank Polski SA and the PKO Bank Polski SA Group pursue a policy which has the objective of ensuring:

1. Compliance of the products with the applicable regulations.
2. Their correct labelling.
3. Customer security while using them.

The scope of this policy at the Bank and in the Group encompasses both the stage of formulating the product offering, its presentation to the customer, its purchase (i.e. signature of the agreement) and the stage of use of the product by the customer.

The principles and mechanisms of pursuing the compliance policy and the appropriate labelling of products apply to the Bank and the whole of the Group.

7.1 COMPLIANCE OF THE PRODUCTS WITH THE APPLICABLE NORMS.

The Bank and the Group make every effort to ensure that all products offered meet the requirements set out in the provisions of the law, as well as the internal regulations and the accepted market standards. These efforts focus on ensuring that

- the products offered are appropriate to the needs of the customers to whom they are addressed;
- the manner and form of proposing the purchase of products is appropriate to their nature;
- before concluding the agreement, customers are provided with reliable, transparent and comprehensive information about the product, in particular its nature, design, conditions of performance of the agreement, benefits and risks, as well as fees, commissions and other costs related to the conclusion, performance and, possibly early termination of the agreement.

These rules apply not only to the Bank and entities from the Group, but also to companies to which the Bank has entrusted the performance of specific operations.

Managing the risk of inappropriate sales of the products to customers (misselling)

An example of the concern for ensuring compliance of the products with the applicable regulations is the elimination of the risk of misselling, performed at the stage of creating and introducing the product, and then at the stage of offering the product to customers. In accordance with the principles applied at the Bank of creating and introducing products into the Bank's product range, each product introduced to the range is analysed for the risks it generates and the identification of target customer groups for the given product. PKO Bank Polski SA also identifies the group of customers to which the Bank should not propose the purchase of a given product because of the risk of misselling, the lack of adaptation of the product to the customer's needs or for other reasons (the so-called anti-group). In such a case, the Bank implements actions, including systemic solutions reducing the risk of misselling. The next stage of eliminating the risk of misselling is during direct customer contact. Before presenting the product offering to a given customer, the Bank assesses the customer's needs with regard to a given product, so that there is no risk of misselling (e.g., the sale of unemployment insurance in connection with a cash loan to pensioner). Additionally, the Bank always provides reliable and comprehensive information to customers so that they can make an informed choice of a specific product. The bank acquaints customers with the benefits as well as the risk arising from the purchase of individual products.

The Bank considers any irregularities reported by its customers, in particular in the form of a complaint, forthwith and, depending on the findings, takes steps to fix them, prevent them from taking place in the future and improving the quality of service (more in subchapter 3.3).

The risk of misselling products to customers is also managed by the Group's entities: PKO Życie Towarzystwo Ubezpieczeń SA, PKO Bank Hipoteczny SA and the PKO BP Finat sp. z o.o. group.

ADMINISTRATIVE PROCEEDINGS

Four administrative proceedings were conducted at the Group in 2017 before the Office of Competition and Consumer Protection (UOKiK) regarding compliance of the Group's products with the applicable regulations. They all applied to the Bank.

Table 5. Administrative proceedings related to the principle of compliance of the PKO Bank Polski SA Group's products, including PKO Bank Polski SA's products with the applicable provisions of the law.¹¹

Description of administrative proceedings pending or completed in 2017.	Status
THE BANK	
<p>1. Proceedings initiated by the President of the UOKiK <i>ex officio</i> regarding the Bank's application of practices breaching collective consumer interests by providing notice of proposed changes to the terms and conditions of the payment service agreement exclusively with the use of electronic messages and failing to attach attachments (regulations and rates of the bank's fees and charges to individuals) in the messages related to the Bank's products, that is current accounts, credit and debit cards, payment cards, and therefore making it impossible for consumers to verify the acceptability of changing the terms of the agreement.</p>	<p>The proceedings are pending.</p> <p>The Bank responded to the allegations of the President of the UOKiK and submitted a motion to issue an obligating decision, together with proposals of actions intended to end the breach and remedy its consequences. The President of the UOKiK declared that he does not anticipate accepting the proposal of obligating the Bank at the current stage of the proceedings liabilities and pointed that the decision simultaneously issued in the meantime against Credit Agricole Bank Polska S.A. in a similar case should be an indication for PKO Bank Polski SA regarding the method of remedying the effects of the practices breaching collective consumer interests, the form of consumer augmentation, or the position of the President of the UOKiK related to a permanent medium of information in electronic banking. The President of the UOKiK announced his administrative decision ending the proceedings.</p>
<p>2. Proceedings initiated by the President of the UOKiK <i>ex officio</i> on the Bank's application of practices breaching collective consumer interests through the Bank's use of contractual provisions in model agreements, annexes to loan and mortgage loan agreements which are revalued / indexed / denominated in foreign currencies and appendices thereto, which may be considered inadmissible in the context of Article 385 § 1 of the Polish Civil Code.</p>	<p>The proceedings are pending.</p> <p>The Bank responded to the allegations of the President of the UOKiK and filed a motion to take evidence from a document showing the stability of the CHF, EUR and USD exchange rates used by the Bank with respect to the exchange rate announced by the National Bank of Poland in the period in question, i.e. 3 January 2011 - 31 July 2017. The Bank supplemented the information at the request of the President of the UOKiK, giving the date of the day from which the specified contractual provisions of the appendix to the annex are applied by the Bank in the model agreements and the annexes to loan and mortgage loan agreements which are revalued / indexed / denominated in foreign currencies. The President of UOKiK extended the deadline for completion of the proceedings until 31/03/2018.</p>

¹¹ Not applicable to cases pending before the general courts and clarification proceedings, as they extend beyond the scope of administrative proceedings.

Description of administrative proceedings pending or completed in 2017.	Status
<p>3. Proceedings initiated by the President of the UOKiK <i>ex officio</i> on the Bank's application of practices breaching collective consumer interests through linking the decision on releasing a consumer from monthly cost of the debit card with the settlement provided by the settlement agent and therefore being beyond the influence of the client.</p>	<p>The proceedings have been completed.</p> <p>The Bank submitted a motion to issue an obligating decision, together with proposals of actions intended to end the breach and remedy its consequences. The President of the UOKiK accepted the proposal and issued the obligating decision. The Bank has been obligated to provide the President of the UOKiK an information on implementing the decision and the confirmation of the Bank's actions within 18 months from the validation date of the decision, that is from 22/12/2017.</p>
<p>4. Proceedings initiated by the President of the UOKiK <i>ex officio</i> on the Bank applying practices breaching collective consumer interests by setting the level of instalments of principal and interest on loans secured with a mortgage and loans denominated in foreign currencies, as well as taking these instalments from consumers at a higher level than the cost of servicing the credit exposure presented to the consumer under the assumption that the zloty value of the principal amount of the credit exposure increases as a result of the appreciation of the foreign currency with respect to the zloty, the level of which was presented to consumers when concluding the loan agreements as a part of the information on forex risk and was described as the level of the potential increase, which arises from the original (present at the conclusion of the agreement) transfer to the consumer of the possible forex risk, which can simultaneously breach good practices and thereby distort the market behaviour of borrowers of these loans by forcing consumers to repay loan instalments at an unjustified amount, as well as by effectively preventing them from making early repayments, converting the currency of the loans, as well as terminating the agreements for these loans/mortgage loans because of the indexation of the liabilities of the borrowers up to a level that exceeds the potential increase in the costs of the credit exposure, which was presented at the time of conclusion of the agreement, which can constitute an unfair market practice, as referred to in Article 4, para. 1 of the Act on Counteracting Unfair Market Practices of 23 August 2007 and simultaneously strike at the collective interests of consumers.</p>	<p>The proceedings are pending.</p> <p>The Bank responded to the allegations of the President of the UOKiK, requesting the discontinuation of the proceedings due to launching it after the passage of the strict deadline or (alternatively) because of the irrelevance of the Bank's alleged practice or (in the event of the failure to discontinue the proceedings) to take evidence from an expert opinion or a legal person (scientific unit) to present the circumstances specified in the Bank's response.</p>

OTHER ENTITIES FROM THE GROUP

No proceedings.	
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7.2 APPROPRIATE PRODUCT LABELLING

The labelling of banking and investment products boils down to providing information to the customer about them. In the process of managing the risk of improper product labelling, the PKO Bank Polski SA Group, including PKO Bank Polski SA provides customers with access to all important information about the products offered, especially at the pre-contractual stage.

The scope of information provided about the products is specified by the applicable provisions of the law and the recommendations of the PFSA. The general rule is that the highest level of protection is available to retail customers – consumers. This information is formulated in such a way that it is understandable to the so-called “Average consumer”, namely – in accordance with the Act on Counteracting Unfair Market Practices – a consumer who

is sufficiently well-informed, attentive and cautious. However, the scope of information provided to institutional customers, e.g. financial institutions is narrower because these entities are professional customers of financial products and services.

The Bank performs its statutory information obligations

- a) in relation to deposit products, including by:
- informing customers about the principles of the deposit guarantee system;
 - informing customers about the possibility of submitting instructions in the event of death;
 - reminding customers about accounts held at the Bank, on which there have been no transactions for 10 years – in such a situation, the Bank provides appropriate information no later than 6 months before the end of the 10-year period in which there were no transactions on the account, indicating that the agreement will be terminated if there is no further activity;
 - providing model agreements before the conclusion of the agreement and during the agreement, at the consumer's every request.
- b) in relation to investment products, including by:
- providing the required information arising from the MiFID Regulation (including in the form of an Information Brochure on the Requirements of MiFID for customers of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna);
 - the provision of the "Key Information Document" (so-called "KID") to customers before concluding the agreement/transaction, in accordance with the requirements of Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products (PRIIPs);
 - providing model agreements before the conclusion of the agreement and during the agreement, at the consumer's every request.
- c) in relation to loan products (requirements of the act on consumer credit, the mortgage loan act and supervision over mortgage brokers and agents), including by:
- providing an information form to consumers at the pre-contractual stage, together with a personalized loan agreement and, in the case of applying for a mortgage loan – also a loan decision;
 - providing general information on the mortgage loan agreement to consumers at any time;
 - informing the consumer who is late in repaying the loan liability, about the ability to submit a debt restructuring request.
- d) in relation to insurance products (requirements of the act on insurance agencies and recommendations of the PFSA regarding good bancassurance practices), including by:
- showing customers a power of attorney document and, in the case of natural persons performing agency activities, a document authorizing it to represent the insurance agent, at the time of performing the first agency activity and at every request;
 - notifying customers as to whether it is representing one or multiple insurance companies;
 - informing clients about the entry into the register of insurance agents and the method of checking the entry in the register and about the stocks or shares held in the insurance company entitling him to at least 10% of the votes at the general meeting;
 - providing information to customers on the contractual provisions regarding their rights and obligations related to granting insurance protection, including the provision of an information card about an insurance product.

The principles of proper product labelling also apply to advertising messages. The Bank conducts marketing activities, intending, in particular, to support sales activities, strengthen the brand and shape its positive and coherent image. It pays particular attention to the fact that the messages that are communicated are formulated reliably and do not mislead their recipients. In accordance with the rules in force at the Bank, the advertising message should clearly indicate which product or service it applies to and should respect the generally applicable provisions of the law (e.g. the act on consumer credit regarding advertising of loans of this type). Marketing materials additionally take into account market standards and the expectations of the PFSA expressed, among others, in the Rules of advertising banking services issued by the PFSA.

7.3 SECURITY OF CUSTOMERS WHILE USING PRODUCTS

One of PKO Bank Polski SA's priorities is to set the highest security standards. Customer security in the process of using the Bank's and the Group's products primarily includes security of the funds of customers, as well as physical security of customers. The matter of security is regulated by the Security Policy and – in detail – the provisions regarding specific areas of security, i.e.:

- protection of people and property;
- IT System security;
- security incident management.

SECURITY OF CUSTOMER FUNDS

The activities of the Bank and appropriate entities of the Group related to ensuring the security of customer funds apply to both the assurance of security of the funds entrusted, as well as the funds invested with the use of the products offered. The initiatives implemented regarding the assurance of a stable and secure ICT infrastructure enabled the achievement of very high reliability indicators for the operation of the IT infrastructure applications in 2017.

Security of funds invested

The Bank makes every effort to ensure that the products offered to customers do not generate the risk of a loss of funds. This is particularly important for investment products. Therefore, within the framework of the obligations imposed by the MiFID Directive, the Bank informs customers before conducting a transaction on financial instruments as to whether the given product is suitable for them.

