



Bank Polski



The PKO Bank Polski SA Group Directors' Report for 2018

prepared jointly with
the PKO Bank Polski SA Directors' Report

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1. INTRODUCTION

1.1 CHARACTERISTICS OF THE OPERATIONS OF THE PKO BANK POLSKI SA GROUP

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

PKO Bank Polski SA is a universal bank that services individuals, legal entities and other Polish and foreign entities.

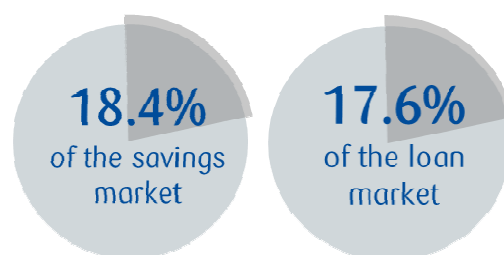
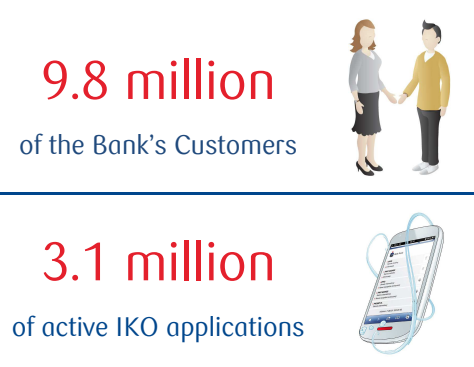
Apart from strictly banking operations, the PKO Bank Polski SA Group also provides specialized financial services in respect of leases, factoring, investment funds, pension funds and insurance, and provides transfer agent services, outsources IT professionals and supports other entities' operations, manages properties, and through its branches in Germany and the Czech Republic, as well as subsidiaries in Ukraine, engages in banking and financial services outside Poland. Throughout the period of its operations the Bank's Group has been systematically building its brand prestige. Many generations of Poles have made use of the Group's services. Its long tradition and Customers' trust are important elements in identifying the PKO Bank Polski SA Group, therefore, consistent actions are taken to consolidate the perception of the Group as a group of institutions which are characterized by:

- their safety, strength and competitiveness;
- their modern and innovative nature, customer-friendly and efficiently managed;
- corporate social responsibility and care for the cultural awareness of Poles.

The PKO Bank Polski SA Group effectively develops its operations not only in its traditional area of operations, i.e. retail banking. It is also the leader in servicing corporate Customers and firms and companies (in particular in respect of financing their operations), and on the market of financial services offered to communes, districts, provinces and to the budget sector. It is also the major managing underwriter of issues of communal bonds.

The PKO Bank Polski SA Group has a leading share in the Polish banking market in respect of savings (18.4%) and loans (17.6%), in the leasing market (11.2%) and in the individuals' investment fund market (22.2%). PKO Bank Polski SA is the leader in terms of current accounts and payment cards maintained.

The high Customer service standards and effective credit risk assessment procedures allowed the Bank's Group to increase its portfolio of financing granted to Customers in 2018 to over PLN 230 billion. As at the end of 2018 amounts due to Customers reached almost PLN 243 billion.



ROE ✓
 C/I ✓
 Cost of risk ✓
 Dividend ✓

In 2018 the PKO Bank Polski SA Group achieved its financial goals for 2020:

- it achieved ROE of 10%;
- it reduced the C/I ratio to 44.2%;
- it reduced the cost of risk to 0.59%;
- it is capable of paying out dividend.

3.1 thousand
ATMs



1,155
branches
577
agencies



In 2018 the Bank's Group continued activities aimed at increasing the effectiveness of the distribution network. As at the end of 2018 the branch network of PKO Bank Polski SA, which is the largest such network in Poland, covered 1 155 branches and 577 agencies. The Bank's Customers may use state-of-the-art e-banking services offered under the iPKO band and in respect of the Inteligo account and IKO - mobile banking account. The Customers of PKO Bank Polski SA have at their disposal a highly developed network of ATMs, which as at the end of 2018 comprised 3 133 ATMs.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2018 the PKO Bank Polski SA Group employed almost 28 thousand FTEs. The comprehensive training and education offer is aimed at building a professional team of staff, which is capable of achieving effective work.

The Bank's Group pursues charity and sponsorship actions, in order to shape the Bank's image as a Group that is reliable, socially involved, modern and open to Customers' needs.

THE PKO BANK POLSKI SA GROUP BETWEEN 2014 AND 2018¹

	2018	2017	2016	2015	2014
Statement of financial position (in PLN million)					
Total assets	324,255	296,912	285,573	266,940	248,701
Total equity	39,101	36,256	32,569	30,265	27,616
Financing granted to Customers	230,438	214,361	208,987	195,229	188,367
Amounts due to customers	242,816	220,917	205,066	195,759	174,387
Income statement (in PLN million)					
Net profit	3,741	3,104	2,874	2,610	3,254
Net interest income	9,353	8,606	7,755	7,029	7,523
Net fee and commission income	3,013	2,969	2,693	2,851	2,934
Result on business activities	13,347	12,560	11,790	10,665	11,147
Net write-downs and impairment	-1,451	-1,617	-1,623	-1,476	-1,899
General administrative expenses	-5,905	-5,784	-5,590	-6,036	-5,245
Financial ratios					
Net ROA	1.2%	1.1%	1.1%	1.0%	1.4%
Net ROE	10.0%	9.0%	9.1%	9.0%	12.4%
C/I	44.2%	46.0%	47.4%	56.6%	47.1%
Net interest margin	3.4%	3.3%	3.2%	3.0%	3.6%
Share of impaired loans	4.9%	5.5%	5.9%	6.6%	6.9%
Cost of risk	-0.59%	-0.71%	-0.75%	-0.72%	-0.96%
Total capital ratio	18.88%	17.37%	15.81%	14.61%	12.96%
Operational data					
Number of branches of PKO Bank Polski SA	1,155	1,194	1,238	1,278	1,319
Number of employees (FTE)	27,856	28,443	29,163	28,944	28,749
Number of current accounts in the Bank (in thousands)	7,448	7,134	6,850	6,621	6,660
Information on shares					
Stock exchange capitalization (in PLN million)	49,375	55,388	35,175	34,163	44,700
Number of shares (in millions)	1,250	1,250	1,250	1,250	1,250
Share price (in PLN)	39.50	44.31	28.14	27.33	35.76
Dividend per share (in PLN) (paid in a given year for the previous year)	0.55	0.00	0.00	0.00	0.75

¹ The names of particular items of the statement of financial position and the income statement used in these Financial Statements are described in Section 13. Glossary

1.2 THE PKO BANK POLSKI SA GROUP'S COMPETITIVE EDGE

The PKO Bank Polski SA Group stands out on the Polish financial market thanks to its competitive edge, which allows it to pursue its missions and effectively achieve the goals specified in the Strategy for the years 2016–2020 “We support the development of Poland and the Poles”. The key competitive advantages of the PKO Bank Polski SA Group compared to its main competitors are:

THE BEST KNOWN BRAND IN THE BANKING SECTOR



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

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

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

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

INNOVATIONS AND PAYMENTS



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

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

THE LARGEST DISTRIBUTION NETWORK IN POLAND



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

The reach of the distribution network enables providing banking products and services in a manner that is most convenient for Customers. This also applies to persons in locations in which the Bank's main competitors do not have their branches.

INVOLVEMENT IN THE DEVELOPMENT OF POLISH ENTREPRENEURSHIP



PKO Bank Polski SA stands out due to its comprehensive product offer addressed to both firms and corporations.

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

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

THE LARGEST CUSTOMER BASE



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

COMPETENT AND DEVOTED STAFF

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

STABLE BASE OF FINANCING



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

The high assessment of the Bank's financial reliability and competency with regard to issues on the debt market enable access to financing on Polish and international markets, thus ensuring the diversification of the sources of financing operations, and PKO Bank Hipoteczny SA is the leader among Polish issuers of mortgage bonds.

1.3 THE PKO BANK POLSKI SA GROUP – HISTORICAL BACKGROUND

The PKO Bank Polski SA Group has been offering services to its retail and institutional Customers for 100 years.

-
- | | |
|------------------|--|
| 1919–1938 | <ol style="list-style-type: none">1. Poczta Kasa Oszczędności was established on 7 February 1919 by virtue of a decree signed by the Head of the country Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde – PKO's founder and first president.2. Poczta Kasa Oszczędności was vested with legal personality as a state institution, operating under the supervision of and with the guarantee of the State.3. The first local branch of Poczta Kasa Oszczędności was opened in Poznań.4. Poczta Kasa Oszczędności began running School Savings Unions (Szkolne Kasy Oszczędności).5. With the initiative of Poczta Kasa Oszczędności, the Ministry of the Treasury decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the transfer of foreign currencies to Poland by Poles living abroad.6. Poczta Kasa Oszczędności strongly contributed to the development of non-cash transactions – every other larger industrial plant and every large enterprise had a cheque account with Poczta Kasa Oszczędności, and cheque turnover in Poland was one and a half times higher than the cash turnover. |
| 1939–1945 | <p>The Second World War was a period in which Poczta Kasa Oszczędności's activity came to a standstill and it suffered huge losses.</p> |
| 1946–1990 | <ol style="list-style-type: none">1. Poczta Kasa Oszczędności was transformed into Powszechna Kasa Oszczędności.2. The Banking Law Act introduced a privilege for saving deposits held in Powszechna Kasa Oszczędności; they were covered by a State guarantee.3. Powszechna Kasa Oszczędności introduced a modern product: a current account.4. In the years 1975–1987, Powszechna Kasa Oszczędności was merged into the structures of the National Bank of Poland (NBP), yet it retained its identity. |
| 1991–2001 | <ol style="list-style-type: none">1. The first Internet information portal of the Bank and the first e-PKO Internet branch were launched.2. PKO Towarzystwo Funduszy Inwestycyjnych SA (PKO TFI S.A.) began its operations.3. PKO BP BANKOWY PTE SA was formed.4. Bankowy Fundusz Leasingowy SA (currently PKO Leasing SA) was formed which provides operating and finance leases of non-current assets and property.5. PKO BP, as one of the founders, formed Centrum Elektronicznych Usług Płatniczych eService SA (currently CEUP eService Sp. z o.o.).6. In 2000, the Bank was transformed into a joint-stock company fully owned by the State Treasury under the name Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA). |
| 2002–2009 | <ol style="list-style-type: none">1. The Bank acquired Inteligo Financial Services SA, a company that provides services covering the maintenance and development of ICT systems used in banking systems, also including electronic access to bank accounts (Inteligo account).2. The Bank acquired 66.65% shares in KREDOBANK SA. The company is registered and operates in Ukraine. At present, the Bank holds 100% of shares in the company's share capital.3. In 2004, PKO Bank Polski SA's floatation took place – at the end of the first day of quotations, shares reached a price of PLN 24.50 against the issue price fixed at PLN 20.50.4. PKO BP Faktoring SA (currently PKO Faktoring SA) began its operations. |
| 2010–2015 | <ol style="list-style-type: none">1. 2013–2015 strategy: "PKO Bank Polski. Every day the best" strengthened the position of the Bank's Group as a leader in key market segments.2. In 2013, PKO Bank Polski SA set a new standard of mobile payments – IKO – an innovative solution on the market of mobile payments, transformed in 2015 into the BLIK payment system, which became the Polish market standard.3. PKO Bank Polski SA signed an agreement for a twenty-year strategic alliance in the electronic payment market with EVO Payments International Acquisition GmbH, and at the same time sold a significant portion of shares in CEUP eService sp. z o.o.4. PKO Bank Hipoteczny SA was formed; its operations include issuing long-term mortgage bonds and granting long-term mortgage loans to retail customers.5. PKO Bank Polski SA acquired shares in Nordea Group companies, including shares in Nordea Bank Polska SA, and a portfolio of amounts due from corporate customers. In October 2014, the merger of the banks was carried out. |

6. PKO Towarzystwo Ubezpieczeń SA was formed, which provides property insurance services to the retail customers of PKO Bank Polski SA.
7. Expansion into foreign markets by establishing the first foreign branch of the Bank (in Frankfurt-am-Main in the Federal Republic of Germany).

2016-2017

1. Approval of the 2016–2020 strategy: “We support the development of Poland and the Poles” the objective of which is to continue to strengthen the position of the Bank’s Group as a leader in key market segments, enhance innovativeness and adapt to customer needs.
2. PKO Leasing SA belonging to the Bank’s Group successfully closed the transaction of acquiring Raiffeisen-Leasing Polska SA, thus becoming the main lease provider in Poland.
3. The Bank’s Group acquired KBC TFI SA and the merger with PKO TFI SA helped additionally accelerate the current dynamic development of PKO TFI SA, and strengthened its leading position in the retail funds segment.
4. The Bank’s Group was increased for ZenCard sp. z o.o., which provides services within the scope of IT and computer technologies.
5. PKO Bank Polski SA continued its development abroad and formed the second foreign branch – the corporate branch in Prague.

2018

1. PKO Bank Polski SA is the most valuable company quoted on the WSE. The value of the Bank’s shares as at the end of the year was almost PLN 50 billion.
2. PKO Bank Polski SA established an investment fund managed by PKO TFI SA under the business name PKO VC, which pursues an appropriate policy for a venture capital fund and invests in technological financial innovations.
3. A company Operator Chmury Krajowej sp. z o.o. was established to provide comprehensive commercial information management services for businesses and public institutions.
4. As the only company in Poland from among 37, PKO Bank Polski SA was accepted to the FTSE Russell index for large companies in developed markets.
5. The IKO application ranked first in the ranking of mobile applications of the 100 largest banks in the world with a total of more than 3.1 million activations.

1.4 MAJOR EVENTS IN 2018

The development of the business activities of the PKO Bank Polski SA Group in 2018 and the results achieved confirmed its position as a leader in the Polish banking system. The market value of PKO Bank Polski SA was almost PLN 50 billion as at the end of 2018, which means that the Bank was the most valuable Polish company quoted on the Warsaw Stock Exchange.

In 2018 the Bank’s Group began the third year of pursuing 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 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.

In 2018 PKO Bank Polski SA referred to important values and traditions, and emphasized the importance of Polish history in the context of this year’s 100th anniversary of Poland regaining its independence and preparations for the centenary of operations of PKO Bank Polski SA. The new approach was presented on the marketing communications platform, starting with the spot “Key decisions” directed by Tomasz Bagiński. The implemented communications formula was part of the strategy pursued by the Bank and its purpose is connecting the product and image campaigns.

PKO BANK POLSKI SA IN THE GROUP OF LARGE COMPANIES OF THE FTSE RUSSELL INDEX

As the only company in Poland from among 37, PKO Bank Polski SA was accepted to the FTSE Russell index for large companies in developed markets after the reclassification of the status of the Polish market to a developed one in September 2018. This is both a sign of appreciation for the strength of the Polish economy and for the Bank’s position, its successes to-date and its strategic potential for further development.

THE MOST RESILIENT BANK IN EUROPE

The European Banking Authority announced the results of the consecutive edition of European stress tests in which forty-eight of the largest European banks took part, including two from Poland. The results of the conducted tests showed that PKO Bank Polski SA is the most resilient institution in the group to negative macroeconomic scenarios. The Bank's strong capital base causes the forecast levels of CET 1 to meet supervisory standards even in extremely unfavourable conditions. It is, among other things, the Bank's business model that has a positive impact on the results achieved. The model is based on traditional financial instruments such as credits and deposits and is supported by a developed system of risk management.

BEST MOBILE BANKING IN THE WORLD

PKO Bank Polski SA offers its Customers the most developed mobile banking system in the world – the IKO application. As at the end of 2018 the number of activations of the app amounted to nearly 3.1 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 among nearly 150 thousand reviews outstripped banks from all over the world.

PKO BANK POLSKI SA AS THE KEY PARTNER OF EKSTRAKLASA (POLISH PREMIER LEAGUE)

PKO Bank Polski SA became the key partner of Ekstraklasa and made its debut as the Official Bank of the matches. The Bank signed a contract covering the period until the end of the 2020/2021 season. The objective of the project is to promote Polish sports, build a strong football league, education of young talents by clubs and promotion of football among the youngest. The Bank's logo will be visible on the shirts of Ekstraklasa players, on 16 stadiums and in transmissions of matches during all the 296 matches in 37 rounds.

THE BANK'S GROUP FOCUSES ON INNOVATIONS AND TECHNOLOGY

- PKO Bank Polski SA fully implemented a solution based on blockchain technology. The Bank used the new technology to confirm the authenticity and constancy of documents sent via email. New product regulations were sent in digital form for the first time to more than 5 million of the Bank's Customers. This was the widest use of the blockchain technology in banking in Europe, in terms of scale. The solution was developed jointly with the National Clearing Fund, in cooperation with the Polish-British company Coinfirm, as part of the innovation and modern technologies development platform "Let's Fintech with PKO Bank Polski!".
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.
- On 29 November 2018 a Notarial Deed establishing the limited liability company Operator Chmury Krajowej was signed. In 2019 another shareholder plans to accede to the company – Polski Fundusz Rozwoju SA. The Company's business will be to provide comprehensive data safekeeping and processing services. The product offer covers in particular cloud, transformation and security services for enterprises and public institutions. The company will accelerate digitization of the Polish economy and will provide safe solutions compliant with the global trend for transferring data to cloud computing.
- An investment fund, PKO VC (venture capital), was established in the Group. It will invest in start-ups and fintechs. The new fund will operate in two ways: the first is to look for companies in which the majority of interest should be acquired to include them in the Group, and the second is to acquire minority interest. In August 2018 PKO Bank Polski SA purchased investment certificates issued by PKO VC – fundusz inwestycyjny zamknięty aktywów niepublicznych (closed-ended non-public assets fund) with a total value of PLN 200 million.
- Under the Digital Transformation Program PKO Bank Polski SA started implementing the New Working Model based on agile project management methods. The purpose of the new model is to accelerate and increase productivity of the implemented changes which will lead to an increase in customer satisfaction and enable achieving the mid- and long-term business goals.

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 firms and 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 competitive requirements.

In its actions taken in 2018 PKO Bank Polski SA, among other things:

- 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;
- 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;
- introduced a special promotional 100-day deposit "Lokata Niepodległościowa" which bears an interest rate of 1918% for new funds;
- introduced to the offer basic payment account "Podstawowy Rachunek Płatniczy", available to persons aged 13 and older who do not have an account in Polish currency;
- introduced the possibility of purchasing participation units in a new open umbrella fund PKO Portfele Inwestycyjne, with separated subfunds: PKO Bursztynowy, PKO Szafirowy, PKO Rubinowy, PKO Szmaragdowy and PKO Diamentowy;
- made available an on-line currency-exchange office in its transaction services. Customers may conclude transactions in 28 currency pairs at attractive exchange rates and without a fee for access to the service;
- launched the option to register Customer's firms 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;
- launched the program "Polska Bezgotówkowa" (Cashless Poland) in its branches; under the program small retailers who have not accepted cashless payments before will receive a free card acceptance service over 12 months;
- introduced further electronic banking services for firms – the new solutions are: the firm assistant that ensures full control over firm finances on a 24-hour a day basis thanks to online banking, and e-sklep – which enables establishing an e-shop using the transaction service iPKO and managing finances and orders from one point;
- launched sales of motor insurance: OC with Zielona Karta (liability insurance valid abroad), Autocasco (all risks insurance), NNW (accident insurance) and Assistance insurance. The possibility of purchasing, as one batch, policies from various insurers under one sale process is a novelty on the market. Policies may be purchased even 6 months in advance to avoid potential changes in motor insurance rates;
- introduced an oncological policy "OnkoPlan", which ensures a wide range of support in the event of falling ill with a malignant tumour, both during treatment and after it is completed;
- launched a Garmin Pay and Apple Pay service.

The activities in which the PKO Bank Polski SA Group engaged in 2018 allowed it to achieve very good financial 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)

	2018	2017	Change (y/y)
Net profit	3,741	3,104	+20.5%
Net interest income	9,353	8,606	+8.7%
Net fee and commission income	3,013	2,969	+1.5%
Result on business activities	13,347	12,560	+6.3%
General administrative expenses	-5,905	-5,784	+2.1%
Tax on certain financial institutions	-950	-932	+1.9%
Net write-downs and impairment	-1,451	-1,617	-10.3%
Total assets	324,255	296,912	+9.2%
Total equity	39,101	36,256	+7.8%
ROA net	1.2%	1.1%	+0.1 p.p.
ROE net	10.0%	9.0%	+1.0 p.p.
C/I (cost to income ratio)	44.2%	46.0%	-1.8 p.p.
Net interest margin	3.4%	3.3%	+0.1 p.p.
Share of impaired loans	4.9%	5.5%	-0.6 p.p.
Cost of risk	-0.59%	-0.71%	+0.12 p.p.
Total capital ratio	18.88%	17.37%	+1.51 p.p.
Tier 1 capital ratio	17.54%	16.50%	+1.04 p.p.

The more than two-digit net profit growth was determined by:

- 1) an improvement in the result on business activities which reached PLN 13 347 million (+6.3% y/y), mainly due to an increase in net interest income of 8.7% y/y, realized as a result of an increase in interest income caused by an increase in volumes and in net interest margins;
- 2) a slight increase in general administrative expenses (an increase of 2.1% y/y);
- 3) a drop in the cost of risk to 0.59%.

As a result of the actions taken in 2018 the scale of operations increased significantly:

- total assets amounted to PLN 324 billion (+PLN 27 billion y/y);
- financing granted to Customers increased to PLN 230 billion (+PLN 16 billion y/y);
- amounts due to Customers increased to PLN 243 billion (+PLN 22 billion y/y).

In 2018 the Bank's Group:

- retained a high share in the loans and savings market at a level of 17.6% and 18.4% respectively;
- strengthened its leading position on the individuals' investment fund market and achieved a market share of 22.2%;
- ranked first on the sales market of housing loans for individuals² with a share of over 28% - in 2018 loans for a record amount exceeding PLN 15 billion were granted.

² Data of the Polish Bank Association.

1.5 THE PKO BANK POLSKI SA GROUP DEVELOPMENT DIRECTIONS

Who we are – mission
 PKO Bank Polski SA's strategy for the years 2016 – 2020
 Strategic goals
 Pursuit of the Strategy

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

WHO WE ARE – OUR MISSION



Bank Polski



“WE SUPPORT THE DEVELOPMENT OF POLAND AND THE POLES”

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 place or time. We are proud of our history and of our Polish roots.

We wish to continue exerting a positive influence on Poland – its people, 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'S STRATEGY FOR THE YEARS 2016 – 2020

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

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 efficiency.

STRATEGIC GOALS

The PKO Bank Polski SA Group achieved its strategic financial goals under the 2016–2020 Strategy two years in advance, already in 2018:

- it achieved return on equity (ROE) above 10%;
- it reduced the cost to income ratio (C/I) to below 45%;
- it maintained the cost of risk in the 75–85 b.p. bracket;
- it effectively and rationally managed capital adequacy so as to ensure that TCR and Tier1 ratios exceed the regulatory and supervisory requirements, and at the same time enable the distribution of dividend.

	2018	2020	Realization
ROE	10.0%	>10%	✓
C/I	44.2%	<45%	✓
Cost of risk	0.59%	0.75%-0.85%	✓
Equity	TCR: 18.88%	Dividend capability	✓
	Tier1: 17.54%		

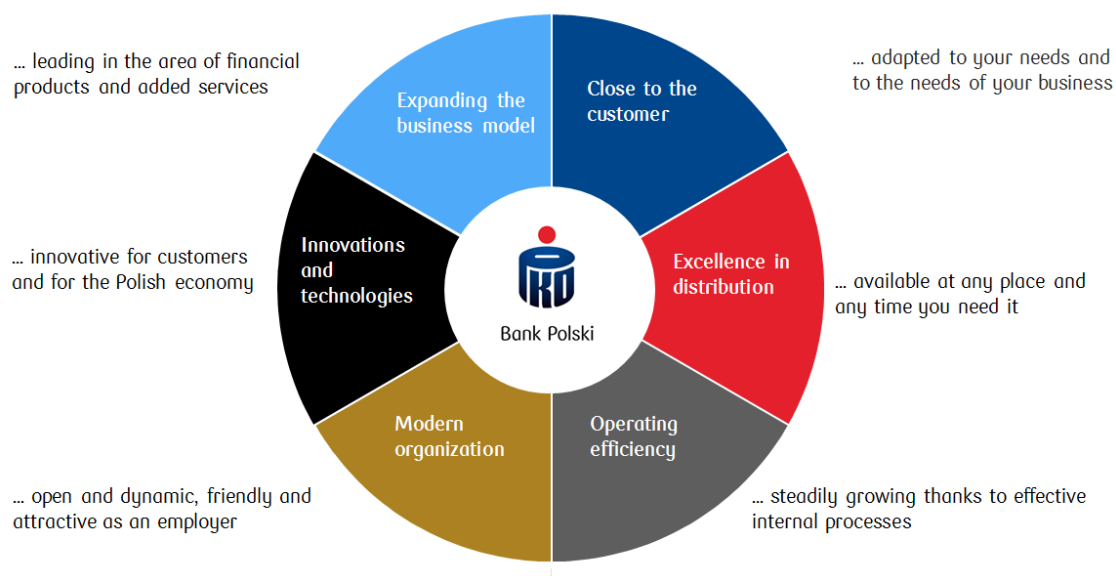
The Bank addresses its challenges to 2020 in the following strategic goals:

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

PURSUIT OF THE STRATEGY

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.

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



The effects of the pursuit of strategic goals in 2018 in the area of particular strategic levers were, among others:

1. BEING CLOSE TO THE CUSTOMER

- The new marketing communication platform, aimed at connecting the product and image campaign. The campaign refers to Polish history in the context of the 100th anniversary of Poland regaining its independence and the centenary of PKO Bank Polski SA's operations;
- The possibility of foreign currency exchange in eKANTOR via the transaction service iPKO, and using the IKO mobile app;
- Launching Centrum Bankowości Przedsiębiorstw (Enterprise Banking Centre), which provides the Bank's Customers with a network of mobile bank advisors and with the technical support of experts;
- Possibility of registering firms with CEIDG via iPKO electronic banking, including opening a firm bank account. The Bank's Customers may register remotely and to a large extent automatically via the e-Urząd service;
- New electronic banking services for Customers who are firms: the firm assistant and e-sklep.

2. DISTRIBUTION EXCELLENCE

- Expanding the functionalities of the iPKO service;
- A mobile IKO application, supported by iOS and Android systems, and an information site about the app (iko.pkobp.pl) are maintained in four languages: Polish, English, Ukrainian and Russian;
- In March 2018 IKO ranked first in the Retail Banker International mobile applications ranking of the 100 largest banks in the world;
- Equipping debit cards issued to personal accounts with a multi-currency function;
- Cooperation of PKO Bank Polski SA with CEUP eService sp. z o.o. in the Cashless Poland program;
- 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;

3. OPERATING EFFICIENCY

- Implementation of SMS authorizations for orders in branches in respect of making payments, disbursements, transfers, standing orders;
- Implementation of further banking operation digitization and automation initiatives, among other things, in respect of paperless solutions which enable the acceptance of a single qualified signature for a selected number of orders and automatic recording of documentation;

- Implementation of the first automated processes in the RPA (Robotic Process Automation) technology aimed at increasing back office effectiveness without the necessity to increase employment;
- The Trusted Profile in the iPKO and Inteligo services. Under the Trusted Profile the Bank offers its Customers handling many administrative matters through the e-Urzqd portal.

4. MODERN ORGANIZATION

- New Organization and Cooperation – the Digital Transformation program at the Bank. The purpose of the program is to transform the organizational structure into an even more modern one, directed at development and constant excelling;
- Training cycle “Dzień dobry Biznes” (Good morning business) – expert support addressed to firms and companies, which enables entrepreneurs to listen to speakers and at the same time to obtain direct advice from professional experts from particular sectors.

5. INNOVATIONS AND TECHNOLOGIES

- Implementing blockchain technology solutions. PKO Bank Polski SA and the start-up Coinfirm signed a cooperation contract under which the Bank, as the first financial institution in Poland, has begun implementing blockchain technology solutions.
- The use of the blockchain technology to confirm the authenticity and constancy of the documents sent by the Bank electronically – providing it using the new product regulations to more than 5 million Customers (instead of their paper versions);
- Establishing Operator Chmury Krajowej sp. z o.o., a company whose business will be to provide comprehensive data safekeeping and processing services. In accordance with the agreement signed, Polski Fundusz Rozwoju SA will join PKO Bank Polski SA;
- Implementing the processes automation platform (Robotic Process Automation). Applying the RPA technology to automate banking activities and develop new employees' competencies;
- The construction of the modern technologies development platform “Let's Fintech with PKO Bank Polski!”. With its use the Bank is searching for and developing prospective solutions, and engaging start-ups and fintechs for this purpose;
- 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;
- Making available payments to PKO Bank Polski SA and Inteligo customers who are using Visa and Mastercard proximity cards via Apple Pay and Garmin Pay.

6. EXPANDING THE BUSINESS MODEL

- Expanding the Bank's offer by motor insurance available to Customers in the Bank's branches and agencies as well as through the Customer Call Centre; Starting sales of OC with Zielona Karta (liability insurance valid abroad), Autocasco (all risks insurance), NNW (accident insurance) and Assistance insurance;
- Establishing an investment fund, PKO VC (venture capital), which will invest in start-ups and fintechs. The Fund will search for companies in which the majority of interest should be acquired to include them in the Group's structures, and will acquire minority interests.

1.6 THE BANK'S GROUP'S MARKET POSITION

The PKO Bank Polski SA Group has a lead share in the Polish banking market in respect of loans and savings, in the lease market and in the individuals' investment fund market.

In 2018 the Bank's Group:

- maintained high shares in the loans market, both in terms of volume and sales of selected products;
- strengthened its position on the savings market, both in respect of individuals and institutional entities;
- achieved a record share and thus consolidated its position on the individuals; investment fund market – throughout 2018 PKO TFI SA acquired over PLN 6 billion in net funds from individuals.

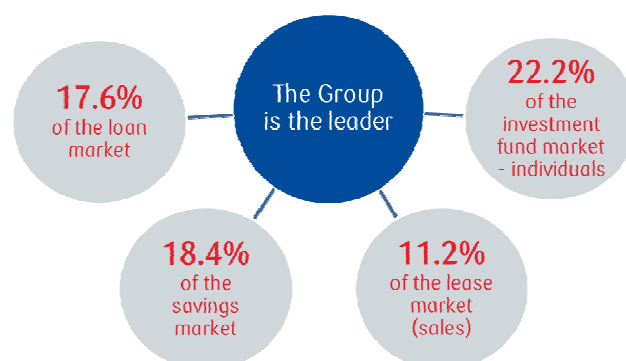


Table 2. Market shares

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014	Zmiana 2018/2017
Loans for:	17,6%	17,7%	17,8%	17,9%	17,9%	-0.1 p.p.
individuals, of which:	22,9%	23,0%	22,8%	22,9%	22,9%	-0.1 p.p.
housing	26,1%	26,1%	25,7%	25,5%	25,8%	0,0 p.p.
PLN	28,3%	28,6%	28,6%	28,7%	29,6%	-0.3 p.p.
foreign currency	21,0%	21,2%	21,4%	21,5%	21,5%	-0.2 p.p.
consumer and other	15,8%	15,9%	15,8%	16,1%	15,6%	-0.1 p.p.
in current account	31,8%	32,0%	32,6%	33,9%	37,9%	-0.2 p.p.
institutional entities	12,7%	12,8%	12,9%	13,0%	13,1%	-0.1 p.p.
Non-Treasury debt securities (indebtedness)	32,5%	29,3%	29,2%	28,8%	31,5%	3.2 p.p.
Leasing (sales)	11,2%	12,0%	7,5%	6,1%	6,4%	-0.8 p.p.
Mortgage loans (sales)	28,9%	29,6%	31,9%	24,9%	30,3%	-0.7 p.p.
Total savings*	18,4%	17,3%	16,1%	16,5%	16,3%	1.1 p.p.
savings of individuals**	22,1%	21,2%	20,8%	20,8%	21,4%	0.9 p.p.
Deposits for:	18,1%	17,9%	17,3%	17,9%	17,3%	0.2 p.p.
individuals	20,2%	20,4%	20,7%	20,7%	21,7%	-0.2 p.p.
institutional entities	15,2%	14,5%	12,4%	14,0%	11,5%	0.7 p.p.
TFI assets - funds of individuals	22,2%	17,5%	14,6%	14,7%	14,4%	4.7 p.p.
Brokerage activities - transactions on secondary market***	7,7%	14,7%	9,4%	9,1%	10,5%	-7,0 p.p.

Source: NBP, WSE, Polish Leasing Association, PBA, Analityz Online

* Total savings include total deposits, TFI assets and saving Treasuries bonds.

** Savings of individuals include deposits of individuals, funds of individuals and saving Treasury bonds.

*** Data for 2017 includes the effects of intermediation in sales of shares of Pekao S.A. On eliminating this effects, the share of brokerage activities in transactions on the secondary market would amount to 11.2%.

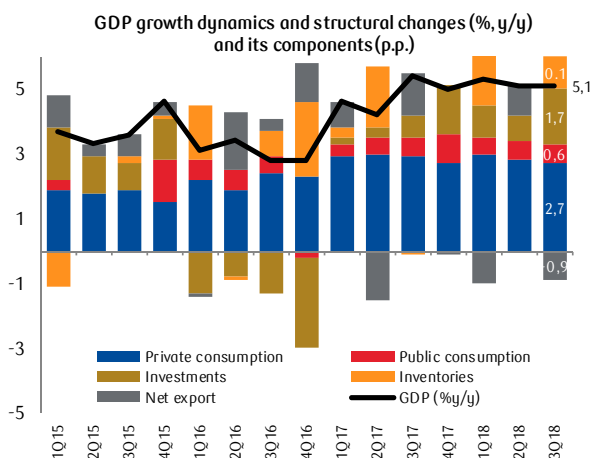
2. EXTERNAL BUSINESS CONDITIONS

Macroeconomic environment
Situation on the financial market
Position of the Polish banking sector
Position of the Polish non-banking sector
Ukrainian market
Regulatory and legal environment
Factors with an impact on the financial results of the Bank's Group in 2019

2.1 MACROECONOMIC ENVIRONMENT

Macroeconomic factors which shaped the national economy in 2018:

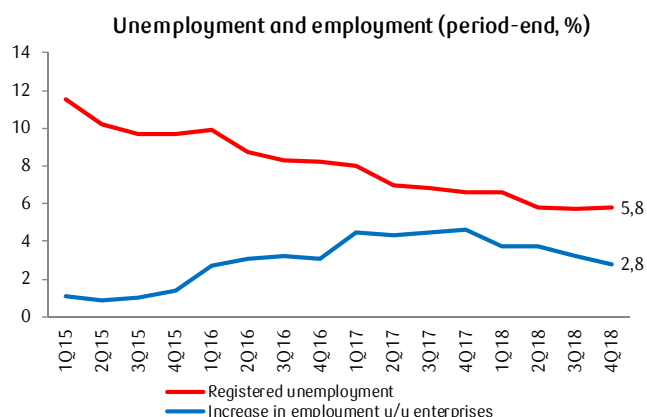
- **VISIBLE ACCELERATION OF ECONOMIC GROWTH 7**



The rate of growth of GDP (estimated based on initial data) accelerated from 4.8% y/y achieved in 2017 to 5.1% y/y as at the end of 2018.

In 2018 private consumption continued to be the main GDP growth factor; it stimulated the increase in wages and salaries, which remained high, and optimistic consumer moods. During the year, investments became the second growth engine, including mainly public investment projects financed with increased use of EU funds. Polish exports remained strong, despite the slowing of global trade. Poland's importance as a services exporter grew.

• CONTINUING GOOD CONDITIONS ON THE LABOUR MARKET



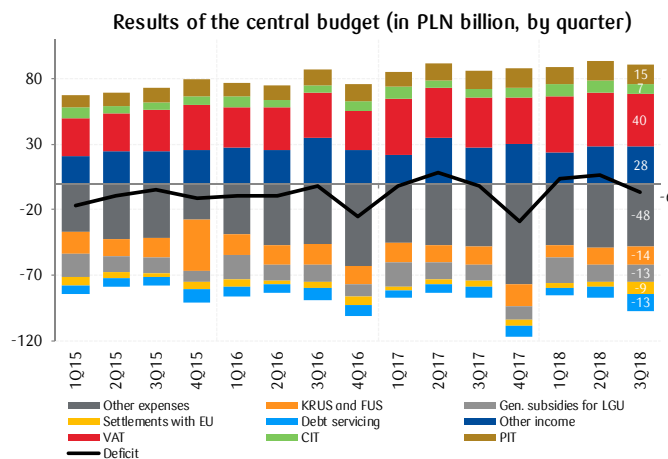
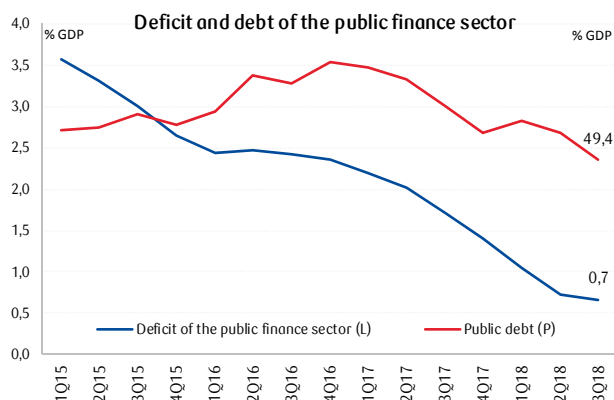
The unemployment rate registered in December 2018 dropped to 5.8% y/y compared with 6.6% y/y at the end of 2017. In the second half of the year unemployment stopped dropping, which should be associated with the lack of appropriately qualified employees and slower increase in demand for work. The same factors contributed to the deceleration of the rate of increase in employment. Despite the problems with finding staff notified by enterprises, the rate of growth of wages and salaries in the enterprise sector in 2018 remained relatively stable and oscillated around 7% y/y. As at the end of 2018 average remuneration in the enterprise sector exceeded the threshold of PLN 5 000, gross, for the first time in history.

• INFLATION BELOW THE NBP TARGET

Despite robust economic growth, in 2018 CPI remained below NBP inflation target (2.5% y/y), and in November it dropped below the floor of the allowable target deviations bracket (1.5%). Average annual inflation amounted to 1.6% compared with 2.0% in 2017. The key source of fluctuations in CPI were the food and fuel prices. Base inflation (after eliminating food and fuel prices) was low and stable (it did not exceed 1.0% y/y). Therefore, in 2018 the relatively high increase in wages and salaries did not translate into an increase in consumer prices.

• IMPROVEMENT IN THE PUBLIC FINANCES CONDITION

In 2018 the condition of the State budget was record good. The State budget noted a surplus since November, and at the end of the year the deficit was probably around PLN 10–11 billion (compared with PLN 41.5 billion stipulated in the Budget Act). The budget result was supported by the cyclical increase in budget income, sealing the tax system and stabilizing expenses. The increase in wages and salaries, and in employment (including legalizing foreigners' stay in Poland) increased inflows to the Social Insurance Fund, which allowed the Fund to give up PLN 11 billion of subsidies from the State budget, which additionally improved the budget results at State level. After Q3 2018 the deficit of the public finance sector dropped to a record low at 0.7% of GDP (compared with 1.4% as at the end of 2017), and the ratio of public debt to GDP dropped to 49.4% (vs. 50.7% as at the end of 2017).



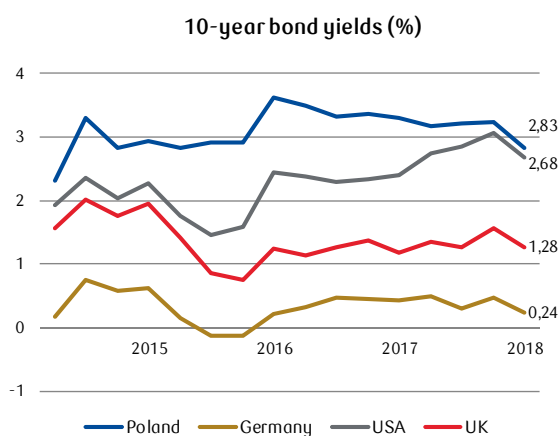
• STABILIZATION OF THE MONETARY POLICY

NBP interest rates:

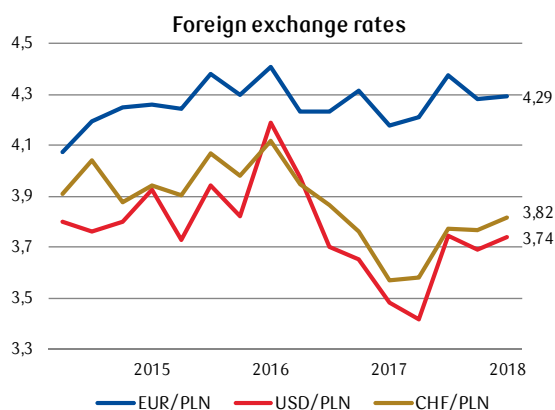
- reference rate – 1.50%
- bill rediscount rate – 1.75%
- Lombard rate – 2.50%
- deposit rate – 0.50%

In 2018 the Monetary Policy Council (RPP) did not change NBP base interest rates. RPP indicated the absence of threats of inflation increases above the allowable bracket of deviations from the inflation target, limited growth in loans and investments, and the prospect of a slow-down in the global economy. As at the end of 2018 the Monetary Policy Council signalled that the base scenario for most members of RPP is to maintain interest rates at an unchanged level at least throughout 2019, and excluded the possibility of reducing them.

2.2 SITUATION ON THE FINANCIAL MARKET

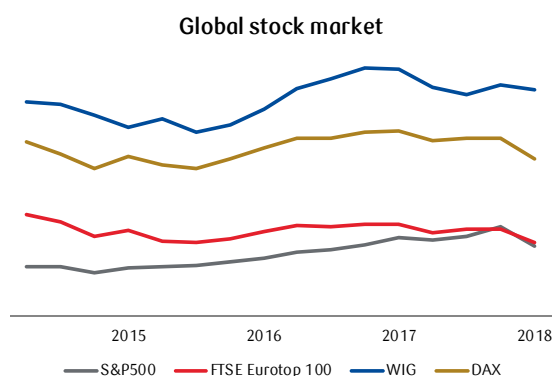


• CURRENCY MARKET



Improvement in global investment sentiments at the turn of Q1 and Q2 enabled the zloty to significantly strengthen its position vis-à-vis the Swiss franc, therefore, by mid-April the exchange rate dropped to approx. 3.47. In further months the CHF/PLN rate once again increased due to the position of the Fed and RPP referred to above. In effect the CHF/PLN exchange rate was 3.81 at the end of 2018.

• SHARE MARKET



- a drop in risk appetite;
- increases in interest rates in the USA which strengthened the American dollar, which contributed to an outflow of capital from the emerging markets.

• INTEREST RATE MARKET

In 2018 the returns on Treasury bonds in the 2-year sector dropped by 45 b.p. to 1.35%, in the 5-year sector by 30 b.p. to 2.29%, and in the 10-year sector by 47 b.p. to 2.83%. Such a significant increase in the debt market was caused mainly by significant easing of the Monetary Policy Council's policy, supported by a significant drop in inflation.

Concerns about the weakening condition of the global economy led to a drop in returns on bonds on base markets, i.e. the US market and the Euro Area, which indirectly supported the domestic market.

The excellent condition of the financial sector market had a favourable impact on bond valuations; it led to a limitation in the supply of Treasury securities on the primary market and improved the creditworthiness of Poland (S&P first increased the rating view of Poland to positive, and then increased the rating from BBB+ to A-).

At the beginning of 2018, the EUR/PLN rate was 4.18, during the year it increased to 4.29. In Q1 2018 the rate dropped to approx. 4.13 in connection with temporarily increased expectations as to interest rate increases in Poland and a good mood on global financial markets at the beginning of the year. The dove position of the Monetary Policy Council regarding the prospects of the monetary policy in Poland and the hawk position of the Fed on interest rate hikes started to impose pressure on the zloty. In the first days of July the zloty was at its weakest, also because of concerns about the escalation of the US-Chinese trade war. The resumption of bilateral trade negotiations reduced the risk aversion and jointly with the very good conditions of public finances (historically good results of the State budget) enabled stabilizing the EUR/PLN exchange rate around 4.30.

The CHF/PLN exchange rate was 3.57 at the beginning of 2018.

2018 was a global bear market for shares. As of mid-January the WIG index noted losses and ultimately it ended the year at a level of almost -10%, despite the very good economic conditions in Poland.

The following factors had a negative impact on the Polish share market:

- floods of redemptions of participation units in certain investment fund companies, which necessitated the sales of their shares;
- the trade dispute between the US and China;
- re-imposition of sanctions on Iran;
- political turbulences in important Euro Area countries: Italy, Germany and France;

2.3 POSITION OF THE POLISH BANKING SECTOR

Net profit and returns
 Credit and deposit market

NET PROFIT AND RETURNS³

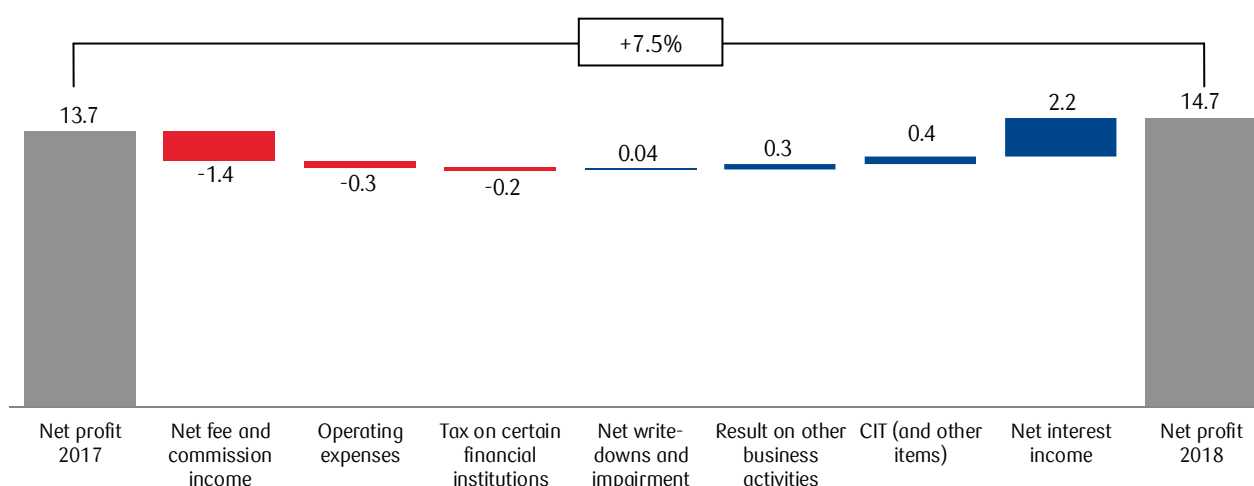
In 2018 the position of the Polish banking sector remained stable, also as a result of the condition of the Polish economy, which developed in a sustainable and stable manner.

