



Bank Polski

PKO Bank Polski SA Group Directors' Report for the first half of 2018

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1. RESULTS OF OPERATIONS OF THE PKO BANK POLSKI SA GROUP FOR THE FIRST HALF OF 2018

1.1 THE MOST IMPORTANT EVENTS IN THE FIRST HALF OF 2018

The Powszechna Kasa Oszczędności Bank Polski SA Group (PKO Bank Polski SA Group or the Bank's Group) is one of the largest groups of financial institutions in Poland and one of the largest financial groups in Central and Eastern Europe. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank), the Parent of the Bank's Group, is the largest commercial bank in Poland and a leading bank in Central and Eastern Europe in terms of the scale of operations, equity, loans, deposits, number of Customers and size of the distribution network.

In 2018 the Bank's Group began the third year of executing the strategy "We support the development of Poland and the Poles", in response to the changing market environment and the need to adapt to the new challenges which the banking sector and the Polish economy face. The direction of the transformations of the Bank's business model is closely related to the dynamically developing digitization of social life and Poland's economic development strategy.

In the first half of 2018 the PKO Bank Polski SA Group focused on innovation, by beginning to implement a new organizational operating model, developing modern mobile banking, implementing new, attractive products and services, and investing in landmark technologies to ensure the best offer for its Customers.

As the longest operating bank in Poland, the Bank offers valuable solutions to its Customers, availing itself of its experience. The new approach was presented on the marketing communications platform, starting with the spot "Key decisions" directed by Tomasz Bagiński. The implemented communications platform is part of the Bank's strategy, and its purpose is to connect the product and image campaigns. In the first half of 2018 PKO Bank Polski SA referred to values and traditions, and emphasized the importance of Polish history in the context of the 100th anniversary of Poland regaining its independence and preparations to mark the centenary of PKO Bank Polski SA's operations.

BEST MOBILE BANKING IN THE WORLD

PKO Bank Polski SA offers the most state-of-the-art mobile banking system in the world – the IKO application. As at the end of June 2018 the number of activations of the app amounted to nearly 2.6 million.

In March 2018 IKO ranked first in the Retail Banker International mobile applications ranking of the 100 largest banks in the world. The ranking is based on Customer reviews from iOS and Android application stores. IKO with a total score of 4.8/5 from nearly 150 thousand reviews outpaced banks from all over the world.

THE PKO BANK POLSKI SA GROUP EFFECTIVELY ADAPTS TO NEW REGULATIONS

- In connection with Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data and on the free movement of such data (GDPR) coming into force as of 25 May 2018, the Bank's Group adapted banking processes, systems and electronic banking services to the new regulations.
- In the first half of 2018 PKO Bank Polski SA prepared for the act introducing the VAT split payment mechanism coming into force as of 1 July 2018, i.e. the payment of VAT invoices in two cash flows: the net amount due and VAT. The Bank offered a new product to all its institutional Customers – the VAT account, and enabled making split payments through the iPKO Biznes service.

THE BANK'S GROUP FOCUSES ON INNOVATIONS AND TECHNOLOGY

- PKO Bank Polski SA and the start-up Coinfirm signed a cooperation agreement under which the Bank, as the first financial institution in Poland, has begun implementing blockchain technology solutions. The blockchain platform Trudatum enhances the solutions related to recording and maintaining data, and at the same time ensures effective and cryptographically secured document compliance. The technology that the Bank decided to implement in its own systems is a landmark in the area of collecting and publishing documents and files. The first stage of implementation focuses on integration with the banking systems and on making available the solution enabling verifying the authenticity of banking documentation;

- In the first half of 2018 PKO Bank Polski SA received the title 'Gwiazda Innowacyjności' (*Star Innovator*) in the fourth edition of *Dziennik Gazeta Prawna's* "Gwiazdy Bankowości" ranking. The jury acknowledged the Bank's speedy development and business structure. For many years PKO Bank Polski SA has been engaged in digital transformation, and is the leader in developing innovations.

THE BANK'S GROUP EXPANDS ITS PRODUCT AND SERVICE OFFER

The Bank's Group offers a comprehensive range of state-of-the-art products and services, both to individual Customers and to companies, irrespective of their size, industry, and development stage. The Bank analyses Customer expectations and adapts the current offer so as to best meet both credit and non-credit Customer needs, and best meet market competition.

In its actions taken in the first half of 2018 PKO Bank Polski SA:

- offered promotion of cash advances addressed to Customers who had no relations with the Bank previously or who intend to transfer the repayment of their loans and advances to PKO Bank Polski SA, as well as an offer dedicated to Customers without debt in respect of cash loans with the Bank;
- it offered new entrepreneurs "Pożyczka na Start" (Start-up Advance) up to PLN 100 thousand for any purpose, and leases up to PLN 120 thousand for vehicles of up to 3.5 tonnes. This simple offer will allow the PKO Bank Polski SA Group to facilitate the start for young entrepreneurs, and to provide real support to them;
- introduced the possibility of purchasing participation units in a new open-end umbrella fund PKO Portfele Inwestycyjne, with separated subfunds: PKO Bursztynowy, PKO Szafirowy, PKO Rubinowy, PKO Szmaragdowy and PKO Diamentowy. The offer was to be addressed to Customers who need ready-made and highly diversified investment solutions which will allow them to avoid the need of independent building of the portfolios, selecting funds and various segments of the financial markets. The new offer enables Customers to select solutions compliant with their investment profile, taking into account their preferred return and risk levels, and investment horizons;
- made available an on-line currency-exchange office in its transaction services. Customers may exchange their currencies in real time, and the transactions are settled immediately, which means that access to funds is very quick. Customers may conclude transactions at attractive exchange rates and without fees for access to the service. Customers may conclude transactions for 28 currency pairs in the exchange office;
- launched the option to register the Customer's firm with the Central Registration and Information on Business via iPKO electronic banking. This is the first such solution on the market, developed jointly with the Ministry of Entrepreneurship and Technology. The process is completely remote, and filling in a request only takes several minutes. Registration of the firm is confirmed through the Trusted Profile. The plan of registering firms with CEIDG was awarded the title of "Project of the Year 2017" by the jury of the 13th Competition of the Digital Business Congress (XIII Kongres Gospodarki Elektronicznej);
- it made available to corporate Customers an innovative tool to create loyalty programs, ZenCard - a technology which enables companies to organize promotional and discounts campaigns in their points-of-sale, using only the payment card and terminal. The platform developed by ZenCard Sp. z o.o. is integrated with the payment terminal and allows resigning from many separate loyalty cards and applications installed on mobile phones and instead using one virtual card linked to any of the Customer's cards;
- launched the program "Polska Bezgotówkowa" (Cashless Poland) in its branches; under the program small firms, which have not accepted cashless payments before, will receive a free card acceptance service over 12 months. The program is the joint initiative of the payment services market in Poland: card issuers, settlement agents, and Mastercard and Visa organizations, with the participation of the Polish Bank Association and the support of the Ministry of Entrepreneurship and Technology.

1.2 SELECTED FINANCIAL DATA

The activities in which the PKO Bank Polski SA Group engaged in the first half of 2018 allowed it to achieve very good results and to reinforce its leading position among the largest financial institutions in Poland.

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

	30.06.2018	30.06.2017	Change (y/y)
Net profit	1 690	1 382	+22,3%
Net interest income	4 507	4 160	+8,3%
Net fee and commission income	1 482	1 443	+2,7%
Net other income	500	502	-0,4%
Result on business activities	6 489	6 105	+6,3%
Administrative expenses	-3 017	-2 938	+2,7%
Tax on certain financial institutions	-461	-464	-0,6%
Result on write-offs and impairment	-710	-787	-9,8%
Total assets	298 667	286 389	+4,3%
Equity	36 776	34 340	+7,1%
ROA net	1,2%	1,0%	+0,2 p.p.
ROE net	9,5%	8,4%	+1,1 p.p.
C/I (cost to income ratio)	45,3%	47,8%	-2,5 p.p.
Net interest margin	3,4%	3,2%	+0,2 p.p.
Share of impaired loans	5,2%	5,7%	-0,5 p.p.
Cost of risk	-0,67%	-0,74%	+0,07 p.p.
Total Capital Ratio	17,42%	16,85%	+0,57 p.p.
Tier 1 Capital ratio	16,12%	16,00%	+0,12 p.p.

The net profit of the PKO Bank Polski SA for the first half of 2018 amounted to PLN 1 690 million, which is a 22.3%, i.e. PLN 308 million increase compared to the prior year's result. The level of net profit achieved was determined by:

- 1) an improvement in the result on business activities which reached PLN 6 489 million (+6.3% y/y), mainly in effect of:
 - an increase in net interest income of 8.3% y/y, realized mainly as a result of the increase in the credit portfolio;
 - an increase in net fee and commission income of 2.7% y/y, among others on investment funds and brokerage activities, and loans and insurance;
- 2) an increase in administrative expenses of 2.7% y/y, mainly employee benefits and regulatory costs – the C/I ratio amounted to 45.3% in the first half of 2018 compared with 47.8% in the first half of 2017;
- 3) a drop in result on write-offs and impairment of PLN 77 million (-9.8% y/y) and a reduction in the cost of risk to 0.67%.

Such good financial results of the PKO Bank Polski SA Group could have been achieved due to further optimization of the balance sheet structure, characterized by a strong deposit base, safe level of equity and a high share of profitable assets. Financing granted to Customers, related to stable sources of financing amounted to 88.5%, which attests to the very good liquidity of the Bank's Group.

In effect of the actions taken in the first half of 2018, the PKO Bank Polski SA Group:

- increased the portfolio of amounts due from Customers by nearly PLN 5 billion;
- increased, since the beginning of the year:
 - the number of Customers by over 150 thousand, mainly in the individuals segment;
 - the number of active users of mobile banking, who almost reached 2.5 million as at the end of June 2018;
- serviced almost 7.3 million current accounts of individuals, thus reinforcing its leading position in this category;
- retained a high share in the loans and deposits market at a level of 17.6% and 16.9% respectively;
- ranked first in sales of housing loans for individuals¹ with an almost 28% market share, and achieving sales of PLN 7.3 billion;
- was the largest lender for SMEs in respect of loans with *de minimis* guarantees, with a 20.1% market share;²
- improved the quality of its credit portfolio measured with the share of impaired loans and reduced the cost of risk.

1.3 DIRECTIONS OF DEVELOPMENT OF THE PKO BANK POLSKI SA GROUP

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

WHO WE ARE – OUR MISSION



Bank Polski

“WE SUPPORT THE DEVELOPMENT OF POLAND AND THE POLES”

For 100 years we have been delivering financial solutions to our Customers; therefore, we understand the needs of Poles and Polish firms. We are consistently changing, investing in development, and we responsibly implement modern technologies to enable easy finance management at any time or place.

We are proud of our history and of our Polish roots. We wish to continue exerting a positive influence on Poland – its people, its firms, culture and the environment.

As one of the largest banks in Central and Eastern Europe we responsibly care for the interests of the shareholders, customers, employees, and local communities.

PKO BANK POLSKI SA STRATEGY FOR THE YEARS 2016 – 2020

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

The strategy is our response to the changing market environment and the need for our organization to adapt to the new challenges which the banking sector and the Polish economy face. The direction of transformations of the Bank’s business model is closely related to the dynamically developing digitization of social life and Poland’s economic development strategy.

The strategy is based on solid foundations developed over the past years. PKO Bank Polski SA reinforces its position as the unchallenged leader of the Polish banking market, systematically develops the scope and quality of its services, enhances its processes and organizational agility.

¹ Data provided by the Association of Polish Banks.

² Data provided by the Centrum Poręczeń i Gwarancji Banku Gospodarstwa Krajowego.

STRATEGIC GOALS

In the 2020 perspective PKO Bank Polski SA intends to:

- achieve return on equity (ROE) above 10%;
- reduce the cost to income ratio (C/I) to below 45%;
- maintain the cost of risk in the 0.75%-0.85% bracket;
- effectively and rationally manage capital adequacy so as to ensure TCR and CET1 ratios at levels exceeding the regulatory and supervisory requirements, and at the same time enable the distribution of dividend.

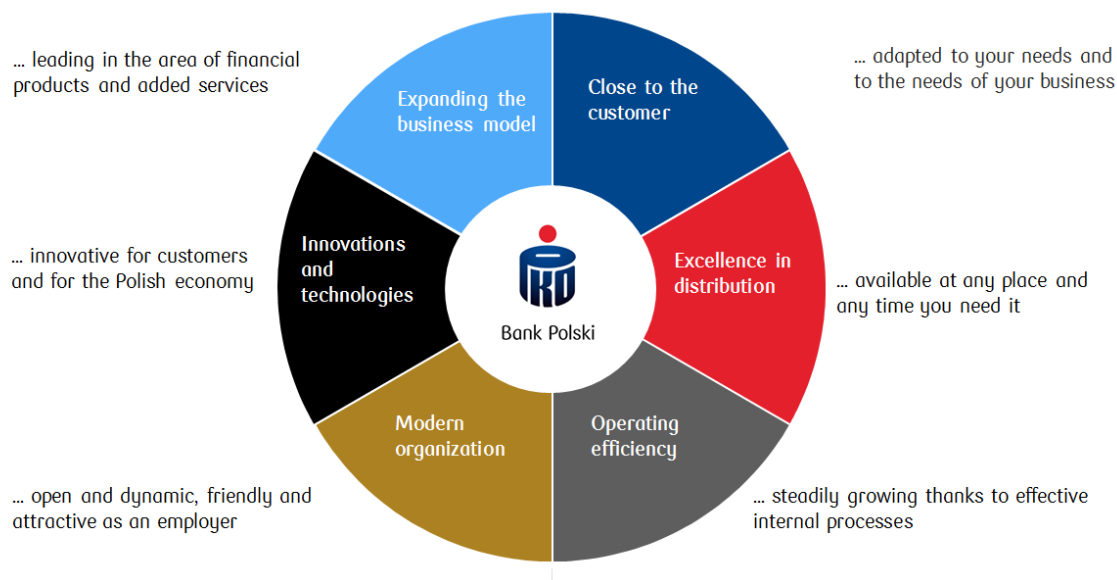
The Bank addresses its challenges to 2020 in the following strategic goals:

1. Supporting Polish entrepreneurship, in particular in the SME segment.
2. Customer satisfaction.
3. Increase in the number of digital Customers.
4. Simple and efficient processes – “faster and paper-free”.
5. Best employer.
6. Innovation and new sources of revenue.
7. Leader in cooperation in the area of cybersafety.

STRATEGY OF IMPLEMENTATION

The Bank is consistently changing, investing in its development and becoming more and more digital. It also responsibly implements new technologies. At the same time, it is increasing its business scale, developing solid, highest profits in the banking sector, and strengthening its lead market position. Digital transformation is the dominant motif of its strategy, both in terms /of intra-bank processes, and Customer services.

PKO Bank Polski SA's strategic goals are achieved through six levers of sustainable development:



The effects of the strategic goals implementation in the first half of 2018 in the area of strategic levers were, among others:

1. CLOSE TO THE CUSTOMER

- The new marketing communication platform, opened with the spot “Key decisions” directed by Tomasz Bagiński, aimed at connecting the product and image campaign. The campaign referred to Polish history in the context of this year’s 100th anniversary of Poland regaining its independence and preparations to mark the centenary of PKO Bank Polski SA’s operations;
- Expanding the transactional and savings offer by the possibility of purchasing participation units in a new open umbrella fund PKO Portfele Inwestycyjne, with separated subfunds;
- Implementing the possibility of exchanging currencies using the transaction service of iPKO (eKANTOR);

- Expanding the Bank's offer by motor insurance, travel insurance and oncological policies, available in the Bank's branches and agencies as well as the Customer Call Centre;
- Promotion of cash advances addressed to Customers who had no relations with the Bank previously or who intend to transfer the repayment of their loans and advances to PKO Bank Polski SA, as well as an offer dedicated to Customers without debt in respect of cash loans with the Bank;
- Servicing and promoting loans with *de minimis* guarantees for SMEs; launching sales of guarantees by the Guarantee Fund of the Smart Growth Operational Programme;
- Launching the option to register a firm with the Central Registration and Information on Business via iPKO electronic banking;
- The winning offer of the PKO Bank Polski SA Group for servicing the Municipality of Olsztyn, continuing to service the Municipality of Gdynia and servicing the Małopolskie Province;
- Developing the Export Support Platform (Platforma Wsparcia Eksportu); support in development of foreign operations, both through the product and analytical offer; making available to Customers of foreign branches the shared, multi-language Internet banking platform iPKO biznes;
- Maintaining the high activity of Dom Maklerski PKO Bank Polski SA on the market, confirmed by getting the most important award of the WSE: "Broker of the Year 2017" and winning the Bulls and Bears (Byki i Niedźwiedzie) award organized by the *Parkiet* paper.

2. DISTRIBUTION EXCELLENCE

- Development of the transaction services offer. In March 2018 IKO ranked first in the Retail Banker International mobile applications ranking of the 100 largest banks in the world. IKO with a total score of 4.8/5 from nearly 150 thousand reviews outstripped banks from all over the world;
- Enabling the completion of a larger number of banking transactions through the iPKO service without the need to visit the Bank's branch; the changes related, among other things, to the possibility of filing requests for certificates of holding an account, movements, inflows and debt, loan repayment, interest, loans incurred or the possibility of establishing a power of attorney to the account or to the deposits held;
- Making available to corporate Customers an innovative tool to create loyalty programs, ZenCard – a technology, which enables companies to organize promotional and rebate campaigns in their points-of-sale, using only the payment card and terminal.

3. OPERATING EFFICIENCY

- Implementing a New Working Model based on agile project management methods;
- Optimizing the network of branches based on the economic feasibility of their operation which includes both actions in respect of changing the nature of the outlets and reducing their number and office space;
- Implementing further banking operation digitization and automation initiatives, among other things, in respect of paperless solutions which enable the acceptance of qualified signatures and automatic recording of documentation;
- Award of a statuette in the e-Dukat 2017 competition to the fintech company ZenCard from the PKO Bank Polski SA Group for the most interesting start-up in the area of cashless payments.

4. MODERN ORGANIZATION

- Developing the PKO Bank Polski SA organization confirmed by earning many awards and titles:
 - winner of the Ethical Firm (Etyczna Firma) competition, in which fair and transparent business practices were appreciated, in compliance with ethical standards and actions compliant with social responsibility rules;
 - winner of the Reliable Employer competition (in the "Health" category) for the Bank's practices related to medical care for employees and connecting the pursuit of business objectives with responding to the employees' diverse needs;
 - one of the ten best employers in the Employer of the Year 2017 AIESEC Poland ranking (which assesses – among others – international consulting firms, global IT leaders, the largest retail chains, leading financial companies);
 - special award in the independent ranking Institution of the Year 2017 for the innovative Press Office of PKO Bank Polski SA, for the quality and attractiveness of press releases, pace of reaction to media requirements – both traditional and social – and adroitness in contacts with the press;
 - the title of Institution of the year 2017 and a statuette in two categories: "Friendly opening of a company account" and "Friendly opening of an account via the Internet". The Institution of the Year ranking is a market

survey of Customer-friendliness carried out by independent experts in three industries: banking, insurance and telecommunications.

5. INNOVATIONS AND TECHNOLOGIES

- Implementing blockchain technology solutions. PKO Bank Polski SA and the start-up Coinfirm signed a cooperation agreement under which the Bank, as the first financial institution in Poland, has begun implementing blockchain technology solutions. They are aimed at enhancing the processes related to recording and maintaining data, and at the same time ensure effective and cryptographically secured document compliance;
- Conducting tests of the biometric bank Customer identity verification system, which enables quick verification of identity, authorization of banking transactions and signing banking requests and documents;
- PKO Bank Polski SA's obtaining (as the first financial company in Poland) membership in the elite initiative FIRST (Forum of Incident Response and Security Teams), which is the global organization associating teams which react to infocomm incidents;
- Popularization of the Trusted Profile under which the Bank offers its Customers, among other things, the option to submit requests for the 500+ programme, registering cars via the Internet, submitting on-line requests for documents, or a change in residential address, through the e-office portal;
- Making available to the Bank's Customers, in iPKO and Inteligo services, the PIT-WZ request based on which the tax office prepares preliminary PIT-37 returns and files them on behalf of the taxpayers;
- Winner of The Heart Innovation Awards 2017 in the "Cooperation" category for the Bank's cooperation which enabled the implementation of technological innovations, expanding its offer and creating new Customer experiences.

6. EXPANDING THE BUSINESS MODEL

- The leading position of PKO Bank Hipoteczny SA on the mortgage bank market in terms of total assets and the portfolio of mortgage loans. PKO Bank Hipoteczny SA is currently the largest and most active issuer of cover bonds in Poland, and as the first issuer of those bonds, it joined The Covered Bond Label. The Covered Bond Label is a quality certificate the aim of which is to create an awareness of necessary security and high quality of mortgage bond assets among their issuers;
- The dynamic organic development of PKO Towarzystwo Funduszy Inwestycyjnych SA and the acquisition of 100% of shares in KBC TFI SA reinforces the leading position of the PKO Bank Polski Group in the investment funds segment.

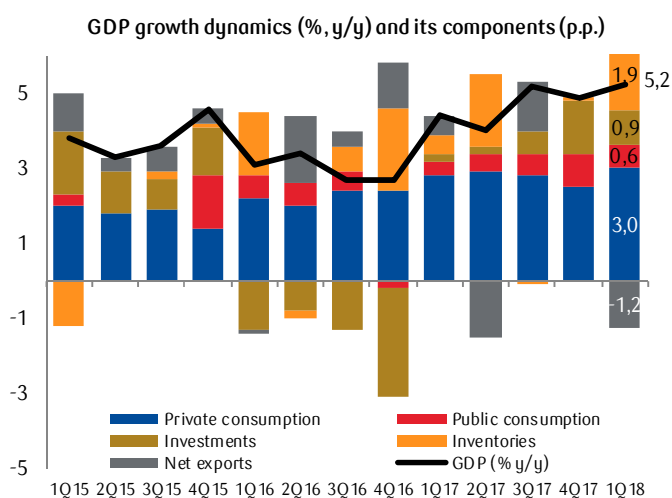
2. EXTERNAL BUSINESS CONDITIONS

Macroeconomic environment
Situation on the financial market
Position of the Polish banking sector
Position of the Polish non-banking sector
Ukrainian market
Regulatory environment
Factors with an impact on the financial results of the Bank's Group in the second half of 2018

2.1 MACROECONOMIC ENVIRONMENT

Macroeconomic factors which form the national economy in 2018:

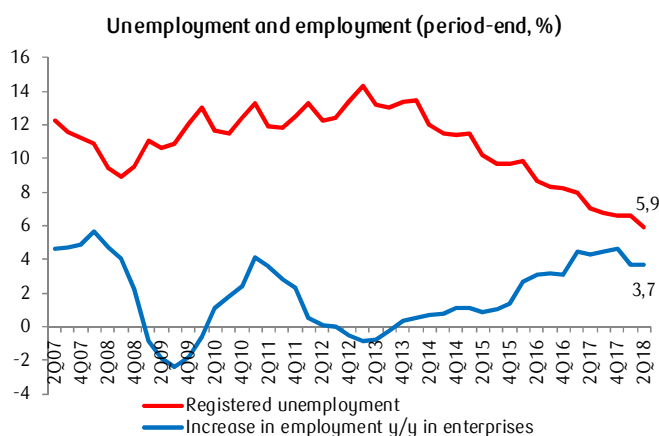
- **STABILIZATION OF ECONOMIC GROWTH**



The pace of economic growth (assessed based on the available data) was approx. 5% y/y in the second quarter of 2018 (compared with 5.2% y/y in the first quarter of 2018).

The data indicates the continued revival of capital expenditure activities, mainly in the area of public infrastructural projects. New records of the current and expected consumer confidence index set in the second quarter of 2018 and a strong increase in retail sales attest to the maintained high private consumption dynamics which continued to be the key driver of economic growth in Poland.

- **IMPROVEMENT IN THE SITUATION ON THE LABOUR MARKET**



The unemployment rate in June 2018 was 5.9% compared with 6.6% in March and at the end of 2017. After clearing it from the seasonal effects, throughout the second quarter of 2018 the unemployment rate remained at a level of 6.2%, which indicates slowing in the annual drop trend to 1.0 p.p. from 1.5 p.p. in the first quarter of 2018, and reflects growing supply limitations on the labour market. Both research on the economic condition of enterprises and the growing number of vacancies attest to the strong demand for labour. The BAEI unemployment rate dropped to a historical minimum of 4.2% in the first quarter of 2018 and was 0.5 p.p. lower than the estimated equilibrium unemployment rate, which does not generate payment tensions. Despite the lack of balance between the demand for labour and its supply,

a further increase in the rate of remuneration is not observed. In the second quarter of 2018 average remuneration in the enterprises sector increased by 7.4% y/y compared with 7.0% y/y in the first quarter of 2018. Research of the economic conditions does not indicate that the next quarters could bring about a sudden increase in the rate of remuneration.

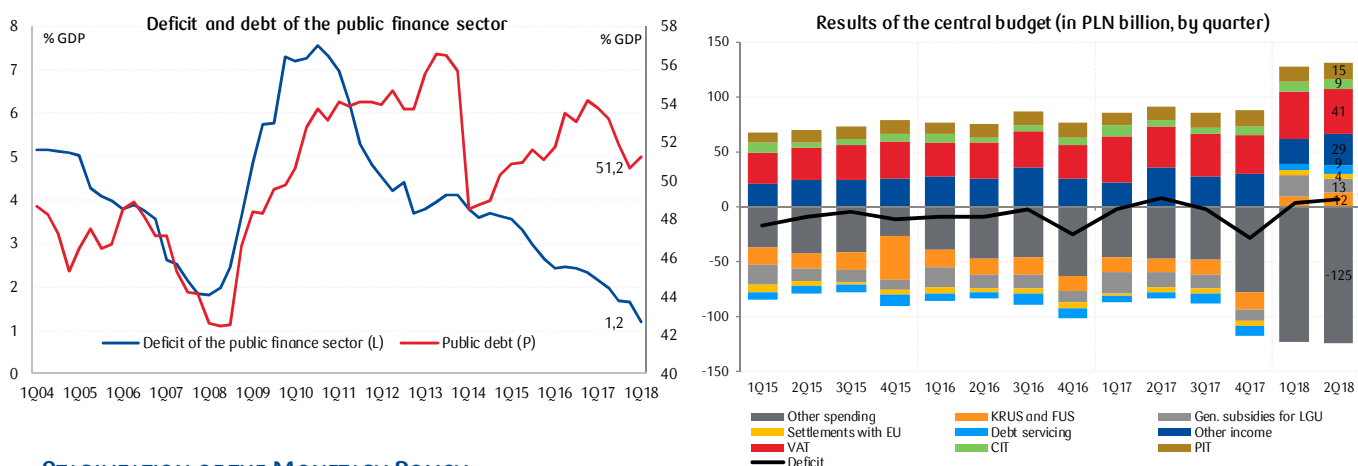
- **INCREASE IN OIL PRICES LED TO A GROWTH IN INFLATION**

After a distinct slowing of CPI inflation at the beginning of the year (1.3% y/y in March 2018), in the second quarter of 2018 it bounced back moderately to 2.0% y/y in June (compared with 2.1% y/y as at the end of 2017). The increase in price growth was the result of increased oil prices and the weakening of the PLN, whereas food

prices and base inflation acted in the other direction throughout the whole six months. The low level of base inflation means that neither price pressure (remuneration and raw materials), nor strong demand translate into an increase in prices. After an increase in inflation in July, the next months should bring about its significant weakening, which resulted from the high reference base effects in 2017. The probability of exceeding the NBP inflation target during the next 12 months remains low.

GOOD RESULTS OF THE PUBLIC SECTOR FINANCES

According to preliminary data, the fiscal deficit (according to the EU ESA2010 methodology) dropped to 1.2% GDP in the first quarter of 2018 compared to 1.7% GDP as at the end of 2017 and was the lowest in history. Such good results were the effect of better results of the central budget compared with the forecasts (among other things, the effect of maintaining strong tax revenue dynamics at a high level of expense discipline), profit earned by the local government sector and the good position of the social insurance sector. In the first quarter of 2018 public debt (according to the EU ESA2010 methodology) increased to 51.2% GDP from 50.6% GDP as at the end of 2017 and 53.8% GDP in the first quarter of 2017. The data for the second quarter of 2018 confirm the very good condition maintained by the State budget, which at the end of June 2018 noted a surplus of PLN 9.5 billion compared with a PLN 0.2 billion deficit for the corresponding period of 2017.



STABILIZATION OF THE MONETARY POLICY

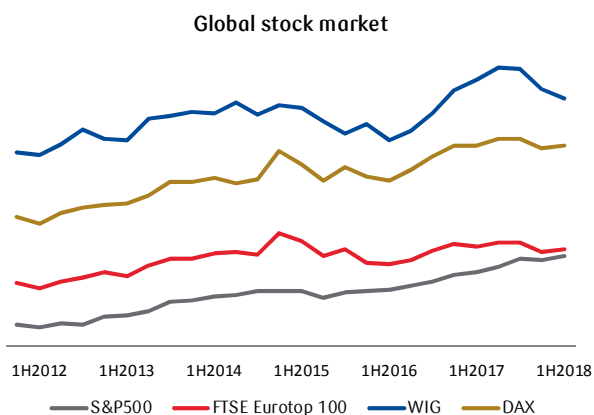
NBP interest rates:

- reference - 1.50%
- bills of exchange rediscount - 1.75%
- lombard - 2.50%
- deposit - 0.50%

In the first half of 2018 NBP interest rates did not change and remained at historically low levels. The Monetary Policy Council's opinion that stabilizing interest rates, even over a two-year horizon, was justified, resulted mainly from the low inflation (including base inflation), the expected gradual drop in the pace of economic growth and from the fact that the tense situation on the labour market does not translate into increased price pressure.

2.2 SITUATION ON THE FINANCIAL MARKET

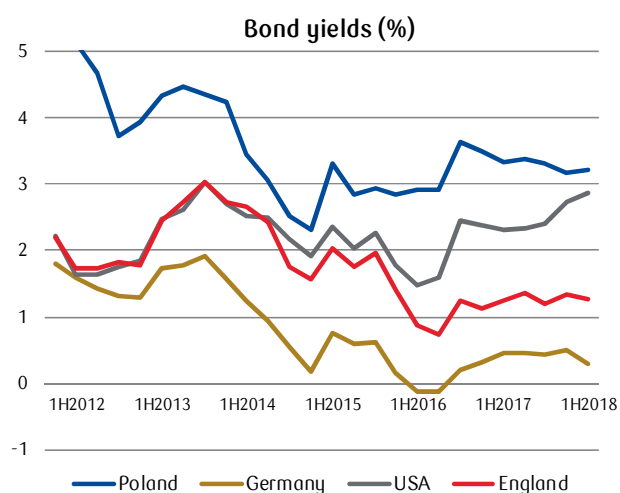
SHARE MARKET



The first half of 2018 proved unfavourable for shareholders, and the Warsaw Stock Exchange (WSE) was one of the weakest in the world. The WIG index dropped by 12% since the beginning of the year, to the lowest level since 1.5 years. The worse moods on the stock exchanges were in part a natural reaction to the increases which had been almost incessant from mid-2016 to January 2018, and in part resulted from a series of unfavourable political and economic information. In particular, equity investors were disturbed by increases in interest rates in the USA, the growing trade conflict between the USA and China and the European Union, and the emerging prospect of a slow-down in many economies.

The increasingly complicated geopolitical situation, including reinstating sanctions in respect of Iran, which led to an increase in oil prices, was not conducive to good market conditions either. The dropping demand for risky assets, good economic conditions and increases in interest rates in the USA strengthened the American dollar, which contributed to an outflow of capital from the emerging markets. This trend, despite the good condition of the Polish economy, also had a negative impact on the Polish share market.

• INTEREST RATE MARKET



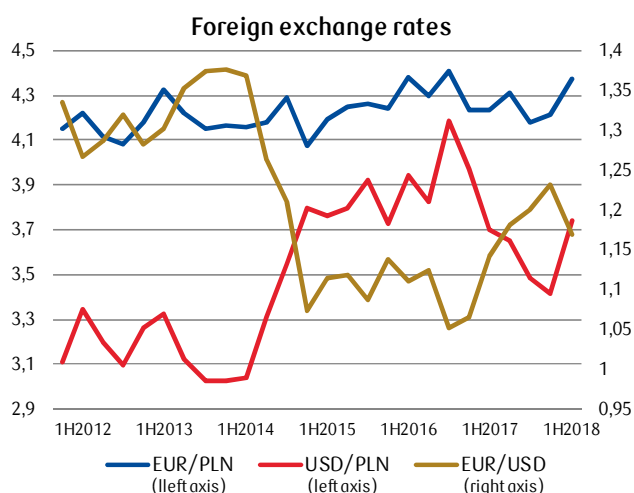
In the first half of 2018 the return on Polish 2-year Treasury bonds dropped by 8 b.p. to 1.63%, and on the 10-year T-bonds by 9 b.p. to 3.21%. The reasons for the strengthening of the domestic debt securities market were both local and external.

The Polish Monetary Policy Council clearly indicated that it does not intend to change NBP interest rates in the foreseeable future. Such an approach significantly supported the value of bonds, in particular short-term. Additionally, sound State budget implementation caused the Ministry of Finance to decide on limiting the supply of Treasury bonds, which had a positive impact on their prices.

Domestic bonds were also supported by the global market. The drop in return on German Treasury bonds, to which the domestic market is strongly related, was especially significant. This was the effect of low inflation expectations, concerns about the ability to continue economic growth

in the Euro area, and the far-reaching prudence of the European Central Bank in withdrawing from the quantitative easing programme, softening its monetary policy and maintaining low interest rates. In addition, political problems in Europe (among others, in Italy) and concerns about the impact of the growing protectionism on economic activity supported the demand for safe assets.

• CURRENCY MARKET



The EUR/USD exchange rate, which was at the level of 1.19 at the beginning of 2018, then dropped to 1.25 at the end of January. However, in further months the American currency started to quickly strengthen as a result of increasing interest rates and the escalation of trade disputes between the USA, China and the European Union. The European Central Bank press release from June, which signalled that the next possible date of increase in the deposit rate would be as late as autumn of 2019, additionally weakened the euro to the dollar. The EUR/USD exchange rate dropped to the level of 1.15 at the time, but finally ended the first half of the year at approx. 1.17.

At the beginning of 2018 the Polish zloty was at a level of 4.18 to the euro. For the first two months of the year the exchange rate oscillated around 4.17. From mid-February, however, it started to gradually drop, only to increase to 4.36 thereafter.

The following factors had an impact on the exchange rate of the PLN:

- the position of the Monetary Policy Council which practically eliminated the possibility of increasing interest rates before 2020;
- increases in interest rates in the USA; and
- escalation of global trade disputes.

2.3 STANDING OF THE POLISH BANKING SECTOR

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

NET PROFIT PROFITABILITY OF THE BANKING SECTOR³

In the period from January to May 2018 the banks operated in conditions of sustainable and stable growth of the economy, good financial condition of households and enterprises, and maintained low interest rates.