Security of entrusted deposits

With respect to deposit products, the main mechanism guaranteeing security of funds entrusted by customers is the stability of the financial result of the Bank and the other Group's entities. An additional mechanism is the Bank's involvement in the obligatory deposit guarantee system, operating under the Act on the Bank Guarantee Fund, the term deposit guarantee system and forced restructuring.

The security of customer funds is also guaranteed at the Bank by such procedural solutions which ensure the correct identification of the customer in every case of performance of his instructions.

Managing the risk of unauthorized access to customer funds through electronic banking

The most important threat identified by PKO Bank Polski SA and PKO TFI SA to the security of customers benefiting from the Group's products are potential criminal activities of third parties targeted at customers using electronic channels of access to banking and investment services.

First, the Bank uses the latest ICT security solutions guaranteeing secure access to funds held by customers, while the Bank is constantly improving the quality of IT systems security, in particular, regarding the applications used by the Bank's customers. This applies, among others to actively combating phishing websites pretending to be the Bank's websites, tracking the development of malware attacking the Bank's customers, developing mechanisms of detecting infected customer computers, improving the rules and extending the scope of monitoring of electronic transactions.

Second, the Bank attaches a great deal of importance to informing and raising customer awareness of the safe use of electronic banking services, as well as payment cards, as security in this respect depends to a large extent on the user's actions. These activities include, in particular:

- mass educational campaigns, e.g. by initiating texts on the safe use of electronic banking (Bankomania magazine distributed in a paper version in over 1200 branches (i.e. in almost 2/3) and the educational portal www.bankomania.pkobp.pl);
- ongoing provision of responses and explanations to customer enquiries (e-mail, social media);
- ongoing provision by the mass media of the Bank's position regarding false e-mails containing educational elements;
- ongoing response to other signals regarding threats;
- publication of information on the Bank's website, in the transaction website and distributed to customers by e-mail on securely logging in and the principles of using electronic banking.

Since 2016, the Bank has been implementing its proprietary program Cyberstrażnik [Cyberguard], through which it monitors the internet for content disclosing personal data and warns internet users on making it public on the web. The Cyberstrażnik message reached approximately 4 million internet users by the end of 2017.

The Bank was the first in Europe to start working with Microsoft, the objective of which is to raise the level of security by exchanging information on potential threats. The agreement facilitates a faster and more effective response to dangerous events appearing in the network. The cooperation was continued in 2017.

In addition, the Bank's representatives are involved in work conducted as part of the Banking Cybersecurity Centre (BCC) operating within the framework of the Polish Bank Association. BCC's objective is to implement comprehensive and long-term activities at several levels: intrasectoral, intersectoral (including cooperation with institutions from the telecommunications sector), national (cooperation with state administration and law enforcement agencies) and international, with the aim of increasing the level of mobile and electronic banking security and preparing tools (structures, procedures, information exchange mechanisms) enabling the management of crisis situations (e.g. in the event of a massive cybercriminal attack on the banking sector).

PHYSICAL SECURITY OF CUSTOMERS

The Bank and the Group's entities satisfy the postulate of assuring customers of top quality direct support at the branches, among others, by assuring appropriate standards of comfort and safety. The sites of the Group's entities conducting retail operations, including the Bank, use state-of-the-art technical solutions in the area of physical security of customers and their funds, including physical protection and monitoring.

The Bank holds training for the employees of its branches and agencies named "Counteracting robberies and dealing with security threats".

Being concerned about the safety of customers and employees, an obligatory first aid course was introduced at the Bank, as part of the health and safety training. In 2017 alone, 3,778 of the Bank's employees were trained, including 2,041 employees of branches (i.e. 15% of all employees at the branches).

7.4 CUSTOMER SATISFACTION SURVEY

During the dialogue with customers regarding, among others, the products offered, customer satisfaction surveys are conducted at the Bank, which are divided into two main segments: the retail customer and corporate customer. Most of the Group's entities do not conduct customer satisfaction surveys, as they do not have their own sales network.

RETAIL CUSTOMER SATISFACTION SURVEYS

In its activities, PKO Bank Polski SA attaches a great deal of importance to customer satisfaction. This is reflected in the Bank's Strategy for 2016-2020 "We support the development of Poland and Poles", one of the strategic objectives of which is customer satisfaction.

According to the Strategy, customer satisfaction and building lasting relations with the customer are the driving force behind the Bank's growth. Maximizing the Customer Satisfaction Index and maintaining retention rates below the market average are a long-term strategic objective. The strategic objectives are reflected in the initiatives that translate into specific actions intended to aim towards increasing customer satisfaction.

With regard to retail customers, the Bank conducts 2 types of a satisfaction survey:

1. Relational research – conducted in all customer segments, including SMEs, measuring the strength of the relationship with the Bank and satisfaction with the cooperation with the Bank in general terms, encompassing the whole of the customer's experience.
2. Transactional research – performed at the key points of contact between the customer and the Bank, immediately after the event, measuring satisfaction with a given interaction, which is defined in space and time.

Both the Net Promoter Score (NPS) and Customer Satisfaction Index indicators are used in both types of survey.

Customer satisfaction surveys are usually conducted using telephone interviews. Relational research is most frequently outsourced to external research companies, while transactional research is conducted with the Bank's own resources.

Overall, in 2017, the Bank held almost 40,000 interviews with retail customers using various methods (through telephone interviews or surveys in the transaction system). Plans for 2018 encompass approximately 150,000 interviews.

CORPORATE CUSTOMER SATISFACTION SURVEYS

In 2016, PKO Bank Polski changed its approach to the Group's corporate customer satisfaction surveys by introducing the NPS system. This process was continued in 2017, placing a great deal of emphasis in customer interviews on delving deeper into and better understanding the feedback received from customers. The personalization of the surveys and the use of open-ended questions allowing customers to provide a longer response served this purpose.

It is important for the Bank to incorporate the analysis of the research results into the rhythm of the organization's work, enabling the better identification of customer needs and areas for improvement. The process of analysing corporate customer satisfaction is related to the rapid response system and the development of new initiatives. Dozens of initiatives were approved in 2017 on the basis of the opinions of customers that were gathered, most of which were implemented. A number of improvements were introduced into the new version of the iPKO Biznes electronic banking system, while the working hours of the iPKO dealer platform were extended.

The strengths of the Bank indicated in the surveys by corporate customers describe the Bank as an institution, the strengths of which are competent and committed employees, with smooth ongoing support, giving a sense of security of cooperation through the stability and commitment of Polish capital. Over 40% of customers in this segment would recommend PKO Bank Polski SA to another company.

8. MARKETING COMMUNICATIONS

Within its marketing activities, PKO Bank Polski SA operates within the limits and on the basis of the Bank's internal regulations regarding the rules for marketing activities. In its communications, the Bank complies with the principles of ethics, which are described in the Appendix to the above document named "General requirements for creating advertising messages regarding trading in financial instruments".

These regulations define the features of the appropriate advertising message, as well as the list of undesirable actions. According to detailed provisions, the advertising message (*inter alia*):

- should be designed in a reliable manner, not be misleading, and should feature respect of the generally applicable laws, principles of fair trading and good practices;
- must not present benefits in such a way that would diminish the significance of costs and risks associated with the purchase of a product or service;
- should not be misleading or create the possibility of misleading.

In addition to the accepted internal regulations, the Bank follows the principles contained in the following documents in its marketing communications:

1. "The Code of Banking Ethics" prepared by the Polish Bank Association within the Principles of Good Banking Practice;
2. "Good Practices in consumer credit advertising standards" developed within the framework of the cooperation of the Polish Bank Association, the Conference of Financial Enterprises and the Association of Lending Companies;
3. "The principles of advertising banking services" by the PFSA;
4. "The canon of good financial market practices" prepared by entities from the financial and insurance sector.

In its marketing activities, the Bank has mechanisms that prevent the creation of unethical and unreliable messages. The units, which have the task of verifying the compliance of messages with the generally applicable laws as part of their duties, are consulted on the correctness of the communication every time. The principles of ethics in marketing communication and the mechanisms for preventing the risk of unethical communications also apply to materials prepared at the request of the Bank by external entities (advertising agencies, event agencies).

The same standards apply to all customer groups. Each message must be formulated in a comprehensible, reliable, credible way, regardless of the customer to whom it is addressed.

Within the Group, entities have internal regulations and provisions which require them to design messages with the observance of ethical standards (this does not apply to entities that do not conduct active marketing activities). These standards coincide with those adopted by the Bank. In addition, the Group's entities, which have signed agency agreements with the Bank for the provision of marketing services, are required to apply the regulations in force at the Bank.

With regard to their marketing activities, all of the Group's entities have control mechanisms to prevent the risk of an irresponsible or unethical communication from them. The acceptance of the marketing communication is appropriately approved by the entity's supervisory units respectively, or additionally – in the case of entities that have an agency agreement with the Bank – by the Bank's relevant units.

With regard to the marketing activities conducted by the Group and the Bank, no administrative proceedings were conducted in 2017 related to a breach of the regulations regarding ethics in the marketing communication.

9. PROTECTION OF PRIVACY

In accordance with the generally applicable regulations, including the Personal Data Protection Act, PKO Bank Polski SA has internal personal data protection regulations, including instructions on managing the IT system used to process personal data.

These regulations apply to the principles of personal data processing at the Bank, in particular the method in which they are processed, as well as the technical and organizational measures ensuring security of the data being processed. Additionally, the Bank applies regulations regarding, *inter alia*:

- security of protected information;
- IT System security;
- protection of people and property;
- security incident management;
- conducting clarification proceedings;
- preparation and implementation of security mechanisms.

These regulations are supplemented by:

- the regulations that directly apply to personal data regarding physical and IT security, and
- the regulations on clarification proceedings related to breaches of personal data security;

thereby creating a network of provisions comprehensively regulating the issue of personal data protection at the Bank.

Management of the risk of unauthorized access to customer information

The risk of unauthorized access to customer information is managed in accordance with the Bank's security policy. This policy regulates the principles of confidentiality of information and the maintenance of bank secrecy, as well as personal data security, including, in detail, the liability of the Bank's employees regarding personal data protection. In accordance with these principles:

- Access to protected information at the Bank is only given to employees within the scope of their corporate tasks and duties.
- The employees undergo training on security of protected information before starting to process protected information.
- If materials containing protected information are provided to external entities, a non-disclosure agreement is concluded between the parties, whereas, in the case of entrusting the processing of personal data, an agreement is concluded on entrusting the processing of personal data.

Each of the Group's entities processing personal data, which is required to have appropriate regulations on this, has such regulations and applies them in practice. They are in line with the generally applicable regulations and standards applied at the Bank and, to the extent necessary, contain specific regulations which are adequate to the specific nature of the particular entity's business.

None of the Group's entities, including the Bank, recorded a case of a "leak" or unauthorized use of personal data processed in these organizations in 2017 and no administrative procedures were conducted in this area (e.g. by the Inspector General for Personal Data Processing), which could result in the imposition of a fine.

10. PREVENTION OF CORRUPTION

ANTI-CORRUPTION SYSTEM AT THE BANK

PKO Bank Polski SA does not tolerate corruption and counteracts all corrupt practices. Such phenomena as nepotism and accepting or offering any physical goods in order to influence decisions or actions taken are in conflict with the Bank's values of credibility and trust.

The Bank has a number of regulations regarding the prevention of corruption, including accepting benefits, presents or gifts. They are primarily:

- PKO Bank Polski SA's Code of Ethics;
- the Code of Banking Ethics (Good Banking Practices) of the Polish Bank Association;
- the principles of compliance risk management and risk management at the Bank.

The Bank applies an internal anti-corruption policy intended to prevent the creation of an environment which is conducive to the offences referred to in Articles 229, 230a, 296a and 305 of the Penal Code (acts of a corruption nature) by entities related to the Bank, including, in particular, solutions ensuring:

- 1) counteracting the emergence of mechanisms for granting property and personal benefits;
- 2) familiarizing entities related to the Bank with the principles of criminal liability for the crimes referred to above;
- 3) observance by the people related to the Bank of PKO Bank Polski SA's Code of Ethics and the internal regulations regarding the procedure for reporting the acceptance of benefits, presents or gifts by the Bank's employees;
- 4) counteracting decision-making under the influence of corrupt activities and conflicts of interest;
- 5) immediate notification of the relevant organizational units of the Headquarters and the Bank's authorities by the entities related to the Bank about possible corrupt proposals received by those persons regarding the operation of the Bank, as well as reporting them to the competent bodies of public administration.