PLN 14.7bn net profit of the banking sector in 2018	+7.5% y/y rate of change in the banking sector's net profit in 2018	+7.2% return on equity of the banking sector (ROE ⁴) in 2018
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In 2018 the net profit of the banking sector increased by 7.5% y/y⁵ to PLN 14.7 billion. The increase in net interest income had an impact on the increase in net profit, while the drop in net fee and commission income and the increase in operating expenses (in conditions of growing wages and salaries and the costs related to mergers and acquisitions) had a negative impact on net profit. Good economic conditions had a positive impact on net write-downs and impairment.

The rate of increase in net profit in the banking sector was supported by market consolidation (two acquisitions of commercial banks), which resulted, among other things, in earning one-off revenues on the so-called bargain purchase.

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



Return on equity (ROE) in the banking sector increased slightly to 7.2% as at the end of 2018 (compared with 7.1% as at the end of 2017) and remained, among other things, under the positive influence of the increase in interest margins.

³ Based on PFSA data.

⁴ Return on equity (ROE) calculated as the ratio of net profit for 12 months to the average equity in the period.

⁵ Data relating to the banking sector published by the PFSA for 2018 takes into account the effect of the merger with two commercial banks. In consequence, according to PKO Bank Polski SA, amounts that related to the spun-off and transferred operations of the acquired banks were removed from the key income statement items, and the total result on those operations was presented in: "Net income from discontinued operations" (on the diagram "Change in the banking sector's net profit" the result was disclosed under "CIT (and other items)"). This hampered the comparability of particular results components.

LOAN AND DEPOSIT MARKET⁶

In 2018 the low interest rates, good labour market conditions and reanimation of investment activities had an impact on the condition of the loans and deposits market. As at the end of 2018 the total increase in loans (net of exchange rate fluctuations) dropped slightly to +6.3% y/y (+6.6% as at the end of 2017), and total deposits increased significantly to +8.8% y/y (+4.4% as at the end of 2017).

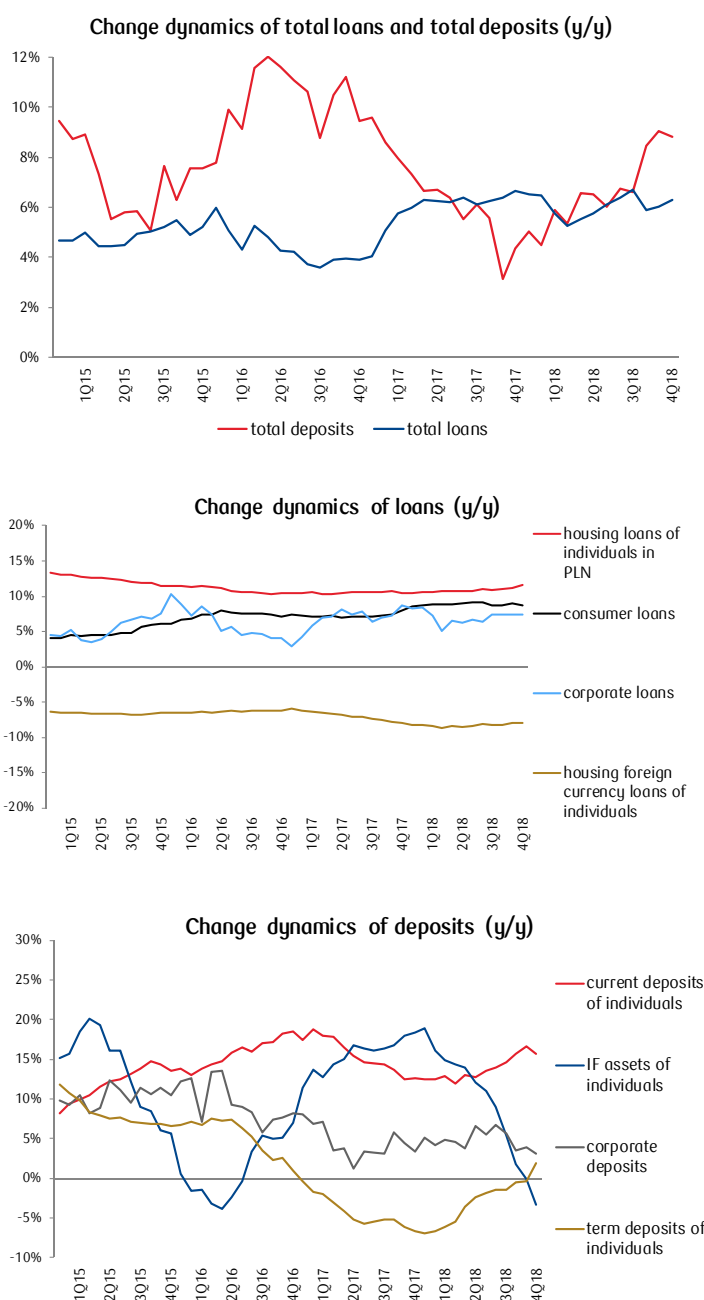
The good financial position of households, supported by an increase in wages and salaries, and low unemployment, determined demand for housing loans in PLN and for consumer loans. As at the end of 2018 the rate of growth of consumer loans (net of exchange rate fluctuations) accelerated to 8.6% y/y, and the rate of growth of housing loans in PLN came close to 12% y/y, which means that it was the highest for more than three years.

New regulatory solutions (the so-called split payment of VAT) and investment initiatives of enterprises stimulated the demand for loans. Own funds remained a material source of financing enterprises' investments.

As at the end of 2018 the rate of increase in corporate loans (net of exchange rate fluctuations) dropped to 7.4% y/y (8.8% y/y as at the end of 2017). This was accompanied by very high increase in the rate of growth in working capital loans (to 13.8% y/y compared with 7.1% y/y as at the end of 2017) and a significant drop in the rate of growth of investment loans.

Compared with 2017 when the rate of decrease in loans to individuals grew, in 2018 the rate of decrease in those loans slowed down considerably. As at the end of 2018 the rate of growth of term deposits increased by 2.0% y/y, accompanied by an increase in individuals' deposits (to +15.7% y/y compared with 12.6% as at the end of 2017). In the prevailing good financial conditions of enterprises, the annual rate of increase in their deposits was low and amounted to 3.1% (3.4% as at the end of 2017).

In 2018 the liquidity position of the banking sector was good. The loan to deposit ratio was lower than 100% (96.9% as at the end of 2018, -1.2 p.p. compared with the end of 2017).

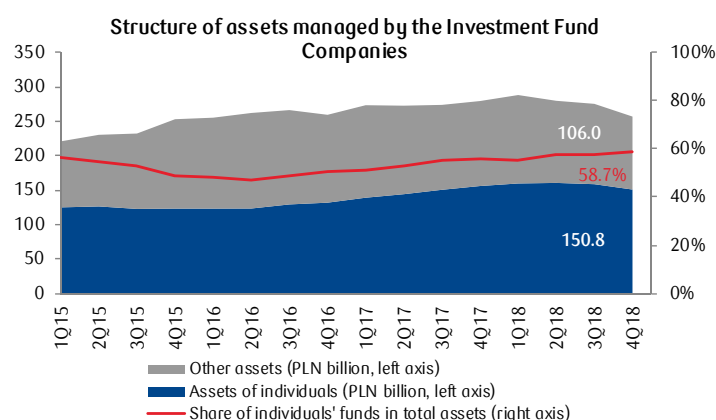


⁶ Based on NBP data, Analityz Online service.

2.4 POSITION OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUNDS MARKET

In 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. Investors' decisions on the investment fund market were shaped by an increase in risk aversion determined by the drop trend in annual rates of return in the main market segments, which lasted since the beginning of 2018. Controversies related to the operation of certain investment fund companies (TFI) could also have an impact on the perception of the investment fund market by investors.



In 2018 total assets managed by TFIs dropped by PLN -22.8 billion to (-8.1%) to PLN 256.8 billion, which was determined by a decrease in investment fund assets of institutional entities of PLN -17.7 billion (-14.3%); investment fund assets of individuals dropped by PLN -5.1 billion (-3.2%). The net inflow of funds from individuals dropped to PLN 0.6 billion from PLN 17.1 billion in 2017.

OPEN PENSION FUNDS MARKET

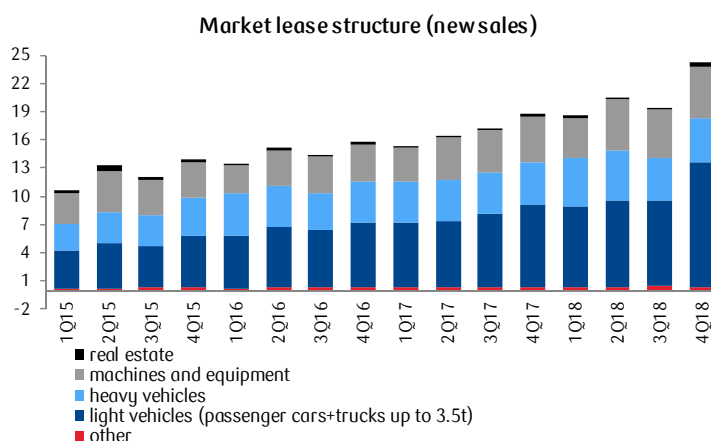
In 2018 assets of Open Pension Funds (OFE) continued to decrease and dropped by -12.4% (PLN -22.2 billion) to PLN 157.3 billion. At the same time the number of OFE participants continued to drop (-201 thousand, to 15.9 million).

The OFE market remained under the influence of: an improvement in the labour market conditions and deteriorating conditions on the WSE, and uncertainty as to the future terms and conditions of their operation.

Shares continued to dominate OFE assets (a stable share of approx. 85%).

LEASE MARKET

In 2018 the lease market continued to develop dynamically. The lease industry financed assets with a value of PLN 82.4 billion (+21.5% y/y). The segment of light vehicles (passenger cars and trucks up to 3.5 tonnes) had the biggest positive influence on the development of the lease market. The value of leases in that segment increased to PLN 39.9 billion (+30.7% y/y), which constituted over 48% of total financing granted by lease companies. The dynamic increase in leases of light vehicles was caused among other things by amendments to tax regulations binding as of 1 January 2019.



A two-digit increase (+17.1% y/y) was also noted in leases of plant and machinery, with the total value of new contracts at PLN 20.6 billion, which was accompanied by good conditions in the construction industry. Leases of heavy transport vehicles also increased (+11.4% y/y, with the value of leased assets at a level of PLN 19.5 billion).

INSURANCE MARKET In the first three quarters of 2018 insurance companies earned net profit of PLN 5.7 billion (+17.3% y/y), which was the result of an increase in y/y net profit in the other personal and property insurance segment (+24.6% to PLN 3.8 billion) and an increase in net profit in the life insurance segment (+5.6% to 2.0 billion).

The y/y increase in gross written premium⁷ to PLN 46.3 billion (+0.3%), with a simultaneous increase in claims to PLN 30.4 billion (+6.4%) had an impact on the financial results of insurance companies as a whole. Costs of insurance activities were +3.8% higher y/y (to PLN 10.4 billion).

In the life insurance segment, gross written premium dropped by -11.5% y/y (to PLN 16.3 billion), with an increase in claims of 4.3% y/y (to PLN 15.8 billion). Costs of insurance activities in the life insurance segment dropped by -3.5% to PLN 3.8 billion.

The segment of other personal and property insurance noted a y/y increase in gross written premium of +7.3% (to PLN 29.9 billion), with an increase in claims of 8.8% (to PLN 14.6 billion). Costs of insurance activities in the other personal and property insurance segment increased by +8.6% (to PLN 6.6 billion).

During the three quarters of 2018 total assets, and total liabilities and equity of insurance companies dropped to PLN 195.8 billion (-0.9%), in effect of a y/y drop in assets in the life insurance segment (-6.9%), with their simultaneous increase in the other personal and property insurance segment (+6.1%).

FACTORING MARKET In 2018 a high demand for factoring services prevailed. Sales of firms associated in the Polish Factors Association increased at a two-digit pace (approx. 26.7% y/y compared with approx. 17% y/y in 2017) and reached PLN 242.8 billion.

Over 17 thousand business entities used the services of factoring firms.

The largest demand was for factoring without recourse, whose share in sales of factoring firms was approx. 51%.

The share of the second largest market segment, i.e. recourse factoring, was 33%. Manufacturing and distribution companies remained the entities that most often used factoring services.

2.5 UKRAINIAN MARKET

ECONOMIC CONDITIONS

The year 2018 was decidedly better for the Ukrainian economy than previous years had been. After an acceleration of GDP growth rate in the first half of the year (3.1% y/y in Q1, 3.8% y/y in Q2), the second part of 2018 brought about a slowdown (2.8% y/y in Q3) compared with 2.5% in 2017. The rate of retail sales dropped slightly (6.3% y/y on an average in 2018 compared with 7.3% y/y in the previous year). However, the rate of industrial production increased (from 0.5% y/y in 2017 to 2.5% y/y in 2018).

An increase in wages and salaries enables maintaining a strong (albeit lower than in the previous year) increase in consumption. The increase in minimum wages (from UAH 3200 to UAH 3723) was significantly lower than in the previous year (from UAH 1550), but the average wage increased by 20.5% y/y (compared with 35.6% in 2017). After accounting for inflation, which was lower than in 2017 (prices increased by 9.8% y/y in 2018 compared with 13.7% y/y in the previous year) the drop in dynamics of real wages and salaries was even lower.

In 2018 a significant increase in CIT revenues was noted in public finances (44.8% in 2018 compared with 23.1% in 2017), which indicates an improvement in the collectibility of this tax. This, in addition to the robust (albeit lower than in 2017) increase in revenues from VAT and PIT, allowed maintaining a budget surplus nearly throughout the year (in terms of the whole public finance sector), which with the high increase in nominal GDP translated into a reduction in the ratio of public debt to GDP to 62.2% after September, from 72.7% in the previous year. Throughout the year the

⁷ Gross written premium – premium obtained by an insurance company in the reporting period (including the portion of the premium transferred to reinsurers for reinsurance cover). In respect of life insurance gross written premium covers all premiums receivable in the reporting period. In respect of property insurance gross written premium covers amounts due throughout the period of liability for the contracts underwritten in the reporting period.

Central Bank reduced its participation in the structure of holders of Treasury securities to the benefit of banks which preferred investing their free flows in safe assets.

Despite the drop, inflation (9.8% y/y in December) continued to exceed the inflation goal of the Central Bank (6% +/-2 p.p. as at the end of 2018). Base inflation also dropped and amounted to 8.7% y/y as at the end of 2018 compared with 9.5% y/y in the previous year. The Central Bank increased interest rates four times, by 350 b.p. to 18%. In effect, despite the global trend of strengthening the exchange rate of the US dollar to currencies of rising economies, in 2018 the exchange rate of the hryvna dropped (the hryvna's position improved) to UAH 27.69/USD 1 from UAH 28.07/USD 1 as at the end of 2017; in the first half of 2018 the exchange rate was approx. UAH 26/USD 1 (after three increases in rates at the turn of 2017/2018), whereas in the second half of the year it deteriorated to approx. UAH 28/USD 1.

UKRAINIAN BANKING SECTOR

In accordance with the data from the National Bank of Ukraine the number of banks which engaged in operations in Ukraine dropped to 77 in November 2018 (compared with 82 in December 2017).

The value of total assets in the Ukrainian banking system dropped slightly to UAH 1.32 billion (as at the end of November 2018) from UAH 1.34 billion (as at the end of 2017); equity dropped to UAH 149.4 billion from UAH 163.6 billion, at the end of November 2018 it comprised 11.3% of total liabilities and equity compared with 12.2% as at the end of December 2017.

In the period from January to November 2018 the volume of loans increased (by UAH 109.8 billion to UAH 1172.9 billion). This change was due almost equally to two factors: an increase in foreign currency loans (of UAH 57.1 billion) and loans in hryvnas (of UAH 52.6 billion). In terms of the structure of the entities that took out the loans almost all of the increase was due to loans taken out by residents, including approx. 2/3 by private enterprises, and 1/3 by households. In the period under discussion the value of deposits increased by UAH 7.5 billion (to UAH 937.9 billion), with a drop in the volume of foreign currency deposits of UAH 9.1 billion. The main driver of the growth in deposits was the household sector, whereas State enterprises' deposits dropped significantly. The loans/deposits ratio increased to 125.1% as at the end of November 2018 from 114.3% in December 2017.

In the period from January to November 2018 both ROA and ROE improved (1.66% compared with -1.93% and 14.32% compared with -15.84% respectively). The capital adequacy ratio in the sector was 15.5% at the end of November 2018 (the level required in 2018 is 10%) compared with 16.1% as at the end of December 2017.

2.6 REGULATORY AND LEGAL ENVIRONMENT

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

LEGAL AND REGULATORY SOLUTION	IMPACT
PRUDENTIAL AND CAPITAL REQUIREMENTS	
<ul style="list-style-type: none"> - The Act on Macroprudential Supervision over the financial system and on crisis management (Journal of Laws of 2017, item 1934, as amended), which among other things increased the security buffer from 1.25 to 1.875% as of 1 January 2018; - the Decree of the Minister of Development and Finance from 2017 on the systemic security buffer (Journal of Laws of 2017, item 1776), which introduced 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, increased the short-term liquidity coverage ratio LCR for 2018 to 100% from 80% in 2017. 	Increase in requirements regarding banks' equity and liquidity
NEW ACCOUNTING STANDARD IFRS 9	
International Financial Reporting Standard IFRS 9 Financial Instruments has replaced IAS 39 as of 1 January 2018 and determined the manner of measuring financial instruments (including calculations of allowances for expected credit losses) and their classification.	Influence on the banks' financial results (including through the level of allowances), cost of risk, equity

HOUSING FOR THE YOUNG (MIESZKANIE DLA MŁODYCH – MDM)

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), pursuant to which the “Mieszkanie dla Młodych” government program was extinguished. On 4 January 2018 Bank Gospodarstwa Krajowego stopped accepting the last pool of applications for co-financing the purchase of apartments. Officially, the government program was extinguished as at the end of 2018.

Limiting the banks' lending action (housing loans)

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. MiFID II has been 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 documents which include key information on retail collective investment and investment-linked insurance products;

– The Act of 10 May 2018 which amends the Act on Personal Data Protection (Journal of Laws of 2018, item 1000, as amended) 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;

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

– 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);

– Act of 23 March 2017 on mortgage loans and on supervision over mortgage loan intermediaries and agents (Journal of Laws of 2017, item 819, as amended), 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 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;

– Act on insurance distribution which imposed additional duties, including information duties, on insurers as of 1 October 2018 (implementation of the IDD Directive).

COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

Act on combating money laundering and terrorist financing (Journal of Laws of 2018, item 723, as amended), which, among other things, reduced the threshold for reporting cash transactions by banks and other financial market entities as of 13 July 2018 (implementation of AMLD IV);

Increase in operating expenses

DE MINIMIS

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) and Resolution of the Polish Minister of Finance on granting de minimis aid by Bank Gospodarstwa Krajowego in the form of loan repayment guarantees under the Smart Growth Operational Programme dated 12 June 2018 (Journal of Laws of 2018, item 1166), which extended the period of guarantee of loan repayment until 30 June 2021.

Positive influence on the banks' lending activities

MANDATORY RESERVE

– Resolution 6/2017 of the Monetary Policy Council (NBP Official Journal No. 2017, item 22) 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 (NBP Official Journal of 2017, item 24) reducing interest on the mandatory reserve funds from 1.35 to 0.50% as of 1 January 2018.

Negative impact on net interest income

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 solutions which have an impact on 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;
- Act of 24 November 2017 on amending certain Acts in order to counteract using the financial sector for tax extortions (Journal of Laws of 2017, item of Laws of 2017, item 2491), which introduces – among other things – new obligations within the scope of providing information about accounts of entities engaging in business activities through the IT system of the clearance chamber (STIR) to the Chief of the National Revenue Administration, and blocking the accounts at the request of the Chief of the National Revenue Administration;
- Act of 15 December 2017 on amending the Act on VAT and certain other acts (Journal of Laws of 2018, item 62), which imposes a duty on banks to open and maintain VAT accounts linked to the clearing accounts already maintained by banks as of 1 July 2018, and a duty to service payments of invoices made and received by Customers via the bank, using the split payment mechanism.

Differentiated impact on financial results

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

LEGAL AND REGULATORY SOLUTION

IMPACT

CHANGE IN BASE INTEREST RATES

Resolutions of the Ukrainian Central Bank (NBU) No. 43/2018, 133/2018, 443D and 593D, which related to increases in the discount rate: as of 26 January 2018 of 1.5 p.p. to 16%, as of 2 March 2018 to 17%, as of 13 July 2018 to 17.5%, as of 7 September 2018 to 18%.

Impact on banks' net interest income and their returns

NEW ACCOUNTING STANDARD IFRS 9

NBU Decision No. 1/2018 and 33/2018 relating to IFRS 9 Financial Instruments, specifying – among other things – the banks' gradual transition to IFRS 9, the manner of calculating and recording impairment allowances and classification of financial instruments, as well as introducing new hedge accounting requirements.

Impact on the financial result, equity

CREDIT VALUE

Decision of the NBU No. 15/2018 changing 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

Decisions of the NBU No. 19/2018, 45/2018, 65/2018 which, among other things, mitigate restrictions relating to foreign currency management, change licencing principles in respect of foreign currency transaction and introduce the duty to resell inflows in foreign currencies.

Impact on the banks' business operations, managing their currency position and risk levels

RISK

- Decision 3/2018, which introduced changes to the scope of identifying credit risk;
- Decision of the NBU No. 64/2018, which implemented a risk management system for banks as of 16 June 2018;
- Decision of the NBU No. 98/2018, which relates to the banks' liability for the ineffective risk management system in banks;
- Decision of the NBU No. 123/2018 which changes the principles for determining the amount of credit risk.

Impact on liquidity risk, market risk and operational risk management

LIQUIDITY

Decisions 13/2018, 87/2018 and 114/78 of the NBU relating to the LCR ratio (minimum level: 80%, and in a foreign currency: 50% to be maintained as of 31 December 2018). Impact on liquidity management

STABILITY OF BANKS /EQUITY

- Decisions No. 104/2018, 115/2018 and 133/2018 of the NBU, which – among other things – changed the principles for filing with the NBU and its approving capitalization plans and bank restructuring plans; Impact on banks' equity

- Decision No. 148/2018 of the NBU, which relates to a new instrument for banks' capitalization and the terms and conditions of conversion/redemption.

2.7 FACTORS WITH AN IMPACT ON THE FINANCIAL RESULTS OF THE BANK'S GROUP IN 2019

The following external factors may have an impact on the operations of the Bank's Group in 2019:

IN THE GLOBAL ECONOMY

- expected moderate slowing down in the global economy, in particular in the Euro Area and in China;
- probable slowing down in the US economy and concerns about the revaluation of global assets;
- slow normalization of the policy of the European Central Bank and potentially, very careful continuation of the cycle of interest rate increases in the USA;
- uncertainty related to the ultimate form of Brexit (potential risk that the European Union and the United Kingdom do not reach an agreement as to their mutual relations before 29 March 2019);
- potential escalation of tensions in the area of commercial policy (protectionist moves on the part of the USA vis a vis China, and maybe also the European Union);
- potential growing geopolitical tensions (Iran, Russia, USA);
- political and economic conditions in Ukraine.

IN THE POLISH ECONOMY

- expected growing absorption of EU funds and peak of capital investment activity;
- probable normalization of consumer sentiments, of the rate of growth of real disposable income and consumption;
- possible maintenance of the high level of wages and salaries, and simultaneous turnaround of the falling trend in unemployment rates;
- potential limitation of demand for Polish exports related to the slowing of the German economy;
- possible low inflation (below or around 2% y/y) throughout the year;
- expected stabilization of NBP interest rates, growing expectations concerning the maintenance of current NBP interest rates without any changes over the next 3 years;
- potential stabilization of deposit dynamics and an insignificant drop in demand for loans; a drop in the rate of growth in consumer loans is expected and a slight slowing of housing loan dynamics. In respect of loans extended to entities, the slower increase in loans to non-financial business entities should be partly offset by an increase in financing central and local government entities; The good financial condition of households in connection with the risk aversion which is higher than in 2018 will keep deposit dynamics at a level close to 2018. Stabilization of cost pressures accompanied by the continued strong internal demand means that the dynamics of deposits by non-financial business entities as at the end of 2019 will be comparable to that from 2018.

NEW REGULATORY SOLUTIONS

- IFRS 16 which becomes binding on 1 January 2019, 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;
- the Act on Employee Capital Funds of 4 October 2018 (Journal of Laws of 2018, item 2215), which – among other things – introduces the duty to establish Employee Capital Funds as of 1 July 2019 and regulates the principles for making payments;
- Act of 9 November 2018 on amendments to certain acts in connection with reinforcing supervision over the financial market and on protecting investors on that market (Journal of Laws of U.2018, item 2243), which introduces – among other things –

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- changes to the scope of dematerialization of mortgage bonds and bonds, and to the registration of those securities;
- Act on macroprudential supervision over the financial system and on crisis management (Journal of Laws of 2017, item 1934, as amended), which among other things increases the security buffer to 2.5% as of 1 January 2019;
 - Regulation (EU 2017/1131) of the European Parliament and of the Council of 14 June 2017 on money market funds, which introduces standardized regulations for Money Market Fund investment policies; In accordance with the regulation as of 21 January 2019 a fund wishing to transact as a money market fund will have to have an appropriate permit from the supervisory authority, otherwise it will not be able to use the names and terms which could suggest that it has the features of such a fund;
 - Regulation of the Minister of Finance dated 13 December 2018 on the maximum amount of the investment fund company's fixed fee for managing an open-ended investment fund or a specialist open investment fund (Journal of Laws of 2018, item 2380),
 - potential statutory solutions in respect of housing loans in foreign currencies extended to households;
 - potential legal solutions relating to reference rates due to the near end of the temporary period for some entities, with reference to the application of Regulation (EU) No. 2016/1011 of the European Parliament and Council of 8 June 2016 on indices used as benchmarks;
 - draft amendments to Recommendation G and S of the PFSA;
 - Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance and certain other acts (Journal of Laws from 23 November 2018), which introduces, among other things:
 - o new duties for identifying and reporting information on tax plans to the Chief of the National Revenue Administration (mandatory disclosure rules - MDR),
 - o new principles for charging withholding tax - WHT of certain income paid to non-residents;
 - o new principles for performing duties related to documenting transactions between related entities;
 - o amendments to the general anti-avoidance rule - GAAR;
 - Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Ordinance and certain other acts (Journal of Laws from 19 November 2018), which modifies regulations on tax-deductible costs on the use of passenger cars, which may have an impact on:
 - o increasing the CIT charge due to introducing restrictions to include expenses related to the use, insurance and lease of passenger cars in tax-deductible costs;
 - o reducing CIT charges due to the increase in the tax amortization and depreciation limit, and in respect of lease firms, abolition of the tax depreciation limit.
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EXTERNAL FACTORS

- establishing a tax group
On 5 November 2018 PKO Bank Polski SA, jointly with its two subsidiaries: PKO Bank Hipoteczny SA and PKO Leasing SA, signed a contract to establish a tax group: Podatkowa Grupa Kapitałowa Powszechnej Kasy Oszczędności Banku Polskiego Spółki Akcyjnej ("PGK PKO Banku Polskiego SA"). The respective contract was registered by the Head of the Second Mazovian Tax Office in Warsaw. PKO Bank Polski SA is the parent of PGK PKO Banku Polskiego SA. PGK PKO Banku Polskiego SA was established for three tax years. The first tax year began on 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

3.1 KEY FINANCIAL INDICATORS

The effect of the results achieved by the PKO Bank Polski SA Group in 2018 are the key financial effectiveness ratios at the levels presented in the table below.

Table 3. Key financial indicators of the PKO Bank Polski SA Group

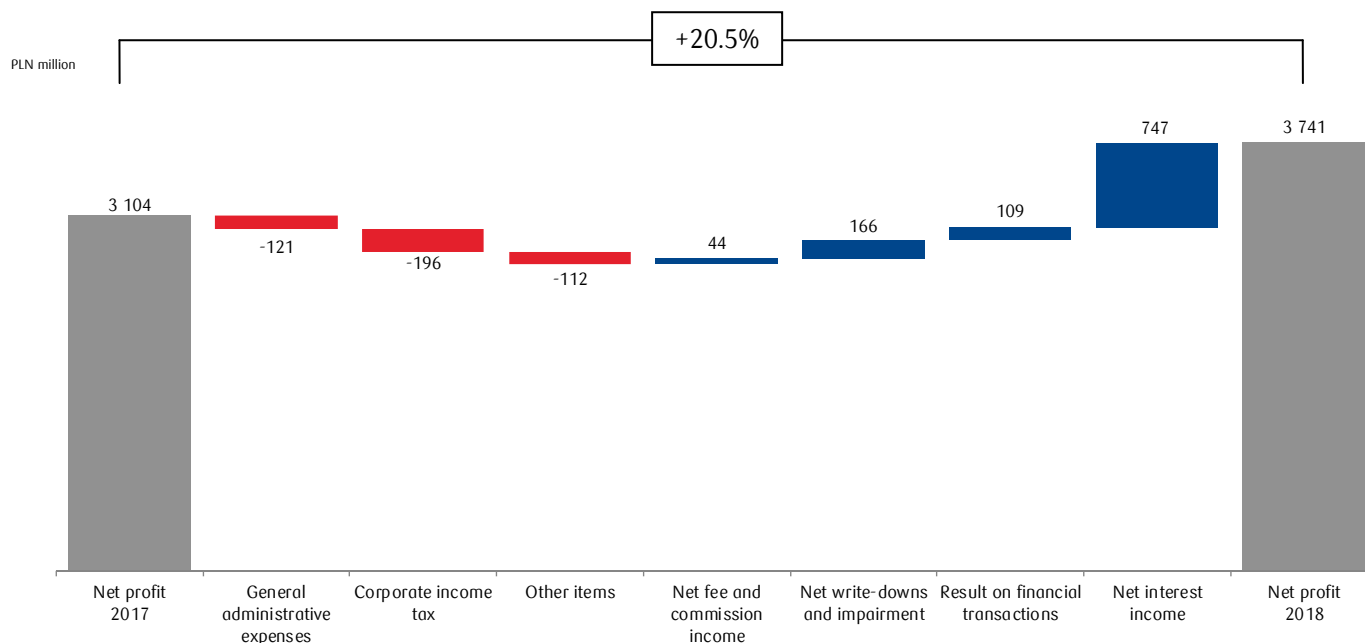
	31.12.2018	31.12.2017	Change
ROA net (net profit/average total assets)	1.2%	1.1%	+0.1 p.p.
ROE net (net profit/average total equity)	10.0%	9.0%	+1.0 p.p.
C/I (cost to income ratio)	44.2%	46.0%	-1.8 p.p.
Net interest margin (net interest income/average interest bearing assets)	3.4%	3.3%	+0.1 p.p.
Share of impaired loans	4.9%	5.5%	-0.6 p.p.
Cost of risk	-0.59%	-0.71%	+0.12 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	18.88%	17.37%	+1.51 p.p.
Tier 1 capital ratio	17.54%	16.50%	+1.04 p.p.

3.2 CONSOLIDATED INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
General administrative expenses
Net write-downs and impairment

The consolidated net profit of the PKO Bank Polski SA Group earned in 2018 amounted to PLN 3 741 million and was PLN 637 million (+20.5%) higher than in the corresponding period of 2017.

⁸ In this section potential differences in totals, shares and dynamics resulted from rounding the amounts to PLN millions and rounding percentage amounts to one place after the decimal point.



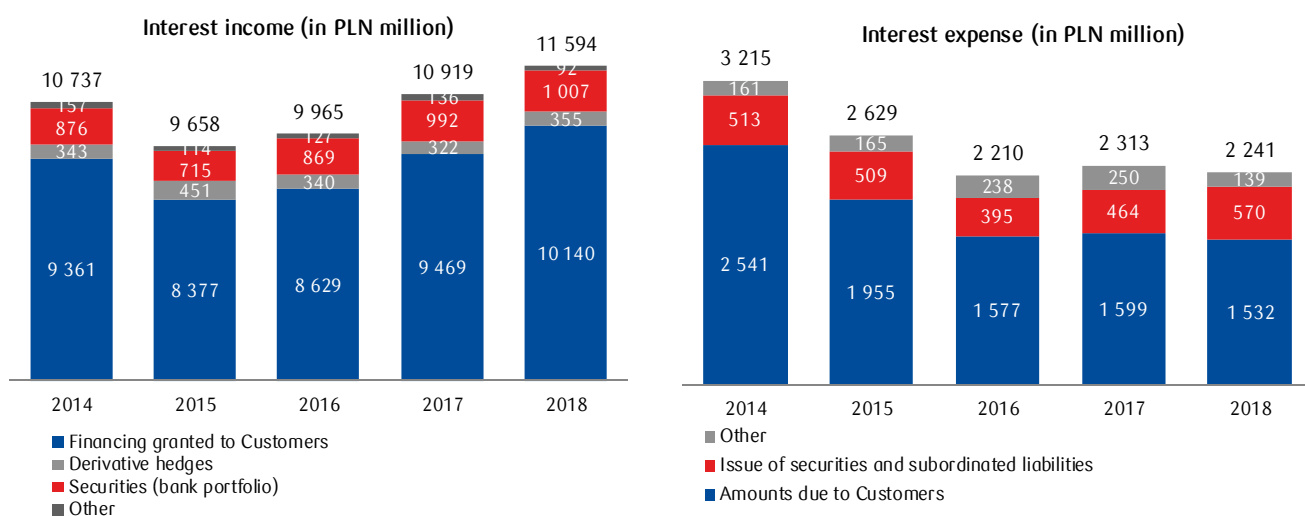
In the income statement of the PKO Bank Polski SA Group for 2018 the result on business activities amounted to PLN 13 347 million and was PLN 787 million, i.e. 6.3% higher y/y, mainly as a result of an increase in net interest income.

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

	2018	2017	Change (in PLN million)	Change (in %)
Net interest income	9,353	8,606	747	8.7%
Net fee and commission income	3,013	2,969	44	1.5%
Net other income	981	985	-4	-0.4%
Dividend income	12	12	0	0.0%
Result on financial transactions	163	54	109	3x
Net foreign exchange gains/losses	489	452	37	8.2%
Net other operating income and expenses	317	467	-150	-32.1%
Result on business activities	13,347	12,560	787	6.3%
General administrative expenses	-5,905	-5,784	-121	2.1%
Tax on certain financial institutions	-950	-932	-18	1.9%
Net operating profit/(loss)	6,492	5,844	648	11.1%
Net write-downs and impairment	-1,451	-1,617	166	-10.3%
Share in profits and losses of associates and joint ventures	37	22	15	68.2%
Profit before tax	5,078	4,249	829	19.5%
Corporate income tax	-1,336	-1,140	-196	17.2%
Net profit (including non-controlling interests)	3,742	3,109	633	20.4%
Profit (loss) attributable to non-controlling shareholders	1	5	-4	-80.0%
Net profit	3,741	3,104	637	20.5%

NET INTEREST INCOME

In 2018 net interest income amounted to PLN 9 353 million, i.e. PLN 747 million higher than in the previous year. The higher net interest income y/y was determined mainly by an increase in income on financing granted to Customers, in effect, both by the increase in the volume and net interest margin.

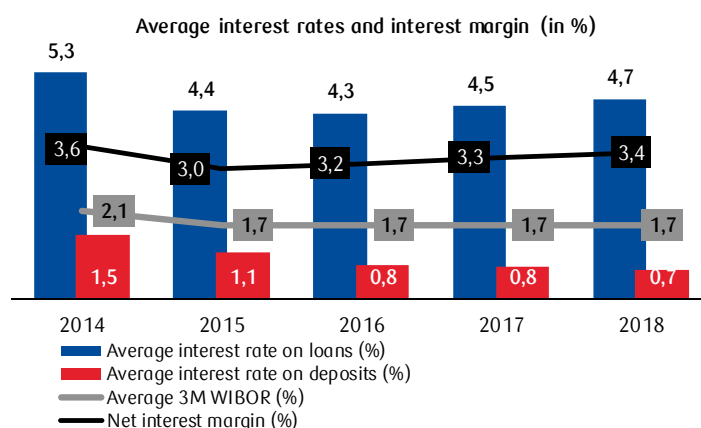


Interest income⁹ amounted to PLN 11 594 million and was PLN 675 million higher than in the previous year, mainly in effect of:

- an increase in financing granted to Customers of PLN 671 million y/y – related to the increase in the average volume of amounts due in respect of loans of PLN 8.3 billion and amounts due in respect of leases of PLN 1.6 billion, with a change in their structure (an increase in the share of consumer loans and lease receivables offset by a decrease in foreign currency housing loans), with unchanged levels of market interest rates for PLN, CHF and EUR;
- higher income on derivative hedges (+PLN 33 million y/y), mainly in effect of an increase in the volume and average interest on CIRS hedges;
- a drop in other revenues of PLN 44 million y/y, resulting from the drop in interest income on the mandatory reserve of PLN 61 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 (reduction from 1.35% to 0.50%).

Interest expense amounted to PLN 2 241 million and were PLN 72 million lower than in 2017. The lower level of interest expense was mainly the effect of a reduction in the costs of the deposit base of PLN 67 million y/y, resulting from the change in their term structure in favour of current deposits, whose share increased by 6 p.p. y/y to approx. 62% of the amounts due to Customers;

The net interest margin increased by approx. 0.1 p.p. y/y to 3.4% as at the end of 2018. As at the end of 2018 the average interest rate on PKO Bank Polski Group SA loans was 4.7%, and the average interest rate on total deposits was 0.7%, compared with 4.5% and 0.8% respectively as at the end of 2017.

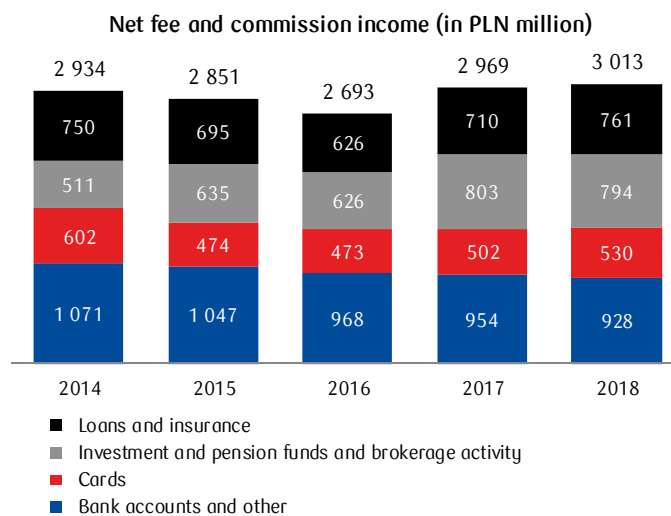


⁹ To ensure data comparability interest income was adjusted: income from non-Treasury bonds, which are recognized in income from debt securities in the Financial Statements were transferred to income from loans and advances to Customers.

NET FEE AND COMMISSION INCOME

Net fee and commission income earned in 2018 amounted to PLN 3 013 million and was PLN 44 million higher than in the corresponding period of the prior year. The level of the net commission income was determined – among other things – by:

- higher net income on loans and insurance (+ PLN 51 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 cards (+ PLN 28 million y/y), in effect of a higher number of cards and higher volumes of non-cash transactions;
- lower net income on investment funds, pension funds and brokerage activities (- PLN 9 million y/y), mainly due to lower net income from brokerage activities (- PLN 31 million y/y), accompanied by a PLN 22 million y/y higher net income on investment and pension funds;
- lower net income on servicing bank accounts and on other activities (- PLN 26 million y/y), related – among other things – to a change in the structure of Customer accounts who decide to switch to accounts with lower maintenance charges.



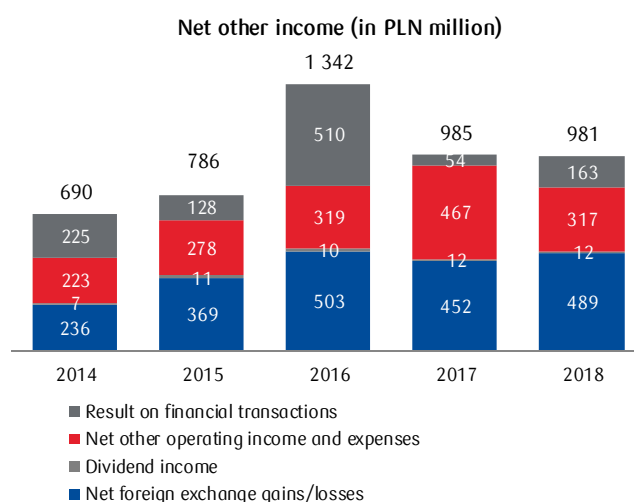
NET OTHER INCOME

Net interest income earned in 2018 amounted to PLN 981 million and was PLN 4 million lower than in the prior year.

A drop was noted in annualized other operating income and expenses, net, caused by:

- recognizing a provision of PLN 62.5 million in connection with the issue of 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 revenue of PLN 111 million in respect of the completion of a development project and starting to transfer the apartments to Customers of one of the companies of the Bank's Group.

Compared with the result realized in 2017 net result on financial transactions increased (+ PLN 109 million y/y), mainly due to sales of securities (recognized under net gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss).



GENERAL ADMINISTRATIVE EXPENSES

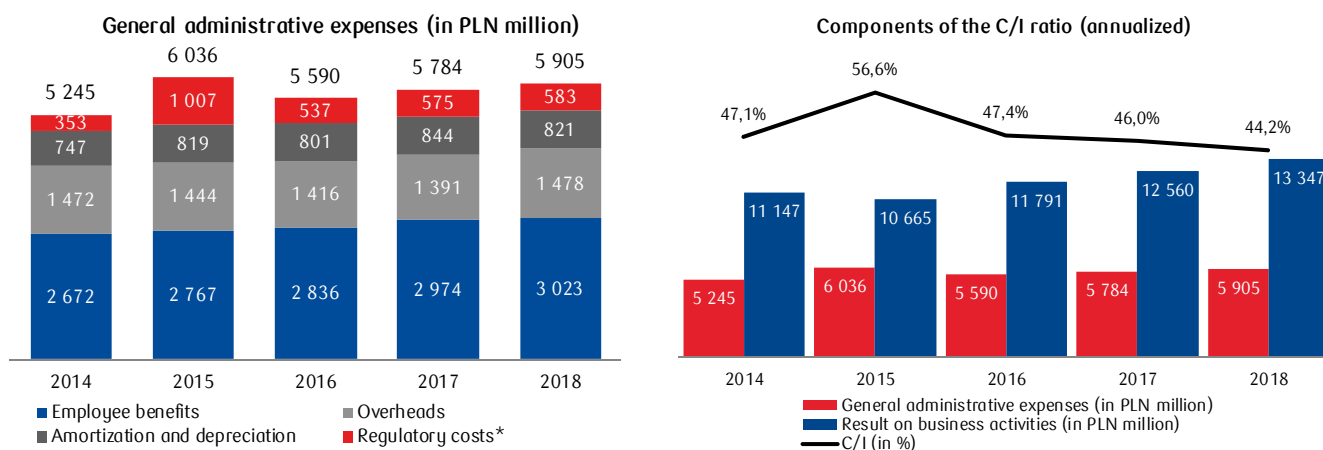
In 2018 general administrative expenses amounted to PLN 5 905 million and were 2.1% higher y/y. Their level was mainly determined by:

- an increase in employee benefits of PLN 49 million, i.e. of 1.7%;
- an increase in overheads of PLN 87 million, i.e. of 6.3%, mainly in connection with an increase in the following expenses:
 - marketing (of PLN 73 million – including mainly on the Bank's activities in respect of its image, of PLN 25 million, and promoting banking products, of PLN 17 million);

¹⁰Information on setting up the provision was published on 27 June 2018 in current report No. 24/2018. On 27 August 2018 the President of UOKiK issued a consent decree. The decree became final and binding on 4 October 2018.

- postal services (increase of PLN 19 million - mainly in connection with sending information to Customers about product changes as a result of the Act on amendments to the Act on payment services PSD2, sending commission and fee tariffs, and the PAD Directive (Payment Accounts Directive));
- an increase of PLN 26 million, i.e. 6.5% in contributions and payments to the Bank Guarantee Fund (BGF) - costs in respect of the BGF amounted to PLN 427 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 401 million, of which the contribution for mandatory restructuring was PLN 209 million ;
- a drop of PLN 18 million, i.e. 10.0% in the costs of taxes and fees, mainly as a result of costs of withheld tax on issues of foreign bonds which were PLN 25 million lower and the PFSA costs which were PLN 8 million higher;
- a PLN 23 million, i.e. 2.7% decrease in amortization and depreciation, including mainly amortization at the Bank (total accumulated amortization of software licences), accompanied by an increase in amortization and depreciation in PKO Leasing SA due to a higher volume of operating leases.

The effectiveness of operations of the PKO Bank Polski SA Group measured with C/I on an annual basis was 44.2% and improved by 1.8 p.p. y/y in consequence of better results on business activities (+6.3% y/y), with a simultaneous increase in general administrative expenses (+2.1% y/y).



*includes contributions and payments to BGF, fees to the PFSA, taxes and charges

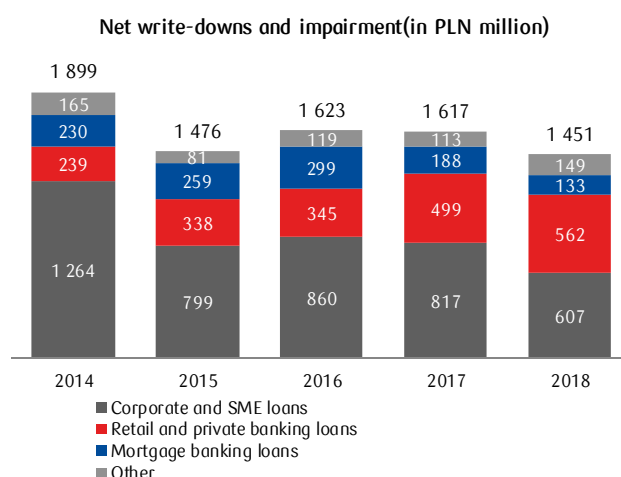
NET WRITE-DOWNS AND IMPAIRMENT

Net write-downs and impairment reflect the Bank's Group's conservative approach to recognizing and measuring credit risk. In 2018 they amounted to PLN 1 451 million. The improvement in the result (+ PLN 166 million y/y) was mainly due to more favourable net write-downs on exposure to the portfolio of amounts due from enterprises in connection with the good economic conditions.