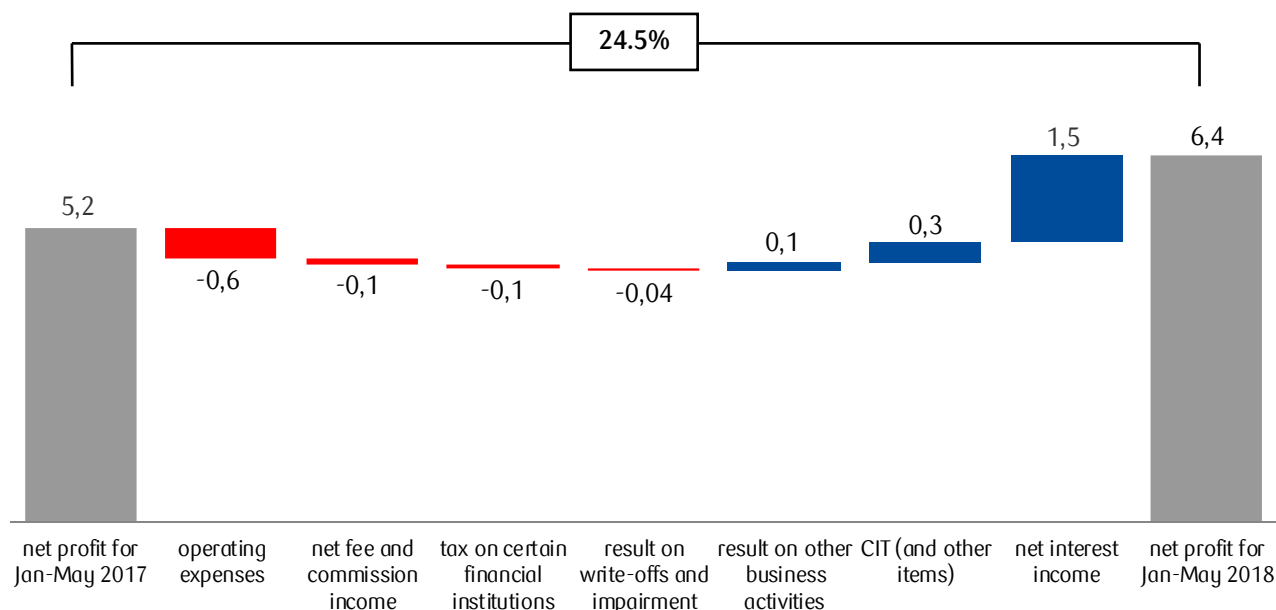
PLN 6.4 billion
net profit of the banking sector
generated in the period
January – May 2018

+24.5% y/y
rate of change in net profit in the banking sector
generated in the period
January – May 2018

7.6% (+0.1 p.p. y/y)
return on equity of the banking sector as
at the end of May 2018

During the period, the banking sector earned a net profit of PLN 6.4 billion, i.e. nearly 1/4 higher than in the corresponding period of 2017. The strong increase in net interest income (+PLN 1.5 billion y/y; +9.1% y/y) and in profit on other banking activities (+4.1% y/y) had the largest positive impact on the level of net profit. The following had an opposite impact on net profit: an increase in operating expenses (+4.0% y/y, with an increase in wages and salaries and expenditure on digitization and cybersafety), an increase in the tax on certain financial institutions (approx. +3.5% y/y), a drop in net commission and fee income (-1.7% y/y) and deterioration in the net impairment allowance for financial assets measured at amortized cost (+3.3% y/y).

Change in the banking sector's net profit (PLN billions)



Source: PFSA, calculations of PKO Bank Polski SA.

As at the end of May 2018 return on equity in the banking sector improved; the ROE indicator⁴ increased to 7.6% compared with 7.1% as at the end of December 2017 and 7.5% as at the end of May 2017.

³ Based on PFSA data; calculations of PKO Bank Polski SA.

⁴ Return on equity (ROE) – the ratio of the net profit of the banking sector in the last 12 months to average equity.

LOAN AND DEPOSIT MARKET⁵

As at the end of May 2018 total assets and total equity and liabilities of the banking sector increased to PLN 1 841 billion (+5.9% y/y compared with +4.1% as at the end of 2017).

As at the end of the first half of 2018 the loans dynamics increased to +5.8% y/y (+3.7% as at the end of 2017) and the deposits dynamics increased +6.5% y/y (+4.4% as at the end of 2017).

LOANS

The volume of loans in the banking sector increased to PLN 1 224 billion, which was determined by:

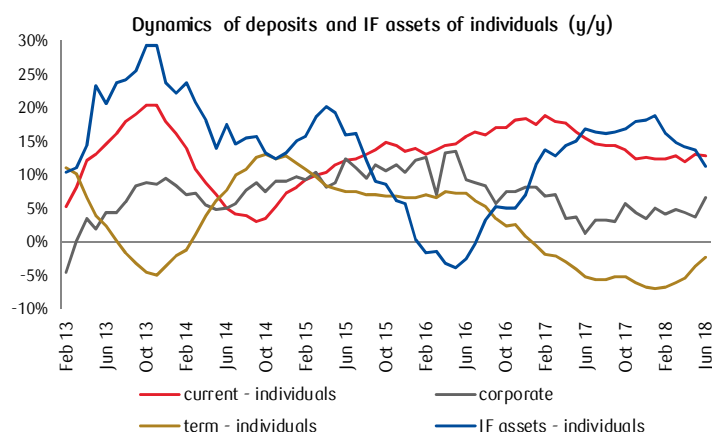
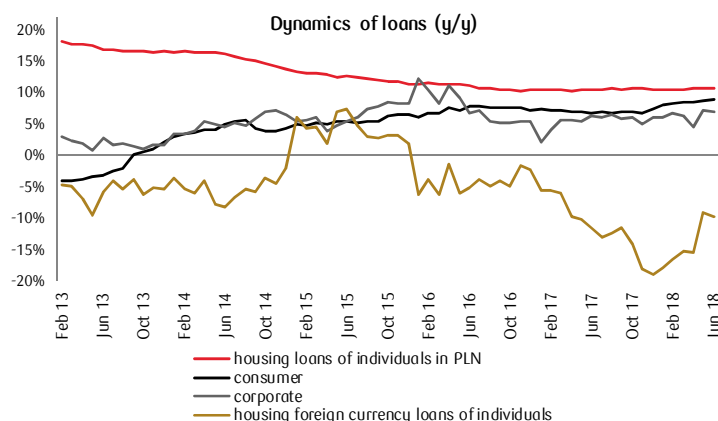
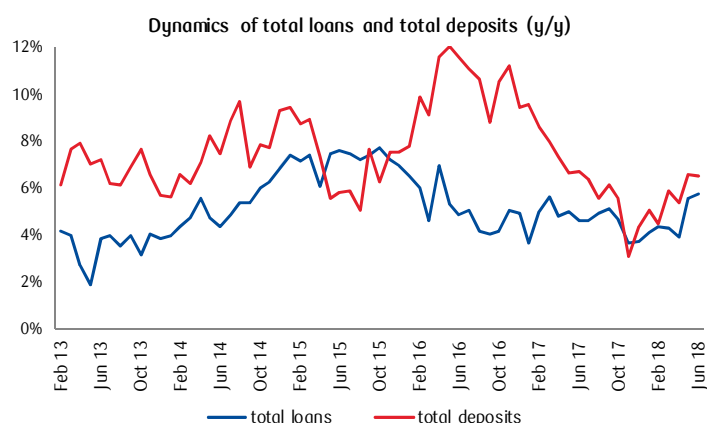
- an increase in the rate of growth of consumer loans to +8.9% y/y (the highest annual rate for over 8 years);
- acceleration of the increase in corporate loans to +7.0% y/y (+6.2% y/y as at the end of 2017) – mainly as a result of foreign exchange rate fluctuations;⁶
- acceleration of the annual rate of growth in housing loans in PLN to +10.7% (+10.4% as at the end of 2017) and a slowing in the negative dynamics of foreign currency housing loans to -9.7% y/y (-18.9% y/y as at the end of 2017).

SAVINGS

In the first half of 2018 the annual rate of growth of deposits increased, among other things, as an effect of an acceleration in the rate of growth of deposits of individuals to +6.1% y/y (+3.6% as at the end of 2017), which occurred in the following conditions:

- a continued drop in average 12M rates of return on the investment fund market, resulting from a deterioration in the market conditions, mainly on the stock exchange (a drop of -12.2% in WIG since the beginning of 2018);
- growing interest rates on new PLN household deposits in the banking sector (+0.1 p.p. in the first half of 2018).

In conditions of maintained stronger growth in deposits than in loans, as at the end of the first half of 2018 the Loan/Deposits ratio dropped to 97.5% (98.1% as at the end of 2017).



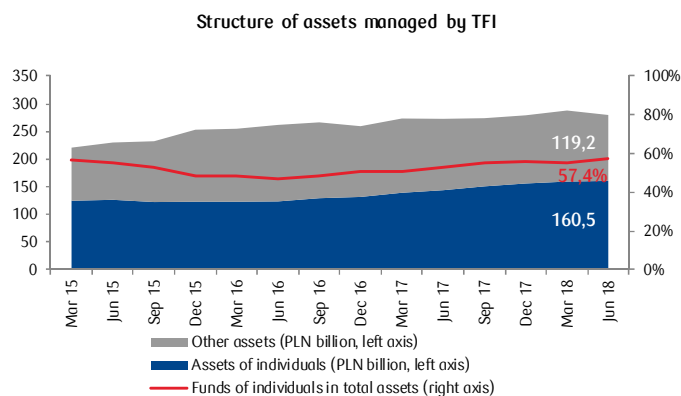
⁵ Based on: NBP data (as at the end of June 2018) and PFSA data; calculations of PKO Bank Polski SA.

⁶ In the first half of 2018 the zloty weakened compared to the key currencies (the EUR/PLN exchange rate increased from 4.17 to 4.37, the USD/PLN exchange rate increased from 3.48 to 3.74, and the CHF/PLN exchange rate increased from 3.57 to 3.78).

2.4 STANDING OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUNDS MARKET

In the first half of 2018 the situation on the investment funds market was shaped by the bear market on the Warsaw Stock Exchange (WSE), the drop in returns on Polish Treasury bonds and low interest rates on bank deposits. This led to a slow-down of the investment fund market. Assets managed by the Investment Fund Management Companies (Towarzystwa Funduszy Inwestycyjnych – TFI) grew by +0.1% to PLN 279.7 billion (+2.6% y/y compared with +7.7% y/y as at the end of 2017), which was determined by an increase in investment fund assets of individuals (+2.9%) and a drop in investment fund assets of institutional entities (-3.5%).



The change in assets managed by TFIs was mainly the result of high net inflows of new funds from individuals (PLN +7.3 billion) and net outflows of funds of the remaining investors' group (PLN -3.6 billion).

The decreasing trend in the demand for investment fund units on the part of individual investors slowed down – among other things – in effect of a significant drop in the average annual rates of return realized in the key market segments. As at the end of the first half of 2018 average annual rates of return from funds with high exposures to the local share market were negative. In respect of funds with lower risk profiles, for which individual investors' demand was the highest, average rates of return dropped to a level similar to the average interest on new term deposits.

OPEN PENSION FUNDS MARKET

In the first half of 2018 assets of Open Pension Funds (OFE) continued to decrease and dropped by -11.9% (PLN -21.5 billion) to PLN 158.1 billion. At the same time the number of OFE participants continued to drop (-106 thousand, to 16.0 million).

The OFE market remained under the influence of: deteriorating conditions on the WSE, and uncertainty as to the future terms and conditions of operation (work is in progress on regulatory changes on the market).

In the structure of OFE assets shares continued to dominate (84% as at the end of the first half of 2018).

INSURANCE MARKET

In the first quarter of 2018 insurance companies earned net profit of PLN 1.1 billion (+1.9% y/y), which was the result of an increase in net profit in the other personal and property insurance segment (+6.2% to PLN 0.6 billion) and a y/y drop in net profit in the life insurance segment (-3.1% to 0.5 billion).

The y/y increase in gross written premium to PLN 16.2 billion (+1.9%), with a simultaneous increase in claims to PLN 10.1 billion (+3.8%) had an impact on the financial results of insurance companies as a whole. Costs of insurance activities were 2.9% higher y/y (PLN 3.4 billion).

In the life insurance segment, gross written premium dropped by -7.4% y/y (to PLN 5.7 billion), with a drop in claims of -4.1% y/y (to PLN 5.5 billion). Costs in the life insurance segment dropped by -4.5% to PLN 1.2 billion.

The other personal and property insurance segment noted a y/y increase in gross written premium of +7.7% (to PLN 10.6 billion), with a simultaneous increase in claims of 16.2% (to PLN 4.7 billion). Costs of insurance activities in the other personal and property insurance segment increased by +7.7% (to PLN 2.1 billion).

Total assets of insurance companies increased to PLN 196.9 billion (+0.1%) in the first quarter of 2018, which was the effect of a drop in assets in the life insurance segment (-1.8%) and an increase in the other personal and property insurance segment of 2.3%.

LEASE MARKET

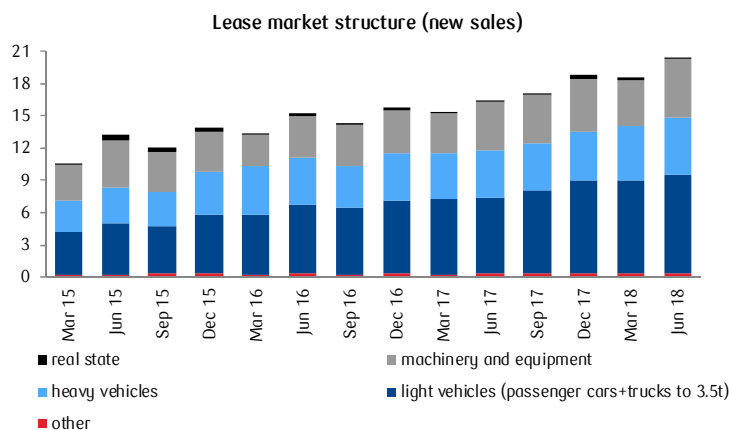
In the first half of 2018 the lease market continued to develop dynamically. The lease industry financed assets with a value of PLN 38.9 billion and a rate of growth of +19.7% y/y (compared with growth of +15.7% y/y as at the end of 2017).⁷

The segment of light vehicles (passenger cars, delivery vans and trucks up to 3.5 tonnes) had the biggest positive influence on the development of the lease market. The value of assets financed in this segment amounted to PLN 17.8 billion (+21.2% y/y), which was approx. 46% of total financing granted by lease companies.

The second strongly developing segment was the lease of plant and machinery which also noted a two-digit growth (+20.7% y/y) with a total value of new contracts of PLN 9.8 billion. Leases of construction plant grew fastest in this segment (+64% y/y), which was the result of good market conditions in the construction industry (acceleration of construction and assembly production).

In the period under analysis leases of heavy transport vehicles also increased (+17.5% y/y), with the value of leased assets at a level of PLN 10.4 billion. In this segment the largest increase was experienced in leases of buses (+32.1% y/y) and other vehicles (+26.4% y/y).

In the first half of 2018 the lease market noted a drop in real estate leases (-27.4% y/y). However, that segment still played a marginal role in financing investment projects by the lease industry (0.7% of total financing granted by lease companies).



FACTORING MARKET

In the first half of 2018 a high demand for factoring services prevailed. Sales of firms associated in the Polish Factors Association increased at a two-digit pace for another year in a row (approx. 27.5% y/y compared with 16.7% y/y in 2017) reaching a level of PLN 109.5 billion. Over 15 thousand business entities used the services of factoring companies.

The largest demand was for domestic factoring without recourse; in this area sales went up approx. 13% y/y to PLN 44.4 billion. The second largest market segment, i.e. domestic factoring with recourse, notes sales of PLN 30.8 billion, which constituted approx. 28% of total sales of factoring companies. Export factoring comprised approx. 17% of total sales of factoring companies. Factoring services were used mainly by the food industry, chemical industry and metal industry companies.

2.5 UKRAINIAN MARKET

ECONOMIC CONDITIONS

In the first months of 2018 the Ukrainian economy revived. This revival, together with the expiry of the effect of the trade blockade of the Donbas region implemented in the previous year translated into an acceleration of economic activities (a GDP growth acceleration of 3.1% y/y in the first quarter of 2018 compared with 2.2% in the fourth quarter of 2017). The monthly data available for the second quarter of 2018 show that the GDP dynamics stabilized. Consumption remains the main driver behind the growth, supported by growing wages and salaries, among other things, as a result of another increase in minimum wages at the beginning of 2018.

Acceleration of the GDP growth, increase in retail sales, wages and salaries, and improved collectability of taxes led to a visible improvement in taxable income, in particular in respect of CIT. The public sector's debt dropped to 56.0% of the GDP in May 2018 (64.5% of GDP, taking into account government guarantees), i.e. to the lowest level since the summer of 2014. Almost half of the debt is financed by the Central Bank.

CPI inflation continued its downward trend: in June it was 9.9% y/y compared with 13.7% y/y in December. However, base inflation (i.e. excluding food, fuel and energy) remains at approx. 9.0% y/y, distinctly above last year's average.

⁷ According to data of the Polish Leasing Association.

High inflation at the beginning of the year was the basis for increasing interest rates by the National Bank of Ukraine – on 25 January from 14.50% to 16.00% and on 1 March to 17.00%. The increase in interest rates translated to a strengthening of the exchange rate of the hryvna to the dollar in the first quarter of 2018. As at the end of June 2018 the USD/UAH exchange rate amounted to 26.19 compared with 28.07 as at the end of December 2017. In accordance with the NBU data, the PLN/UAH exchange rate amounted to 7.04 as at the end of June 2018 compared to 8.02 as at the end of 2017.

UKRAINIAN BANKING SECTOR

In accordance with the NBU data, the number of banks engaged in operations in the Ukraine remains stable. As at the end of May 2018, 82 banks were registered compared with 82 in December 2017 and 90 in May 2017.

The value of total assets in the Ukrainian banking system dropped to approx. UAH 1.31 billion since the beginning of the year, from UAH 1.34 billion, and equity dropped to UAH 158.8 billion from UAH 163.6 billion.

As at 31 May 2018 the volume of loans was UAH 1,083 billion (+ UAH 20.3 billion since the beginning of the year), despite the negative impact of appreciation of the hryvna on the volume of foreign currency loans. Private companies were the main contributors to the growth in the volume of loans. At the same time, the total deposit volume dropped by UAH 2.9 billion due to the weakening of the value of foreign currency deposits whose volume dropped by UAH 35.5 billion. Deposits of households and public enterprises grew (in UAH).

An improvement was noted in ROA (1.27% vs -1.94% in 2017) and ROE (10.55% vs -15.96% in 2017). In the first half of the year Ukrainian banks generated a profit of UAH 8.3 billion compared with the loss of UAH - 1.7 billion in the corresponding period of the prior year. Despite the drop in own funds the Total Capital Ratio increased (to 16.34% as at the end of May compared with 16.10% as at the end of December and the 10% required by the regulator).

2.6 REGULATORY AND LEGAL ENVIRONMENT

New legal and regulatory solutions, which became binding in the first half of 2018, had an impact on the financial and organizational position of the PKO Bank Polski SA Group and financial sector entities, including:

PRUDENTIAL AND CAPITAL REQUIREMENTS

- The Act on Macroprudential Supervision over the financial system and on crisis management (Journal of Laws of 2015, item 1513, as amended), which in particular increased the security buffer to 1.875% as of 1 January 2018;
- The regulation of the Minister of Development and Finance from 2017 on the systemic security buffer (Journal of Laws of 2017, item 1776) introducing the systemic risk buffer at the level of 3% as of 1 January 2018;
- Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, EBA technical standards and recommendations of the Polish Financial Supervision Authority which, among other things, increases the short-term liquidity coverage ratio LCR for 2018 to 100% from 80% in 2017.

Impact on banks' capital requirements at separate and consolidated levels

NEW ACCOUNTING STANDARD IFRS 9

The International Financial Reporting Standard IFRS 9 Financial Instruments has replaced IAS 39 as of 1 January 2018. This had a significant impact on the manner of measuring financial instruments (calculations of credit impairment allowances) and their classification.

Impact on the banks' financial results (including through the level of allowances), cost of risk, equity

HOUSING FOR THE YOUNG (MIESZKANIE DLA MŁODYCH – MDM)

Extinguishing of the government "Housing for the Young" programme implemented by the Act of 27 September 2013 on State aid in the purchase of the first apartment by the young (Journal of Laws of 2013, item 1304). On 4 January 2018 Bank Gospodarstwa Krajowego stopped accepting the last pool of applications for co-financing the purchase of apartments. Officially, the programme ceases to be binding in 2018.

Impact on the banks' lending activities

INVESTOR/CUSTOMER PROTECTION

- Regulation (EU) No. 600/2014 of the European Parliament And of the Council of 15 May 2014 on markets in financial instruments (MiFIR) and Directive of the European Parliament and Council 2014/65/UE of 15 May 2014 on markets in financial instruments, which establish new requirements for the provision of financial services by banks and investment companies. The regulation will be applied as of 3 January 2018. MiFID2 is implemented to Polish law by the Act of 1 March 2018 on changes in the Act on trading in financial instruments and certain other acts (Journal of Laws of 2018, item 685),

- Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), which introduced rules for developing key information documents on retail collective investment and insurance-based investment products;

- The Act of 10 May 2018 which amends the Act on Personal Data Protection (Journal of Laws of 2018, item 1000) and Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, which establishes several new duties on data processors as of 25 May 2018.

Impact on the product distribution model, net commission income, banks' and banks' group companies' operating expenses

COUNTERACTING TAX EXTORTIONS USING BANKS

Act of 24 November 2017 on amending some Acts in order to counteract using the financial sector for tax extortions (Journal of Laws of 2017, item 2491), which introduces – among other things – new obligations for banks within the scope of providing information to the IT system of the clearance chamber (STIR) and blocking Customer accounts.

Impact on operating expenses

CHANGES IN TAXES

Act of 27 October 2017 amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on flat-rate income tax on some revenues generated by individuals (Journal of Laws of 2017, item 2175), which introduces regulations resulting in increasing the CIT burdens, including: categorization of sources of income (from capital gains and from other sources of income), general restriction on the costs of debt financing in place of the so-called thin capitalization provisions, restrictions on classifying expenses on intangible services and intangible assets acquired from related parties as tax-deductible costs, limitation of the scope of exemptions in respect of shares in profits of legal entities, changes adapting tax regulations to IFRS 9 coming into force, and implementation of the so-called minimum income tax – a tax on buildings.

Impact on financial results

SPLIT PAYMENT

Preparation for the coming into force of the Act amending the Act on VAT (Journal of Laws of 2018, item 62) which introduces split payments in respect of VAT, i.e. payment of VAT invoices in two cash flows: net amount and VAT.

Impact on the banks' operating expenses and product offer

MANDATORY RESERVE

- Resolution 6/2017 of the Monetary Policy Council (Official NBP Journal of 2017, item 22)
- amendment reducing the mandatory reserve on acquired funds from 3.5% to 0% for at least 2 years as of 30 April 2018;

- Resolution 7/2017 of the Monetary Policy Council (Official NBP Journal of 2017, item 24)
- change in the interest rate on the mandatory reserve funds from 1.35% to 0.50% as of 1 January 2018.

Impact on net interest income

In the first half of 2018 new legal solutions implemented in the Ukraine (where, among others, the subsidiary KREDOBANK SA operates) had an impact on the operations and results of the PKO Bank Polski SA Group, including:

CHANGE IN BASE INTEREST RATES

Resolutions of the Ukrainian Central Bank (NBU) No. 43/2018 and 133/2018 which increased the discount rate: as of 26 January 2018 by 1.5 p.p. to 16%, and as of 2 March by 1 p.p. to 17%, which occurred after the decreases of 2017. Impact on banks' net interest income and their returns

NEW ACCOUNTING STANDARD IFRS 9

NBU Decision No. 1/2018 and 33/2018 which relates to IFRS 9 Financial Instruments, and specifies – among other things – the manner of calculating and recording impairment allowances and classification of financial instruments, and introduces new hedge accounting requirements. Impact on the financial result, equity

CREDIT VALUE

Decision of the NBU No. 15/2018 which changes the principles for determining the overall value of consumer credit and of the real interest rate as of 2 March 2018. Impact on interest and non-interest income

CURRENCY MANAGEMENT

- Decision of the NBU No. 19/2018 which mitigates restrictions relating to foreign currency management as of 3 March 2018;
- Decision of the NBU No. 45/2018, which among other things, allows banks to invest their foreign currency amounts abroad;
- Decision of the NBU No. 65/2018 which concerns the mandatory resale of inflows in foreign currencies as of 16 June 2018. Impact on the banks' business operations, managing their currency position and risk levels

OPERATING EXPENSES

Decision of the NBU No. 39/2018 which introduces changes in the NBU services' tariff as of April 2018. Impact on banks' operating expenses

RISK

Decision of the NBU No. 64/2018 which implements a risk management system for banks as of 16 June 2018. Impact on liquidity risk, market risk and operational risk management

2.7 FACTORS WITH AN IMPACT ON THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE SECOND HALF OF 2018

The following external factors will have an impact on the financial results of the Bank's Group in the second half of 2018:

IN THE GLOBAL ECONOMY

- gradual slowing down of the rate of growth of the global economy, in particular in the Euro Area and in Germany;
- further tightening of the monetary policy in the USA and normalization of the monetary policy by the European Central Bank;
- possible re-growing of geopolitical tensions (the conflict in Syria, uncertainty as to the durability of mitigation of the dispute between the USA and North Korea);
- potential tensions in the area of trade policy (possible escalation of protectionist actions on the part of the USA vis-à-vis China and the EU, and potential retaliatory actions against the USA on the part of other countries);
- high level of uncertainty related to the final form of Brexit (growing risk that the EU and the UK do not come to an agreement as to their mutual relations before 29 March 2019);
- political and economic conditions in the Ukraine.

IN THE POLISH ECONOMY

- growing absorption of EU funds and further revival of capital investment activity in the private sector;
- positive consumer sentiments and further growth in real disposable income in households;

- growing tensions on the labour market, which result from strong demand for labour and growing supply limitations, which lead to maintained growth in remuneration dynamics (i.e. costs of labour) and employee deficits in some industries;
 - slow-down in inflation in the second half of the year in the direction of 1.5%, despite the gradual increase in base inflation;
 - stabilization of NBP interest rates, growing expectations concerning the maintenance of current NBP interest rates without any changes over at least 1.5 years;
 - stabilization of deposit growth and demand for loans; in respect of loans, the slowing of the growth of corporate loans will be balanced by further dynamic growth in loans to households, in respect of deposits the improving financial position of households should lead to an increase in deposits growth in this segment, whereas slowing down of the growth of deposits by non-financial business entities and stabilization of deposits by central and local governments is expected;
 - possible changes in the form of the bank tax.
-

NEW REGULATORY SOLUTIONS

- the Act of 30 November 2016 on amending the act on payment services and certain other acts (Journal of Laws of 2016, item 1997), which – among other things – introduces free-of-charge and generally accessible basic bank accounts and determines uniform principles for transferring payment accounts (implementation of the PAD directive);
 - the Act of 10 May 2018 on amending the act on payment services and certain other acts (Journal of Laws of 2018, item 1075) which introduces – among other things – a legal framework for the operations of payment services providers – a payment initiation service – PIS and an account information service – AIS;
 - the Act on mortgage loans and on supervision over mortgage loan intermediaries and agents (Journal of Laws of 2017, item 819), which imposes additional information requirements on banks related to agreements concerning the reference rate, including informing customers of potential consequences of applying it, as of 1 July 2018;
 - the Act on combating money laundering and terrorist financing (Journal of Laws of 2018, item 723), which comes into force on 13 July 2018, among other things, reduces the threshold for reporting cash transactions by banks and other financial market entities (implementation of AMLD IV);
 - Resolution of the Polish Minister of Finance on granting *de minimis* aid by Bank Gospodarstwa Krajowego in the form of loan repayment guarantees (Journal of Laws of 2018, item 707), which extended the period of guarantee of loan repayment for an unspecified period;
 - Act on distribution of insurance (Journal of Laws of 2017, item 2486) and the Act on amending the Act on distribution of insurance (Journal of Laws of 2018, item 378), which impose additional duties, including information duties, on insurance companies (implementation of the IDD);
 - preparations for implementing IFRS 16 which becomes binding on 1 January 2019 and which introduces new principles for identifying and recognizing leases in books of account; in effect the division between operating and finance leases will disappear, total assets will increase, debt ratios will increase, and capital ratios will drop;
 - new principles of taxing bond and mortgage bond issues (currently they are in the draft act on amending certain acts of 1 February 2018), which are to simplify tax and business law for entrepreneurs;
 - new principles for performing duties related to documenting transactions between related parties and which follow from the draft act on amendments to the Personal Income Tax Act, Corporate Income Tax Act, and several other Acts of 15 July 2018 (expected date of coming into force – 1 January 2019).
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3. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP⁸

Key financial indicators
Consolidated income statement
Consolidated statement of financial position

As of 1 January 2018 the new IFRS 9 Financial instruments became binding. The standard replaced IAS 39 Financial Instruments: Recognition and Measurement. The classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting have changed. Data for the previous periods has not been transformed, which has an impact on the comparability of the selected items of the income statement and the statement of financial position.

Detailed information on the impact of implementing IFRS 9 Financial instruments is provided in Note 4 to the condensed interim consolidated financial statements of the Group.

For analytical purposes, the data included in this section has been combined into items of a similar nature.

3.1 KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group for the first half of 2018 enabled the key financial efficiency indicators to achieve the following levels:

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

	30.06.2018	30.06.2017	Change
ROA net (net profit/average total assets)	1,2%	1,0%	+0,2 p.p.
ROE net (net profit/average total equity)	9,5%	8,4%	+1,1 p.p.
C/I (cost to income ratio)	45,3%	47,8%	-2,5 p.p.
Net interest margin (net interest income/average interest-bearing assets)	3,4%	3,2%	+0,2 p.p.
Share of impaired loans	5,2%	5,7%	-0,5 p.p.
Cost of risk	-0,67%	-0,74%	+0,07 p.p.
Total Capital Ratio (equity/total capital requirement*12.5)	17,42%	16,85%	+0,57 p.p.
Tier 1 Capital Ratio	16,12%	16,00%	+0,12 p.p.

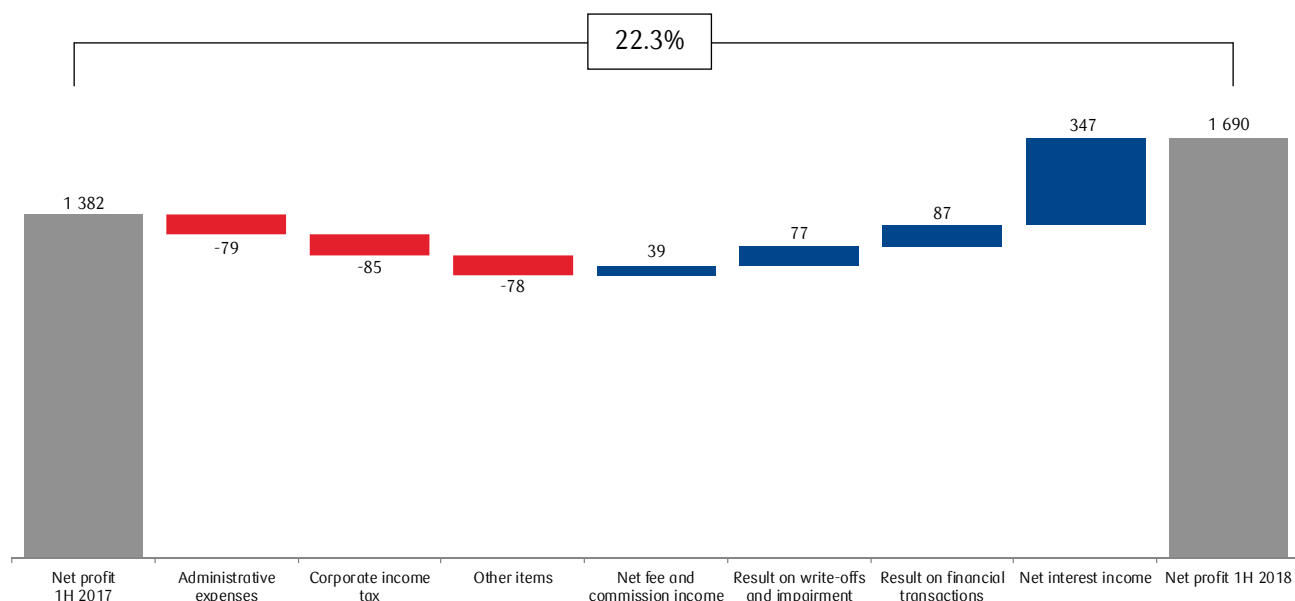
3.2 CONSOLIDATED INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
Administrative expenses
Result on write-offs and impairment

The consolidated net profit of the PKO Bank Polski SA Group earned in the first half of 2018 amounted to PLN 1 690 million and was PLN 308 million (+22.3%) higher than in the corresponding period of 2017.

⁸ In this section, any differences in sums, shares or dynamics arise from the rounding of amounts to full PLN millions and rounding of percentage shares in structures to one digital space.

Change in net profit of the PKO Bank Polski SA Group (PLN million)



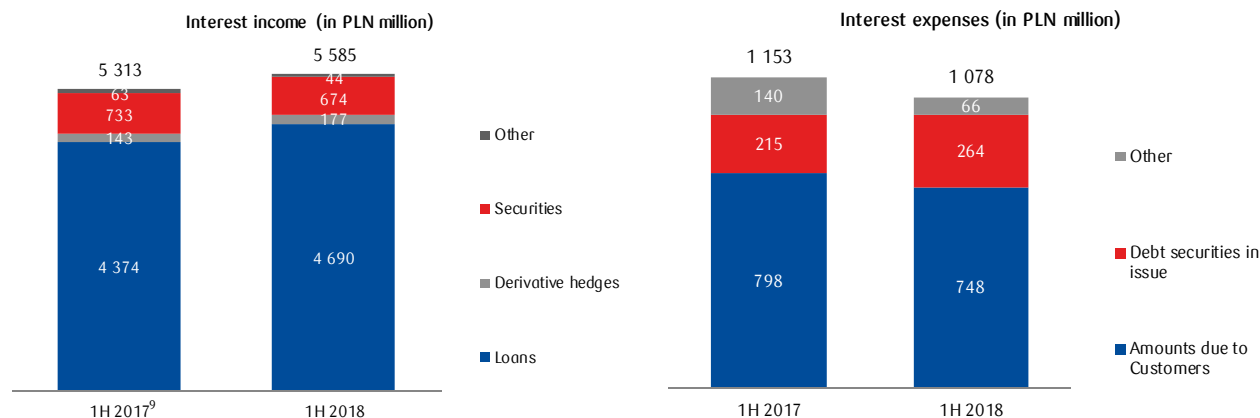
In the income statement of the PKO Bank Polski SA Group for the first half of 2018 the result on business activities amounted to PLN 6 489 million and was PLN 384 million, i.e. 6.3% higher than in the first half of 2017, mainly as a result of an increase in net interest income and result on financial transactions.

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

	01.01-30.06.2018	01.01-30.06.2017	Change (in PLN million)	Change (in %)
Net interest income	4 507	4 160	347	8,3%
Net fee and commission income	1 482	1 443	39	2,7%
Net other income	500	502	-2	-0,4%
Dividend income	11	11	0	0,0%
Result on financial transactions	101	14	87	7,2x
Foreign exchange result	247	223	24	10,8%
Net other operating income and expenses	141	254	-113	-44,6%
Result on business activities	6 489	6 105	384	6,3%
Administrative expenses	-3 017	-2 938	-79	2,7%
Tax on certain financial institutions	-461	-464	3	-0,6%
Net operating profit	3 011	2 703	308	11,4%
Result on write-offs and impairment	-710	-787	77	-9,8%
Share in profits and losses of associates and joint ventures	14	11	3	27,3%
Profit before tax	2 315	1 927	388	20,1%
Corporate income tax	-626	-541	-85	15,7%
Net profit (including non-controlling interests)	1 689	1 386	303	21,9%
Profits and losses attributable to non-controlling shareholders	-1	4	-5	-125,0%
Net profit	1 690	1 382	308	22,3%

NET INTEREST INCOME

In the first half of 2018 net interest income amounted to PLN 4 507 million and was PLN 347 million higher than in the previous year. The improvement in net interest income was determined by an increase in income related to the increase in the credit portfolio with a simultaneous drop in the cost of funds.

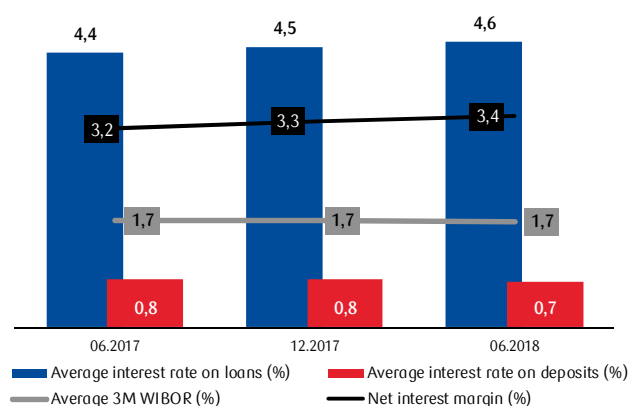


In the first half of 2018 interest income amounted to PLN 5 585 million and was PLN 272 million higher than in the prior year, mainly in effect of:

- an increase in loans and advances to Customers of PLN 316 million y/y – related to an increase in the average volume of amounts due in respect of loans of PLN 6.4 billion and amounts due in respect of leases of PLN 1.6 billion, and a change in their structure (an increase in the share of consumer loans and lease receivables with a simultaneous drop in the share of foreign currency denominated housing loans), with unchanged levels of market interest rates for PLN, CHF and EUR;
- higher income on derivative hedges (+PLN 34 million y/y), mainly in effect of an increase in the volume and average interest on CIRS hedges;
- with a drop in income from securities of PLN 59 million y/y determined by a drop in the average volume of securities of PLN 2.5 billion (mainly NBP bills of PLN 5.4 billion), accompanied by an increase in their average interest rates as a result of the 9 p.p. y/y increase in the share of Treasury bonds in the portfolio; and
- a drop in other income of PLN 19 million, related to the drop in interest income on the mandatory reserve of PLN 29 million in connection with the introduction of a new interest rate on those funds by the Monetary Policy Council as of the beginning of 2018, partly offset by an increase in income on interbank deposits.