Within the Group, including the Bank, the risks related to corruption are identified in particular:

- in the customer service areas (individual and business);
- in the area of the supply of goods and services to the Group's entities, including the Bank, by external entities;
- in connection with donations and sponsorship agreements;
- in the area of relations of the Company's (including the Bank's) employees with bodies of state administration.

These areas are subject to particular attention, the processes are regulated in detail, while decisions which have significant financial consequences are accepted, in principle, through the so-called "second hand" (they require dual acceptance).

The regulations on the prevention of corruption are very detailed at the Bank. With regard to the Bank's employees and people acting on behalf of the Bank, they include:

- the prohibition to accept benefits, presents or gifts intended for personal use from customers and potential customers, as well as representatives of entities working with the Bank or applying to start working with the Bank, which could:
 - result in an informal obligation to a given customer or a person working with the Bank;
 - cause a conflict of interests;
 - otherwise negatively affect the manner in which the Bank's employee performs his corporate duties.
- this prohibition applies, in particular, to cash or cash equivalents, physical donations (presents and gifts) and other material benefits (in particular financing of travelling expenses, relaxation or training costs, participation in an event, or lending an asset, e.g. a car, for free use or use on terms that deviate from market terms), as well as the acceptance by any person involved in the procurement proceedings organized by the Bank, of any gifts and benefits from entities which are bidders or potential bidders in these proceedings;
- the exclusion of the possibility of circumventing the above prohibition, in particular by persuading other people (e.g. people living together in a household, family members or relatives) to accept the gift on their behalf;
- it is exceptionally acceptable to accept a benefit or gift in business relations, on the terms and conditions set out in the Bank's internal regulations regarding the acceptance of benefits, presents or gifts;
- the prohibition to offer any benefits, presents, gifts or incentives to customers, trading partners, representatives of bodies of public administration and other entities, which are not a part of the Bank's offering of products and services, on behalf of the Bank, in order to persuade those persons to behave in a particular way, especially to take steps which are inconsistent with the provisions of the law or good practices.

If the Bank's employee has doubts as to whether the acceptance of a benefit, present or gift is admissible in a given situation, he is required to consult his supervisor or the appropriate organizational unit at the Bank, which manages compliance risk.

SYSTEM OF LODGING BREACHES AND REPORTING

The Bank has an anonymous system for reporting breaches. Additionally, under the internal regulations, each of the Bank's employees is obliged to report any suspicion of a crime having been committed in connection with the Bank's activities. A report regarding a member of the Management Board is escalated to the Supervisory Board, in other cases – to the vice-president of the Bank's Management Board. Each matter is dealt with on the basis of the internal regulations in force at the Bank. The Management Board is required to submit regular reports at the Bank about identified cases of fraud, including those involving corrupt activities.

In the case of a breach by an employee of the Bank of the applicable regulations (the generally applicable and the Bank's internal regulations), including those regarding corruption, the Bank applies the solutions specified in the provisions of the labour law. If a particular case is qualified as grounds for instituting disciplinary proceedings, such proceedings are conducted and – depending on their outcome – the Bank applies the list of consequences provided for in the above Act, including the right to terminate such an employee's employment contract.

The Bank holds preliminary and regular training of the Bank's employees on the reporting of breaches and cases of non-compliance (including those bearing signs of corruption) and gives them access to the necessary information and internal regulations in this area (also electronically through the intranet). Each of the Bank's employees is required to undergo training regarding the principles of counteracting all corrupt practices.

ANTI-CORRUPTION SYSTEM AT THE GROUP

Within the Group, each of the entities, the business of which is related to the risk of corruption, has the appropriate regulations on the prevention of corrupt practices. Every employee is required to read and apply these regulations. Each company formulates appropriate regulations, taking into account the specificity of its activities and its own assessment of the areas of risk of corruption and bribery, which is why a uniform policy does not apply within the Group on this.

No reports were filed in 2017 and no corruption was identified in the Group's entities, including the Bank.

The Bank and the Group also include their potential trading partners in the anti-corruption activities. When joining the procurement procedure, the bidder declares that "he does not offer or provide any financial benefits to bear an influence on the decision on the selection of his proposal. He does not affect the choice of offering in a manner which is in conflict with the law or good practices and does not take part in any agreements or arrangements with other third parties, which would have the objective of influencing the selection of them."

THE ACT ON TRANSPARENCY OF PUBLIC LIFE

The Act on Transparency of Public Life, relating to, *inter alia*, the phenomenon of corruption will become effective on 1 March 2018, with a 6-month *vacatio legis*. According to the draft, the Act will impose the obligation on the Bank and the Group entities, among others to:

- have a code of ethics (signed by all employees and trading partners);
- have procedures on the acceptance of gifts, conflicts of interest and corruption;
- have procedures for providing notice of corrupt proposals;
- use anti-corruption clauses;
- familiarize employees with criminal liability;
- have procedures preventing the creation of "corruption funds".

After the Act enters into force, at the Bank with respect to the anti-corruption system, the following will be subject to adjustment:

- the introduction of an obligation for all employees and trading partners to confirm that they are familiar with the Code of Ethics;
- the introduction of anti-corruption clauses into contracts with trading partners;
- the preparation of procedures preventing the creation of "corruption funds".

11. HUMAN RIGHTS, INCLUDING CHILDREN'S RIGHTS

Depending on the size and specificity of the given entity of the Group, taking into account and observing human rights is manifested equally in the provisions of internal law, the initiatives undertaken and in everyday practice. This applies, in particular, to the rights to:

- recognize the identity of every employee;
- proclaiming one's views and opinions, freedom of thought, conscience and religion;
- the protection of personal rights;
- equal treatment;
- access to information;
- access to healthcare;
- respect for privacy.

DOCUMENTS RELATED TO HUMAN RIGHTS

Some of the Group's entities have included provisions related to respect for rights and the prohibition of discrimination in such documents as:

- employment regulations;
- Code (Principles) of Ethics;
- the Book of Values.

At the Bank, references to respect for human rights are contained in

- the Code of Ethics;
- the principles of preventing mobbing;
- the principles of recruitment and the Standards of Recruitment;
- agreements concluded with service providers (applies to personal data protection agreements);
- as well as in strategic programmes such as:
 - Culture of a modern organization and
 - Improving the processes of managing employee potential.

Some entities consider that there is no need to formalize the issue of respect for human rights, although matters of respect for human rights are taken into account, equally in the processes conducted, everyday practice and in the unwritten rules.

RESPECTING HUMAN RIGHTS

Examples of activities conducted within the Group, in which respect for human rights is reflected, are presented below:

1. Counteracting mobbing (anti-mobbing policy, anti-mobbing committee).
2. Basing the rules of the periodic appraisal on a dialogue with the employee, the employee's involvement in the appraisal with the employee's ability to appeal against the appraisal of skills and the results of the work issued by the superior.
3. Use of recruitment principles that ensure equal treatment of candidates during the selection process for filling vacancies, without any discrimination, prejudice and without obtaining information that could breach the candidate's rights and personal dignity.
4. Basing promotion decisions on an objective appraisal of qualifications, skills and results of work.
5. Supporting diversity in management, in particular with respect to age, experience, style of work, thinking; promotion of diversity among managers as an asset and not a limitation (more in Chapter 17).
6. Enabling employees to express their opinions and influence important issues regarding the organization and working conditions, management, organizational culture, as well as enabling the provision of information about perceived crimes and fraud – assuring their anonymity and confidentiality.
7. Protection of personal rights (personal data, sensitive data) of employees and customers through carefully prepared procedures and systems and inclusion of restrictive entries in contracts concluded with service providers who have access to such data (more in Chapter 9).
8. Creation of conditions for satisfying needs related to recreation and culture, as well as respect for principle of the work-life balance.
9. Assurance of freedom of association (discussed in detail in Chapter 16).
10. Creation of a safe working environment (discussed in detail in Chapter 18 on Health and safety at work).

Issues regarding forced labour and child labour are not directly reflected in the Bank's regulations, because

- the prohibition of forced labour arises from Article 4 of the Convention for the Protection of Human Rights and Fundamental Freedoms;
- the prohibition to employ people under the age of 16 arises from Article 190, para. 2 of the Labour Code.

There were no cases of breaches of human rights, including children's rights in the Group, including the Bank, in 2017, while the actions taken have the objective of preventing such an eventuality.

COMMUNICATING HUMAN RIGHTS INTERNALLY AND EXTERNALLY

Human rights are communicated within the Bank through the intranet portal, which contains principles and procedures containing references to human rights, i.e.:

- the Code of Ethics,
- the Principles of Recruitment,
- the Recruitment Standards,
- the Rules on the prevention of mobbing,
- the Rules on the periodic appraisal,
- Good practices in serving the disabled,

as well as a presentation of the Bank's Values, which the Bank addresses to customers and employees.

Human rights are communicated externally through the Bank's publicly accessible website, which contains information about the PKO Bank Polski Foundation, about the idea of the charity it pursues as a measure of respect for the environment, in particular for other people.

12. IMPACT ON THE SOCIAL ENVIRONMENT

The Bank's and the Group's impact on the social environment is achieved through many channels, through

- 1) the products offered and initiatives on the financial market;
- 2) a special approach to the disabled;
- 3) making it easier for customers to use the Group's products;
- 4) impact on local communities;
- 5) involvement in pro-social activity.

12.1 IMPACT ON THE SOCIAL ENVIRONMENT AND ITS DEVELOPMENT THROUGH THE PRODUCTS OFFERED AND INITIATIVES ON THE FINANCIAL MARKET

1. THE PKO BANK POLSKI SA GROUP FINANCES THE HOUSING NEEDS OF POLES

- In 2017, PKO Bank Polski SA and PKO Bank Hipoteczny SA granted private individuals housing loans of PLN 12.9 billion (29.6% share of new sales of mortgage loans in 2017).¹²
- The Bank has been participating in an initiative supporting the satisfaction of the housing needs of Poles the "Mieszkanie dla Młodych" [Housing for the Young] programme since 2014. The program enables customers to obtain co-financing for the down-payment and support in the form of repayment of a part of the loan from the state budget. In 2017, the Bank granted 4.8k loans in the MdM programme.
- PKO Bank Polski SA has been involved in a nationwide initiative supporting large families since 2014. The Bank introduced a special offer to holders of a Large Family Card, under which it reduced the commission on the *Własny Kąt Hipoteczny* [My Own Place Mortgage] housing loan (in 2017 - by half).

2. PKO BANK POLSKI SA SUPPORTS BORROWERS WITH A MORTGAGE LOAN

PKO Bank Polski SA treats responsibility for its business as an integral part of its business strategy. It supports customers whenever they have problems with the punctual repayment of their liabilities. In such situations, the Bank adjusts its actions to the customer's situation.

¹² According to the Polish Banks Association.

In 2017, the Bank applied conveniences for customers with mortgage loans in CHF, including, *inter alia*:

- it applied a 1% spread when servicing mortgage loans in that currency;
- it enabled the extension of the loan repayment term within the maximum lending period without charging a fee;
- it took into account the negative LIBOR CHF rate in the cost of the mortgage loan;
- it enabled customers to change the collateral on a loan granted in CHF to enable the sale of the property which is secured by the mortgage and to establish a mortgage on a newly purchased property.

3. THE PKO BANK POLSKI SA GROUP SUPPORTS THE DEVELOPMENT OF PUBLIC SECTOR ENTITIES

For many years, the Bank Polski SA Group and especially PKO Bank Polski SA and PKO Leasing SA, has been actively involved in working with public sector entities (which, in the aspect of serving LAUs, has been described in more detail in subchapter 13.2). This cooperation also includes loan support of their activities, for instance, with regard to the expansion and renovation of schools, hospitals, road projects and environmental protection. The Bank has also financed other entities from the sector (1) public administration and national defence; obligatory social security, as well as entities from other sectors of a social nature; (2) healthcare and social welfare; and (3) activities related to culture, entertainment and recreation. At the end of 2017, loans to sectors (1)–(3) represented almost 10% of the loan portfolio to the sector of business and public entities at the Bank.¹³ In the Group, this share was 9%.