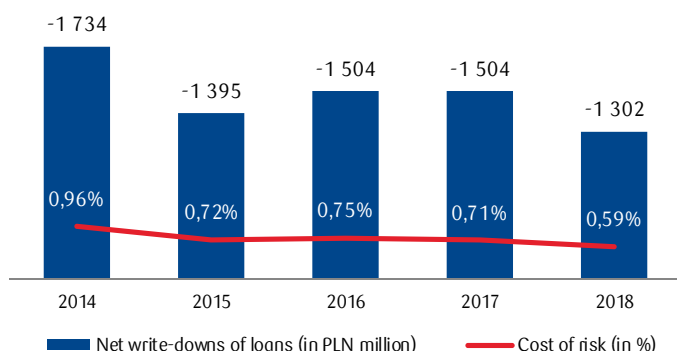
The share of impaired loans amounted to 4.9% as at the end of 2018 (a 0.6 p.p. decrease compared with 2017).

The cost of risk was 0.59% as at the end of 2018, which is a 0.12 p.p. improvement compared with the corresponding period of the prior year.

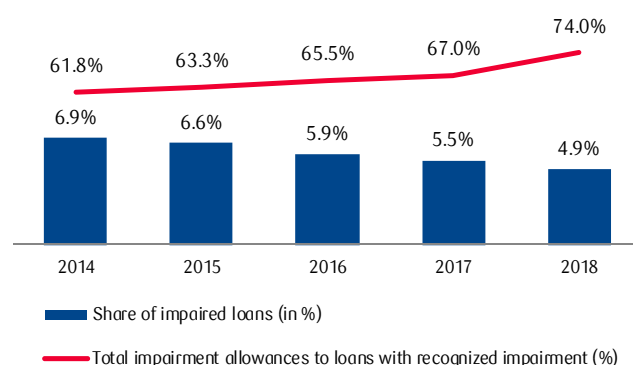
The improvement in risk ratios accompanied by an increase in gross loans and advances to Customers of approx. 7% y/y is the effect of continuing the current conservative credit risk management policy of the Bank's Group and of strict monitoring of the receivables portfolio.



Cost of risk at the Bank's Group



Quality of the Bank's Group's loan portfolio



3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

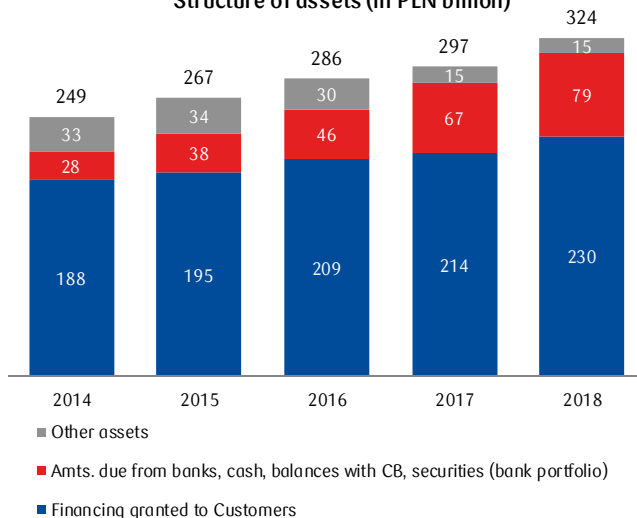
Main items of the Statement of financial position
Financing granted to customers
Amounts due to Customers
Exteranal financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

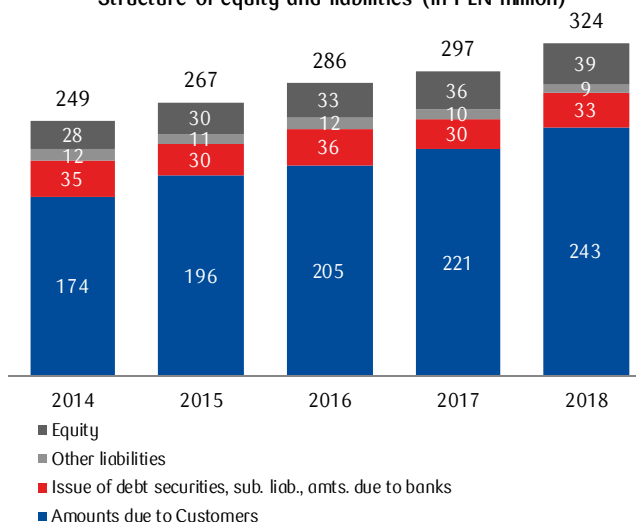
As at the end of 2018 The PKO Bank Polski SA Group's total assets, and total liabilities and equity rose to a record level exceeding PLN 324 billion, which reflected an approx. PLN 27 billion increase since the beginning of the year. Thus, the PKO Bank Polski SA Group maintained its leading position in terms of size on the Polish banking market.

The Bank's Group noted an increase in financing granted to Customers, in cash and balances with the Central Bank and in the securities portfolio. In respect of the sources of financing, the most stable types of liabilities increased since the beginning of the year, i.e. Customer deposits and issues of securities, at a lower level of amounts due to banks in effect of the repayment of the whole amount due to Nordea AB in Q1 2018.

Structure of assets (in PLN billion)



Structure of equity and liabilities (in PLN million)



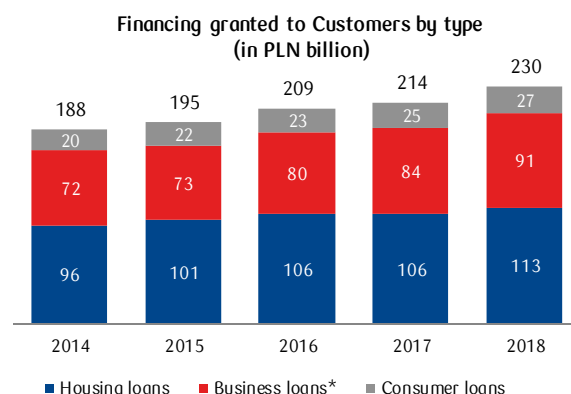
FINANCING GRANTED TO CUSTOMERS

As at the end of 2018, financing granted to Customers of the Bank's Group exceeded PLN 230.4 billion and increased by over PLN 16 billion y/y.

Housing loans and amounts due from businesses were the main items in the structure of net loan portfolio by type, with shares of 48.9% and 39.6% of the portfolio as at the end of 2018.

In 2018 a further increase was noted in the most profitable consumer loans (of PLN 1.9 billion) and business loans (of PLN 7.6 billion). Housing loans extended by the Bank increased by PLN 6.6 billion y/y.

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.

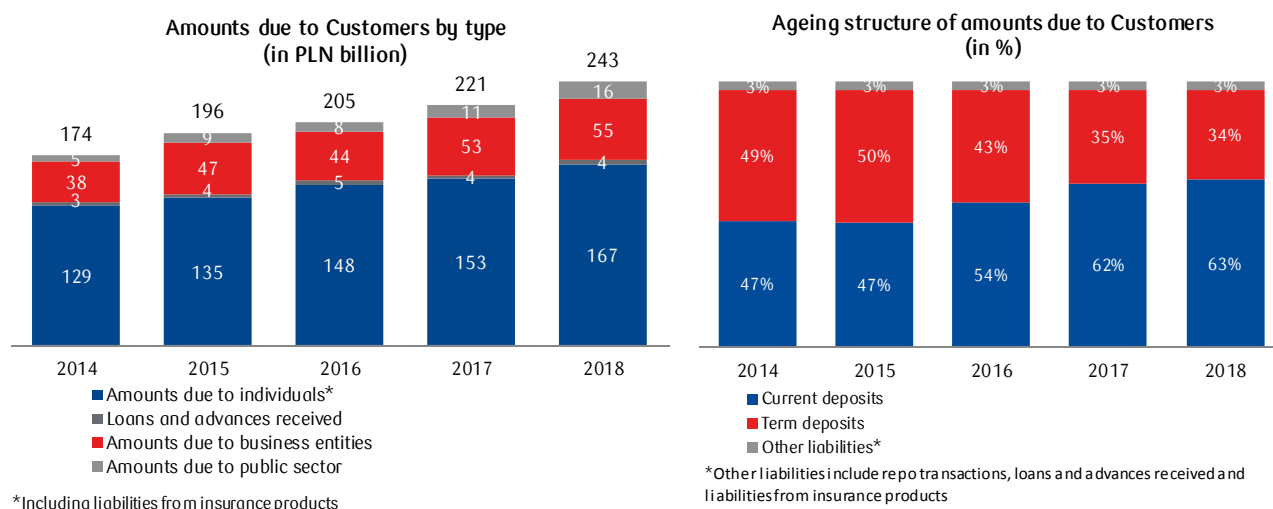


*Including other than Treasury bonds (excluding held for trading)

AMOUNTS DUE TO CUSTOMERS

Amounts due to Customers constitute the basic source of financing the assets of the Bank's Group. As at the end of 2018 they amounted to PLN 242.8 billion, which is a PLN 21.9 billion increase y/y. The increase in deposits placed by individuals (+ PLN 13.7 billion y/y) and in deposits placed by budget entities (+ PLN 5.1 billion y/y) contributed to the increase in the deposit base.

In the break-down of amounts due to Customers by type, the largest component are the amounts due to individuals, whose share in the structure of liabilities was 69% as at the end of 2018. The second largest component were amounts due to business entities (23% of the portfolio as at the end of 2018).



The share of current deposits in the break-down of total deposits increased and amounted to 63.1% (+1.3 p.p. compared with the end of 2017).

EXTERNAL FINANCING

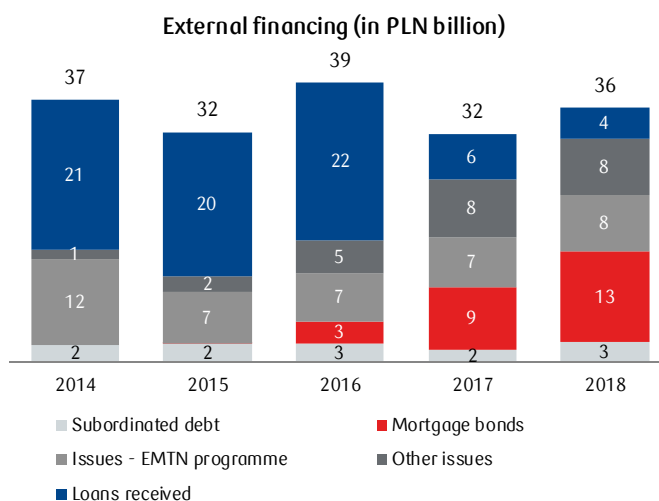
The PKO Bank Polski SA Group is an active participant of the debt securities markets, both Polish and international. Such activities are aimed at diversifying the sources of financing operations and adapting them to the regulatory requirements.

As at the end of 2018 the level of long-term external financing was approx. PLN 35.7 billion and it increased compared with the beginning of the year the year by nearly PLN 3.7 billion. The following factors had an impact on the level of borrowings:

- continued issue of mortgage bonds by PKO Bank Hipoteczny SA (with a nominal value of EUR 0.5 billion and EUR 1.6 billion);
- issue of subordinated debt by PKO Bank Polski SA (with a nominal value of PLN 1 billion);
- complete repayment of the remaining portion of the credit facility from Nordea Bank AB and gradual amortization of the bonds issued by the PKO Leasing SA Group under the lease portfolio securitization plan.

Current repayments of the remaining loans from financial institutions and the effect of foreign exchange rates related to the weakening of the Polish zloty had an impact on the level of external sources of financing.

Detailed information about the issues conducted by the PKO Bank Polski SA Group and the loans obtained are described in Notes 36, 38 and 39 of the Consolidated Financial Statements of the PKO Bank Polski SA Group for the year ended 31 December 2018.



4. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP¹¹

Key financial indicators
Income statement
Statement of financial position

4.1 KEY FINANCIAL INDICATORS

The results achieved by PKO Bank Polski SA in 2018 enabled the key financial efficiency indicators to achieve the following levels shown in the table below.

Table 5. Key financial indicators of PKO Bank Polski SA

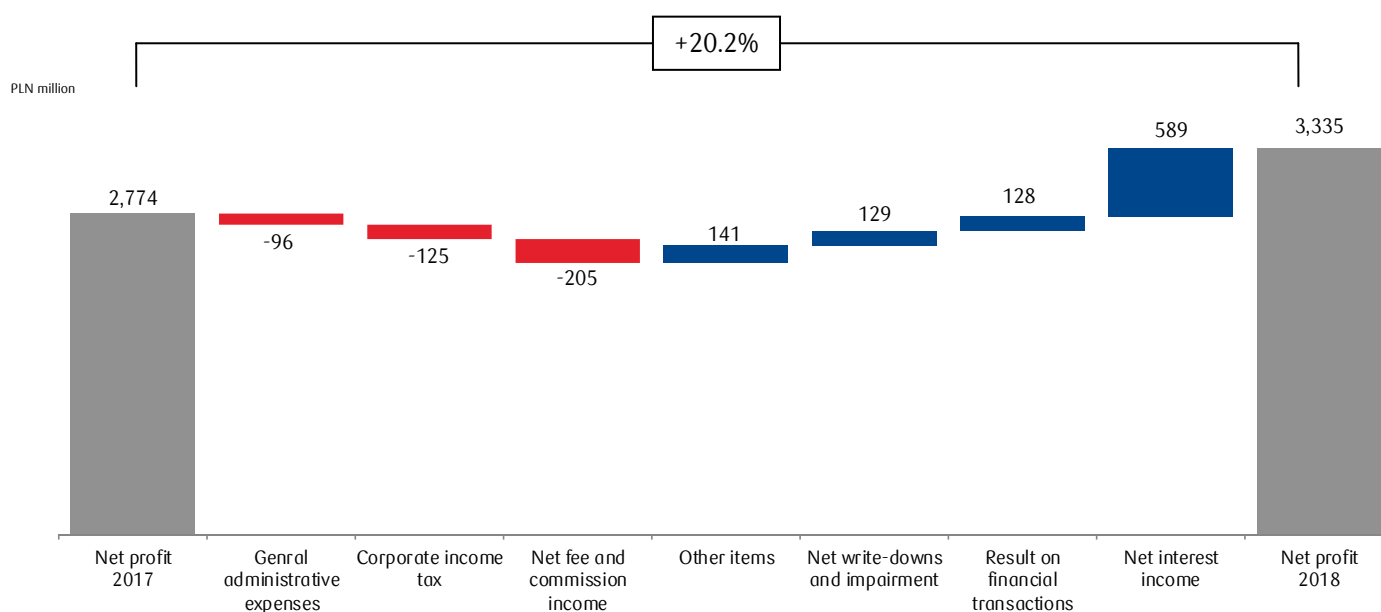
	31.12.2018	31.12.2017	Change
ROA net (net profit/average total assets)	1.2%	1.0%	+0.2 p.p.
ROE net (net profit/average total equity)	9.1%	8.1%	+1.0 p.p.
C/I (cost to income ratio)	43.2%	44.8%	-1.6 p.p.
Net interest margin (net interest income/average interest bearing assets)	3.4%	3.2%	+0.2 p.p.
Share of impaired loans	5.0%	5.6%	-0.6 p.p.
Cost of risk	-0.61%	-0.71%	+0,10 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	21.33%	19.59%	+1.74 p.p.
Tier 1 capital ratio	19.80%	18.62%	+1.18 p.p.

4.2 INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
General administrative expenses
Net write-downs and impairment

In 2018 PKO Bank Polski SA generated net profit of PLN 3 335 million (20.2%, i.e. PLN 561 million higher y/y), mainly as a result of higher result on business activities and a better net write-downs and impairment balance, with higher general administrative expenses.

¹¹ In this section potential differences in totals, shares and dynamics resulted from rounding the amounts to PLN millions and rounding percentage amounts to one place after the decimal point.



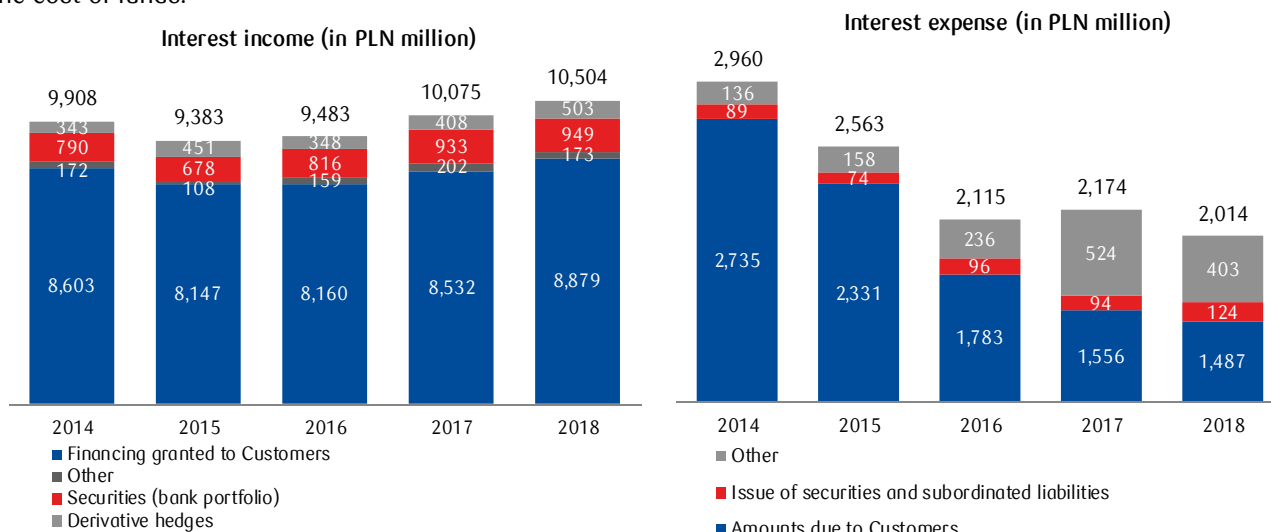
In the income statement of PKO Bank Polski SA for 2018 the result on business activities amounted to PLN 11 884 million and was PLN 642 million, i.e. 5.7% higher than in 2017, mainly as a result of an increase in net interest income of PLN 589 million y/y and other income, net of PLN 258 million y/y, accompanied by a drop in net fee and commission income of PLN 205 million y/y.

Table 6. Income statement of PKO Bank Polski SA (in PLN million)

	2018	2017	Change (in PLN million)	Change (in %)
Net interest income	8,490	7,901	589	7.5%
Net fee and commission income	2,482	2,687	-205	-7.6%
Net other income	912	654	258	39.4%
Dividend income	323	135	188	2.4x
Result on financial transactions	175	47	128	3.7x
Net foreign exchange gains/losses	469	419	50	11.9%
Net other operating income and expenses	-55	53	-108	x
Result on business activities	11,884	11,242	642	5.7%
General administrative expenses	-5,133	-5,037	-96	1.9%
Tax on certain financial institutions	-883	-894	11	-1.2%
Net operating profit/(loss)	5,868	5,311	557	10.5%
Net write-downs and impairment	-1,397	-1,526	129	-8.5%
Profit before tax	4,471	3,785	686	18.1%
Corporate income tax	-1,136	-1,011	-125	12.4%
Net profit	3,335	2,774	561	20.2%

NET INTEREST INCOME

Net interest income earned in 2018 amounted to PLN 8 490 million and was PLN 589 million higher than in 2017. The improvement in net interest income was determined by an increase in the credit portfolio with a simultaneous drop in the cost of funds.



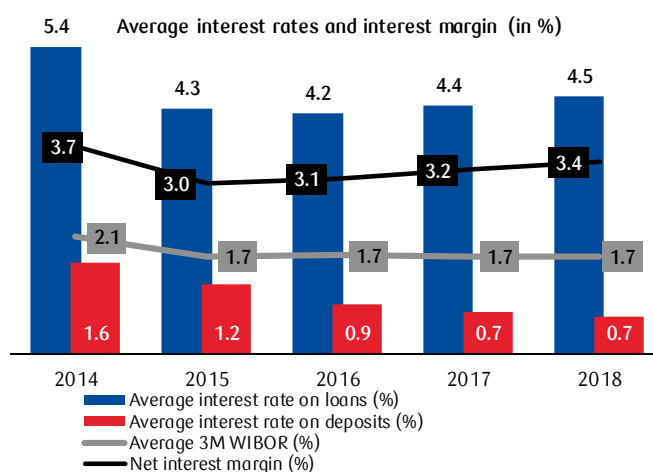
In 2018 interest income¹² amounted to PLN 10 504 million and was 4.3% higher than in 2017, mainly in effect of:

- an increase in income from financing granted to Customers (+ PLN 347 million, i.e. +4.1% 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 PKO Bank Hipoteczny SA (the value of the portfolio was approx. PLN 2.5 billion in 2018);
- higher income on derivative hedges (+PLN 95 million y/y), mainly in effect of an increase in the volume and average interest on CIRS hedges;
- a drop in other interest income of PLN 29 million y/y, resulting mainly from the drop in interest income on the mandatory reserve of PLN 61 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 (reduction from 1.35% to 0.50%).

Interest expense amounted to PLN 2 014 million in 2018 and was 7.4% lower than in the previous year, mainly due to:

- a decrease in costs of the deposit base of PLN 69 million y/y, resulting from the change in the term structure in favour of current deposits, whose share increased by 6 p.p. y/y to approx. 62% of the amounts due to Customers;
- a drop in other costs of PLN 91 million y/y, including a drop in the costs of loans and advances received of PLN 120 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 – and an increase in costs of the Bank's own issues of debt securities and subordinated liabilities of PLN 30 million y/y, in connection with an increase in medium-term issues.

The net interest margin increased by approx. 0.2 p.p. y/y to 3.4% as at the end of 2018. In 2018 the average interest rate on PKO Bank Polski SA loans was 4.5%, and the average interest rate on total deposits was 0.7%, compared with 4.4% and 0.7% respectively in 2017.



¹² To ensure data comparability interest income was adjusted: income from non-Treasury bonds, which are recognized in income from debt securities in the Financial Statements were transferred to income from financing granted to Customers.

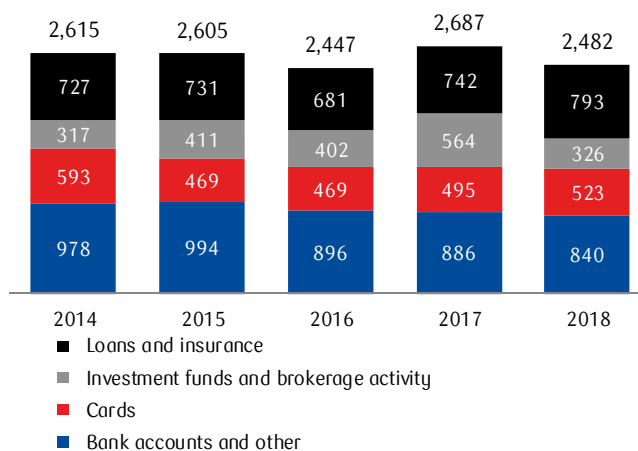
NET FEE AND COMMISSION INCOME

In 2018 net fee and commission income amounted to PLN 2 482 million and was PLN 205 million lower than in the previous year.

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

- lower result on investment funds and brokerage activities (PLN -238 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 aimed at purchasing units in selected funds;
- lower net income on servicing bank accounts and on other activities (- PLN 46 million y/y), related - among other things - to a change in the structure of accounts of Customers who decide to switch to accounts with lower maintenance charges;
- higher net income on loans and insurance granted (+ PLN 51 million y/y), mainly in effect of an increase in sales of insurance products linked to consumer and housing loans;
- higher net income on cards (+ PLN 28 million y/y), in effect of a higher number of cards and higher volumes of non-cash transactions.

Net fee and commission income (in PLN million)



NET OTHER INCOME

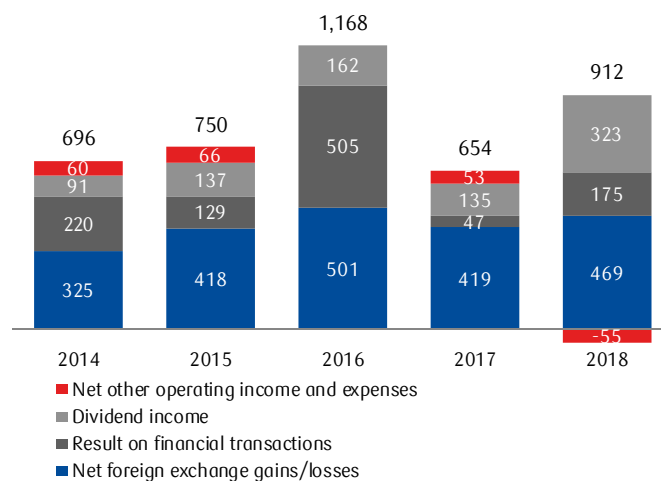
In 2018 net other income amounted to PLN 912 million and was PLN 258 million higher than that earned in 2017.

The y/y increase in net other income was mainly due to an increase in result on financial transactions (+ PLN 128 million y/y), mainly earned on sales of securities (disclosed under net income on derecognition of financial assets and liabilities).

Also the net foreign exchange gains/losses and dividend income improved.

The drop in net other operating income and expenses (PLN -108 million y/y) was mainly the result of the disclosure of a provision of PLN 62.5 million in connection with the binding decision issued by the President of the Office of Competition and Consumer Protection¹³ in the proceedings concerning practices of violating collective interests of consumers, and an increase in the costs of donations of PLN 31 million.

Net other income (in PLN million)



GENERAL ADMINISTRATIVE EXPENSES

In 2018 general administrative expenses amounted to PLN 5 133 million and were 1.9% higher y/y. Their level was mainly determined by:

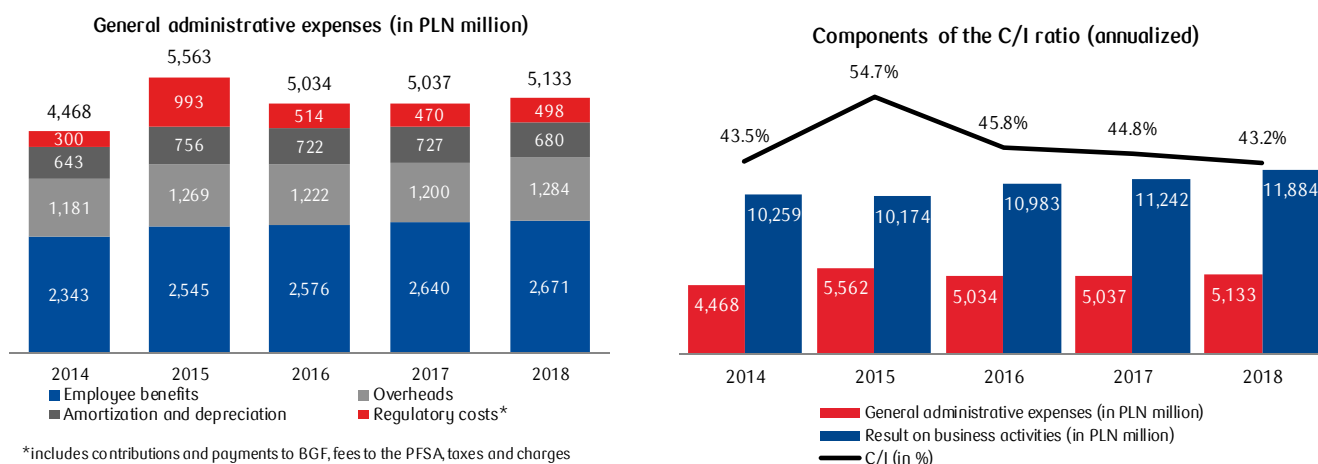
- an increase in employee benefits of PLN 31 million, i.e. of 1.2%;
- an increase in overheads of PLN 84 million, i.e. of 7.1%, mainly in connection with an increase in the following expenses:
 - marketing (of PLN 71 million - including mainly the Bank's activities in respect of its image, of PLN 25 million, and promoting banking products, of PLN 17 million);

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

- postal services (increase of PLN 18 million – mainly in connection with sending information to Customers about product changes as a result of the Act on amendments to the Act on payment services PSD2, sending commission and fee tariffs, and the PAD Directive (Payment Accounts Directive));
- a PLN 6.7 million, i.e. 9.6% increase in fee and commission expenses, mainly due to higher PFSA costs;
- a PLN 20.5 million, i.e. 5.1% increase in contributions and payments to the BGF – after Q4, costs in respect of the BGF amounted to PLN 422 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 401 million, of which the contribution for mandatory restructuring was PLN 209 million;
- a drop in amortization and depreciation (mainly amortization) of PLN 47 million, i.e. of 6.5% (full amortization of software licences).

The effectiveness of operations of PKO Bank Polski SA measured with the C/I ratio on an annual basis was 43.2% and improved by 1.6 p.p. y/y in consequence of better result on business activities (+5.7% y/y), with a simultaneous increase in general administrative expenses (+1.9% y/y).

In 2018 the Bank incurred entertainment costs, expenditure on legal services, marketing services, public relations and social communication services, as well as advisory services related to management in the total amount of PLN 202 million, which represented 3.9% of the Bank's total administrative expenses.



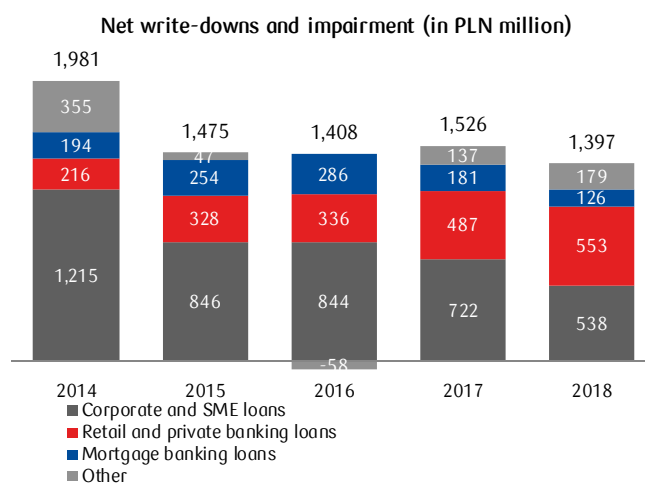
NET WRITE-DOWNS AND IMPAIRMENT

Net write-downs and impairment reflect the Bank's conservative approach to recognizing and measuring credit risk. In 2018 they amounted to PLN 1 397 million. The improvement in the result (+ PLN 129 million y/y) was mainly due to the more favourable net write-downs balance on exposure to the portfolio of business entities and mortgage banking loans.

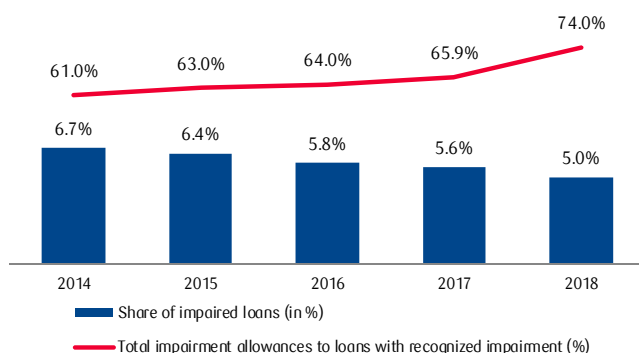
The share of impaired loans amounted to 5.0% as at the end of 2018 (a 0.6 p.p. decrease compared with the end of 2017).

The cost of risk amounted to 0.61% in 2018, and compared with the corresponding period of the prior year it was approx. 0.10 p.p. more favourable.

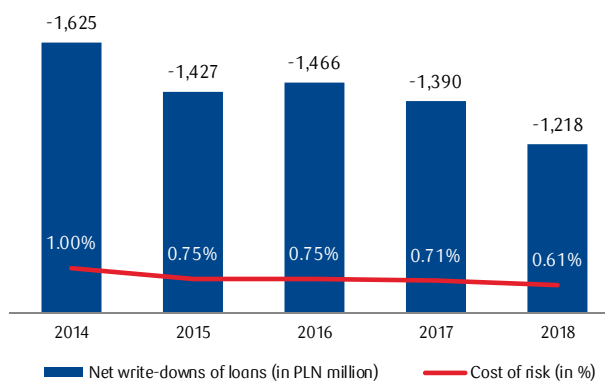
The improvement in risk ratios with a simultaneous 5% y/y increase in the portfolio of receivables is the effect of the continuation of the current conservative credit risk management policy of the Bank's Group and of strict monitoring of the receivables portfolio.



Quality of the Bank's loan portfolio



Cost of risk at the Bank



4.3 STATEMENT OF FINANCIAL POSITION

Main items of the Statement of financial position

Financing granted to Customers

Amounts due to Customers

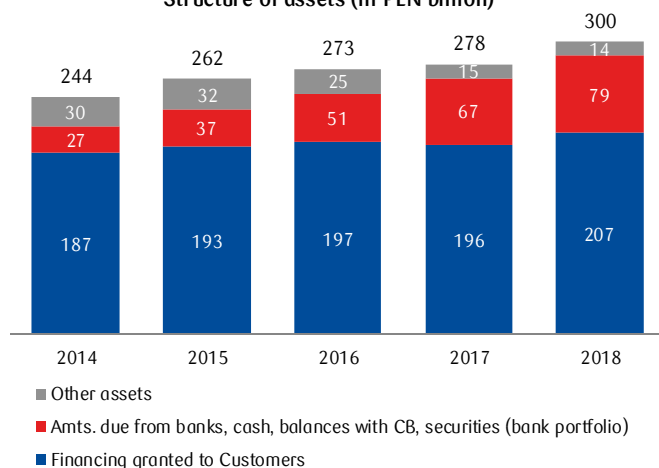
External financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

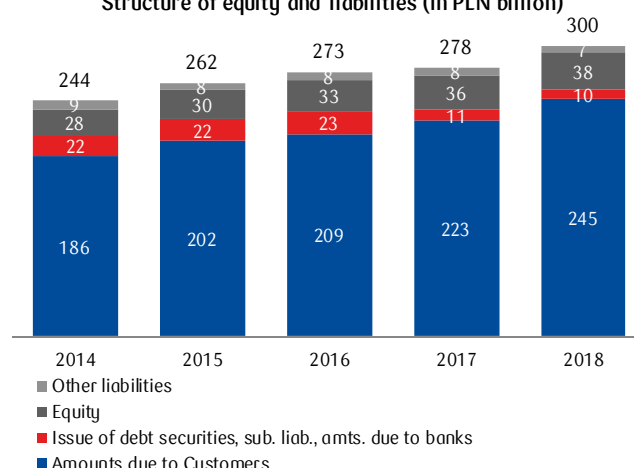
Total assets, and total equity and liabilities of PKO Bank Polski SA exceeded PLN 300 billion as at the end of 2018 and increased by PLN 22.7 billion since the beginning of the financial year. Therefore, PKO Bank Polski SA maintained its leading position in terms of size in the Polish banking sector.

The Bank noted an increase in financing granted to Customers, in cash and balances with the Central Bank and in the securities portfolio since the beginning of the year. In the analysed period, the most stable types of liabilities increased in the structure of liabilities, i.e. Customer deposits and issues of subordinated debt, at a lower level of amounts due to banks (repayment of the whole amount due to Nordea AB).

Structure of assets (in PLN billion)



Structure of equity and liabilities (in PLN billion)



FINANCING GRANTED TO CUSTOMERS

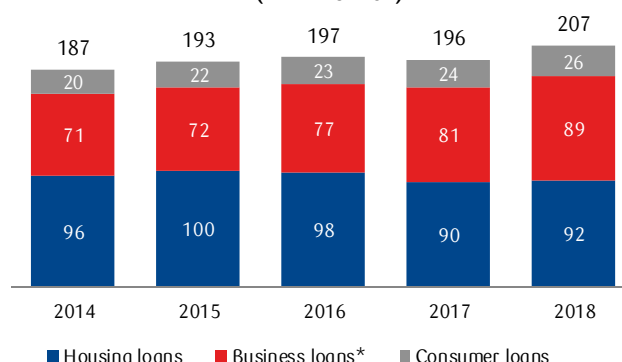
As at the end of 2018 financing granted to Customers amounted to PLN 207.2 billion, which is an increase of PLN 11.5 billion y/y.

Housing loans and business loans were the main items in the structure of the net loan portfolio by type, with shares of 44.3% and 43.1% of the portfolio as at the end of 2018.

In 2018 a further increase was noted in the most profitable consumer loans (of PLN 1.8 billion) and business loans (of PLN 8.1 billion). Housing loans increased by no more than PLN 1,6 billion y/y due to the further sale of mortgage covered housing loans to PKO Bank Hipoteczny SA (totalling PLN 2.5 billion in 2018).

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

Financing granted to Customers by type
(in PLN billion)



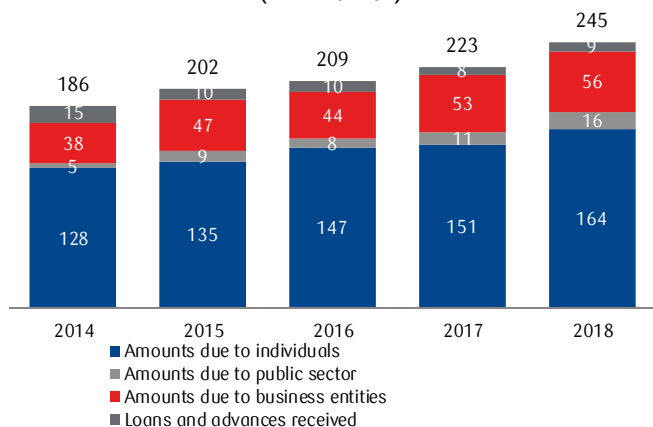
*Including other than Treasury bonds (excluding held for trading)

AMOUNTS DUE TO CUSTOMERS

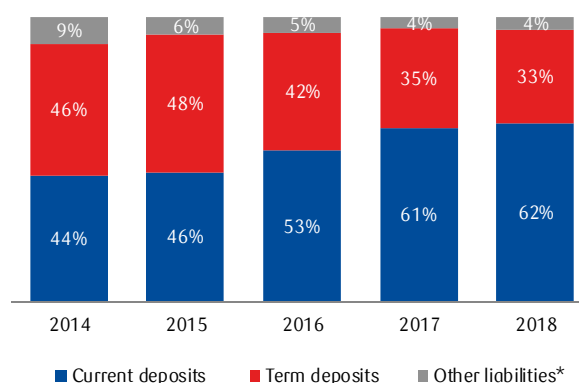
As at the end of 2018 amounts due to Customers totalled PLN 245.2 billion and continue to be the basic source of finance for the Bank, constituting 81.6% of the balance sheet total. As at the end of 2018 they increased by approx. PLN 22.7 billion, and the increase in deposits placed by individuals (+ PLN 13.8 billion y/y) was the main factor that contributed to the increase. The Bank also noted increases in the business customer segment (+PLN 2.8 billion y/y) and in the segment of budget entities (+PLN 5.1 billion).

In the break-down of amounts due to Customers by type, amounts due to individuals constitute the main item. Their share in the structure was 67.0% as at the end of 2018. In the break-down of amounts due to Customers by term, current deposits dominate with a share of 62.4% as at the end of 2018.

Amounts due to Customers by type
(in PLN billion)



Ageing structure of amounts due to Customers
(in %)



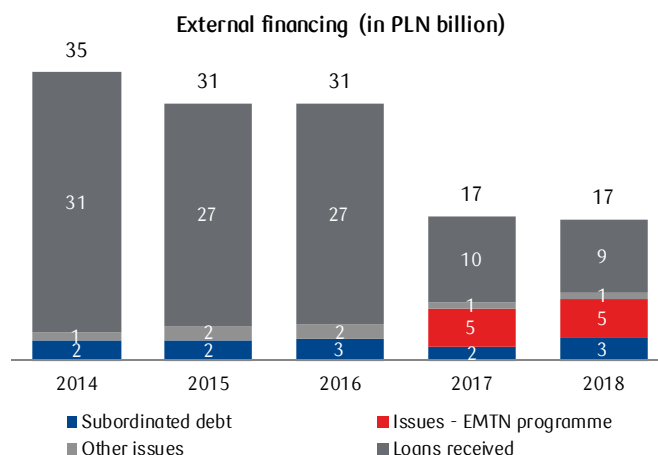
*Other liabilities include repo transactions, loans and advances received and liabilities from insurance products

EXTERNAL FINANCING

PKO Bank Polski SA is an active participant of the debt securities markets, both Polish and international. Such enable it to diversify the sources of financing its operations and to adapt them to the regulatory requirements regarding the long-term financial stability.

In 2018 external financing amounted to PLN 17 billion and did not change significantly during the year, and the Bank:

- in Q1 2018 fully repaid the borrowings from Nordea AB (a drop of PLN 2.7 billion y/y); in 2017 the Bank made a partial repayment of the borrowings from Nordea Bank AB, including: CHF 3.3 billion, USD 4 million and EUR 107 million;
- in Q1 2018 issued 10-year subordinated debt with a nominal value of PLN 1 billion with an early redemption option after 5 years of the issue date.



In 2018 amounts due to non-monetary financial institutions were another material category of long-term financing, including primarily to the subsidiary PKO Finance AB, a company engaged in the issue of securities on foreign markets. The increase in those liabilities is mainly the effect of the receipt of additional borrowings from the European Investment Bank under the framework agreement (PLN 0.6 billion) and the effect of the fluctuations in foreign exchange rates (PLN 0.5 billion).

Detailed information on the issues conducted by PKO Bank Polski SA is provided in Notes 35, 36 and 37 of the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2018.

5. EQUITY AND CAPITAL ADEQUACY MEASURES

Equity and return on equity
Capital adequacy measures
Dividend

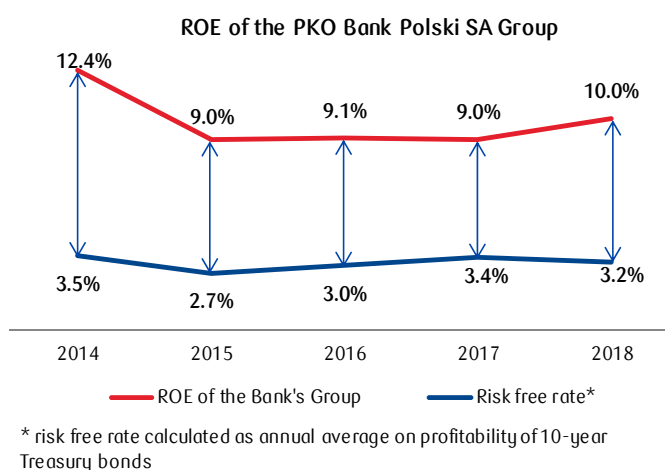
5.1 EQUITY AND RETURN ON EQUITY

Equity of the PKO Bank Polski SA Group increased by 7.8% y/y and comprised 12.1% of total liabilities and equity as at the end of 2018.

Table 7. Equity and total capital adequacy ratio of the PKO Bank Polski SA Group (in PLN million)

	31.12.2018	31.12.2017	Change (in PLN million)	Change (in %)
Total equity, including:	39,101	36,256	2,845	7.8%
Share capital	1,250	1,250	0	0.0%
Supplementary capital	29,354	27,374	1,980	7.2%
General banking risk fund	1,070	1,070	0	0.0%
Other reserves	3,831	3,645	186	5.1%
Total other comprehensive income	250	-110	360	x
Retained earnings	-385	-66	-319	5.8x
Net profit/loss for the year	3,741	3,104	637	20.5%
Non-controlling interests	-10	-11	1	-9.1%
Equity	37,850	34,026	3,824	11.2%
Total capital ratio	18.88%	17.37%		+1.51 p.p.

The reinforcement of the capital base (an increase in average equity of 8.5% y/y) which resulted from the need to comply with the recommendations of the PFSA and the regulatory requirements, with a 20.5% y/y financial result dynamics, translated into an increase in the return on equity ratio (ROE) to 10.0%.



5.2 CAPITAL ADEQUACY MEASURES

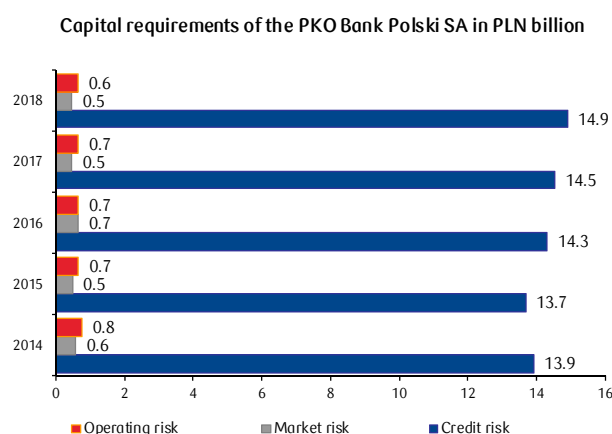
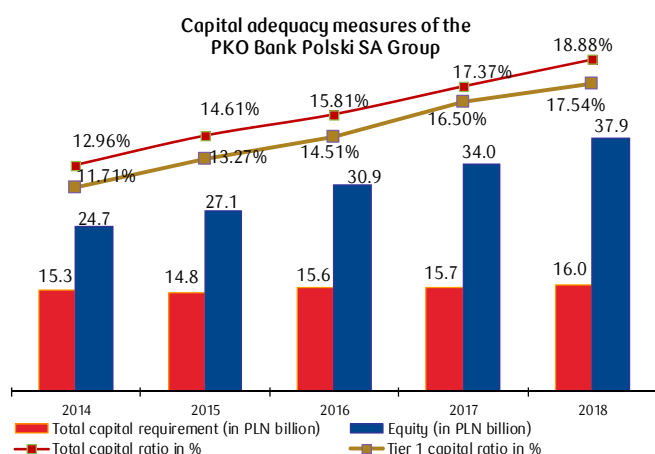
The capital adequacy of the PKO Bank Polski SA Group as at the end of 2018 remained on a safe level, considerably above supervisory limits. As at 31 December 2018 the capital adequacy measures of the PKO Bank Polski SA Group were calculated based on the provisions of the CRR Regulation, taking account of prudential consolidation.

As at the end of 2018 the total capital ratio of the PKO Bank Polski SA Group increased by 1.51 p.p. y/y to 18.88%, and the Tier 1 capital ratio increased by 1.0 p.p. y/y to 17.54%.

The increase in the capital ratios was mainly due to an increase in own funds of PLN 3.8 billion, with a simultaneous increase in capital requirements of approx. PLN 0.4 billion (mainly in respect of credit risk).

The following factors had an impact on the increase in own funds: inclusion, at the consent of the PFSA, of part of the profit earned in 2018 of PLN 1.6 billion in own funds, issue of subordinated debt of PLN 1 billion, and accumulation of the profits of the Bank's Group's companies and the accumulation of 75.2% of the Bank's profit from 2017 of PLN 2.1 billion (which led to 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, at the PFSA's consent, in previous quarters: in Q3 2017 part of the profit from H1 2017 of PLN 1,1 billion, and on Q4 2017 part of the profit from Q3 2017 of PLN 0.7 billion).