The PLN 75 million y/y decrease in interest expenses was mainly the result of:

- a decrease in the costs of the deposit base of PLN 50 million y/y, related to the change in the term structure in favour of current deposits, whose share increased by 7 p.p. y/y to approx. 62% of the amounts due to Customers;
- a drop in the costs of loans and advances received of PLN 64 million y/y as a result of the gradual overpayment of amounts due to Nordea AB – the debt was fully repaid in the first quarter of 2018;
- a drop in the premium on securities of PLN 15 million;
- with a simultaneous increase in the costs of issue of the Bank's debt securities and subordinated liabilities, related to an increase in the level of medium-term bonds and covered bonds issued, of PLN 49 million.



⁹ For the objective of comparability of data, interest income for the first half of 2017 has been revised. Revenues from non-Treasury bonds in the amount of approx. PLN 72 million, in 2017 included in loans and advances to customers, were transferred from loan's income to securities' revenues.

The interest margin increased by approx. 0.2 p.p. y/y to 3.4% as at the end of June 2018. The average annualized interest-earning assets increased by 4.0% y/y (the main portfolio of amounts due from Customers and the securities portfolio), and the annualized net interest income increased by 9.8%, mainly as a result of an increase in interest income on loans and securities (the effect of an increase in volume and returns on assets).

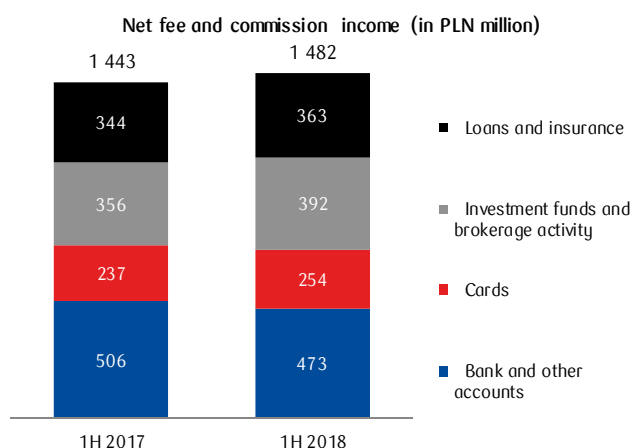
As at the end of June 2018 the average interest on amounts due in respect of loans of the PKO Bank Polski SA Group amounted to 4.6%, and the average interest on total deposits was at a level of 0.7%, compared with 4.4% and 0.8% respectively as at the end of June 2017.

NET FEE AND COMMISSION INCOME

In the first half of 2018 net fee and commission income amounted to PLN 1 482 million and was PLN 39 million higher than in the previous year.

The level of net commission income was mainly determined by:

- higher net income from investment funds and brokerage activities (+PLN 36 million y/y), in effect of higher interest of Customers in investment funds as a form of saving. This translated into higher income from management fees, with an increase in the amount of PKO TFI SA assets under management of 14% compared with the end of 2017;
- higher net income on loans and insurance (+PLN 19 million y/y), mainly in effect of an increase in sales of insurance products linked to consumer and housing loans, and to leased assets;
- higher net income on payment and credit cards (+PLN 17 million y/y), in effect of a higher number of cards and higher volumes of non-cash transactions;
- lower net income on servicing bank accounts and other income (PLN -33 million y/y), among other things related to a change in the structure of accounts of Customers who have decided to have the fee for maintaining their accounts reduced.

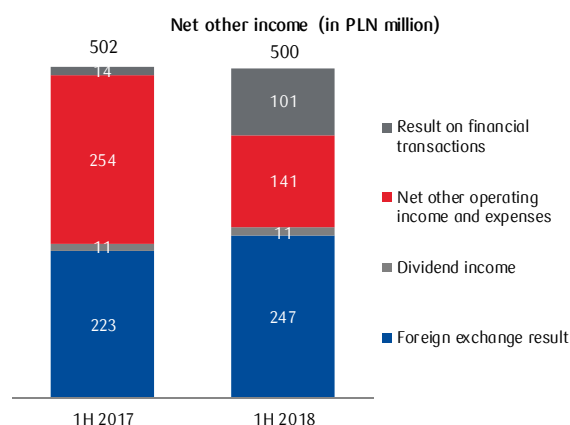


NET OTHER INCOME

In the first half of 2018 net other income amounted to PLN 500 million and was similar to that earned in the first half of 2017.

The drop in annualized net other operating income and expenses was caused by:

- recognizing a provision of PLN 62.5 million in connection with the intention of PKO Bank Polski SA to file a request for issuing a binding decision by the President of the Office of Competition and Consumer Protection in the proceedings concerning practices of violating collective interests of consumers;¹⁰
- recognizing additional income of PLN 76 million in 2017 in respect of the completion of a development project and starting to transfer the apartments to Customers of one of the subsidiaries of the Bank's Group.



Compared with the first half of 2017 net income on financial operations increased (+ PLN 87 million y/y), mainly due to sales of securities (included in net income on derecognition of financial assets and liabilities).

¹⁰The information on setting up the provision was published in current report No. 24/2018 on 27 June 2018.

ADMINISTRATIVE EXPENSES

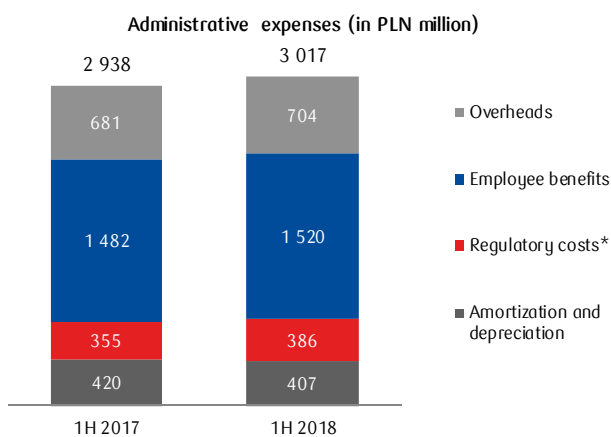
In the first half of 2018 administrative expenses amounted to PLN 3 017 million and were 2.7% higher than in the corresponding period of the prior year.

Their level was mainly determined by:

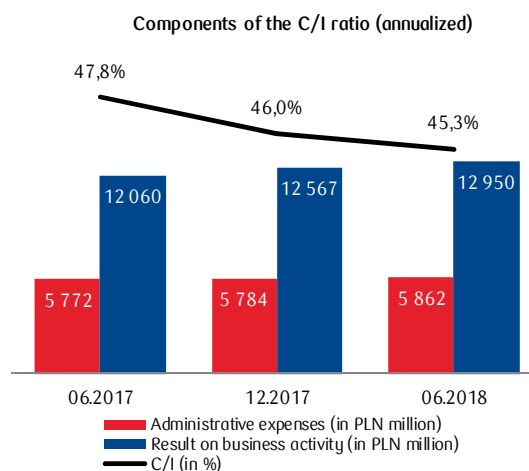
- an increase in employee benefits of PLN 38 million, i.e. of 2.6%;
- an increase in overheads of PLN 23 million, i.e. of 3.4%, mainly in connection with the following expenses:
 - postal services (including PLN 16 million due to sending information to Customers about product changes as a result of amendments to the Act on payment services and changes in banking commission and fee tariffs);
 - marketing (of PLN 30 million – including mainly the Bank's activities in respect of its image, of PLN 13 million, and promoting banking products, of PLN 10 million);
- an increase in the costs of taxes and fees of PLN 38 million, i.e. of 76.0%, mainly in effect of recognizing income tax on interest of foreign bonds issue of PLN 28 million in 2018 and PLN 13 million higher PFSA costs caused mainly by recognizing, in January 2018, a provision for the annual fee (in 2017 it was accrued on a monthly basis);
- a drop of PLN 7 million, i.e. 2.3% in contributions and payments to the BGF – in the first half of 2018 costs in respect of the BGF amounted to PLN 298 million, of which PLN 167 million was the contribution for mandatory restructuring of banks. In the corresponding period of the prior year costs in respect of the BGF were PLN 305 million, of which the contribution for mandatory restructuring was PLN 209 million ;
- a drop in amortization and depreciation (mainly amortization of tangible assets) of PLN 13 million, i.e. of 3.1%.

On 30 June 2018 PKO Bank Polski SA employed 28 525 FTEs, which is a drop of 32 FTE y/y.

The effectiveness of operations of the PKO Bank Polski SA Group measured with C/I on an annual basis was 45.3% and improved by 2.5 p.p. y/y as a result of better results on business activities (+6.3% y/y), with a simultaneous increase in administrative expenses (+2.7% y/y).



*Includes BGF, PFSA, taxes and charges



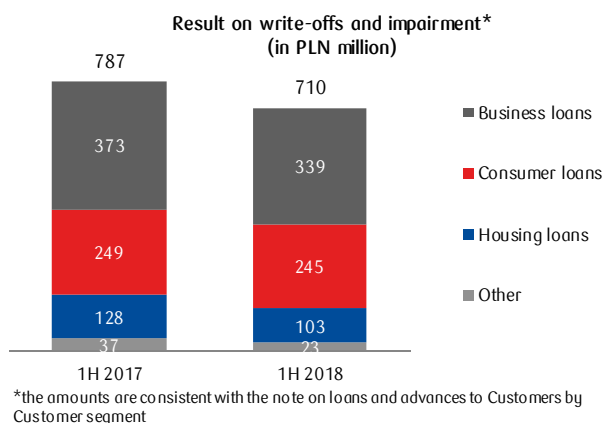
RESULT ON WRITE-OFFS AND IMPAIRMENT

Result on write-offs and impairment reflect the Bank's Group's conservative approach to recognizing and measuring credit risk. In the first half of 2018 it amounted to PLN 710 million. The improvement in the result (+PLN 77 million y/y) was mainly due to more favourable net allowances on the exposure to the portfolio of business entities of PLN 34 million and housing loans of PLN 25 million.

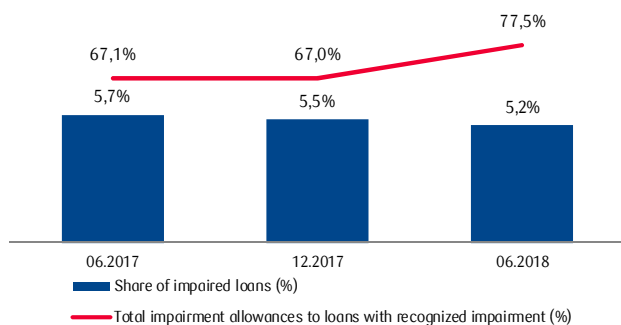
The share of impaired loans as at the end of the first half of 2018 amounted to 5.2% (a 0.5 p.p. decrease compared with the end of the first half of 2017).

As at the end of the first half of 2018 the cost of risk was 0.67%, which is an improvement of approx. 0.07 p.p. compared with the corresponding period of the prior year.

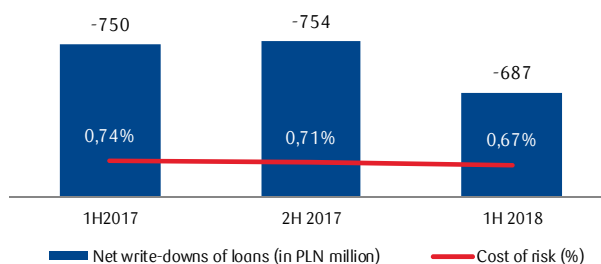
The improvement in risk ratios with a simultaneous increase in the gross credit portfolio of 3.5% y/y is the effect of the continuation of the current conservative credit risk management policy of the Bank's Group and of strict monitoring of the receivables portfolio.



Quality of the Group's loan portfolio



Cost of risk of the Group



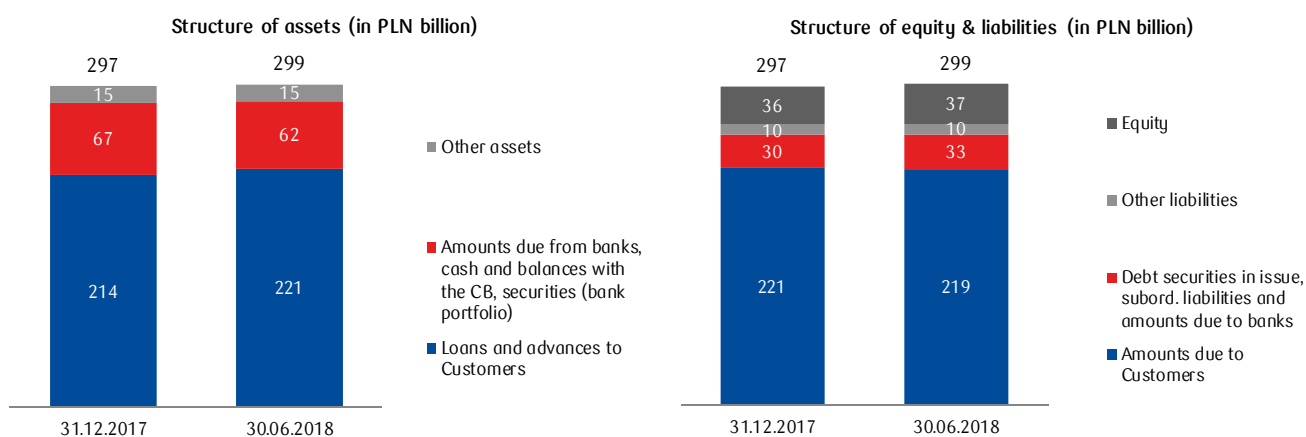
3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Main items of the Statement of financial position
Loans and advances to Customers
Amounts due to Customers
External financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets, and total equity and liabilities of the PKO Bank Polski SA Group as at the end of June of 2018 amounted to nearly PLN 299 billion. Thus, the PKO Bank Polski SA Group maintained its leading position in terms of size on the Polish banking market.

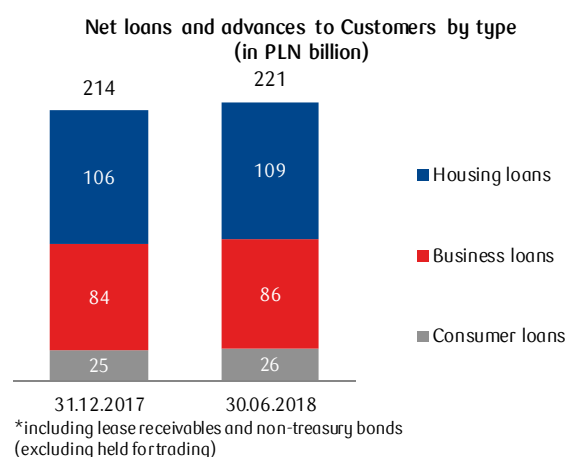
The Bank's Group noted an increase in financing granted to Customers, with a simultaneous drop in cash and balances with the Central Bank. In the structure of amounts due to the Group, the most stable types of liabilities increased, i.e. in respect of the issue of securities and subordinated bonds, at a lower level of amounts due to banks (repayment of the whole amount due to Nordea AB) and Customer deposits.



FINANCING GRANTED TO CUSTOMERS

As at the end of June 2018, the value of the portfolio of financing granted to Customers of the Bank's Group exceeded PLN 221 billion and it increased by PLN 7.0 billion since the beginning of the year.

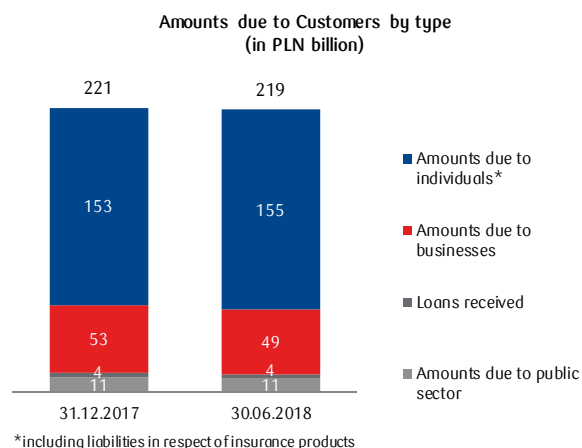
Housing loans are the main item in the structure of the net loan portfolio by type (49.4% of the portfolio as at the end of June 2018) and their volume increased by PLN 3.2 billion during the year. The increase in the portfolio of financing granted also resulted from an increase in the net volume of business loans of PLN 1.8 billion and consumer loans of PLN 1.0 billion.



AMOUNTS DUE TO CUSTOMERS

Amounts due to Customers constitute the basic source of financing assets. As at the end of the first half of 2018 they amounted to PLN 219.2 billion and comprised 73% of total equity and liabilities. In the break-down of amounts due to Customers by type, amounts due to individuals constitute the main item (70.1% of the portfolio as at the end of June 2018), and amounts due to business entities and to budget entities have lower shares.

In the first half of 2018 funds continued to migrate from term deposits to current deposits and investment funds; therefore the share of current deposits in the break-down increased and amounted to 62.5%.



EXTERNAL FINANCING

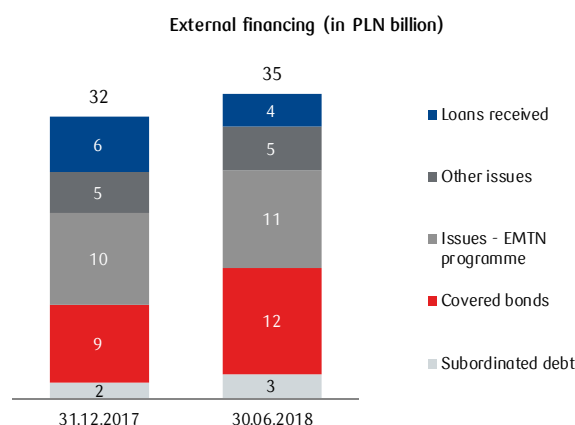
The PKO Bank Polski SA Group is an active participant of the debt securities markets, both Polish and international. Such activities are aimed at diversifying the sources of financing operations and adapting them to the regulatory requirements.

The increase in the share of long-term sources of financing of PLN 2.5 billion is mainly the effect of:

- PKO Bank Hipoteczny SA issuing covered bonds (with a nominal value of EUR 500 million and PLN 800 million) and PKO Bank Polski SA issuing subordinated bonds (PLN 1 billion);
- with simultaneous repayment of the whole amount due to Nordea Bank AB in respect of the credit facility.

Current repayment of the remaining loans and the effect of foreign exchange rates (PLN 1.1 billion) had an impact on the level of external sources of financing.

Detailed information on the issues conducted by the PKO Bank Polski SA Group is provided in Note 38 of the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018.



4. FINANCIAL RESULTS OF PKO BANK POLSKI SA¹¹

Key financial indicators
Income statement
Statement of financial position

As of 1 January 2018 the new IFRS 9 Financial instruments became binding, The standard replaced IAS 39 Financial Instruments: Recognition and Measurement. The classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting have changed. Data for the previous periods has not been transformed, which has an impact on the comparability of the selected items of the income statement and the statement of financial position.

For analytical purposes, the data included in this section has been combined into items of a similar nature.

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

4.1 KEY FINANCIAL INDICATORS

The results achieved by PKO Bank Polski SA for the first half of 2018 were formed by key financial efficiency indicators at levels shown in the table below.

Table 4. Financial indicators of PKO Bank Polski SA

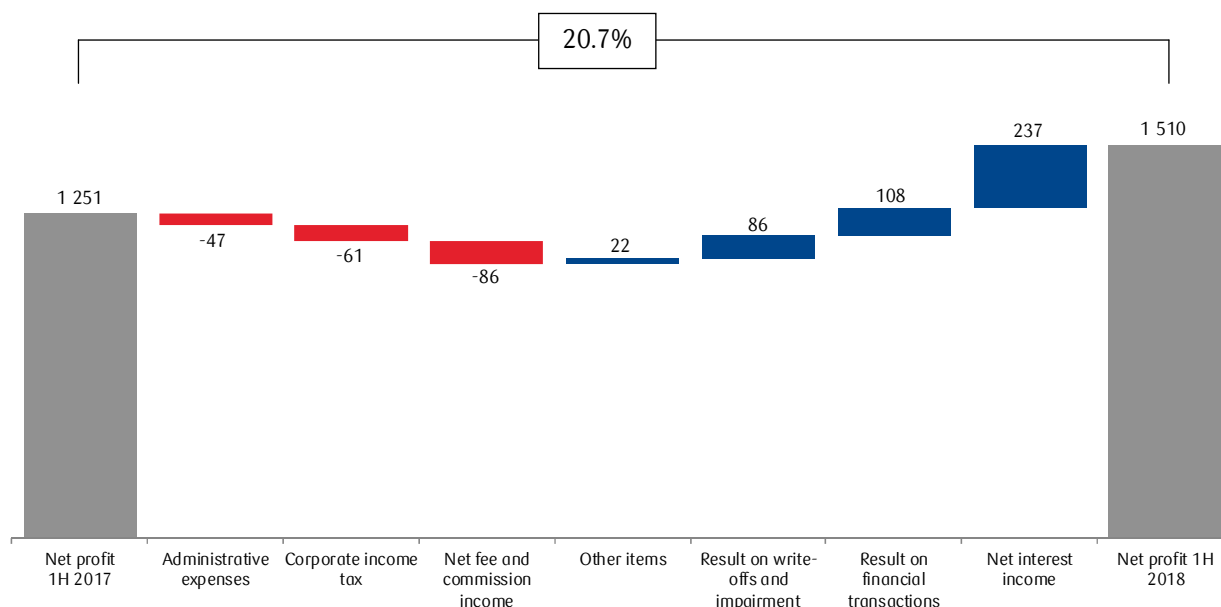
	30.06.2018	30.06.2017	Change
ROA net (net profit/average total assets)	1,1%	0,9%	+0,2 p.p.
ROE net (net profit/average total equity)	8,5%	7,8%	+0,7 p.p.
C/I (cost to income ratio)	44,2%	47,1%	-2,9 p.p.
Net interest margin (net interest income/average interest-bearing assets)	3,3%	3,1%	+0,2 p.p.
Share of impaired loans	5,4%	5,7%	-0,3 p.p.
Cost of risk	-0,68%	-0,74%	+0,06 p.p.
Total Capital Ratio (equity/total capital requirement*12.5)	19,50%	18,82%	+0,68 p.p.
Tier 1 Capital Ratio	18,03%	17,92%	+0,11 p.p.

4.2 INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
Administrative expenses
Result on write-offs and impairment

In the first half of 2018 PKO Bank Polski SA generated net profit of PLN 1 510 million (20.7% y/y, i.e. PLN 259 million higher), mainly as a result of the higher result on business activities and improved result on write-offs and impairment, at higher administrative expenses.

Change in net profit of PKO Bank Polski SA (million)



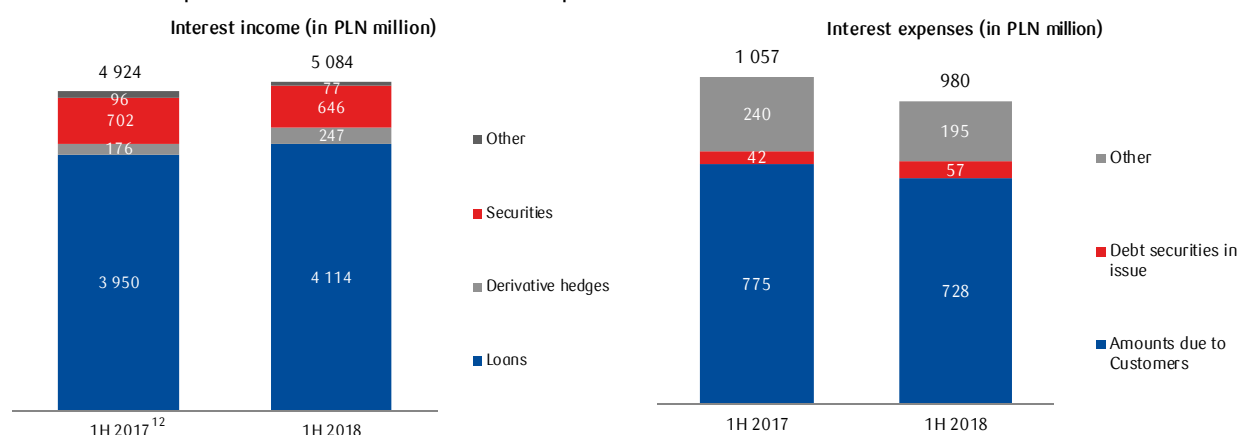
In the income statement of PKO Bank Polski SA for the first half of 2018 the result on business activities amounted to PLN 5 789 million and was PLN 262 million, i.e. 4.7% higher than in the first half of 2017, mainly as a result of an increase in net interest income of PLN 237 million y/y and result on financial transactions of PLN 108 million y/y, with a simultaneous drop in the net fee and commission income of PLN 86 million y/y.

Table 5. Income statement of PKO Bank Polski SA (in PLN million)

	01.01-30.06.2018	01.01-30.06.2017	Change (in PLN million)	Change (in %)
Net interest income	4 104	3 867	237	6,1%
Net fee and commission income	1 230	1 316	-86	-6,5%
Net other income	455	344	111	32,3%
Dividend income	151	124	27	21,8%
Result on financial transactions	109	1	108	109,2x
Foreign exchange result	238	204	34	16,7%
Net other operating income and expenses	-43	15	-58	x
Result on business activities	5 789	5 527	262	4,7%
Administrative expenses	-2 651	-2 604	-47	1,8%
Tax on certain financial institutions	-431	-450	19	-4,2%
Net operating profit	2 707	2 473	234	9,5%
Result on write-offs and impairment	-662	-748	86	-11,5%
Profit before tax	2 045	1 725	320	18,6%
Corporate income tax	-535	-474	-61	12,9%
Net profit	1 510	1 251	259	20,7%

NET INTEREST INCOME

Net interest income earned in the first half of 2018 amounted to PLN 4 104 million and was PLN 237 million higher than in the corresponding period of the prior year. The improvement in net interest income was determined by an increase in the credit portfolio with a simultaneous drop in the cost of funds.



In the first half of 2018 interest income amounted to PLN 5 084 million and was 3.2% higher than in the corresponding period of 2017, mainly in effect of:

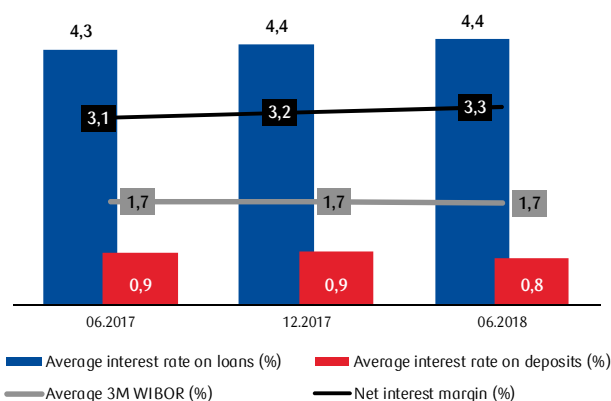
- an increase in income on loans and advances to Customers (+PLN 164 million, i.e. +4.2% y/y) – an increase in the average interest on the loan portfolio as a result of positive changes in the loans structure (an increase in the share of consumer loans which bear the highest interest rates, and business loans) and an increase in the average volume of amounts due in respect of loans, generated despite the transfer of the housing loans portfolio to Bank Hipoteczny (the value of the portfolio was approx. PLN 1.9 billion in the first half of 2018);
- higher income on derivative hedges (+PLN 71 million y/y), mainly in effect of an increase in the volume and average interest on CIRS hedges;
- with a drop in income from securities of PLN 56 million y/y determined by a drop in the average volume of securities of PLN 2.9 billion (mainly NBP bills of PLN 5.4 billion), accompanied by an increase in their average interest rates as a result of the 10 p.p. y/y increase in the share of Treasury bonds in the portfolio; and

¹² For the objective of comparability of data, interest income for the first half of 2017 has been revised. Revenues from non-Treasury bonds in the amount of approx. PLN 72 million, in 2017 included in loans and advances to customers, were transferred from loan's income to securities' revenues.

- a drop in other interest income of PLN 19 million, resulting from the drop in interest income on the mandatory reserve of PLN 29 million in connection with the introduction of a new interest rate on those funds by the Monetary Policy Council as of the beginning of 2018, partly offset by an increase in income on interbank deposits.

In the first half of 2018 interest expenses amounted to PLN 980 million and was 7.3% lower than in the corresponding period of 2017, mainly in effect of:

- a decrease in costs of the deposit base of PLN 48 million y/y, resulting from the change in the term structure in favour of current deposits, whose share increased by 7 p.p. y/y to approx. 62% of the amounts due to Customers;
- a drop in the costs of loans and advances received of PLN 36 million y/y as a result of the gradual overpayment of amounts due to Nordea AB – the debt was fully repaid in the first quarter of 2018;
- a drop in the premium on securities of PLN 15 million,
- with a simultaneous increase in the costs of issue of the Bank's debt securities and subordinated liabilities of PLN 15 million y/y related to an increase in the level of medium-term bonds and covered bonds issued.



In the first half of 2018 the average interest rate on PKO Bank Polski SA loans was 4.5%, and the average interest rate on total deposits was 0.8%, compared with 4.3% and 0.9% respectively in the first half of 2017.

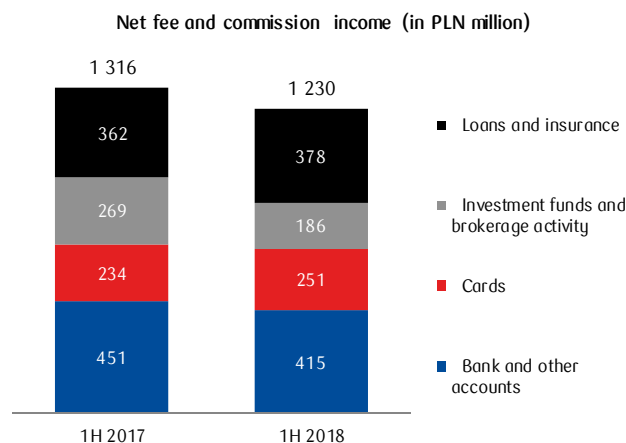
The interest margin increased by approx. 0.2 p.p. y/y to 3.3% as at the end of the first half of 2018. The increase in annualized assets of 0.8% y/y (mainly the securities portfolio) was accompanied by an increase in annualized net interest income of 6.5%, resulting mainly from an increase in interest income on loans (connected with their increased volumes and interest rates).

NET FEE AND COMMISSION INCOME

In the first half of 2018 net fee and commission income amounted to PLN 1 230 million and was PLN 86 million lower than in the previous year.

The following factors had the greatest impact on net fee and commission income in the first half of 2018:

- lower result on servicing investment funds and brokerage activities (PLN -83 million y/y), caused mainly by a drop in the fee for managing investment funds recognized by the Bank and by transferring the result to a subsidiary in effect of implementing the provisions of MIFID II and a drop in the level of commissions for distributing participation units in connection with the promotion on purchasing units in selected funds introduced in the first half of 2018,
- lower net income on servicing bank accounts and other income (PLN -36 million y/y), among other things related to a change in the structure of accounts of Customers who have decided to have the fee for maintaining their accounts reduced;
- higher net income on loans and insurance (+ PLN 16 million y/y), mainly in effect of an increase in sales of insurance products linked to consumer and housing loans;
- higher net income on payment and credit cards (+ PLN 17 million y/y), in effect of a higher number of cards and higher volumes of non-cash transactions.



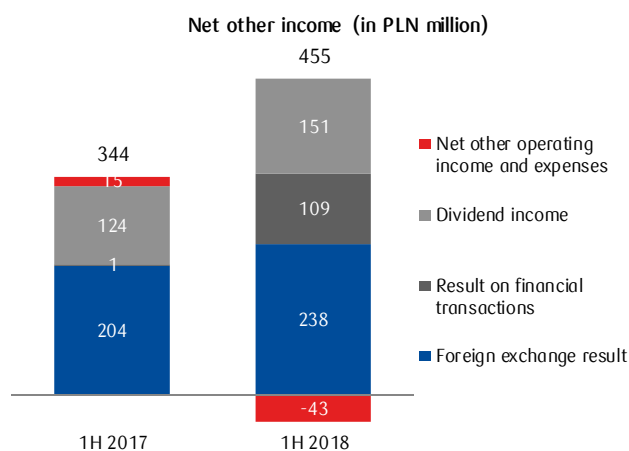
NET OTHER INCOME

In the first half of 2018 net other income amounted to PLN 455 million and was PLN 111 million higher than that earned in the first half of 2017.

The y/y increase of the net other income was mainly due to an increase in net income on financial operations (+ PLN 108 million y/y), mainly earned on sales of securities (disclosed under net income on derecognition of financial assets and liabilities).

Also the foreign exchange result and net dividend income improved.

Recognition of a provision of PLN 62.5 million in connection with the intention of PKO Bank Polski SA to file a request for issuing a binding decision by the President of the Office of Competition and Consumer Protection in the proceedings concerning practices of violating collective interests of consumers had an impact on the drop in other income, net.¹³



ADMINISTRATIVE EXPENSES

In the first half of 2018 administrative expenses amounted to PLN 2 651 million and were 1.8% higher than in the corresponding period of the prior year. Their level was mainly determined by:

- an increase in employee benefits of PLN 29 million, i.e. of 2.2%;
- an increase in overheads of PLN 39 million, i.e. of 6.7%, mainly in connection with the following expenses:
 - postal services (including PLN 16 million due to sending information to Customers about product changes as a result of amendments to the Act on payment services and changes in banking commission and fee tariffs);
 - marketing (of PLN 32 million – including mainly the Bank's activities in respect of its image, of PLN 13 million, and promoting banking products, of PLN 10 million);
- an increase of PLN 12 million, i.e. 33.3% in fee and commission expenses, mainly as a result of recognizing PLN 11 million of PFSA costs (annual fee) in January 2018 (whereas in 2017 the provision was accrued on a monthly basis);
- a drop of PLN 12 million, i.e. 3.9% in contributions and payments to the BGF – in the first half of 2018 costs in respect of the BGF amounted to PLN 293 million, of which PLN 162 million was the contribution for mandatory restructuring of banks. In the corresponding period of the prior year costs in respect of the BGF were PLN 305 million, of which the contribution for mandatory restructuring was PLN 209 million;
- a drop in amortization and depreciation (mainly amortization of tangible assets) of PLN 21 million, i.e. of 5.8%.

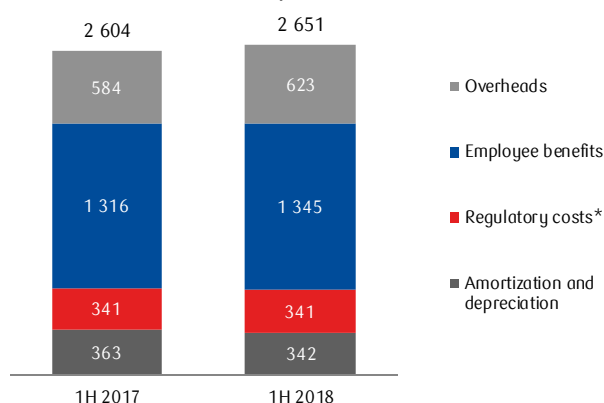
On 30 June 2018 PKO Bank Polski SA employed 24 678 FTEs, which is a drop of 46 FTE y/y.

The effectiveness of operations of PKO Bank Polski SA measured with C/I on an annual basis was 44.2% and improved by 2.9 p.p. y/y in consequence of better results on business activities (+4.7% y/y), with a simultaneous increase in administrative expenses (+1.8% y/y).

In 2018 the Bank incurred entertainment costs, expenditure on legal services, marketing services, public relations and social communication services and advisory services related to management totalling PLN 85 million, which represented 3.2% of the Bank's total administrative expenses.

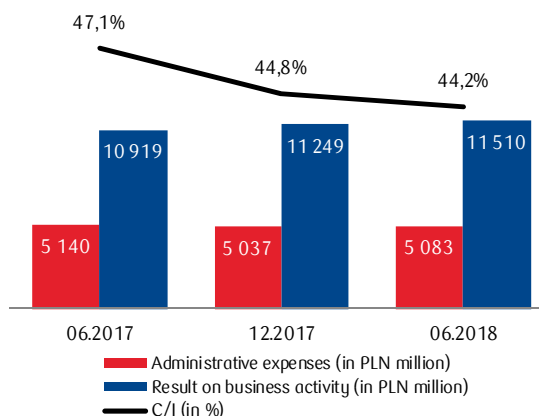
¹³The information on setting up the provision was published in the current report No. 24/2018 on 27 June 2018.