Table 6. Loans granted to business and public entities from selected sections of the Polish NACE codes at the Group, including the Bank (31/12/2017)

Selected section of the Polish NACE codes	Share in the loans portfolio for business and public entities (%)	
	GROUP	the BANK
O. Public administration and national defence; obligatory social security, including LAUs	7.2	8.2
Q. Healthcare and social welfare	1.3	1.1
R. Cultural, entertainment and recreational activities	0.5	0.5
Sections O, Q, R in total	9.0	9.8

4. THE PKO BANK POLSKI SA GROUP SUPPORTS CUSTOMERS WHO ARE VICTIMS OF FORTUITOUS EVENTS

PKO Bank Polski SA and PKO Bank Hipoteczny SA enabled borrowers who suffered during the August storms in 2017 to suspend the repayment of loan and interest instalments for 12 months from the date of conclusion of the annex to the loan agreement. In addition, in the case of a compensation of up to PLN 5,000, the insurer transferred funds to repair the damage directly to the injured customers with property insurance on mortgage loans and an assignment to the Bank.

5. PKO BANK POLSKI SA IMPROVES THE OPPORTUNITIES FOR YOUTH EDUCATION

PKO Bank Polski SA increases the opportunity to educate young people, offering student and doctoral students preferential loans with low interest rates. The Bank allows for the forgiveness of a part of the loan for the best graduates. At the end of 2017, the value of preferential student loans was PLN 847 million.

6. THE PKO BANK POLSKI SA GROUP SUPPORTS THE DEVELOPMENT OF SMALL- AND MEDIUM-SIZED ENTERPRISES AND PEOPLE STARTING THEIR OWN BUSINESSES

The PKO Bank Polski SA Group provides financing for current and investment needs of small- and medium-sized enterprises, through a large and flexible product offering.

- The Bank has been providing support to enterprises in the form of BGK *de minimis* guarantees since 2013. At the end of 2017, the Bank was the largest lender from among twenty-one banks granting loans with *de minimis* guarantees (the market share of *de minimis* guarantees was 20.5%).

¹³ The share of local authority units in the total portfolio of loans and debt securities is 11.4% (see Chapter 6).

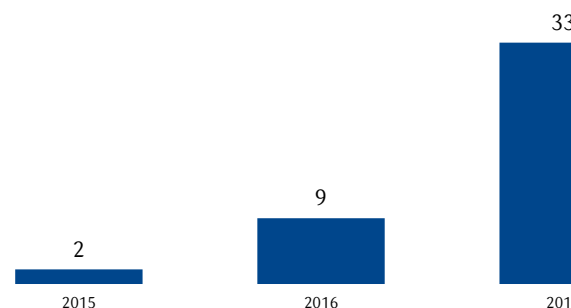
- The Bank has been providing guarantees with a counter-guarantee granted by the European Investment Fund under the COSME programme since 2015. The value of loans granted under the “*Portfelowa Linia Gwarancyjna COSME*” [COSME Portfolio Guarantee Line] at the end of 2017 was PLN 254 million.
- Within the Group’s offering, customers from the SME sector are able to benefit from lease products and services, which constitute the second (other than loans) main source of financing business activity. The acquisition of Raiffeisen-Leasing Polska in 2016 meant that the Group has assured enterprises an offering of financing which is even more customized to their needs.
- In 2017, the Bank supported small- and medium-sized enterprises not only as their financial adviser. It organized free “*Dzień Dobry Biznes*” [Good Morning Business] training in 12 cities, the objective of which was to enable entrepreneurs to establish new business relations, increase competence in company management and exchange of knowledge and experience on building responsible business. More than 470 participants took part in the training. The next cycle of the training will start in the first quarter of 2018.
- In 2017, the Bank was the first Polish financial institution to invest in a fintech start-up, i.e. in ZenCard Sp. z o.o., which joined the Group soon afterwards. ZenCard has built a platform that makes it easier for companies to run loyalty programs and reduces the costs of implementing such activities. This transaction has meant that the Bank provides a modern tool to entrepreneurs that facilitates taking advantage of the opportunities offered by the progressing digitization, including measuring customer activity and accurately assessing their needs.
- Since December 2017, the Bank has been enabling entities starting business to take out a *Pożyczka na Start* [Loan for the Start], which has features that are particularly appreciated by young entrepreneurs: ease and speed of obtaining funds, flexibility of the product in repayment and the method of spending – entrepreneurs can use it for any purpose related to their business, independently deciding on the form of repayment and, during the term of the agreement, they can benefit from, *inter alia*, a suspension of the loan repayments for one month each year.
- The Bank’s subsidiary, PKO Leasing, has also launched facilitations for young entrepreneurs, offering customers *Leasing na Start* [Lease for the Start]. It enables them to obtain financing of up to PLN 120,000 on a new and used vehicle or delivery vehicle of up to 3.5t. The use of leasing without an initial fee is available to companies operating for 3 months.

7. PKO BANK POLSKI SA SUPPORTS THE DEVELOPMENT OF INNOVATIVENESS OF THE POLISH ECONOMY AND IS THE LEADER OF INNOVATION IN THE FINANCIAL SECTOR

- PKO Bank Polski SA is open to cooperation with young, innovative companies. It is an initiator and partner of programmes such as MIT Enterprise Forum Poland, Bridge to Mass Challenge Warsaw, The Heart Warsaw and ScaleUP (implemented by the Ministry of Development). It provides participants with mentoring and technical support in the form of test environments, which is a unique opportunity to verify the ideas presented and assess the value for both individual customers and for business. The support offered by the Bank has frequently been the starting point for the future successes of young companies.

- PKO Bank Polski SA meets the expectations of customers related to changes taking place in the external environment, including the digitization of social life. An example of an innovative solution proposed by the Bank is the IKO application on the basis of which the Blik mobile payments system was created. The cooperation between PKO Bank Polski SA and other banks in Poland has meant that Blik has become a market standard for mobile payments in Poland, appreciated by specialists from around the world. The Blik system is popular among customers, which is evidenced by the rapidly increasing number of transactions in this system.

Figure 3. Number of transactions in the Blik system (million)



Source: Polski Standard Płatności

- PKO Bank Polski uses innovative solutions. An example is biometrics – a technology that enables the quick identification of the customer based on an analysis of its individual physical features. The project, conducted in cooperation with the Gdańsk University of Technology, is being tested in 60 of the Bank’s branches, in which

100 biometric stations have already been installed. By the end of 2017, biometric data of approximately 8,000 customers had been scanned and almost 200,000 samples have been taken. Considering the amount of data collected, this is one of the largest biometric research experiments in the world.

- As a leader in modern banking, PKO Bank Polski is constantly developing the iPKO electronic website as well as the functionality of the IKO mobile application, which is becoming increasingly popular – over 2 million users used it in 2017.

8. PKO BANK POLSKI SA COUNTERACTS FINANCIAL EXCLUSION

- PKO Bank Polski SA has the largest network of branches and agencies among the banks in Poland (1192 branches and 745 agencies at the end of 2017). The coverage of the Bank's distribution network also enables access to banking services to people living in towns where the Bank's main competitors do not have branches. Electronic banking is an important supplement to the distribution network of banking products and services.
- The Contact Centre is of particular importance in servicing the segment of retail customers, whose objective is not only to provide customers with banking products and services, but also to increase the security of transactions ordered by the Bank's customers.
- A very important element in counteracting financial exclusion is the support of disabled customers, which is discussed separately in sub-chapter 12.2.

9. THE PKO BANK POLSKI SA GROUP IMPLEMENTS LONG-TERM SAVING INITIATIVES

Since the beginning of its existence, PKO Bank Polski SA has been teaching Poles how to save.

- In 2017, the Bank encouraged customers to systematically save by providing them with, among other things, the "Program Budowania Kapitału" [Capital Building Programme].
- The Bank effectively responds to the needs of customers looking for valuable capital investment options, including:
 - it enabled retail and private banking customers to invest money in investment funds within the cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA;
 - it is the only bank in Poland which has enabled customers to invest in treasury bonds, including long-term treasuries.

10. PKO BANK POLSKI SA IS A PIONEER IN PROVIDING PUBLIC ADMINISTRATION SERVICES

As a technological leader in the banking sector, PKO Bank Polski SA has been initiating projects integrating the environment of the financial sector for years, including facilitating customer access to mobile and internet services – not only related to banking.

- The Bank participates in the "Od papierowej do cyfrowej Polski" [From a paper to a digital Poland] programme, which is a part of the government's Responsible Development Strategy. The first project within the framework of the cooperation involved enabling customers to submit applications for the 500+ benefit from the level of the Bank's websites; the next project was based on enabling logging in to the ZUS Electronic Services Platform (PUE ZUS) via this route.
- In 2016, PKO Bank Polski SA was the first bank in Poland that enabled its customers to set up a Trusted Profile (eGO) via online banking. This was a breakthrough in the dissemination of e-administration services, by making it easier for citizens and firms to use the services of government offices via the Internet.
- The Bank introduced another e-administration service into its offering at the beginning of 2018, this time for entrepreneurs who are able to register their firms in the Central Records and Information on Business Activity (CEIDG) through the transaction site.
- The Bank enables the taxpayer to file an application to conduct settlement under PIT with the tax office.

11. PKO BANK POLSKI SA EDUCATES AND BUILDS CONSUMER AWARENESS

- PKO Bank Polski SA is one of the few institutions in the country that conducts consistent and multi-level financial education. The Bank's broad education is addressed to various groups of customers. Its main goal is to reduce financial exclusion, build consumer awareness and act in the field of cyber security.
- The Bank educates customers by showing them the capabilities and functions of modern products, giving them access to practical economic knowledge and providing tools facilitating the management of personal and company budgets.
- An important role in the Bank's financial education is played by publishing houses and the generally accessible Bankomania.pkobp.pl portal, where both private individuals and entrepreneurs will find practical

information. Even for them, within the framework of the “Good morning business” programme, the Bank organizes and conducts regular training meetings for its customers, including for entrepreneurs running small- and medium-sized enterprises.

- The bank has a modern offering of bank accounts. In joining the government’s 500+ programme, the Bank enabled the programme’s beneficiaries to open a *Konto za Zero Rodzina 500+* [Account for Nothing 500+ Programme] account.
- The continuation of children’s education by PKO Bank Polski SA is of major public significance. Its objective is to teach good habits in the area of saving, budget management and the use of banking services. The Bank offers educational products for children aged under 13 and their parents through the PKO Junior offering. The PKO Junior offering includes: *PKO Konto Dziecka* [PKO Child’s Account], *ROR Rodzica* [Parent’s Savings and Settlements Account], *Pierwsze Konto Oszczędnościowe* [First Savings Account] and the junior.pkobp.pl and junior.inteligo.pl sites. At the end of 2017, there were 294k PKO Konto Dziecka accounts. The “*Brawo Bank*” [Bravo Bank] economic guide for children plays an important role in education. The children’s magazine is available in paper, electronic, mobile and AR (“Augmented Reality”) versions.
- The Bank takes care of the financial education of pupils as part of the *Szkolne Kasy Oszczędnościowe* [School Savings Accounts] programme. This is the oldest, largest and most modern financial education programme for pupils in Poland. The SKO offering includes www.sko.pkobp.pl, *SKO Konto dla Ucznia* [SKO Pupil’s Account] and a platform for school pupils from the SKO: SzkolneBlogi.pl. At the end of 2017, there were 152k SKO *Konto dla Ucznia* accounts.
- Technological progress and the digitization of banking services mean that cyber security not only applies to large companies, but also to individual customers. The Bank regularly warns its customers about online threats and handles extensive educational activities in this area. One of the objectives of the activities is to popularize knowledge about the principles of security in electronic and mobile banking, as well as the use of payment cards (more in the subchapter 7.3).
- The Bank was also the first in Poland to start working with the Police to prevent the so-called “grandchild” scams.

12.2 A SPECIAL APPROACH TO GROUPS OF DISABLED PEOPLE

PKO Bank Polski actively increases the availability of its services to customers with special needs. It also initiates and jointly creates activities of other entities of the Polish financial sector intended to counteract exclusion from access to financial services.

The Bank is continuously improving the standard of customer service, including for disabled customers. The Bank’s policy here has been defined separately for the Bank and the Group’s entities. The main areas of the Bank’s activities encompassed by the policy with respect to the disabled are:

1) The choice of location and the adaptation of the arrangement of the branches

The Group’s branches satisfy all the norms specified in the regulations regarding the adaptation of buildings to the needs of the disabled.