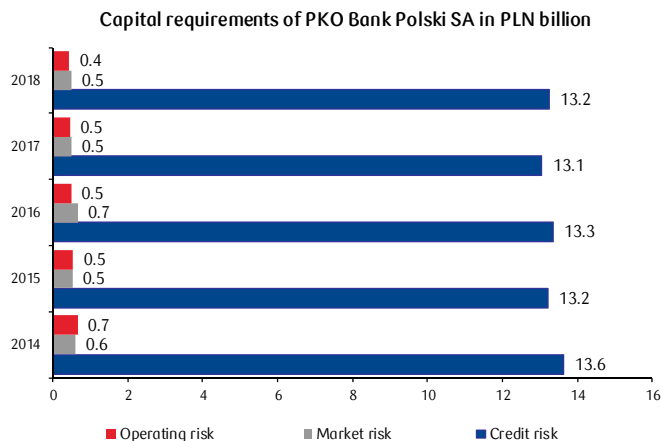
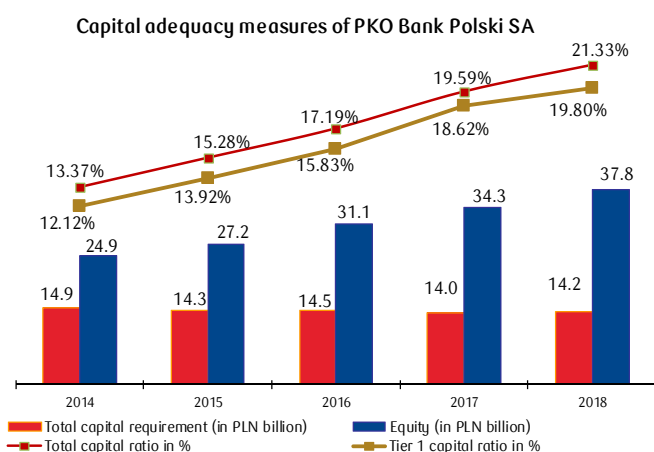
As at 31 December 2018 the following factors had an impact on the level of the PKO Bank Polski SA Group's capital requirements: applying the preferential risk weight of 35% to housing mortgage-secured exposures in respect of exposures that do not have a rating in the form of a valuation survey prepared by a valuation expert, which reduced housing loan requirements by approx. PLN (-)0.8 billion and translated into an increase in the total capital ratio of 0.94 p.p. and the base capital ratio of 0.87 p.p.



As at the end of 2018 the total capital ratio of the PKO Bank Polski SA Group increased by 1.7 p.p. y/y to 21.33%, and the Tier 1 capital ratio increased by 1.2 p.p. y/y to 19.80%.

The increase in the capital adequacy ratios was mainly due to an increase in own funds of approx. PLN 3.5 billion in 2018 in consequence of including, at the PFSA's consent, part of the profit earned in 2018 of PLN 1.6 billion in own funds, issuance of subordinated debt of PLN 1 billion, and the accumulation of 75.2% of the Bank's profit from 2017 of PLN 2.1 billion (which led to 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 at the PFSA's consent).

Stability of capital requirements was maintained thanks to the optimization of RWA in H2 2018 as a result of accepting the assessment of the value of real property by the Bank as meeting CRR requirements in the scope of allowability of mortgage as security and the wider use of the risk weight 35%, which led to lowering the requirements in the Bank by approx. PLN 0.8 billion.



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, pursuant to which the profit earned of PLN 2 774 million was earmarked for:

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

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 Annual General Meeting of the Bank on the appropriation of the Bank's profit for 2017 complies with the recommendation of the PFSA of 16 March 2018 to leave at least 25% of the 2017 profit unappropriated.

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 generated in 2017 of PLN 1 822 million had already been included in own funds pursuant to the consent of the PFSA in 2017.

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

The dividend policy assumes stable dividend payments in 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 capital adequacy ratios arising from the universally binding provisions of the law and regulatory requirements, and the minimum level of capital ratios set by the Polish Financial Supervision Authority for the purpose of dividend payment by the Bank.

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

The Bank's Group effectively and rationally manages capital adequacy so as to ensure that TCR and Tier1 ratios are at levels exceeding the regulatory and supervisory requirements, and at the same time that the distribution of dividend is possible.

PFSA RECOMMENDATIONS AS TO DISTRIBUTION OF DIVIDEND FOR 2018

On 15 January 2019 the PFSA took a stand on the dividend policy of commercial banks. The criteria for dividend distribution in 2019 indicated by the PFSA in respect of 2018 profits earned by commercial banks are as follows:

The PFSA recommends that only those banks that meet the criteria specified below should distribute dividend:

- those that do not pursue the recovery plan;
- are positively assessed under the supervisory review and evaluation process (SREP) – final SREP grade no lower than 2.5;
- with a leverage ratio (LR) higher than 5%;
- with Tier 1 ratio (CET1) no lower than the required minimum plus 1.5 p.p.: 4.5% +56%*add-on + combined buffer requirement +1.5%;
- with Tier 1 ratio (T1) no lower than the required minimum plus 1.5 p.p.: 6% +75%*add-on + combined buffer requirement +1.5%;
- with total capital ratio (TCR) no lower than the required minimum plus 1.5 p.p.: 8%*add-on + combined buffer requirement +1.5%.

The PFSA recommends that the banks that simultaneously meet all of the above criteria pay out up to 75% of the profit earned in 2017.

The PFSA recommended that banks that meet all the above criteria pay out up to 100% of the profit earned, in consideration of the capital requirements and the bank's sensitivity to an unfavourable macroeconomic scenario.

Additionally, the PFSA indicated that the banks exposed to foreign currency loans should adjust the rate of dividend distribution based on two additional criteria:

- Criterion 1 (K1) – based on the share of foreign currency housing loans for households in the total portfolio of amounts due from the non-financial sector;
- Criterion 2 (K2) – based on the share of foreign currency housing loans granted in 2007 and 2008 in the foreign currency housing loans for households portfolio.

The PFSA recommended that appropriate adjustments be made depending on the size of the portfolio held by the bank:

- Criterion 1
 - banks with a share exceeding 10% - adjustment of the dividend rate by 20 p.p.

- banks with a share exceeding 20% - adjustment of the dividend rate by 30 p.p.
- banks with a share exceeding 30% - adjustment of the dividend rate by 50 p.p.
- Criterion 2
 - banks with a share exceeding 20% - adjustment of the dividend rate by 30 p.p.
 - banks with a share exceeding 50% - adjustment of the dividend rate by 50 p.p.

The level of capital ratios to be observed by the Bank in the distribution of up to 100% out of the profit earned as stated by the PFSA is as follows:

- at the consolidated level:
 - Core Tier 1 capital ratio (CET1) = 13.40%;
 - Tier 1 capital ratio T1 = 14.98%;
 - total capital ratio TCR = 17.08%.
- at the separate level:
 - Core Tier 1 capital ratio (CET1) = 13.42%;
 - Tier 1 capital ratio T1 = 15.01%;
 - total capital ratio TCR = 17.13%.

As at 31 December 2018 the ratios amounted to:

- at the consolidated level:
 - Tier 1 capital ratio T1 and basic capital ratio T1 = 17.54%;
 - total capital ratio TCR = 18.88%;
 - Criterion 1 = 12.22%;
 - Criterion 2 = 45.16%.
- at the separate level:
 - Tier 1 capital ratio T1 and basic capital ratio T1 = 19.80%;
 - total capital ratio TCR = 21.33%;
 - Criterion 1 = 14.85%;
 - Criterion 2 = 45.38%.

After accounting for adjustments to the dividend ratio by Criteria 1 and 2, according to the data as at 31 December 2018 the Bank meets the requirements as to the distribution of dividend up to 50% of the net profit for 2018.

On 25 February 2019, Bank received an individual recommendation from PFSA in which PFSA prescribed Bank to increase its own funds by retaining at least 50% of the profit generated in the period from 1 January to 31 December 2018.

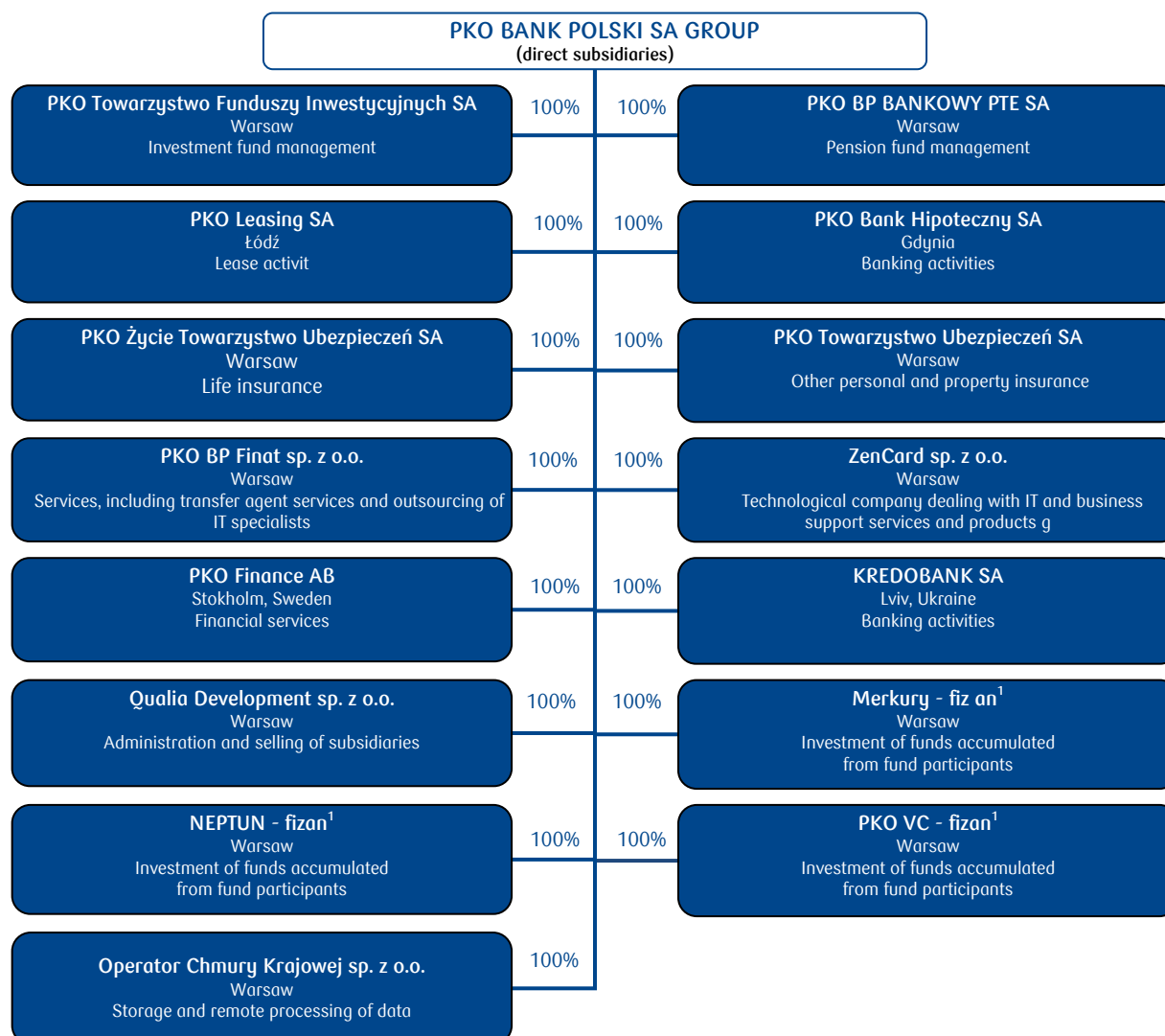
6. ORGANIZATION OF THE PKO BANK POLSKI SA GROUP

Subsidiaries covered by the financial statements
Key changes to the structure of the Bank's Group in 2018
Transactions with related entities

6.1 SUBSIDIARIES COVERED BY THE FINANCIAL STATEMENTS

As at 31 December 2018 the PKO Bank Polski SA Group was composed of the Bank, which was the parent, and 39 direct or indirect subsidiaries¹⁴. 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 IFRS 10 “Consolidated financial statements”.

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



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

1) 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 Consolidated Financial Statements of the PKO Bank Polski SA Group for the year ended 31 December 2018.

¹⁴ In the number of subsidiaries above all levels of subsidiaries are included.

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

In 2018 the following important events took place which had an impact on the structure of the PKO Bank Polski SA Group.

A full description of the changes to the structure of the Bank's Group, which took place in 2018 and will have an impact on further quarters, is included in Note 43 and Note 45 to the Consolidated Financial Statements of the PKO Bank Polski SA Group for the year ended 31 December 2018.

KREDOBANK SA

In 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 all KREDOBANK SA shares.

FINANSOWA KOMPANIA "PRYWATNE INWESTYCJE" SP. Z O.O.

On 28 May 2018 PKO Bank Polski SA concluded an agreement for the sale of 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 at the Annual General Meeting, with Bankowe Towarzystwo Kapitałowe SA (a direct subsidiary of NEPTUN – fizan).

On 7 June 2018 the Articles of Association of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. which accounted for the change of key shareholder were registered in the Uniform Register of Legal Persons, Individuals – Businesses and Social Organizations of the Ukraine. "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 the company operated under the name KBC Towarzystwo Funduszy Inwestycyjnych SA), as the acquiree and PKO Towarzystwo Funduszy Inwestycyjnych SA, as the acquirer, was registered with the National Court Register (KRS). 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 conversion of the shares in the acquiree into the shares of the acquirer. After the merger PKO Bank Polski SA held shares constituting 97.506% of the share capital of PKO Towarzystwo Funduszy Inwestycyjnych SA, which entitled it to 97.506% votes at the Annual General Meeting. The remaining shares were held by PKO BP Finat Sp. z o.o.

On 28 September 2018 PKO Bank Polski SA concluded an agreement for the purchase of all shares in PKO Towarzystwo Funduszy Inwestycyjnych SA held by PKO BP Finat sp. z o.o. and became their owner as at that date.

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.

PKO VC – FIZAN

In August 2018 PKO Bank Polski SA purchased A-series and B-series investment certificates in the strategic subfund Subfundusz Strategiczny A-series and B-series investment certificates in the financial subfund Subfundusz Finansowy issued by PKO VC – a close-end investment fund of non-public assets (the Fund). The total amount of the investment was PLN 200 million. On the date of entering the Bank to the register of the Fund's participants as the sole shareholder, i.e. on 9 August 2018, the Fund became the Bank's subsidiary.

The Fund is managed by PKO TFI SA and pursues a policy typical of venture capital funds, by investing in entities that offer technological financial innovations in the banking and banking-related areas, and in other innovative solutions for businesses.

OPERATOR CHMURY KRAJOWEJ SP. Z O.O.¹⁵

On 29 November 2018 the Notarial Deed establishing the limited liability company Operator Chmury Krajowej sp. Z o.o. was signed. On 4 December 2018 PKO Bank Polski SA paid up all the shares in the company with a total value of PLN 4 million, and became the company's sole shareholder. In accordance with the agreement signed by the Bank in October 2018, in 2019 there is a plan for another shareholder to accede to the company – Polski Fundusz Rozwoju SA.

The Company's business is the provision of comprehensive data safekeeping and processing services. The product offer covers in particular cloud, transformation and security services for enterprises and public institutions.

6.3 TRANSACTIONS WITH RELATED ENTITIES

In 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, issuing 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. The Bank offered its infrastructure and IT services, and rented office space to selected companies of the Bank's Group. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. it provided payment transaction clearing services.

A summary of significant transactions between PKO Bank Polski SA and its subordinated entities, including these companies' indebtedness vis-à-vis the Bank as at 31 December 2018 is presented in the separate financial statements of PKO Bank Polski SA for the year ended 31 December 2018.

7. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP¹⁶

Operating segments of the Bank's Group
Other services
Distribution network and access channels
Sources of financing operations
International cooperation
Operations of other PKO Bank Polski SA Group companies
Prizes and awards for the PKO Bank Polski SA Group

7.1 OPERATING SEGMENTS OF THE BANK'S GROUP¹⁷

Retail segment
Corporate and investment segment

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

¹⁵ The company was registered with the National Court Register on 4 February 2019; as at 31 December 2018 – company in formation.

¹⁶ Financial data of the PKO Bank Polski SA Group is presented in accordance with the Financial Statements of the companies prepared according to IAS/IFRS.

¹⁷ This Subsection includes the Bank's management data; potential differences in totals, shares and dynamics result from rounding.

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, credit and debit cards, electronic banking services, consumer and housing loans, business loans and leases.

NUMBER OF CUSTOMERS:
9.8 MILLION

FINANCING GRANTED:
168 BILLION

SAVINGS VOLUME: 182 BILLION

CORPORATE AND INVESTMENT SEGMENT

The corporate and investment segment comprises transactions concluded with corporate Customers, local government authorities and financial institutions. This segment comprises the following products and services: transaction banking (including maintaining accounts), deposits and other products for liquidity management, trade finance, Treasury bonds, credit products which finance both current and investment needs (including leasing and factoring). The segment also comprises brokerage activities and own activity, i.e. the Bank's liquidity management and investing activities.

NUMBER OF CUSTOMERS:
15.4 THOUSAND

FINANCING GRANTED: 71 BILLION

DEPOSITS VOLUME: 55 BILLION

7.1.1 RETAIL SEGMENT

Segment Customers
Credit offer
Deposit and investment offer
Insurance products

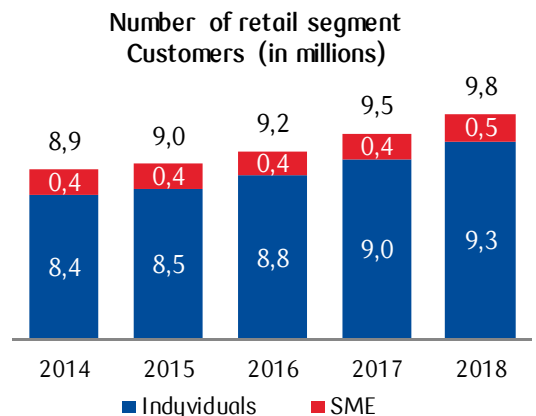
In 2018 the PKO Bank Polski SA Group continued to build strong and long-term relationships with Customers in the retail segment and focused on adapting the products to Customer needs and on developing access tools and channels to enable Customers convenient finance management from any place and at any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

SEGMENT CUSTOMERS

As at the end of 2018 the retail segment serviced nearly 9.8 million Customers, including:

- 9.3 million individuals;
- 0.5 million SMEs.

From the beginning of 2018 the number of Customers serviced in the retail segment increased by 323 thousand, these comprised mainly retail and private banking Customers.



CREDIT OFFER

The PKO Bank Polski SA Group's 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 loans, revolving loans and credit cards;
- housing loans;
- consumer leases.

The credit offer for firms and enterprises is available in the form of:

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

As at the end of 2018, the aggregate financing of retail segment Customers amounted to PLN 168 billion and went up by approx. PLN 10.0 billion (i.e. 6.3%) since the beginning of the year. This was mainly due to an increase in the zloty mortgage loans banking portfolio (+ PLN 7.8 billion), retail and private banking loans (+ PLN 1.9 billion) and firms and enterprises loans (+ PLN 1.1 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 2018 PKO Bank Polski SA continued to take measures to support sales of consumer loans, and enabled, 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 offered its Customers a cash loan offer attractive both in terms of interest, such as 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, and a simplified income documentation formula for taking out and servicing cash advances (based on PIT returns or filing instructions for servicing the cash advance with iPKO, relating to partial early repayment, changing payment dates or changing the account from which the advance is to be repaid).

Those of the Bank's Customers who use the IKO application have been offered a new cash advance process. The cash advance may be acquired in just four steps, and nearly 60% of cash advances provided through remote channels¹⁸ were sold using the mobile app IKO. In 2018 the value of cash advances sold via IKO was PLN 154.3 million, and via iPKO: PLN 211.5 million.

MORTGAGE BANKING LOANS

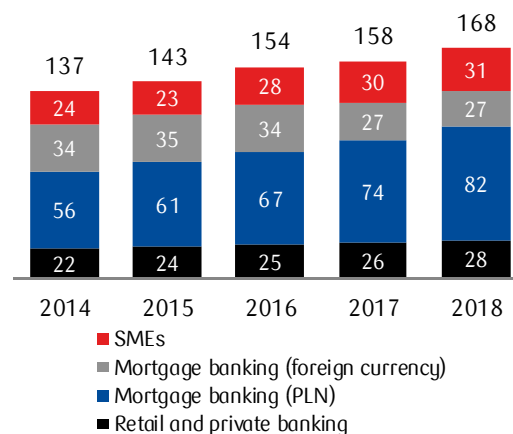
The PKO Bank Polski SA Group has been a long-term leader in financing the housing needs of people in Poland.

In 2018, the Bank's Group ranked first on the market with a 28.9% share in sales of housing loans for individuals. In 2018 the Bank granted loans in the total record amount of over PLN 15 billion, including PLN 0.3 billion (over 1.6 thousand loans) under the "Mieszkanie dla Młodych" lending program.

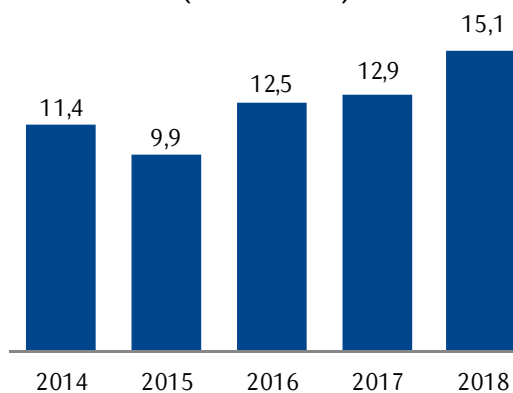
As part of the activities performed PKO Bank Polski SA made available, among other things:

- a simplified Decision-Making Process that enhances and accelerates the creditworthiness assessment process by automating the appraisal of a Customer's financial standing;
- extension of the support offer for CHF-denominated mortgage loan takers to 31 December 2018, in order to mitigate the negative effects of changes in the exchange rates.

Gross loans in retail segment
(in PLN billion)



Sales of housing loans
(in PLN billion)*



*source: PBA, sales of PKO Bank Polski SA and PKO Bank Hipoteczny SA

¹⁸ iPKOservice, mobile app IKO

FINANCING SMEs, INCLUDING LEASES AND FACTORING

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

SMEs avail themselves of a wide offer of advances, and working capital and investment loans granted by PKO Bank Polski SA. The Bank's Group ensures alternative forms of capital expenditure financing to companies – in the form of 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.

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

- support in the form of BGK guarantees – de minimis and with counter guarantees granted by the European Investment Fund under the PLG COSME programme, aimed at increasing the availability of loans and providing additional funds for firms' current operations;
- available debit granted without the need to submit financial documents, based only on inflows to the account;
- using the Guarantee Fund of the Operational Programme Smart Growth (GF OPSG) that allows securing new working capital and investment loans granted to innovative enterprises from the firms and enterprises sector.

Under the Bank's Group's offer the firm and enterprise Customers may use lease products. In 2018 historical record sales were noted, which in the retail segment amounted to PLN 6.8 billion and was 16% higher than sales in the previous year. As at the end of 2018 lease receivables in the retail segment amounted to PLN 11.2 billion and noted an increase exceeding 15% during the year.



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.

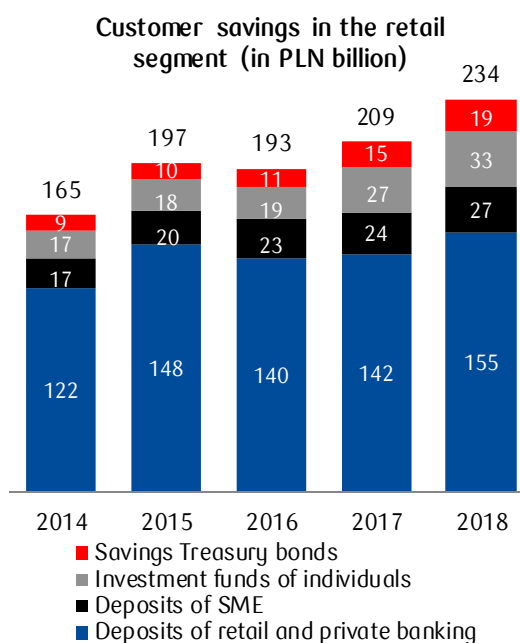
As at the end of 2018 savings in the retail segment amounted to PLN 234 billion and increased by PLN 25.6 billion (i.e. 12%) since the beginning of the year. The increase in funds accumulated in investment funds by individuals, retail savings bonds and an increase in retail and private banking deposits contributed to this increase.

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 exceeded 7.4 million as at 31 December 2018 and increased by 314 thousand during the year.

The continually growing number of accounts of individuals is the effect of a diversified offer which accounts for the Customers' preferences, and includes the following products:

- Basic Payment Account (available to individuals aged more than 13, no fees are charged on the maintenance of the account or on servicing the respective debit card);
- PKO Konto bez Granic (which offers a number of attractive services, including withdrawals from ATMs in Poland and anywhere in the world for a single fee);
- PKO Konto na Zero –(an account and card for PLN 0 if actively used);
- Aurum and Platinum II account (dedicated to Private Banking Customers).

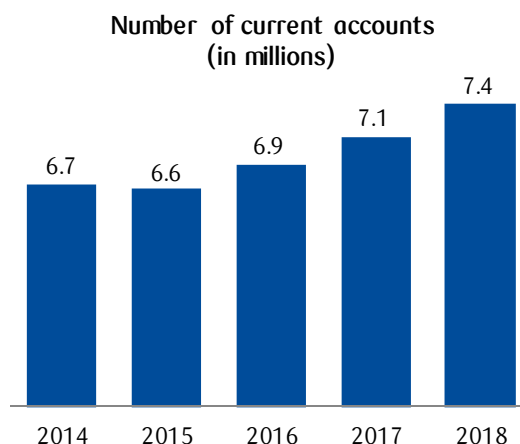


The Bank leaves a transaction service and a mobile application at the disposal of each account holder, which enable access to the account at any time of the day or night, the possibility of paying by BLIK, card, or by telephone.

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, which comprises among other things:

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



PKO Bank Polski SA offers two packages to Customers from the firms and enterprises sector who are interested in comprehensive, modern and attractively priced services:

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

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

TERM DEPOSITS AND REGULAR SAVING PRODUCTS

The most popular term deposits in the Bank's offer for retail and private banking Customers in 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;
- the 3M term deposit for new funds;
- the Lokata Niepodległościowa deposit bearing an interest rate of 1.918%, which referred to the centenary of Poland's regaining independence.

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

- 18-month structured term deposits based on the EUR/PLN exchange rate (12 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;
- 25-month term structured deposits based on shares of the following types of companies: electronics, French, transport, European, global.

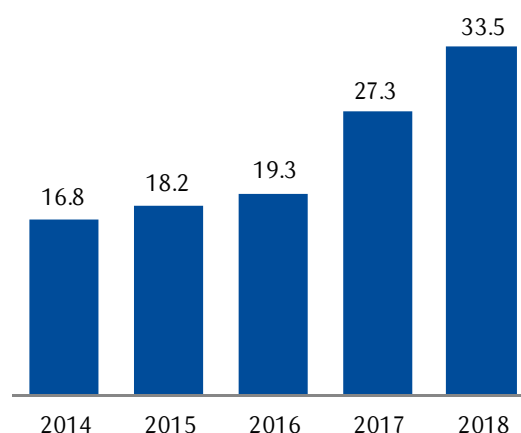
INVESTMENT FUNDS

PKO Bank Polski SA provides its Customers with a wide offer of investment funds which give access to various classes of assets and allows investing in debt or equity instruments from various geographical areas, using many types of strategies.

The Bank's Group offers 55 funds for individuals to the Customers of retail and private banking, in which assets amounting to PLN 33.5 billion have been accumulated.

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

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



* nominal value of savings bonds; source: Dom

SALES OF TREASURY SAVINGS BONDS

Based on an agreement concluded with the Minister of Finance PKO Bank Polski SA has exclusive rights to sell and service retail bonds issued by the State Treasury. Treasury bonds are sold through the sales network of PKO Bank Polski SA, which is of great convenience for all those who are interested.

In 2018 the Treasury savings bonds were extremely popular and in effect throughout the year PLN 12.7 billion of those bonds were sold. In 2017 sales of those bonds amounted to nearly PLN 6.9 billion).

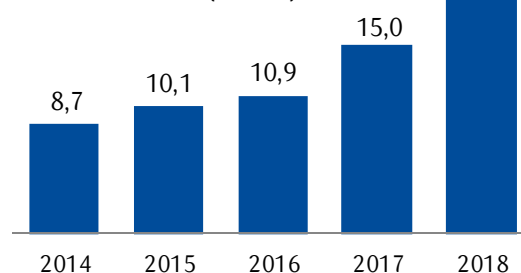
Currently on the primary market five types of savings Treasury bonds are being sold under a permanent offer:

- three-month (OTS) - three-month fixed-rate Treasury bonds;
- two-year (DOS) - two-year fixed-rate savings Treasury bonds;
- three-year (TOZ) - three-year fluctuating-rate savings Treasury bonds;
- four-year (COI) - four-year indexed savings Treasury bonds;
- ten-year (EDO) - ten-year pension savings Treasury bonds.

and, exclusively to beneficiaries of the 500+ Program:

- six-year (ROS) - family savings Treasury bonds;
- twelve-year (ROD) - twelve-year family savings Treasury bonds.

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



* nominal value of savings bonds; source: Dom Maklerski PKO Banku Polskiego SA.

INSURANCE PRODUCTS

The PKO Bank Polski SA Group continuously develops its offer of insurance products, which enables it to increase the attractiveness of the linked banking products and give Customers an opportunity to provide security for their liabilities and assets, and to receive help in the event of an emergency. The Bank's Group addresses its insurance services to all retail Customers. These are largely insurance products linked 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 bridging 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, credit repayment insurance).

The PKO Bank Polski SA Group also offers insurance not directly linked 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 covers automotive insurance provided by insurance companies external to the Bank's Group, property insurance with PKO Towarzystwo Ubezpieczeń SA, financial loss insurance GAP (invoice, index, casco) in cooperation with PKO Towarzystwo Ubezpieczeń SA, legal coverage for Customers who conclude Lease Agreements offered by PKO Towarzystwo Ubezpieczeń SA with PKO Leasing S.A.;

- 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, which ensures a wide range of support both during treatment and afterwards;
- motor insurance: OC with Zielona Karta (liability insurance valid abroad), Autocasco (all risks insurance), NNW (accident insurance) and Assistance insurance. In cooperation with renowned insurance companies PKO Bank Polski SA offers a full scope of insurance coverage needed by car owners. The possibility of purchasing, as one batch, policies from various insurers under one sale process is a novelty on the market. Policies may be purchased even six months in advance to secure from potential changes in motor insurance prices over the next six months.

7.1.2 CORPORATE AND INVESTMENT SEGMENT

Segment Customers
 Credit offer and structured finance
 Deposit offer and transaction banking
 Local governments
 Financial institutions
 International banking
 Trade finance
 Brokerage activities
 Treasury bonds
 Fiduciary services

Implementation of new management standards in the corporate sales network enabled the PKO Bank Polski SA Group to consistently deepen its cooperation with the Customers and increase its range based on a wide scope of offered products.

The Bank's Customers who are interested in entering and increasing their share of international markets may use the wide scope of products and services, such as: transaction banking, including international cash pooling, e-banking, Treasury bonds, trade finance and corporate loans, offered by the Bank's foreign branches.

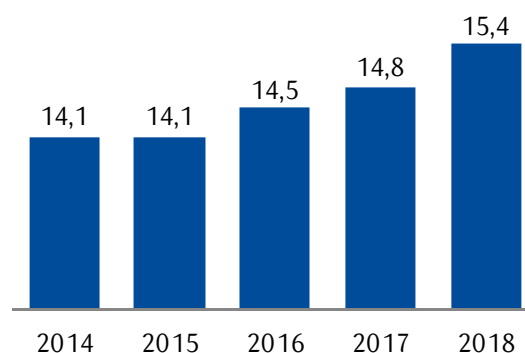
SEGMENT CUSTOMERS

As at the end of 2018 the Corporate Segment and the Investment Segment services over 15.4 thousand Customers, including:

- 8.6 thousand Corporate Customers;
- 1.2 thousand Strategic Customers;
- 4.7 thousand local and central government institutions plus budgetary and related entities;
- almost 0.7 thousand foreign Customers;
- 0.3 thousand financial Customers

Since the beginning of 2018 the number of Customers serviced in this segment increased by over 0.6 thousand. The Bank systematically reinforced its leading position in financing the Polish economy, both independently and as a significant participant of banking syndicates with a share adequate to its market position.

Number of corporate and investment segments Customers (in thousands)



CREDIT OFFER AND STRUCTURAL FINANCE

As at the end of 2018 total financing of Corporate Customers, including loans, bonds issued and lease receivables amounted to nearly PLN 71 billion and increased since the beginning of the year by PLN 6.5 billion (i.e. 10.1%).

The Bank supported the Polish economy and participated in financing both current needs and strategic investment projects, and local investment projects of local governments.

In 2018 the Bank signed, among other things:

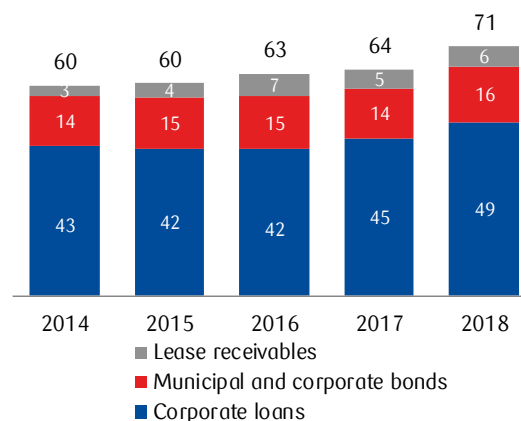
- 14 loan agreements in the form of a banking syndicate, for PLN 33 billion, where the Bank's share amounted to nearly PLN 6 billion, and seven annexes to previously concluded agreements with a value of PLN 13 billion, where the Bank's share amounted to PLN 2 billion;

- 5 agreements which related to underwriting issues of corporate bonds without firm commitment guarantee in the amount of PLN 2.2 billion and a limit for purchasing non-Treasury debt securities of PLN 215 million;
- 350 communal bonds underwriting agreements and 38 annexes which extend the period of the program's availability, in the total amount of PLN 3 billion.

PKO Bank Polski SA offers wide access to funds to finance complex investment projects and advisory services focused on selecting the optimum form of funding and repayment terms to its Customers.

Under the Bank Group's offer Corporate Customers may use lease and factoring products and services. Any fixed asset may be financed in the form of a lease, depending on the Customers' needs. Apart from standard products, the offer includes vehicle fleet rental services and cooperation with suppliers.

Gross financing of corporate Customers (in PLN billion)



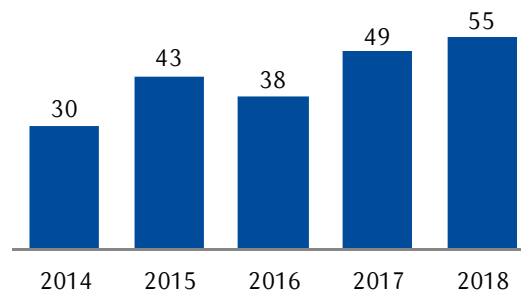
DEPOSIT OFFER AND TRANSACTION BANKING

As at the end of 2018 Corporate Customers' deposits amounted to over PLN 55 billion and increased by PLN 6.5 billion during the year, mainly thanks to the increase in funds maintained by Customers on term deposits.

The Bank is expanding its offer for Corporate Customers with complex organizational structures to facilitate settlements of transactions with Polish and foreign partners, and to develop dedicated products based on solutions such as cash pooling.

The Bank's presence in Germany and the Czech Republic enabled using the tool to manage funds in cross-border transactions.

Corporate deposits (in PLN billion)



LOCAL GOVERNMENTS

For many years now the Bank has been financing and servicing public entities, including the Social Insurance Institute, local government entities, companies with the participation of local government entities, entities for which the local government is the founding body, budget-related entities, the Directorate General of the State Forests and its organizational entities.

In 2018 PKO Bank Polski SA confirmed its unchallenged leading position in respect of services for local governments and won the tender for comprehensive servicing of the budget of the Małopolskie province and its organizational entities, and for servicing the Municipality of Olsztyn, and to continue servicing the Municipality of Gdynia. There are already nine out of 16 voivodships and most of the voivodship capitals among the Bank's Customers.

FINANCIAL INSTITUTIONS

PKO Bank Polski SA has a wide and effective network of nostro accounts, more than 1400 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. The Bank 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.

One of the key priorities of the Bank's operations is to support Polish business by creating solutions beneficial to its Customers, based on optimal methods of executing foreign settlements. One of the examples of such activities is constant expansion of the range of currencies available to its Customers and supporting the international activities of its Customers on new markets (for example, the Persian Gulf, South-Eastern Asia, South Africa).

INTERNATIONAL BANKING

The Bank's Group actively participates in the development of the international expansion of its Customers, offering them support 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. 2018 saw a very high growth

In the number of Customers acquired at both branches. At the end of 2018, foreign branches served more than 200 Customers.

In the case of businesses operating in Ukraine, banking services are offered through KREDOBANK SA. At the end of 2018, the Company provided services to slightly more than 3.3 thousand Polish-Ukrainian business Customers, including those with Polish capital, i.e. 19.5% more than in the previous year.

In 2018, the Bank's Group launched several initiatives to facilitate serving Polish companies abroad. An important project is the Export Support Platform (available at the address www.wspieramyeksport.pl), which is a comprehensive analytical tool for firms interested in foreign expansion introduced in the fourth quarter of 2017. The portal 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.

In 2018 businesses that used the Export Support Platform gained the option to verify the reliability of foreign counterparties. In special reports Customers may find – among other things – financial data, assessment of potential foreign counterparties' creditworthiness and information about its paying its liabilities.

TRADE FINANCE

PKO Bank Polski SA offers a wide scale of trade financing products. The most important of those are guarantees, warranties, letters of credit or cash against documents.

In 2018 the Bank engaged in initiatives aimed at increasing the attractiveness of the offered products. The Bank introduced e-guarantees and a certified digital signature, developed a system for servicing trade financing transactions, and implemented new standards that result from the changes introduced by SWIFT.

BROKERAGE ACTIVITIES

For years Dom Maklerski PKO Banku Polskiego SA (Dom Maklerski) has been the unchallenged leader on the capital market in Poland, as proven by the high grades in brokerage office rankings and has been awarded many prizes.

In 2018 Dom Maklerski (Brokerage House) was awarded the highest grades in the Nationwide Investors Survey (Ogólnopolskie Badanie Inwestorów – OBI) in all nine categories: no breakdowns and speed of the internet platform, functionality of the internet platform, quality of direct services, employee professionals, quality of analyses and recommendations, educational offer, access to information and quotations, access to foreign markets and IKE/IKZE accounts.

In 2018 the value of the sales realized by the Dom Maklerski exceeded PLN 33 billion, which comprised 7.7% of sales on the market and placed Dom Maklerski second in the ranking of brokerage houses. The drop in Dom Maklerski's share in sales on the secondary share market compared with 2017 is the effect of the bear market which prevailed in 2018 on most global share markets, as well as of the pressure of foreign brokerage houses, the majority of which made the sales.

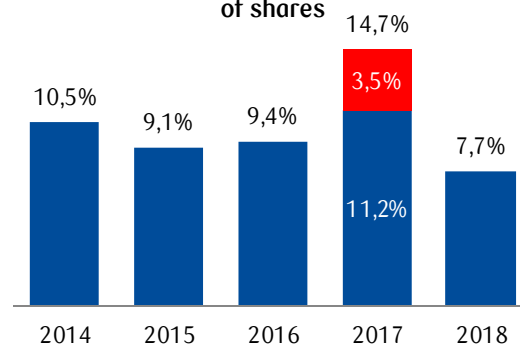
In respect of trading in bonds, Dom Maklerski has almost half of the market share, which makes it the leader in this category.

The total value of the transactions in which Dom Maklerski PKO Banku Polskiego SA participated on the primary market exceeded PLN 1.3 billion, and they included:

- the offer for the sale of the Bank BGŻ BNP Paribas shares – the value of the offer was PLN 800 million;
- the offer for the sale of the BZ WBK SA (in the process of accelerated bookbuilding), the offer amounted to PLN 456 million,
- initial public offering of Novaturas AB shares, the offer amounted to PLN 93 million.

Additionally, Dom Maklerski PKO Banku Polskiego SA was the underwriter in the public offering of EVO Payments Inc. shares (the offering amounted to USD 224 million), underwriter of the issue of debt securities of such entities as: Polski Koncern Naftowy ORLEN SA (issue value of PLN 0.6 billion), Echo Investment SA (issue value

Share of Dom Maklerski
 PKO Banku Polskiego SA
 in turnover on secondary market
 of shares



■ including the effect of intermediation in selling the shares of Pekao SA
 ■ share of Dom Maklerski in turnover on secondary market of shares

of PLN 0.1 billion), Best SA, and intermediated in the call for sale of shares of Synthos SA (offering value up to PLN 0.4 billion), Zespół Elektrociepłowni Wrocławskich KOGENERACJA SA (PLN 0.1 billion), BENEFIT SYSTEMS SA, Ferrum SA, IAI SA, Tarczyński SA, Pamapol SA, Berling SA.

As at the end of 2018 Dom Maklerski PKO Banku Polskiego SA maintained 127 thousand securities accounts and cash accounts, and 199 thousand registration accounts. In terms of the number of securities accounts (according to KDPW-CSD) Dom Maklerski ranked fourth among 40 market participants. Additionally, it serviced 436 participation units in funds and subfunds managed by 17 Investment Fund Management Companies.

TREASURY BONDS

PKO Bank Polski SA has a wide range of treasury bonds 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. Each product may be tailored to the individual needs of the Bank's Customers and executed through any convenient distribution channel selected.

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 2018, the value of the Customers' assets held in fiduciary accounts exceeded PLN 118.4 billion and it was about 6% higher year-on-year.

7.2 OTHER SERVICES

Online currency exchange service
ZenCard technology
Cashless Poland Programme in PKO Bank Polski SA branches
Business registration in the Central Registration and Information on Business using the iPKO e-banking service.
Free training for businesses
Apple Pay and Garmin Pay in PKO Bank Polski SA

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.



ZENCARD TECHNOLOGY

In 2018 PKO Bank Polski SA made available to firm Customers an innovative tool to create loyalty programs, ZenCard – a technology which enables firms to organize promotional and rebate campaigns in their points-of-sale, using only a 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. 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 a payment terminal takes only a few seconds.

CASHLESS POLAND PROGRAMME AT PKO BANK POLSKI SA BRANCHES



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.

Enterprises 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, enterprises gain benefits in the form of, among other things, covering the costs involved in obtaining a terminal for accepting cards. Entrepreneurs 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 firm 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 public administration. The Bank was the first to make it possible for e-banking Customers to submit their applications under the 500+ Family programme and the Good Start programme, create a PUE ZUS profile, a Trusted Profile (eGO) or account for their personal income tax.

In January 2018, PKO Bank Polski SA has made it possible to register a firm and open a firm account in the iPKO transaction service. 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 the request only takes several minutes. Registration of the firm is confirmed through 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 the firm and enterprises sector entrepreneurs.

In 2018, three training sessions were held. The first edition was titled "Company in Expansion". What was presented were, among other things, 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, under the title "(Not)important what they say, important that they talk" largely focused on creating a favourable opinion and building lasting relationships with Customers.

The workshops were run by specialists in the fields including communication, online marketing and law. It was also possible to talk to experts individually about leasing and factoring, insurance, international expansion or banking financial products during the workshops.

APPLE PAY AND GARMIN PAY IN PKO BANK POLSKI SA

As of the second half of 2018 the Bank's Customers may use the services of Apple Pay and Garmin Pay.

The Apple Pay service enables using an Apple phone instead of a payment card and making cash-free transactions using Apple equipment, chargeable to a PKO Bank Polski SA credit card.

Garmin Pay enables the Bank's individual Customers with smartwatches which are equipped with the function of proximity payments using their payment cards.

7.3 DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking
 Electronic banking
 Contact Center of PKO Bank Polski SA
 Branch and agency network
 Private banking centre
 Corporate banking centre
 Self-service points

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 a mobile application available on three platforms: Android, iOS and Windows Phone. It combines the functions of mobile banking with the ability to make mobile payments (proximity payments and payments with the BLIK code).

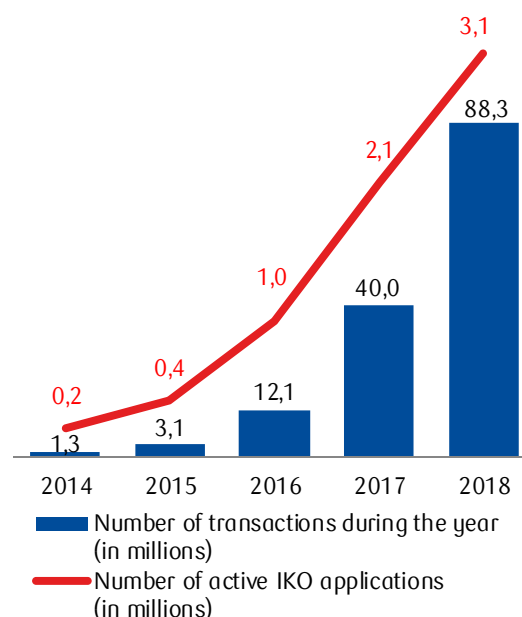
As at the end of 2018, the total number of IKO active applications reached more than 3.1 million. New features are constantly being added to the application. The changes transformed IKO from an application used for mobile payments or withdrawals into an application which is a "bank in the phone". The share of the segment's Customers using mobile banking is also growing. At the end of 2018, nearly 2.8 million of the Bank's Customers logged into the Bank from a mobile device at least once a month,¹⁹ i.e. nearly 23% 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.

Apart from the mobile banking and payment functions IKO is also becoming a material sales channel, such as cash advances.

In 2018 the IKO application was expanded, among other things, by:

- push messages informing of events;
- a foreign exchange office;
- a multi-currency card;
- 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);
- ability to make contactless payments based on the Android/Google Pay/Apple Pay;
- ability to pay with the BLIK code over the Internet and in shops, and charge the payments to credit cards;
- applying for a savings account.



¹⁹ Logging using the IKO mobile app, mobile version of the iPKO service or the full version of the iPKO service

BLIK, the Polish standard of mobile payments developed based on IKO mobile 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. As at the end of 2018, the number of BLIK transactions performed by Customers of PKO Bank Polski SA was nearly 27 million, and increased more than 2.5 times compared with 2017.

In December 2018, a strategic cooperation contract between MasterCard and Polski Standard Płatności (PSP) was concluded. Mastercard and PSP will allow BLIK users to use the proximity technology globally in all points-of-sale that accept Mastercard proximity payments. Additionally BLIK users will be able to make payments using the Secure Remote Commerce (SRC) standard recently published by EMVCo – as soon as the solution becomes available on the market. This will enable users to pay using BLIK for online purchases in foreign e-stores.