Administrative expenses (in PLN million)



*Includes BGF, PFSA, taxes and charges

Components of the C/I ratio (annualized)



RESULT ON WRITE-OFFS AND IMPAIRMENT

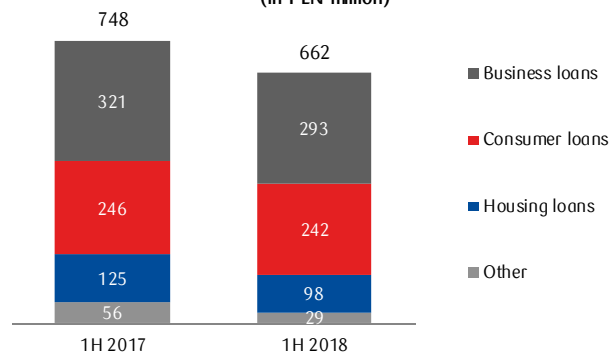
Result on write-offs and impairment reflect the Bank's conservative approach to recognizing and measuring credit risk. In the first half of 2018 they amounted to PLN 662 million. The improvement in the result (+ PLN 86 million y/y) was mainly due to more favourable net allowances on exposure to the portfolio of business entities of PLN 28 million and housing loans of PLN 27 million.

The share of impaired loans as at the end of the first half of 2018 amounted to 5.4% (a 0.3 p.p. decrease compared with the end of the first half of 2017).

The cost of risk amounted to 0.68% in the first half of 2018, and compared with the corresponding period of the prior year it was approx. 0.07 p.p. more favourable.

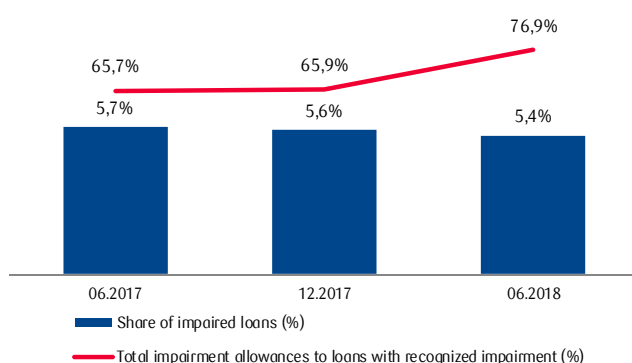
The improvement in risk ratios with a simultaneous increase in the gross credit portfolio y/y is the effect of the continuation of the current conservative credit risk management policy of the Bank's Group and of strict monitoring of the receivables portfolio.

Result on write-offs and impairments* (in PLN million)

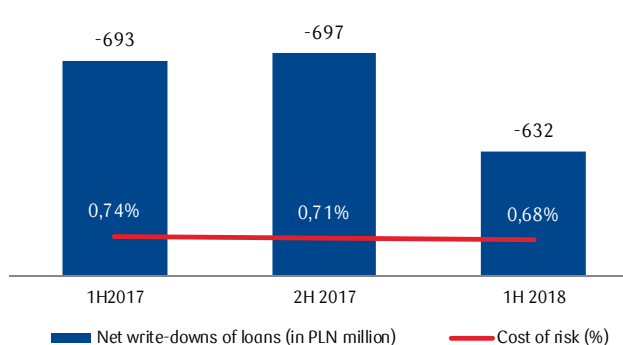


*the amounts are consistent with the note on loans and advances to Customers by Customer segment

Quality of the Bank's loan portfolio



Cost of risk of the Bank



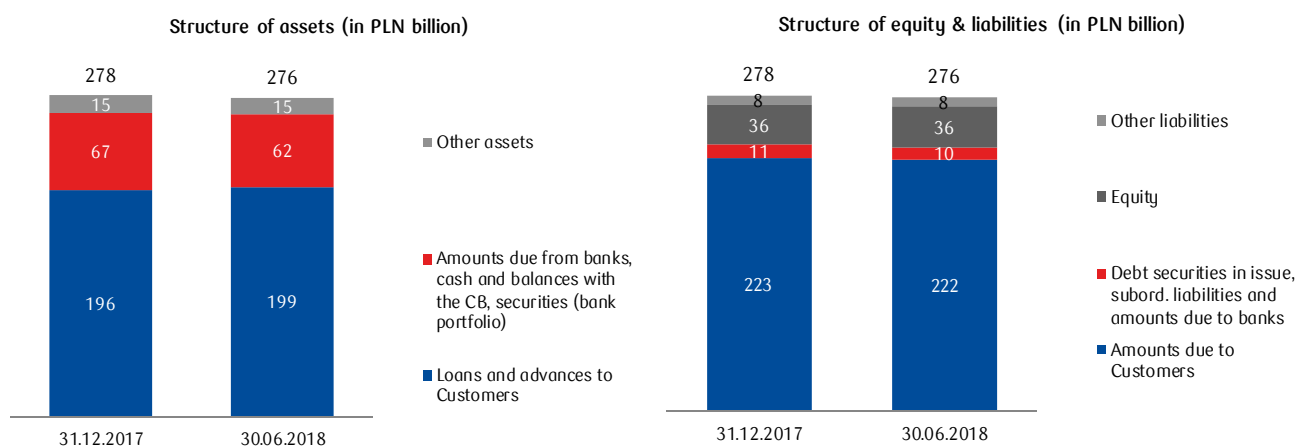
4.3 STATEMENT OF FINANCIAL POSITION

Main items of the Statement of financial position
Loans and advances to Customers
Amounts due to Customers
External financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

The total assets, and total equity and liabilities of PKO Bank Polski SA as at the end of June of 2018 exceeded PLN 276 billion. Thus, PKO Bank Polski SA maintained its leading position in terms of size on the Polish banking market.

On the assets side, the Bank noted an increase in loans and advances to Customers, with a simultaneous drop in cash and balances with the Central Bank. In the structure of liabilities, the most stable types of liabilities increased, i.e. in respect of the issue of securities and subordinated bonds, at a lower level of amounts due to banks (repayment of the whole amount due to Nordea AB).



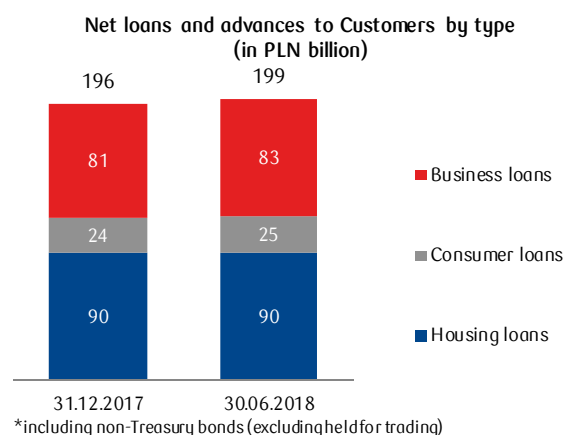
FINANCING GRANTED TO CUSTOMERS

As at the end of the first half of 2018 loans and advances to Customers amounted to PLN 199 billion, which is an increase of PLN 3 billion since the beginning of the year.

Housing loans are the main item in the structure of net loan portfolio by type (45.2% of the portfolio as at the end of June 2018). In the first half of 2018 the volume of housing loans was offset mainly by the sale of mortgage covered housing loan portfolios to PKO Bank Hipoteczny SA amounting to PLN 1.9 billion. In the first half of 2018 a further increase was noted in the most profitable consumer loans (of PLN 1.0 billion) and business loans (of PLN 2.0 billion).

In the term structure of loans and advances to Customers long-term loans dominate, which is mainly due to the high share of housing loans in the loan portfolio.

Detailed information on loans and advances to Customers granted by PKO Bank Polski SA is provided in Note 36 of the condensed interim financial statements of PKO Bank Polski SA for the six months ended 30 June 2018.

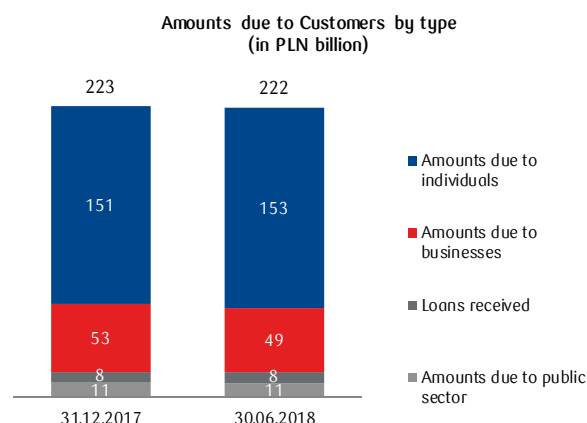


AMOUNTS DUE TO CUSTOMERS

As at the end of the first half of 2018 amounts due to Customers totalled PLN 221.6 billion and continue to be the basic source of finance for the Bank, constituting 80% of the balance sheet total.

In the break-down of amounts due to Customers by type, amounts due to individuals constitute the main item. Their share in the structure increased compared with the end of 2017 and they now constitute 69.0% of the portfolio.

In the first half of 2018 the share of current deposits in the structure of liabilities increased. This is connected to the migration of funds from term deposits to current deposits and to investment funds.

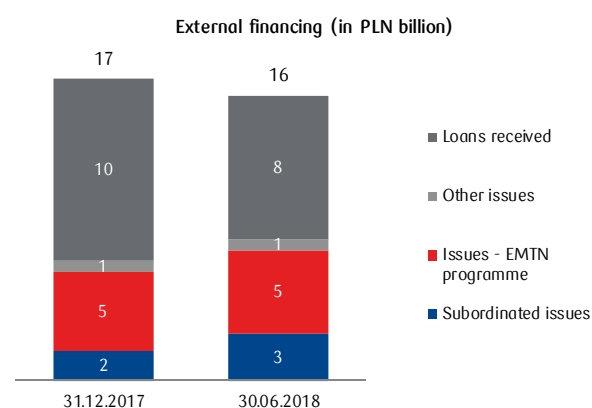


EXTERNAL FINANCING

PKO Bank Polski SA is an active participant of the debt securities markets, both Polish and international. Such activities are aimed at diversifying the sources of financing operations and adapting them to the regulatory requirements in respect of long-term financial stability.

In the first half of 2018 financing on the wholesale market decreased by PLN 1.3 billion, including:

- amounts due to banks decreased by PLN 2.6 billion in effect of the full repayment of the debt to Nordea AB;
- issues of securities and subordinated liabilities increased by PLN 1.3 billion since the beginning of the year, as an effect of the issue of subordinated bonds (PLN 1 billion).



Loans received from non-monetary financial institutions were another material category of long-term financing, including primarily from the subsidiary PKO Finance AB, a company engaged in the issue of securities on foreign markets. The increase of those liabilities is mainly the effect of a change in foreign exchange rates (PLN 0.7 billion), accompanied by the gradual repayment of funds acquired from other financial institutions.

Detailed information on the issues conducted by PKO Bank Polski SA is provided in Note 36 of the condensed interim financial statements of PKO Bank Polski SA for the six months ended 30 June 2018.

5. EQUITY AND ADEQUACY MEASURES

Equity and return on equity
Capital adequacy measures
Dividend

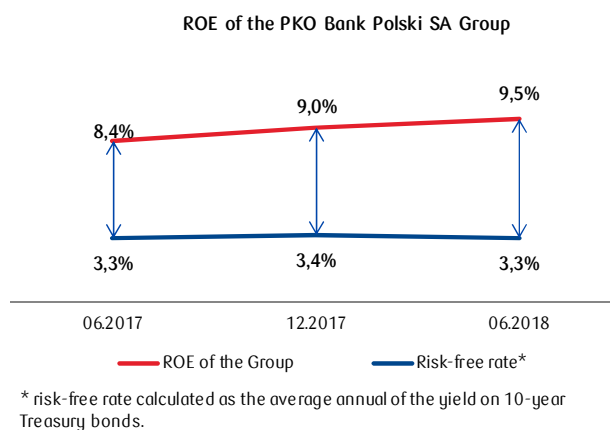
5.1 EQUITY AND RETURN ON EQUITY

Equity of the PKO Bank Polski SA Group went up by 1.4% since the beginning of the year.

Table 6. Equity and Total Capital Ratio of the PKO Bank Polski SA Group (in PLN million)

	30.06.2018	31.12.2017	Change (in PLN million)	Change (in %)
Equity, including:	36 776	36 256	520	+1,4%
Share capital	1 250	1 250	0	+0,0%
Supplementary capital	29 475	27 374	2 101	+7,7%
General banking risk fund	1 070	1 070	0	+0,0%
Other reserves	3 710	3 645	65	+1,8%
Accumulated other comprehensive income	-22	-110	88	-80,0%
Retained earnings	-385	-66	-319	5,8x
Net profit/loss for the year	1 690	3 104	-1 414	-45,6%
Non-controlling interests	-12	-11	-1	+9,1%
Equity	35 938	34 026	1 912	+5,6%
Total Capital Ratio	17,42%	17,37%		+0,05 p.p.

The reinforcement of the capital base (an increase in average equity of 10.2% y/y) arising from the need to comply with the recommendations of the PFSA and the regulatory requirements, and the increase of net profit by 22,3% y/y, translated into an increase in the return on equity ratio (ROE) to 9.5 p.p.



5.2 CAPITAL ADEQUACY MEASURES

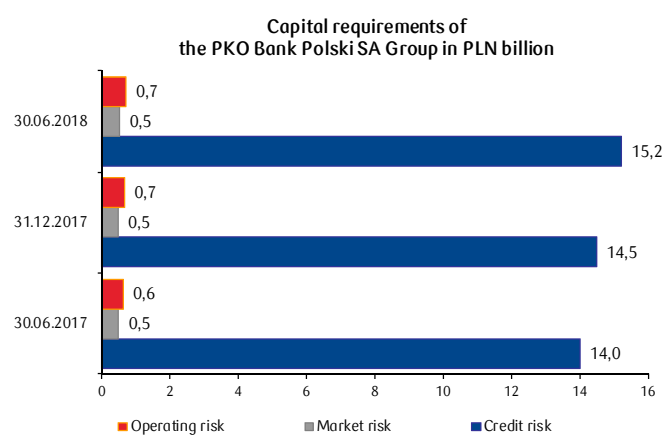
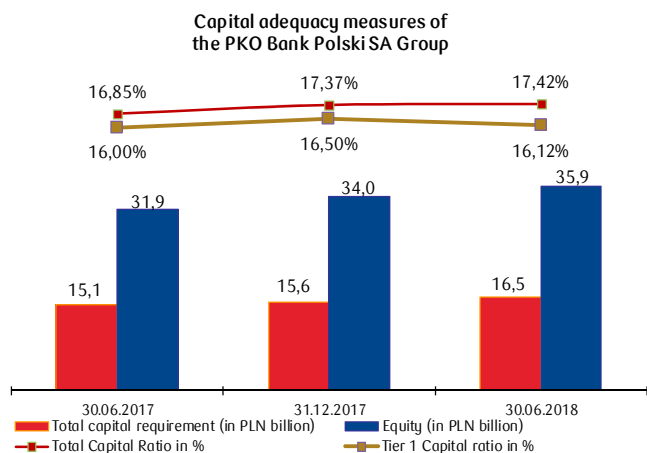
Capital adequacy of the PKO Bank Polski SA Group as at the end of June 2018 remained at a safe level, considerably above the supervisory limits. The capital adequacy measures of the PKO Bank Polski SA Group were calculated based on the provisions of the CRR Regulation taking account of prudential consolidation.

In the first half of 2018 the PKO Bank Polski SA Group continued its activities aimed at ensuring an appropriate capital buffer, and strengthened its capital position.

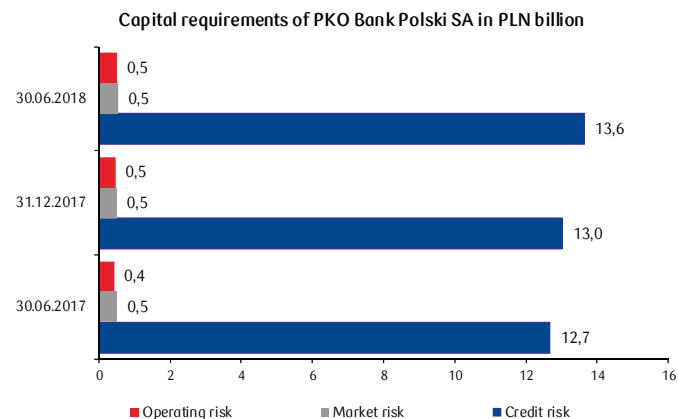
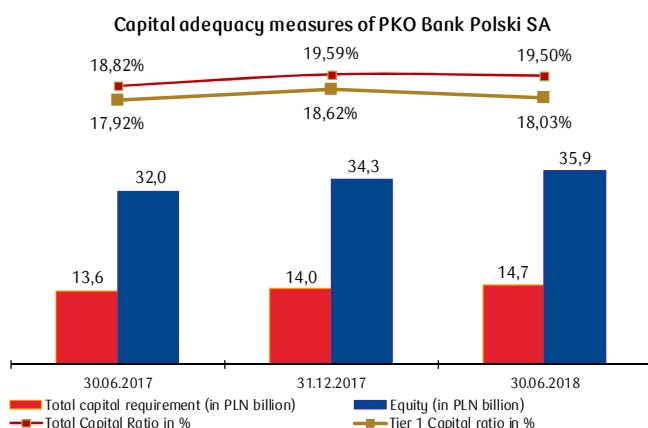
As at 30 June 2018, compared with 31 December 2017, the Total Capital Ratio of the PKO Bank Polski SA Group increased by 0.05 p.p. to 17.42%, and the basic capital Tier 1 ratio dropped by 0.39 p.p. to 16.12%.

The increase in the Total Capital Ratio was mainly due to an increase in own funds of approx. PLN 1.9 billion, with a simultaneous increase in capital requirements of approx. PLN 0.8 billion (mainly for credit risk, of which PLN 0.3 billion is the effect of expiry of the guarantee which ensured unfunded credit protection in respect of a portfolio of the Bank's

selected corporate credit receivables, which in the period from December 2017 to March 2018 allowed reducing the capital requirements). The following factors had an impact on the increase in own funds: issue of subordinated debt of PLN 1 billion, accumulation of profits of Group subsidiaries and accumulation of 75.2% of the Bank's profit from 2017 of PLN 2.1 billion (which translated into an effective increase in own funds of PLN 0.3 billion, as part of the profit for 2017 of PLN 1.8 billion had already been included in own funds with the consent of the PFSA).



As at 30 June 2018 compared with 31 December 2017 the Total Capital Ratio of PKO Bank Polski SA dropped by 0.09 p.p. to 19.50%, and the basic capital Tier 1 ratio went down by 0.59 p.p. to 18.03%. The drop in the Tier 1 Capital ratio mainly resulted from an increase in capital requirements (and from the expiry of the guarantee referred to above).



5.3 DIVIDEND

On 18 June 2018 the Annual General Meeting of PKO Bank Polski SA passed a resolution on appropriating the Bank's profit for 2017 (8/2018), pursuant to which the profit of PLN 2 774 million was earmarked for:

- as dividend to the shareholders PLN 687.5 million;
- supplementary capital PLN 2 050.0 million;
- reserves PLN 36.5 million.

Dividend amounted to 24.8% of the profit for 2017, which constitutes PLN 0.55, gross, per share. The Annual General Meeting of PKO Bank Polski SA set the dividend date (date of vesting rights to dividend) at 8 August 2018, and the dividend payment date at 22 August 2018.

The Resolution of the General Shareholders Meeting on the appropriation of the Bank's profit for 2017 complies with the recommendation of the PFSA of 16 March 2018. The Bank received a recommendation from the PFSA to increase own funds by retaining at least 75% of the earnings generated in 2017. At the same time, the PFSA confirmed that the Bank meets the requirements to pay dividend at a level of up to 25% of the net profit for 2017.

Retaining profit of PLN 2 086.5 million for 2017 translated into an effective increase in own funds of PLN 264.5 million, as part of the profit for 2017 of PLN 1 822 million has already been included in own funds at the consent of the PFSA.

DIVIDEND POLICY

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

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

The dividend policy assumes stable dividend payments in the long term in keeping with the principle of prudent management of the Bank and the Bank's Group, and a policy for making payments out of the capital surplus above the minimum Total Capital Ratios arising from the commonly binding provisions of the law and regulatory requirements, and the minimum level of capital ratios set by the Polish Financial Supervision Authority for the purpose of dividend payment by the Bank.

The dividend policy takes into account factors related to the operations of the Bank and the Bank's Group subsidiaries, and in particular the supervisory requirements and recommendations concerning capital adequacy.

6. ORGANIZATION OF THE PKO BANK POLSKI SA GROUP

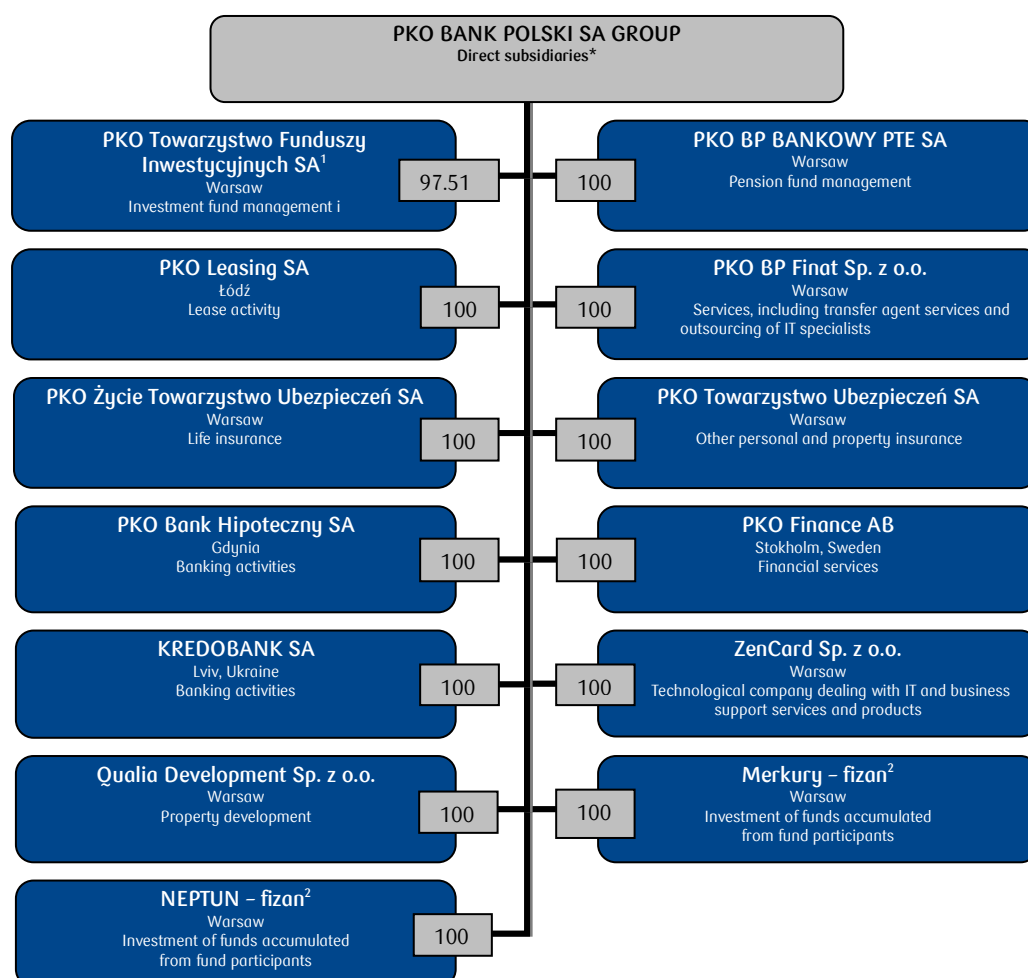
Entities covered by the financial statements Key changes to the Bank's Group Transactions with related entities

6.1 ENTITIES COVERED BY THE FINANCIAL STATEMENTS

As at 30 June 2018 the PKO Bank Polski SA Group was composed of the Bank, which was the parent, and 42 direct or indirect subsidiaries.¹⁴ The consolidated financial data included PKO Bank Polski SA – the parent of the PKO Bank Polski SA Group – and its subsidiaries within the meaning of IAS 27 "Consolidated and separate financial statements".

¹⁴ The number of subsidiaries includes all tiers indirect subsidiaries.

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



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

1) The second shareholder of the company is PKO BP Finat Sp. z o.o.

2) PKO Bank Polski SA holds the Fund's investment certificates; the Fund's investment certificates are presented as a share in equity.

A full description of the entities comprising the Bank's Group is included in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018.

6.2 KEY CHANGES IN THE STRUCTURE OF THE BANK'S GROUP IN THE FIRST HALF OF 2018

In the first half of 2018 the following significant events affected the structure of the PKO Bank Polski SA Group and other capital investments.

A wider description of the changes in the structure of the Bank's Group which occurred in 2017 and which will affect the following quarters, is provided in Note 45 to the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018.

KREDOBANK SA

In the first half of 2018 PKO Bank Polski SA conducted a squeeze-out, i.e. mandatory repurchase of KREDOBANK SA shares from minority shareholders.

On 17 April 2018 all shares of KREDOBANK SA repurchased under the squeeze-out were registered in an escrow account of PKO Bank Polski SA in the Ukraine – PKO Bank Polski SA became the shareholder of KREDOBANK SA shares comprising 100% interest in its share capital and entitling to 100% votes at the General Meeting of the Bank.

FINANSOWA KOMPANIA “PRYWATNE INWESTYCJE” SP. Z O.O.

On 28 May 2018 PKO Bank Polski SA concluded an agreement for the sale of the company Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o., i.e. of the share constituting 95.4676% interest in the Company’s share capital and votes in the Annual General Meeting with Bankowe Towarzystwo Kapitałowe SA (a direct subsidiary of NEPTUN – fizan).

On 7 June 2018 in the Uniform register of legal persons, individuals – businesses and organizations of the Ukraine – the articles of association of Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o. which accounted for the change of key shareholder – was registered. “Inter-Risk Ukraina” – a company with additional liability – remains the second shareholder of the company.

MERGER BETWEEN GAMMA TFI SA AND PKO TFI SA

On 4 June 2018 the merger between GAMMA Towarzystwo Funduszy Inwestycyjnych SA (until 27 February 2018 operating under the name KBC Towarzystwo Funduszy Inwestycyjnych SA) – as the acquirer – and PKO Towarzystwo Funduszy Inwestycyjnych SA – as the acquiree – was registered. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in share capital of the acquirer and exchange of the shares in the acquiree into the shares of the acquirer. After the merger PKO Bank Polski SA holds shares constituting 97.506% of the Company’s share capital in PKO Towarzystwo Funduszy Inwestycyjnych SA, which entitle it to 97.506% votes at the Annual General Meeting. The remaining shares are held by PKO BP Finat Sp. z o.o.

The merger of both management companies under the business name of PKO TFI increases the scope of competencies which will be used in the future in further market expansion and in generating shareholder value.

MERGER BETWEEN NET FUND ADMINISTRATION SP. Z O.O. AND PKO BP FINAT SP. Z O.O.

On 4 June 2018 the merger between Net Fund Administration Sp. z o.o. – as the acquiree – and PKO BP Finat Sp. z o.o. – as the acquirer – was registered with the National Court Register (KRS) competent for the acquirer. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, without a simultaneous increase in the share capital of the acquirer. After the merger PKO Bank Polski SA holds shares constituting 100% of the Company’s share capital in PKO Towarzystwo Funduszy Inwestycyjnych SA, which entitle it to 100% votes at the Annual General Meeting.

SALE OF SHARES IN THE 2020 EUROPEAN FUND FOR ENERGY, CLIMATE CHANGE AND INFRASTRUCTURE (MARGUERITE I FUND)

On 27 April 2018 PKO Bank Polski SA completed negotiations with Bank Gospodarstwa Krajowego SA relating to the sale of shares in The 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite I Fund) and signed the sale agreement.

6.3 TRANSACTIONS WITH RELATED ENTITIES

In the first half of 2018 PKO Bank Polski SA provided services on market terms to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issue of debt securities, granting guarantees and spot exchange transactions and offering units and certificates of investment funds, lease products, factoring products and insurance products of the PKO Bank Polski SA Group, and services offered by Dom Maklerski of PKO Bank Polski SA.

PKO Bank Polski SA provided services to PKO Bank Hipoteczny SA within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of the post-transaction services in respect of these loans and support tasks under the outsourcing agreement. PKO Bank Polski SA offered its infrastructure and IT services and rented office space to selected companies of the Bank’s Group.

The Bank together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. provided payment transaction clearing services.

A summary of the significant transactions between PKO Bank Polski SA and its subordinated entities as at 30 June 2018 is presented in the condensed interim financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018.

7. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP¹⁵

Operating segments of the Bank's Group
Other services
Market position of the Bank's Group
Distribution network and access channels
Operations of other PKO Bank Polski SA Group subsidiaries
Sponsorship and charity activities
Prizes and awards for the PKO Bank Polski SA Group

7.1 OPERATING SEGMENTS OF THE BANK'S GROUP¹⁶

Retail segment
Corporate and investment segment

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

RETAIL SEGMENT

The retail segment offers a full range of banking products and services to individuals and as part of retail and private banking. Moreover, it comprises transactions conducted with small- and medium-sized enterprises. The products and services offered to Customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, retail Treasury bonds, credit and debit cards, electronic banking services, consumer and housing loans, business loans and leases.



NUMBER OF CUSTOMERS: 9.6 MILLION
FINANCING GRANTED: 164 BILLION
SAVINGS VOLUME: 218 BILLION

¹⁵ The financial data of the PKO Bank Polski SA Group companies is presented in accordance with the IAS/IFRS financial statements of those companies.

¹⁶ The management information of the Bank is presented in this subsection; any differences in the sums, shares and dynamics arise from rounding.

CORPORATE AND INVESTMENT SEGMENT

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



NUMBER OF CUSTOMERS: 15.3 THOUSAND
FINANCING GRANTED: 66 BILLION
DEPOSITS VOLUME: 45 BILLION

7.1.1 RETAIL SEGMENT

Segment Customers
Credit offer
Deposit and investment offer
Insurance products

In the first half of 2018 the PKO Bank Polski SA Group continued to build strong and long-term relationships with Customers of the retail segment and focused on adapting the products to Customer needs and on developing access tools and channels, enabling Customers convenient finance management from any place and at any time.

SEGMENT CUSTOMERS

As at the end of March 2018 the Retail Segment serviced over 9.6 million Customers, including:

- 9.2 million individuals;
- 0.4 million small- and medium-sized enterprises (SMEs).

Since the beginning of 2018 the number of Customers serviced by the segment has increased by 153,000.

CREDIT OFFER

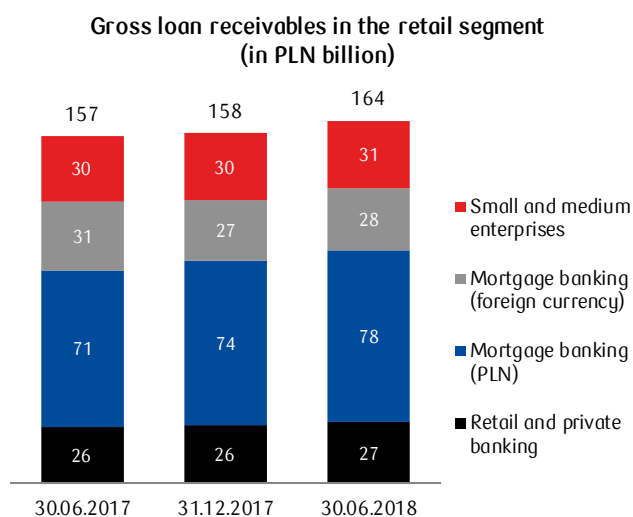
The PKO Bank Polski SA offer covers a wide range of credit products. Individuals can take advantage of the financing offered under:

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

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

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

As at the end of June 2018, the aggregate financing of retail segment Customers amounted to PLN 164 billion and went up by approx. PLN 5.9 billion (i.e. 3.7%) since the start of the year. This was mainly due to the growth of the portfolio of PLN-denominated mortgage banking loans (+ PLN 3.9 billion), retail and private banking loans (+ PLN 1.2 billion) and SME loans (+ PLN 0.8 billion).



RETAIL AND PRIVATE BANKING LOANS

Retail Customers can use both standard cash loans and the current financing available under revolving loans and credit cards.

In the first half of 2018 PKO Bank Polski SA continued to take measures to support sales of consumer loans, enabling, apart from offering attractive prices, access to funds in effect of quick decisions with only the necessary minimum formalities.

As part of the activities performed the Bank made available to its Customers, among other things:

- a loan offer with an attractive annual APRC as low as 3.46%, as part of the marketing campaigns under the motto "Z Mini Ratką decyzje nabierają rozpędu" – the promotion was addressed to Customers who had not been the Bank's Customers before, or who intend to transfer the repayment of their loans or advances to PKO Bank Polski SA and pay one convenient Mini Ratka (mini-installment).
- a temporary offer of 0% commission for granting a cash loan to Customers who have not taken out cash loans with PKO Bank Polski SA before;
- a simplified income documentation formula (based on PIT returns) for cash advances;
- possibility of ordering that cash advances be serviced by the iPKO internet service, in respect of partial prepayment, change of the date of paying instalments or changing the account from which the advance is to be repaid.

MORTGAGE BANKING LOANS

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

In the first half of 2018, the Bank's Group was the first on the market with a 28.3% share in sales of housing loans for individuals. In the first half of 2018, loans were granted for a total of over PLN 7 billion.

Retail segment Customers may avail themselves of flagship mortgage products known as "WŁASNY KĄT", also available in the "Mieszkanie dla Młodych" programme. Since the beginning of 2018, PKO Bank Polski SA has granted more than 1.6 thousand loans totalling PLN 0.3 billion as part of the "Mieszkanie dla Młodych" programme. The programme consists of providing additional financing from the State Budget to Customers' own contributions and granting additional financial support in the form of repaying a part of the loan.

As part of the activities performed, PKO Bank Polski SA made available to its Customers, among other things:

- Customers who – due to the exhaustion of the limit of funds did not obtain additional funds under the "Mieszkanie dla Młodych" programme, were granted the option to use preferential terms and conditions of housing loans Własny Kąt Hipoteczny – a margin 0.50 p.p. lower than the standard price schedule.
- the period in which the support offer for CHF-denominated mortgage loan takers was extended to 31 December 2018, in order to mitigate the negative effects of changes in the exchange rates.

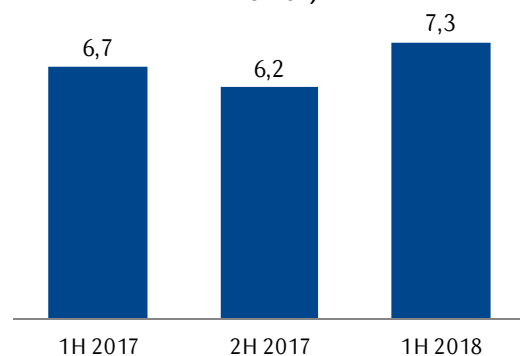
LOANS FOR SMALL- AND MEDIUM-SIZED ENTERPRISES (SMEs), INCLUDING LEASES AND FACTORING

The PKO Bank Polski SA Group consistently supports Polish entrepreneurship. Companies from the SME sector are provided with funding for current and investment needs through a wide and flexible credit offer.

Micro- small and medium-sized enterprises avail themselves of a wide offer of advances, and working capital and investment loans. Within its Group, the Bank ensures alternative forms of capital expenditure financing to companies – in the form of operating and finance leases for chattels and real estate, as well as long-term rental of vehicles, and working capital finance – in the form of recourse factoring, non-recourse insured factoring, financing supplies, both in domestic and foreign trade, where the source of repayment may be based on the reliability of the factoree's debtor.

In 2018 PKO Bank Polski SA continued to be the largest lender among banks which granted loans with *de minimis* guarantees. With a 20.1% market share¹⁷ it has maintained its lead position in terms of sales. The Bank granted guarantees for approx. PLN 10.1 billion.

Sales of housing loans (in PLN billion)*



*source: ZBP, sales of PKO Bank Polski SA and PKO Bank Hipoteczny SA - cumulative data for the period

¹⁷ According to the data provided by Centrum Poręczeń i Gwarancji Banku Gospodarstwa Krajowego of 30 June 2018

The actions performed in the first half of 2018 allowed the Bank's Customers to use such services as:

- support in the form of BGK guarantees – de minimis and counter guarantees granted by the European Investment Funds under the PLG COSME programme, which was aimed at increasing the availability of loans and providing additional funds for companies' current operations;
- securing the repayment of working capital loans, advances or investment loans with guarantees under the PLG COSME programme;
- available debit granted without the need to submit financial documents, based only on inflows to the account;
- guarantees from the guarantee funds of the Smart Growth Operational Programme (FG POIR) offered both to Customers and to SMEs and corporates – under the portfolio guarantee line FG POIR a loan granted for financing qualified costs of an investment project consisting of implementing innovations from internally developed or purchased research and development work may be covered by the guarantee.