Additionally, the principles of choosing locations and ensuring an arrangement of the Bank’s branches which is friendly for the disabled are set out in the internal regulations. The most important of these are:

- location along a main pedestrian route;
- availability of parking spaces;
- access for disabled people.

By the end of 2017, 741 branches, which is 65% of the total number, had been adapted to the needs of the disabled following the internal regulations, while parking spaces designated for the disabled were marked at 342 branches (30%).

2) Standard of fittings at the Bank’s outlets

- New Format of Branches

A pilot implementation of the New Format of Branches (NFB) was introduced in 2017, in which new solutions and technologies were used to help serve customers at the branch, develop self-service channels and digitize sales processes. This format takes into account the recommendations of the Integration Foundation, which audited on contract to the Bank the available space for customers. The conclusions from the audit regarding

disabled people are also taken into account at new sites for branches, as well as branches being relocated and modernized. The NFB will also encompass the Bank's agencies.

- Support of the hard of hearing and the deaf

The bank is also constantly raising the standard of service of the deaf and the hard of hearing. It has been implementing a programme using Polish Sign Language since 2016. The advisers have been trained on the basics of sign language, while their work posts have been equipped with tablets enabling them to connect to a translator. At the end of 2017, 29 branches had "sign language" positions. The Bank is planning to increase this number in 2018.

- Support of the blind and visually impaired

The Bank also makes it easier for blind and visually impaired customers to use financial services – the number of ATMs equipped with a panel equipped with a Braille alphabet and an audio module is steadily increasing. At the end of 2017, of 3,190 ATMs, 1,801 were equipped with audio modules. Information on the location of such devices can be found on the Bank's website and, next year, this information will also be provided by the Polish Bank Association.

- Separate premises in branches

The bank assures the possibility of individual service, adapted to the type and degree of the customer's disability, whereas in situations requiring this, it offers services in a separate, comfortable and safe room.

- Fingerprint signature

The Bank has made it possible for people, who are unable to sign documents on their own because of their degree of disability, to take advantage of a fingerprint option.

3) Facilitations in modern banking

The IKO application, telephone service and electronic banking have been designed with account taken of the needs of the disabled.

12.3 OTHER CONVENIENCES FOR CUSTOMERS WHILE USING THE GROUP'S PRODUCTS

The Bank offers its products and services to millions of customers and uses all available tools – both traditional (branches, agencies) and modern (electronic, mobile and social networking), constantly modernizing them and introducing further conveniences, including, for instance:

- In 2017, the Bank started to equip branches with self-service stations, which all individual and business customers who have cards attached to the bank account are able to use. The bank is planning to gradually fit them in further branches and expand the scope of their functionality.
- The speed and convenience of service continued to improve in 2017. The achievement of this objective served the purpose of, among others, the initiative of reducing the number of paper documents in customer service processes.
- The number of child-friendly branches of the Bank was increased in 2017, where adults – during visits to the branch – are able to leave their children in specially arranged play corners. At the end of 2017, 70% of branches had an area dedicated to children; the interest shown in such a solution means that this percentage will be increased.
- Polish companies present on the German and Czech markets can count on direct support through foreign branches of the Bank – in Frankfurt am Main and Prague. Banking services are offered by KREDOBANK SA, a member of the Group, to businesses operating in Ukraine.

12.4 LOCAL COMMUNITIES

The Group's, including the Bank's policies presented in the Report so far and later affect the local communities in which they operate. This takes place through several channels:

- Impact on the local labour market and income of the population

The Group is an important employer because it creates jobs for 28.7k people (see Chapter 15). This figure is 24.7k for the Bank, of whom more than half are in branches dispersed throughout Poland. By offering a salary

level which is, on average, above the national average (see Chapter 15) the Group, including the Bank, have a positive impact on the levels of income of local communities.

- Impact on relationships

The Bank and other entities of the Group form standards in relations between employees and the employer, as well as between employees, through its organizational culture and the pursuit of employment policies.

- Raising sports and social activity

When organizing charity events and sports events, the Bank activates the local community and strengthens interpersonal relationships through its pro-social activities presented below.

Within their operations, the Bank and other entities of the Group also support the state budget and local budgets. In 2017, entities from the Group operating in Poland paid taxes of a total of PLN 3,021 million, of which PLN 2,936 million were central taxes and PLN 85 million were local taxes.

Table 7. Central and local taxes paid by the Group, including the Bank, in 2017 (million PLN)

	GROUP	including the BANK
Total taxes	3,021	2,628
Central taxes, including:	2,936	2,606
corporate income tax	1,270	1,098
tax on certain financial institutions	934	896
personal income tax	301	269
lump sum personal income tax	248	243
value added tax	109	25
lump sum corporate income tax	76	75
Local taxes, including:	85	21
vehicle tax	40	0
property tax	33	15
charge for perpetual usufruct	9	6
other taxes and charges	4	1

Notes: ¹ Excluding two indirect subsidiaries: KBC Towarzystwo Funduszy Inwestycyjnych SA and Net Fund Administration Sp. z o.o., which became part of the direct subsidiary PKO BP Finat Sp. z o.o. Group in December 2017. ² The inconsistency of the amount for central taxes and the sum of listed types of taxes results from the approximation.

In line with the amendment to the internal regulations on the location of branches and agencies, as well as their arrangement, which were implemented in 2016, the Bank's efforts practically eliminated complaints from local communities about the way the Bank operates.

12.5 INVOLVEMENT IN PRO-SOCIAL ACTIVITIES

For many years, PKO Bank Polski has been initiating and implementing social projects integrating business objectives with activities for all stakeholder groups. In accordance with the slogan of the Bank's current Strategy for 2016–2020, "We support the development of Poland and Poles", the Bank is developing the relations with the environment, actively performing activities for society and with its involvement. It supports educational, civic, cultural and charity events and projects. The Bank is a socially responsible institution for which freedom and attachment to tradition are natural values. Therefore, it conducts activities that consolidate awareness and national identity, support the development of national heritage and popularize the ideas of modern patriotism. The Bank implements this mission, among others, through patronage.

The PKO Bank Polski Foundation performs charity activities on behalf of the Group, including the Bank. Representatives of the whole of the Group participate in the projects it implements. Furthermore, individual entities perform their own charity initiatives targeted at local communities.

Both the Bank, as a part of its sponsoring activities, and the Foundation, as a part of its charity activities, verify every partner and beneficiary of the support provided. No negative impact on the Bank's image was identified in 2017 in connection with sponsorship and charity activities. Care for the rationality of the sponsorship and charity policies pursued is achieved through the synergy of activities. A Programme Council consisting of representatives of the Bank takes care of this. The Bank and the Foundation implement projects jointly or separately in the most important

programme areas in terms of image, such as culture, tradition, education and sport. Furthermore, the Foundation performs activities, the objectives of which are social welfare, protection of life and health and ecology. On the one hand, such a division of commitment to programme areas strengthens the Bank's image-related benefits, while on the other, it broadens their range.

a) Sponsorship activities

Objectives

Sponsorship activities performed by the Bank have the objective of shaping the Bank's image as a trustworthy, socially committed and modern financial institution, which is open to customer needs. It supports, among other things, cultural and educational institutions as a result of which they can develop and achieve their objectives.

An important aspect of the Bank's sponsorship activities is its commitment to projects inspired by history, promoting a patriotic attitude and identity values. The Bank integrates and supports cultural events, such as exhibitions and concerts organized for anniversaries of important historical events or commemorating the achievements and attitudes of outstanding Poles.

Principles of the sponsorship policy

The Bank's sponsorship policy is governed by specific principles and a several-stage process of reviewing and accepting offers that are submitted. An important stage is its expert assessment, made on the basis of the following parameters:

- the importance of the project;
- the business (assessment for the ability to involve customers and create a platform for building relations with stakeholders) and image potential;
- the sponsorship title offered;
- the credibility of the organizer;
- the business environment in which the Bank appears as a sponsor;
- the equivalence of sponsorship benefits in relation to the expected amount of support.

Offers that are accepted are sent to the Sponsorship Committee, which guarantees that the proposals under consideration will be considered factually and comprehensively.

Areas of activity

In 2017, the Bank received 729 offers and proposals of cooperation, of which 321 projects were implemented – both nationwide and smaller – dedicated to local communities. Expenditure in support of business, sport (including the organization of the proprietary "Let's Run Together" project), culture (including national heritage) and education accounted for the largest share of the sponsorship budget.

Table 8. The structure of the Bank's sponsorship budget by area of activity in 2017

Area of activity	Share of the total budget (%)
Business	40.4
Sport	30.0
Culture and art	24.4
Education	4.4
Local events	0.8
Total	100.0

Business

PKO Bank Polski supports Polish business, as a result of which it contributes to the promotion of Polish companies and the growth of popularity of domestic products. It supports important events related, among other things, to economics and the national economy (e.g.: Congress 590, Economic Forum in Krynica and European Financial Congress) as well as sectoral projects (e.g.: Retail Banking Congress, Top Industry Summit and Polska Chemia Congress). This means it is strengthening the Bank's strong position on the financial market (assistance in achieving sales targets), promoting innovation and cooperating with young technology companies from the FinTech sector.

Sport

The Bank is intensely involved in sports projects intended to popularize health, an active lifestyle and physical fitness. It has been supporting mass running events for years. The "PKO Bank Polski Let's Run Together" programme was established in 2013 and has been gradually developing since then. The Bank sponsored 46 events throughout Poland in 2017. It was the titular sponsor

of, among other things: the PKO Poznań Half Marathon, the PKO Poznań Marathon, the PKO Wrocław Night Half Marathon, PKO Grand Prix Gdynia and the PKO Solidarity Half Marathon in Lublin. It was also a strategic partner of the races included in the Warsaw Triad Trail "Zabiegaj o Pamięć" [Run For the Memory].

Running training is an important element of the programme, held as part of the BiegamBoLubię [I Run Because I Like To] campaign at 80 athletics stadiums throughout Poland. Over 36k people took part in this training in 2017.

The Bank took part in 53 sporting events in 2017. In addition to mass events, the Bank supported, among other things the ski Piast Race, the Cavaliada Tour and the Tall Ship Races 2017.

Culture and art

The Bank actively promotes national heritage and joins in activities intended to cultivate tradition and supporting the achievements of Polish artists. The most important projects in this area apply to cooperation with museums (including the National Museum in Kraków and Warsaw), philharmonic orchestras and operas (including the National Philharmonic in Warsaw, the Kraków Opera) and theatres (including the Polish Theatre in Warsaw). It also supports film festivals (including the Polish Film Festival in Gdynia and the Niepokorni, Niezłomni, Wyklęci [Insolent, Steadfast, Cursed] Festival in Gdynia). The Bank joins in and supports cultural events organized for anniversaries of important historical events, such as concerts and exhibitions related to the Warsaw Uprising, the adoption of the Constitution of 3 May, Independence Day and celebrations of the National Day of Remembrance of the Cursed Soldiers.

Education

The Bank is one of the few banks in the country that conducts consistent education supported by comprehensive products. It is involved in many social educational initiatives, while bank experts share their knowledge and experience. It works with academic centres, including with the Warsaw School of Economics, the University of Łódź, the University of Silesia, the Kazimierz the Great University in Bydgoszcz, the Wrocław University of Technology, the Rzeszów University of Technology and the John Paul II Catholic University of Lublin. For years, it has been supporting student teams from the University of Warsaw, the Jagiellonian University and Wrocław University taking part in team programming championships – at national, regional and global level.

Events of importance to local communities

In 2017, the Bank was involved in many local projects of great importance to the communities from the given region of the country. These activities help integrate environments, build platforms for sharing experience, as well as developing entrepreneurship among the inhabitants of the given area. Examples of such initiatives are, among other things debates and meetings with entrepreneurs, cooperation with chambers of commerce and industry, local cultural centres, schools, as well as support of mass events.

Support of the Polish National Foundation

The Bank is one of the sponsors of the Polish National Foundation (PFN), the mission of which is to "promote our successes in science, extensive culture, wonderful history and unique nature."¹⁴ According to the PFN's statutes, each of the sponsors was obliged to make contributions to the Foundation's founding fund and make annual payments towards the organization's activities for 10 years starting from 2017. According to the statutes, in 2017, PKO Bank Polski SA transferred funds amounting to PLN 7 million.

b) Charity activities

Principles and objectives of the charity activities

The PKO Bank Polski Foundation conducts its activities for the public good on behalf of the Bank and the Group. In accordance with the accepted course of action, the main objective of the tasks performed by the Foundation is to substantively and financially support projects of importance to the development of Poland, implemented for and in consultation with the local communities, serving the purpose of building a civic society.