PKO Bank Polski SA enables its Customers 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 terminals 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 more easily, and to reduce the costs of using banking services.

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

- the split payment mechanism both via iPKO and iPKO Biznes;
- application for registration of a sole proprietorship with CEIDG via iPKO and the opening of a sole proprietorship business account for the new business;
- application for the 300+ benefit under the Good Start programme;
- a multi-currency feature for all debit cards;
- the “Firm assistant in iPKO” application (first stage), which gives access to key information on a firm's finances maintained with PKO Bank Polski;
- e-Sklep w iPKO (e-store in iPKO) – allows establishing an internet store and monitoring the balance of orders from the electronic banking level, using the provided e-commerce platform;
- a full version of the iPKO Biznes service in foreign branches;
- changes related, among other things, to amendments to the Act on payment services, adapting them to the requirements of GDPR and MiFID II.

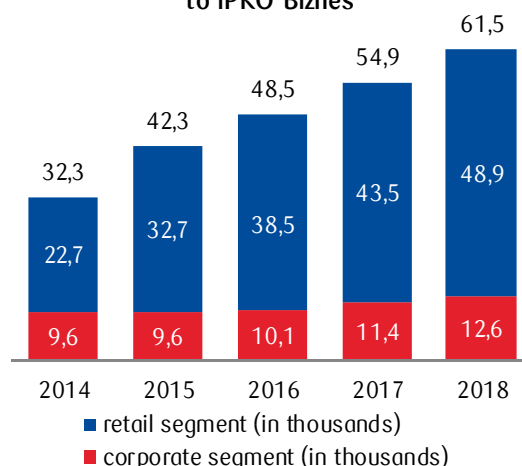
The iPKO Biznes IT service dedicated to business Customers, as well as the iPKO Biznes mobile application enable account, payment cards and loans monitoring and managing, as well as placing orders for all types of transfers. iPKO Biznes enables online access to necessary information and the firm's financial services in respect of its accounts and transactions, as well as up-to-date market analyses, schedules of currency exchange rates. The application also enables personalizing abbreviations or using an embedded mobile token.

Number of retail segment Customers with access to iPKO (in millions)*



*number of agreements concluded for electronic banking services

Number of Customers with access to iPKO Biznes



CONTACT CENTER OF PKO BANK POLSKI SA

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 and requests electronically – e-mails and website requests. Customers may also send messages in the iPKO or Inteligo transaction service and through a special Facebook tab.

BRANCH AND AGENCY NETWORK

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 the end of 2018 the retail branch network of PKO Bank Polski SA consisted of 1 083 branches clustered in eleven regional divisions, eight retail banking offices and 11 corporate banking offices. Compared with the end of 2017, the total number of retail branches decreased by 40.

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 New Branch Format in place, aimed at creating Customer- and employee-friendly service conditions, and state-of-the-art banking outlets. The new standard was supported by the availability of new technologies – a WIFI zone, self-service service tills, possibility of charging mobile phones, LCD monitors, tablets, authorization of the Customers' selected orders at the desk via a text message, which decidedly support the service process in the area of educating Customers and changing their habits. In 2018 a New Branch Format was introduced to 17 branches where modernization or transfer projects were effected. The completion of 40 further projects is planned in 2019.

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

Table 8. Operating data of the retail and corporate segment

	2018	2017	2016	2015	2014	Change from 2017
Number of branches in the retail segment	1 113	1 153	1 198	1 238	1 280	-40
regional retail branches	11	11	11	11	11	0
retail branches	1 083	1 132	1 179	1 219	1 261	-49
private banking branches	8	8	8	8	8	0
corporate banking branches	11	2	0	0	0	9
Number of branches in the corporate and investment segment:	42	41	40	40	39	1
regional corporate branches	7	7	7	7	7	0
regional corporate centres	33	32	32	32	32	1
foreign branches	2	2	1	1	-	0
Number of ATMs	3 133	3 190	3 206	3 196	3 065	-57
Number of agencies	577	745	837	881	1 001	-168

The branch and ATM network is complemented by the agency network. As at the end of 2018, PKO Bank Polski SA collaborated with 577 agencies. Compared with the beginning of the year, the number of the agencies dropped by 168. The decrease in the number of 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.

The drop in the number of agencies and retail branches is also the result of digital transformation which is one of the key elements of the consistently pursued development strategy of PKO Bank Polski SA. Digital transformation supports the transfer of Customers to remote service channels and at the same time complies with the stipulations of the Government project "From Paper to Digital Poland".

PRIVATE BANKING CENTER

PKO Bank Polski SA is constantly developing its Private Banking and enables Customers to access a wide range of financial and products 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 2018, the Private Banking Center managed a portfolio of assets with a value of PLN 25 billion (as at the end of 2017, the value of the portfolio amounted to PLN 22.3 billion).

CORPORATE BANKING CENTER

The Corporate Banking Center 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 Corporate Banking Center 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;
- creating a specialized group of mobile advisors cooperating directly with the credit analyst;
- introducing improvements to the lending process, improving the advisors' credit competence, better matching of the product and price range, tailored to 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.

SELF-SERVICE POINTS

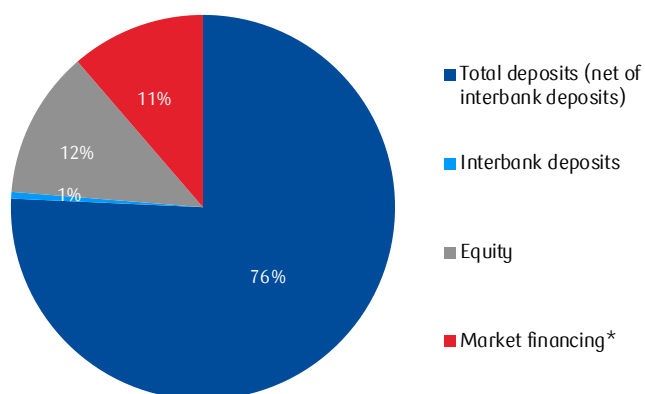
In 2017, the first self-service points were made available by PKO Bank Polski SA. Self-service points can be used by all individual and firm Customers holding cards associated with their bank accounts. The points are equipped with touchscreens.

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.

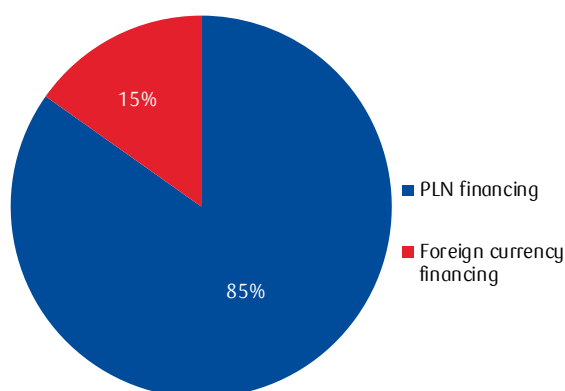
7.4 SOURCES OF FINANCING OPERATIONS

The PKO Bank Polski SA finances its operations from domestic and foreign sources, which comprise deposits (including interbank deposits), equity and wholesale market funds, which include liabilities from issuing securities, subordinated liabilities and loans and advances from monetary and non-monetary institutions. The main source of financing the Bank's Group's operations are Customer deposits, comprising ¾ of all sources of finance.

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



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



*Includes issue of debt securities, subordinated liabilities, loans and advances received and repo transactions

The Group's optimal financing structure enables the PKO Bank Polski SA Group to fully meet its investment plans, including equity investments. The Bank's Group mainly uses own funds from equity and securities' issues to finance equity investments.

7.5 INTERNATIONAL COOPERATION

The PKO Bank Polski SA Group also acquires funds for the needs following from business growth, including financing projects from the firm and enterprise segment also by engaging in international cooperation.

The Bank's Group acquires funds from foreign financial markets, among other things by obtaining loans from international financial institutions (among others the Development Bank of the Council of Europe and the European Investment Bank). Detailed information on the loans received from international financial institutions by the PKO Bank Polski SA Group and on the loans received is provided in Note 36 of the Consolidated Financial Statements of PKO Bank Polski SA for the year ended 31 December 2018.

The Bank's Group is also involved in guarantee programs distributed by the European Investment Fund (such as COSME and InnovFIN).

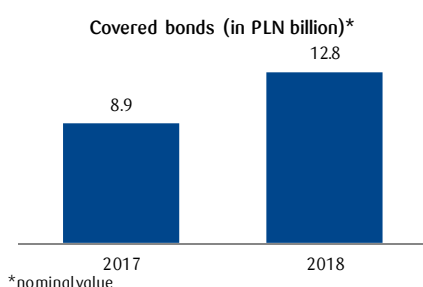
PKO Życie Towarzystwo Ubezpieczeń SA cooperates with Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, MetLife Insurance Inc., RGA International Reinsurance Company Ltd and Partner Reinsurance Europe SE under reinsurance treaties concluded with them.

7.6 OPERATIONS OF OTHER PKO BANK POLSKI SA GROUP COMPANIES

Apart from strictly banking operations, the PKO Bank Polski SA Group also provides specialist financial services in respect of leases, factoring, investment funds, pension funds and insurance, and provides transfer agent services.

CHARACTERISTICS OF THE OPERATIONS OF THE PKO BANK POLSKI SA GROUP²⁰

PKO BANK HIPOTECZNY SA



In 2018 PKO Bank Hipoteczny SA earned net profit of PLN 85.8 million (vs. PLN 51.4 million in 2017).

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

PKO Bank Hipoteczny SA specializes in granting mortgage loans to individual Customers and acquires receivables following from such loans from PKO Bank Polski SA. PKO Bank Hipoteczny SA acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA.

In 2018, under the Receivables Sale Framework Agreement signed with PKO Bank Polski SA in 2015, PKO Bank Hipoteczny SA acquired further portfolios of home loans secured with mortgages, of PLN 2.5 billion in total. The total gross value of the PKO Bank Hipoteczny SA loan portfolio as at 31 December 2018 amounted to PLN 21.1 billion, including PLN 12.3 billion of mortgage home loans purchased under the agreement executed with PKO Bank Polski.

The Company's principal object is to issue mortgage bonds, which are to serve as the primary source of long-term financing for the loans secured with mortgages of the PKO Bank Polski SA Group. Housing loans in PLN are the sole basis for issuing mortgage bonds. They meet the conservative criteria for granting them, both in terms of the borrower's creditworthiness, and the valuation of the properties which constitute collateral.

In 2018 the Company conducted:

- one foreign issue of mortgage bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 500 million;
- five domestic issues of mortgage bonds denominated in PLN, addressed to institutional investors, with a total nominal value of PLN 1 590 million;

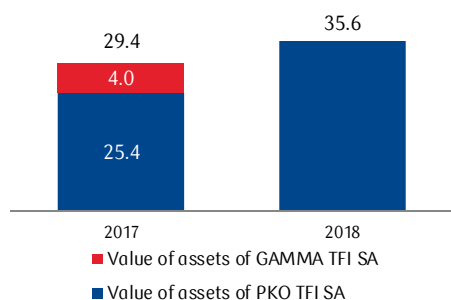
The total value of the mortgage bonds issued by PKO Bank Hipoteczny SA, which remain traded (at nominal value) as at the end of 2018 amounted to PLN 12.8 billion.

In February 2018 PKO Bank Hipoteczny SA, as the first issuer of mortgage bonds in Poland, joined The Covered Bond Label. The Covered Bond Label is a quality certificate the aim of which is to create awareness of necessary security and high quality of mortgage bond assets among their issuers. The standardized principles for assessing the quality of those assets allow investors from all over the world to compare mortgage bonds of issuers from different countries.

²⁰ The financial results in the description come from the financial statements of particular companies prepared in accordance with IAS/IFRS, and in respect of insurance companies, in accordance with PAS.

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.

Value of assets of managed investment funds (in PLN billion)



In 2018 the Company earned net profit of PLN 257.0 million (vs. PLN 64.6 million in 2017).

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 II).

The value of the funds' net assets under PKO TFI SA's management amounted to PLN 35.6 billion as the 2018, which represents a 21.2% increase in assets compared with the end of 2017.

The increase in Net Asset Value is mainly the effect of positive cash flows to the funds managed by PKO TFI SA.

PKO TFI SA ranks second in terms of net asset value and has a 13.9% share in the market of investment funds*; and it ranks first with a 22.2% share in terms of assets of individuals in funds under management*.

As at 31 December 2018, PKO TFI SA managed 60 investment funds and sub-funds, including 11 funds and sub-funds acquired as part of the business combination with GAMMA TFI SA.

In 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).

*Source: Online analyses

PKO BP BANKOWY PTE SA

In 2018 the company earned net profit of PLN 14.0 million (vs. PLN 8.5 million in 2017).

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

As at the end of 2018, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 7.0 billion, which is a decrease of 12.7% compared with the end of 2017.

As at the end of 2018 PKO BP Bankowy OFE had over 912 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.

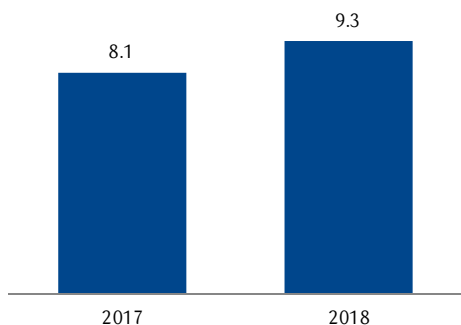
In 2018 the Polish Financial Supervision Authority (PFSA) announced OFE rates of return as at the end of March and September, for 36 months. In accordance with the PFSA announcement, for the period from 31 March 2015 to 30 March 2018, PKO BP Bankowy OFE generated a rate of return of 12.500% and compared with the weighted average rate of return for all funds of 11.424% it ranked 3rd in the pension fund ranking. In the second schedule, which accounts for the period from 30 September 2015 to 28 September 2018, the fund generated a rate of return of 18.857% and compared with the weighted average rate of return for all funds of 18.826% it ranked 4th in the open pension fund ranking.

*Source: www.knf.gov.pl

THE PKO LEASING SA GROUP

The PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) earned net profit of PLN 114.2 million in w 2018. The PKO Leasing SA Group earned net profit of PLN 77.2 in 2017.

Value of financed fixed assets
(in PLN billion)



Lease activities:

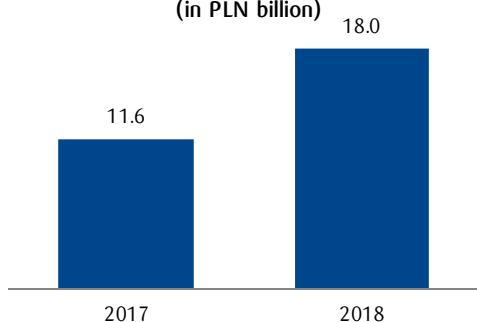
In 2018, the leasing companies of the PKO Leasing SA Group financed fixed assets totalling PLN 9.25 billion, i.e. 13.7% more than in the corresponding period of 2017. Noteworthy are the high increases in financing in the segment of plant and machinery of 29% y/y.

As at the end of 2018, the carrying amounts of amounts due 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 17 billion in total. As at the end of 2017, the carrying amount was PLN 15 billion.

In terms of the value of fixed assets leased to Customers in 2018, the PKO Leasing SA Group ranked first on the market of lease services with a 11.2% market share*.

*Source: Związek Polskiego Leasingu

Value of factoring transactions
(in PLN billion)



Factoring activities:

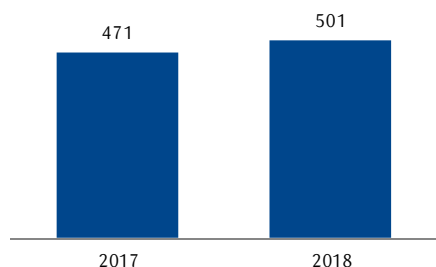
PKO Faktoring SA provides domestic and export factoring services with and without recourse, reverse factoring and a factoring programme service for suppliers.

In 2018, the factoring turnover amounted to PLN 18 billion (in 2017 the Company's turnover was PLN 11.6 billion); as at the end of December 2018 the company had 535 Customers.

As at 31 December 2018, PKO Faktoring SA ranked eighth (by turnover) among the factoring companies associated in the Polish Factors' Association, with a market share of 7.4%.

PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA GROUP

Gross written premium (in PLN million)



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 24.4 million in 2018 (in 2017, the Group's net profit was PLN 26.2 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.

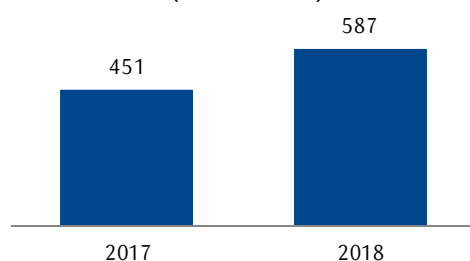
In 2018, the company introduced to its offer: OnkoPlan – cancer insurance, Group Life Insurance for PKO Employees, Life Insurance and Group Life Insurance for the PKO BP Group Employees and Life Insurance accompanying mortgage loans with a monthly premium.

Gross written premiums from insurance contracts written by the company were PLN 501.1 million in 2018 compared with PLN 471 million in 2017.

As at the end of 2018, the company insured more than 847 thousand people (as at the end of 2017: 722 thousand people).

PKO TOWARZYSTWO UBEZPIECZEŃ SA

Gross written premium
(in PLN million)



In 2018 the Company earned net profit of PLN 35.2 million (vs. PLN 9.0 million in 2017).

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.

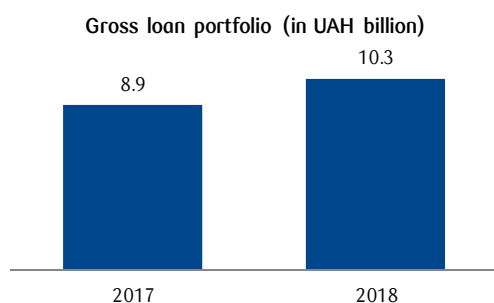
In 2018, the company launched the Car Assistance insurance for PKO Bank Polski SA Customers, travel insurance "Tak podróżuję" and modified the terms and conditions of Insurance of repayment of mortgage loans in the event of losing the source of income, incapability resulting from an accident and hospital treatment.

Gross written premiums from insurance contracts written by the company were PLN 586.9 million in 2018 compared with PLN 450.7 million in 2017.

As at the end of 2018, the company insured 804 thousand people (581 thousand people as at the end of 2017).

KREDOBANK SA GROUP

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



In 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 469 million (PLN 62 million). In 2017, KREDOBANK SA Group's net profit amounted to UAH 401 million (PLN 56 million).

These results are the effect of KREDOBANK SA's growth in all business segments accompanied by effective liquidity, margin and risk management.

The credit portfolio of the KREDOBANK SA Group (gross) increased by UAH 1 477 million, i.e. 16.7%, in 2018, and as at 31 December 2018, it amounted to UAH 10 329 million (the gross credit portfolio expressed in PLN amounted to PLN 1 402 million as at the end of 2018). The increase in the credit portfolio in UAH is mainly the result of an increased number of new loans.

Term deposits of Customers of the KREDOBANK SA Group increased by UAH 489 million, i.e. 9.5%, in 2018, and amounted to UAH 5 622 million as at 31 December 2018 (term deposits expressed in PLN amounted to PLN 763 million as at the end of 2018). Deposits in UAH are the effect of the high creditworthiness and ranking of KREDOBANK SA on the Ukrainian banking market.

As at 31 December 2018 the network of KREDOBANK SA outlets covered the Head Office in Lviv and 93 branches in 22 of 24 provinces of Ukraine. In 2018, three new branches were opened, the location of two branches was changed and 12 branches were closed down.

PKO BP FINAT SP. Z O.O.

In 2018 PKO BP Finat sp. z o.o. earned net profit of PLN 43.3 million (vs. PLN 43.9 million in 2017).

PKO BP Finat sp. z o.o. provides comprehensive services to companies in the financial sector – including transfer agent, fund and company accounting, servicing group insurance dedicated to the products offered by PKO Bank Polski SA. On the basis of the authorization of the PFSA, the company provides services as a national payment institution. It also provides intermediation services in respect of non-financial products to Customers of PKO Bank Polski SA. It also specializes in competency outsourcing of IT specialists, project teams and IT processes.

As at the end of 2018 the company provided transfer agent services to seven entities and maintained books of account of 82 funds and five other entities.

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

In 2018 the PKO Bank Polski SA Group received many prizes and awards, the most important of which are:

DYNAMIC DEVELOPMENT AND EXCELLENT FINANCIAL RESULTS

BUSINESS AWARD OF THE PRESIDENT OF THE REPUBLIC OF POLAND

PKO Bank Polski SA was the winner of the 16th run of the Business Award of the President of the Republic of Poland in the Responsible Business category. It was also nominated in the National Success category. It was recognized for its sustainable development, business successes, impact on the development of the industry and economy, and pro-social activities.

The Business Award of the President of the Republic of Poland is granted to those companies which, *inter alia*, contribute to the development of the national economy, promote a positive image of Poland and are a model for other businesses.

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. And the recurring net profit rose by as much as 28%.

The experts assessed the banks mainly in terms of growth ratios, portfolio structure and business effectiveness. Moreover, the company was evaluated by a jury which awarded the highest number of points to the Bank.

BUSINESS AWARD OF THE POLISH RADIO

PKO Bank Polski SA won in the second run of the Business Awards of the Polish Radio in the Polish Philanthropist category. 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.

IKO IS THE BEST APPLICATION IN THE WORLD

The IKO mobile application was ranked first in the ranking of banking applications of the British financial monthly *Retail Banker International*. Only PKO Bank Polski SA qualified for the ranking from Poland and its mobile application IKO won first place in the world and received an overall rating of 4.8/5 based on ratings from 150 thousand people. IKO outperformed the solutions of global banking giants such as Bank of America, UBS, Lloyds and Barclays.

The ranking includes mobile applications of the 100 largest banks in the world. They were ranked based on the average ratings of users of smartphones with Android and iOS systems.

CEE CAPITAL MARKETS & FINTECH AWARDS

PKO Bank Polski SA won as many as three awards in the international CEE Capital Markets & Fintech Awards competition. The "Let's Fintech with PKO Bank Polski!" acceleration programmed turned out to be the best in the Institutional Innovator category. ZenCard technology was awarded in the Fintech Innovation of the Year category, and Dom Maklerski PKO Bank Polski SA won the award for the highest value of acquired transactions.

The purpose of the CEE Capital Markets & Fintech Awards is to draw the attention of global investors to the dynamically developing companies, economy and innovations of the CEE region. The competition was initiated by CEE Business Media sp. z o.o.

FINTECH & INSURTECH AWARDS

The Trudatum platform, developed together by PKO Bank Polski SA and Coinfirm start-up, won the FinTech & InsurTech Awards in the blockchain technology category.

The purpose of the competition is to promote innovative technological solutions for the financial and insurance industries.

HIGHEST-VALUED FINANCIAL BRAND

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

For many years now, PKO Bank Polski SA has been the highest-valued brand on the domestic financial market and it is one of the most expensive and best known brands in Poland. Its value has more than doubled since the first edition of *Rzeczpospolita's* ranking.

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*.

PKO BANK POLSKI SA – LEADER AMONG EMPLOYERS

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 organization 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.

ATTRACTIVE EMPLOYER IN POLAND - UNIVERSUM 2018

Once again PKO Bank Polski SA was recognized by students. In the prestigious ranking of employers: Universum Student Survey, in the following categories: business and law, the Bank was among the best employers in Poland. Students rated the Bank highly for technological innovation, a generous package of benefits for employees, and ethical actions.

The annual Universum Talent Survey is one of the largest in the world. It is about professional preferences and goals, career and the industry in which respondents would like to work. This year's Polish edition attracted over 17.5 thousand students from 71 Polish universities. They rated employers in the following areas: business, engineering, IT, humanities, sciences, law, health and medicine.

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

CSR DIAMOND

PKO Bank Polski S.A. was recognized for its social involvement and implementation of sustainable development projects. It received a special award, CSR Diamond, in the 6th run of the Responsible Business Awards competition.

The prize is awarded by the Executive Club. Its purpose is to highlight the importance of involvement of Polish businesses in the implementation and promotion of the idea of sustainable and responsible business.

PKO BANK POLSKI SA WAS AWARDED THE 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.

The competition is organized by *Puls Biznesu*, with the technical support from PwC Polska, which supervises the audit of participants' processes and procedures. The award is granted to companies which comprehensively and systemically create and strengthen their organizational culture.

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.

BEST SPECIALISTS IN THE MARKET

DIGITAL SHAPERS

Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA, received an award in the category of Digital Transformation in the first run of the Digital Shapers competition. He was appreciated for his participation in changes in the banking sector and development of the society's digital competence, and entered in the list of prominent personalities of the digital world.

Digital Shapers is an initiative of Digital Poland Foundation, whose aim is to honour outstanding personalities of the digital world and new technologies, who are a model and inspiration for the whole business.

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.

8. RISK MANAGEMENT

8.1 PRINCIPLES OF RISK MANAGEMENT

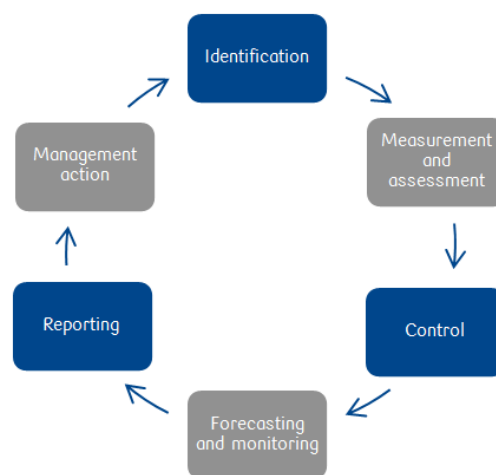
Risk management is one of the key internal processes, both in PKO Bank Polski SA, and in other entities of the PKO Bank Polski SA Group. Risk management is aimed at ensuring the profitability of business activities while ensuring control over the risk level and maintaining it within the risk tolerance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

The primary objective of risk management of the PKO Bank Polski SA Group is to ensure adequate management of all types of risk related to its business. As part of the risk management system, the PKO Bank Polski SA Group manages risk by identifying, measuring or assessing, controlling, forecasting, monitoring and reporting risk.

The risk management system covers:

- organizational structure, allocation of duties and responsibilities;
- internal regulation system;
- tools, including databases.

The Bank's Group regularly monitors and assesses the materiality of the identified risks to which it is exposed in its business, in compliance with Polish law, recommendations of the Polish Financial Supervision Authority and other regulations. Measurement, assessment, control and monitoring methods are adapted to the current and planned scale of operations, the environment and the materiality and nature of the risks involved.



Credit risk, currency risk, interest rate risk, liquidity risk, including financing risk, operational risk, business risk, macroeconomic risk and model risk are considered material in the Bank's Group.

The risk management process supports the implementation of the Bank's strategy, in particular regarding the level of risk tolerance. Risk management is integrated with the planning and controlling systems.

The organizational structure of PKO Bank Polski SA is adapted to the risk level and profile.

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 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 internal regulations; the objective of these structures is to ensure that the activities implemented at the first level are properly designed in the Bank's internal regulations and effectively reduce risk, support the measurement, assessment and analysis of risk and business effectiveness.
- the third level is the operation of 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.

The risk management process is supervised by the Supervisory Board, which regularly receives information on the Bank's and the Group's risk profile and the most important actions taken in the area of risk management. The Supervisory Board is supported, *inter alia*, by the following committees: the Risk Committee of the Supervisory Board, the Audit Committee of the Supervisory Board, and the Remuneration Committee of the Supervisory Board.

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. The Management Board is supported in risk management by the following committees: the Risk Committee, the Asset and Liability Management Committee, the Bank's Credit Committee, the Operational Risk Committee.

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 to that, the Bank takes into account the level of risk in particular Group companies for the purposes of the risk monitoring and reporting system at Group level.

The principles and methods of assessing 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.

8.2 CREDIT RISK

DEFINITION	Credit risk is defined as the risk of the occurrence of losses due to the Counterparty's default in payments to the Bank's Group or as a risk of a decrease in the economic value of amounts due to the Bank's Group as a result of a deterioration in the Counterparty's ability to repay amounts due to the Bank.
MANAGEMENT OBJECTIVE AND SYSTEM	<p>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.</p> <p>The credit risk management system, in addition to the basic principles of risk management, includes:</p> <ul style="list-style-type: none"> • credit risk management at individual credit transaction level and at portfolio level; • participation in the creation of an incentive system contributing to compliance with the credit risk management policies and principles adopted by the Bank.
RISK IDENTIFICATION	<p>Credit risk identification involves the identification of current and potential sources and factors of credit risk, which result from current and planned lending activities of the Bank's Group.</p> <p>As part of credit risk identification, those types of risk which are considered material in the Bank's and the Group's activities are taken into consideration and their potential impact on the operations of the Group is estimated.</p> <p>Credit risk is identified for:</p> <ul style="list-style-type: none"> • existing credit products offered to customers of the Bank's Group, the processes of implementation of these products using IT tools and databases; • designed credit products for customers, internal regulations, and IT tools and databases.
MEASUREMENT, ESTIMATION AND ASSESSMENT OF RISK	<p>Credit risk is measured, estimated and assessed at the level of the Customer, a single credit transaction and at the level of the loan portfolios of the Bank's Group, using scoring or rating methods, which ensure a uniform and objective assessment of the Customer's credibility in the creditworthiness assessment process.</p> <p>The Bank's Group develops credit risk assessment methods taking into account the requirements of the Internal Ratings-Based Approach (IRB).</p> <p>As part of credit risk measurement or estimation at the level of loan portfolios, stress tests of the risk related to foreign currency and zloty credit exposures are carried out.</p> <p>Measurement, estimation and assessment of portfolio credit risk includes periodical assessment of this risk taking into account all credit exposures of Customers, as well as various aspects of the portfolio, such as Customer groups, groups of credit products.</p> <p>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:</p> <ul style="list-style-type: none"> • probability of default (PD); • loss given default (LGD);

- credit conversion factor (CCF);
- expected loss (EL);
- credit value at risk (CVaR);
- share and structure of impaired loans;
- coverage ratio;
- cost of credit risk;
- stress testing.

The process of assessing the Group's credit risk takes into account the requirements of the Polish Financial Supervision Authority as specified in the PFSA Recommendations.

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 in reports to the Bank's authorities. The above-mentioned information enables identifying and taking measures to limit the adverse influence of unfavourable market changes on the Group's performance.

Credit risk control involves the definition of the tools used to diagnose or reduce the level of credit risk, use of credit risk controls to mitigate that risk, and compliance with controls, as part of credit risk management in credit processes and at the portfolio level.

In the first instance, the Bank uses the following to manage the Group's credit risk:

CONTROL

- strategic credit risk tolerance limits;
- internal credit risk limits:
 - portfolio credit risk limits;
 - industry limits;
 - competence limits;
- thresholds for providing financing to individual or institutional Customers;
- minimum transaction requirements or credit risk covenants determined depending on the level of risk associated with financing the Customer in a specific form.

Credit risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from the forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by external supervisory and regulatory authorities), and performing (specific and comprehensive) stress tests. Risk level forecasts are subject to back testing...

Credit risk is monitored at the level of individual credit transactions and at portfolio level.

Credit risk monitoring at the individual loan transaction level is governed, in particular, by the Bank's internal regulations concerning:

- assessment of the Bank's credit risk related to customer financing;
- ways and methodologies of Customer assessment;
- identification of groups of related entities;
- evaluation of collateral and inspection of investments;
- recognition of allowances for expected credit losses
- Early Warning System;
- Operating procedures within the lending system.

Credit risk monitoring at the portfolio level consists of:

FORECASTING AND MONITORING

- 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 analyzing the effects and actions taken as part of system management;
- Recommending preventive measures in the event of identifying an increased level of credit risk.

The Bank's Group analyses its portfolio of foreign currency mortgage loans for households in a specific manner. The Bank's Group monitors the quality of the portfolio on an on-going basis and reviews the risk of deterioration in the quality of the portfolio. Currently, the quality of the portfolio is at an acceptable level. The Bank takes into consideration the risk of foreign currency mortgage loans for households in the capital adequacy and own fund management.

REPORTING	<p>Credit risk reporting includes periodical reporting of the loan portfolio's risk exposure.</p> <p>The Group prepares monthly and quarterly credit risk reports. 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).</p>
MANAGEMENT ACTIONS	<p>The purpose of management actions is to shape and optimize the credit risk management system and credit risk level in the Bank's Group.</p> <p>The credit risk management actions include in the first instance:</p> <ul style="list-style-type: none"> • issuing internal regulations governing the credit risk management system at the Bank and the Bank's Group; • issuing recommendations, guidelines for conduct, explanations and interpretation of the Bank's and the Bank's Group's internal regulations; • taking decisions regarding the acceptable level of credit risk, including in particular lending decisions; • developing and improving credit risk control tools and mechanisms which make it possible to maintain the credit risk level within the limits acceptable to the Bank and the Bank's Group; • developing and monitoring the operation of credit risk management controls; • developing and improving credit risk assessment methods and models; • developing and improving IT tools used in credit risk management; • Planning actions and issuing recommendations.
USE OF CREDIT RISK MITIGATION TECHNIQUES – COLLATERAL	<p>The collateral management policy as regards credit risk plays a special role in establishing transaction requirements. The collateral management policy pursued by the Bank's Group is meant to properly secure the credit risk to which the Group is exposed, including first and foremost establishing the most liquid collateral. Collateral may be considered liquid if it is possible to sell it without a material reduction in its price and at a time which does not expose the Bank to a change in the value of the collateral on account of the collateral-specific price fluctuations.</p> <p>The Bank's Group strives to diversify collateral in terms of its forms and assets used as collateral. The type of collateral depends on the Customer or transaction risk level.</p> <p>The Bank's Group evaluates collateral from the perspective of the actual possibility of using it to satisfy its claims.</p>

8.3 INTEREST RATE RISK

DEFINITION	<p>Interest rate risk is the risk of incurring losses on the Group's statement of financial position and off-balance sheet items sensitive to interest rate changes, as a result of changes in interest rates on the market.</p>
MANAGEMENT OBJECTIVE	<p>To mitigate 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.</p>
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Identification of the interest rate risk consists of identifying the current and potential sources of the risk and on estimating 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 (Vary); • stress testing; • Repricing gap.
CONTROL	<p>Control of 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.</p>
FORECASTING AND MONITORING	<p>The following are monitored by the Bank's Group on a regular basis:</p> <ul style="list-style-type: none"> • the level of interest risk measures; • 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	<p>The reports on interest rate risk are prepared on a daily, weekly, monthly and quarterly basis.</p>
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;

- Interest rate risk limits and thresholds.

The Bank's Group has established limits and thresholds for interest rate risk comprising, *inter alia*, the following: sensitivity of interest income, sensitivity of the economic value.

8.4 CURRENCY RISK

DEFINITION	Currency risk is the risk of incurring losses due to exchange rate changes. The risk is generated by maintaining open currency positions.
MANAGEMENT OBJECTIVE	To mitigate the risk of potential losses arising from foreign exchange rate changes to an acceptable level by appropriately shaping the currency structure of the statement of financial position and off-balance sheet items.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Identification of currency risk consists of identifying the current and potential sources of the risk and on estimating 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 (Vary); • Stress tests.
CONTROL	Control of 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 are monitored by the Bank's Group on a regular basis:</p> <ul style="list-style-type: none"> • the level of currency risk measures; • 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 prepared on a daily, weekly, monthly and quarterly basis.
MANAGEMENT ACTIONS	<p>The main tools used in currency risk management in the Bank's 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 thresholds for currency risk for, <i>inter alia</i>, currency positions, Value at Risk calculated for a 10-day time horizon and loss from transactions on the currency market.</p>

8.5 LIQUIDITY RISK

DEFINITION	<p>Liquidity risk is 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, mismatch 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>
MANAGEMENT OBJECTIVE	To ensure the necessary level of 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, MEASUREMENT AND ASSESSMENT	<p>Identification of liquidity risk consists in identifying the current and potential sources of the risk and on estimating 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 liquidity risk measures:</p> <ul style="list-style-type: none"> • the contractual and adjusted to real terms liquidity gap; • liquidity reserve; • liquidity surplus; • liquidity coverage ratio (LCR); • net stable funding ratio (NSFR); • national supervisory ratios M3-M4; • measures of stability of deposit and loan portfolios; • Stress tests (liquidity stress tests).

CONTROL	<p>Control of liquidity risk covers determining the strategic limits of tolerance to liquidity risk, tailored to the scale and complexity of the Group's operations, as well as other limits and thresholds which set the acceptable level of exposure of entities in the Bank's Group to short term, medium term and long term liquidity risk.</p>
FORECASTING AND MONITORING	<p>The following are monitored by the Group on a regular basis:</p> <ul style="list-style-type: none"> • the degree of utilization of the strategic limits of liquidity risk tolerance; • the degree of utilization of European and national supervisory liquidity standards; • the degree of utilization of internal limits and thresholds relating to liquidity risk; • concentration of sources of financing; • Early warning signals – monitoring their level is aimed at the early discovery of unfavorable developments which could have an adverse impact on the Bank Group's or the financial sector's liquidity position (which, when exceeded, trigger liquidity contingency plans). <p>The Group also performs periodical 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 materialization of the statement of financial position forecasts and materialization of selected stress-test scenarios.</p>
REPORTING	<p>Reports on liquidity risk are prepared on a daily, weekly, monthly and quarterly basis, and once a year an in-depth long-term liquidity analysis is performed.</p>
MANAGEMENT ACTIONS	<p>The main tools used in liquidity risk management in the Group include:</p> <ul style="list-style-type: none"> • procedures for liquidity risk management, in particular liquidity emergency plans; • limits and thresholds for mitigating liquidity risk; • deposit, investment, derivative transactions, including structured Forex transactions, and purchase and sales transactions of securities; • Transactions ensuring the long-term financing of lending activities. <p>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). Money market instruments, including NBP open market operations, are also used in liquidity risk management.</p>

8.6 OPERATIONAL RISK

DEFINITION	<p>Operational risk is the risk of occurrence of a loss due to the incompatibility or unreliability of internal processes, people and systems or external events. Operational risk includes legal risk, and does not include reputation risk and business risk.</p>
MANAGEMENT OBJECTIVE	<p>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 scale of operations, mechanisms of identifying, assessing, measuring, controlling, monitoring, mitigating and reporting operational risk.</p>
RISK IDENTIFICATION, MEASUREMENT 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 operational risk indicators 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 periodically 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 operational risk indicators: key risk indicators (KRI) and risk indicators (RI); • calculating the operational risk requirement relating to own funds in accordance with the AMA approach (the Bank) and the BIA approach (the branches in Germany and the Czech Republic, and the Group companies covered by prudential consolidation); • stress testing; • Calculating the internal capital for the Bank's Group.
CONTROL	<p>Control of operational risk includes determining operational risk limits tailored to the scale and complexity of the Bank's and the Group's activities, in particular the strategic limits of tolerance of operational risk, loss limits, operational risk indicators with thresholds and critical values.</p>

FORECASTING AND MONITORING	<p>The following are monitored by the Group on a regular basis:</p> <ul style="list-style-type: none">• the degree of utilization of strategic tolerance limits for the Bank, the Bank's Group, and operational risk loss limits for the Bank;• operational events and their consequences;• results of self-assessment of operational risk;• the operational risk requirement relating to own funds;• the results of stress tests, including reverse stress tests;• operational risk indicator values in relation to thresholds 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, operational risk indicators, loss limits;• effectiveness and timeliness of management actions taken to reduce or transfer operational risk;• Management actions related to the presence of elevated or high levels of operational risk and their effectiveness in reducing the level of operational risk.
REPORTING	<p>Information relating to operational risk is reported to senior management, the Operational Risk Committee, the Risk Committee, the Management Board and the Supervisory Board on a monthly and quarterly basis. What is prepared on a monthly basis is information on operational risk reported to the Operational Risk Committee, senior management, the Head Office's organizational units and specialist organizational units responsible for systemic operational risk management. The scope of information is diversified and adapted to the scope of responsibilities of particular recipients.</p>
MANAGEMENT ACTIONS	<p>Management actions are taken on the initiative of the Operational Risk Committee or the Management Board, on the initiative of organizational units and cells of the Bank managing operational risk when operational risk has exceeded the levels described by the Management Board or the Operational Risk Committee.</p> <p>Especially when the operational risk level is elevated or high, the Bank uses the following approaches and instruments to manage operational risk:</p> <ul style="list-style-type: none">• 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 thresholds and critical operational risk indicators, determination or verification of operational risk levels, contingency plans;• risk transfer – transfer of responsibility for covering potential losses to a third-party: insurance, outsourcing;• Risk avoidance – discontinuation of an activity which generates risk or elimination of the probability of the occurrence of a risk factor.

8.7 OTHER RISKS

Compliance and conduct risk
 Business risk
 Reputation risk
 Model risk
 Macroeconomic risk

COMPLIANCE AND CONDUCT RISK

The compliance risk is the risk of legal sanctions, financial losses, or loss of reputation or credibility, if the Bank's Group, the Group's staff or entities acting on the Group's behalf fail to comply with the law, internal regulations, or market standards adopted by the Group.

Conduct risk is a risk of loss arising on the part of:

DEFINITION

- the Customer;
- the Bank's Group, including its reliability;
- financial markets, with regard to their credibility,

as a result of inappropriate action (also unintentional) or any omission by the Bank's Group, its staff or related entities, with regard to the offering of purchase and provision of financial services.

MANAGEMENT OBJECTIVE

- to reinforce, among shareholders, Customers, the Group's staff, business partners, and other market participants, an image of the Group as an institution which abides by the law and market standards, which is trustworthy, reliable and honest;
- to counter financial losses or legal sanctions, or loss of reputation, reliability in particular, which can result from the violation of the law, internal regulations of the Bank's Group, and market standards adopted by the Bank's Group;
- To counter losses on the part of the Bank's Group's customers, which may result from inappropriate conduct (also unintentional) or omission by the Bank's Group, its staff or related entities, with regard to the offering of purchase and provision of financial services.

Compliance and conduct risk is identified and assessed through the use of information on cases of non-compliance and the reasons for their occurrence, including information being the result of an internal audit, an internal or external inspection.

The identification and assessment of compliance and conduct risk is based primarily on:

RISK IDENTIFICATION AND ASSESSMENT

- estimation of the severity of potential cases of non-compliance;
- results of operational risk self-assessment;
- results of the review and evaluation of the adequacy and effectiveness of controls;
- details of irregularities identified as part of the internal control system;
- Assessment of additional risk factors of non-compliance with legal regulations.

When making the assessment, the Bank determines the nature, potential scale of losses and probability of their occurrence, and indicates how the compliance risk can be reduced or eliminated. The assessment is carried out in the form of workshops.

Forecasting and monitoring involves:

FORECASTING AND MONITORING

- analysis of cases of non-compliance and conduct risk events in the Bank's Group and in the banking sector, the causes and effects thereof;
- evaluation of key provisions of the law affecting the operations of the Bank's Group;
- evaluation of activities undertaken by the Bank and members of the Bank's Group as part of the management of the compliance risk;
- evaluation of the effectiveness and adequacy of the controls related to mitigation of the compliance risk;
- analysis of information about the status of the major adaptation work performed by the Group to adapt to the provisions of law, market standards adopted by the Bank's Group and notices of external supervisory and control authorities;
- Analysis of information about operating events, security incidents, disputes, including litigation, against the Bank's Group, complaints and irregularities related to the conduct risk.

REPORTING	<p>The Bank's Group reports compliance risk in the form of quarterly and annual management reports to the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board, the Audit Committee of the Supervisory Board, and the Supervisory Board, including, in the first instance, information on:</p> <ul style="list-style-type: none"> • the most significant factors which contribute to the level of compliance risk; • results of identification and assessment of compliance risk; • the cases of non-compliance observed; • the most important developments in the Bank's regulatory environment; • Compliance test results.
MANAGEMENT ACTIONS	<p>The management of this risk comprises in particular:</p> <ul style="list-style-type: none"> • preventing the Bank's Group from engaging in illegal activities; • promoting ethical standards and monitoring their functioning; • managing conflicts of interest; • preventing situations in which the conduct of the Group's employees in official matters could give the impression of pursuing a private interest; • professional, fair, and transparent wording of the product offer, as well as advertising and marketing messages; • ensuring protection of information; • immediate, fair and professional handling of customer complaints, requests and grievances; • preventing situations in which a product incompatible with the customer's needs may be offered; • determination of an adequate manner and form of the offer of purchase in relation to the nature of the product offered; • Monitoring sales and reliable performance of agreements executed with Customers.
BUSINESS RISK	
DEFINITION	<p>Business (strategic) risk is the risk of not achieving the assumed financial goals, including incurring losses, due to adverse changes in the business environment, taking bad decisions, incorrect implementation of the decisions taken, or not taking appropriate actions in response to changes in the business environment.</p>
MANAGEMENT OBJECTIVE	<p>Maintaining, at an acceptable level, potential adverse financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions which would be a response to changes in the business environment.</p>
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Identification consists in recognizing and determining factors, both current and potential, resulting from current and planned activities of the Bank's Group, which may significantly affect the financial position of the Group, generating or changing the amount of the Group's revenues and expenses. Business risk is identified through a qualitative assessment of business risk and identification and analysis of factors that contributed to significant deviations in the generation of revenues and expenses from their forecast values.</p> <p>Measurement of business risk is aimed at defining the scale of threats related to the existence of business risks, using predetermined risk measures. Business risk measurement covers: calculation of internal capital, conducting stress tests and reverse stress tests.</p>
CONTROL	<p>The purpose of the control of business risk is to strive to maintain an acceptable level of the risk. It involves determining and periodically reviewing the risk controls in the form of business risk tolerance limits and its thresholds and critical values, adequate to the scale and complexity of the Bank's Group's operations.</p>
FORECASTING AND MONITORING	<p>Forecasting business risk is aimed at determining an anticipated scenario of the degree of achievement of planned results by the Group.</p> <p>Business risk is monitored to diagnose areas which require management action. Business risk monitoring includes:</p> <ul style="list-style-type: none"> • strategic limits of business risk tolerance; • stress test results; • reverse stress test results; • levels of internal capital; • deviations of actual business risks from forecasts; • Results of qualitative assessment of the business risk.
REPORTING	<p>Reporting is performed on a quarterly basis. The reports on the business risk level are addressed to the Asset and Liability Management Committee, the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.</p>

MANAGEMENT ACTIONS	<p>Management actions consist mainly of:</p> <ul style="list-style-type: none"> • verifying and updating quarterly financial forecasts, including actions aimed at mitigating the business risk level in accordance with the limits; • Monitoring the level of the strategic limit of tolerance to business risk.
REPUTATION RISK	
DEFINITION	Reputation risk is the risk of damage to reputation with Customers, counterparties, investors, regulators, inspectors, and the public, as a result of business decisions, operating events, instances of non-compliance, or other events.
MANAGEMENT OBJECTIVE	To protect the Group's reputation by preventing reputation losses and limiting the impact of adverse publicity events on the Group's reputation.
RISK IDENTIFICATION AND ASSESSMENT	<p>Reputation risk identification concerns developments in the Group's internal processes and in its external environment, in the first instance adverse publicity events and business environment factors, i.e. quantitative and qualitative information, including in the first instance any data on the Group and the Group's external environment, which provides reputation risk information.</p> <p>Reputation risk assessment involves assessing the impact of adverse publicity events on the Group's reputation, in the first instance by assessing the severity of reputation losses caused by such events. Reputation risk assessment takes account of the tone, credibility or opinion-making potential and reach of revealing of adverse publicity events to the public.</p>
CONTROL AND MONITORING	Reputation risk control and monitoring involves defining and regularly assessing the level of reputation risk measures in relation to the limits adopted. The level of reputation risk is determined based on the level of such reputation risk measures.
REPORTING	Reputation risk reporting takes in the first instance the form of semi-annual management reports intended for the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board. These reports contain overall information on the scale and profile of the risk incurred by the Bank (as well as by the entities of the Bank's Group where reputation risk has been identified), the most severe reputation losses and protective measures taken, use of reputation risk limits and effectiveness of management actions taken, as well as the most important sources and factors of reputation risk, which will most likely contribute to its level. Moreover, semi-annual management reports for the second half of the calendar year include, in addition to the information referred to above, an annual review of the adequacy and effectiveness of reputation risk management.
MANAGEMENT ACTIONS	<p>Depending on the current level of reputation risk, management actions are taken and they may include:</p> <ul style="list-style-type: none"> • analysis of the causes of a specific risk level; • assessment of the impact of such a level; • Development of proposed management actions aimed at reducing reputation risk or providing a rationale for not taking action, e.g. in case of incidental, extraordinary events.
MODEL RISK	
DEFINITION	Model risk is the risk of losses resulting from taking incorrect business decisions based on the models in place. Model risk is managed within the Bank's Group both at the level of the given member of the Group (the model owner) and at the level of the Bank as the Group's parent company.
MANAGEMENT OBJECTIVE	To mitigate the risk of losses resulting from taking incorrect business decisions on the basis of the models in place at the Bank's Group, using a well-defined and implemented model management process. Regular, independent validation of all the models significant to the Bank's Group is one of the elements of the model management process.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Model risk identification in the first instance involves collecting information about the models which are in place or which are intended to be implemented, and periodically determining their significance.</p> <p>Model risk assessment is intended to gauge the scale of threats posed by model risk. The assessment makes it possible to determine the risk profile and identify the models which generate the highest risk and expose the Bank's Group to potential losses. Model risk is assessed at the level of each model and in aggregate, at the level of each member of the Bank's Group.</p>
CONTROL	Model risk control is intended to maintain an aggregated model risk assessment at a level which is acceptable to the Bank's Group. Model risk control involves establishing the mechanisms used to diagnose the level of model risk and tools for reducing the level of such risk. The tools used to diagnose model risk in the first instance include a strategic limit of tolerance to model risk, and model risk thresholds.