The guarantees allow securing new working capital and investment funds granted to innovative enterprises from the SME sector. The available funds pool in PKO Bank Polski SA is PLN 100 million, which will allow covering loans of approx. PLN 125 million with the guarantees.

Under the Bank Group's offer SME Customers may use lease products and services. Among other fixed assets, the following may be covered by lease agreements, depending on the Customers' needs:

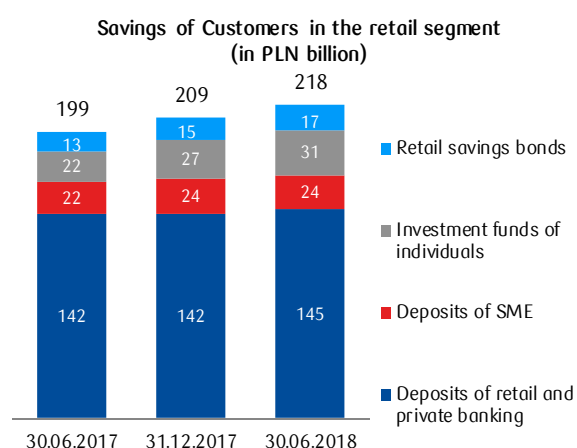
- vehicles, and plant and machinery;
- investment projects (e.g. technological lines);
- office equipment and furniture;
- computer hardware;
- medical equipment;
- agricultural plant and machinery;
- real property.

As at the end of the first half of 2018 lease receivables in the retail segment amounted to PLN 10.4 billion and grew by 18% y/y.

DEPOSIT AND INVESTMENT OFFER

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

As at 30 June 2018 savings in the retail segment amounted to PLN 218 billion and increased as of the beginning of the year by PLN 8.6 billion (i.e. 4.1%). This is the consequence of an increase in retail in funds accumulated in investment funds of individuals, retail bonds and an increase in retail and private banking deposits, mainly current deposits, accompanied by a drop in term deposits.

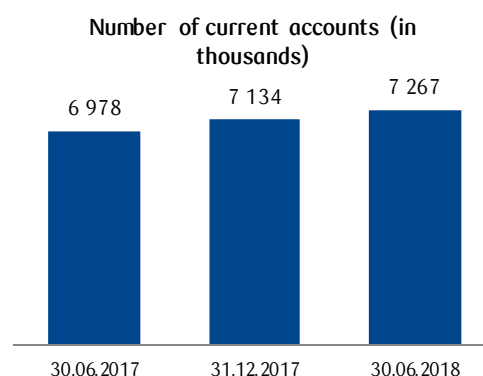


CURRENT AND SAVINGS ACCOUNTS

In 2018, PKO Bank Polski SA remained the unchallenged market leader in terms of the number of current accounts maintained, which amounted to 7.3 million as at 30 June 2018 and increased by almost 290 thousand during the year.

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

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



The Bank leaves a transaction service and a mobile application at the disposal of each account holder which enables access to the account at any time of the day, the possibility of paying by BLIK, card, by telephone or even a watch or a pendant with a pay pass function.

For individual Customers, SMEs and Inteligo Customers, instantaneous transfers are available through the Express Elixir system (this includes transfers to the Social Insurance Institute - ZUS). Those transfers operate 24 hours a day, 7 days a week, throughout the year.

The Bank's offer for young people is a diversified, modern and competitive range of products, comprising among other things: saving books as part of Szkolna Kasa Oszczędnościowa (SKO) for primary school pupils; PKO Junior - with a special account for children, an internet banking service, a mobile application and payment cards; PKO Konto dla Młodych - a full internet and mobile account for persons aged 16-18; or PKO Konto Pierwsze - an account for persons aged 13-18 with an IKO mobile application.

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

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

To all institutional Customers who have settlement accounts the Bank offers a new product available since 2018 - a VAT split payment account.

TERM DEPOSITS AND REGULAR SAVING PRODUCTS

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

The most popular term deposits in the Bank's offer for retail and private banking Customers in the first half of 2018 were:

- term deposit saving account available in 1M, 3M, 6M or 12M tenors. The product is offered in all distribution channels: in branches, agencies, iPKO, IKO, Inteligo and via the Contact Center;
- 3M term deposit for new funds introduced to the Bank's offer in the fourth quarter of 2017.

The Bank's offer also includes structured instruments. In the first half of 2018 the Bank carried out a structured deposit subscription such as:

- 18-month structured term deposits based on the EUR/PLN exchange rate (6 subscriptions);
- 36-month structured term deposits based on the basket of shares of the following types of companies: German, European, telecommunications, pharmaceutical and cosmetics, energy, Asian.

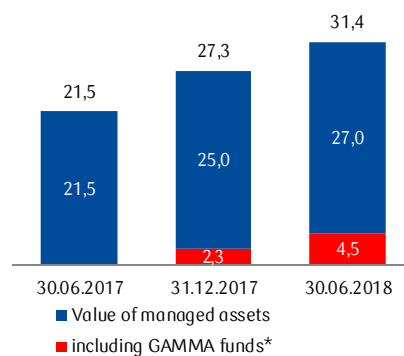
INVESTMENT FUNDS

The Bank's Group offers 66 non-dedicated funds to the Customers of retail and private banking in which assets amounting to PLN 31.4 billion¹⁸ have been accumulated.

The wide offer of investment funds provides access to various classes of assets, geographical areas and strategy types.

In response to Customers' expectations, and also to comply with the requirements of the new MiFID II regulations, as of 3 January 2018 the offer of the Bank's Group was expanded by a new opened-end umbrella fund PKO Portfela Inwestycyjnego with separate subfunds of various risk levels: PKO Bursztynowy, PKO Szafirowy, PKO Rubinowy, PKO Smaragdowy and PKO Diamentowy.

Value of managed IF assets of individuals (in PLN billion)

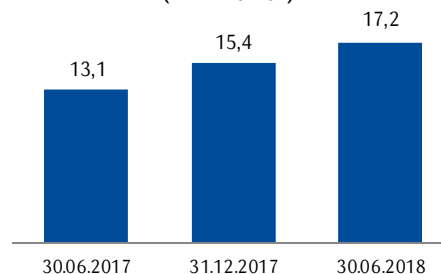


* as a result of a merger between PKO TFI SA and GAMMA TFI, since June 20 18 GAMMA funds are presented jointly with the value of assets of PKOTFI SA

SALES OF TREASURY BONDS

PKO Bank Polski SA has exclusive rights to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the sales network of PKO Bank Polski SA, which is of great convenience for all those who wish to invest in these instruments. In the first half of 2018 almost 58 million bonds were sold (in the first half of 2017 it was almost 30 million bonds).

Indebtedness from Treasury bonds issued to the domestic market (in PLN billion)*



* nominal value of DOS, TOZ, COI, EDO, ROS, ROD, OTS savings bonds
**source: Ministry of Finance

INSURANCE PRODUCTS

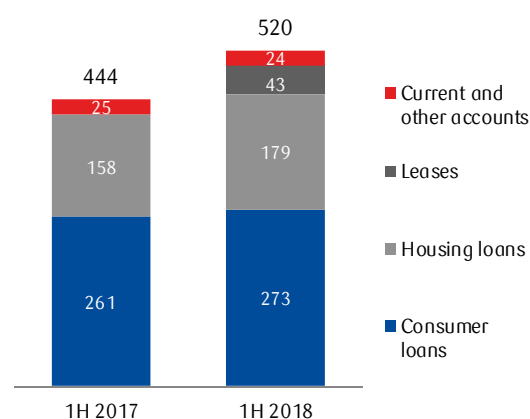
The PKO Bank Polski SA Group is continuously developing its offer of insurance products increasing the attractiveness of the banking products combined with them and giving Customers an opportunity to provide security for their liabilities and assets and to receive help in an event of emergency. The Bank's Group addresses its insurance services to all retail Customers. These are largely insurance products relating to the following bank products:

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

The PKO Bank Polski SA Group also offers insurance not directly related to bank products. These include:

- life insurance "Moje Życie24", real estate insurance "Mój Dom24", travel insurance "Moje Podróże24" – available through the iPKO and IKO mobile channels, the scope and costs of which may be independently adapted by the Customers to their needs;
- insurance of leased assets, which cover automotive insurance provided by insurance companies external to the Bank's Group, property insurance with PKO TU SA, financial loss insurance GAP (invoice, index, casco) in

Net premium from insurance products (in PLN million)



¹⁸ source: report by the Chamber of Fund and Asset Management as at 30 June 2018.

cooperation with PKO TU SA, legal coverage for Customers who conclude Lease Agreements with PKO Leasing S.A. offered by PKO TU SA,

- the new oncological insurance policy introduced in the second quarter of 2018 – OnkoPlan – insurance providing a wide scope of support in the event of contracting cancer (including also preinvasive carcinoma, with the exception of skin cancer) diagnosed for the first time during the term of the policy, which ensures help to the insured and his/her relations both during treatment and afterwards.

7.1.2 CORPORATE AND INVESTMENT SEGMENT

Customers of the segment
 Lending and structured financing offer
 Deposit and transaction banking offer
 Financial institutions
 International banking
 Brokerage activities
 Treasury products
 Fiduciary services

Thanks to the constant improvement of management standards in the corporate sales network, the PKO Bank Polski SA Group was constantly developing its relationship with Customers, extending its scope based on the wide range of products offered.

The Bank's Customers interested in expanding into international markets may avail themselves of a wide range of products and services offered by the Bank's foreign branches, including, but not limited to, transaction banking products, including international cash pooling, e-banking, treasury products, trade finance and corporate loans.

CUSTOMERS OF THE SEGMENT

At the end of June 2018, the Corporate and Investment Segment served more than 15.3 thousand Customers, including:

- 8.6 thousand corporate Customers;
- 1.1 thousand strategic Customers;
- more than 4.6 thousand local and central government institutions, including budget-dependent entities and other related entities;
- more than 0.6 thousand foreign Customers.

In the first six months of 2018, the number of Customers served in the segment increased by more than 0.5 thousand.

In the first half of 2018, PKO Bank Polski SA confirmed its position as the unquestionable leader in services to local governments and won a tender for comprehensive management of the budget of the Małopolskie Voivodeship and its subordinate organizational units, as well as for providing services to the City of Olsztyn and the continuation of services for the City of Gdynia. There are already 9 out of 16 voivodeships and most of the voivodeship capitals among the Bank's Customers.

The Bank has been constantly consolidating its leading position in the financing of the Polish economy, both on its own and as a major member of banking syndicates, with a share commensurate with its market position.

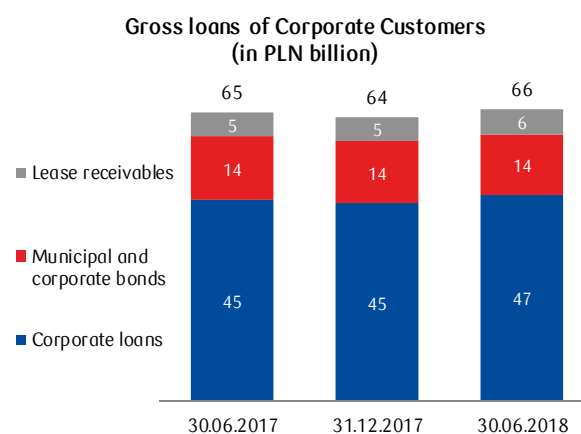
LENDING AND STRUCTURED FINANCING OFFER

At the end of June 2018, the total financing of corporate Customers, including loans, bonds issued and lease receivables, amounted to PLN 66 billion, and since the beginning of the year has increased by PLN 1.7 billion (i.e. by 2.7%). The increase mainly involved loan receivables.

The Bank supported the Polish economy and participated in the financing of strategic investment projects and local government investments. Such financing may take the form of syndicated and bilateral loans or securities issues.

In the first six months of 2018, the Bank signed, among others:

- 13 loan agreements in a banking syndicate for a total of PLN 27.1 billion, where the Bank's share amounted to nearly



PLN 4 billion, and two amendments to the existing agreements for PLN 12.1 billion, where the Bank's share was PLN 1.8 billion;

- two agreements for the arrangement of corporate bond issues without underwriting in the amount of PLN 1 billion and a limit for the acquisition of non-Treasury debt securities in the amount of PLN 200 million;
- 64 agreements of municipal bond issues and 21 amendments thereto extending the period of existing schemes, totalling PLN 0.7 billion.

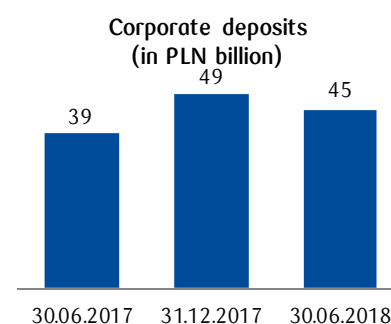
PKO Bank Polski SA offers wide access to funds to its Customers for the financing of complex investment projects, and the services of advisors focused on selecting the optimum financing and repayment terms.

As part of the product range of the Bank's Group, corporate Customers may avail themselves of lease and factoring products and services. Any fixed assets are financed with leases, depending on Customers' needs. In addition to standard products, the product and service range comprises car fleet leasing services and cooperation with suppliers.

DEPOSIT AND TRANSACTION BANKING OFFER

The level of corporate deposits at the end of June 2018 exceeded PLN 45 billion and increased by PLN 6 billion over the year, mainly due to an increase in the cash maintained by Customers in current accounts.

The Bank has been enhancing its range of products and services for corporate Customers with complex organizational structures, thus offering them various types of products and services, facilitating settlement of transactions with Polish and foreign business partners, and developing dedicated products based on cash pooling solutions. Thanks to the Bank's presence in Germany and the Czech Republic, the tool can be used to manage financial resources in cross-border transactions.



PKO Bank Polski SA is continually improving the quality of its transaction banking services, as demonstrated, among others, by the growth in the number of Customers using iPKO biznes. As at the end of the first half of 2018, nearly 12,500 Customers of the segment were using electronic banking.

FINANCIAL INSTITUTIONS

PKO Bank Polski SA has a wide and effective network of nostro accounts, more than 1,300 SWIFT relationships with banks in various countries and markets. At the same time, the Bank maintains about 200 loro accounts for foreign banks, which are used for settling transactions concluded by such banks both in Poland and in other countries.

One of the key priorities of the Bank's operations is to create solutions beneficial to its Customers, based on optimal methods of executing cross-border settlements, and to support Polish business.

PKO Bank Polski SA is the leader in the provision of services to non-bank financial institutions in the Polish market. At present, the Bank has business relationships with over a thousand entities in this segment.

The Bank actively cooperates with market participants, supporting the international activities of its customers on new attractive markets (for example, the Persian Gulf, South-Eastern Asia, South Africa).

At the same time, the Bank monitors market changes and trends and constantly works to expand the range of currencies available to its customers.

In the first six months of 2018, the Bank established transaction relations with several new Polish and foreign financial companies. Sales activities in this Customer segment are mainly focused on acquiring leading foreign entities registered in the European Union.

INTERNATIONAL BANKING

The Bank's Group actively participates in the development of the international expansion of its Customers, offering them support in foreign markets and undertaking initiatives to facilitate financial services for Polish firms operating in international markets. One of these was the opening of corporate branches in the Federal Republic of Germany and in the Czech Republic, i.e. the countries where Polish businesses are the most active. The first six months of 2018 saw a very high growth in the number of Customers acquired at both branches. At the end of June 2018, foreign branches served a total of 131 Customers, and their number increased in the first half of the year by 30 at the German branch and by 20 at the Czech branch.

In the case of businesses operating in Ukraine, banking services are offered through KREDOBANK SA. At the end of the first half of 2018, the Company provided services to slightly more than 3 thousand Polish-Ukrainian business Customers, including those with Polish capital, i.e. 20% more than in the previous year.

In the first half of 2018, the Bank's Group launched several initiatives to facilitate serving Polish companies abroad. An important project is the Export Support Platform launched in the fourth quarter of 2017, which supports firms in their business activities on foreign markets. The platform is increasingly popular with businesses. In the first six months of 2018, Export Experts held a series of meetings with companies, informed them about the support offered by PKO Bank Polski in the development of their foreign operations, both in terms of products and analysis.

The Bank also has special expert teams supporting foreign companies which operate in Poland, including those from the Scandinavian countries, South Korea and Ukraine, which is an important element of building economic relations and facilitates the development of business both in Poland and in these foreign markets.

The Export Support Platform (available at www.wspieramyeksport.pl) is a comprehensive analytical tool implemented in 2017 for firms which are already interested in international expansion. This is a market and industry guide containing the most up-to-date business analyses. The exporter's guide can be used to find out, among other things, how to test a firm's readiness for export or how to create a strategy for the promotion of a firm abroad. Whereas, completing a short questionnaire makes it possible to find financial products offered by the PKO Bank Polski SA Group that are best suited to the current needs of the firm.

BROKERAGE ACTIVITIES

Dom Maklerski PKO Banku Polskiego SA (DM, the Brokerage House) is the leader on the capital market in Poland, both on the secondary markets for shares and bonds and in terms of transactions on the primary market.

In the first half of 2018, the Brokerage House's turnover amounted to over PLN 17 billion, which represented 8% of the market turnover and made the DM the second largest brokerage house in the ranking. As regards trading in bonds, DM accounts for nearly half of the market trading, which translates into the leading position.

The primary market transactions in which the Brokerage House was involved were as follows:

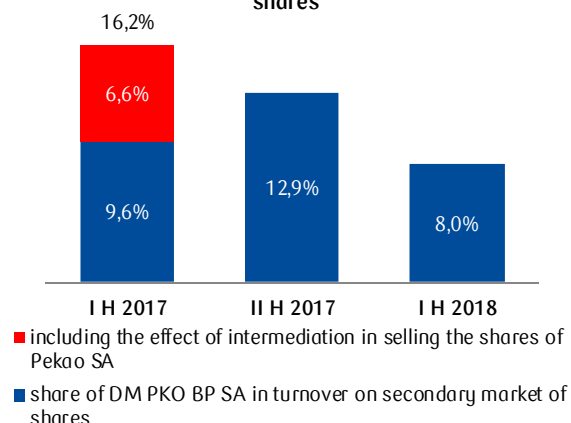
- the offering of shares in BGŻ BNP Paribas – the offering amount was PLN 800 million;
- the offering of shares in BZ WBK S.A. (under the accelerated book-building procedure) – the offering amount was PLN 456 million;
- the buyout of shares in Synthos SA – the transaction amount was nearly PLN 400 million;
- the role of the Underwriter of the offering of shares in EVO Payments Inc. – the offering amount was USD 224 million;
- the initial public offering of shares in Novaturas AB – the offering amount was PLN 93 million;
- the sale of shares in Zespół Elektrociepłowni Wrocławskich KOGENERACJA SA (call arrangement) – the transaction amount was PLN 93 million;
- the sale of shares in Tarczyński SA (call arrangement) – the transaction amount exceeded PLN 21 million;
- the arrangement of issues of bonds of PKN ORLEN (the scheme in the amount of PLN 600 million), Best SA (PLN 30 million), Echo Investment SA (PLN 50 million).

As at the end of June 2018, DM operated 132 thousand securities and cash accounts and 193 thousand register accounts. In terms of the number of securities accounts (according to KDPW data), DM is ranked 4th out of the forty market players. Moreover, it provided services concerning 475 units in funds and sub-funds managed by seventeen fund management companies.

TREASURY PRODUCTS

PKO Bank Polski SA has a wide range of treasury products for individual and institutional Customers such as deposit products, currency exchange products, and foreign exchange, interest rate and commodity price hedges. Each product may be tailored to the individual needs of the Bank's Customers and executed through any convenient distribution channel selected.

Share of DM PKO Banku Polskiego SA in turnover on the secondary market of shares



FIDUCIARY SERVICES

The Bank maintains securities accounts for Customers and facilitates Polish and foreign market transactions, and acts as a depository for pension and investment funds. As at the end of the first half of 2018, the value of the Customers' assets held on fiduciary accounts was more than PLN 122 billion and it was about 60% higher year-on-year.

7.2 OTHER SERVICES

Online currency exchange service ZenCard technology Cashless Poland Programme Business registration in the Central Registration and Information on Business using the iPKO e-banking service Free training for businesses

ONLINE CURRENCY EXCHANGE SERVICE

PKO Bank Polski SA has made available an online currency exchange service in the iPKO transaction service as a simple and intuitive tool enabling fast and safe online currency exchange. The online exchange service is another stage in the development of services provided by the bank to individual Customers.

Individual Customers holding a foreign currency account with PKO Bank Polski SA may:

- exchange currencies in real time, with immediate settlement of the transaction;
- transact at attractive rates and free of charge for accessing the service (the possibility to trade in respect of 28 currency pairs including the following currencies: US dollar, Swiss franc, euro, British pound and Swedish, Norwegian and Danish kronas/krones);
- follow currency charts online and use text message notifications when the exchange rate reaches a certain level;
- in combination with other products such as a multi-currency card, manage their finances more effectively and handle daily payments in foreign currencies.

In the first six months of 2018, over 36 thousand Customers used the online exchange service, concluding more than 100 thousand transactions for the total amount of PLN 640 million.

ZENCARD TECHNOLOGY

In 2018, PKO Bank Polski SA provided its corporate Customers with ZenCard, an innovative tool for creating loyalty schemes – a technology which enables companies to launch promotional and discount campaigns in their retail and service outlets using only a payment card and a payment terminal.

The platform developed by ZenCard is integrated with the payment terminal and makes it possible to dispense with many separate loyalty cards and applications installed on the phone in favour of one virtual card connected to any payment card of the Customer. The system automatically calculates discounts and rebates in real time, already when paying with a card or phone at the terminal. An additional advantage is the easy access to the scheme – the Customer's consent via the payment terminal takes only a few seconds.

CASHLESS POLAND PROGRAMME AT PKO BANK POLSKI SA BRANCHES

For years, PKO Bank Polski SA has been actively involved in promoting cashless transactions in Poland, both for retail and corporate Customers. It initiates and supports projects that make the Polish market one of the most advanced in the world. It was the first to introduce chip cards for Customers. It initiated the creation of the Polish Payment Standard and the BLIK system based on the IKO application. It makes available to its Customers the most modern forms of mobile payments, and now it has joined the group of institutions that will significantly expand the acceptance network for cashless payments in Poland.

The *Cashless Poland* Cashless Transaction Support Programme is a joint initiative of the players on the Polish payment services market: card issuers, clearing agents and Mastercard and Visa organizations, with the participation of the Polish Bank Association and support of the Ministry of Enterprise and Technology. The Programme is intended for micro, small and medium businesses wishing to start accepting payments for their goods and services by means of payment cards.

Businesses that had not accepted cashless payments before were offered the opportunity to join the Cashless Poland Programme by PKO Bank Polski SA at its branches all over Poland. Under this Programme, for a period of 12 months, businesses gain benefits in the form of, inter alia, covering the costs involved in obtaining a terminal for accepting cards. Businesses may choose to lease or own a terminal. In the latter case, after a period of 12 months of

collaboration under the Programme, they will not incur costs of the lease of the terminal, but only – on very preferential terms – those related to transaction processing.

Implementation of cashless payments improves the service, projects a modern image of the company and makes it possible to reach a new group of Customers by small and medium-sized enterprises which value advanced solutions supporting business operations and development.

BUSINESS REGISTRATION IN THE CENTRAL REGISTRATION AND INFORMATION ON BUSINESS USING THE IPKO E-BANKING SERVICE

PKO Bank Polski SA supports the government's From Paper to Digital Poland project, which aims to develop quick and easy access to eGovernment services. The scale of its involvement and the provision of advanced IT solutions make it possible to create mechanisms ready to be used not only in the financial sector but also in the public administration. The Bank was the first to make it possible for e-banking Customers to submit their applications under the "Rodzina 500+" programme and the "Dobry start" programme, create a PUE ZUS profile, a Trusted Profile (eGO) or account for their personal income tax.

Since 26 January 2018, PKO Bank Polski SA has made it possible to register a business and open a business account in the iPKO transaction service. It is the first such solution on the market, developed jointly with the Ministry of Enterprise and Technology. The application process is completely remote and takes minutes to complete. The confirmation of business registration and opening of an account is done by means of the Trusted Profile.

During the registration process, the Customer at the same time applies for an entry in the REGON register, submits an application to the head of the tax office (NIP) and notifies the payer of contributions to the Social Insurance Institution (ZUS).

The service developed by the Ministry together with PKO Bank Polski SA and other banks will facilitate and expedite online service for businesses, so that in the coming years most of the firms in Poland will be established and run digitally.

FREE TRAINING FOR BUSINESSES

PKO Bank Polski SA provides business-support knowledge and tools, e.g. during the Good Morning, Business training. The training is a practical offer of solutions, advice and tools of interest to SME sector business people.

In 2017, more than 470 business people took part in the training. In 2018, three training sessions are held. The first training session was titled "Company in Expansion". What was presented were, inter alia, new legal regulations related to the processing of personal data and practical tips for those interested in conducting effective online advertising campaigns.

The second session, titled "Brand Strength in SMEs", focused on the conscious building and use of the brand in promoting the company. The last session of Good Morning, Business meetings will take place in the third quarter under the title "(Not)important what they say, important that they talk: and will largely focus on creating a favourable opinion and building lasting relationships with Customers.

The workshops are run by specialists in the fields including communication, online marketing and law.

It is also possible to talk to experts individually about leasing and factoring, insurance, international expansion or banking financial products during the workshops.

Free Good Morning, Business training is available to business people who register at the following address: www.dziendobrybiznes.pl.

7.3 MARKET POSITION OF THE BANK'S GROUP

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

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

Table 7. Market shares

	30.06.2018	31.12.2017	30.06.2017	Change from:	
				31.12.2017	30.06.2017
Loans for:	17,6%	17,7%	17,8%	-0,1 p.p.	-0,2 p.p.
private individuals, of which:	22,9%	23,0%	22,9%	-0,1 p.p.	0,0 p.p.
housing	26,0%	26,1%	25,9%	-0,1 p.p.	0,1 p.p.
PLN	28,4%	28,6%	28,6%	-0,2 p.p.	-0,2 p.p.
foreign currency	21,1%	21,2%	21,3%	-0,1 p.p.	-0,2 p.p.
consumer and other	15,9%	15,9%	16,0%	0,0 p.p.	-0,1 p.p.
in current account	31,3%	32,0%	31,5%	-0,7 p.p.	-0,2 p.p.
instalment and other loans	16,0%	16,0%	16,2%	0,0 p.p.	-0,2 p.p.
institutional entities	12,6%	12,8%	13,0%	-0,2 p.p.	-0,4 p.p.
Leasing (sales)	11,3%	12,0%	12,3%	-0,7 p.p.	-1,0 p.p.
Sales of mortgage loans	28,3%	29,6%	30,2%	-1,3 p.p.	-1,9 p.p.
Deposits for:	16,9%	17,9%	17,1%	-1,0 p.p.	-0,2 p.p.
private individuals	19,9%	20,4%	20,7%	-0,5 p.p.	-0,8 p.p.
institutional entities	12,8%	14,5%	12,2%	-1,7 p.p.	0,6 p.p.
TFI assets - funds of individuals	19,6%	17,5%	14,9%	2,1 p.p.	4,7 p.p.
Non-Treasury debt securities (indebtedness)	31,0%	29,3%	29,5%	1,7 p.p.	1,5 p.p.
Brokerage activities - transactions on secondary market*	8,0%	14,7%	16,2%	-6,7 p.p.	-8,2 p.p.

Source: NBP, WSE, Polish Leasing Association, ZBP

* Data for 2017 includes the effect of intermediation in sales of shares of Pekao SA. On eliminating this effect, the share of brokerage activities in transactions on the secondary market would amount to 9.6% in the first half of 2017 and 11.2% in the entire 2017

7.4 DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking
Electronic banking
Branch network and agencies
Private banking
Corporate Banking Centre
Self-service points
Contact Centre of PKO Bank Polski SA

IKO MOBILE BANKING



PKO Bank Polski SA offers advanced technological solutions to its Customers, providing them with complete, simple, functional and at the same time safe access to banking services using telephones.

IKO is the most popular and best developed system of mobile payments in Poland. It combines the functions of mobile banking with the ability to make mobile payments.

As at the end of June 2018, the total number of IKO activations reached nearly 2.6 million. New features are constantly added to the application. The changes transformed IKO from an application used for mobile payments or withdrawals into an application which is a "bank in the phone". The share of the segment's Customers using mobile and Internet banking is also growing. At the end of June 2018, nearly 2.5 million of the Bank's Customers logged in to the Bank from a mobile device at least once a month, i.e. nearly 30% more than a year before.

The youngest Customers of PKO Bank Polski SA, under 13 years of age, can use the PKO Junior mobile application to access their accounts. The application is the mobile equivalent of the PKO Junior service. It is additionally enhanced with functions supporting financial education and the development of an entrepreneurial spirit in children.

In the first six months of 2018, the IKO app was enhanced, among other things, with:

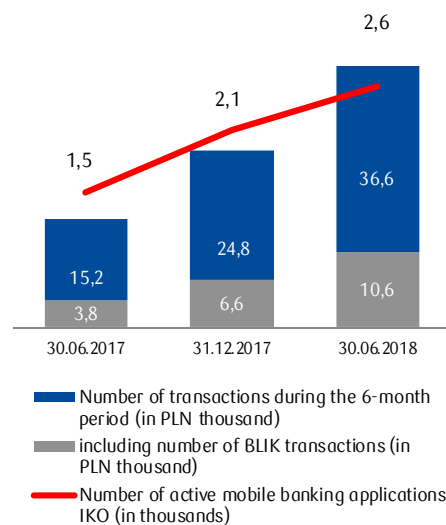
- new languages: Ukrainian and Russian;
- saving and restoring settings from other IKO applications of the Customer;
- invoice scanning (image processing engine provided by the NuDelta start-up);
- presentation of graphic images of cards;
- information and marketing campaigns in the form of push notifications;

- ability to make contactless payments based on the Android/Google Pay model;
- looking up of recipients for the purpose of a non-recurring bank transfer.

In addition to mobile banking and payment functions, IKO is becoming an important sales channel. Every third cash loan in remote channels is sold via the mobile banking application

BLIK, the Polish standard of BLIK mobile payments developed based on IKO payments (developed together with partner banks and Krajowa Izba Rozliczeniowa (Polish Clearing House)), is a universal form of making payments and cash withdrawals from ATMs without using cash or a payment card. In the first six months of 2018, the number of BLIK transactions performed by Customers of PKO Bank Polski SA exceeded 10 million, having almost trebled in comparison with the first six months of 2017.

PKO Bank Polski SA provides its customers with the option to authorize a transaction by entering the BLIK code generated in the IKO application under the Płacę z iPKO (I Pay with iPKO) payment method. Thanks to this service, payments for purchases can be made using the IKO application in most online shops in Poland, supported by Dotpay, eCard, PayU, Przelewy24, Tpay.com, First Data, CashBill, and Blue Media. I Pay with iPKO is also available in Allegro, the largest Polish e-commerce auction service.



ELECTRONIC BANKING

The Bank's Customers can use a package of electronic banking services as part of the iPKO service, and enterprises can avail themselves of iPKO Biznes electronic banking services.

These services provide Customers with access to information on their accounts and products, and enable them to effect transactions through the Internet, self-service points and by phone.

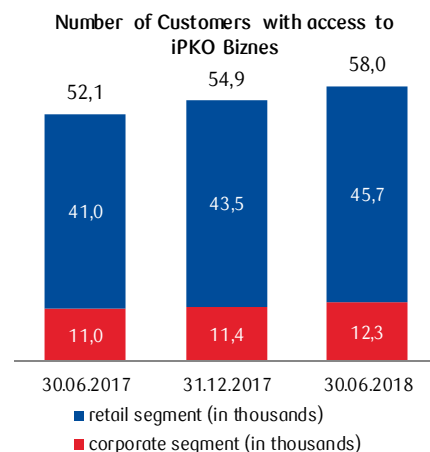
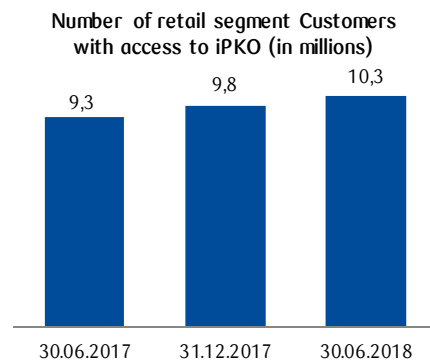
The Bank constantly promotes remote use of Internet bank accounts, self-management of accounts and banking products in the transaction service, which allows Customers to access its products faster and easier, and to reduce the costs of using banking services.

In 2018, the Bank introduced the following new products and services:

- introduced, in the iPKO, a form which enabled the simultaneous registration of a sole proprietorship with CEIDG and the opening of a sole proprietorship business account;
- made available a survey in the Investments section which was a response to the MiFID II directive, aimed at streamlining the sales process and offering investment products to Customers and their purchasing of such products more consciously and responsibly;
- introduced new funds in the Investments section in iPKO in connection with which it will be possible to open a deposit account;
- made the electronic banking services compliant with the requirements of the GDPR;
- made it possible to register a request with the Contact Centre using iPKO, whereby Customers can more quickly and easily reset their iPKO password in the event of blocked access;
- made it possible to apply via electronic banking channels for the 300+ benefit under the "Dobry start" programme;
- implemented changes in the iPKO and Inteligo, in the application form for the 500+ child care benefit;
- launched the multi-currency feature for all debit cards.
- The iPKO biznes application enables
- business Customers to monitor and manage their accounts, payment cards and loans, and to effect all types of transfers.

Businesses can also use the iPKO biznes mobile application, which provides online access to the firm's financial information, including:

- a view of the list of accounts, available monies and accounting balance;



- transactions to be signed and sent;
- transactions awaiting realization and rejected transactions;
- account history;
- tax-related standing orders;
- standing orders executed through SORBNET;
- cross-border transfers: SEPA;
- configuration of trusted counterparties in the system;
- effecting of split payments.

In the first half of 2018, PKO Bank Polski SA launched the full version of the iPKO biznes service in its branches abroad, made it possible for corporate Customers and small and medium enterprises to make split payments using iPKO and Inteligo, and implemented changes to payments to the Social Insurance Institution (ZUS).

BRANCH NETWORK AND AGENCIES

PKO Bank Polski SA, with an eye to providing convenient access to its products and services, provides its Customers with a wide network of retail branches and agencies, private banking offices, corporate branches, as well as branches located abroad.

As at 30 June 2018, the retail branch network of PKO Bank Polski SA consisted of 1,116 branches clustered in eleven regional divisions, and eight retail banking offices. Compared with the end of 2017, the total number of retail branches decreased by 16. The optimization of the branch network is carried out on a continuous basis, and the decision on the branch's operation in a particular micro-market is made by reference to economic criteria, taking into account the growth potential of that micro-market.

The Bank is constantly improving Customer service conditions in the branch network. As part of the projects carried out by the Bank and as a result of the experience gained, the branch format in place is constantly evolving in the direction of optimal service conditions, tailored also to changing technologies.

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

Table 8. Operating data of the retail and corporate segment

	30.06.2018	31.12.2017	30.06.2017	Change since:	
				31.12.2017	30.06.2017
Number of branches in the retail segment:	1 135	1 151	1 180	-16	-45
regional retail branches	11	11	11	0	0
retail branches	1 116	1 132	1 161	-16	-45
private banking branches	8	8	8	0	0
Number of branches in the corporate and investment segment:	41	41	41	0	0
regional corporate branches	7	7	7	0	0
regional corporate centres	32	32	32	0	0
foreign branches	2	2	2	0	0
Number of ATMs	3 185	3 190	3 213	-5	-28
Number of agencies	600	745	790	-145	-190

The branch and ATM network is complemented by the agency network. As at the end of June 2018, PKO Bank Polski SA collaborated with 600 agencies and, compared with the beginning of the year, the number of the agencies dropped by 145. The decrease in the number of the agencies is a continuation of the efforts to increase the sales network's effectiveness, i.e., for instance, to implement a new agency agreement with a new remuneration model.

PRIVATE BANKING

PKO Bank Polski SA is constantly developing its Private Banking and enables Customers to access a wide range of products and financial instruments.

The Private Banking Offices serve Customers from Poland's nine largest cities: Warsaw, Gdańsk, Kraków, Katowice, Poznań, Wrocław, Łódź, Szczecin and Bydgoszcz. As at the end of the first half of 2018, the Private Banking Centre managed a portfolio of assets with a value of PLN 24 billion (as at the end of 2017, the value of the portfolio amounted to PLN 22.3 billion).

CORPORATE BANKING CENTRE

The Corporate Banking Centre of PKO Bank Polski SA is an optimum environment created for the development of businesses with revenues ranging from PLN 5 million to PLN 30 million and similar product and service needs.