The scope of the Foundation's activities is specified in the Foundation's Statutes, while the principles of cooperation between the Bank and the Foundation are governed by the agreement concluded on 22 May 2015. Grants awarded by the Bank based on the resolutions of the Management Board constituted the main source of financing of the Foundation's statutory objectives in 2017. Additional funds donated to the Foundation came from the profit generated in non-cash transactions conducted by Inteligo's customers related to the affinity type card: *Dobro procentuje* [Good pays dividends].

¹⁴ www.pfn.org.pl

Programme areas

In 2017, the Foundation received 1,176 applications for granting monetary donations for social activities. 513 projects were approved. The donation is transferred under a donation agreement concluded by and between the Foundation and the project partner.

The Foundation also transfers substantive donations to non-governmental organizations, in the form of IT hardware and furniture withdrawn from use from various banking units. In 2017, a substantive donation in the form of computers was provided to 11 organizations, while furniture was transferred to 84 beneficiaries.

Table 9. Structure of the PKO Bank Polski Foundation charity budget by programme area in 2017

Programme area	Share of the total budget (%)
Tradition	30.2
Education	25.0
Hope	18.3
Health	12.9
Culture	9.5
Sport	3.5
Ecology	0.5
Total	100.0

The Foundation's activities for the public good include education, upbringing, social welfare, healthcare and health promotion, culture and art, environmental protection and supporting the development of local communities. The Foundation substantively and financially supports the projects of many environments and communities of importance to the development of Poland and the civic society.

The subsidized initiatives fall into one of the Foundation's seven programme areas:

Education – support of science and education

This area includes science and education, in which the Foundation becomes involved in projects that have a real impact on social development. The Foundation works, among others, with the Siemacha Association, and supports the Academy of Modern Patriotism and the Jan Łukasiewicz Centre of Strategic Solutions.

Tradition

The Foundation's activities in this area focus on popularizing and supporting initiatives that consolidate national awareness, support the development of national heritage and develop civic attitudes. The Foundation works, among others, with the Warsaw Uprising Museum, and is involved in helping the charges of the Warsaw Uprising Association.

Hope

The Foundation provides social welfare to people under threat of exclusion, in particular victims and the disabled. While performing its tasks in this area, the Foundation works, among others, with the Disabled Drivers Help Association "SPiNKa" and the "Równy Start" [Equal Start] Association of the Disabled.

Health

This area includes protection of life and health, as well as health prophylaxis. The Foundation financially supports both rehabilitation and specialized operations of sick and needy people.

Culture

The Foundation's activities in this area focus on the protection of national heritage in the area of culture and art, as well as the support of artistic creativity. The Foundation is involved, among others, in the organization of open air events and promotes the work of young artists. These have included students of the Kraków and Szczecin Academies of Fine Arts.

Ecology

The Foundation undertakes social initiatives intended to disseminate knowledge of environmental protection. The most important pro-ecological activities in 2017, in which the Foundation was involved, include events related to the Vistula Year – the project of the Rok Rzeki Wisły [Year of the Vistula] Foundation.

Sport

Activities in this area have the objective of encouraging physical activity. Projects implemented in 2017 in this area included purchase of a boxing ring for a school sports club in Masuria, the support of swimming competitions for families of the Family Cup in Pisz and the Indoor Football Tournament for the Orphanage in Radzymin.

Own projects

The Foundation also implements its own projects, including:

- Integration Santa Clause Meetings for the charges of the care and upbringing centres and the children of the Bank's employees (6,150 children took part in group Christmas fun in 2017 at 36 meetings in 22 towns in Poland. Gifts were also sent to 28 care and upbringing centres);
 - the Banking Honorary Blood Donation Campaign, the objective of which is to raise further generations of honorary blood donors (more than 2,000 people joined the campaign in 2017, thanks to whom nearly 830 litres of blood were provided to the needy);
 - a charity running campaign "I run for ..." (98 events were organized in 2017, collecting PLN 1.33 million, from which 199 beneficiaries benefited, including 90 children and 29 adults. A total of 322 such events have been conducted since the start of the programme, i.e. since 2013, with over 124k people taking part, while the Foundation supported 354 beneficiaries with more the PLN 4.5 million).
 - PKO Charity Run (6,401 people took part in the third Charity Run in 2017. As a result, the Foundation donated PLN 845,800 to 12 organizations: care and upbringing centres for children and youths, as well as single mothers' homes).
- c) The development of a volunteering service

The Bank encourages its employees to become involved in work for local communities. At the end of 2017, it had 1,365 registered volunteers. Volunteers not only join the projects initiated by the Foundation, but often initiate them themselves (e.g., food collection for selected organizations (foundations / associations) in individual regions of Poland, renovation of the flat of a participant of the Warsaw Uprising, Zofia Brączyk, pseudonym "Renia", as well as an event named "Donate your time to a senior citizen" involving spending time with the charges of old people's homes).

13. USE OF STATE AID AND PUBLIC PROCUREMENT

13.1 STATE AID RECEIVED FROM THE STATE

None of the entities from the Bank Polski SA Group, including the Bank, recorded any receipts from State aid in 2017.

13.2 REVENUE FROM PUBLIC PROCUREMENT

SCOPE OF SERVICING THE PUBLIC SECTOR

The Bank has been financing and providing banking services to public entities for many years, including:

- the Social Insurance Institution;
- local authority units (LAUs);
- companies in which local authority units have a stake;
- entities for which the local authority is the founding body;
- public sector related units;
- General Directorate of the State Forests and its organizational units.

Contracts for banking services are concluded within the framework provided for by the "Public Procurement Law" (including taking into account any possible statutory exclusions regarding the subject matter and the entity).

The Bank is gradually strengthening its position as a leader in servicing LAUs and underwriting issues of municipal bonds. The extensive network of the Bank's branches is conducive to reaching the local authority customer throughout Poland, whereas, the high technological level of services offered means that, in the vast majority of cases, the Bank satisfies the proposal requirements set by LAUs. As a result, the Bank's share of serving LAUs is significant. At the end of 2017, the Bank served:

- 50% of the voivodships (8 out of 16);
- 35% of cities with the rights of counties (23 out of 66);
- 19% of counties (60 out of 314);
- 18% of urban municipalities (43 out of 237);
- 12% of urban-rural municipalities (75 out of 616);
- 3% of rural municipalities (49 out of 1559).

The bank plays an important role in serving large LAUs, in particular. At the end of 2017, it served 22% of local authorities with incomes of over PLN 100 million per year (78 out of 351). In value terms, this share was even larger: 33% (PLN 44.5 billion of budget revenues generated by a group of 351 large LAUs passed through the Bank's accounts).

The Bank's share of financing of local authorities with loans is more than 19%, while its share of municipal bond issues is over 40%.

According to the management data the public (budget) segment accounted for 1.8% of the result on the Bank's business activities in 2017 (14.2% of the result of the corporate segment, i.e. business and public entities jointly). The revenues of the Group's entities from participation in public procurement were negligible: 1.14% of the result on business activities.¹⁵

THE PROCESS OF THE BANK TENDERING TO PUBLIC SECTOR ENTITIES

The tendering process at the Bank in the public procurement rigour is divided into four stages:

1. Obtaining information – the Public Procurement Law provides that access to public information is public and every entity has an equal right of access to the information provided by the contracting authority in the public procurement procedure. The Bank most frequently obtains information from the tender databases and the Public Information Bureau websites of local authorities / public sector customers.
2. Analysis – whether the Bank is able to submit a tender is analysed during this process.
3. Depending on the product to which the order applies, specialized dedicated units at the Bank conduct the analysis in accordance with the banking procedures (e.g. credit analysis, the ability to satisfy the conditions of the ToR, the possibility of issuing bonds).
4. Decision-making – decisions are made in accordance with the responsibilities at the level from the Adviser to the Regional Corporate Centre to the Bank's Management Board, depending on the level specified by the bank's internal procedures.
5. Submission of a tender – after a positive decision is made to submit a tender, it is submitted in the manner and at the time specified in the order.

14. OTHER SOCIAL AND MARKET ISSUES

14.1 RELATIONS WITH EXTERNAL ENTITIES

The external entities with which PKO Bank Polski SA and the Bank Polski SA Group cooperate are:

- entities providing banking services;
- suppliers of goods and services related to the ongoing procurement of the Group's entities.

COOPERATION WITH EXTERNAL ENTITIES IN THE AREA OF BANKING ACTIVITIES

Operational risk related to outsourcing banking activities to external entities

The Bank conducts banking activities with the support of external entities as a result of which it is exposed to operational risk arising from outsourcing services to other entities.

In accordance with the Bank's internal regulations regarding:

- operational risk management;

¹⁵ The indicator is not consolidated and is presented separately for the Bank and for the other entities of the Group because of the different methodologies of calculating it:

- for the Bank, the indicator applies to the overall profitability from the servicing of public sector entities calculated at the Bank in relation to total profitability of the Bank's portfolio of customers; due to the nature of the banking service, the separation of transactions strictly related to public procurement would require a workload which is disproportionately high to the value of the information obtained in this way.
- for other entities in the Group, the indicator reflects revenues from public procurement in relation to the result on business activities; in the case of the Group, total income was not included in the denominator, as the calculation of this amount for the Group would require a workload which outweighs the benefit of this version of the indicator. The inclusion of the Group's sales revenue in the denominator would reduce this index.

- contracting for the performance of activities for the Bank to external entities other than agents and intermediaries (outsourcing);
- cooperation with agents, brokers and online brokers,

the risk management related to outsourcing activities to external entities at the Bank applies to all stages of outsourcing, starting from planning the outsourcing of activities, through the selection of the entity that will perform the activities, the conclusion of the outsourcing contract, monitoring cooperation and ending the cooperation.

Within the framework of the operational risk management related to outsourcing services to external entities, the Bank, in particular:

- 1) evaluates the contractor at the stage of selection of the external entity;
- 2) ensures that the interests of the Bank and its customers are appropriately secured in contracts with contractors (including securing data which is subject to bank secrecy);
- 3) ensures that the Bank and the contractor have contingency plans in place to ensure the continuous and uninterrupted operation of the activities encompassed by the outsourcing contract;
- 4) supervises the performance of contracts, reports irregularities, calculates and monitors the KRI (Key Risk Indicator) index providing information about the scale of breaches of outsourcing contracts;
- 5) evaluates the risk related to entrusting activities at the stage of planning the outsourcing of activities in the case of every material change in the contract and during the annual assessment of operational risk related to the performance of the outsourcing contract.

Operational risk management related to outsourcing services to external entities also takes place at other entities of the Group.

COOPERATION WITH SUPPLIERS OF GOODS AND SERVICES RELATED TO THE ONGOING PROCUREMENT OF THE GROUP'S ENTITIES

The mission of the section handling procurement at the Bank is to punctually supply the materials and services needed of the required quality. These activities are accompanied by systematic cost optimization. On the other hand, the Bank follows the principles of business ethics, aiming towards transparent relationships with suppliers. The procurement policy is developed in cooperation with the suppliers. One of its main documents constitutes the Principles of purchasing of goods and services at the Bank.

Relations with suppliers are built on the basis of honesty, transparency of action, mutual respect and professionalism, including, in particular, through:

- honouring the accepted arrangements and obligations;
- settling payments and other liabilities on time and in accordance with the agreed contractual terms;
- resolving difficult and conflict situations through dialogue;
- verifying suppliers only on the basis of substantive and business premises;
- informing suppliers about standards of conduct.

Payment terms in contracts with suppliers vary according to the supplier's standard contracts and individual arrangements. The standard term at the Bank is 30 days (57% of contracts), but, in many cases, the payment term is half of this (i.e. 14 days: 26% of contracts). The situation is similar in the Group: 30-day payment terms are prevalent, whereby the frequency of 14-day payment terms is relatively higher than in the case of the Bank, as this period dominates in the contracts concluded by the subsidiaries.¹⁶

The Bank and entities from the Group reliably approach the issue of settling their liabilities to suppliers on time. In 2017, the value of invoices paid late, on which interest was charged as a result, constituted a marginal percentage of all the invoices paid. The list does not include payments, a possible delay in which was agreed with the supplier, because the collection of this information would be excessively laborious.