MONITORING	<p>Periodical model risk monitoring is aimed at diagnosing the areas which require management actions and in the first instance includes:</p> <ul style="list-style-type: none"> • model risk level updates; • assessing the utilization of the strategic limit of tolerance to model risk and the model risk thresholds; • Verifying the status of implementation and evaluating the effectiveness of model risk mitigation activities.
REPORTING	Model risk monitoring results are periodically presented in reports intended for the Risk Committee, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.
MANAGEMENT ACTIONS	The purpose of management actions is to influence the model risk management process and the level of such risk, by setting acceptable risk levels and taking decisions to use risk management support tools.

MACROECONOMIC RISK

DEFINITION	Macroeconomic risk is the risk of deterioration in the Group's financial situation as a result of an adverse impact of changes in macroeconomic conditions.
MANAGEMENT OBJECTIVE	The objective of macroeconomic risk management is to identify macroeconomic factors which have a significant impact on the Group's activities and take action to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank's Group.
RISK IDENTIFICATION, MEASUREMENT AND ASSESSMENT	<p>Macroeconomic risk identification involves determining scenarios of potential macroeconomic changes and risk factors having the greatest impact on the financial situation of the Bank's Group. Macroeconomic risk arises from the interaction of factors dependent on the Group's activities (in the first instance, the statement of financial position structure and response plans developed for stress scenario purposes) and independent thereof (macroeconomic factors).</p> <p>Macroeconomic risk measurement is intended to gauge the scale of threats posed by macroeconomic risk. The level of macroeconomic risk is assessed on an annual basis using the results of periodical comprehensive stress tests. Macroeconomic risk level may be moderate, increased or high.</p>
CONTROL	<p>The objective of macroeconomic risk control is to attempt to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank's Group.</p> <p>Macroeconomic risk control involves determining an acceptable risk level commensurate with the scale of the Group's operations and its impact on the operation and financial situation of the Bank's Group.</p>
FORECASTING AND MONITORING	<p>The objective of macroeconomic risk forecasting is to determine the anticipated impact of materialization of an adverse scenario on the Bank's results of operations, including its capital level.</p> <p>Macroeconomic risk monitoring involves analyzing the macroeconomic situation, the macroeconomic factors to which the Bank's Group is sensitive, the level of macroeconomic risk, and the results of comprehensive stress tests.</p>
REPORTING	Macroeconomic risk is reported on a quarterly basis. Reports on the level of macroeconomic risk are intended for the ALCO, the RC, the Management Board, the Risk Committee of the Supervisory Board, and the Supervisory Board.
MANAGEMENT ACTIONS	Management actions in the first instance involve setting acceptable risk levels and taking steps to reduce the level of risk in the event of increased or high macroeconomic risk.

8.8 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 risks identified, in the first instance the risks considered by the Bank or the Group to be material. They include an analysis of the impact of changes in the macroeconomic environment and the operation of the Group on the Group's financial position. Calculations are made using the Bank's internal models, taking into account the macroeconomic assumptions adopted.

Reverse stress tests complement the results of the comprehensive stress tests and are intended to assess the Bank's resilience to macroeconomic changes. Reverse stress tests are conducted in the form of sensitivity analyses and consist in defining potential adverse scenarios related to the Bank's liquidity or capital adequacy, and then identifying events which contribute to their materialization.

8.9 CAPITAL ADEQUACY²¹

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 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 Macro prudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015 (Act on Macro prudential Supervision).

The key 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.

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 Macro prudential Supervision, the Bank's Group must meet the combined buffer requirement, which is the sum of the applicable buffers, i.e.:

- the capital conservation buffer of 1.875% (2.5% effective from 1 January 2019);
- the countercyclical buffer; 0% for credit exposures in the territory of the Republic of Poland;
- the systemic risk buffer; set at 3%;
- The buffer of one of another systemically important institution: 1%.

Moreover, the Bank's Group must maintain own funds for the additional capital requirement for the risk of foreign currency mortgage loans for households, of 0.42 pp above the consolidated total capital ratio. The additional capital requirement should be composed of at least 75% of Tier 1 capital, i.e. at the level of 0.31 pp above the consolidated Tier 1 capital ratio.

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

9. BENEFITS FOR MANAGERS AND SUPERVISORS

Principles for remunerating Members of the Bank's Management Board
Variable remuneration components for Members of the Management Board and key managers who have a material impact on the Bank's risk profile
Information on non-financial remuneration components due to individual Members of the Management Board and key managers
Principles for remunerating Members of the Bank's Supervisory Board
Agreements concluded between the Bank and management members
Liabilities due to pensions for former supervisors and managers

9.1 PRINCIPLES FOR REMUNERATING MEMBERS OF THE BANK'S MANAGEMENT BOARD

Principles for setting the remuneration of Members of the Management Board were defined by resolution no. 2/2017 of the Extraordinary General Meeting of the Bank's Shareholders of 13 March 2017. Based on the resolution of the General Meeting of Shareholders on the principles for setting the remuneration of Members of the Management Board, the Supervisory Board adjusted the employment form and method of remunerating Members of the Bank's

²¹ 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.

Management Board to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies (Journal of Laws of 2016, of Laws of 2016, item 1202, as amended).

In 2018 the Principles for employment and remuneration of Members of the Bank's Management Board in 2017 were binding in PKO Bank Polski. In accordance with these Principles, Members of the Management Board are entitled to:

- fixed remuneration in the amount specified in the resolution of the Supervisory Board for the President of the Management Board, Vice-President of the Management Board in charge of the Risk Management Area and remaining Members of the Management Board separately;
- variable remuneration – additional remuneration awarded and paid after the performance appraisal period, in particular bonuses, awards for special professional achievements, severance pay (excluding fixed remuneration and benefits awarded based on the applicable legal regulations).

The fixed remuneration amounts to:

- in the case of the President of the Management Board –times15;
- in the case of Vice-President of the Management Board of the Bank in charge of the Risk Area: times14;
- in the case of remaining Members of the Management Board –times13;

average monthly remuneration in the corporate sector, without profit sharing schemes in the fourth quarter of the preceding year, as announced by the President of the Central Statistical Office.

Full information on remuneration components and other benefits for individual Members of the Management Board of PKO Bank Polski SA during the reporting period is published in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2018 (Note 50).

9.2 VARIABLE REMUNERATION COMPONENTS FOR MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS WHO HAVE A MATERIAL IMPACT ON THE BANK'S RISK PROFILE

In accordance with the requirements of CRD IV and the Commission Delegated Regulation (EU) No. 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile, the Bank updates the principles for setting variable remuneration components on an ongoing basis.

Variable remuneration components are awarded primarily based on bonus targets set within the framework of the Management by Objectives (MbO) programme.

The purpose of the targets set is to guarantee that the risk related to the activities of the Bank is taken into account. Risks are reflected both by determining the appropriate risk-sensitive criteria for work effectiveness assessment, and reducing or clawback of the variable remuneration component in the case of deteriorated financial results, loss or deterioration in other ratios.

Variable remuneration components for the particular assessment period (calendar year) are awarded after settling bonus targets, in:

- non-deferred form – 60% of the variable remuneration component (in the first year after the assessment period);
- deferred form – 40% of the variable remuneration component (in equal instalments over the net years after the first year after the assessment period);

while both the non-deferred and deferred remuneration is awarded in equal parts in cash and in financial instruments, i.e. the phantom shares (that are converted into cash based on the updated price of the Bank's shares after the period of retention, and in the case of the deferred remuneration component – after a deferral period).

If the variable remuneration component for the particular year exceeds PLN 1 million, PLN 400 thousand plus 60% of the excess over the amount of PLN 1 million shall be deferred. Variable remuneration components cannot exceed 100% of the annual basic salary. Variable remuneration components cannot exceed 100% of the annual basic salary.

Each of the components of accrued variable remuneration may be reduced as a result of:

- breach of the obligations arising from the contract;
- lack of compliance with legal regulations or Customer service standards;
- improper performance of professional duties;
- attitude towards other employees breaching social coexistence rules.

The bonus amount:

- for a member of the Management Board can be adjusted (decreased or increased) by a certain ratio, depending on the results achieved by the Bank, specified in the Bank's Annual Note (a set of key management indicators specified for a given calendar year);
- for an MRT, who is not a member of the Board, it can be adjusted (increased) by a certain ratio, depending on the results achieved by the Bank, specified in the Bank's Annual Note.

In the case of:

- a significant deterioration in the Bank's results;
- identifying a significant adverse change in equity;
- MRT breaching the law or making serious errors;
- adjustment of the achievement and degree of achievement of the results or targets of MRT;
- deterioration in the performance of the structures supervised or managed by the aforementioned persons;
- granting the variable remuneration component based on incorrect or misleading information or MRT fraud;

the Supervisory Board or the Management Board respectively may apply a malus solution reducing the amount of the variable remuneration component due, deferred to subsequent settlement periods.

Material Risk Takers (except Members of the Bank's Management Board) may benefit from health care services financed by the Bank, the social benefits fund, and the Employee Pension Scheme (EPS).

In the case of severance pay related to dismissal (other than resulting from generally applicable laws), the amount reflects the performance assessment for the last three years of employment. At the same time, the Bank's internal regulations stipulate the maximum amount of the severance pay.

A Member of the Management Board shall be entitled to severance pay subject to fulfilling the function of Member of the Bank's Management Board for at least twelve months before termination of the aforementioned contract. An MRT can receive the severance pay subject to being employed as an MRT for at least twelve months before termination of the employment contract.

Members of the Management Board and certain MRTs are additionally subject to non-competition agreements. These agreements provide for payment of the compensation equivalent of up to 100% of the basic salary arising from the contract for refraining from employment in a competitive firm after the termination of employment with the Bank, for no more than six months.

9.3 INFORMATION ON NON-PAY REMUNERATION COMPONENTS DUE TO INDIVIDUAL MEMBERS OF THE MANAGEMENT BOARD AND KEY MANAGERS

Since 1 July 2017, as a result of adjusting the principles for employment and remuneration of Members of the Bank's Management Board to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies (Journal of Laws of 2016, item 1202, as amended) Members of the Management Board are not entitled to non-pay remuneration components.

9.4 PRINCIPLES FOR REMUNERATING MEMBERS OF THE BANK'S SUPERVISORY BOARD

The monthly remuneration of Members of the Supervisory Board was set by resolution no. 3/2017 of the Extraordinary General Meeting of Shareholders of PKO Bank Polski Spółka Akcyjna of 13 March 2017, as a product of the average monthly remuneration in the enterprise sector without out of profit payments in the fourth quarter of the previous year, announced by the President of the Central Statistical Office, and the following ratios:

- for the Chairman of the Supervisory Board – 2.75;
- for the Deputy Chairman of the Supervisory Board – 2.5;
- for the Secretary of the Supervisory Board – 2.25;
- for the remaining Members of the Supervisory Board – 2.

The remuneration shall be increased by 10% if a Member of the Supervisory Board sits on at least one standing committee of the Supervisory Board.

In addition to their remuneration, Members of the Supervisory Board shall be entitled to reimbursement for the costs incurred in connection with their function, in particular travel costs from the place of residence to the location of the Supervisory Board's meeting and back, costs of accommodation and food.

Table 9. Remuneration of Members of the Supervisory Board (PLN'000)

	2018	2017
Supervisory Board		
Remuneration received, due or potentially due from PKO Bank Polski SA	1,351	1,315
Remuneration received, due or potentially due from related entities*	0	0
Remuneration received, due or potentially due	1,351	1,315

* Other than the State Treasury and entities related to the State Treasury

Full information on remuneration components and other benefits for individual Members of the Management Board and the Supervisory Board of PKO Bank Polski SA during the reporting period is published in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2018 (Note 50).

9.5 AGREEMENTS CONCLUDED BETWEEN THE BANK AND MANAGEMENT MEMBERS

In accordance with the definition included in § 2 section 1 point 30 letter a of the Regulation of the Minister of Finance of 9 February 2009 on current and periodical information submitted by issuers of securities and the conditions for recognising as equivalent the information required by the law of a non-member country (Journal of Laws of 2018, item 757) Members of the Management Board are persons managing the Bank.

In 2018 the Bank applied the principles for employment and remuneration of Members of the Bank's Management Board adopted in 2017 and adjusted to the provisions of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies (Journal of Laws of 2016, item 1202, as amended). In 2018 every Member of the Bank's Management Board has concluded a management agreement with the Bank, laying down, among other things, the remuneration terms and competition ban.

9.6 LIABILITIES DUE TO PENSIONS FOR FORMER SUPERVISORS AND MANAGERS

Within the meaning of § 70 section 7 point 18 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and the conditions for recognizing as equivalent the information required by the law of a non-member country (Journal of Laws of 2018, item 757), in 2018, no liabilities due to pension and similar benefits for former managers, supervisors or former members of the administrative authorities and liabilities incurred in relation to these pensions occurred.

10. CORPORATE GOVERNANCE

Information for investors
Statement of compliance with the corporate governance principles
Shares of PKO Bank Polski SA held by the Bank's authorities
Diversity policy

10.1 INFORMATION FOR INVESTORS

Share capital and ownership structure of PKO Bank Polski SA
Quotations of shares of PKO Bank Polski SA on the Warsaw Stock Exchange
Restrictions imposed on shares of PKO Bank Polski SA
Assessment of the creditworthiness of PKO Bank Polski SA
Investor relations

10.1.1 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF PKO BANK POLSKI SA

As at 31 December 2018, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and comprised 1 250 000 thousand shares with a par value of PLN 1 each; the shares are fully paid-up. The share capital of PKO Bank Polski SA remained unchanged compared with its status as at the end of 2017. The issued shares of PKO Bank Polski SA are not preference shares.

Table 10. Structure of the share capital of PKO Bank Polski SA

Series	Type of shares	Number of shares	Par value of 1 share	Value of series at par (PLN)
A-series	ordinary registered shares	312,500,000	1 PLN	312,500,000
A-series	ordinary bearer shares	197,500,000	1 PLN	197,500,000
B-series	ordinary bearer shares	105,000,000	1 PLN	105,000,000
C-series	ordinary bearer shares	385,000,000	1 PLN	385,000,000
D-series	ordinary bearer shares	250,000,000	1 PLN	250,000,000
		1,250,000,000		1,250,000,000

According to PKO Bank Polski's best knowledge, as at 31 December 2018, three shareholders: The State Treasury, Aviva Otworthy Fundusz Emerytalny and Nationale-Nederlanden Otworthy Fundusz Emerytalny held, directly or indirectly, significant blocks of shares (at least 5%).

Table 11. Ownership structure of PKO Bank Polski SA

	As at 31.12.2018		As at 31.12.2017		Change in share in number of votes at GM
	Number of shares	Share in number of votes at GM	Number of shares	Share in number of votes at GM	
State Treasury	367,918,980	29.43%	367,918,980	29.43%	-
Aviva Otworthy Fundusz Emerytalny ¹⁾	89,163,966	7.13%	95,163,966	7.61%	-0.48 p.p.
Nationale-Nederlanden Otworthy Fundusz Emerytalny (until 23.06.2015, ING Otworthy Fundusz Emerytalny) ¹⁾	95,472,008	7.64%	103,388,120	8.27%	-0.63 p.p.
Other shareholders ²⁾	697,445,046	55.80%	683,528,934	54.68%	+1.11 p.p.
Total	1,250,000,000	100.00%	1,250,000,000	100.00%	-

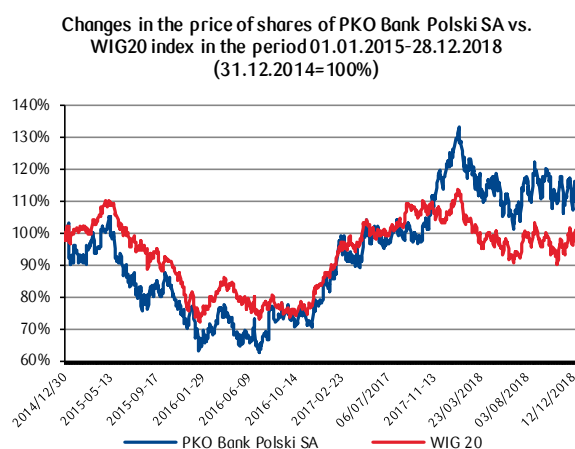
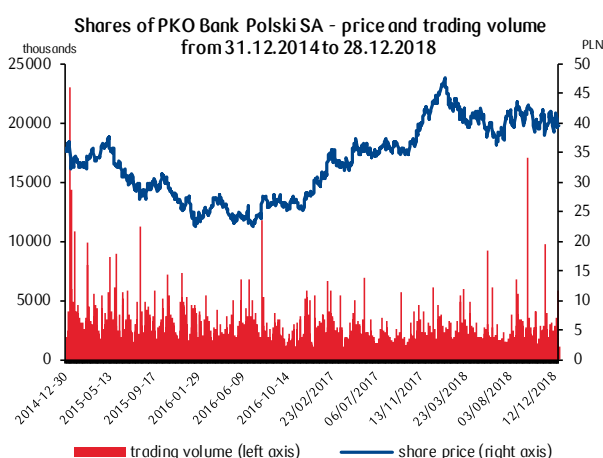
1) Calculated taking into account the number of shares held as at the end of the particular year, published by PTE in the annual information on the structure of assets of the fund and the price from the stock exchange list.

2) including Bank Gospodarstwa Krajowego that, as at 31 December 2018 held 24 487 297 shares entitling to 1.96% of the votes at the General Meeting.

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

None of the shares are preferred as to votes or dividend (each share entitles to one vote).

10.1.2 QUOTATIONS OF SHARES OF PKO BANK POLSKI SA ON THE WARSAW STOCK EXCHANGE



In 2018, the price of shares of PKO Bank Polski SA decreased by 11%, and as at the end of 2018, it was PLN 39.5, while WIG20 and WIG Banki indices dropped by 7% and 12% respectively.

Such changes in the prices of the shares due mainly to:

- interest rates maintained at a historical low despite the previous expectations of their increase;
- forecast lower economic growth for the subsequent year.

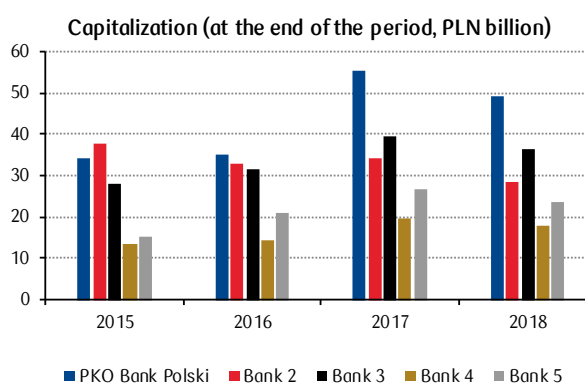
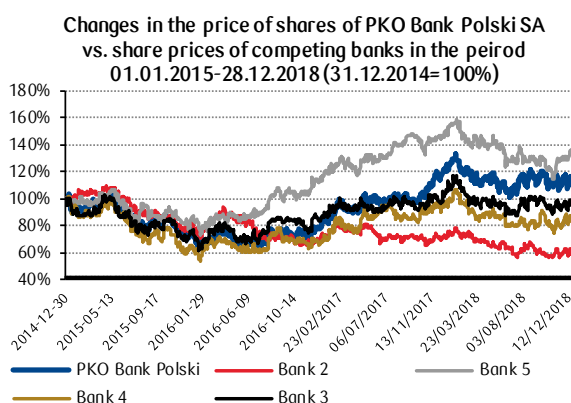
In 2018 as in previous years, the Bank focused on consistently generating attractive business results for investors and on adjusting the business model to the new market environment, in order to ensure a return on capital above the cost of capital, and thus, build shareholder value.

As at the end of 2018, PKO Bank Polski SA was the most valuable company on the Warsaw Stock Exchange. The Bank's capitalization was close to PLN 50 billion.

In addition, as the only company in Poland it was accepted to the FTSE Russell index for large companies in developed markets after the reclassification of the status of the Polish market to a developed one in September 2018. Reclassification of Poland from emerging to developed markets by FTSE Russell is the first rating agency's decision of the kind for more than a decade. It is the effect of constant improvement in the Polish equity market infrastructure and incessant growth in GDP.

PKO Bank Polski SA also joined the circle of companies included in the developed market STOXX Europe 600 index.

PRICE OF SHARES AND CAPITALIZATION OF PKO BANK POLSKI SA COMPARED TO COMPETITIVE BANKS



10.1.3 RESTRICTIONS IMPOSED ON SHARES OF PKO BANK POLSKI SA

All shares of PKO Bank Polski SA carry the same rights and obligations. No shares are preference shares, in particular with respect to voting rights or dividend (one share entitles to one vote). The Articles of Association of PKO Bank Polski SA limit the voting right of shareholders holding more than 10% of the total number of votes at the Annual General Meeting and prohibit these shareholders from exercising more than 10% of the total number of votes at the Annual General Meeting. The aforementioned limitation does not apply to:

- shareholders, who held shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK) on the date of passing the resolution of the General Meeting of Shareholders introducing a limitation to the voting rights;
- shareholders who are entitled based on A-series registered shares (the State Treasury); and
- shareholders acting jointly with the shareholders referred to in the second bullet point, based on an agreement concerning the joint execution of voting rights on shares;
- Moreover, the limitation to the voting rights will expire when the State Treasury's share in the Bank's share capital drops below 5%.

In accordance with § 6 section 2 of the Articles of Association of PKO Bank Polski SA, the conversion of A-series registered shares into bearer shares or their transfer requires the approval of the Council of Ministers expressed in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after obtaining the aforementioned approval, will result in the expiry of the above mentioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

Pursuant to Article 13 section 20 of the Act of 16 December 2016 on the principles for public property management, the shares of PKO Bank Polski SA held by the State Treasury cannot be sold. Furthermore, under Article 14 of the

aforementioned Act, the shares of PKO Bank Polski SA held by the State Treasury, cannot be donated to a local government unit or an association of local government units.

10.1.4 ASSESSMENT OF THE CREDITWORTHINESS OF PKO BANK POLSKI SA

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 which awards a paid rating to the Bank, in accordance with its own bank assessment procedure.

Table 12. Ratings of PKO Bank Polski SA as at 31 December 2018 (paid rating)

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

On 18 June 2018, Moody's Investors Service notified of assigning new counterparty risk ratings (CRR) to PKO Bank Polski SA. The long-term counterparty risk rating was set at A2, and the short-term counterparty risk rating – at P-1. In its notification, the agency did not refer to the Bank's other present ratings. The new ratings were assigned in connection with updating of the bank rating methodology by the agency in June 2018. At the same time, new ratings were assigned to 32 other banks in Central and Eastern Europe.

Counterparty risk ratings reflect an entity's ability to settle an unsecured portion of the counterparty's financial liabilities not related to a debt (CRR liabilities) and the expected financial losses in the case of failing to settle such liabilities. Examples of CRR liabilities include the uncollateralized portion of liabilities arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements.

RATING OF PKO BANK HIPOTECZNY SA

As at 31 December 2018 PKO Bank Hipoteczny SA had the following ratings granted by Moody's Investors Service rating agency:

Table 13. Ratings of PKO Bank Hipoteczny SA as at 31 December 2018 (paid rating)

Moody's Investors Service	
Long-term issuer rating	Baa1 with stable outlook
Short-term issuer rating	P-2
Opinion on counterparty risk - long-term	A3(cr)
Opinion on counterparty risk - short-term	P-2(cr)
Counterparty risk assessment - long-term	A3
Counterparty risk assessment - short-term	P-2
Rating for PLN mortgage bonds issued	Aa3
Rating for EUR mortgage bonds issued	Aa3

On 18 June 2018, Moody's Investors Service assigned new long- and short-term counterparty risk ratings. In its notification, the agency did not refer to the Company's other present ratings. Ratings for covered bonds issued are confirmed for every issue.

RATING OF PKO LEASING SA GROUP

As at 31 December 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:

Table 14. Ratings of the PKO Leasing SA Capital Group as at 31 December 2018 (paid rating)

	Fitch Agency	Scope Agency
Rating of A1 bonds issued in 2014	AA	AAA
Rating of A2 bonds issued in 2015	AA	AAA
Rating of B bonds issued in 2014	AA	A

The aforementioned ratings were updated by Fitch on 5 November 2018, and by Scope – on 9 July 2018.

RATING OF KREDOBANK SA

As at 31 December 2018, KREDOBANK SA had the following ratings granted by Ukrainian rating agencies:

Table 15. Ratings of KREDOBANK SA as at 31 December 2018 (paid ratings)

"Expert-Rating" Rating Agency	
Credit rating on national scale	uaAAA with stable outlook
Credit rating on national scale for A- and B-series bonds issued	uaAAA with stable outlook
"Standard-Rating" Rating Agency	
Credit rating on national scale - long-term	uaAAA with stable outlook
Credit rating on national scale - short-term	uaK1 with stable outlook
Deposit rating on national scale	ua1 with stable outlook
Rating on national scale for A- and B-series bonds issued	uaAAA with stable outlook

The aforementioned ratings were granted in 2016-2017, and were confirmed in November 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.

10.1.5 INVESTOR RELATIONS

Key objectives of investor relations
 Activities in 2018

PKO Bank Polski SA maintains regular contact with investors and financial market analysts. As part of its relations with the market, representatives of the Bank provide answers to the questions of investors and analysts concerning the Bank's operations in a broad sense, its financial results and the situation in the banking sector. Additionally, the Bank allows various forms of contact preferred by the investors and analysts.

KEY OBJECTIVES OF INVESTOR RELATIONS

In 2018, the Bank's investor relation activities focused on the following areas:

- strengthening the positive image of PKO Bank Polski SA as a reliable and transparent company among existing and potential investors, financial market analysts and rating agencies, through the use of various market communication tools;
- providing information on the Bank's financial results and activities, including changes in the market environment, in order to allow a reliable assessment of the Bank's current situation and perspectives, as well as the correct valuation of its shares;
- fulfilling the information duties of the Company as an issuer of securities, as required by law;
- arranging the General Meetings of Shareholders and providing information to the Bank's shareholders;
- ensuring the Bank's cooperation with responsible governmental bodies, organizations and capital market institutions in connection with the Bank's presence on the public securities market.

ACTIVITIES IN 2018

In 2018, as part of market communication:

- after the end of each quarter, the financial results of the Bank and the Bank's Group were presented by the Bank's Management Board in meetings with investors and capital market and debt securities market analysts, held at the Bank's registered office, and via teleconferences, in each case with the participation of over 60 analysts and investor representatives in total;
- Members of the Management Board and key managers participated in regular meetings (and teleconferences) with investors and analysts, both at the Bank's registered office and during investor conferences. In 2018, about 40 meetings at the Bank's registered office and about 100 teleconferences were held. Additionally, Members of the Bank's Management Board answered the investors' questions during investor conferences held both in Poland and abroad. In 2018, in total, approximately 150 meetings were held during 17 investor conferences arranged, among others, in: the UK, Austria and the USA. In addition to meetings at investor conferences, Members of the Bank's Management Board talked to investors during 4 roadshows, involving in total 29 meetings with investors in Estonia and Sweden, Hong Kong and Singapore, the USA and the UK;
- the Investor Relations Office maintained on-going contacts with analysts as well as institutional and individual investors, and answered numerous telephone or email inquiries pertaining to business operations and the financial performance of PKO Bank Polski SA;
- all information of significant importance to the Bank's investors and shareholders was immediately published on the Investor Relations website at www.pkobp.pl/inwestorzy (www.pkobp.pl/investors);
- in 2018, the Bank again made available its online annual report in the form of a dedicated website in two language versions: Polish and English (www.raportroczny2016.pkobp.pl). The annual report published in the form of a separate website facilitates finding key financial and business information on the PKO Bank Polski SA Group.
- in 2018 the Bank was granted the title of Online Communications Leader under the Issuer's Golden Website competition organized by the Polish Association of Listed Companies.

10.2 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES

Corporate governance policies and scope of application
Control systems in the process of preparation of the financial statements
Articles of Association of PKO Bank Polski SA
Annual General Meeting
Supervisory Board of PKO Bank Polski SA during the reporting period
Management Board of PKO Bank Polski SA during the reporting period

10.2.1 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 General Meeting using electronic means of communication would not be applied, unless the General Meeting makes appropriate amendments to the Bank's Articles of Association authorizing the Management Board to organize a General Meeting using electronic means of communication. The Bank applies recommendation IV.R.2 in 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. In 2018, no incidental breaches of the Principles occurred in the Bank.

The text of the Best Practice for GPW Listed Companies 2016 is publicly available on the official website of the Warsaw Stock Exchange, at <https://www.gpw.pl/dobre-praktyki>

Since 1 January 2016, information on the status of the Bank's application of recommendations and principles included in the Best Practice for GPW Listed Companies 2016 is available on the Bank's website, at

(<http://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-na-gpw-2016>). This information is prepared on the form provided by the Warsaw Stock Exchange and shows the detailed status of compliance or non-compliance with each of the recommendations and principles, and results directly from the application of principle I.Z.1.13.

KEY ACTIVITIES UNDERTAKEN BY PKO BANK POLSKI SA IN ORDER TO ENSURE COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS INCLUDED IN THE BEST PRACTICE FOR GPW LISTED COMPANIES 2016

INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

The Bank continued activities aimed at ensuring that the recommendations and principles contained in this section of the Best Practice are applied as broadly as possible, both in the area of communication with investors and enabling them to use modern communication channels, and in the area of information policy and providing the required information by its publication on the website and in reports.

PKO Bank Polski SA maintains regular contact with investors, using various means of communication preferred by investors. Questions can be asked by e-mail, by telephone or during face-to-face meetings with the Bank's representatives.

In 2018, as part of the organization of the Bank's Annual General Meetings, materials to be submitted to the General Meeting were published on the Bank's website, including, among other things, assessments, reports and positions submitted by the Supervisory Board of the Bank, justifications for all draft resolutions, in particular resolutions pertaining to matters and decisions of significant importance or potentially giving rise to any doubt of the shareholders. Information about the planned transmission of a General Meeting was published no later than 7 days before the date of the General Meeting. Audio or video recordings of General Meetings of Shareholders of the Bank are also available on the Bank's website.

MANAGEMENT BOARD AND SUPERVISORY BOARD

Principles and recommendations contained in this section were complied with. Both the Management Board and the Supervisory Board adopted the Best Practice for GPW Listed Companies 2016.

In particular, persons, who have high qualifications and experience are appointed to the Bank's Management Board and Supervisory Board. The internal allocation of responsibilities for individual areas of activities to Members of the Management Board is published on the Bank's website. The introduction to duties and succession planning is stipulated in the policy adopted by the Supervisory Board in respect of appropriateness of Members of the Management Board.

In 2018, the functions on the Bank's Management Board were the main area of professional activity of Members of the Bank's Management Board. In 2018, Members of the Supervisory Board devoted the time necessary to perform their duties. Nine meetings of the Supervisory Board of the Bank were held in 2018.

In accordance with the Best Practice for GPW Listed Companies 2016, the required number of Members of the Board met the independence criteria. In accordance with their declarations, 8 out of 10 Members of the Supervisory Board are independent. Additionally, persons performing the function of Chairs of the Audit Committee met the independence criteria.

The Supervisory Board prepared and presented to the Annual General Meeting the requisite assessment of the company's standing, in consideration of internal controls' assessment, risk management, compliance and internal audit functions, and a report on the activities of the Supervisory Board. Additionally, the Supervisory Board prepared and presented to the Annual General Meeting an assessment of the manner of fulfilment of information duties by the Bank with respect to the application of corporate governance principles, and an assessment of the rationality of the policy pursued by the Bank with respect to sponsorship and charity activities. In 2018 the Supervisory Board examined and gave a positive opinion on the draft resolutions of the Annual General Meeting presented to the General Meeting convened for 18 May 2018.

INTERNAL SYSTEMS AND FUNCTIONS

The regulations and practices binding in PKO Bank Polski SA fully satisfied the requirements specified in the section of Best Practice for GPW Listed Companies 2016.

In particular, the Bank's organizational structure is adequate to the size and nature of activities, as well as risk incurred. Independent units responsible for the performance of tasks in individual systems or functions, or parts thereof, were separated.

Relevant internal regulations of the Bank describe the Management Board's responsibility for the internal control system and risk management system, direct subordination of persons responsible for risk management, internal audit and compliance, the possibility of reporting directly to the Supervisory Board or the audit committee, the application of independence principles with regard to the manager of the internal audit function and other persons responsible for that function.

In accordance with the requirement of the Best Practice for GPW Listed Companies 2016, the effectiveness of systems and functions is verified and monitored.

GENERAL MEETING OF SHAREHOLDERS AND SHAREHOLDER RELATIONS

In respect of the organisation of the General Meetings of Shareholders, the Bank decided not to apply the recommendation which concerns enabling the shareholders to participate in the General Meeting of Shareholders using electronic communication, unless the General Meeting of Shareholders makes appropriate amendments to the Bank's Articles of Association. This decision was taken

in consideration of the organizational and legal risk related to this method of communication.

Within the remaining scope, in the opinion of the Bank, General Meetings of Shareholders were arranged in compliance with the requirements of the Best Practice for GPW Listed Companies 2016.

In particular, the Bank endeavoured to ensure that, as far as possible, Annual General Meetings of Shareholders are held within a reasonably short period from the publication of the annual report.

The place and date of the Annual General Meeting of Shareholders convened for 18 June 2018 was set to allow the greatest possible number of shareholders to participate. Draft resolutions of the Annual General Meeting of Shareholders were prepared and presented together with the justification thereof.

The dividend date and the dates of dividend distribution were determined so as to make sure that the period separating them was no longer than 15 business days.

The Bank also ensured a public broadcast of the Annual General Meeting during the AGM of 18 May 2018 (also, after a break, on 18 June), and allowed the media to be present.

CONFLICT OF INTERESTS AND RELATED PARTY TRANSACTIONS

The internal regulations of PKO Bank Polski SA guarantee compliance with the recommendations and principles included in the Best Practice for GPW Listed Companies 2016. The Bank has regulations on conflict of interest management, including carrying out professional or other activities which might cause a conflict of interest. The rules of the Management Board and Supervisory Board define the principles for excluding members of these authorities from participation in the examination of matters involving conflicts of interest. If a situation that could lead to a potential conflict of interest has occurred, the persons concerned are obliged to disclose the situation.

Moreover, the Bank has internal regulations in place for monitoring and restricting the possibilities of receiving benefits or gifts which could affect the independence and objectivity of decision makers or have an adverse effect on the independence of opinions and judgements.

The rules of the Management Board and of the Supervisory Board stipulate the possibility of voicing a *votum separatum* with a justification to the resolutions passed by Members voting against a resolution.

Transactions with related parties and significant shareholders are concluded on an arm's length basis, in accordance with consistent and uniform policies, based on the Bank's internal regulations. Furthermore, the Bank's Articles of Association stipulate that the Bank cannot conclude a significant agreement with a shareholder holding at least 5% of the total number of votes at the Bank, or with a related entity, without the prior approval of the Supervisory Board. This requirement shall not apply to standard transactions or transactions concluded on an arm's length basis in the course of the Bank's normal operating activities, if they are concluded with members of the Bank's Group.

REMUNERATION

The Bank follows the principles of the Best Practice for GPW Listed Companies 2016 with respect to remuneration. In accordance with the requirements thereof, the Bank's Directors' Report includes a report on the remuneration policy comprising elements specified in the Best Practice for GPW Listed Companies 2016 and the regulation on current and periodical information.

In the Bank's opinion, the remuneration policy is connected with the strategy as well as with short- and long-term goals, long-term interests and financial results, and takes into account the solutions necessary to avoid discrimination on whatever grounds. The Bank also assesses the policy in this respect.

The remuneration of Members of the Bank's Management Board and its key managers is directly linked to the Bank's financial situation and the growth of its value through appropriate bonus targets and payment deferral and suspension mechanisms, as well as the relevant financial instrument used to settle part of the remuneration.

The remuneration of Members of the Supervisory Board is not linked to any options, other derivatives or any other variable factors, nor is it dependent on the Bank's results.

Additionally, the Nominations and Remuneration Committee functions within the Supervisory Board of the Bank.

CORPORATE GOVERNANCE PRINCIPLES FOR SUPERVISED INSTITUTIONS ISSUED BY THE POLISH FINANCIAL SUPERVISION AUTHORITY

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

The Bank's Supervisory Board adopted for use the "Corporate Governance Principles for supervised institutions" concerning the responsibilities and obligations of the Supervisory Board, i.e. supervising the conduct 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 of the Bank declared that, acting in line with its competencies, it will follow the "Principles of corporate governance for supervised institutions" issued by the Polish Financial Supervision Authority, although it ruled out the application of the principles set out in:

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

Waiving the application of the principle set out in § 8 section 4 was in line with the prior decision of the Annual General Meeting of Shareholders of PKO Bank Polski SA of 30 June 2011, reflected in not adopting the resolution on amendments to the Articles of Association of the Bank, the aim of which was to enable participation in the General Meeting through electronic means of communication. The decision not to apply this principle was taken because of the legal and organizational-technical risks, which could jeopardize the proper conduct of the General Meeting. The application of other "Principles of Corporate Governance for supervised institutions" was waived based on the presentation of these proposals by an eligible shareholder of the Bank – State Treasury.

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 privatization 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, 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 who 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.

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

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

10.2.2 CONTROLS IN THE PROCESS OF PREPARING FINANCIAL STATEMENTS

Internal control system Controls in the process of preparation of the financial statements Audit firm

INTERNAL CONTROL SYSTEM

PKO Bank Polski SA 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 system is the responsibility of the Bank's Management Board. The Supervisory Board supervises the implementation and the functioning of the internal control system, and monitors, on a regular basis, and assesses its adequacy and effectiveness, including control functions, compliance unit, and the internal audit unit. The Supervisory Board assesses the internal control system based on agreed assessment criteria and taking into account information provided by the Bank's Management Board, Supervisory Board Audit Committee, compliance unit and the internal control unit, findings of the statutory auditor and finding resulting from supervisory activities of responsible institutions, as well as other information and documents material from the point of view of adequacy and effectiveness of the internal control system. In this respect, the Supervisory Board is supported by the Supervisory Board Audit Committee that is responsible, in particular, for the monitoring of the effectiveness of the internal control 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 reporting;
- 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.

The internal control system is arranged at the Bank on three independent levels (lines):

- the first level (line) consists of organizational structures of the Bank that carry out operational activities, in particular: sales of products and customer service, as well as other organizational structures of the Bank that perform risk-generating operational tasks and operate under separate internal regulations of the Bank;
- the second level (line) is composed of activities of the compliance unit, as well as identification, measurement, control, monitoring and reporting of risks, and threats and irregularities – tasks are performed by specialized organizational structures operating under applicable policies, methodologies and procedures; the purpose of these structures is to ensure that the activities implemented at the first level are properly designed and effectively reduce the risk, support risk measurement and analysis and business effectiveness;
- the third level (line) is internal audit, which carries out independent audits of elements of the Bank's management system, including the risk management system and the internal control system. The internal audit operates separately from the first and second level.

The internal control system in the Bank comprises:

- control function;
- compliance unit;
- independent internal audit unit.

The control function ensures compliance with controls relating, in particular, to risk management at the Bank; this function covers all of the Bank's units, and the organizational positions in these units responsible for the performance of tasks allocated to this function.

The control function consists of:

- controls;
- independent monitoring of controls;
- reporting within the framework of the control function.

PKO Bank Polski SA separates, and then the Management Board of the Bank approves a list of material processes, and ensures the performance of regular reviews of the processes functioning at the Bank, in view of their materiality.

The compliance unit is an organizationally independent unit that plays a key role in ensuring compliance and management of non-compliance risk understood as risk legal sanctions, financial losses, or loss of reputation, if the Bank, the Bank's staff or entities acting on behalf of the Bank fail to comply with the universally applicable provisions of law, internal regulations, or market standards adopted by the Bank. The objective of the compliance unit is developing solutions aimed at ensuring compliance, and non-compliance risk management, as well as identification, assessment, control, monitoring and reporting of this risk at the Bank.

The internal audit carries out independent and objective assurance and advisory activities. The assessment of individual areas of the Bank's operations is carried out in a systematic and organized manner. Suggestions and recommendations issued in order to eliminate identified gaps should result in increasing the quality and effectiveness of the functioning of the Bank. The purpose of the audit is:

- to assess the adequacy and effectiveness of the risk management system and the internal control system at the first and the second level of the internal control system, taking into account adequacy and efficiency of risk controls and controls selected for the audit (assurance activities);
- value creation and identifying potential improvements of processes at the Bank (advisory activities).

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

Other entities of the Bank's Group have internal control systems adapted to the specifics and nature of activities of these entities, including the processes and operating areas of these entities. These entities develop and implement internal regulations defining, in particular, control tasks performed within the framework of the internal control system, and allocation of responsibility for these tasks. The manner of functioning of internal control systems depends on the size and scope of business of entities making up the Bank's Group. The majority of the entities have separated

organizational units or positions that report directly to the Management Board or the Supervisory Board of the particular entity. If this is justified by the operating profile of the entity or its organizational structure (small entities with limited scope of business), control activities are performed by management members, without separating the internal control function or unit in the structure.

CONTROLS IN THE PROCESS OF PREPARATION OF THE FINANCIAL STATEMENTS

In order to ensure the reliability and correctness of the process of preparing the financial statements, the Bank designed and implemented a number of controls that are embedded in 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, and with binding accounting and reporting standards.

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 in the method of making significant management estimates and judgements for the purposes of financial reporting, as well as compliance of the financial reporting process with the applicable law;
- significant adjustments resulting from the audit and the auditor's opinion on the audit of the financial statements, discussion of any issues, qualifications and doubts resulting from the audit of financial statements and analysis of the independent auditor's recommendations addressed to the Management Board, and responses of the Management Board in this regard.

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

AUDIT FIRM

On 26 January 2017 the Supervisory Board of PKO Bank Polski SA appointed KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the audit firm for the audit and review of the financial statements of PKO Bank Polski SA and the consolidated financial statements of the PKO Bank Polski SA Group for the years 2017–2019. The same entity audited the financial statements of the Bank and the Bank's Group for the years 2015–2016.

Full scope of information on the audit firm carrying out the audit of the financial statements, and in particular:

- dates of concluding the contract for the audit or review of the financial statements or consolidated financial statements with the audit firm, and the term of this contract;
- information whether the Bank used the services of the selected audit firms and periods of using such services;
- information on the authority that selected the audit firm;
- amount of remuneration paid or due to the audit firm for the financial year and the previous financial year, separately for the audit of the annual financial statements, other assurance services, including the review of the financial statements, tax advisory services and other services;

is included in note 58 of the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018.

Additionally, on 13 December 2018, the Supervisory Board of PKO Bank Polski SA selected PricewaterhouseCoopers Polska sp. z o.o. Audyt sp. k. as the audit firm to carry out the audit and review of the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group for the years 2020–2021.

10.2.3 ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

Principles for amending the Articles of Association of PKO Bank Polski SA
Amendments to the Articles of Association made in 2018

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

Amendments to the Articles of Association of PKO Bank Polski SA fall within the competence of the General Meeting of Shareholders and require passing a resolution by a three-quarter majority of the votes cast, the consent of the Polish Financial Supervision Authority, and making an entry in the register of entrepreneurs in the National Court Register. Additionally, in accordance with § 10 section 14 of the Articles of Association of PKO Bank Polski SA, resolutions of the General Meeting of Shareholders on share preferences and issues concerning the Bank's merger by transferring all of its assets to another company, its liquidation, reduction in the share capital by redeeming some of its shares without a simultaneous increase in the share capital or changing the scope of the Bank's activities resulting in the Bank ceasing its banking activities require a 90% majority of the votes cast.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION MADE IN 2018

8 FEBRUARY 2018 – CONSOLIDATED TEXT OF THE BANK'S ARTICLES OF ASSOCIATION

On 8 February 2018, the Supervisory Board of the Bank adopted the consolidated text of the Bank's Articles of Association, reflecting amendments adopted by Resolution no. 50/2017 of the Annual General Meeting of the Shareholders of 20 July 2017 on amendments to the Bank's Articles of Association.