A separate business line for the corporate segment makes it possible to project the image of PKO Bank Polski SA as a reliable business partner for Polish businesses, thanks to:

- a dedicated service team;
- creation of a specialized group of mobile advisors cooperating directly with the credit analyst;
- introduction of improvements in the credit process, improving the advisors' credit competence, better matching of the product and price range, tailored to the Customer's needs, and reducing the time required to make a credit decision;
- limiting paper documentation in relations with the Bank, using remote methods of direct communication with Customers, as well as automating processes using the iPKO.

The first two offices were established in the fourth quarter of 2017 in Warsaw and Poznań. In the second quarter of 2018 further offices were launched – as at the end of June 2018, there were eleven offices operating throughout Poland in total.

SELF-SERVICE POINTS

In 2017, the first self-service points were made available by PKO Bank Polski SA.

Self-service points can be used by all individual and corporate Customers holding cards associated with their bank accounts. The points are equipped with touchscreens.

Customers may avail themselves of the function of cash deposits into their own account, cash withdrawals, transfers between their own accounts, transfers to any account, setting up a deposit account, checking or printing out the account balance and other transactions currently available in ATMs. The list of available transactions will be gradually extended.

PKO BANK POLSKI SA'S CONTACT CENTRE

The Contact Centre (CC) of PKO Bank Polski SA plays an important role in serving retail Customers. Its purpose is to sell the Bank's products during incoming and outgoing calls and to provide efficient and effective Customer service, by means of remote communication.

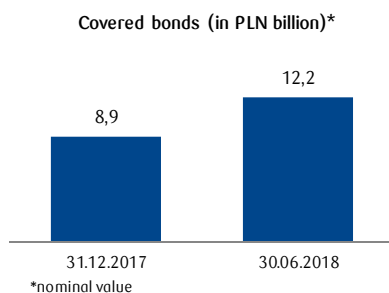
PKO Bank Polski SA's hotline employs several hundred consultants who remain at the Customers' service 24 hours a day, seven days a week. The consultants not only handle telephone calls but also answer Customers' questions electronically – e-mails and website requests. Customers may also send messages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

7.5 OPERATIONS OF THE REMAINING PKO BANK POLSKI SA GROUP SUBSIDIARIES

Apart from strictly banking operations, the PKO Bank Polski SA Group provides special financial services related to leases, factoring, investment funds, pension funds, insurance, debt collection, and transfer agent services.

CHARACTERISTICS OF SELECTED PKO BANK POLSKI SA GROUP COMPANIES¹⁹

PKO BANK HIPOTECZNY SA



PKO Bank Hipoteczny SA is the leader of the Polish mortgage bank market in terms of total assets and balance of mortgage loans. The Company is also the largest and most active mortgage bond issuer in Poland.

PKO Bank Hipoteczny SA specializes in granting mortgage loans to individual Customers; it also purchases receivables in respect of such loans from PKO Bank Polski SA. It purchases loans for its portfolio based on its strategic cooperation with PKO Bank Polski SA.

The key objective of the company is the issuance of bonds which are to be the main source of long-term financing for loans secured by immovable property – such issues are made as part of the Polish and international programme. The bond issues are based exclusively on home loans in Polish zlotys which meet conservative criteria of granting, both in terms of the borrower's creditworthiness and in terms of valuation of the real estate used as collateral.

In the first six months of 2018, PKO Bank Hipoteczny SA generated a net profit of PLN 42.6 million (PLN 25.1 million in the corresponding period of 2017).

In the first six months of 2018, under the Receivables Sale Framework Agreement signed with PKO Bank Polski SA in 2015, PKO Bank Hipoteczny SA acquired further portfolios of mortgage loans secured with mortgages, of PLN 1.9 billion in total. The total gross value of the PKO Bank Hipoteczny SA loan portfolio as at 30 June 2018 amounted to PLN 19.1 billion, including PLN 12.2 billion of mortgage home loans purchased under the agreement executed with PKO Bank Polski SA.

In the first six months of 2018, the company carried out:

one foreign issue of euro-denominated cover bonds intended for institutional investors, in the total nominal amount of EUR 500 million; and

two Polish issues of zloty-denominated cover bonds intended for institutional investors, in the total nominal amount of PLN 800 million.

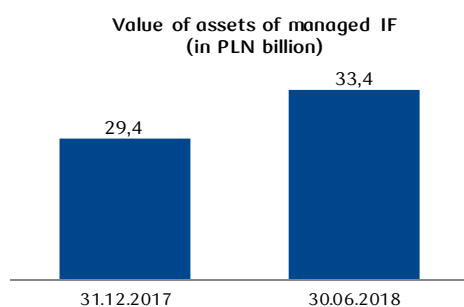
The total value of cover bonds issued by PKO Bank Hipoteczny SA and outstanding (at nominal value) as at the end of June 2018 amounted to PLN 12.2 billion.

The bonds of PKO Bank Hipoteczny SA, both zloty-denominated and euro-denominated, have a long-term rating of Aa3, assigned by Moody's Investors Service. PKO Bank Hipoteczny SA is the only Polish issuer of cover bonds whose bond issue programmes were assigned such a high rating. The rating is the highest rating achievable by Polish securities. It is limited by Poland's country ceiling for debt instruments, which is currently Aa3.

In February 2018, PKO Bank Hipoteczny SA was the first issuer of bonds from Poland to join The Covered Bond Label. It is a quality certificate, whose purpose is to build awareness among investors of the safety and high quality of assets such as bonds. The harmonised rules governing the quality of such assets allow investors from around the world to compare bonds of issuers from different countries.

¹⁹The results of operations presented in the description are derived from the financial statements of each company prepared according to IFRS, and for insurance companies, according to PAS. In respect of the groups, the presented results of operations are the profits or losses attributable to the group's parent.

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA



In the first six months of 2018, PKO TFI SA generated a net profit of PLN 119.4 million (in the first six months of 2017, the net profit amounted to PLN 29.3 million). The net profit for the first six months of 2018 includes revenues and expenses related to the business activities and assets of GAMMA TFI SA.

The increase in the net profit is a result of higher revenues and lower distribution costs as a result of lower fees for the sale of units in funds managed by the company by PKO Bank Polski SA and other distributors, introduced at the beginning of 2018 (MIFID 2).

The value of the funds' net assets under PKO TFI SA's management amounted to PLN 33.4 billion as the end of June 2018, which represents a 13.6% increase in assets compared with the end of 2017.

PKO TFI SA ranks second in terms of net asset value and has a 11.9% share in the market of investment funds; and it ranks first with a 19.6% share in terms of assets of individuals in non-dedicated funds under management*.

As at 30 June 2018, PKO TFI SA managed 69 investment funds and sub-funds, including 20 funds and sub-funds acquired as part of the business combination with GAMMA TFI SA.

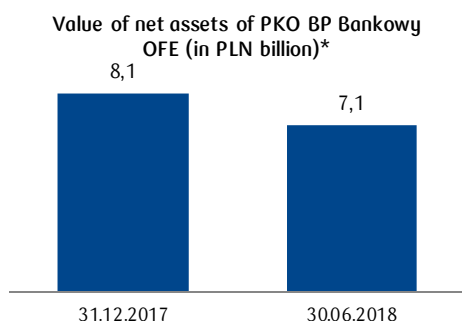
In the first six months of 2018, PKO TFI SA established PKO VC - a closed-end investment fund of non-public assets with two separate sub-funds (Financial Sub-fund and Strategic Sub-fund).

In the first six months of 2018, PKO TFI SA (together with GAMMA TFI SA) carried out four issues of closed-end investment fund certificates, whereby it acquired assets with a total value of PLN 56.3 million.

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

PKO BP BANKOWY PTE SA

In the first six months of 2018, PKO BP BANKOWY PTE SA generated a net profit of PLN 8.5 million (PLN 2.8 million in the corresponding period of 2017).



Results of operations of the Open Pension Fund (OFE)*:

As at the end of June 2018, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 7.1 billion, which is a decrease of 11.8% compared with the end of 2017. The decrease in the net asset value is attributable mainly to the developments on the WSE.

As at the end of June 2018 PKO BP Bankowy OFE had approximately 917 thousand members.

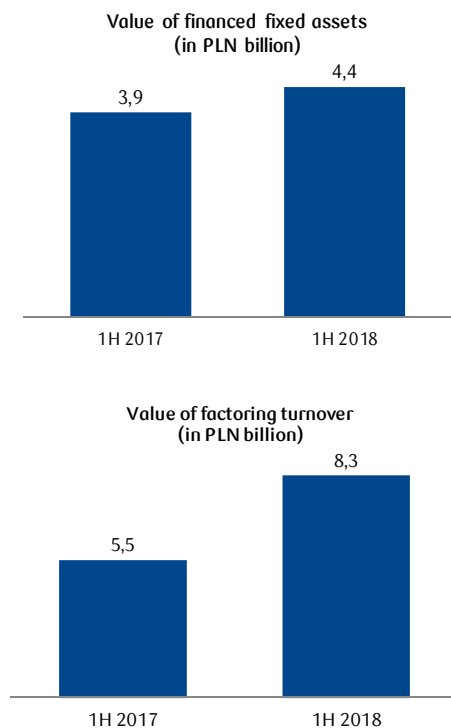
PKO BP Bankowy OFE ranks 9th on the pension fund market in terms of net asset value and in terms of the number of members.

As at 30 June 2018, PKO BP Bankowy OFE achieved the third highest rate of return on investment in 36 months out of the eleven open-end investment funds operating in the market. For the period from 30 June 2015 to 30 June 2018, PKO BP Bankowy OFE generated a rate of return of 7.89%. Being ranked 3rd in the ranking made it possible for the Fund to achieve an investment premium ratio of 62.69%.

* Source: www.knf.gov.pl

PKO LEASING SA GROUP

The PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) posted a net profit of PLN 50.9 million in the first six months of 2018. In the first six months of 2017, the Group's net profit was PLN 25.5 million).



Lease activities:

In the first six months of 2018, the leasing companies of the PKO Leasing SA Group financed fixed assets of PLN 4.4 billion in total, i.e. 12.6% more than in the corresponding period of 2017. Noteworthy are the high increases in financing in the segment of plant and machinery, and passenger cars.

As at the end of June 2018, the carrying amounts of receivables from Customers in respect of fixed asset leases (matured and not matured) and the carrying amount of fixed assets under operating leases in the PKO Leasing SA Group amounted to PLN 15.9 billion in total. As at the end of June 2017, the carrying amount was PLN 14.3 billion.

In terms of the value of fixed assets leased to Customers in the first six months of 2018, the PKO Leasing SA Group ranked first on the market of lease services with a 11.3% market share*.

*Source: Polish Leasing Association (Związek Polskiego Leasingu)

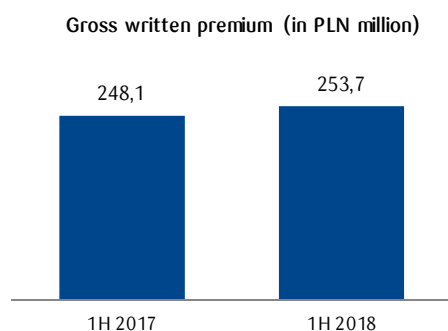
Factoring activities:

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

In the first six months of 2018, the factoring turnover amounted to PLN 8.3 billion; as at the end of June 2018 the company had 510 Customers.

As at 30 June 2018, PKO Faktoring SA was ranked eighth (by turnover) among the factoring companies associated in the Polish Factors' Association, with a market share of 7.6%.

PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA GROUP



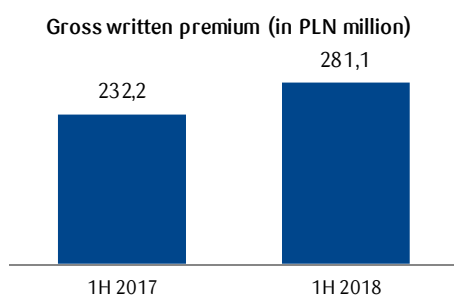
The PKO Życie Towarzystwo Ubezpieczeń SA Group (i.e. PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary Ubezpieczeniowe Usługi Finansowe Sp. z o.o.) generated a net profit of PLN 13.5 million in the first six months of 2018 (in the first six months of 2017, the group's net profit was PLN 9.3 million).

PKO Życie Towarzystwo Ubezpieczeń SA's business is insurance activities in the scope of Section I: life insurance.

PKO Życie Towarzystwo Ubezpieczeń SA provides a wide range of insurance products: the Company focuses on insuring the life and health of its Customers, it offers standalone products and products linked to the banking products offered by PKO Bank Polski SA. In the first six months of 2018, the company introduced ONKOPLAN cancer insurance.

Gross written premiums from insurance contracts written by the company were PLN 253.7 million in the first six months of 2018. As at the end of June 2018, the company insured more than 768 thousand people (as at the end of June 2017: 689 thousand people).

PKO TOWARZYSTWO UBEZPIECZEŃ SA



In the first six months of 2018, the company reported a net profit of PLN 14.5 million (in the corresponding period of 2017, the company's net profit amounted to PLN 2.2 million). The increase is the result of the development of the company's product range.

The company's business is insurance activities in the scope of Section II: other personal and property (non-life) insurance.

PKO Towarzystwo Ubezpieczeń SA focuses on insuring the risk of loss of income, personal accidents and sickness, and on insuring properties for borrowers and mortgage borrowers. The company provides a wide range of insurance products intended for the Bank's Customers and other entities in the Bank's Group.

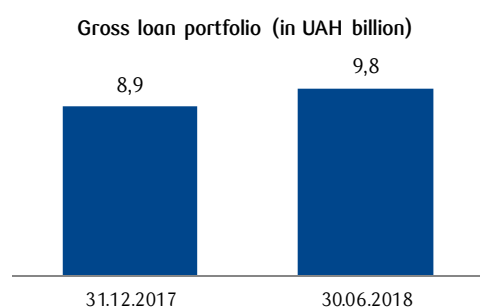
In the first six months of 2018, the company launched the Car Assistance insurance for PKO Bank Polski SA Customers.

Gross written premiums from insurance contracts written by the company were PLN 281.1 million in the first six months of 2018.

As at the end of June 2018, the company insured 713 thousand people (as at the end of June 2017: 475 thousand people).

KREDOBANK SA GROUP

(DATA ACCORDING TO IFRS, APPLIED BY THE PKO BANK POLSKI SA GROUP)



In the first six months of 2018, the KREDOBANK SA Group (i.e. KREDOBANK SA and its subsidiary Finansowa Kompania "Idea Kapital" Sp. z o.o.) generated a net profit of UAH 255.8 million (PLN 33.9 million). In the first six months of 2017, the group's net profit amounted to UAH 222.9 million (PLN 32.5 million).

The credit portfolio of the KREDOBANK SA Group (gross) increased by UAH 968 million, i.e. 10.9%, in the first six months of 2018, and, as at 30 June 2018, it amounted to UAH 9.8 billion (the gross credit portfolio expressed in PLN amounted to PLN 1.4 billion as at the end of June 2018). The increase in the credit portfolio in UAH is mainly the result of new corporate and car loans.

Term deposits of Customers of the KREDOBANK SA Group decreased by UAH 97 million, i.e. 1.9%, in the first six months of 2018, and amounted to UAH 5.04 billion as at 30 June 2018 (term deposits expressed in PLN amounted to PLN 0.72 billion as at the end of June 2018). The decrease in deposits in UAH is the effect of large businesses reducing their term deposits.

As at 30 June 2018, the network of KREDOBANK SA outlets comprised the Head Office in Lviv and 101 branches in 22 of the 24 provinces of Ukraine. In the first six months of 2018, the location of one branch was changed and one branch was closed down.

7.6 SPONSORSHIP AND CHARITY ACTIVITIES

Sponsorship activities
Charity activities of the PKO Bank Polski SA Foundation

SPONSORSHIP ACTIVITIES

The sponsorship activities of PKO Bank Polski SA are aimed at promoting the Bank's image as a reliable financial institution, socially involved, modern and open to its Customers' needs. The Bank's sponsorship activities are carried out in keeping with the Polish nature of the Bank, the universal profile of its operations and the expectations of its stakeholders – Customers, investors, the Bank's employees and the public.

The Bank implements sponsorship projects both at the national and local level and they involve the following areas:

- Culture and art – protection of the national heritage in culture and art, preservation of achievements and traditions;
- Science and education – promotion of science (mainly mathematics and computer science), support for educational projects aimed at developing entrepreneurship and promoting innovation;
- Sport – encouraging physical activity, promoting mass sports, including running, often combined with charity events and events commemorating important events from the history of our country;

- Business – consolidating the Bank's strong position in the financial market, supporting Polish business, maintaining and building business relations;
- Events important for local communities – promotion of the Bank's image as an important and active partner of business communities, local governments and cultural centres.

In each of these areas, the Bank also tries to promote and disseminate patriotic attitudes, values and national awareness.

CULTURE AND ART

PKO Bank Polski SA collaborates with national and local cultural institutions. Its support involves specific events or the artistic season of an institution, on an annual or several-year basis. The institutions sponsored by the Bank are frequented by music lovers and spectators of all age groups, which makes it possible for the Bank to communicate its role to a wide range of Customers and prospective Customers.

In the first half of 2018, PKO Bank Polski SA supported prestigious and influential cultural institutions. As part of its cooperation with the National Museum in Warsaw, it continued to sponsor the Gallery of Medieval Art and the temporary exhibition titled: "Józef Brandt 1841-1915", and, together with the National Museum in Kraków, it supported the exhibition titled "Wyspiański". The exhibition of Stanisław Wyspiański's works, comprising about 500 works by the versatile artist, turned out to be one of the most frequented artistic events. The Bank also sponsored an exhibition of memorabilia associated with the participants of the Warsaw Uprising titled "One Thousand Memorabilia" at the Warsaw Uprising Museum.

Until the end of February 2018, the Bank sponsored the exhibition titled "The New Set of Poland's Rulers: Świerzy vs Matejko" at the Municipal Museum in Wrocław. Once again, it supported the New Opera in Bydgoszcz, the organiser of the Bydgoszcz Opera Festival.

The following were also important partners as part of the sponsorship programme for culture: The National Philharmonic in Warsaw, Warmia and Mazury Philharmonic in Olsztyn, Łódź Philharmonic, Podlasie Opera and Philharmonic – European Art Centre in Białystok, AUKSO Chamber Orchestra of the City of Tychy, Kraków Opera, Polish Theatre in Warsaw. The Bank supported the Meeting of Cultures Centre in Lublin and the Raczyński Library in Poznań.

SCIENCE AND EDUCATION

As a socially responsible company, the Bank supports projects related to science and education, promotes the development of knowledge and skills, entrepreneurship and innovation among children and young people. In the first half of 2018, the Bank continued its cooperation regarding the educational project "The Olympics of Knowledge about Poland and the Contemporary World" – one of the oldest thematic Olympics, organised by Warsaw University and the EUROPEA Foundation, as well as regarding the historical competition for junior high school students called "Patria Nostra". As part of its cooperation with universities, the Bank once again supported IT teams from the following universities: the Jagiellonian University, Warsaw University and Wrocław University, who took part in the Final of the Academic World Championships in Team Programming 2018 – the most prestigious IT competition in the world, promoting talented and ambitious students. It also continued its cooperation as part of the "Economy for Sure" project carried out by the University of Silesia in Katowice. One of the elements of the project was a series of workshops and lectures by experts from the Bank.

The Bank was also involved in the Institute of Freedom's Leadership School project aimed at preparing young people for business, social and political activity. It also continued its cooperation of several years with the Lesław A. Paga Foundation on the Capital Market Leaders Academy project.

Moreover, in order to promote mathematics among primary and secondary school students, the Bank once again participated in the Warmia and Mazury Mathematics Competition organized by the University of Warmia and Mazury in Olsztyn. Once again, the Bank sponsored a series of Decius' Ducats educational workshops which promoted the knowledge of economics among primary and junior high school students.

PKO Bank Polski SA, while supporting projects aimed at promoting advanced technologies and start-ups, identifies start-ups which offer innovative solutions that may be applied in the banking sector. An example of this is the continuation of cooperation regarding the InfoShare event, where the Bank actively promoted the "Let's fintech with PKO Bank Polski" path dedicated to advanced technologies related to finance.

SPORT

PKO Bank Polski SA has been involved in important sports events for many years. Under the "PKO Bank Polski Race Along" programme, the Bank encourages Poles to engage in joint activities and supports dozens of various running events across Poland. The most important of these are: Bieg Konstytucji 3 Maja (The Constitution of 3 May 1791 Run),

which is a part of Warszawska Triada Biegowa (The Warsaw Running Triad), PKO Nocny Wrocław Półmaraton, PKO Poznań Półmaraton, PKO Półmaraton Rzeszów, and the runs in the PKO Grand Prix Gdynia series – Bieg Urodzinowy z PKO Bankiem Polskim (The Birthday Run with PKO Bank Polski), Bieg Europejski z PKO Bankiem Polskim (The European Run with PKO Bank Polski), Bieg Świętojański z PKO Bankiem Polskim (The Midsummer Run with PKO Bank Polski). The Bank also sponsored Tropem Wilczym Bieg Pamięci Żołnierzy Wyklętych. It was a unique sports and historical event, because the run took place simultaneously in over 300 Polish cities, and over 70 thousand runners competed in it.

As part of the banking running programme, free-of-charge BiegamBoLubię (I run because I like to) running meets take place at more than 90 athletic grounds throughout Poland, regardless of the weather conditions or the number of participants, and PKO Bank Polski SA is the strategic partner. The activities are managed by professional trainers and they are open to all those who want to ensure their good shape and well-being.

Apart from the running events which definitely dominated in the sports sponsorship category, the Bank also supported other prestigious sports events, such as: Cavaliada – a series of International Show Jumping Contests and the Sail Szczecin Days of the Sea 2018.

BUSINESS

As one of the leaders of the Polish financial market, PKO Bank Polski SA actively participated in the organization of congresses and conferences which made it possible to share experiences and solutions among various business communities. The most important of such events were: The Digital Independence Conference, a series of Polish Entrepreneurs Talk About... conferences, the 8th European Financial Congress in Sopot, the 6th International Maritime Congress, WallStreet 22, the Conference of the Chamber of Brokerage Houses, the Venture Capital Congress 2018, the Polish Chemistry Congress, the Gdynia Business Plan, the Cities on the Internet Conference, the Congress of Family Firms, and the World Milk Day. The Bank also actively participated in the first Vision for Development Forum, which was held in the Arena Hall in Gdynia.

It was already the third time that the Bank was the Strategic Partner of the Polish Entrepreneur of the Year 2017 Competition held by *Gazeta Polska Codziennie*. The objective of the competition was to award entrepreneurs, exporters, managers, philanthropists and experts supporting the development of the Polish economy and contributing to the promotion of economic patriotism.

The Bank establishes cooperation with numerous chambers of commerce and industry, which work intensively for the benefit of their members, by undertaking a number of business initiatives, holding meetings and conferences that enhance the knowledge and skills of business people. PKO Bank Polski SA cooperates, *inter alia*, with the following chambers of commerce and industry: Bytom Chamber of Commerce and Industry, Racibórz Chamber of Commerce, Regional Chamber of Commerce in Katowice, Chamber of Commerce in Wodzisław Śląski, Northern Chamber of Commerce and Chamber of Commerce and Industry in Białystok. For several years now, the Bank has also cooperated with the Polish-German Chamber of Commerce (AHK), which represents the interests of about 1,000 member companies and promotes the development of Polish-German economic relations, as well as with the Scandinavian-Polish Chamber of Commerce (SPCC), which has over 400 members and makes it possible to establish contacts with thriving Scandinavian companies.

In the spring of 2018, the Bank joined the Polish Champion programme, which promotes and supports Polish businesses which export and invest abroad or which plan to expand abroad. The purpose of the programme is to share knowledge and experience regarding foreign expansion with corporate Customers during a series of meetings in the regions.

The Bank is also open to cooperation with young, innovative companies. It is the initiator and partner of such programs as MIT Enterprise Forum Poland or Bridge to MassChallenge Warsaw. The Bank provides the participants with mentoring and technical background in the form of test environments, which is a unique opportunity to verify the ideas presented and assess their value for both individual and business Customers. The support provided by the Bank has often been a starting point for future successes of start-ups.

The Bank also supported smaller-scale events for entrepreneurs and local governments, important for local communities. These included regional harvest festivals, city day celebrations, festivals, meetings with entrepreneurs and important regional events related to the areas supported by the Bank.

CHARITY ACTIVITIES OF THE PKO BANK POLSKI SA FOUNDATION

OBJECTIVES OF THE FOUNDATION

The objective of the PKO Bank Polski Foundation, which is part of the Strategy 2016–2020, is to strengthen Customer relationships, understood as the co-financing of projects aimed at building social solidarity and strengthening the emotional bond of all stakeholders with the Bank's brand. The creation of good will also contribute to employer branding. The Foundation sees common good in building a civil society and participates in projects, often initiated by the Bank's employees – volunteers. The Foundation technically and financially supports projects of numerous circles and communities that are important for the development of Poland.

ACTIVITIES OF THE FOUNDATION

The main source of financing of the Foundation are donations from the Bank, provided in accordance with the Foundation's Financial Plan. Additional funds for charitable purposes, transferred based on other agreements, are derived from the profit generated on non-cash transactions made by the Customers of Inteligo and associated with the affinity card *Goodness brings profit (Dobro procentuje)* (since 2013). PKO Bank Polski SA shares the profit from each non-cash transaction made using the charity card.

In the seven years from the start of its operations, the Foundation has spent more than PLN 96 million on social activities. Subsidized initiatives are part of one of the seven programme areas: EDUCATION, TRADITION, HOPE, HEALTH, CULTURE, ECOLOGY and SPORT.

Since the beginning of 2018, the Foundation transferred more than PLN 2.5 million to finance 41 strategic projects, including seven special strategic projects which did not require engaging in a partnership with an external organization: the Banking Blood Donation Action, the Collection of Bank Collections, the Compass for the Start. The Foundation makes every effort to ensure that the strategic projects evolve and reach as many beneficiaries as possible.

As part of its partnerships at the local level, the Foundation transferred more than PLN 950 thousand for 104 projects. Aid to individuals, both children and adults, amounted to nearly PLN 734 thousand. The number of individual beneficiaries amounted to eighty, twelve of which were employees of PKO Bank Polski SA or their families. The aid to 41 individuals was provided as a result of the PKO Charity Runs – a special project of the Foundation.

The Foundation is also a go-between in the transfer of donations in kind in the form of IT equipment and furniture no longer used by the Bank's branches.

CORPORATE VOLUNTEERING

Since 2013 the Corporate Volunteering system has been in place at the Bank and more than 1.4 thousand active Volunteers are registered. These persons may suggest their own local or individual social projects. The cooperation between the Foundation and the Volunteers is aimed at verifying the reliability of the proposer and building relations between the Bank and the local community. Additionally, all Volunteers may register their extra-banking commitments, by sharing good practices and informing the Foundation of local initiatives that are worth supporting.

Charity has an effect on the image of PKO Bank Polski SA as a socially responsible business. The support provided by the Foundation contributes to building strong relationships between the Bank and its environment and to strengthening mutual trust.

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

In the first six months of 2018, the PKO Bank Polski SA Group received many prizes and awards.

FAST GROWTH AND EXCELLENT RESULTS OF OPERATIONS

BEST BANK 2018

PKO Bank Polski SA won the award in the large commercial bank category in the 26th Best Bank competition held by *Gazeta Bankowa*. The results of operations for 2017 were recognized – PKO Bank Polski SA generated the highest net profit in the banking sector, which amounted to PLN 3.1 billion and was 8% higher than the year before. The experts assessed the banks mainly in terms of growth ratios, portfolio structure and business effectiveness. PKO Bank Polski SA received the highest number of points.

PKO BANK POLSKI SA – LEADER IN NEW TECHNOLOGIES

BANKING STARS	<p>PKO Bank Polski SA ranked first in the innovation category in the Banking Stars ranking of <i>Dziennik Gazeta Prawna</i>. It was awarded the Innovation Star title. The jury also appreciated the Bank for the pace of development and business structure.</p> <p>PKO Bank Hipoteczny ranked third in the Specialist Banking Star category.</p>
IKO: THE BEST MOBILE APP IN THE WORLD	<p>In March 2018, IKO was ranked first in the ranking of mobile applications of 100 largest banks in the world, published in <i>Retail Banker International</i>. The ranking is based on Customer ratings, given in application stores for iOS and Android. With an overall rating of 4.8/5 and nearly 150 thousand ratings, IKO outperformed banks from all over the world.</p>
LEADER IN MOBILE BANKING	<p>PKO Bank Polski SA once again turned out to be the unquestionable leader in mobile banking according to PR News portal's report for Q4 2017. Its position was determined by: nearly 2.3 million Customers using the bank's services via a mobile device (IKO, light version and full version of the iPKO service), almost 1.3 million Customers logging into the IKO application at least once a month, 14 million mobile transactions in the fourth quarter of 2017.</p>
PKO BANK POLSKI SA – THE WINNER OF THE HEART INNOVATION AWARDS 2017	<p>The cooperation of PKO Bank Polski SA and the fintech company ZenCard Sp. z o.o. was recognized in the first Heart Open Innovation Awards 2017 in the Cooperation category. The jury was composed of representatives of corporations operating in the world of start-ups and appreciated the cooperation leading to the implementation of technological innovations, broadening the range of products and services, creating new Customer experiences. The jury nominated the Bank for the award also in the Organization category for its commitment to the development of the start-up ecosystem and in the Corporate Investor category for its support of start-up technology companies.</p>
PROJECT OF THE YEAR 2017	<p>The jury of the 13th Digital Economy Congress competition held under the auspices of the Polish Bank Association decided that the service of registering a company in the Central Register and Information on Economic Activity (CEIDG) using iPKO electronic banking service was the Project of the Year 2017. The victory stemmed from the comprehensiveness and versatility of the solution and its impact on the development of eGovernment.</p> <p>PKO Bank Polski SA was the first bank on the market to provide its Customers with the service of submitting one common application for opening a company account and registering a company with CEIDG in the iPKO transaction system without the need to visit the office in person.</p>
FINTECH & INSURTECH AWARDS	<p>The Trudatum platform, developed together by PKO Bank Polski SA and Coinfirm start-up, won the FinTech & InsurTech Awards in the blockchain technology category.</p> <p>PKO Bank Polski SA was the first Polish financial institution to implement blockchain solutions, which will initially be used to verify the authenticity of bank documents.</p> <p>The purpose of the competition is to promote innovative technological solutions for the financial and insurance industries.</p>
WPROST'S PORTFOLIO OF THE YEAR	<p>The IKO mobile app won in the convenience and wide access category in the 4th Portfolio of the Year contest, held by <i>Wprost</i> weekly. It was recognized for its innovativeness and functionality. It is ranked first among mobile banking applications in the three largest application stores: Google Play, App Store and Windows Phone Store.</p> <p>The purpose of the contest is to promote the most interesting financial products and services on the market. Banks and financial intermediaries, fintech companies, consulting companies and those providing services to the financial sector compete for the award.</p>

BEST PRODUCTS AND SERVICES

PKO BANK POLSKI SA – INSTITUTION OF THE YEAR 2017	<p>PKO Bank Polski SA received statuettes in the following categories in the third ranking held by <i>Mojebankowanie.pl</i>: "Customer-friendly opening of a company account" and "Customer-friendly opening of an account online" – for individual Customers. The awards are a proof that the Bank is a partner for companies, characterized by a comprehensive offer, high quality of service and customer-friendly and cutting-edge e-banking.</p> <p>The Institution of the Year ranking is a survey of companies from the banking, insurance and telecommunications sectors. Independent experts evaluate the customer-oriented activities of companies and award them for Customer-friendly solutions.</p>
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GOLDEN BANKER

In the 9th Golden Banker ranking PKO Bank Polski SA won the statuette in the mortgage loan category for the "Własny Kąt Hipoteczny" home loan – for the low cost of financing, availability, and flexible approach to early repayment. The experts also praised Mini Ratka (Mini-payment), notable for its payment holiday, the Bank's hotline for the expertise and good manners of the consultants, and ergonomic electronic channels. Whereas, Internet users praised the Bank's social media efforts, the "Kluczowe decyzje" (Key decisions) commercial, and the PKO Charity Run social initiative.

The Golden Banker is the largest ranking of banks' customer service, quality of products, advertising and social media communications, social involvement, most innovative products and services on the banking market. It identifies those banks which, in their operations, choose the best market practices, and their products and services meet the expectations and needs of their Customers. The ranking is organized by Bankier.pl and Puls Biznesu.

BEST BANK FOR FARMERS

PKO Bank Polski was ranked second in the banking product and service range category in the third Best Bank for Farmers ranking. What was recognised were the Bank's deposit, transaction and credit products and services which make it possible for farm owners to finance both their day-to-day expenses and investments related to their operations.

The Best Bank for Farmers ranking of Martin & Jacob, a company which provides in-house analyses of the agricultural market, was prepared on the basis of a survey conducted in the first quarter of the year. It was carried out on a sample of over 9.4 thousand farmers.

STRONG BRAND

HIGHEST-VALUED FINANCIAL BRAND

PKO Bank Polski SA is the highest-valued brand in the finance industry in Poland. In the 14th Highest-Valued Polish Brands 2017 ranking of the *Rzeczpospolita* daily, the Bank's brand was valued at PLN 2.7 billion. The Bank is also the third highest-valued brand in Poland.

WARSAW CORPORATE FILM FESTIVAL

PKO Bank Polski SA won five awards in the Warsaw Corporate Film Festival competition. The spot titled "Key Decisions" – directed by Tomasz Bagiński, Oscar nominee, was the first in the category of B2C marketing communication and special effects, and the second in the category of photography. The "Find out what Maciek had to do before he set up his PKO Konto dla Młodych" spot was ranked first in the directing category and second in B2C marketing communication.

Warsaw Corporate Film Festival is the first corporate film festival in Poland with an international reach, during which the best corporate films were awarded.

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

BUSINESS AWARD OF THE POLISH RADIO

PKO Bank Polski SA won in the Polish Philanthropist category in the second run of the Business Awards of the Polish Radio. It was appreciated for its commitment to the economic growth of our country. For years, the Bank has been initiating and implementing social projects combining business objectives with initiatives for all stakeholder groups. It is involved in initiatives which promote economic patriotism, Polish business and science. It supports educational, civic, cultural, sports and charity events and projects.

The Business Awards of the Polish Radio recognize the best companies which significantly contribute to the growth of the Polish economy and to the promotion of Poland internationally, engage in charitable, social and ecological activities.

PKO BANK POLSKI SA WAS AWARDED TITLE OF AN ETHICAL COMPANY

PKO Bank Polski SA was awarded in the fourth Ethical Company competition for its practices concerning fair and transparent business in compliance with ethical and social responsibility standards.

WHITE LEAF OF CSR

In the seventh run of the CSR Leaves of the *Polityka* weekly, PKO Bank Polski SA was awarded the White Leaf. It was recognized for responsible business management such as taking care of relations with Customers and business partners, comprehensive personnel management and providing employees with extra benefits, as well as supporting local communities and acting on the basis of defined and communicated values.

The ranking is prepared in collaboration with Deloitte and the Responsible Business Forum.

PKO BANK POLSKI SA – LEADER AMONG EMPLOYERS

TRUSTED EMPLOYER

In the 7th Trusted Employer competition, PKO Bank Polski SA was the winner in the Health category. It won the most votes of the members of the jury, which includes, among others, representatives of the Polish Chamber of Commerce and the Foundation of the Polish Promotional Emblem.

The jury recognized the Bank's practices related to one of the most valued employee benefits – medical care. The provision of additional medical care and access to professional assistance for employees, and the promotion of healthy lifestyles and support to employees in their health improvement efforts.

EMPLOYER OF THE YEAR

PKO Bank Polski SA was one of the most sought-after employers in the Employer of the Year 2017 ranking of the international student organisation AIESEC. The Bank has a strong position as the best employer in the financial sector and is regularly present on the Top 10 list in the AIESEC ranking. The ranking is based on a survey conducted among 4th and 5th year students of economics from the largest academic centres in Poland. Its purpose is to analyse student preferences regarding the choice of a future employer, but also to evaluate the prospects on the labour market for the student community.

BEST EMPLOYER

PKO Bank Polski SA was the winner of the Business Inspirers: The Best Employer competition held by Newseria, an information agency. The jury recognized the working conditions, incentive system and career development opportunities. It also recognized the innovative incentive system, a wide range of extra benefits and initiatives which promote a friendly working atmosphere and making it easier to reconcile it with personal life. The purpose of the competition is to select the most attractive employers with more than 50 employees.