¹⁶ The inclusion of more detailed information would require a workload that outweighs its usefulness.

Table 10. Share of the value of invoices on which interest was paid to the total value of invoices paid in the Group, including at the Bank (2017).

	GROUP	the BANK
Share of the total value of invoices (%)	1.053	0.003

The procedure for selecting suppliers consists of two stages. In the first step, potential contractors are required to register, which they can do on their own through the PKO *Zakupy* [procurement] platform. Every such supplier must be approved by the manager of the section responsible for procurement. Entities, which have obtained approval, are able to take part in the second stage, namely procurement proceedings.

The impact on suppliers regarding socio-environmental issues takes place at the stage of the enquiry organized by the Bank or each of the other entities of the Group. In accordance with its wording, when joining the procurement procedure, the suppliers declare that they are guided by the overriding principle of respecting the law, a sense of justice and social responsibility and they understand the influence exerted by their activities on the natural environment, their surroundings, the other party, their employees, co-workers, subcontractors and business partners, and they are guided by ethical principles. A later part of the statement contains detailed declarations regarding:

- caring for safety at the workplace;
- being guided by cooperation, trust and a responsible and partnership approach to the other Party;
- compliance with the rules on working time and remuneration for work;
- respecting human rights;
- counteracting corruption;
- caring for the natural environment.

The details of these provisions have been discussed in the respective parts of the Report.

Suppliers receive a survey from the Bank once a year, which enables valuable information to be gathered about the functionality of the procurement platform and general observations about the cooperation with the Bank. The conclusions from the survey are the premises for improving the terms of cooperation between the Bank and the suppliers.

14.2 ANTI-COMPETITIVE AND ANTI-MARKET CONDUCT

No administrative proceedings were pending in 2017 against any entities of the Group for anti-competitive or anti-market conduct.

EMPLOYMENT AREA

15. EMPLOYMENT AND SALARIES

EMPLOYMENT

The PKO Bank Polski SA Group employs 28.7k employees (28.4k full-time equivalents, FTE). The Bank's employees (24.7k people) constitute a substantial proportion of the Group's employment (86%). The largest age group in both the Group and the Bank are 35-45-year-olds (34%). In the Group, employees aged 55+ accounted for over 11% of all employees; at the Bank, this percentage was even higher: almost 13%.

The employment contract was the main form of employment both in the Capital Group and at the Bank. People working on the basis of civil-law contracts constituted less than 14% of people employed in the Group on employment contracts and civil law contracts jointly. This percentage was even smaller at the Bank: less than 11%.

In 2017, the level of employment in the Group was reduced by more than 800 people (i.e. by less than 3%). This decrease arose entirely from the decline in the number of employees at the Bank (by over 800 people, namely by over 3%). The departures applied to women to a relatively greater extent, which was related to the liquidation of some of the Bank's branches. The fluctuation rate in the Group was 16.9% and was slightly lower for women than for men. The fluctuation rate in 2017 for the Bank's employees was 15.3% and was similar for women and men.

The Group employed 277 disabled people, which constituted 1% of all employees. Out of this number, 211 disabled people were employees of the Bank; disabled people accounted for 0.9% of total employment at the Bank.

Table 11. Employment at the Group, including at the Bank (31/12/2017)

	GROUP		including the BANK	
	Total	share of women (%)	Total	share of women (%)
Employment				
Number of people	28,673	75.0	24,652	76.7
Number of people in FTEs	28,388	75.1	24,539	76.7

Note: The employment data does not include members of the Management Boards of the Group's entities.

Table 12. Employment structure at the Group, including the Bank, by sex and age (31/12/2017)

	<25 years	25-35 years	35-45 years	45-55 years	55-65 years	>65 years	Total
GROUP							
Total employees	1,053	7,512	9,662	7,146	3,236	64	28,673
share of the total number of employees (%)	3.8	26.4	33.7	24.7	11.2	0.2	100.0
Women	756	5,297	6,879	5,770	2,781	19	21,502
share of the total number of women (%)	3.7	24.9	32.0	26.5	12.8	0.1	100.0
Men	297	2,215	2,783	1,376	455	45	7,171
share of the total number of men (%)	4.1	30.9	38.8	19.2	6.3	0.6	100.0
including the BANK							
Total employees	762	5,770	8,290	6,682	3,089	59	24,652
share of the total number of employees (%)	3.1	23.4	33.6	27.1	12.5	0.2	100.0
Women	556	4,144	6,006	5,482	2,692	16	18,896
share of the total number of women (%)	2.9	21.9	31.8	29.0	14.2	0.1	100.0
Men	206	1,626	2,284	1,200	397	43	5,756
share of the total number of men (%)	3.6	28.2	39.7	20.8	6.9	0.7	100.0

Note: The employment data does not include members of the Management Boards of the Group's entities.

Table 13. Civil law contracts at the Group, including at the Bank (2017).

	GROUP	including the BANK
Number of civil law contracts	4,647	2,990
compared to total employment and civil law contracts (%)	13.8	10.8

Note: ¹ The employment data does not include members of the Management Boards of the Group's entities. ² The number for civil law contracts reflects the total number throughout 2017; the number for employment contracts is as of 31/12/2017.

Table 14. Staff turnover in the Group, including at the Bank (2017)

	GROUP		including the BANK	
	Total	share of women (%)	Total	share of women (%)
Newly recruited employees				
Number of people	4,145	71.2	3,080	72.5
Number of people in FTEs	3,831	71.6	3,039	72.7
Employees who have left				
Number of people	4,971	74.1	3,909	77.7
Number of people in FTEs	4,716	75.4	3,877	77.8
Balance sheet				
Number of people	-826	-	-829	-
Number of people in FTEs	-886	-	-837	-
Fluctuation rate (%)				
Total	16.9	-	15.3	-
Women	16.6	-	15.4	-
Men	17.7	-	15.1	-

Table 15. Disabled employees at the Group, including at the Bank (31/12/2017)

	Total	Share of women (%)	Share of total employment (%)
GROUP			
Disabled employees			
Number of people	277	75.5	1.0
Number of people in FTEs	269	75.9	0.9
including the BANK			
Disabled employees			
Number of people	211	79.1	0.9
Number of people in FTEs	208	79.2	0.8

SALARIES

Salary System

The remuneration policy in force at the Group ensures there is a consistent salary system by:

- applying a salary system which is in line with market trends;
- acquiring optimal job candidates;
- adjusting mechanisms, tools and salary levels to the Bank's and Group's strategy and goals;
- taking into account the Group's ability to shape the desired mechanisms and salary levels;
- setting permanent salaries on the basis of job valuations;
- developing the remuneration structure on the basis of the results of work achieved and appraisal of the skills of the employees;
- building employee responsibility for the tasks being assessed on the basis of objectivized criteria;
- ensuring that the variable components of the salaries are parameterized so that they take into account the Bank's and Group's long-term cost of risk, the capital cost and liquidity risk;

- establishing a system in which monetary or non-monetary forms of remuneration do not encourage the people involved to favour their own interests or the interests of the Bank and Group's Companies to the detriment of customers.

A Collective Bargaining Agreement concluded with the company's trade union organizations is in force at the Bank, regulating, among other things, salary issues. According to the Collective Bargaining Agreement the Bank's employees are entitled to the following salary components:

- a basic salary;
- allowances for working overtime and in conditions which are particularly onerous and harmful to their health;
- bonuses and rewards for special achievements at work.

Basic salaries and additional benefits granted to employees are set on the basis of job valuations (grades assigned to individual organizational positions) and an analysis of market salaries in the banking sector.

In the Group's entities, depending on the level of employment, the principles of paying employees are defined in the salary regulations and in the employment contracts or just in the employment contracts. Of the Group's entities, in addition to the Bank, KREDOBANK SA has a collective bargaining agreement concluded in the form of an Agreement with the Trade Union Committee.

The average basic salary in the Group in 2017 was PLN 5,718 (excluding the salaries of the Management Boards of the Group's entities). The average salary in the Bank in 2017 was PLN 6,040. The differentiation of the average salary by gender is discussed in Chapter 17.

Table 16. Average remuneration in the Group, including the Bank, in PLN, by gender (31/12/2017)

	GROUP	including the BANK
Average basic salary (PLN)	5,718	6,040
women	5,044	5,335
men	7,778	8,250
Ratio of women's salaries to men's (%)	64.8	64.7

Note: 1) the data does not include the salaries of the members of the Management Board of the Group's entities; 2) salaries in the Ukrainian companies are converted according to the National Bank of Poland rate of 29/12/2017.

Additional benefits

Regardless of the salary system, the Group guarantees its employees a wide range of additional non-salary benefits – in particular:

MEDICAL CARE

In addition to occupational medicine services, which the employer is obliged to provide by the provisions of the Labour Code, the Bank provides its employees additional medical care, to which the employees are entitled according to differentiated packages of benefits dedicated to specific groups of jobs. All employees have the opportunity to benefit from medical consultations with doctors of all specializations and a wide range of diagnostic examinations free of charge. The employees are also able to benefit from the prophylaxis programme called "Zdrowie jak w Banku" [Guaranteed health], which has the objective of the early detection of diseases and the promotion of a healthy lifestyle. Over 98% of employees benefit from additional non-statutory medical care at the Bank.

Other entities in the Group (operating in Poland) provide medical care to their employees on the terms negotiated with the healthcare provider by the Bank, based on separately concluded agreements.

97% of the employees in the Group have additional (non-statutory) medical care.

EPP – Employee pension programme

An Employee Pension Programme (EPP) has been operating at the Bank since July 2013. Under this programme, employees are able to enter into a long-term savings programme to supplement their pension income received from the mandatory parts of the pension system. The Bank's EPP is operated in the form of an agreement on the Bank contributing a Basic Contribution (3% of the salary) and the Additional Employee Contribution to Investment Funds managed by PKO TFI SA.

Employee Pension Programmes are also provided to the employees of the larger companies of the Group: PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO BP Finat Sp. z o.o., PKO Leasing SA, PKO BP BANKOWY PTE SA and PKO TFI SA.

MYBENEFIT

Employees are able to benefit from the MyBenefit cafeteria system from the funds from the Corporate Social Benefits Fund (CSBF), enabling the employees to independently use the funds allocated to them from the CSBF through an online platform. The level of funds received from the cafeteria depends on the gross income per person in a given family.

SPORTS CARDS

The practice at the Group's entities is to provide employees with the ability to use sports cards.

Table 17. Additional non-salary benefits available to the Group's employees in 2017

GROUP	Number of users	share of total employment (%)
additional insurance	827	2.9
medical packages	28,075	97.0
employee pension programme	18,185	62.9
cards authorizing the use of sports facilities	4,726	16.3
housing loans	0	0.0

Table 18. Additional non-salary benefits available to the Bank's employees in 2017

BANK	Number of users	share of total employment (%)
additional insurance	0	0.0
medical packages	24,223	98.3
employee pension programme	17,508	71.0
cards authorizing the use of sports facilities	3,876	15.7
housing loans	0	0.0

RECRUITMENT POLICY

The objective of the recruitment policy at the Group is to acquire employees from various sources with appropriate qualifications, skills and knowledge, who accept the ethical values – they are simultaneously key elements assessed by candidates during the recruitment process. On the one hand, internal recruitment is promoted, intended to encourage managers and employees to continue to develop professionally, even in other business areas, on the other hand, it is also important to recruit employees as part of the external recruitment process, to ensure the inflow of people with differentiated, sometimes unique experience and qualifications. The recruitment policy is based on high standards of counteracting discrimination, while the priority is to ensure the selection of the person best suited to the given position from among the candidates.

The Bank and the Group's entities also care for the respectful treatment of employees and compliance with labour law, with respect to potential trading partners. By participating in tenders, bidders declare that (among other things):

- they comply with the rules regarding the work time of their employees set out in the generally applicable regulations and regularly and duly compensate their employees, co-workers and subcontractors for their work;
- they do not use child labour and do not benefit from the disadvantageous position of employees, co-workers and subcontractors in the provision of their services;
- act in a way that does not breach the personal rights of their employees, co-workers, subcontractors and employees of the other Party and also counteract any actions of a discriminatory or mobbing nature.