26 OCTOBER 2018 – RESOLUTION OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION

On 26 October 2018, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, registered the amendment to § 24a of the Articles of Association arising from Resolution no. 31/218 of the Annual General Meeting of Shareholders of PKO BP S.A. held on 18 June 2018, pertaining to the amendment to the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna that was approved by the Polish Financial Supervision Authority on 7 August 2018.

The previous text of § 24a was worded as follows: *“Within the framework of the group, the Bank can cooperate with other financial institutions within the meaning of the Code of Commercial Companies or the Act of 29 August 1997 – Banking Law, in particular by using free technical, organizational and human resources or IT systems, in accordance with their business purpose, and with special consideration to the safety of operations of the Bank and these institutions.”* It was replaced with the current text: *“Within the framework of the group, the Bank can cooperate with other entities, in particular by using free technical, organizational and human resources or IT systems, in accordance with their business purpose, and with special consideration to the safety of operations of the Bank and these entities.”*

9 JANUARY 2019 – RESOLUTION OF THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION

On 9 January 2019, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, registered the amendment to the Bank's Articles of Association, including an amendment to § 4 section 1 point 9 letter e and addition of letters g-h in § 4 section 1 point 9 arising from Resolution no. 33/2018 of the Extraordinary General Meeting of Shareholders of PKO BP S.A. of 18 June 2018 on amendments to the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna that were approved by the Polish Financial Supervision Authority on 20 December 2018.

This amendment means that as of 9 January 2019, the Bank can provide new payment services that arise from the Act of 10 May 2018 on amendments to the Act on payment services, i.e. payment transaction initiation service and the account information access service.

Additionally, the previous text of § 4 section 1 point 9 letter e was amended from *“enabling the execution of payment transactions initiated by or through a merchant, with the payer's payment instrument, in particular, authorizations processing, sending the payer's or the merchant's payment orders aimed at transferring funds due to the merchant to the issuer of the payment card or payment systems”* to *“enabling the acceptance of payment instruments and execution of payment transactions initiated with the payer's payment instrument, by or through a merchant, in*

particular, processing authorizations, sending the payer's or the merchant's payment orders aimed at transferring funds due to the merchant to the issuer of the payment card or payment systems".

10.2.4 GENERAL MEETING OF SHAREHOLDERS

Authorizations of the General Meeting of Shareholders Principles of functioning

The General Meeting of Shareholders of PKO Bank Polski SA is held as an annual one or extraordinary one, in accordance with the provisions of the Code of Commercial Companies and the Articles of Association, in keeping with the principles set out in the Rules of the General Meeting of Shareholders.

AUTHORIZATIONS OF THE GENERAL MEETING OF SHAREHOLDERS

In addition to matters stipulated in generally binding legal regulations, principal competencies of the General Meeting of Shareholders include passing resolutions on the following matters:

- appointing and dismissing Members of the Supervisory Board;
- approving the Rules of the Supervisory Board;
- purchasing shares for the purpose of their redemption and determining consideration for the shares redeemed;
- establishing and releasing special funds created from net profit;
- disposal of real estate, share in real estate or perpetual usufruct right by the Bank if the value of the real estate or the right being subject to such an act exceeds 25% of the share capital; such consent is not required if real estate, share in real estate or perpetual usufruct right has been purchased within the framework of enforcement, bankruptcy or restructuring proceedings, or based on another agreement with the Bank's debtor;
- issuance of convertible bonds, bonds with a pre-emptive right or subscription warrants;
- laying down the principles for remuneration of Members of the Management Board;
- laying down the principles for remuneration of Members of the Supervisory Board;
- approving the Directors' Report including also information on representation costs, spending on legal services, marketing services, public relations and social communication services, as well as management advisory services, and the Group Directors' Report;
- approving the report on activities of the Supervisory Board;
- approving the financial statements of the Bank and the consolidated financial statements of the Bank's Group;
- approving the proper discharge of duties by members of the Management Board and the Supervisory Board;
- profit distribution or offset of loss;
- determining the dividend day and the date of dividend payment;
- disposal and lease of an enterprise or its organised part, or establishing a limited property right thereon;
- amendments to the Bank's Articles of Association;
- increase or decrease in the Bank's share capital.

PRINCIPLES OF FUNCTIONING

Persons entitled based on registered shares, as well as pledgees and users entitled to voting rights, entered into the share register on the date of registration, as well as holders of bearer shares provided that they were the Bank's shareholders on the date of registration and, within the statutory deadline specified in the announcement convening the General Meeting of Shareholders, they requested that the entity keeping their securities account issue a registered certificate confirming their right to participate in the General Meeting of Shareholders shall be entitled to participate in the General Meeting of Shareholders.

A shareholder being a natural person may participate in the General Meeting of Shareholders and exercise his/her voting right in person or by proxy. A shareholder, who is not a natural person, may participate in the General Meeting of Shareholders and exercise its voting right by a person authorized to make statement of intent on its behalf or by proxy.

A power of attorney shall be issued in writing, otherwise null and void, and shall be enclosed with the minutes of the General Meeting of Shareholders, or shall be issued in electronic form. The right to represent a shareholder, who is not a natural person, shall arise from the original or copy of the excerpt from the relevant register presented possibly with

a power of attorney or a chain of powers of attorney. These documents shall be presented upon drawing up the attendance list or sent in electronic form no later than on the day preceding the date of the General Meeting of Shareholders, to the email address indicated on the announcement convening the General Meeting of Shareholders.

The person(s) granting the power of attorney on behalf of a shareholder, who is not a natural person, should be listed in an up-to-date excerpt from the relevant register of a given shareholder.

A Member of the Management Board and an employee of PKO Bank Polski SA may act as a proxy for shareholders at the General Meeting of Shareholders of PKO Bank Polski SA.

The Bank shall publish on its website draft resolutions submitted in compliance with the provisions of the Code of Commercial Companies by an entitled shareholder or shareholders before the date of the General Meeting of Shareholders, immediately after their receipt.

A shareholder or shareholders representing at least one-twentieth of the share capital of the Bank may request certain matters be included on the agenda of the General Meeting of Shareholders. The request may be sent in electronic form.

Before the date of the General Meeting of Shareholders, a shareholder or shareholders of PKO Bank Polski SA representing at least one-twentieth of the share capital may submit to the Bank, in writing or using electronic communication means, draft resolutions on matters included on the agenda of the General Meeting of Shareholders or matters that are to be included on the agenda. Additionally, during the General Meeting of Shareholders, shareholders shall have the right to present draft resolutions or propose amendments or additions to draft resolutions on matters included on the agenda of the General Meeting of Shareholders.

Removing a matter from the agenda or desisting from further discussion on a matter included on the agenda at the request of shareholders shall require a resolution of the General Meeting of Shareholders, adopted by a three-quarter majority of the votes, after obtaining the prior consent of all shareholders, who requested the matter be included on the agenda, present at the General Meeting of Shareholders.

Resolutions of the General Meeting of Shareholders shall be passed by an absolute majority of votes unless generally binding legal provisions or provisions of the Articles of Association of PKO Bank Polski SA decide otherwise.

The General Meeting of Shareholders shall adopt resolutions in an open vote, with the reservation that a secret ballot shall be ordered in respect of:

- elections of members of the company's authorities;
- motions to dismiss members of the authorities or liquidators of PKO Bank Polski SA;
- motions to bring members of the authorities or liquidators of PKO Bank Polski SA to justice;
- personnel matters;
- at the request of at least one shareholder present or represented at the General Meeting of Shareholders;
- in other instances specified in generally binding legal regulations.

A shareholder cannot, either personally or by proxy, or while acting as a proxy of another person, vote on resolutions concerning this shareholder's liability to PKO Bank Polski SA on whatever account, including the acknowledgement of the fulfilment of this shareholder's duties, exemption from any of duties towards PKO Bank Polski SA, or any dispute between this shareholder and PKO Bank Polski SA.

Shareholders shall have the right to ask questions, through the Chairman of the General Meeting of Shareholders, to the Members of the Management Board and Supervisory Board of PKO Bank Polski SA and statutory auditor of PKO Bank Polski SA.

In the discussion on each point of the agenda, each shareholder shall have the right to one speech and one reply. Shareholders may, during the course of discussion on each point of the agenda, apply for closing the list of speakers or closing the discussion on a given point of the agenda.

10.2.5 SUPERVISORY BOARD OF PKO BANK POLSKI SA IN THE REPORTING PERIOD

Composition of the Supervisory of PKO Bank Polski SA as at 31 December 2018
Changes in the composition of the Supervisory Board in 2018
Principles of the functioning of the Supervisory Board
Competencies of the Supervisory Board
Committees of the Supervisory Board

The Supervisory Board of PKO Bank Polski SA consists of 5 to 13 members each appointed for a three-year term of office. Members of the Supervisory Board shall be appointed and dismissed by the General Meeting of Shareholders.

As at 31 December 2018, the Supervisory Board consisted of 10 persons.
The current term of office of Members of the Supervisory Board started on 22 June 2017.

COMPOSITION OF THE SUPERVISORY OF PKO BANK POLSKI SA AS AT 31 DECEMBER 2018

PIOTR SADOWNIK – CHAIR OF THE BANK'S SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office, and on the same day, the State Treasury appointed him Chair of the Supervisory Board.

Graduated from the University of Warsaw's Faculty of Law and Administration and the University of Paris II Panthéon-Assas. Admitted to the Warsaw Bar in 1996. In 1993, he started his professional career in the Warsaw office of the law firm Gide Loyrette Nouel. Currently, he is a partner in the Warsaw office of Gide Loyrette Nouel where he heads the Dispute Resolution, Infrastructure, Public Law and Intellectual Property departments.

He represents the law firm's customers in court disputes and advises both Polish companies and international investors on infrastructure and public procurement projects. He also specializes in intellectual property law.

He is recommended by Legal 500 EMEA and Chambers Europe in dispute resolution. Legal 500 also recommends him for energy and natural resources as well as intellectual property.

Award winner of the "Client Choice 2015" competition organized by Globe Business Publishing in the litigation category. Member of the Amicable Court at the General Counsel to the Republic of Poland (Prokuratoria Generalna RP).

Since 15 February 2016 Member of the Supervisory Board of Bank Ochrony Środowiska SA.

GRAŻYNA CIURZYŃSKA – DEPUTY CHAIR OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 30 June 2016.

On 22 June 2017, she was re-appointed to the Supervisory Board for the current term of office, and on the same day, the State Treasury appointed her Deputy Chair of the Supervisory Board.

Graduated from the Foreign Trade Faculty of the Warsaw School of Economics and Post-graduate Studies in European Banking Law at the Institute of Law Studies of the Polish Academy of Sciences. In 1991, she began her professional career in government administration, in the Ministry of Ownership Transformations.

Since 1996 she has been working within the banking sector. She held managerial positions in the corporate business area of Powszechny Bank Kredytowy SA and Kredyt Bank SA, supervising, among other things, cooperation with strategic customers and the development of enterprise financing programmes. Subsequently, as a director in the retail area of Bank BGŻ SA, she was responsible for the retail business strategy, sales and pricing policy, bancassurance development, sales network management, designing and implementing products. She also served as an advisor to the President of the Management Board of the Bank.

Since 2007 she has been focusing on the banking payments and cards market. As a Department Director at Bank BGŻ SA and then at Bank BGŻ BNP Paribas SA, she was responsible for card activity, cooperation with international payment organizations and providers of card technologies and services. Moreover, she was a member of the Executive Committee of the Council of Banking Card Issuers and previously the Executive Committee of the Council of Cash Management at the Polish Bank Association.

For more than 15 years she was involved in teaching and research at the Warsaw School of Economics, in the Institute of International Economic Relations.

Currently, she is a Department Director at the Ministry of Development, coordinating the implementation of the investment policy as well as service processes and cooperation with Polish and foreign investors and financial institutions.

ZBIGNIEW HAJŁASZ – SECRETARY OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 30 June 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office. On 24 August 2017 re-appointed as Secretary of the Supervisory Board.

Expert with hands-on experience and consultant specializing in management and development. Has over 20 years' experience in managing commercial companies and as an analyst and expert in planning, management and development of financial institutions, industrial restructuring, privatization and international projects.

Academic degrees: MPhil in Economics (London University, 2002) and M.Sc. Eng. in Mathematics (Wrocław University of Technology, 1982).

In 1993-96 and since 2005 - academic lecturer (Wrocław University of Technology, University of Wrocław, Academy of Fine Arts in Wrocław), winner in the Business Gazelles ranking in 2015 and 2016. Since May 2018 - President of the Management Board of KGHM TFI SA.

He has held, among other things, the following positions: Director of the Department of Economic Development at the Voivodship Office in Wrocław (1991-1993); Director of the Regional Privatization Office of Bank BWP SA (1994-1996), Vice-President of the Management Board of Wrocławska Agencja Rozwoju Regionalnego SA - Managing Director, President of the Management Board of PRW SA in Wrocław, President of the Management Board of TBS sp. z o.o. in Głogów, Director of the OPDRO Project Coordination Office and President of the Management Board of Zakład Gospodarki Komunalnej sp. z o.o. in Św. Katarzyna.

He was a member of the Supervisory Boards of state-owned companies and companies with the participation of local government authorities, such as: Dolnośląskie Konsorcjum Handlowo-Finansowe SA in Wrocław, Polskie Radio Wrocław SA in Wrocław, TBS sp. z o.o. in Lubin (the best social building society in Poland in the BGK ranking), Siechnicka Inwestycyjna Spółka Komunalna sp. z o.o., and Polskie Radio SA.

Author of expert opinions for the Sejm (the Polish Parliament), Government of the Republic of Poland and for financial institutions.

MARIUSZ ANDRZEJEWSKI – MEMBER OF THE SUPERVISORY BOARD

On 22 June 2017, he was appointed to the Supervisory Board for the current term of office.

Professor at the Kraków University of Economics, Dean of the Faculty of Finance and Law and Head of the Department of Financial Accounting. Holds a full doctoral degree in economics. Since 2013 he has been also working as associate professor at the School of Banking and Management in Kraków.

He graduated from three faculties, studied accounting at the Faculty of Management at the Kraków University of Economics (CUE), automatics and robotics, specializing in artificial intelligence, and computer science at the Faculty of Electrical Engineering, Automatics and Electronics at the AGH University of Science and Technology in Kraków. During his studies, he was a three-time recipient of a scholarship of the Ministry of National Education. In 2001, within the framework of the grant awarded by KBN (the State Committee for Scientific Research), he prepared and completed a doctoral thesis entitled "Information disclosure requirements for listed companies in Poland vs. global requirements."

He obtained business experience while sitting on supervisory boards of companies including: Tauron Sprzedaż Sp. z o.o., Zakłady Chemiczne Alwernia SA, Kombinat Koksochemiczny Zabrze SA, Północ Nieruchomości SA (company listed on NewConnect), PolRest SA (a company listed on the Warsaw Stock Exchange), Media Nieruchomości SA, Przedsiębiorstwo Inżynierii Miejskiej Sp. z o.o. in Czechowice-Dziedzice. He was also President of the Management Board of Altair Sp. z o.o., Member of the Management Board in charge of finance of TBS Złocień Sp. z o.o. and advisor to the Management Board at the Institute of Business Law and Foreign Investments (Instytut Prawa Spółek i Inwestycji Zagranicznych - IPSiZ Sp. z o.o.). He was an Arbitrator at the Arbitration Court at the Polish Financial Supervision Authority. Currently he is Chairman of the Supervisory Board of PKP PLK SA. In 2005–2006 he was Undersecretary of State in the Ministry of Finance.

He is a member of the Polish Economic Society (PTE) and the Main Board of the Accountants Association in Poland. He is also a member of the European Accounting Association (EAA), the International Association for Accounting Education & Research (IAAER) and the Scientific Council of SKwP.

MIROSLAW BARSZCZ – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Graduated from the Catholic University of Lublin with an M.A. in Law. Currently, he is President of the Management Board of BGK Nieruchomości SA. From 2014 to 2016, he was an advisor in the Strategy Department at PGNiG SA. From 2013 to 2014, he was an independent advisor in strategy, finances, negotiations, project management and change management. He has extensive professional experience gained in audit firms (1996–1997 Ernst & Young, 1998–2001 Arthur Andersen, 2001–2004 PricewaterhouseCoopers), law firms (2005 Baker & McKenzie, 2008–2013 GWW Legal) and government administration (2005–2006 Undersecretary of State in the Ministry of Finance, 2007 – Minister of Construction, 2011–2013 advisor to the Minister of Justice). He completed over 30 training courses (organized by Ernst & Young, Arthur Andersen, PricewaterhouseCoopers), including training in taxes, finance, human resources management, negotiations, project management, change management, cultural differences, and communication. He has consulting experience in many industries, including finance, information technology, telecommunications, energy, construction, real estate development, pharmaceutical, manufacturing, banking, commerce, logistics, and tourist industries. He participated in various projects pertaining to government administration.

ADAM BUDNIKOWSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

In 1971 graduated from the Higher School of Economics in Poznań (currently Poznań University of Economics and Business) with an M.Sc. in economics of foreign trade. In 1975, he completed his doctoral thesis at the Faculty of Foreign Trade of the former Main School of Planning and Statistics (currently the Warsaw School of Economics). In 1983 was awarded a full doctorate at the same faculty. In 1992, he was awarded the title of professor of economic sciences by the President of the Republic of Poland.

Since the beginning, his professional career has been connected with Warsaw School of Economics. He started working at the Warsaw School of Economics as an assistant in the Institute of International Trade Relations, in 1974. In subsequent years, together with successive academic degrees, he was promoted to assistant professor, associate professor, and finally to full professor. In the years 1996-2002, Dean of the World Economy College of the Warsaw School of Economics. In the years 2005-2012, Chancellor of the Warsaw School of Economics. In the years 2012-2015, once again Dean of the World Economy College of the Warsaw School of Economics. Currently, Director of the Institute of International Economics of the Warsaw School of Economics.

During his professional career, he has also collaborated with other academic and educational institutions, including the Polish Academy of Sciences, the Polish Economic Society, the Institute for Business Cycles and Prices in International Trade (was Deputy Director of the Institute in 1992-1993), the Catholic University of Lublin, Radom Academy of Economics, Academy of Diplomacy in Warsaw, and the National School of Public Administration. Since 2001 he has been a member of the Association of Polish Economists, and since 2012 – a member of the Executive Committee of the Economic Sciences Board of the Polish Academy of Sciences. Member of the Central Commission for Degrees and Titles (2011-2013 and 2017-2020).

During his academic and research career, he has frequently lectured and been a visiting researcher at Western universities. He was, among other things, a Fulbright scholar, and in 1996 he took part in the World Bank's missions in Turkey and Romania.

His main areas of academic interest are related to international business. They include, among other things, international business relations (with a special emphasis on trade policy and international finances), transformation in Central and Eastern Europe, and environmental protection policy.

WOJCIECH JASIŃSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Graduated from the University of Warsaw's Faculty of Law and Administration (1972).

From 1972 to 1986, he worked in Płock, among other things, at the National Bank of Poland, the Branch in Płock, at the Town Hall, also as legal counsel in the Tax Chamber. In 1990-1991, he established the local government structures in the Płockie Voivodship, as a Representative of the Government Plenipotentiary for Local Government Reform. From 1992 to 1997 he worked in the Supreme Audit Office (NIK), as director of the NIK Branch Office in Warsaw, Finance and Budget Team, and State Budget Department. In 1997-2000, he was a member and then President of the Management Board of Srebrna, a company with its registered office in Warsaw. He was a member of the Supervisory Board of Bank Ochrony Środowiska in 1998-2000. From September 2000 to July 2001 he was Undersecretary of State at the Ministry of Justice. In 2006-2007, he was Minister of the State Treasury.

Since 2001, he has been a member of the Polish Parliament (during the 4th, 5th, 6th, 7th and 8th terms of office) where he was Chairman of the Standing Subcommittee for the Banking System and Monetary Policy, Chairman of the Economy Committee, and Chairman of the Public Finance Committee. He was also a member of the State Treasury Committee in the Sejm.

President of the Management Board of PKN ORLEN SA from 16 December 2015 to 5 February 2018.

ANDRZEJ KISIELEWICZ – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

On 22 June 2017, he was re-appointed to the Supervisory Board for the current term of office.

Professor of Mathematical Sciences. He works at the University of Wrocław, at the Faculty of Mathematics and Computer Science. He obtained his full doctoral degree from the University of Wrocław, and was awarded a Ph.D. in mathematical sciences from the Polish Academy of Sciences. Graduated from the University of Wrocław. He gained his professional experience in various academic centres, including: the University of Opole, Vanderbilt University (Nashville, USA), Polish Academy of Sciences, Technische University (Darmstadt, Germany), Blaise Pascal University (Clermont-Ferrand, France), The University of Manitoba (Winnipeg, Canada), Wrocław University of Technology. He has experience as a member of supervisory boards. He is the author of more than 60 academic publications in foreign journals on mathematics, logistics and computer science as well as many books (e.g. "Sztuczna inteligencja i logika" [Artificial Intelligence and Logic], "Wprowadzenie do informatyki" [An Introduction to Computer Science], etc.). He is also the author of many opinions, reviews and

expert opinions, including for the National Science Centre and the European Commission. His research interests include the application of mathematics, logic and computer science in practice, artificial intelligence, business intelligence, informatization and argumentation theory.

ELŻBIETA MAĆZYŃSKA-ZIEMACKA – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 20 June 2013. Professor PhD – in economic sciences, graduated from the University of Warsaw (Faculty of Political Economics, specialty – Econometrics). Her professional career has been connected with Warsaw School of Economics, currently she is Head of Postgraduate Studies: “Property Valuation” organized by the Institute of Corporate Finance and Investments at the College of Enterprise at the Warsaw School of Economics. Member of the Executive Committee of the “Poland 2000 Plus” Forecast Committee and the Committee of Economic Sciences of the Polish Academy of Sciences (social functions, elected by academics). President of the Polish Economic Society (third term of office, since 2005 – social function, elective). Editor-in-chief and Member of the Editorial Committee of the bi-monthly “*Ekonomista*” published by the Polish Economic Society and the Committee of Economic Sciences of the Polish Academy of Sciences. Chair of the Academic Council of the quarterly of *Warszawskie Stowarzyszenie Rzecznawców Majątkowych* (Warsaw Property Valuation Experts Association) “*Wycena Nieruchomości i Przedsiębiorstw*”. Member of the Editorial Council of “*Kwartalnik Nauk o Przedsiębiorstwie*”, published by the Warsaw School of Economics and member of the editorial staff of the quarterly “*International Journal of Sustainable Economy*” (IJSE), Inderscience Publishers Editorial Office, UK. Author of approx. 300 publications, among others, in the area of prediction models for enterprise bankruptcies, financial analysis, and enterprise and property valuation. She developed original models for early warning about bankruptcy of enterprises, which are used in practice. Her studies and publications to a large extent was related to the academic scholarships she won (such as *Deutscher Akademischer Austauschdienst*, DAAD), grants and internships/study stays, which included Germany – Mannheim University, Austria – *Wiener Institut für Internationale Wirtschaftsvergleiche*, WIIW and *Wirtschaftsuniversität Wien*. In the years 2005–2007 an independent Member of the Supervisory Board of BGŻ SA and in the years 1996–1998 an independent Member of the Supervisory Board of Polski Bank Rozwoju SA. Member of the Team for Amendments of the Law on Bankruptcy and Rehabilitation established by the Minister of Justice in 2012 and operating until 2014. In the years 1990–1991 1990–1991 advisor and consultant to the Polish-Swedish limited liability company SWEA SYSTEM. Author and co-author of many expert opinions prepared on the commission of enterprises (such as *Telekomunikacja Polska SA* and *Poczta Polska*). Member of the National Development Council of the President of the Republic of Poland (currently). Chair of the Economic Strategic Thinking Committee of the Ministry of Economy (2013–2015). In 1994–2005, academic secretary and member of the Executive Committee of the Social and Economic Strategy Council of the Council of Ministers.

JANUSZ OSTASZEWSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016. Director of the Institute of Finance, Head of the Faculty of Finance in 2001–2013, a member of the Senate of the Warsaw School of Economics, a renowned expert in finance. In 2005–2012, he was Dean of the College of Management and Finance for two terms of office. Graduated from the Main School of Planning and Statistics (currently the Warsaw School of Economics) in 1978. In 1982, completed his doctoral thesis at the Faculty of Internal Trade of the former Main School of Planning and Statistics. In 1990 was awarded a full doctorate at the same faculty. On 1 January 2001 he was elected professor of economics. He completed post-graduate studies in finance and management at *Scuola Superiore Enrico Mattei* in Milan. His main areas of research include corporate operations, corporate financial management and strategy. This is reflected in the courses he has taught for many years: corporate finance, finance, management, and in numerous teaching materials and books he has published. His considerable academic achievements include over 150 various types of academic papers, including 48 books. So far, 23 people have written and defended their PhD theses under his tutelage. His knowledge of finance was further developed during several years of work at the Ministry of Finance, as Director of Department and his subsequent professional activity as an advisor to the President of *Kredyt Lease SA* – a company of the *Kredyt Bank SA Group* – and his work in the Finance Office of the Chancellery of the Polish Parliament and in the Supervisory Board of *Bank PKO BP SA*. His many years of experience in the financial sector gained him not only the possibility of confronting theory with practice but also food for thought on finance, which additionally expands his expert and academic interests.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD IN 2018

Jerzy Paluchniak resigned as Member of the Bank's Supervisory Board on 14 May 2018, with effect as of 18 May 2018. In accordance with the declarations made by Members of the Supervisory Board, Piotr Sadownik, Zbigniew Hajłasz, Mariusz Andrzejewski, Mirosław Barszcz, Adam Budnikowski, Andrzej Kisielewicz, Elżbieta Mączyńska-Ziemacka and Janusz Ostaszewski meet the criteria of independence for members of a supervisory board specified in the Best Practice for GPW Listed Companies 2016. The remaining Members of the Supervisory Board, i.e. Grażyna Ciużyńska and Wojciech Jasiński declared they did not meet the criteria of independence vis-à-vis the Bank and major related entities of the Bank.

PRINCIPLES OF THE FUNCTIONING OF THE SUPERVISORY BOARD

The Supervisory Board functions based on generally applicable legal regulations, the Articles of Association and the Rules passed by the Supervisory Board and approved by the General Meeting of Shareholders. Meetings of the Supervisory Board are held at least once a quarter.

The Supervisory Board adopts resolutions by an absolute majority of votes, in the presence of at least half of the Members of the Supervisory Board, including the Chair or Deputy Chair of the Supervisory Board, except for resolutions specified in the Articles of Association of the Bank concerning those matters that are to be accepted by, apart from the quorum indicated, a qualified majority of 2/3 of the total votes. Those members of the Supervisory Board to whom the given voted matter relates are excluded from the vote.

The works of the Supervisory Board is managed by the Chair, and in his absence – by the Deputy Chair. The Chair represents the Supervisory Board before all other authorities of PKO Bank Polski SA, supervisory authorities and other persons.

COMPETENCIES OF THE SUPERVISORY BOARD

In addition to authorizations and duties stipulated by generally applicable legal regulations and the provisions of the Articles of Association of PKO Bank Polski SA, the competencies of the Supervisory Board include passing resolutions pertaining, in particular to:

- approving the strategy of PKO Bank Polski SA and the annual financial plan accepted by the Management Board;
- approving the risk management strategy adopted by the Management Board and acceptance of the overall risk tolerance level;
- appointing an entity to conduct the audit or review of the Bank's financial statements the consolidated financial statements of the Bank's Group;
- passing the Rules:
 - of the Supervisory Board;
 - for granting loans, advances, bank guarantees and warranties to a Member of the Management Board, the Supervisory Board and a person holding a managerial position in the Bank, and to entities related by capital or organization with these persons;
- appointing and dismissing the President of the Management Board, Vice-Presidents and other Members of the Management Board, as well as suspending Members of the Management Board and delegating Members of the Supervisory Board to temporarily carry out the duties of Members of the Management Board;
- applying to the Polish Financial Supervision Authority for consent to the appointment of the President of the Management Board and a Management Board Member supervising the management of risk material to the Bank's activities, and to entrusting the function of Management Board Member supervising the management of risk material to the Bank's activities to a current Management Board Member who has not supervised the management of this risk;
- approval of the rules passed by the Management Board:
 - of the Management Board,
 - for managing special funds created from net profit,
 - Organizational Rules of the Bank;
- granting prior consent to activities satisfying predetermined criteria including, inter alia, to purchase and sell fixed assets and real estate, establishment of a company, taking over or acquiring shares, PKO Bank Polski SA concluding a transaction with a shareholder holding at least 5% of the total number of votes at the Bank or with a related party;
- evaluation of the functioning of the Bank's remuneration policy and submission of a report in this regard to the Annual General Meeting of Shareholders;

- opinion on the application of “Principles of Corporate Governance for supervised institutions” by the Bank.

COMMITTEES OF THE SUPERVISORY BOARD

In accordance with the Bank's Articles of Association, the Supervisory Board appoints from among its members committees which it is required to appoint under the binding legislation. The Supervisory Board may also appoint other committees from among its members.

In line with the Rules of the Supervisory Board, it is entitled to appoint, and in cases, when the provisions of the law require, it appoints standing committees. In particular, the Supervisory Board appoints the following standing committees:

AUDIT COMMITTEE OF THE SUPERVISORY BOARD

TASKS	<ol style="list-style-type: none">1) monitoring the financial reporting process including the review of separate and consolidated interim and annual financial statements (separate and consolidated);2) monitoring the effectiveness of the internal control system, including with respect to financial reporting;3) monitoring the effectiveness of the risk management system, including with respect to financial reporting;4) monitoring the audit activities, in particular performance of the audit by the audit firm;5) controlling and monitoring the independence of the statutory auditor and the audit firm carrying out the audit of the financial statements, in particular when the audit firm provides services other than audit to the Bank's Group;6) informing the Supervisory Board of the audit results and explaining how the audit contributed to the fairness of the Bank's financial reporting and what was the role of the Committee in the audit process;7) assessing the independence of the audit company and consenting to the provision of permissible services other than the audit to the Bank and the Bank's Group by the audit company's related entities and a member of the audit company's network, in accordance with the policy;8) developing a policy for selecting the audit company to conduct an audit and providing the Supervisory Board with recommendations as to the policy adopted;9) developing a policy for the provision of services other than the audit by the audit company and providing the Supervisory Board with recommendations as to the policy adopted;10) developing a procedure for appointing the audit company to conduct an audit and providing the Supervisory Board with recommendations as to the policy adopted;11) providing the Supervisory Board with recommendations as to the appointment of the audit company to conduct the audit;12) submitting recommendations aimed at ensuring fairness of the Bank's financial reporting to the Supervisory Board.
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COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2018

Zbigniew Hajłasz (Chair of the Committee);
Grażyna Ciużyńska (Deputy Chair of the Committee);
Mariusz Andrzejewski (member of the Committee);
Andrzej Kisielewicz (member of the Committee);
Janusz Ostaszewski (member of the Committee);
Piotr Sadownik (member of the Committee);

Jerzy Paluchniak was Member of the Audit Committee of the Supervisory Board of PKO Bank Polski SA until 18 May 2018. Jerzy Paluchniak resigned as Member of the Bank's Supervisory Board on 14 May 2018, with effect as of 18 May 2018.

INDEPENDENCE CRITERIA AND COMPETENCIES	Meets the criterion of independence set in the Act on registered auditors, audit firms and on public supervision	Knowledge and skills in the area of accounting or financial statement auditing		Has knowledge and skills in the banking field*
		Meets the criterion	How it was acquired	
Zbigniew Hajłasz	yes	yes	MPhil in Economics	yes
Grażyna Ciużyńska	no	no	-	yes
Mariusz Andrzejewski	yes	yes	PhD in economics certified auditor	yes
Andrzej Kisielewicz	yes	no	-	no
Janusz Ostaszewski	yes	yes	Professor of economics	yes
Piotr Sadownik	yes	no	-	no

* Knowledge and skills arise, among others, from education, professional experience, functions performed (described in more detail in biography notes in section 10.2.5).

NUMBER OF MEETINGS

In 2018 nine meetings of the Audit Committee of the Supervisory Board took place.

POLICY FOR THE APPOINTMENT OF THE AUDIT COMPANY

In 2018 the audit company KPMG Audyt sp. z o.o. sp.k. provided permissible non-audit services to the Bank, in particular pertaining to reviews of financial statements. The Bank's Audit Committee assessed the independence of the audit firm and gave its consent for the performance of those services.

The policy for the appointment of an audit firm to audit the financial statements of the Bank and the consolidated financial statements of the Bank's Group assumes that the Supervisory Board will conduct proceedings relating to commissioning the audit of the Bank and the Bank's Group under an unlimited tender procedure. All decisions of the Bank's Supervisory Board as to the appointment of the audit firm require prior recommendation by the Audit Committee of the Bank's Supervisory Board (Committee). As a result of the appointment procedure organized by the Bank, the Committee submits its recommendations as to the appointment of the audit firm to the Supervisory Board. If this refers to renewal of an audit commission there should be no less than two recommendations with justification, and an indication of the preferred firm. The Bank's Supervisory Board appoints the audit firm based on the Committee's recommendation. Clear and unbiased criteria are applied in the selection of the audit firm on the basis of the proposals submitted.

The policy for performing permissible services other than the audit to the Bank and the Bank's Group by the audit firm and its related entities, and a member of the audit firm's network assumes that the provision of permissible services by the audit company performing the audit, its related entities and a member of the audit company's network to the Bank require the consent of the Audit Committee of the Bank's Supervisory Board. The Committee's consent to the provision of permissible services other than audit services to a Bank's Group company is given based on a request of the Bank's Group company, a necessary element of which is the consent of the audit committee or the Supervisory Board of the requesting Bank's Group company.

NOMINATIONS AND REMUNERATION COMMITTEE (UNTIL 23 AUGUST 2018 REMUNERATION COMMITTEE)

TASKS

Expressing opinions on monitoring the Remuneration Policy adopted by the Bank and supporting the Bank's authorities in developing and implementing this policy. In particular, the Committee shall be responsible for the performance of the following tasks:

- 1) expressing opinions on the general rules of remuneration policy of persons whose professional activities have a material impact on the Bank's risk profile to be approved by the Supervisory Board;
- 2) conducting an annual review of the Remuneration Policy and presenting the results of the review to the Supervisory Board;
- 3) presenting to the Supervisory Board proposals of principles for remunerating Members of the Management Board;
- 4) expressing opinions on the goals pursued and achieved by the Members of the Management Board;
- 5) assessing tools and systems adopted to guarantee that the remuneration system in the Bank's Group properly account for all types of risk, liquidity and equity levels and that the Remuneration Policy be compliant with the proper and effective risk management principles and support such management, and was consistent with the business strategy, goals, culture and corporate values, and the long-term interests of the Bank's Group.

Additionally, the Committee's tasks include:

- 1) expressing opinions on the diversity policy in the composition of the Management Board;
- 2) recommending candidates to the Management Board to the Supervisory Board;
- 3) recommending the scope of duties for the candidate to the Management Board specified by the

Supervisory Board;

- 4) periodically assessing the structure, size, composition and effectiveness of the Management Board's functioning, and recommending respective changes to the Supervisory Board;
- 5) periodically assessing the knowledge, competencies and experience of the Management Board as a whole, and of particular Members of the Board, and informing the Management Board of the results of the assessment;
- 6) periodically assessing the Management Board's policy in respect of the selection and appointment of persons to managerial positions at the Bank and submitting respective recommendations to the Management Board.

**COMPOSITION OF
 THE COMMITTEE
 AS AT 31 DECEMBER
 2018**

Piotr Sadownik (Chair of the Committee);
 Grażyna Ciużyńska (Deputy Chair of the Committee);
 Wojciech Jasiński (member of the Committee);
 Elżbieta Mączyńska-Ziemacka (member of the Committee);
 Janusz Ostaszewski (member of the Committee).

RISK COMMITTEE

TASKS

- 1) evaluating the overall current and future readiness of the Bank to take risks, taking into account the risk profile of the Bank Group;
- 2) expressing opinions on the Bank's operational risk management strategy adopted by the Management Board, and information on the implementation of this strategy submitted by the Management Board, as well as other periodic reports on risk management and capital adequacy;
- 3) supporting the Supervisory Board in overseeing the implementation of the Bank operational risk management strategy;
- 4) reviewing whether the price of assets and liabilities offered to Customers fully envision the Bank's business model and its strategy in terms of risk;
- 5) assessing the risks related to the products and services offered;
- 6) expressing opinions on solutions for reducing business risk with the use of the Bank's property insurance and civil liability insurance for members of authorities and proxies of the Bank;
- 7) ongoing monitoring of the risk management system and providing the Supervisory Board with information on the results of this monitoring;
- 8) expressing opinions on the Bank's information on risk management strategy and risk management system, addressed to the public;
- 9) conducting an annual review of the Remuneration Policy of the Bank and the Bank's Group;
- 10) ongoing monitoring of the implementation of risk management strategy and providing recommendations to the Supervisory Board;
- 11) advising on the selection of external advisors, experts and consultants in the event that the Supervisory Board wishes to use their services.

**COMPOSITION OF
 THE COMMITTEE
 AS AT 31
 DECEMBER 2018**

Andrzej Kisielewicz (Chair of the Committee);
 Grażyna Ciużyńska (Deputy Chair of the Committee);
 Mariusz Andrzejewski (member of the Committee);
 Adam Budnikowski (member of the Committee);
 Elżbieta Mączyńska-Ziemacka (member of the Committee);

Until 18 May 2018 Jerzy Paluchniak was Member of the Risk Committee of the Supervisory Board of PKO Bank Polski SA. Jerzy Paluchniak resigned as Member of the Bank's Supervisory Board on 14 May 2018, with effect as of 18 May 2018.

STRATEGY COMMITTEE

TASKS

- 1) expressing opinions on the Bank's strategy adopted by the Management Board, the approval of which is the competence of the Supervisory Board;
- 2) supporting the Supervisory Board in overseeing the implementation of the strategy, in particular by analysing periodic information on the implementation thereof, presented by the Management Board;
- 3) expressing opinions on strategic activities of the Bank, which require the prior consent of the Supervisory Board, in particular on their consistency with the binding strategy of the Bank.

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2018	Grażyna Ciurzyńska (Chair of the Committee); Zbigniew Hajłasz (Deputy Chair of the Committee); Mirosław Barszcz (member of the Committee); Adam Budnikowski (member of the Committee); Elżbieta Mączyńska-Ziemacka (member of the Committee); Janusz Ostaszewski (member of the Committee); Piotr Sadownik (member of the Committee).
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10.2.6 MANAGEMENT BOARD OF PKO BANK POLSKI SA IN THE REPORTING PERIOD

Composition of the Management of PKO Bank Polski SA as at 31 December 2018
Changes in the composition of the Management Board in 2018
Principles of operations of the Bank's Management Board
Competencies of the Bank's Management Board
Committees of the Bank's Management Board

In accordance with § 19 sections 1 and 2 of the Articles of Association of PKO Bank Polski SA, Members of the Management Board shall be appointed by the Supervisory Board for a joint three-year term of office.

The Management Board consists of 3 to 9 members. Appointing two members of the Management Board, including the President of the Management Board, requires the consent of the Polish Financial Supervision Authority. As at 31 December 2018, the Management Board consisted of 9 persons.

The current term of office of the Management Board began on 2 July 2017.

COMPOSITION OF THE MANAGEMENT OF PKO BANK POLSKI SA AS AT 31 DECEMBER 2018

ZBIGNIEW JAGIEŁŁO – PRESIDENT OF THE MANAGEMENT BOARD

Member of the Management Board since 1 October 2009.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

President of the Management Board of PKO Bank Polski SA since October 2009, appointed for subsequent terms of office in 2011, 2014 and 2017. Before that, for almost 9 years he was President of the Management Board of Pioneer Pekao TFI SA. Within the global structure of Pioneer Investments he was also responsible for distribution in the CEE region. In the second half of the 1990s, as Vice President of the Management Board, he co-participated in the process of establishing PKO/Credit Suisse TFI SA.

In his twenty years of working in the financial markets he was responsible, among other things for:

- successfully steering PKO Bank Polski SA through a critical period of turmoil on the international financial markets, while strengthening the Bank's position as leader in terms of assets, equity and earnings in Poland and the CEE region;
- development and implementation of the PKO Bank Polski SA's strategy for the years 2010–2012 and 2013–2015, which resulted in a significant increase in assets and strong business efficiency gains as well as in increased interest in the company among domestic and international investors;
- adjustment of PKO Bank Polski SA to the requirements of the ever more competitive financial market through the increased attractiveness of its product offer and quality of its customer service;
- refocusing of the PKO Bank Polski SA Group's operational model towards its core activity of providing financial services.

He is actively involved in the development and promotion of high standards of operations of the financial market in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institute International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, among other things, that of Chairman of the Chamber of Fund and Asset Management.

He graduated from the Wrocław Technical University's Faculty of Computer Science and Management. He also completed Postgraduate Management Studies at the Gdańsk Foundation for Management Development and the University of Gdańsk, with an Executive MBA certified by the Rotterdam School of Management, Erasmus University.

He was awarded the Officer's Cross of the Order of Polonia Restituta by the President of the Republic of Poland, and the Social Solidarity Medal for promoting the idea of corporate social responsibility. He was Chairman of the Programme Council of the PKO Bank Polski's Foundation that was established on his initiative, in 2010.

Recipient of several awards and titles. Chosen as the 2011 CEO of the Year by *Parkiet*. Was awarded the Wektor 2011 prize granted by the Polish Employers' Chapter, and the Golden Banker prize in the Personality of the Year 2011 category. He was also a recipient of the Manager of the Year 2011 and 2014 awards in a competition organized by *Gazeta Bankowa*. In 2012, 2014 and 2015, Bloomberg Businessweek

Polska singled him out as one of the Top 20 Managers in the Polish Economy. He was honoured by *Bank* – financial monthly – with the title of “Innovator of the Banking Sector 2012.” He also received the special award of “Man of the Year 2013” from *Brief* monthly and “Visionary 2013” from *Dziennik Gazeta Prawna*. In 2014, he received an honourable mention from *Gazeta Finansowa* as one of “25 Most Valuable Managers in the World of Finance.” In 2015, he received a medal from the Polish Chamber of Commerce (KIG) for supporting the development of economic self-government and entrepreneurship, and he was awarded an eDucat statuette by the Foundation for the Development of Non-cash Payments for his vision of the development of non-cash payments and the effective building of a coalition for the mobile payment standard. The industry service Mediarun.com recognized him as the most promarketing president, and the chancellery of Responsible Business Awards awarded him the title of Outstanding CEO Philanthropist. In 2017, he was awarded the Lesław A. Paga Prize for his contribution to the development of the Polish economy and promotion of high standards of operations of the financial market in Poland. In 2018 he was awarded the Super Wektor for outstanding achievements, the consequences of which are future-oriented and the respective benefits serve the whole country and its economy, and for creating a climate conducive to the development of Polish entrepreneurship.

FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2018

Assets and Liabilities Management Committee (Chair of the Committee);
Risk Committee (Chair of the Committee);
Transformation Committee (Chair of the Committee);
Strategy Committee (Chair of the Committee);
IT Security Committee (Chair of the Committee).

**RAFAŁ ANT CZAK – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE ENTERPRISE BANKING, STRATEGIES AND ANALYSES AREA
(FROM 1 JANUARY 2019 ENTERPRISE BANKING, ANALYSES AND ADMINISTRATION AREA)**

On 14 June 2017, he was appointed to the Management Board for the current term of office.

Economist and manager with more than 20 years of experience in international and domestic projects for companies in the financial and real economy sectors, governments and research institutions. He graduated from the Faculty of Economic Sciences at the University of Warsaw and a Comprehensive Course in Market Economics at the Joint Vienna Institute (1997). From October 2008 to January 2017, he was a Member of the Management Board of Deloitte Consulting S.A., responsible, among other things, for research, micro and macroeconomic projections, strategic and business consulting. From 2006 to 2008, he was Managing Director and Chief Economist of the PZU Group and Member of the Supervisory Boards of PZU Asset Management, PZU-Ukraina, PZU-Ukraina Ubezpieczenia na Życie and UFG. In 2006–2008, active lecturer at the Faculty of Management and the MBA Programme of the University of Warsaw. In 1994–2006, economist with the Centre for Social and Economic Research CASE Science Foundation. Author of many publications on economics and market research. From December 2018 member of the Supervisory Board of Centralny Port Komunikacyjny. Chairman of RN PKO Leasing and PKO Faktoring.

FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2018

Strategy Committee (Member of the Committee);
The Bank’s Loan committee (Member of the Loan committee for models on a rotational basis).

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 the Bank on 21 December 2017, as of 1 January 2018 appointed for the joint term of office of the Management Board.

From 2012 he is related to PKO Bank Polski SA, where he was responsible, among other things, for launching the mortgage bank. Since the establishment of PKO Bank Hipoteczny SA, as President of its Management Board he was responsible for the development of the institution and quickly guided it to the top of the list of the largest mortgage banks in Poland. Under his management the bank quickly became the largest issuer of mortgage bonds on the Polish market, and conducted the largest issues of Polish mortgage bonds abroad.

Rafał Kozłowski is from Łomża. He graduated from the Warsaw School of Economics (faculty: Quantitative Methods and Information Systems) and the University of Warsaw and the University of Illinois, where in 2008 he completed his Executive MBA studies. He has been in the banking business since 1995. He worked at managerial positions in Powszechny Bank Kredytowy, Bank BPHPBK, Bank Pekao SA and PKO Bank Polski SA. He was also Finance Director and Member of the Management Board in the Corporation of European Pharmaceutical Distributors N.V. in Amsterdam, where he managed an international holding of 160 companies in Poland, Lithuania and the United Kingdom.

In the course of his professional career he engaged in the construction of banking strategies and budgets and their monitoring, preparing financial analyses and stock exchange reports, and preparing public offerings and acquisitions of foreign entities. He is top class specialist in controlling, accounting and reporting, finance risk and mortgage banking.

**FUNCTIONS PERFORMED
IN COMMITTEES
AS AT 31 DECEMBER
2018**

Assets and Liabilities Management Committee (Deputy Chair of the Committee);
The Bank's Loan committee (Deputy Chair of the Loan committee for models).
Data Quality Committee (Deputy Chair of the Committee);
Risk Committee (Member of the Committee);
Operational Risk Committee (Member of the Committee);
Transformation Committee (Member of the Committee);
Strategy Committee (Member of the Committee).

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

(AS OF JANUARY 2019 INTERNATIONAL AND TRANSACTION BANKING, AND COOPERATION WITH LOCAL GOVERNMENT AUTHORITIES AND GOVERNMENT AGENCIES AREA)

Member of the Management Board since 4 July 2016.