EXCELLENT COMMUNICATION WITH THE MARKET

ONLINE COMMUNICATION LEADER

PKO Bank Polski SA received the highest rating and won the Online Communication Leader ranking (in the category of large public companies) in the eleventh Issuer's Golden Website competition held by the Polish Association of Stock Exchange Issuers. What was analysed was communication with investors, among others through social media, electronic mail or other channels and tools, as well as presentations of results of operations and current operations of the companies to investors. The jury of the contest also paid attention to the content of investor websites, their appearance and ease of navigation.

TRANSPARENT COMPANY OF THE YEAR

PKO Bank Polski SA was awarded the title of Transparent Company of the Year 2017 from the WIG 20 index in the second ranking of communication of public companies with the market. What was appreciated was its financial and other reporting, investor relations and the corporate governance principles applied. The ranking prepared by Instytut Rachunkowości i Podatków (Institute of Accounting and Taxation) and *Gazeta Giełdy Parkiet* is based on a survey. The initiative is intended for public companies from the WIG 20, 40 and 80 indices. Its purpose is to assess the transparency of companies.

BROKERAGE ACTIVITIES

WSE AWARDS

The Warsaw Stock Exchange awarded Dom Maklerski PKO Banku Polskiego SA with the Broker of the Year 2017 award, *inter alia*, for arranging initial public offerings of the highest aggregate value and the highest share in share trading (excluding the market maker's trading) on the Main Market. And PKO Bank Polski SA was awarded for the highest value of non-Treasury debt instrument issues on the Catalyst market and the highest value of OTC transactions settled by KDPW_CCP. PKO BP Finat Sp. z o.o. received the award for the largest increase in the value of orders for WSE and BondSpot news products.

BULLS AND BEARS FOR DOM MAKLEPSKI PKO BANK POLSKI SA

Dom Maklerski PKO Banku Polskiego SA received the Bull and Bear statuette for the best brokerage house in the 24th Bulls and Bears competition held by *Gazeta Giełdy Parkiet*. The victory of the Brokerage House was a result of, *inter alia*, the arrangement of the two largest debuts last year, i.e. Play Communications and Dino, and involvement in the secondary market.

BEST SPECIALISTS ON THE MARKET

MOST EFFECTIVE PRESIDENT 2017

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA, as the only President of a financial institution, was awarded the WIG20 Most Effective President of 2017 statuette. His high position in the ranking was due to the Bank's performance, in the first instance the increase in capitalization in 2017, the rate of return for shareholders, excellent financial ratios and the company's transparency. The ranking of the Most Effective Presidents 2017 was prepared by the editors of *Harvard Business Review Polska* in partnership with the Asset Management Department of DM TMS Brokers and the Association of Individual Investors.

LEADER IN THE DIGITIZATION OF THE BANKING SECTOR

Adam Marciniak, Vice-President of the Management Board of PKO Bank Polski SA, in charge of the IT area, was presented with an award for the Leader in Digitization of the Banking Sector 2018. The jury recognized Adam Marciniak for his involvement in the development of innovative tools, achievements and projects implemented within the PKO Bank Polski SA Group, as well as for the entire banking sector. The multi-award-winning IKO and iPKO Biznes applications, cooperation with the Ministry of Digitization, Central Information Technology Centre, and development of services for the eGovernment, were noticed. The award was introduced by the members of the Banking Technology Forum as a distinction for outstanding achievements intended to connect the banking and technology sectors in Poland.

BEST EXCHANGE ANALYSTS	The team of Dom Maklerski PKO Banku Polskiego SA was the winner in the sixteenth ranking of stock exchange analysts prepared by <i>Gazeta Giełdy Parkiet</i> .
BEST ECONOMIC ANALYSIS TEAM	The economic analysis team of PKO Bank Polski SA topped the ranking of macroeconomic forecasts for 2017 prepared by <i>Gazeta Giełdy Parkiet</i> . It outperformed 20 other competitors with the accuracy of its predictions.

AWARDS WON BY THE COMPANIES IN THE BANK'S GROUP

ZENCARD: THE MOST INTERESTING START-UP	The jury of the e-Dukat 2017 competition declared ZenCard Sp. z o.o., a fintech company from the PKO Bank Polski SA Group, the most interesting start-up in the area of cashless payments and awarded it with the e-Dukat 2017 statuette.
ALFA AWARD FOR PKO SKARBOWY SUB-FUND	PKO Skarbowy, a sub-fund offered by PKO TFI SA, received the Alfa award in the Bestseller category. This distinction is granted to open-end retail investment funds, which last year were the most popular in terms of net inflows. The Alfa award is granted by Analizy Online. Its purpose is to distinguish those products which, against the background of the comparative group, provide Customers with above-average rates of return adjusted for the level of risk incurred.
IKZE TFI RANKING OF THE RZECZPOSPOLITA DAILY	PKO TFI SA was ranked first in <i>Rzeczpospolita's</i> ranking of Individual Retirement Security Accounts offered by fund managers in the form of an investment fund, prepared at the end of March 2018. The ranking evaluated rates of return on investment, diversification of the product range and fees charged to Customers.
HIGH RANKINGS OF KREDOBANK SA IN UKRAINE	In 2018, KREDOBANK SA was highly ranked in various rankings in Ukraine, including: - first place in the following categories: loan for business development, loan for the purchase of real estate on the secondary market and deposits for business, and third place in the following categories: mortgage loans, overdraft loans (lines of credit) for business, deposits for individuals and clearing and cash service range, granted based on the performance in the first quarter of 2018 by Prostobank Consulting agency; - first place in the "Loan refinancing programme" and "Residential mortgage programme" categories of the "Success Favourites 2017" competition.

8. RISK MANAGEMENT

8.1 PRINCIPLES OF RISK MANAGEMENT

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

In the PKO Bank Polski SA Group the following risks were identified which are subject to management (risks considered to be material are underlined):²⁰ credit, credit concentration, risk of foreign currency mortgage loans, interest rate risk, currency risk, liquidity risk (including risk of financing), commodity price risk, equity securities price risk, other price risks, derivatives risk, operational risk, non-compliance risk, macroeconomic risk, models risk, business (including strategic) risk, reputation risk, risk of proceedings, equity risk, risk of excessive leverage and insurance risk.²¹

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

²⁰ Risk assessment in respect of the Bank's and the Group's operations is conducted at least once a year. This assessment may be performed more frequently, in particular in the event of material changes in the scope of operations or risk profile of the Bank, Group entity or the whole Group. In determining the criteria of recognizing a risk as material the impact of the materiality of the risk both on the Bank's and the Group's operations is taken into account.

²¹ The risk relates to the Group's companies.

OBJECTIVES OF RISK MANAGEMENT

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

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

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

THE MAIN PRINCIPLES OF RISK MANAGEMENT

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

- the Group manages all identified types of risk;
- the risk management process supports the implementation of the Bank's strategy while complying with the risk management strategy, in particular regarding the level of tolerance of risk.
- the risk management process is appropriate to the scale of operations and to the materiality, scale and complexity of the given risk and is constantly adapted to new factors and sources of risk;
- methods of risk identification, measurement or assessment, monitoring and management are adequate to the risk tolerance level adopted by the Bank. Material risks to which the Bank is exposed are identified accordingly on making business decisions;
- risk management methods (in particular, models and their assumptions), as well as risk measurement or assessment systems are adapted to the scale and complexity of the risk, the current and planned operations of the Group and the environment in which the Group operates and are periodically verified and validated;
- the Management Board determines the risks subject to management and organization units in the Headquarters as well as specialist organizational units responsible for managing such risks;
- The Group allocates the resources necessary for effective risk management;
- the Group develops emergency plans in the event of crisis situations which may significantly affect the functioning of the Group, and in particular emergency plans required under universally applicable provisions of law and internal Group's regulations;
- financial, capital and strategic plans are verified and assessed in respect of the risk level generated,
- the process of managing a given risk and capital adequacy is regulated appropriately to the level of complexity and materiality of the risk, in the internal Group regulations relating to the rules for managing such risk and the rules for managing capital adequacy and equity.

RISK MANAGEMENT PROCESS

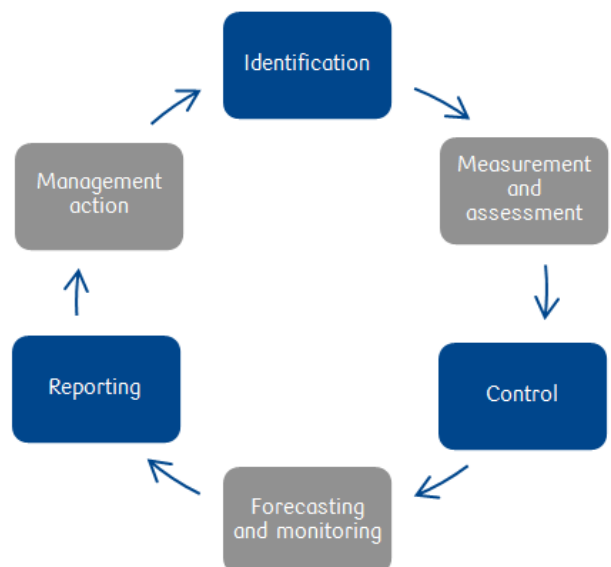
The risk Group's management process comprises the following elements:

■ RISK IDENTIFICATION

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

■ RISK MEASUREMENT AND ASSESSMENT

Risk measurement encompasses the definition of the measures of risk which are adequate to its type, the materiality of the risk and the availability of data as well as quantitative risk quantification with the use of the defined measures and risk assessment involving the determination of the size or scope of risk from the point of view of the objectives of risk management. Within the framework of risk measurement, work related to the valuation of the individual types of risk for the purposes of the pricing policy is conducted, as are stress tests based



on assumptions assuring reliable risk assessment. The stress testing scenarios include the requirements arising from the recommendations of the Polish Financial Supervision Authority. Additionally, comprehensive assessment stress tests (CASTs) are conducted in the Group, which constitute an integral part of risk management and supplement the stress tests which are peculiar to the individual types of risk. CASTs include an analysis of the impact of changes in the environment (especially the macroeconomic situation) and the functioning of the Bank on the Group's financial position.

▪ **RISK CONTROL**

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

▪ **RISK FORECASTING AND MONITORING**

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

▪ **RISK REPORTING**

Risk reporting involves periodically informing the Bank's authorities about the results of risk measurement or risk assessment, the steps taken and the recommended actions. The scope, frequency and form of reporting are adapted to the management level of the recipients. In the event of the Bank's potential liquidity problems, the Supervisory Board is immediately notified of the Bank's liquidity level, of the threats and remedial actions taken, and of any material operational events or security incidents.

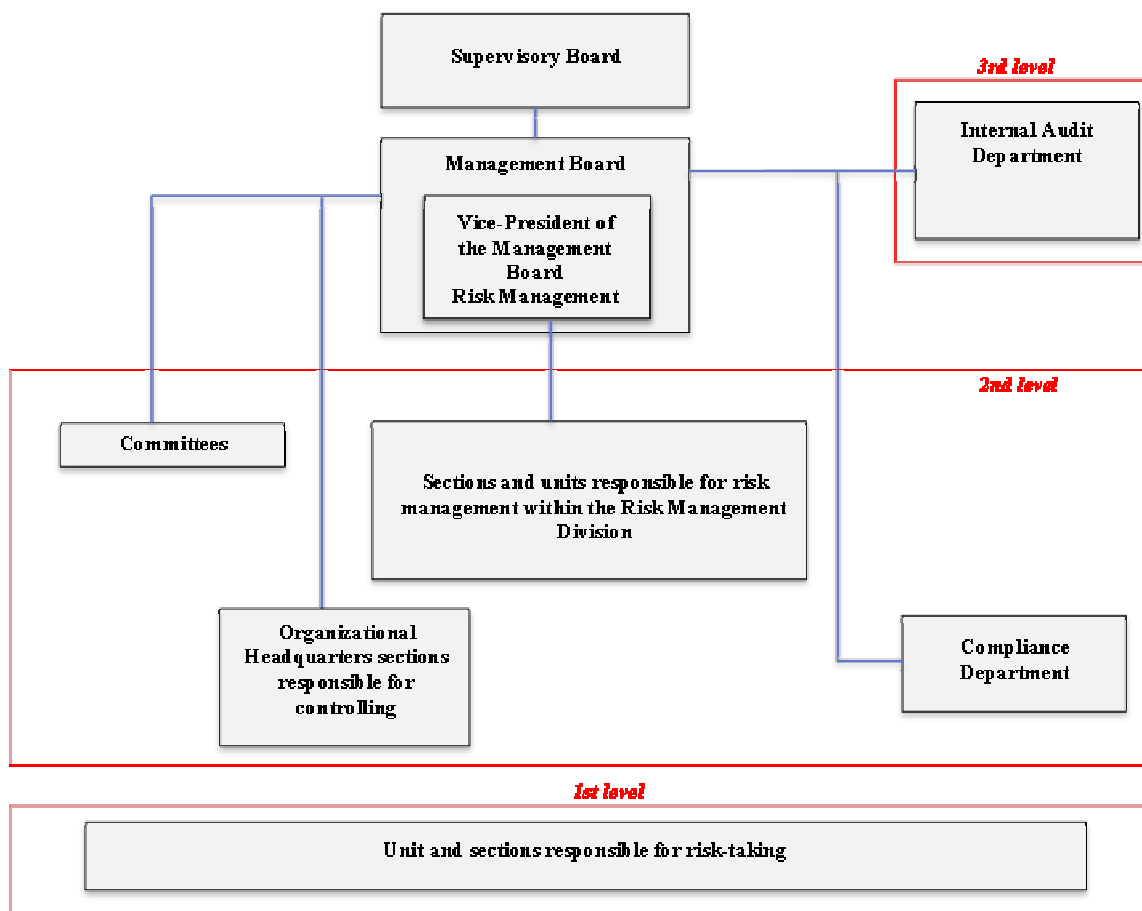
▪ **MANAGEMENT ACTIONS**

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

THE GROUP'S RISK MANAGEMENT PROCESS

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

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



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

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

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

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

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

units of the Headquarters and entities of the Group. The entities and organizational units of the Head Office implement appropriate risk controls designed by the Second Line of Defence entities and organizational units of the Head Office, in particular limits, and make certain that they are abided by through implementing appropriate controls. At the same time, the Bank's Group companies are bound by the cohesion and comparability of risk assessment and control in the Bank and in entities of the Bank's Group, taking into consideration the specific nature of the entity and the market on which it operates.

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

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

- the second level function regarding the creation of system solutions is independent of the first level functions,
- the third level function is independent of the first and second level functions.
- the function of non-compliance risk management is subject to the Vice-President of the Management Board – Legal and Compliance.

THE GROUP'S RISK MANAGEMENT

The Bank supervises the functioning of individual entities in the Bank's Group. As part of its supervisory role, the Bank monitors their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for the purposes of risk monitoring and the reporting system at Group level.

The principles and methods of evaluating individual risks in entities in the Group are defined in the internal regulations. Entities in the Bank's Group create and update internal regulations concerning the management of specific risks, upon consultation with the Bank and taking into account recommendations issued by the Bank and the Risk Management Strategy in PKO Bank Polski SA and the Bank's Group. The internal risk management regulations of entities in the Bank's Group take account of:

- the principle of consistency and comparability of the assessment of individual risks in the Bank and entities in the Bank's Group;
- the scope and type of relationships between members of the Bank's Group;
- the specific features and scale of activities of a given member of the Bank's Group and the market on which it operates;
- risks managed in entities in the Bank's Group resulting from specific features of their activities.

The supervision of risk management in Group members is exercised in particular by engaging organizational units in the Headquarters and specialist organizational units or competent committees operating in the Bank in presenting opinions on transactions of members of the Group in accordance with separate internal regulations of the Bank. A list of entities which have a material impact on the Group's risk profile is determined at least once a year. According to the Bank's separate regulations, an approach relating to the minimum quantitative strategic tolerance limits for individual risks specific for a given company and the reporting method are determined.

8.1.1 CREDIT RISK

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

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

MANAGEMENT OBJECTIVE

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

In the credit risk management process the Group mainly follows the following credit risk management principles:

- each loan transaction requires comprehensive credit risk assessment, which is reflected in internal rating or credit scoring;
- credit risk relating to loan transactions is measured at the stage of examining loan applications and on a regular basis, as part of the monitoring process taking into consideration the changes in external conditions and in the financial standing of the borrowers;
- assessing the credit risk of exposures is subject to additional verification by ensuring an appropriate organizational structure, independence of the construction and validation of the tools which support the assessment of credit risk, and independence of the decisions for accepting deviations from the indications of those tools,
- the terms and conditions of a credit transaction offered to the customer depend on the assessment of the credit risk generated by the transaction;
- lending decisions may only be taken by appropriately authorized persons;
- credit risk is diversified in particular in terms of geographical area, business sector, products and customers;
- the expected level of credit risk is secured by security accepted by the Bank, risk margins charged to customers and impairment allowances for credit exposures.

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

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

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

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

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

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

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

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

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

MEASUREMENT AND ASSESSMENT OF CREDIT RISK

METHODS OF MEASUREMENT AND ASSESSMENT OF CREDIT RISK

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

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

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

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

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

RATING AND SCORING METHODS

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

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

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

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

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

Rating models for institutional customers are developed using the Group's internal data which ensures that they are adapted to the risk profiles of the Group's customers. The models are based on the statistical dependence analysis

between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and evaluation of behavioural factors. The customer's risk assessment depends on the size of the enterprise which is analysed. In addition, the Group uses a model for assessing credited entrepreneurs in specialist financing, which allows the appropriate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

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

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

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

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

CREDIT RISK MONITORING

Credit risk is monitored at individual credit transaction level and at portfolio level.

The monitoring of credit risk at the individual credit transaction level is governed, in particular, by the Group's internal regulations concerning:

- principles for the recognition of impairment allowances for credit exposures and allowances in respect of matured amounts due in respect of unsettled forward transactions;
- the rules for the functioning of the Bank's Early Warning System;
- early monitoring of delays in the collection of receivables;
- the principles for the classification of credit exposures and determining the level of specific provisions.

To shorten the reaction time to the warning signals observed, signalling an increase in the level of credit risk, the Group uses and develops an IT application – Early Warning System (EWS).

Monitoring credit risk at the portfolio level consists of:

- supervising the level of the portfolio credit risk based on the tools used for measuring credit risk, taking into consideration the identified sources of credit risk and analysing the effects and actions taken as part of systemic management;
- recommending preventive measures in the event of identifying an increased level of credit risk.

CREDIT RISK REPORTING

The Group prepares monthly and quarterly credit risk reports. The reporting of credit risk covers informing about the risk exposure of the credit portfolio on a cyclical basis. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for Group entities in which significant credit risk levels have been identified: (among others: the KREDOBANK SA Group, the PKO Leasing SA Group, PKO Bank Hipoteczny SA).

MANAGEMENT ACTIONS CONCERNING CREDIT RISK

The basic credit risk management tools used by the Bank's Group include:

- minimum transaction requirements (risk parameters) determined for a given type of transaction (e.g. minimum LTV value, maximum loan amount, required collateral);
- the principles of defining credit availability, including cut-offs – the minimum number of points awarded in the creditworthiness assessment process using a scoring system (for retail customers and SMEs) or the customer's rating class (for institutional customers), which a customer must obtain to receive a loan;
- concentration limits – the limits defined in the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and in the Banking Law, or internal limits determining the concentration risk appetite;
- industry limits – limits which reduce the risk level related to financing institutional customers that conduct business activities in industries characterized by a high level of credit risk;

- limits on credit exposures related to the Group's customers – limits defining the appetite for credit risk resulting, among other things, from Recommendations S and T;
- credit limits defining the Group's maximum exposure to a given counterparty or country in respect of wholesale operations and settlement limits, and limits regarding the period of exposure;
- competence limits – they define the maximum level of credit decision-making powers with regard to the Bank Group's customers, the limits depend primarily on the amount of the Bank's exposure to a given customer (or a group of related customers) and the loan transaction period, the competence limit depends on the credit decision-making level (in the Bank's organizational structure);
- minimum credit margins – credit risk margins relating to a given credit transaction concluded by the Bank's Group with a given institutional customer, but the interest rate offered to a customer cannot be lower than the reference rate plus credit risk margin.

USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL

The collateral management policy as regards credit risk plays a significant role in establishing minimum transaction terms. Collateral management conducted by the Bank and the entities of the Bank's Group is meant to properly secure the credit risk to which the Group is exposed, including first and foremost establishing collateral that will ensure the highest possible level of recovery in the event of the need to conduct debt collection activities.

In assessing collateral, the following factors are taken into account in particular:

- the asset, economic and financial or social and financial condition of the entities providing personal guarantees;
- the condition and market value of the assets accepted as collateral and their vulnerability to depreciation in the period of maintaining the collateral (the impact of the technological wear and tear of a collateralized asset on its value);
- the potential economic benefits of the Bank's Group resulting from a specific method of securing receivables, including, in particular, the possibility of reducing impairment allowances;
- the method of establishing collateral, including the typical duration and complexity of formalities, as well as the necessary costs (the costs of maintaining collateral and of collateral enforcement), using the Group's internal regulations concerning the assessment of collateral;
- the complexity, necessary time and economic and legal conditions of the effective realization of collateral, in the context of enforcement restrictions and the applicable principles for the distribution of the sums obtained from individual enforcement or in the course of bankruptcy proceedings, the prioritization of claims.

The type of collateral depends on the product and the Customer segment.

In granting loans earmarked for financing housing and commercial properties, mandatory collateral is set up in the form of mortgage on the property.

Until the effective setting up of the collateral (depending on the type of loan and its amount) the Bank's Group may accept temporary collateral in another form.

In granting consumer loans, personal security is most often used (surety, promissory note) or security on the bank account, car or securities is established.

Loans financing small- and medium-sized enterprises and corporate customers are secured, among others, as follows: with business receivables, bank accounts, chattels, real estate or securities, or in the form of a BGK guarantee (universally used in respect of small- and medium-sized enterprises). Policies in respect of collateral have been determined in the Bank Group's subsidiaries' internal regulations.

In concluding lease agreements the PKO Leasing SA Group, as the owner of the leased assets, treats them as collateral in the transactions.

The share of Bank Polski SA Group's loans with recognized impairment in the gross loans portfolio as at 30 June 2018 amounted to 5.2% and dropped by 0.3 p.p. compared with the balance as at 31 December 2017.

The ratio of Bank Polski SA Group's loans with recognized impairment as at 30 June 2018 amounted to 77.5% compared with 67.0% as at 31 December 2017.

MANAGING THE FOREIGN CURRENCY RISK OF MORTGAGE LOANS FOR HOUSEHOLDS

As a result of abandoning the EUR/CHF peg by the Swiss National Bank in January 2015 there was a significant appreciation of the Swiss franc against foreign currencies, including the Polish zloty. In 2017, the exchange rate of the Swiss franc dropped. The bank constantly analyses the impact of these events on the financial results including the risk of deterioration in the quality of the portfolio of mortgage loans denominated in CHF. The risk is partly mitigated by a decline in reference interest rates, CHF LIBOR.

Due to the fact that significant appreciation of the CHF against the Polish zloty constitutes the risk of an excessive burden being placed on households which took housing loans indexed to the CHF, and therefore also their timely servicing of debt, as of the beginning of the 2015 the public debate continues on how to reduce the risk of the insolvency of those borrowers. Emerging proposals for systemic solutions, submitted in the form of civic or parliamentary bills, as well as presented by the public and supervisory authorities, may result in the Bank incurring losses on this portfolio in the future.

The Group has taken (and continues to take) a number of actions designed to help customers and at the same time to reduce the growth of the credit risk associated with the appreciation of the CHF – among other things, lowering the transactional CHF/PLN exchange rates at which the amounts payable in CHF are translated (i.e. the currency spread) and taking into account the negative LIBOR for all customers.

The Group monitors the volatility of the exchange rate of the CHF, the value of the portfolio of housing loans denominated in CHF and the impact of the changes in foreign exchange rates on the capital adequacy on a current basis.

8.1.2 INTEREST RATE RISK

DEFINITION	Interest rate risk is the risk of incurring losses on the Group's assets and liabilities sensitive to interest rate fluctuations, as a result of changes in interest rates on the market.
MANAGEMENT OBJECTIVES	To mitigate the risk of potential losses arising from market interest rate fluctuations to an acceptable level by appropriately shaping the structure of the statement of financial position and off-balance sheet items. The Bank actively manages the interest rate risk following both from the position in the trading portfolio and in the non-trading portfolio.
RISK IDENTIFICATION AND MEASUREMENT	<p>Identification of the interest rate risk consists of identifying the current and potential sources of the risk and on assessing the materiality of its potential impact on the Bank's and the Bank's Group's operations.</p> <p>The Bank's Group utilizes such interest rate risk measures as:</p> <ul style="list-style-type: none"> • sensitivity of interest income; • sensitivity of economic value; • value at risk (VaR); • stress testing; • repricing gap.
MONITORING	Monitoring the interest rate risk covers determining the interest rate limits and threshold values tailored to the scale and complexity of the Bank's Group's operations, in particular the strategic limit of risk tolerance to interest rate risk.
FORECASTING AND MONITORING	<p>The following are monitored by the Group on a regular basis:</p> <ul style="list-style-type: none"> • the level of interest rate risk; • the degree of utilization of the strategic limit of interest rate risk tolerance; • the degree of utilization of internal limits and threshold values relating to interest rate risk.
REPORTING	The reports on interest rate risk are developed on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	<p>The main tools used in interest rate risk management in the Bank's Group include:</p> <ul style="list-style-type: none"> • procedures for interest rate risk management; • limits and thresholds for interest rate risk. <p>The Bank's Group established limits and thresholds for interest rate risk comprising, among other things, the following: sensitivity of interest income, sensitivity of the economic value.</p>

8.1.3 CURRENCY RISK

DEFINITION	Currency risk is the risk of incurring losses due to unfavourable exchange rate changes. The risk is generated by maintaining open currency positions in a given foreign currency.
MANAGEMENT OBJECTIVE	To mitigate the risk of potential losses arising from foreign exchange rate fluctuations to an acceptable level by appropriately shaping the currency structure of the statement of financial position and off-balance sheet items.
RISK IDENTIFICATION AND ASSESSMENT	<p>Identification of currency risk consists of identifying the current and potential sources of the risk and on assessing the materiality of its potential impact on the Bank's and the Bank's Group's operations.</p> <p>The Bank's Group utilizes the following currency risk measures:</p> <ul style="list-style-type: none"> • value at risk (VaR); • stress tests.
MONITORING	Monitoring currency risk covers determining currency risk limits and thresholds tailored to the scale and complexity of the Group's operations, in particular the strategic limit of tolerance to currency risk.
FORECASTING AND MONITORING	<p>The following, in particular, are monitored by the Group on a regular basis:</p> <ul style="list-style-type: none"> • the level of currency risk; • the degree of utilization of the strategic limit of currency risk tolerance; • the degree of utilization of internal limits and threshold values relating to currency risk.
REPORTING	The reports on currency risk are developed on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	<p>The main tools used in currency risk management in the Group include:</p> <ul style="list-style-type: none"> • procedures for currency risk management; • currency risk limits and threshold values; • defining allowable types of transactions in foreign currencies and the exchange rates used in such transactions. <p>The Bank's Group has set limits and threshold values for currency risk for among other things currency positions, Value at Risk calculated for a 10-day time horizon and loss from transactions on the currency market.</p>

8.1.4 LIQUIDITY RISK

DEFINITION	<p>Liquidity risk is defined as the lack of possibility to pay debts on time due to the lack of liquid assets. Lack of liquidity may result from an inappropriate structure of the statement of financial position, misfit of cash flows, payments not received from counterparties, sudden withdrawal of cash by customers or other market events.</p> <p>The Bank's Group also manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.</p>
PURPOSE OF MANAGEMENT	To ensure the necessary level, the funds to pay present and future debts (also potential) on time, taking into account the nature of the activities performed and requirements which may occur due to changes in the market environment, by appropriately shaping the structure of the statement of financial position and off-balance sheet liabilities.

RISK IDENTIFICATION AND ASSESSMENT

The Bank's Group utilizes the following liquidity risk measures:

- the contractual liquidity gap – a listing of all items of the statement of financial position in terms of their contractual maturity dates;
- the contractual and adjusted to real terms liquidity gap;
- liquidity reserve – the difference between the most liquid assets and the expected and potential liabilities which mature in the given period;
- excess liquidity – a measure determining the Bank's ability to maintain liquidity every day during the period called "the survival horizon", in stress conditions which take into consideration scenarios of various degrees of severity and probability;
- liquidity coverage ratio (LCR) – a measure which determines the ratio of high quality liquid assets to net inflows over a 1-month horizon in stress conditions (supervisory measure specified in CRR);
- net stable funding ratio (NSFR) – a measure which specifies the ratio of items which ensure stable financing to the items which require stable financing;
- Polish supervisory measures M1-M4 – the measures defined in Resolution 386/2008 of the PFSA on liquidity standards which are binding for banks;
- ratio of stable funds to non-liquid assets – the ratio of a stable deposit base, own funds and stable market sources of finance to loans, non-current assets and non-liquid securities;
- measure of stability of deposit and loan portfolios;
- early warning ratios – monitoring their level is aimed at early discovery of unfavourable phenomena which may have an impact on the Bank's or the financial sector's liquidity position;
- stress-tests (liquidity stress-tests).

MONITORING

Monitoring the liquidity risk covers determining strategic liquidity risk tolerance limits adapted to the scale and complexity of the Bank's Group's operations, limits and threshold values determining the acceptable level of exposure of the Bank's Group's companies to short-term, medium-term and long-term liquidity risk.

FORECASTING AND MONITORING

The following are monitored by the Group on a regular basis:

- the degree of utilization of the strategic limit of currency risk tolerance;
- the degree of utilization of supervisory liquidity standards;
- the degree of utilization of internal limits and threshold values relating to liquidity risk;
- concentration of sources of financing;
- early warning signals – monitoring their level is aimed at the early discovery of unfavourable phenomena which could have a negative impact on the Bank Group's or the financial sector's liquidity position (which, when exceeded, launch liquidity contingency plans).

The Group also performs cyclic forecasts of liquidity risk levels, in consideration of the current developments in the Group's operations. Liquidity forecasts account mainly for the level of particular liquidity risk measures in conditions of realizing the statement of financial position forecasts and realizing selected stress-test scenarios.

REPORTING

Reports relating to liquidity risk are developed on a daily, weekly, monthly and quarterly basis, and once a year an in-depth long-term liquidity analysis is conducted.

MANAGEMENT ACTIONS

The main tools used in liquidity risk management in the Group include:

- procedures for liquidity risk management, in particular emergency plans;
- limits and thresholds for mitigating liquidity risk;
- deposit, investment, securities sale and purchase and derivative transactions, including structured Forex transactions, and purchase and sales transactions of securities;
- transactions ensuring the long-term financing of lending activities.

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

8.1.5 OPERATIONAL RISK

DEFINITION	Operational risk is defined as the risk of occurrence of a loss due to the non-compliance or unreliability of internal processes, people and systems or external events. Operational risk takes into account legal risk, and does not include reputational risk and business risk.
MANAGEMENT OBJECTIVE	The objective of operational risk management is to enhance the security of the operational activity pursued by the Bank's Group by improving effective, tailored to the profile and the scale of operations mechanisms of identifying, assessing, measuring, controlling, monitoring, mitigating and reporting operational risk.
RISK IDENTIFICATION AND ASSESSMENT	<p>In order to manage the operational risk, the Bank gathers internal and external data about operational events and the causes and consequences of their occurrence, data on the factors of the business environment, results of operational risk self-assessment, data on KRI and data related to the quality of internal functional controls.</p> <p>The operational risk self-assessment comprises the identification and assessment of operational risk for the Bank's products, processes and applications as well as organizational changes and it is conducted cyclically and before implementing new or changed Bank's products, processes and applications, using the data gathered on operational events and information obtained during the measurement, monitoring, cooperation with Bank Group's entities and operational risk reporting, including internal audits and security audits.</p> <p>The measurement of operational risk comprises:</p> <ul style="list-style-type: none"> • calculating Key Risk Indicators (KRI); • calculating the operational risk requirement relating to own funds in accordance with the AMA approach (the Bank) and the BIA approach (the Branch in Germany and in the Czech Republic, and companies of the Group covered by prudential consolidation); • stress testing; • calculating Bank Group's internal capital.
MONITORING	Monitoring operational risk includes determining operational risk limits tailored to the scale and complexity of the Group's activities, in particular the strategic limits of tolerance of operational risk, losses limits, KRI with thresholds and critical values.
FORECASTING AND MONITORING	<p>The following are monitored by the Group on a regular basis:</p> <ul style="list-style-type: none"> • the utilization level of strategic tolerance limits for the Group and operational risk loss limits for the Bank; • operational events and their consequences; • self-assessment of operational risk; • the operational risk requirement relating to own funds in accordance with the BIA approach in respect of the operations of the Branch in Germany and in the Czech Republic, and the AMA approach in respect of the Bank's remaining operations, and the BIA approach in respect of the Group companies covered by prudential consolidation; • the results of stress tests, including reverse stress tests; • KRI values with reference to threshold and critical values; • the level of risk for the Bank and the Bank's Group, and the areas and tools for managing operational risk in the Bank such as self-assessment, KRI, loss limits; • effectiveness and timeliness of management actions undertaken to reduce or transfer the operational risk; • management activities, related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.
REPORTING	Information relating to operational risk is reported for the purpose of senior management, the Operational Risk Committee, the Risk Committee, the Management Board and the Supervisory Board in monthly and quarterly cycles. The scope of information is diversified and adapted to the scope of responsibilities of particular addressees.
MANAGEMENT ACTIONS	<p>Management actions are taken in the following instances:</p> <ul style="list-style-type: none"> • on the initiative of ORC or the Management Board; • on the initiative of organizational units and cells of the Bank responsible for managing the operational risk; • when operational risk exceeded the levels described by the Management Board or ORC. <p>Especially when the operational risk level is elevated or high, the Bank uses the following approaches and instruments to manage operational risk:</p>

- 1) risk reduction – mitigating the impact of risk factors or the consequences of their materialization by introducing or strengthening various types of instruments for managing operational risk such as:
 - control instruments;
 - human resources management instruments;
 - determination or verification of threshold values and critical KRIs;
 - determination or verification of operational risk levels;
 - contingency plans;
- 2) risk transfer – transfer of responsibility for covering potential losses on a third-party:
 - insurance;
 - outsourcing;
- 3) risk avoidance – resignation from activity that generates risk or elimination the probability of the occurrence of a risk factor.

8.1.6 OTHER RISKS

Detailed information on the manner of managing the following other risks: commodity price risk, equity securities price risk, other price risk, derivative instruments risk, concentration risk, non-compliance and conduct risk, risk of loss of reputation, macroeconomic risk, model risk, business risk, capital risk, insurance risk and excessive financial leverage risk have been described in the consolidated financial statements of PKO Bank Polski SA for 2017 and in the Capital Adequacy Report and Other Information to be Published by the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Report as at 31 December 2017.

8.1.7 COMPREHENSIVE STRESS TESTS

Comprehensive stress tests are an integral part of the Group's risk management process and they complement stress tests specific to particular risk types. They collectively take account of the risk types considered by the Group to be material. They include an analysis of the impact of changes in the environment and the operation of the Group on the Group's financial position, in the first instance: its income statement, statement of financial position, own funds, capital adequacy, including own funds requirements, internal capital, capital adequacy measures, and selected liquidity measures.

Comprehensive stress-tests are conducted for the Bank's purposes every six months, in a three-year horizon, taking into account changes in the amounts and structure of items of the Statement of financial position and the Income statement (dynamic tests). Supervisory tests are conducted at the demand of supervisory authorities in accordance with the assumptions provided by the latter.

8.1.8 CAPITAL ADEQUACY²²

Capital adequacy management is a process whose objective is to ensure that the level of risk which the Bank and the Group take in connection with the development of their business may be covered with their capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in the first instance, compliance with the applicable regulations of the supervisory and inspection authorities, as well as the risk tolerance level set within the Bank and the Group and the capital planning process, including the policy concerning the sources of capital.

The objective of capital adequacy management is to maintain own funds at all times at a level that is adequate for the scale and risk profile of the Group's business.

The Group's capital adequacy process involves:

- specifying and pursuing the desirable capital objectives;
- identifying and monitoring material types of risks;
- measuring or estimating internal capital for each type of risk and the total internal capital;
- establishing strategic tolerance limits and thresholds for each capital adequacy measure;
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy;
- managing the structure of the balance sheet in terms of optimization of the quality of the Bank's own funds;
- emergency capital actions;

²² Own funds are calculated for capital adequacy purposes on the basis of the Banking Act and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

- stress tests;
- planning and allocating own funds and internal capital requirements to each business area and customer segment of the Bank and each Group member;
- assessing the profitability of each business area and customer segment.