16. RELATIONS WITH THE EMPLOYEE PARTY AND FREEDOM OF ASSOCIATION

Employees of individual entities of the PKO Bank Polski SA Group are the most valuable asset, while their knowledge and skills contribute to the development of the Group. Basing the organizational culture in the Group on cooperation, commitment and dialogue creates a friendly environment in which employees can improve their knowledge, skills and abilities. The manifestation of such an approach in the Group, including the Bank, is

- care for transparent principles of employment and remuneration;
- assurance of a fair salary, with an incentive system, as well as additional benefits;
- care for improving the quality of support of employees;
- being open to the opinions and motions of the employees (including a job satisfaction survey at the Bank);
- good cooperation with the representatives of the employees.

TRADE UNION ORGANIZATIONS

The Bank has two trade union organizations:

- The National Trade Union of PKO BP SA Employees, with 2,842 members, including 2,805 employees,
- "Solidarity" Independent Self-Governing Trade Union of PKO BP SA Employees, with 1,215 members,

whereby only the former is a representative union. Approx. 16% of the total number of employees as at 31/12/2017, who were employees, were trade union members.

Every person admitted to work at the Bank is informed of the existence of employee representation, including trade union organizations. All information related to it can be found in the Bank's generally accessible intranet.

The Employee Affairs Department is responsible for relations with the trade unions. Cooperation with the trade union organizations is good; there were no collective disputes either in 2017 or in previous years.

The Bank's Employee Council also operates at the Bank. Cooperation with these social partners takes place in accordance with the applicable regulations, including holding consultations in the case of planned organizational changes, resulting in significant changes in the organization of work, the level and basis of employment of employees. Meetings with trade unions and the Bank's Employee Council are organized as necessary – at least several times a year.

The Bank has internal regulations ensuring that employees can report complaints about a breach of employee rights. 47 complaints were filed with the Bank in 2017; all are encompassed by an investigation process.

A trade union organization also exists at KREDOBANK SA, in which almost 16% of employees are members. Trade union organizations do not operate at other companies in the Group. The dialogue with the employees takes place in accordance with the applicable regulations. Its form is adapted to the size of the company and its specificity: the larger entities have Workers' Councils, while the dialogue with employees at other companies is held, among others through selected employee representatives and forms of communication with employees, either direct or via e-mail and through the intranet, which are accepted at the given entity.

No collective disputes were recorded at the Group entities. The employees have the opportunity to report complaints about a breach of employee rights and other irregularities.

SUPPORT FOR EMPLOYEES

The bank's employees may obtain any information on employee matters from one place by calling or sending an e-mail to the internal HR Contact Centre. A team of consultants answers questions, among other things, on HR and payroll support, social issues, recruitment and training. The new solution accelerates and simplifies the communication process between employees and the HR services – the units responsible for personnel management.

EMPLOYEE SATISFACTION SURVEY

The Bank attaches a great deal of importance to the opinions of employees on matters related to their work, the opportunities for individual development, as well as the company's organizational culture. A study of the organizational culture, employee satisfaction and commitment is held at the Bank every few years; the results of the last survey will be available in the spring of 2018. The results of the satisfaction surveys are presented to the employees as well as to the Bank's governing bodies, for which they constitute an additional tool in analysing and shaping appropriate relations with the employees.

17. DIVERSITY MANAGEMENT

The Bank's aim is for every employee to have equal opportunities, be respected and accepted.

The Bank offers training on diversity management to the Managerial Staff of the Retail Sales Network to encourage the Bank's managers to draw on the wealth of resources brought by diversity and the skilful management of people, enabling the elimination of unfavourable conduct and situations, while supporting those that are beneficial for the Bank and the employees and which generate added value. The basis for organizing such training by the Bank is the conviction that appropriate diversity management contributes to an increase in the efficiency of the work of the team, an improvement in the atmosphere at work, the retention of valuable, experienced employees at the Bank, and an improvement in innovativeness and creativity within the team.

DIVERSITY OF EMPLOYMENT AND SALARIES BY GENDER

The percentage of women among the employees is very high in the Group, including the Bank (75% and 77% respectively). Although there are no women in the Bank's Management Board, women are in the majority within the group of directors and managers (52% and 72% respectively). The share of women employed in non-managerial positions is the highest at the Bank, especially in branches (78% and 89% respectively).

Table 19. Membership of the Supervisory Board and Management Board, by gender and the employment structure at the Bank by gender and group of positions, including branches (31/12/2017)

BANK	Total	Share of women (%)
Supervisory Board	11	18
Management Board	8	0
Total employees	24,652	77
Directors	1,062	52
Managers	2,218	72
Other employees	21,372	78
including the branches		
Total employees	13,985	87
Directors	644	59
Managers	1,450	80
Other employees	11,891	89

The average salaries of women represented 65% of the salaries of men at both the Bank and throughout the Group. This significant gender pay gap (throughout Poland, the index for 2016 was 84%¹⁷) arises from the said employment structure at the Bank, where 43% of all Bank employees are women in non-managerial positions. The gender pay gap in the branches for individual groups of jobs is very small (the average ratio of women's / men's pay was over 90%). Among the managerial staff and directors, throughout the Bank, the difference is slightly higher than the average difference across the country (indices of 80% and 77% respectively); the level for the remaining employees – as mentioned – is disturbed by the employment structure.

¹⁷ Own calculations based on CSO, *Structure of wages and salaries by occupations in October 2016*, Warsaw 2018

Table 20. The average salary at the Bank by gender and group of positions, including in the branches, in PLN (31/12/2017)

BANK	Women	Men	Ratio of women's salaries to men's (%)
Total	5,335	8,250	65
directors	14,249	18,438	77
managers	8,747	10,900	80
other employees	4,715	6,753	70
including the branches	4,705	6,122	77
directors	11,028	11,655	95
managers	7,812	8,176	96
other employees	4,137	4,562	91

Note: the data does not include salaries of members of the Management Boards of the Group's entities.

POLICY ON MOBBING AND DISCRIMINATION

An inappropriate approach to diversity may be manifested in the form of discrimination, as well as mobbing. The Bank's policy regarding mobbing and discrimination is regulated in the internal regulations:

- Employment regulations;
- Principles for preventing mobbing.

According to the accepted rules, any conduct that can suggest the presence of mobbing is unacceptable. Furthermore, the Bank's employees should take care of the culture of communications and respect their colleagues, subordinates and superiors.

Any employee who feels mobbed can report a problem within the interpersonal conflict resolution procedure or the procedure for reviewing mobbing complaints. Furthermore, a helpline has been activated for the Bank's employees, the objective of which is to support the prevention of mobbing by providing information on mobbing, including in particular explaining what mobbing is. The helpline is staffed by external consultants and is anonymous.

Separate provisions regulate the procedure of reporting complaints about breaches of employee rights of the Bank's employees (including through discrimination and harassment).

At the Bank, in 2017,

- seven complaints of mobbing were reported. In four cases, the investigations did not confirm the presence of mobbing; three complaints are still being reviewed.
- one complaint containing, among other things, an allegation of discrimination was reported.

No complaints of sexual harassment were recorded.

The Group's entities also have the necessary solutions in their internal regulations guaranteeing compliance with the applicable law regarding the prevention of mobbing, discrimination and sexual harassment – in separate regulations or through appropriate provisions in the employment regulations. In 2017, two complaints were recorded in entities from the Group other than the Bank; the investigations did not confirm the allegations.

The Group, including the Bank, try to influence the observance of employee rights by its suppliers. In their participation in the tendering procedure, potential bidders declare that (among other things) they counteract any acts of a discriminatory or mobbing nature.

18. HEALTH AND SAFETY AT WORK (HSW)

HSW ORGANIZATION AND STRATEGY

The HSW Service at the Bank has been organized as an HSW Office, consisting of regional teams, supporting all units of the Bank's branches throughout the country. The Bank's branches located abroad have their own HSW service and act in accordance with the law which is applicable to the place where they are located.

The strategy of the HSW Office is based on preventive action by visiting facilities and monitoring the working conditions on an ongoing basis. An important tool in the monitoring process is having a risk assessment at the work post for 100% of employees at the Bank. Any defects or threats that are noticed are removed by the administrative services as they arise.

The Bank applies broadly understood accident prevention. The Bank's employees have regular HSW training, which also includes first aid instruction. The training scenario positively contributes to building awareness of the safe conduct of employees at the work place. However, road traffic accidents are an important cause of accidents, over which the Bank has no particular influence, as they often arise from circumstances over which the employee has no control. Prophylaxis in this area boils down to additional tests for people driving company cars and referring employees to supplementary training on safe driving.

The Group's HSW policy has not been formulated at the Bank. The Group's entities perform HSW tasks in accordance with the current provisions of the law. These provisions are so clear that, in fact, it means applying the same HSW rules throughout the whole of the Group. Companies located outside Poland operate under the rules which apply to the country in which the entity was registered.

INDICATORS

None of the establishments of the Bank or the Group's entities carries a high occupational risk related to the work performed. The accident rate is at a negligible level of 0.004%, which proves the effectiveness of accident prevention. The occupational risk assessment encompassed 91.93% of positions in the Group and 100% of the positions at the Bank. Among the positions assessed, there are no positions for which the level of occupational risk is high and actions to reduce it would be necessary.

Table 21. Health and Safety at Work indicators in the Group, including at the Bank in 2017

Indicator	GROUP	including the BANK
Number of accidents at work including those which are equivalent to accidents at work	116 overall 108 excluding events which were not recognized as an accident at work.	103 overall 95 excluding events which were not recognized as an accident at work.
Accident frequency index (accidents at work per 1,000 employees).	4.00 (i.e. 0.004% of employees) 3.72 (i.e. 0.0038% of employees) taking into account events not considered an accident	4.18 (i.e. 0.0042% of employees) 3.85 (i.e. 0.0039% of employees) taking into account events not considered an accident
Number of fatal accidents	1 (traffic accident).	0
List of the most common causes of accidents at work	1. surprised by an unexpected event 2. insufficient attention 3. traffic accident	1. surprised by an unexpected event 2. insufficient attention 3. tripping/slipping
Number of cases of occupational diseases reported	0	0
Share of positions for which an occupational risk assessment has been prepared	91.93% of positions	100% of positions
Number of employees working in positions where the level of occupational risk assessed is high	0 (of 91.93% of positions assessed for occupational risk)	0

19. DEVELOPMENT AND EDUCATION

The training policy at the Group is pursued on the basis of the internal regulations prepared and implemented by the individual companies on their own, which guarantees the adaptation of the approach to employee education and development to their own specific needs.

The main assumption made in the training policies is the support of:

- the achievement of the strategic objectives of the Group's entities and the business goals;
- the introduction of new employees into work;
- the assurance of professional qualifications for the employees and the adjustment of their knowledge and skills to the changing requirements of the market on which the given entity operates;
- the preparation of the employees for the implementation of new solutions and products offered by the Group entity or for introducing changes into the existing solutions and products offered.

All employees, regardless of their age or sex, may take advantage of training activities throughout the Group. Individual entities may apply the criterion of the position held when referring employees to specific training, such as participation in education at degree level (different levels of education at the individual companies) or foreign language courses. The employees finance training activities in whole or in part.

When referring employees to training, the majority of entities in the Group take into account internal appraisal systems, e.g. regular interviews, individual development plans, testing of training needs, ISO based assessment system and feedback. In companies in which the competence model was adopted (this applies to the Bank and two other companies), the improvement of the employee's professional qualifications and skills is related to it.

The Bank enables the employees to use various forms of improving their professional qualifications. Projects are conducted to develop both hard and soft skills. A team of several dozen internal trainers conducts group training, on-the-job training and internal workshops. Group training is held by external companies in selected projects. The Bank's employees also actively use the internal e-learning platform, including on training regarding product knowledge, as well as knowledge of processes and use of IT applications. Academies and Programmes dedicated to specific groups of employees and organizational units are launched as part of the strategic initiatives. The Bank's employees may also use language courses, both individual and group (including Virtual Classes, i.e. on-line group classes). An internal e-learning platform is also actively used at the Bank, mainly for holding training on product knowledge, knowledge of processes and use of IT applications.

The Bank also holds adaptation training for new employees of the retail network, the objective of which is to prepare the new employee for working at the Branch in the position for which he was recruited and acquiring skills in talking to customers in accordance with the customer service standard in force at the Bank. In 2017, 4,854 participants were trained in the adaptation process in 349 training sessions in 156 groups.

A total of over 58k participants took part in the training organized by the Bank in 2017, which means that each employee of the Bank participated in an average of two training courses. Over 146k took advantage of training in the e-learning formula. In addition, 1,291 people, including 1,165 from the Bank, took part in training from the list of training sessions available to employees of all entities of the Group.