The capital adequacy measures are:

- Total Capital Ratio (TCR);
- ratio of own funds to internal capital;
- Common Equity Tier 1 capital ratio (CET1);
- Tier 1 capital ratio (T1);
- leverage ratio.

The objective of monitoring the level of the capital adequacy measures is to determine the extent to which the supervisory standards are met and identify cases which require that capital emergency actions be launched.

The key regulations applicable to assessing capital adequacy are:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR);
- Banking Act of 29 August 1997;
- Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015 (hereinafter referred to as "the Act on Macroprudential Supervision").

As required by Article 92 of the CRR, the minimum levels of the Group's capital ratios are:

- Total Capital Ratio – 8.0%;
- Tier 1 capital ratio – 6.0%;
- Common Equity Tier 1 capital ratio (CET1) – 4.5%.

As required by the CRR and the Act on Macroprudential Supervision, the Group must meet the combined buffer requirement, which is the sum of the applicable buffers, i.e.:

- the capital conservation buffer, applicable to all banks. It will be gradually raised each year until it reaches the ultimate, permanent level of 2.5% (in 2019). As at 31 December 2017, the capital conservation buffer amounted to 1.25% and, effective from 1 January 2018, the capital conservation buffer will be 1.875%;
- the countercyclical buffer, which is imposed to reduce the systemic risk arising from the credit cycle. The Bank calculates its countercyclical buffer in the amount set by the competent national authority of the country in which the Bank is exposed. Effective from 1 January 2017, the countercyclical buffer has been 0% for credit exposures in the territory of the Republic of Poland;
- the systemic risk buffer - used to prevent and mitigate long-term non-cyclical systemic or macroprudential risks, which may have serious negative consequences for the financial system and the real economy in the given country. As at 31 December 2017, the systemic risk buffer was 0%. Effective from 1 January 2018, the systemic risk buffer has been 3%;
- the buffer arising from identifying the Bank as a systemically important institution ("O-SII") – on 31 July 2018, as a result of a review performed, the Polish Financial Supervision Authority ("PFSA") issued a decision on imposing a buffer for another systemically important institution on the Bank in an amount equal to 1.0% of the total risk exposure, compared with the previous buffer which amounted to 0.75%.

Moreover, the Group must maintain own funds for the additional capital requirement for the risk of foreign currency mortgage loans for households, the so called "additional capital requirement". On 15 December 2017, the Group received a letter from the PFSA including the individually recommended additional own funds requirement, the so called "additional capital requirement", for the consolidated capital ratios: the total capital ratio: 0.61 pp, the Tier 1 capital ratio: 0.46 pp, and the Common Equity Tier 1 capital ratio: 0.34 pp.

The Bank received a response from the Office of the Polish Financial Supervision Authority ("OPFSA") on the possibility of applying a 35% risk weight in respect of those PLN-denominated loans granted, which are fully and totally covered with mortgage on a housing property, in accordance with which it treats OPFSA's position as an option for a wider use of the preferential risk weight, including also using an expanded catalogue of sources of data on properties for the purpose of estimating the value of the security. The Bank anticipates that such an approach will have a positive impact on the total amount of 0.5-1.0 p.p. on the consolidated capital ratios in the third and fourth quarters of 2018.

In the first half of 2018 the PKO Bank Polski SA Group maintained a safe capital base exceeding the supervisory and regulatory limits.

Table 9. Capital adequacy at the PKO Bank Polski Group

	30.06.2018	31.12.2017
Total equity	35 938	34 026
Tier 1 capital	33 238	32 326
Tier 1 capital before regulatory adjustments and deductions, including:	35 928	35 270
Share capital	1 250	1 250
Other reserves	33 034	30 891
General banking risk reserve	1 070	1 070
Retained earnings	574	2 060
(-) Goodwill	-1 160	-1 160
(-) Other intangible assets	-1 549	-1 654
Accumulated other comprehensive income	-23	-113
Common Equity Tier 1 adjustments due to prudential filters	42	55
Other Common Equity Tier 1 adjustments in the transitional period	0	-72
Tier 2 capital	2 700	1 700
Equity instruments and subordinated loans qualifying as Tier 2 capital	2 700	1 700
Equity related requirements	16 500	15 670
Credit risk	15 234	14 499
Operational risk	708	656
Market risk	512	474
Credit valuation adjustment risk	46	41
Total Capital Ratio	17,42%	17,37%
Tier 1 Capital Ratio	16,12%	16,50%

9. INFORMATION FOR INVESTORS

Shareholders holding directly or indirectly through subsidiaries at least 5% of the total number of votes at the Annual General Meeting
 Shares of PKO Bank Polski SA held by members of the Bank's governing bodies
 Assessment of the creditworthiness of PKO Bank Polski SA
 Corporate governance policies and scope of application
 Controls in the process of preparing financial statements
 Articles of Association of PKO Bank Polski SA

9.1 SHAREHOLDERS HOLDING DIRECTLY OR INDIRECTLY THROUGH SUBSIDIARIES AT LEAST 5% OF THE TOTAL NUMBER OF VOTES AT THE ANNUAL GENERAL MEETING

According to PKO Bank Polski's best knowledge, as at the date of this report, three shareholders: The State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny, and Aviva Otwarty Fundusz Emerytalny held, directly or indirectly, significant blocks of shares (at least 5%).

Table 10. Shareholding structure of PKO Bank Polski SA

	As at 30.06.2018		As at 31.12.2017		Change of the share in the number of votes at the GM
	Number of shares	Share in the number of votes at the GM	Number of shares	Share in the number of votes at the GM	
State Treasury	367 918 980	29,43%	367 918 980	29,43%	0,00 p.p.
Aviva Otwarty Fundusz Emerytalny ¹⁾	89 163 966	7,13%	95 163 966	7,61%	-0.48 p.p.
Nationale-Nederlanden Otwarty Fundusz Emerytalny (until 23.06.2015, ING Otwarty Fundusz Emerytalny) ¹⁾	100 514 482	8,04%	103 388 120	8,27%	-0.23 p.p.
Other shareholders ²⁾	692 402 572	55,40%	683 528 934	54,68%	+0.72 p.p.
Total	1 250 000 000	100,00%	1 250 000 000	100,00%	-

1) Calculated taking into account the number of shares held as at the end of the particular 6-month period, published by PTE in the bi-annual information on the structure of assets of the fund and the price from the stock exchange list.

2) Including Bank Gospodarstwa Krajowego, which as at 30.06.2018 held 24 487 297 shares, representing 1.96% of the votes at the General Meeting.

Shares of PKO Bank Polski SA do not give any special controlling rights to their holders.

9.2 SHARES OF PKO BANK POLSKI SA HELD BY MEMBERS OF THE BANK'S GOVERNING BODIES

Holdings of the Bank's shares by members of the Management Board and Supervisory Board of PKO Bank Polski SA as at 30 June 2018 are shown in the table below. The nominal value of each share is PLN 1.

Table 11. Shareholdings of PKO Bank Polski SA

No.	Name and surname	Number of shares as at 30.06.2018	Purchase	Sale	Number of shares as at 31.12.2017
The Bank's Management Board					
1.	Zbigniew Jagiełło, President of the Board	11 000	0	0	11 000
2.	Rafał Antczak, Vice-President	0	0	0	0
3.	Rafał Kozłowski, Vice-President*	0	0	0	x
4.	Maks Kraczkowski, Vice-President	0	0	0	0
5.	Mieczysław Król, Vice-President	5 000	0	0	5 000
6.	Adam Marciniak, Vice-President	0	0	0	0
7.	Piotr Mazur, Vice-President	4 500	0	0	4 500
8.	Jakub Papierski, Vice-President	3 000	0	0	3 000
9.	Jan Emeryk Rościszewski, Vice-President	0	0	0	0

*) members of the Bank's Management Board who did not perform the function as at 31.12.2017

As at 30 June 2018 and as at 31 December 2017 members of the Supervisory Board of PKO Bank Polski SA did not hold any shares in PKO Bank Polski SA.

9.3 ASSESSMENT OF CREDITWORTHINESS

Rating of PKO Bank Polski SA
Rating of PKO Bank Hipoteczny SA
Rating of the PKO Leasing SA Group
Rating of KREDOBANK SA

RATING OF PKO BANK POLSKI SA

In 2018, the creditworthiness of PKO Bank Polski was assessed by Moody's Investors Service rating agency. The ratings were paid and in accordance with the agency's bank assessment procedure.

On 18 June 2018, Moody's Investors Service rating agency notified of changing the (Counterparty Risk Rating - CRR) for PKO Bank Polski SA. The agency set the Bank's long-term counterparty risk at the A2 level and the short-term counterparty risk rating at the P-1 level. In its notification Moody's did not refer to the Bank's other present ratings. Granting new ratings was related to the agency updating its bank assessment methodology in June 2018. At the same time the agency assigned new ratings to 32 other banks in the CEE region.

Counterparty risk assessments reflect the entities' capability to pay back the unsecured portion of counterparty financial liabilities which are not related to debt (CRR liabilities), and reflect expected financial losses in the event that such liabilities are not paid. For example, CRR liabilities cover the unsecured portion of liabilities following from transactions in derivatives and the unsecured portion of liabilities resulting from sale and buy-back contracts.

Table 12. Ratings as at 30 June 2018 (paid ratings)

Moody's Investors Service	
Long-term deposit rating	A2 with stable outlook
Short-term deposit rating	P-1
Senior unsecured debt rating	A3 with stable outlook
MTN Programme rating	(P)A3
Other short-term Programme rating	(P)P-2
Counterparty risk assessment rating - long-term	A2
Counterparty risk assessment rating - short-term	P-1
Opinion on counterparty risk - long-term	A2(cr)
Opinion on counterparty risk - short-term	P-1(cr)

RATING OF PKO BANK HIPOTECZNY SA

As at 30 June 2018 PKO Bank Hipoteczny SA had the following ratings granted by Moody's Investors Service rating agency (paid rating):

- Baa1 long-term issuer rating with a stable outlook and Prime-2 short-term issuer rating, granted on 7 September 2015, and affirmed on 19 December 2017;
- A3(cr) long-term Counterparty Risk Assessment and Prime-2 short-term Counterparty Risk Assessment, granted on 7 September 2015, and affirmed on 19 December 2017;
- A3 long-term Counterparty Risk Rating and P-2 level short-term rating granted on 18 June 2018;
- Aa3 rating for PLN cover bonds issued by PKO Bank Hipoteczny SA, granted on 11 December 2015 and affirmed upon each issue;
- Aa3 rating for EUR cover bonds issued by PKO Bank Hipoteczny SA, granted on 24 October 2016 and affirmed upon each issue.

RATING OF THE PKO LEASING SA GROUP

As at 30 June 2018, bonds issued by ROOF Poland Leasing 2014 DAC, a special purpose vehicle established within the PKO Leasing SA Group for the purposes of the asset securitization programme, had the following ratings (paid rating):

- A1 and A2 bonds issued in December 2014 and in December 2015 respectively – AA rating granted by Fitch and AAA rating granted by Scope;
- B bonds issued in December 2015 – BBB rating granted by Fitch and BBB+ rating granted by Scope.

The rating agency recently updated the ratings for all classes of bonds in November 2017.

RATING OF KREDOBANK SA

As at 30 June 2018 KREDOBANK SA had the following ratings granted by Ukrainian rating agencies:

- ratings granted by the “Expert-Rating” agency (paid rating):
 - uaAAA country-level credit rating with a stable outlook, granted on 16 May 2016 and affirmed on 11 July 2018;
 - uaAAA country-level rating for A and B series bonds issued by KREDOBANK SA with a stable outlook, granted on 7 December 2017 and affirmed on 11 July 2018;
- ratings granted by the “Standard-Rating” agency (paid rating):
 - uaAAA long-term credit rating on a country-wide scale, uaK1 short-term credit rating on a country-wide scale and ua1 deposit rating on a country-wide scale, all with a stable outlook, granted on 14 April 2016 and affirmed on 5 July 2018;
 - uaAAA country-level rating for A and B series bonds issued by KREDOBANK SA with a stable outlook, granted on 27 November 2017 and affirmed on 5 July 2018.

The long-term credit rating of KREDOBANK SA on a country-wide scale reflects the investment level, and thus meets Ukrainian statutory requirements regarding investing funds from insurance reserves by insurers and investing pension fund assets.

9.4 CORPORATE GOVERNANCE POLICIES AND SCOPE OF APPLICATION

Corporate governance principles included in the document titled “Best Practice for GPW Listed Companies 2016”
Corporate governance principles for supervised Institutions issued by the PFSA

CORPORATE GOVERNANCE PRINCIPLES INCLUDED IN THE DOCUMENT TITLED “BEST PRACTICE FOR GPW LISTED COMPANIES 2016”

In relation to the Best Practice for GPW Listed Companies 2016 coming into force as of 1 January 2016, the Bank adopted the principles and recommendations contained in this document, with the reservation that recommendation IV.R.2., which concerns enabling the shareholders to participate in the Annual General Meeting using means of electronic communication would not be applied, unless the General Meeting of Shareholders makes appropriate amendments to the Bank’s Articles of Association which authorize the Management Board to organize a General Meeting using means of electronic communication. The Bank applies recommendation IV.R.2 in the part concerning the real-time broadcast of General Meetings of Shareholders. PKO Bank Polski SA enables participation by shareholders, who are interested in taking part in General Meetings of Shareholders, by setting convenient dates and times for such meetings.

Since 1 January 2016, PKO Bank Polski SA provided information on the status of its application of recommendations and principles included in the Best Practice for GPW Listed Companies 2016 is available on the Bank’s website, at (<http://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-na-gpw-2016>).

The Bank prepared this information on the form determined by the Warsaw Stock Exchange which shows the detailed status of compliance or non-compliance with each of the recommendations and principles, and results directly from the application of principle I.Z.1.13.

CORPORATE GOVERNANCE PRINCIPLES FOR SUPERVISED INSTITUTIONS ISSUED BY THE PFSA

The Bank accepted for use the “Principles of Corporate Governance for Supervised Institutions” (adopted by the Polish Financial Supervision Authority on 22 July 2014) with respect to the competencies and obligations of the Management Board, i.e. managing the Bank’s affairs and its representation, in compliance with the generally binding laws and the Bank’s Articles of Association. The Bank reserved that paragraph 8, section 4 of the Principles, insofar as it relates to allowing the shareholders the possibility of participating in the meetings of the decision-making authority electronically, will not be applied unless the General Meeting of Shareholders makes appropriate amendments to the Bank’s Articles of Association which would authorize the Management Board to organize the General Meetings of Shareholders using means of electronic communication. The Bank will not apply chapter 9 of the Principles, which concerns the managing of assets at the Customer’s risk, due to the fact that the Bank does not conduct such activities.

The Bank’s Supervisory Board adopted for use the “Corporate Governance Principles for supervised institutions” concerning the responsibilities and obligations of the Supervisory Board, i.e. supervising the conducting of the Bank’s affairs in compliance with the generally binding laws and the Bank’s Articles of Association.

In resolution no. 50/2015, the General Meeting of Shareholders declared that, acting in line with its competencies, it will follow the “Principles of corporate governance for supervised institutions” issued by the Polish Financial Supervision Authority, although it ruled out the application of the principles set out in:

- § 8 section 4 of the Principles, within the scope pertaining to ensuring the possibility of the electronic participation of shareholders in meetings of the decision-making body;
- § 10 section 2 of the Principles, with respect to the introduction of personal rights or other special rights for shareholders;
- § 12 section 1 of the Principles pertaining to the responsibility of shareholders for immediate recapitalization of the supervised institution;
- § 28 section 4 of the Principles with respect to assessing by the decision-making body whether the determined remuneration policy promotes the development and security of the institution supervised.

Waiving the application of the principle set out in § 8 section 4 was in line with the prior decision of the Annual General Meeting of Shareholders of PKO Bank Polski SA of 30 June 2011, reflected in not adopting the resolution on amendments to the Articles of Association of the Bank, the aim of which was to enable participation in the General Meeting through means of electronic communication. The decision not to apply this principle was taken because of the legal and organizational and technical risks, which could jeopardize the proper conduct of the General Meeting. Exclusion of the application of this principle by the AGM was consistent with the opinion of the Bank’s Management Board not to apply it, adopted due to the fact that the current rules of the Bank about participation in General Meetings allow shareholders the effective enforcement of all rights from shares, and protect the interests of all shareholders.

The application of other “Principles of Corporate Governance for supervised institutions” was waived based on the presentation of these proposals by an eligible shareholder of the Bank – the State Treasury, and their subsequent acceptance by the General Meeting of Shareholders by passing resolution no. 50/2015. In accordance with the justification presented by the State Treasury together with the proposed draft resolution of the Annual General Meeting of Shareholders, waiving the application of the principle specified in § 10 section 2 and § 12 section 1 was justified by the uncompleted process of the Bank’s privatisation by the State Treasury.

Waiving the application of the principle set out in § 28 section 4 was justified, in accordance with the motion of the State Treasury, by the excessive scope of the remuneration policy in question, which was subject to the assessment of the decision-making authority. In the opinion of the above mentioned shareholder, the policy for remunerating employees who perform key functions but are not members of the supervisory and management authorities, should be assessed by the employer or the principal, i.e. the Bank represented by the Management Board, the activities of which are supervised by the Supervisory Board.

According to its duty following from § 27 of the Principles, the Bank’s Supervisory Board positively assessed the application “Principles of Corporate Governance for supervised institutions” by the Bank in 2015, 2016 and 2017.

The text of the Principles is published on the Polish Financial Supervision Authority’s website at the address:

https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego

9.5 CONTROLS IN THE PROCESS OF PREPARING FINANCIAL STATEMENTS

Internal control system
Controls in the process of preparing the financial statements

PKO Bank Polski has an internal control system functioning as part of the Bank's management system. Designing, implementing and ensuring the functioning of the adequate and effective internal control systems is the responsibility of the Bank's Management Board. The Supervisory Board supervises the implementation and ensures the functioning of an adequate and effective internal control system, and performs an annual assessment of this system.

The objectives of the internal control system are as follows:

- ensuring the efficiency and effectiveness of the Bank's operations;
- reliability of the financial statements;
- compliance with risk management principles in the Bank;
- compliance of the Bank's activities with the generally binding legal regulations, internal regulations of the Bank, supervisory recommendations and market standards adopted in the Bank.

INTERNAL CONTROL SYSTEM

The following are distinguished within the internal control system of PKO Bank Polski SA:

- the control function which ensures compliance with controls, in particular risk management at the Bank, and which covers all units of the Bank and the organizational positions in these units responsible for the performance of tasks allocated to this function;
- the compliance unit, the objective of which is to develop compliance solutions and to manage compliance risk, as well as to identify, evaluate, control, monitor and report compliance risk;
- the independent internal audit unit which is responsible for ensuring the assessment of adequacy and effectiveness of the risk management system and internal control system as part of assurance activities, as well as for adding value and improving the effectiveness of processes at the Bank as part of advisory activities.

In order to reduce the probability of the materialization of risk and the impact of its potential materialization on achieving the objectives by PKO Bank Polski SA, its financial position, goals and internal processes, PKO Bank Polski SA uses controls adjusted to the objectives of the internal control system and the specific nature of PKO Bank Polski SA's operations.

Information on irregularities identified in individual elements of the Bank's internal control system, assessment results and other material issues pertaining to the functioning of the internal control system are presented in the reports for the Management Board of PKO Bank Polski SA, the Audit Committee of the Supervisory Board and the Supervisory Board of PKO Bank Polski SA.

Subsidiaries of PKO Bank Polski SA have an internal control system adapted to the specific nature of the given entity's operations.

The internal control system of the subsidiaries of PKO Bank Polski SA is determined by internal regulations which are developed and implemented by the entities. The subsidiaries of PKO Bank Polski SA develop and update the internal regulations referred to above after obtaining the opinion of PKO Bank Polski SA and in consideration of PKO Bank Polski SA's recommendations. The Bank periodically asks the subsidiaries to submit information or documents about the functioning of the internal control system within those entities.

CONTROLS IN THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

In order to ensure the reliability and correctness of the process of preparing the financial statements, the Bank designed and implemented a number of controls that are built into the functions of reporting systems and internal regulations concerning this process. These controls involve, among others things, the use of continuous verification and reconciliation of reporting data to the accounting records, sub-ledger accounts and other documents providing the basis for financial statements.

The process of preparing financial statements is subjected to regular multi-level verification, in particular with regard to the correctness of the account reconciliation, substantive analysis and reliability of the information. In accordance with

the internal regulations, the financial statements are approved by the Management Board of PKO Bank Polski SA and the Audit Committee of the Supervisory Board appointed by the Supervisory Board of PKO Bank Polski SA in 2006.

The tasks of the Audit Committee of the Supervisory Board include, among other things, monitoring the financial reporting process including the review of separate and consolidated interim and annual financial statements, with particular emphasis on:

- information on substantial changes in the accounting and reporting policy and the method of making management estimates and judgements material to financial reporting, as well as compliance of the financial reporting process with the applicable law;
- significant adjustments which result from the audit and the auditor's opinion on the audit of the financial statements, discussion of any issues, qualifications and doubts from the audit of financial statements and analysis of the external auditor's recommendations addressed to the Management Board and responses of the Management Board in this regard.

A description of the cooperation between the Audit Committee and the external auditor and its assessment is included in the report on activities of the Audit Committee drawn up on an annual basis and attached to the report on activities of the Supervisory Board.

9.6 THE ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

PRINCIPLES FOR AMENDING THE ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

Amendments to the Articles of Association of PKO Bank Polski SA fall within the competence of the General Meeting of Shareholders and require passing a resolution by a majority of three-quarters of the votes, the consent of the Polish Financial Supervision Authority in instances specified in the Act – Banking Law, and making an entry in the register of entrepreneurs in the National Court Register. Moreover, in accordance with Article § 10 section 4 of the Articles of Association of PKO Bank Polski SA resolutions of the General Meeting of Shareholders on share preferences and issues concerning the Bank's merger by transferring all of its assets to another company, its liquidation, reduction in the share capital by redeeming some of its shares without a simultaneous increase in the share capital or changing the scope of the Bank's activities which leads to the Bank's ceasing its banking activities requires a 90% majority of the votes cast.

10. OTHER INFORMATION

Identification data

The authorities of PKO Bank Polski SA in the reporting period

Representation on non-financial information

Significant agreements and material agreements with the Central Bank or with the supervisory authorities

Published forecasts of financial results for 2018

Loans drawn and agreements regarding advances, guarantees and pledges which are not related to operating activities

Underwriting agreements and guarantees granted to subsidiaries

Benefits for management and supervisory staff

Employment in PKO Bank Polski SA and in the PKO Bank Polski SA Group

Information on proceedings at court, before an arbitration tribunal or a public administration body

Seasonality or cyclicity of activities during the reporting period

Information on related-party transaction or transactions concluded by the issuer or its subsidiary if it is or they are material and was / were concluded on terms other than an arm's length basis

Significant post balance sheet events

Management representations

IDENTIFICATION DATA

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its registered office in Warsaw, at the address: ul. Puławska 15, 02-515 Warsaw, registered with the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, with the reference number KRS 0000026438, REGON: 016298263, NIP: 525-000-77-38, share capital (paid up) PLN 1 250 000 000.

THE AUTHORITIES OF PKO BANK POLSKI SA IN THE REPORTING PERIOD

Table 13. The Management Board of PKO Bank Polski SA as at 30 June 2018

ZBIGNIEW JAGIEŁŁO

PRESIDENT OF THE MANAGEMENT BOARD

IN CHARGE AS PRESIDENT OF THE MANAGEMENT BOARD

Re-appointed to the position of President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

RAFAŁ ANT CZAK

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE ENTERPRISE BANKING AND ANALYSES AREA

Appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

RAFAŁ KOZŁOWSKI

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE FINANCE AND ACCOUNTING AREA

Appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 21 December 2018 for a joint term of office of the Management Board which began on 2 July 2017.

MAKS KRACZKOWSKI

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF INTERNATIONAL AND TRANSACTION BANKING, AND COOPERATION WITH LOCAL GOVERNMENT AUTHORITIES AND GOVERNMENT AGENCIES, AND FOR THE LEGAL AND COMPLIANCE AREA

Re-appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

MIECZYŚLAW KRÓL

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE OPERATIONS AREA

Re-appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

ADAM MARCINIAK

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE IT AREA

Appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 21 September 2017 for a joint term of office of the Management Board which began on 2 July 2017.

PIOTR MAZUR

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE RISK AREA

Re-appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

JAKUB PAPIERSKI

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE CORPORATE AND INVESTMENT BANKING AREA

Re-appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

JAN EMERYK ROŚCISZEWSKI

VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE RETAIL MARKET AREA

Re-appointed to the position of Vice-President of the Management Board of PKO Bank Polski SA on 14 June 2017 for a joint term of office of the Management Board which began on 2 July 2017.

Table 14. The Supervisory Board of PKO Bank Polski SA as at 30 June 2018

PIOTR SADOWNIK

CHAIRMAN OF THE BANK'S
SUPERVISORY BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017. The entity authorized to exercise the rights from shares held by the State Treasury as the Authorized Shareholder appointed Piotr Sadownik Chairman of the Supervisory Board.

GRAŻYNA CIURZYŃSKA

DEPUTY CHAIR
OF THE SUPERVISORY BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017. The entity authorized to exercise the rights from shares held by the State Treasury as the Authorized Shareholder appointed Grażyna Ciurzyńska Deputy Chair of the Supervisory Board.

ZBIGNIEW HAJŁASZ

SECRETARY OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017. On 24 August 2017 re-appointed Secretary of the Supervisory Board.

MARIUSZ ANDRZEJEWSKI

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017. On 24 August 2017 re-appointed Secretary of the Supervisory Board.

MIROŚLAW BARSZCZ

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.

ADAM BUDNIKOWSKI

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.

WOJCIECH JASIŃSKI

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.

ANDRZEJ KISIELEWICZ

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for the current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.

ELŻBIETA MAĆZYŃSKA-ZIEMACKA

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.

JANUSZ OSTASZEWSKI

MEMBER OF THE SUPERVISORY
BOARD

Re-appointed to the Supervisory Board on 22 June 2017 for a current joint term of office, which began as on the date of the Annual General Meeting convened for 22 June 2017.

Jerzy Paluchniak resigned from the function of Member of the Bank's Supervisory Board on 14 May 2018, with effect as of 18 May 2018.

STATEMENT ON NON-FINANCIAL INFORMATION

The PKO Bank Polski SA Group prepared a statement on non-financial information for 2017 in the form of a separate Directors' Report on non-financial information and published it on the website of PKO Bank Polski SA.

SIGNIFICANT AGREEMENTS AND MATERIAL AGREEMENTS WITH THE CENTRAL BANK OR WITH THE SUPERVISORY AUTHORITIES

In the first half of 2018 the Bank did not conclude significant agreements with the Central Bank or with the supervisory authorities. The subsidiaries of PKO Bank Polski SA did not conclude significant agreements or material agreements with the Central Bank or with the supervisory authorities

PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2018

PKO Bank Polski SA did not publish forecasts of financial results for 2018.

LOANS DRAWN AND AGREEMENTS REGARDING ADVANCES, GUARANTEES AND PLEDGES WHICH ARE NOT RELATED TO OPERATING ACTIVITIES

In the first half of 2018 neither PKO Bank Polski SA nor companies of the PKO Bank Polski SA Group drew any loans or advances and did not receive any guarantees or pledges which were not related to operating activities.

UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

On 30 August 2017, PKO Bank Hipoteczny SA concluded an amending agreement to the agreement of 9 November 2015 on the National Mortgage Bond Issue Programme with PKO Bank Polski SA, based on which it entrusted the PKO Bank Polski SA Brokerage House with the function of underwriter (until that time, the aforementioned cover bonds were offered as standard-issue bonds).

As at the end of June 2018, the total value of issued cover bonds of PKO Bank Hipoteczny SA (at nominal value) was PLN 12,163 million, including the value of issued cover bonds (at nominal value) underwritten by the Brokerage House of PKO Bank Polski SA of PLN 1,300 million.

On 30 June 2018, issues of bonds of PKO Bank Hipoteczny SA were governed by the Agreement on the Bond Issue Programme of 30 September 2015, signed with PKO Bank Polski SA (acting as, among other things, the issue agent, depositary and dealer), pursuant to which the maximum value of bonds issued and not redeemed based on the programme is PLN 3.5 billion, and the Guarantee Agreement of 30 September 2015, pursuant to which PKO Bank Polski SA is the underwriter of the bonds issue up to a total value of PLN 2 billion.

In the first half of 2018 an annexe was signed to the Bond Issue Programme Agreement increasing the amount of the issue under the programme from PLN 3 billion to PLN 3.5 billion.

On 30 June 2018 the company's liability in respect of the bonds issued in the nominal value was PLN 2,915 million. In its portfolio PKO Bank Polski SA had bonds with a nominal value of PLN 0.2 million, and all the above-mentioned bonds were not acquired under the Guarantee Agreement.

In the first half of 2018 PKO Bank Polski SA granted the following guarantees relating to subsidiaries:

- a guarantee to the European Investment Bank up to EUR 44 million, in respect of the loan granted to PKO Leasing SA; the guarantee was issued for the period to 26 March 2027;
- two guarantees up to a total of EUR 101 thousand and PLN 262 thousand in respect of the repayment of office and parking space rental liabilities by PKO Leasing SA; the guarantees were issued to the end of May 2023 at the latest.

BENEFITS FOR MANAGEMENT AND SUPERVISORY STAFF

Full information on remuneration and other benefits paid and payable to members of the Management Board of PKO Bank Polski SA and of the Supervisory Board of PKO Bank Polski SA in the reporting period is shown in Note 51 of the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018.

EMPLOYMENT IN PKO BANK POLSKI SA AND IN THE PKO BANK POLSKI SA GROUP

On 30 June 2018 the PKO Bank Polski SA Group employed 28 525 FTEs, which is a drop of 32 FTEs y/y. The number of employees of PKO Bank Polski SA dropped by 46 FTEs y/y, and in the other Group companies (apart from PKO Bank

Polski SA) the number of employees grew by 14 FTEs y/y. The change in the number of employees y/y in subsidiaries is the effect of the expansion of business activities and changes in the structure of the Group.

Table 15. Employment in PKO Bank Polski SA and in the PKO Bank Polski SA Group

	30.06.2018	31.12.2017	30.06.2017	Change in the number of FTE y/y
PKO Bank Polski SA	24 678	24 539	24 725	-46
Other group companies	3 847	3 904	3 833	14
Total	28 525	28 443	28 558	-32

INFORMATION ON PROCEEDINGS AT COURT, BEFORE AN ARBITRATION TRIBUNAL OR A PUBLIC ADMINISTRATION BODY

On 30 June 2018 the total amount in litigation where the PKO Bank Polski SA Group companies (including the Bank) are defendants was PLN 1,749 million, including PLN 13 million in respect of litigation in Ukraine (as at 31 December 2017 the total amount of the said litigation was PLN 1,709 million), and the total amount of litigation (suits) as at 30 June 2018 where the PKO Bank Polski SA Group companies (including the Bank) are plaintiffs was PLN 1,149 million, including PLN 20 million in respect of litigation in Ukraine (as at 31 December 2017 the total amount under the said litigation was PLN 1,363 million).

In the first half of 2018 the Bank and the Bank's Group companies were not parties to any material²³ (from the perspective of the Bank's Group) proceedings in court, before an arbitration tribunal or public administration body with respect to liabilities and receivables.

SEASONALITY OR CYCLICALITY OF ACTIVITIES DURING THE REPORTING PERIOD

The Bank's and the other PKO Bank Polski SA Group companies' activities do not show material cyclic or seasonal changes.

INFORMATION ON RELATED-PARTY TRANSACTION OR TRANSACTIONS CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY IF IT IS OR THEY ARE MATERIAL AND WAS / WERE CONCLUDED ON TERMS OTHER THAN AN ARM'S LENGTH BASIS

In the first half of 2018 PKO Bank Polski SA Group entities did not conclude any material transactions with related parties on conditions other than arm's length.

A summary of the significant transactions between PKO Bank Polski SA and its subordinated entities, including these companies' indebtedness vis-à-vis the Bank as at 30 June 2018 is presented in the condensed interim financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018.

SIGNIFICANT POST BALANCE SHEET EVENTS

- 1) On 27 July 2018 PKO Bank Hipoteczny SA issued mortgage covered bonds with a total nominal value of PLN 500 million and term to maturity to July 2025.
- 2) On 7 August 2018 PKO Bank Polski SA concluded an agreement for the purchase of A series investment certificates of the Subfundusz Strategiczny sub-fund and A series investment certificates of the Subfundusz Finansowy sub-fund issued by PKO VC – fundusz inwestycyjny zamknięty aktywów niepublicznych (closed-ended non-public assets fund, "Fund") and on 7 August 2018 it subscribed to B series investment certificates of the above sub-funds. The total value of the Bank's investments in the Fund is PLN 200 million. On the date of entering the Bank to the register of the Fund's participants, the Fund will become the Bank's subsidiary. The Fund is managed by PKO TFI SA and pursues a policy typical of venture capital funds, by investing in technological financial innovations in the banking and banking-related areas, and in other innovative solutions for businesses.

²³ Those liabilities or receivables were considered material whose value is at least 5% of PKO Bank Polski SA's equity

11. GLOSSARY

Financing granted to Customers – loans and advances to Customers + finance lease receivables + non-Treasury bonds (municipal bonds and corporate bonds), excluding held for trading – receivables in respect of repurchase agreements;

Total Capital Ratio – calculated as the ratio of own funds to the total capital requirement multiplied by 12.5;

Net other operating income and expenses – net other operating income and expense + gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss (measured at amortized cost);

Risk-free rate – calculated as the annual average of returns on 10-year Treasury bonds;

Average interest on loans – interest income on loans and advances to Customers on an annual basis / average balance of loans and advances to Customers from the last 5 quarters;

Average interest on deposits – interest expense on amounts due to Customers on an annual basis / average balance of amounts due to Customers from the last 5 quarters;

C/I ratio (costs to income ratio) – calculated as the ratio of general administrative expenses to the result on business activities on an annual basis;

Financing granted to Customers to deposits ratio – calculated as the ratio of financing granted to Customers (loans and advances to Customers + finance lease receivables + non-Treasury bonds, excluding held for trading) to amounts due to Customers;

Financing granted to Customers to stable sources of financing ratio – calculated as the ratio of financing granted to Customers (loans and advances to Customers + finance lease receivables + non-Treasury bonds, excluding held for trading) to stable sources of financing (amounts due to Customers and external financing in the form of subordinated liabilities, own issues of debt securities and loans from financial institutions);

Tier 1 capital ratio – calculated as the ratio of capital Tier 1 to the total capital requirement multiplied by 12.5;

Cost of risk – calculated by dividing net credit loss allowances for the 12 months ended 30 June 2018 by the average balance of loans and advances to Customers, gross, at the beginning and at the end of the reporting period, and interim quarterly periods;

Average interest margin – net interest income on an annual basis / average balance of interest-earning assets from the last 5 quarters;

Net ROA – net profit for the year / average balance of assets from the last 5 quarters;

Net ROE – net profit for the year / average balance of equity from the last 5 quarters;

Share of impaired loans – defined as the portfolio with recognized impairment on the exposures portfolio measured at amortized cost and on the portfolio of loans measured at fair value through other comprehensive income;

Result on business activities – operating profit excluding administrative expenses, tax on certain financial institutions, net credit losses and impairment of non-financial assets;

Net other income – dividend income + net gain/loss in financial instruments measured at fair value through profit or loss + gain/loss on investment securities + net foreign exchange gains/losses + gains/losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss + net other operating income/expense;

Result on financial transactions – net gain/loss in financial instruments measured at fair value through profit or loss + result gain/loss on investment securities + gains/losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss (measured at fair value through other comprehensive income);

Result on write-offs and impairment – net credit losses + impairment of non-financial assets.

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of PKO Bank Polski SA declares that in accordance with its best knowledge:

- the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six months ended 30 June 2018 and comparative data have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of the PKO Bank Polski SA Group, and of its financial result;
- this Directors' Report of the PKO Bank Polski SA Group for the first half of 2018 includes an accurate description of the development and achievements, as well as the situation of the PKO Bank Polski SA Group, including a description of the main risks and threats;

The Management Board of PKO Bank Polski SA declares that the entity entitled to audit financial statements, carrying out the review of the condensed interim consolidated financial statements for the six months ended 30 June 2018 has been selected in accordance with legal regulations, and that this entity and the statutory auditors carrying out the review satisfied the conditions to issue an unbiased and independent report on the review, in keeping with the binding regulations and professional standards.

This Directors' Report of the PKO Bank Polski SA Group for the first half of 2018 comprises 94 sequentially numbered pages.

SIGNATURES OF ALL THE MEMBERS OF THE MANAGEMENT BOARD

14.08.2018	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	MIECZYŚLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
14.08.2018	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)