Graduated from the University of Warsaw's Faculty of Law and Administration. Obtained an Executive MBA diploma in the Management University (Wyższa Szkoła Menadżerska) in Warsaw and completed the Advanced Management Program 194 in the Harvard Business School.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He was Member of the Sejm of the 5th, 6th, 7th and 8th term. As an MP he mainly engaged in economic and financial market topics. He was Chair and Deputy Chair of the Economic Committee of the Sejm (2005–2006, 2007–2011), member of the Parliamentary Legislation Committee (2005–2007, 2007–2011) and Chair of the Constitutional Tribunal Standing Subcommittee (2005–2007).

He has many years' experience in establishing laws and knowledge of business matters in Poland and abroad.

**FUNCTIONS PERFORMED
IN COMMITTEES
AS AT 31 DECEMBER
2018**

The Bank's Loan committee (Deputy Chair of the Loan committee);
Strategy Committee (Member of the Committee).

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

Member of the Management Board since 6 July 2016.

Banker, finance specialist, manager, holder of an MA in economics, a graduate of the Warsaw School of Economics (the Faculty of Finance and Statistics) and the International School of Management. He completed his post-graduate studies at the Warsaw School of Economics (Collegium of Management and Finance).

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He has been working in banking and finance for over thirty years. He has worked, among other things, at the National Bank of Poland. He was a director at PKO Bank Polski SA for many years. In 2006–2010, he was the Director of the Audit Department at PKO Bank Polski SA, then, in 2011–2015, he was Director of the Audit Department at Bank Ochrony Środowiska SA in Warsaw. In 2006–2007, he was a member of the Supervisory Board of the Financial and Banking Centre in Warsaw. In 2007, he was Chairman of the Supervisory Board of Zakłady Chemiczne Organika Sarzyna in Nowa Sarzyna and of the Monument Preservation and Conservation Workshops. He has lectured at the Academy of Business Activity in Warsaw. He has authored many articles about banking and economics.

In 1998–2002, he was a councillor for the City of Warsaw. He was Deputy Chairman of the Budget Committee and a member of the Audit Committee. In 2002–2014, he was a councillor on the Warsaw City Council where he was, among other things, Deputy Chairman of the Budget and Finance Commission and a member of the Health Commission. As part of his social activities, he managed the Social Council of the Father Jerzy Popiełuszko Hospital in Bielany.

**FUNCTIONS PERFORMED
IN COMMITTEES
AS AT 31 DECEMBER
2018**

Operational Risk Committee (Member of the Committee);
Strategy Committee (Member of the Committee).

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

On 21 September 2017, he was appointed to the Management Board for the current term of office as of 1 October 2017.

He has worked for PKO Bank Polski SA since 2011. In 2011-2017 Director of the Application Development and Maintenance Division of PKO Bank Polski SA, from 2011 to 2014, Vice-President of Inteligo Financial Services SA, until 2017 Member of the Supervisory Board of PKO Bank Hipoteczny SA and PKO BP Finat Sp. z o.o., currently Chair of the Supervisory Boards of: PKO BP Finat sp. z o.o. and Operator Chmury Krajowej sp. z o.o. Previously, he worked for Pekao SA as the Operating Director of the Electronic Channels Development and Management Office and the Director of the IT Department in the Central Brokerage House of Pekao SA. He is a Chair of the Executive Committee of the Electronic Banking Council of the Polish Bank Association At the turn of 2015/2016 he co-created the Bankowe Centrum Cyberbezpieczeństwa (Banking Cyber Security Center). Recipient of many industry awards and titles, including the title of the Ambassador for Electronic Economy at the 10th Congress of Electronic Economy, and the CIO Diamond awarded by the jury of the 2015 CIO of the Year competition of IDG Poland SA. He won the special title of "Banking Market Innovator 2015" of *Miesięcznik Finansowy BANK* and the Nicholas Copernicus Medal awarded by the Polish Bank Association in 2016. He also won the title of "Leader of Digitization of the Banking Sector 2018" granted by Members of the Banking Technologies Forum in 2018 for achievements and projects completed within the PKO Bank Polski SA Group and the banking sector as a whole. He graduated from the Military Technical Academy in Warsaw and Warsaw University of Technology.

**FUNCTIONS PERFORMED
IN COMMITTEES
AS AT 31 DECEMBER
2018**

IT Architecture Committee (Chair of the Committee);
Data Quality Committee (Chair of the Committee);
Operational Risk Committee (Deputy Chair of the Committee);
IT Security Committee (Deputy Chair of the Committee);
Risk Committee (Member of the Committee);
Transformation Committee (Member of the Committee);
Strategy Committee (Member of the Committee).

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

Member of the Management Board since 8 January 2013.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He is Vice-President of the Management Board of PKO Bank Polski SA in charge of the Risk Management Area, upon the approval of the Polish Financial Supervision Authority on 8 January 2013. He graduated from the Faculty of Organization and Management at the Academy of Economics in Wrocław. He has more than 20 years' experience in banking; since 2000, he has been working as manager, mainly in charge of risk, restructuring and loans. He has worked for international financial groups operating in Europe, the USA and South America. He is a member of supervisory boards, creditors' committees, a member and chairman of key risk management committees. He participated in the development of the strategy of Bank Zachodni WBK SA, was directly responsible for risk management, the optimization of debt collection and restructuring processes, and cooperated with the regulators in Poland and abroad.

After graduating in 1991, he began his professional career in Bank BPH SA, in the area of loans. In 1992, he started work at Bank Zachodni SA, and then, after the merger with Wielkopolski Bank Kredytowy SA he worked for BZ WBK SA. In the years 1992-2000 he was employed In the Department of Capital Investments, and then in the years 2000-2005 he was the Director of the Department of Credit Quality Control. In the years 2005-2008 he was the Director of Business Intelligence and Risk Management Area, and in the years 2008-2010 – Deputy Chief Risk Officer. Since January 2011 he was Chief Credit Officer and since March 2012 also Deputy Chief Risk Officer. Moreover, he was Chairman of the Loan committee at BZ WBK SA, Deputy Chairman of the Credit Risk Forum, and Deputy Chairman of the Risk Model Forum.

**FUNCTIONS PERFORMED
IN COMMITTEES
AS AT 31 DECEMBER
2018**

The Bank's Loan committee (Chair of the Committee);
Operational Risk Committee (Chair of the Loan committee);
Risk Committee (Deputy Chair of the Committee);
Assets and Liabilities Management Committee (Member of the Committee);
Strategy Committee (Member of the Committee);
IT Security Committee (Member of the Committee);
Data Quality Committee (Member of the Committee).

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

Member of the Management Board since 22 March 2010.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He graduated from the Warsaw School of Economics. Has a Chartered Financial Analyst (CFA) licence.

He started his professional career in 1993 in the Pro-Invest International consulting company. From 1995 to 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started work for Deutsche Morgan Grenfell/Deutsche Bank Research, where he was responsible for the banking sector in Central and Eastern Europe.

From November 2001 to September 2003, he worked for Bank Pekao SA as Executive Director of the Financial Division, directly supervising the financial and fiscal policy of the bank, management information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Assets and Liabilities Management Committee in the Bank. In October 2003, he was appointed President of the Management Board of Centralny Dom Maklerski Pekao SA. In September 2006, he also took up the position of Deputy Chairman of the Supervisory Board of Pioneer Pekao TFI SA. From May 2009, he was acting President of the Management Board of Allianz Bank Polska SA and in October 2009 he became President of the Management Board.

From 2005 to 2009, he was Chairman of the Programme Council of the Capital Market Leader Academy established at the Lesław Paqa Foundation and is now a member of the Programme Council.

FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2018

The Bank's Loan committee (Deputy Chair of the Committee and Member of the Loan committee for models on a rotational basis);

Assets and Liabilities Management Committee (Member of the Committee);

Risk Committee (Member of the Committee);

Strategy Committee (Member of the Committee).

JAN EMERYK ROŚCISZEWSKI – VICE-PRESIDENT OF THE MANAGEMENT BOARD OF THE BANK IN CHARGE OF THE RETAIL MARKET

Member of the Management Board since 18 July 2016.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He graduated from the Faculty of Humanities of the Catholic University of Lublin, with an MA in history. He earned a DEA diploma from the Paris Institute of Political Studies (Institut d'Etudes Politiques de Paris) and holds an Executive MBA diploma. He completed various training courses in finance, insurance and management in France, Great Britain and Poland. He also has insurance broker's qualifications.

In 1990–1991 he worked in France for AXA Banque and AXA International, and in 1991–1993 for Groupe Azur. From 1993 to 1996, he was the Member of the Management Board of TU Azur Ostoja SA and TUnŻ Azur Życie SA. Since 1996 he worked for BNP Paribas. In 1998–2016, he managed – as President of the Management Board – Towarzystwo Ubezpieczeń na Życie Cardif Polska SA, which is currently part of BNP Paribas. Simultaneously, in 2001–2016 he held the position of Director General of Cardif Assurance Risques Divers in Poland.

He has held many additional professional positions, such as Chairman of the Supervisory Board of Pocztylion-Arka Pension Fund Company (1998–2016), Deputy Chairman of the Supervisory Board of Postal Financial Services Agency SA (2000–2014), member of the Audit Committee of the Polish Insurance Association (2012–2016), member of the Supervisory Board of BBI Development NFI SA (2011–2018), Member of the Supervisory Board of PKO Leasing SA (2016–2018) and PKO Faktoring SA (2017–2018). Currently he is Chairman of the Supervisory Board in the following PKO Bank Polski SA Group companies: PKO TFI SA, PKO TU SA, PKO Życie TU SA, Member of the Supervisory Board of PKO Bank Hipoteczny SA and Deputy Chair of the Supervisory Board of Bank Pocztowy SA.

From 1981 to 1983, he was active in the charity organization of the Primate's Committee for Help to People Deprived of Liberty. He is a Knight of Honour and Devotion of the Sovereign Military Order of Malta, and has held the position of hospitaller of the Polish Association of the Sovereign Military Order of Malta. He is a member of the Management Board of the Page of History Foundation (since 2007) and a member of the Warsaw Mountaineering Club. He was awarded the Officer's Cross of the Order of Polonia Restituta and Bene Merito MSZ for strengthening Poland's position on the international arena. He is author and co-author of historical books and articles on finance and management.

FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2018

Risk Committee (Member of the Committee);

Strategy Committee (Member of the Committee);

The Bank's Loan committee (Member of the Loan committee for models on a rotational basis).

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD IN 2018

In 2018 there were no changes in the composition of the Bank's Management Board.

PRINCIPLES OF OPERATIONS OF THE BANK'S MANAGEMENT BOARD

The Management Board makes decisions in the form of resolutions.

Declarations on behalf of the Bank shall be made by:

- the President of the Management Board acting independently;
- two members of the Management Board acting jointly or one member of the Management Board with a proxy;
- two proxies acting jointly;
- attorneys acting independently or jointly, within the framework of the power of attorney granted.

COMPETENCIES OF THE BANK'S MANAGEMENT BOARD

In accordance with § 20 section 1 of the Articles of Association of PKO Bank Polski SA, the competencies of the Management Board include all matters related to managing the affairs of PKO Bank Polski SA, including purchase and disposal of real estate, share in real estate or perpetual usufruct right that do not require consent of the General Meeting of Shareholders, that do not fall within the competencies of the General Meeting of Shareholders or the Supervisory Board, in accordance with the provisions of the generally applicable law or provisions of the Articles of Association of PKO Bank Polski SA.

Taking decisions on incurring liabilities or disposal of assets, the total value of which vs. one entity, exceeds 5% of equity, shall remain within competences of the Management Board, subject to competences of the General Shareholders' Meeting.

Decisions on the acquisition of the Bank's shares for the purposes of their redemption and determining the value of remuneration for shares redeemed, and on increasing or reducing the Bank's share capital does not remain within competences of the Management Board – they are taken by the General Shareholders' Meeting.

Resolutions of the Management Board are required with respect to all matters exceeding the scope of the Bank's normal activities. Resolutions of the Management Board will be passed by an absolute majority of votes. In the event of an equal number of votes, the President of the Management Board has the casting vote. The Management Board's working procedures and matters that require a resolution passed by the Management Board are specified in the Rules of the Management Board. Members of the Management Board participate in managing the activities of the Bank in line with the principles set out in the Rules of the Management Board and the Organizational Rules of the Bank. Members of the Management Board supervise the areas of activities allocated to them, and take decisions on matters of ordinary management within the supervised activity areas.

COMMITTEES OF THE BANK'S MANAGEMENT BOARD

As at the end of 2018, the following standing committees functioned in the Bank with the participation of Members of the Management Board:

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE OF PKO BANK POLSKI SA

PURPOSE	Managing assets and liabilities by influencing the structure of the balance sheet of PKO Bank Polski SA and its off-balance sheet items in a manner conducive to achieving the optimum financial result.
TASKS	Supporting the Management Board in the Bank's following activities: <ul style="list-style-type: none">• shaping the structure of the Bank's balance sheet;• capital adequacy management;• managing profitability, taking into account the specific nature of individual areas of activity and the respective risks;• managing financial risk, including market and liquidity risks, business risk, and credit risk (settlement and pre-settlement risk) of the transaction on the wholesale market.

RISK COMMITTEE

PURPOSE	Setting strategic directions and tasks in the scope of banking risk in the context of the Bank's strategy and circumstances arising from the macroeconomic situation and the regulatory environment, analysing periodic reports related to the banking risks and developing appropriate guidance based thereon, as well as preparing the banking risk management strategy and its periodic review.
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TASKS	<ul style="list-style-type: none">• monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy pursued as part of the adopted Strategy of the Bank;• analysing and evaluating the utilization of strategic risk limits set in the Banking Risk Management Strategy;• expressing opinions on periodic risk reports submitted for approval to the Supervisory Board and taking into account information in the reports when issuing opinions.
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LOAN COMMITTEE OF THE BANK

PURPOSE	Management of credit risk occurring when taking lending decisions or decisions concerning liabilities managed by responsible units of the Bank, as well as management of the risk of losses as a result of taking incorrect business decisions on the basis of the credit risk models.
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TASKS	<ul style="list-style-type: none">• taking decisions in matters relating to the segregation of competencies for lending and selling decisions, management of loans, industry and customer limits, and securing amounts due to PKO Bank Polski SA;• taking decisions pertaining to credit risk models and anti-fraud models, as well as limits that determine the risk appetite for portfolio credit risk;• issuing recommendations to the Management Board of PKO Bank Polski SA in matters relating to making decisions about lending transactions and changes in the material terms and conditions of these transactions, customer internal limits, management of non-performing loans, credit risk models, particularly in the field of credit policy parameters, which, due to external regulations, require the approval of the Management Board or the Supervisory Board;• issuing opinions concerning applications pertaining to lending transactions, leasing transactions or factoring transactions submitted by the entities of the Bank's Group, restructuring and debt collection with respect to the customers of KREDOBANK SA and significant credit risk models in the companies of the Bank's Group, as well as the sale of corporate bonds to be purchased by individuals by Dom Maklerski.
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OPERATIONAL RISKS COMMITTEE

PURPOSE	Effective management of operational risk, improving the safety of the Bank's operating activities.
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TASKS	<ul style="list-style-type: none">• determining the directions of operational risk management development;• supervising the functioning of operational risk management;• coordination of operational risk management;• determining measures to be taken in the event of an emergency which exposes the Bank to reputational risk and results in operating losses.
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TRANSFORMATION COMMITTEE

TASKS	<ul style="list-style-type: none">• ensuring the effective transformation of the Bank by operational management of the implementation of the Bank's Strategy and management of the limit of investment outlays for and costs of projects in accordance with the Bank's accepted development directions;• taking decisions pertaining to the implementation of and changes to strategic programmes and projects, as well as decision pertaining to material costs and other operating costs related to current activities;• issuing recommendations and guidelines;• supervision and monitoring of the implementation of strategic programmes, strategic projects, operational projects and projects carried out within the framework of the replacement portfolio, in particular of the status of works, project budgets, financial and non-financial benefits;• initiating activities enhancing the Bank's effectiveness;• managing the annual financial limit for the implementation of projects;• resolution of disputes within the area of competencies of the Committee, on lower decision-making levels.
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STRATEGY COMMITTEE

PURPOSE	Oversight of the strategic planning process and management of the Bank's strategy.
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TASKS	<ul style="list-style-type: none">• managing the activities related to strategy development and implementation;• approving the strategy development schedule and the strategy implementation schedule;• taking key decisions necessary to ensure the implementation of the strategy, including the implementation of strategic programmes;
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- resolution of potential disputes arising when working on individual strategic programmes.

IT ARCHITECTURE COMMITTEE

PURPOSE Development of the IT architecture ensuring the implementation of the Bank's Strategy.

- TASKS**
- development of key assumptions of the IT architecture of the Bank (principles);
 - periodic evaluation of the IT architecture functioning in the Bank;
 - development of a target architecture model;
 - initiating activities aimed at implementing the target architecture model.

IT SECURITY COMMITTEE

PURPOSE Increasing the effectiveness of supervision and control over the IT system safety in PKO Bank Polski SA (SIB).

- TASKS** Issuing recommendations on the SIB safety, in particular related to:
- coordination and monitoring of work related to the SIB safety;
 - setting the directions of the activities of the Bank with respect to SIB safety;
 - specifying desirable activities, which in the Committee's opinion should be undertaken in the event of emergency situations which put the Bank's image at risk and cause operating or financial losses in the area of SIB safety;
 - monitoring the risk related to SIB safety.

DATA QUALITY COMMITTEE

PURPOSE Setting strategic directions of the activities relating to data quality management and data architecture in the Bank in the context of the Data Management System (DMS), oversight of its functioning and assessment of its effectiveness and the activities undertaken by the individual organizational units.

- TASKS** Taking decisions on data management in the Bank, including in particular decisions pertaining to:
- DMS development directions;
 - recommendations to organizational units of the Head Office, regarding data management activities;
 - detailed data management solutions;
 - assessing the effectiveness of the operations of the DMS, determining priority measures as part of the DMS, and drawing up periodical action plans;
 - allocation of the ownership of data groups;
 - resolution of disputes pertaining to the DMS at the request of the Committee members;
 - approving - in cases justified especially by the need to ensure the continuity of the Bank's operations - deviations from data quality criteria and rules as well as data quality solutions standards.

In addition to the aforementioned functions, Members of the Management Board were also members of non-standing committees, including steering committees established within the framework of projects being implemented.

10.3 Shares of PKO Bank Polski SA held by the Bank's authorities

The table below presents the shares in the Bank held by Members of the Management Board as at 31 December 2018. The nominal value of each share is PLN 1.

Table 16. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name and surname	Number of shares at 31.12.2018	Purchase	Disposal	Number of shares at 31.12.2017
Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Management Board	11,000	0	0	11,000
2.	Rafał Antczak, Vice-President of the Management Board	0	0	0	0
3.	Rafał Kozłowski, Vice-President of the Management Board*	0	0	0	x
4.	Maks Kraczkowski, Vice-President of the Management Board	0	0	0	0
5.	Mieczysław Król, Vice-President of the Management Board	5,000	0	0	5,000
6.	Adam Marciniak, Vice-President of the Management Board	0	0	0	0
7.	Piotr Mazur, Vice-President of the Management Board	4,500	0	0	4,500
8.	Jakub Papierski, Vice-President of the Management Board	3,000	0	0	3,000
9.	Jan Emeryk Rościszewski, Vice-President of the Management Board	0	0	0	0

*members of the Bank's Management Board who did not perform the function as at 31 December 2017

As at 31 December 2018, Members of the Supervisory Board of PKO Bank Polski SA did not hold any shares in PKO Bank Polski SA.

As at 31 December 2018, Members of the Supervisory Board and the Management Board of PKO Bank Polski SA did not hold any shares in related companies of PKO Bank Polski SA, understood as its subsidiaries, jointly controlled companies and associated companies.

In 2018, neither the Bank nor the companies belonging to the Bank's Group concluded any agreements based on which any changes might occur in the future in the proportions of the shares held by the current shareholders or bond holders.

10.4 DIVERSITY POLICY

Diversity management in the Bank pertains to all employees, its authorities and key managers. Diversity-related activities relate to many aspects of the activities of the Bank's Group, and take into account respect for other people, equal treatment and the utilization of employee potential. Once a year, these initiatives are presented to the Supervisory Board and the Management Board of the Bank.

Diversity means that people are important irrespective of gender, age, health condition, sexual orientation, religion, marital status or country of origin.

RULES OF ETHICS, COUNTERACTING DISCRIMINATION AND MOBBING

The Bank's Code of Ethics and Work Rules include provisions pertaining to, among other things, counteracting discrimination due to gender, age, disablement, race, religion, nationality, political views, trade union membership, ethnic origin, sexual orientation or due to employment for a fixed or indefinite period or on a full-time or part-time basis.

RECRUITMENT STANDARDS CONSISTENT WITH THE EU EMPLOYMENT EQUALITY DIRECTIVE

When carrying out recruitment projects, the Bank's Group complies with provisions on equal treatment in employment and occupation. Processes related to candidate selection are based on objective grounds, and their subsequent stages are carried out in compliance with the agreed procedures and rules.

JOB VALUATION BASED ON OBJECTIVE CRITERIA

The essence of the job valuation process in the Bank's Group is the job valuation based on substantial criteria, which prevents discrimination.

REGULATIONS ON ADJUSTING WORKSTATIONS FOR DISABLED STAFF

Principles for the implementation of occupational health and safety tasks, as well as technology and technical solution standards require implementing the steps necessary to adjust workstations for disabled staff.

INTERNSHIP PROGRAMME

The Bank's Group employs and provides opportunities for pupils, students and graduates of secondary schools and universities with various profiles.

COMPETENCE MODEL AND EMPLOYEE APPRAISAL SYSTEM BASED ON COMPETENCIES AND PERFORMANCE

Employee appraisals are carried out on an annual basis, based on a competence model including general corporate, leadership and specific competencies. Within the framework of the periodic appraisal system, every employee together with his/her superior agrees on an individual development plan during the periodic interview.

DIVERSITY POLICY WITH RESPECT TO MANAGERS AND SUPERVISORS AS AT 31 DECEMBER 2018

Diversity management also pertains to members of the Supervisory Board and the Management Board of PKO Bank Polski SA and key managers. Managers and supervisors are persons of different gender, age and experience.

Gender	Women	Men
Supervisory Board	2	8
Management Board	-	9
Key management	113	172

Age	30-40 years	41-50 years	51-60 years	above 60
Supervisory Board	-	2	2	6
Management Board	2	3	3	1
Key management	63	156	60	6

Years of service in PKO Bank Polski SA	up to 5 years	5-10 years	10-15 years	15-20 years	above 20 years
Supervisory Board	9	1	-	-	-
Management Board	6	3	-	-	-
Key management	59	98	43	42	43

The Bank also introduced provisions which set the directions for selecting, appointing and planning succession, including staff resources and assessing the appropriateness of the management board members and persons holding the key functions at the Bank. These persons are assessed in terms of their competences, knowledge and skills, experience adequate to the position and reputation understood as sufficiently unblemished opinion, honesty and ethical behaviour. As a result of the decisions implemented, the Supervisory Board makes decisions on selection and assessment of the Management Board Members and the Management Board Members make decisions on selection and assessment of the MRT (Material Risk Takers). The Supervisory Board monitors the effectiveness of the Policy applied and in appropriate cases, makes changes taking into account the recommendations of the Committee for Nominations and Remuneration.

11. STATEMENT ON THE NON-FINANCIAL INFORMATION

11.1 INTRODUCTION

The PKO Bank Polski SA Group²² and PKO Bank Polski SA present their second Statement on the non-financial information, which this year forms a separate part of the Directors' Report. The premise for enterprises to publish non-financial information regarding social and environmental factors is the conviction that

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

The obligation to prepare the statement on the non-financial information arises directly from the revision of the Accounting Act of 15 December 2016 (hereinafter: the Act), implemented based on the Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013. Both the Bank's Group and the parent entity, namely PKO Bank Polski SA (hereinafter: the Bank) satisfy the criteria of an entity that is required to draw up the Statement. The individual issues have been presented in the Statement with regard to the Group, with the Bank highlighted.

This Report has been prepared in accordance with the Non-Financial Information Standard (hereinafter: SIN) – the environmental regulation, the preparation of which was coordinated by the Polish Association of Listed Companies and the Reporting Standards Foundation.

The preparation of the Statement was preceded by an analysis of the materiality of the issues specified in the Act and presented in detail in the SIN. In the first stage, the analysis of materiality conducted in the autumn of 2018 was based on a review of the stakeholder groups of the Bank's Group, including the Bank, defined to date, and the areas of the interactions of the Group's entities and the environment. The scope of management of the areas encompassed by the Statement and all of the Group's subsidiaries was analysed in the second stage. The following tools were used in the study of materiality:

- in-depth interviews with representatives of the Headquarters' organizational units in the individual areas;
- analysis of the database of minutes of meetings with investors in terms of raising social and environmental issues of importance to them;
- the Bank sending enquiries to the subsidiaries to supplement knowledge;
- a review of the internal and external regulations (the provisions of the law, the accepted standards of good practice).

²² At the end of 2018, the PKO Bank Polski SA Group comprised the parent PKO Bank Polski SA, 15 direct subsidiaries and their own subsidiaries.

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

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

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

The statement contains new elements that were not there in the previous year, including:

- review of all the existing communication channels with the stakeholders (press office, the Internet media, PKO Bank Polski Foundation, call centre, claims, questions addressed to the Investor Relations Office) and identification of issues that are important to them;
- addressing the issues raised by the stakeholders (e.g. extending the analysis of human rights);
- expanding the records of energy and natural resources used and presentation of initiatives that have a positive impact on the environment;
- update on the identified social and environmental risks and analysis of the existing social and environmental risks in the Bank's Group entities;
- extending the analysis by adding issues related to responsibility in the value chain;
- extending the analysis of the employment policy by adding diversity-related issues;
- explaining the differences in the level of salaries earned by women and men;
- adding the results of employee survey;
- expanding the analysis of a number of issues by adding the group perspective, which constitutes the first step towards integrated reporting.

11.2 MANAGEMENT MATTERS

11.2.1 DESCRIPTION OF THE BUSINESS MODEL AND DIRECTIONS OF STRATEGIC DEVELOPMENT

Business model
Development strategy
Key non-financial performance indicators

BUSINESS MODEL

MARKET POSITION OF THE BANK AND OF THE BANK'S GROUP

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

In 2018, the Bank was the only Polish company on the FTSE Russel index of large companies in the developed markets, and the results of the European stress tests confirmed that it is the safest bank in Europe. At the end of 2018, the Bank was the largest company listed on the Warsaw Stock Exchange (WSE) and its value during the last session was nearly PLN 50 billion.

PLN 324bn assets of the PKO Bank Polski SA Group at the end of 2018	17.6% PKO Bank Polski SA's and PKO Bank Hipoteczny's share of the loans market at the end of 2018	1,714 number of branches and agencies (excluding regional branches) of PKO Bank Polski SA at the end of 2018
PLN 49.3bn value of market capitalization of PKO Bank Polski SA at the end of 2018	9.8mn Customers of PKO Bank Polski SA at the end of 2018	27.9k employees of the PKO Bank Polski SA Group at the end of 2018 (by FTEs)

BUSINESS SEGMENTS

The Bank's Group conducts its business activities in the retail segment as well as in the corporate and investment segments.

9.8mn number of the Bank's customers in the retail segment	[31.12.2018]	15.4k number of the Bank's customers in the corporate and investment segment
PLN 168bn volume of receivables from the Group's customers in the retail segment		PLN 71bn volume of receivables from the Group's customers in the corporate and investment segment
PLN 182bn volume of savings of the Bank's Group in the retail segment		PLN 55bn volume of deposits of the Bank's Group in the corporate and investment segment

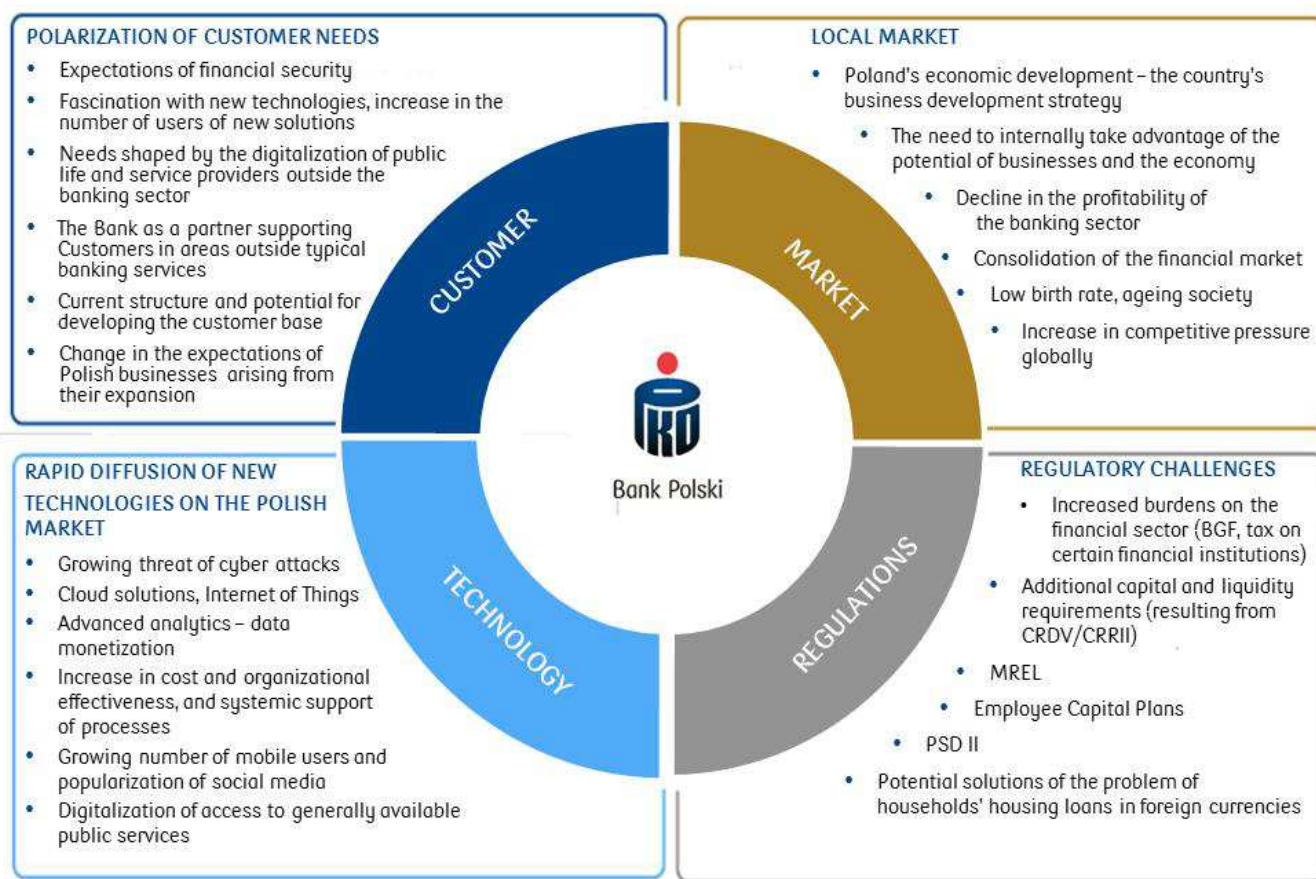
DEVELOPMENT STRATEGY

PKO Bank Polski SA identifies long-term challenges for the banking sector which affect the operating directions of the Bank and the Bank's Group.

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

- Supporting the development of Polish entrepreneurship, especially in the SME segment;
- Customer satisfaction;
- The increase in the number of customers using digital solutions;
- Simple and efficient processes – "faster and paperless";
- The best employer;
- Innovativeness and new sources of revenue;
- Leader of cooperation in cyber security;

And consolidated financial objectives.



The Strategy is being implemented through the implementation of strictly defined and quantified strategic objectives. These objectives apply to the business benefits and the financial and non-financial (quantitative or qualitative) results that the Bank is planning to achieve. They are expressed in the form of ratios, descriptive criteria or other measures. The objectives specified in the Strategy are supported in particular by the Bank's and the Group's financial plan, programmes, initiatives and strategic projects, as well as the motivation system. The strategy of the Bank as the parent entity in the Group, which has an integrated model of development, sets the directions for the strategies of the individual entities in the Group. The implementation of the Strategy is supported by six levers of sustainable development: (1) Close to the Customer, (2) Excellence of distribution, (3) Operating efficiency, (4) Modern organization, (5) Innovation and technology, (6) Expansion of the business model.

ACTIVITIES IN THE AREA OF CORPORATE SOCIAL RESPONSIBILITY

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

Stakeholders	Lines of activities taken
Customers	<ul style="list-style-type: none"> • Education in cyber security and economics • Activities contributing to an increase in confidence and Customer satisfaction • Initiation of measures to improve security of the financial sector • Involvement of Customers in important social initiatives • Promotion of the development of the family business
Employees	<ul style="list-style-type: none"> • Building a friendly working environment • Assurance of a competitive salary and professional development • Diversity management • Care for the balance between private and professional life • Involvement of employees in social activities
Social environment	<ul style="list-style-type: none"> • Counteracting financial exclusion • Social and philanthropic commitment • Requirement of responsible conduct from partners • Support of local communities
Shareholders	<ul style="list-style-type: none"> • Caring for transparent reporting

- Assurance of sustainable growth of value
- Educating investors and other participants of the capital market
- Initiation of the implementation of the highest regulatory standards

Matters related to environmental protection are not explicitly formulated in the Strategy, and are related to popularization of digital solutions to reduce the use of paper.

RESPONSIBILITY IN THE SUPPLY CHAIN

Entities²³ belonging to the Bank's Group apply the principles of social responsibility in the supply chain by managing relations with non-related entities in the following manner:

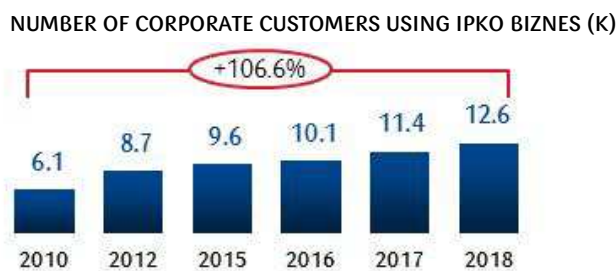
- they abide by the principles of fair competition;
- they regularly settle their liabilities, thus ensuring liquidity in the supply chain;
- as part of the procurement policy, at the stage of the letter of inquiry they oblige the suppliers to follow the principles of social and environmental responsibility and verify *ex post* whether the suppliers fulfil the obligations they undertook in practice (a questionnaire for the cooperating firms);
- they support diversity in the policy of employment and cooperation with non-related entities;
- they monitor human rights-related risks in cooperating entities.

KEY NON-FINANCIAL PERFORMANCE INDICATORS

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

KPIs	Definition	unit	2018	2017
Innovation				
Share of active individual digital Customers	Percentage of Customers who logged in to remote channels within a specified time	%	49.8	46.5
Sales in remote channels	Share of sales in remote channels	%	20.4	15.1
Electronization of products	Range of CMGT products (cash management products) not supported comprehensively in electronic channels	pcs.	4	9
Increase in the transaction rate of iPKO business	Share of the number of transfers made by corporate Customers through iPKO business to the total number of transfers made electronically	%	98	96
The number of innovations implemented	Number of innovative solutions implemented for use by business projects	pcs.	6	2
Employment				
Employment in the branch network	Number of employees in the branches	FTEs	13,525	13,981
Level of commitment of the employees	Level of commitment on a scale of 0-100	pts.	n.a.	64
Fluctuation index	Percentage of workers who left the company during the year under review (all types of initiatives for leaving)	%	15.7	15.7
Employee resignations	Fluctuation index taking into account employee resignations, excluding retirement	%	8.6	7.7
Average time for recruiting an employee	Time measured from the moment of the employer's formal requirement of the employee to the moment of acceptance of the proposed terms of employment	days	34.8	30.8
Sick leave index	Percentage of working days in which employees were on sick leave	%	6.1	6.5
Environmental protection				
Optimizing of printing costs	Scale of the decline in the cost of printouts during the study period	%	5.9	4.7
Reducing the number of paper documents	Number of paper documents in optimized processes	%	8.0	n.d.

²³ In this Statement, the entities belonging to the Bank's Group should be construed as PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA (direct and indirect) in accordance with the International Financial Reporting Standards. The remaining/other entities from the Bank's Group should be construed as entities other than PKO Bank Polski SA belonging to the PKO Bank Polski SA Group.



11.2.2 CORPORATE GOVERNANCE

Management structure
 Shareholders
 The internal control system
 Increased standards of corporate governance
 Information policy
 Investors' interest in social and environmental issues

MANAGEMENT STRUCTURE

The Bank's organizational structure is divided into nine areas:

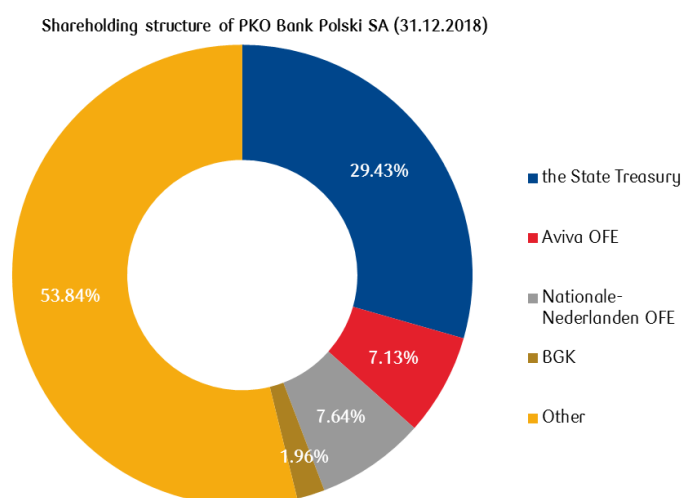
1. President's Division
2. Banking, Corporate, Analyses and Administration
3. Finance and Accounting
4. International and Transaction Banking and Cooperation with Local Authorities and Government Agencies
5. Operations
6. IT
7. Risk Management
8. Corporate and Investment Banking
9. Retail Market

Management of social and environmental issues of the Bank and the Bank's Group is dispersed over different organizational units; activities in this respect at the Bank are performed by the substantively competent organizational units in all nine business areas.

SHAREHOLDING STRUCTURE

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

According to the Act on the principles of managing State property of 16 December 2016, the shares of PKO Bank Polski SA belonging to the State Treasury cannot be sold. Neither can they be donated to local authority units or to an association of local authority units.



THE INTERNAL CONTROL SYSTEM

PKO Bank Polski SA operates an internal control system that is adapted to the scale and nature of the Bank's operations and to the regulatory and social environment in which the Bank operates. The internal control system is organized in accordance with the provisions of the law, the Recommendation H of the Polish Financial Supervision authority concerning the internal control system and the principles of operation of the internal control system specified in the Bank's internal regulations. It encompasses the entire operations of the Bank.

The internal control system comprises:

- control function;
- compliance unit;
- independent internal audit function.

The control function ensures compliance with control mechanisms and covers all organizational units of the Bank and the functions therein responsible for performing those tasks.

The compliance unit is an organizationally separate independent unit playing a key role in ensuring compliance and managing of compliance risk defined as a risk of suffering legal sanctions incurring financial losses or loss of reputation as a result of noncompliance with the provisions of the law and the market standards adopted by the Bank.

Internal audit is an independent and objective assurance and advisory function which performs systematic and organized assessments of the individual areas of the Bank's operations and suggests what steps should be undertaken to increase the quality and effectiveness of its operations.

Information on irregularities revealed, results of risk assessments and adequacy and effectiveness of control mechanisms, as well as other significant issues identified by the individual components of the internal control system are presented in periodic reports addressed to the Bank's Management Board and the Supervisory Board.

Other entities belonging to the Bank's Group have internal control systems adapted to the specific nature of the entities' operations. These entities set and implement internal regulations after obtaining an opinion from the Bank and especially taking into account the Bank's regulations and the provisions of the commonly binding law. The operation of the internal control systems in the Bank's subsidiaries depends on the size and scope of operations of the entities belonging to the Bank's Group. In most entities, there are separate organizational units or positions performing these functions, reporting directly to the Management Board of the given company or to the Supervisory Board. In situations justified by the profile of the company's activities and its organizational structure (small entities with a limited spectrum of operation) the internal control functions are performed by the management staff, without structurally separating this function or internal control unit.

INCREASED STANDARDS OF CORPORATE GOVERNANCE

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

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

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

In addition, both the Bank and other companies from the Bank's Group which are subject to the supervision of the Polish Financial Supervision Authority (PFSA) adopted the "Principles of corporate governance for supervised institutions (with a few exceptions), issued by this supervisory authority. Some entities from the Bank's Group assumed higher standards in their operations by adopting the relevant industry codes or codes of ethics.

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

INFORMATION POLICY

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

The transparency and effectiveness of the Bank's information policy are confirmed by the title of the Online Communication Leader obtained in 2018 as part of the competition organized by the Polish Association of Listed Companies called *Golden Side of the Issuer*.

The remaining entities from the Bank's Group do not have their own information policy.

INVESTORS' INTEREST IN SOCIAL AND ENVIRONMENTAL ISSUES

In 2018, during telephone calls and meetings at the Bank's seat, and during conferences in Poland and abroad, the investors expressed moderate interest in social and environmental issues. In the majority of cases, the investors' questions relating to social issues concerned plans of further optimization of the branch network, whereas questions related to reports on non-financial information were isolated. The Bank expects that environmental, social and corporate governance issues will be of growing importance in the following periods and a larger group of investors will perform a scoring of these issues or rely on external firms assessing the ESG issues (such as Sustainalytics or MSCI – both these firms prepared such reports for the Bank).

11.2.3 MANAGING OF SOCIAL AND ENVIRONMENTAL RISKS

Risk management system Social and environmental risks Complaints process
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RISK MANAGEMENT SYSTEM

In accordance with the Risk Management Strategy at the Bank and the Bank's Group, the Bank oversees the risk management systems at the other entities of the Bank's Group and supports the development of these systems, as well as taking into account the risk profile of the operations of the individual entities in the monitoring and reporting of risk at the Bank's Group level. The principles and method of assessment of the individual types of risk in other of the Banks' Group entities are specified by the internal regulations developed taking into account the opinions and recommendations formulated by the Bank, as well as taking into account the provisions of the risk management strategy at the Bank and in the Bank's Group.

The risk management system is adapted to the nature, scale and complexity of the Group's operations, as well as the regulatory, social and natural environment. The Bank's Management Board is responsible for the functioning of an effective risk management system. The Management Board regularly monitors whether the methods of identifying, measuring or estimating risk, controlling, monitoring and reporting risk are adapted to the Bank's and the Bank's Group size and risk profile, as well as the external environment.

By appropriately managing risk, the Bank ensures the stability of its financial result and the strengthening of the Bank's market position. These activities directly affect the feeling of stability and security of the funds entrusted by nearly 10 million Customers using the Bank's services.

Risks have been identified in the Bank's Group which are to be managed and some of them are considered material. The materiality of the risk appearing in the Bank's and the Bank's Group activities is assessed at least once a year. The Bank's credit risk, forex risk, interest rate risk, liquidity risk, including financing risk, operational risk, business risk, risk of macroeconomic changes and model risk are considered material at the Bank (the group of material risks does not include any socio-environmental risks). The Bank's Group and the Bank manage the said risks taking into account the social aspects. The remaining entities in the Bank's Group may consider other types of risk than those mentioned above as being material at these entities, taking into account the specificity and scale of their operations, as well as the

market on which the entity conducts business. The Bank verifies the materiality of the risk at Bank's Group level for these types of risk.

SOCIAL AND ENVIRONMENTAL RISKS

As the first step in preparing the Statement, the social and environmental risks in the Bank's Group identified in the previous year were reviewed. The list of key risks remains unchanged and comprises:

- the risk of non-compliance of products with the applicable norms, including the risk of misselling (Chapter 11.4.1);
- the risk of the incorrect marking of products (Chapter 11.4.1);
- the risk of unauthorized access to Customer funds through electronic banking (Chapter 11.4.1);
- the risk of unauthorized access to Customer information (Chapter 11.4.1);
- risk related to outsourcing services (Chapter 11.4.8).

In the case of two entities a new risk was identified, namely the risk of financing operations of entities whose products or services are a threat to the natural environment or to the society's good health. The management of this risk is discussed separately in the next section of the Statement.

THE RISK OF FINANCING ENTITIES/OBJECTS HAVING A NEGATIVE IMPACT ON THE NATURAL ENVIRONMENT AND THE SOCIETY

There are such types of business activity which have a significant negative impact on the natural environment and society due to the effect they exert on the natural environment (air, water, soil, flora and fauna) or on the society (employees, Customers, inhabitants). Examples of industries which are characterized by a significant negative impact on the environment include: tobacco, alcohol, gambling, fuel, mining or arms industries. Financing the operations of entities in such sectors requires identifying the types of environmental and social risks and their management already in the process of preparing the project and its financing.

In 2016, in connection with starting cooperation with International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD), PKO Leasing SA began implementing the environmental and social policy the objective of which is to protect the natural environment, health and safety of the employees. PKO Leasing SA is obliged to undertake actions that would contribute to limiting the negative impact of the Customers' operations on the natural environment and the employees. As the first step it assesses the risk in order to:

- make an informed decision on whether the environmental and social risk related to the transaction is acceptable;
- managed and mitigate the said risk;
- manage the environmental and social risk related to the Customers' business activities and promote good practice.

The purpose of the environmental and social risk assessment is not to reject a transaction but to help present the complete picture of the related opportunities and threats. PKO Leasing SA performs such assessments for new transactions, especially with respect to the Customers who operate in the so-called excluded sectors in accordance with the criteria set by IFC/EBRD. When the transaction is approved but a high level of risk is identified, before signing the contract the Customer is obliged to prepare a plan and schedule of actions that would enable monitoring the social and environmental impacts of the operations, and implement previously prepared mitigating measures, i.e. actions that would level the risk exposure or the effects of a predefined risk being materialized. The Customers with increased risk assessment are subject to annual verification procedures. PKO Leasing SA agreed to maintain the exposure from Customers belonging to the so-called excluded industries (per the criteria set by IFC/EBRD) at below 1% of the portfolio. In 2019, the monitoring of social and environmental risks will be extended to the entire new portfolio of PKO Leasing SA.

Similar provisions on not financing projects which cause harm to the natural environment were included in the lending policy of KREDOBANK SA.

COMPLAINTS PROCESS

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

COMPLAINTS PROCESS AT THE BANK

The submission of notices or appeals by Customers may take various forms, depending on the customer's decision: written, oral or electronic.

The complaint handling process is conducted along two lines:

- the first line consists of units dealing with the first appearance of Customers in accordance with the tasks performed. It applies to notices:

- filed by Customers;
- cases of a breach of banking secrecy or personal data protection directed by the President of the Personal Data Protection Office (UODO).
- the second line is the Customer's Ombudsman and the Office of the Customer's Ombudsman working with him, who considers:
 - appeals of Customers from the position of the Bank's first line in the complaints process;
 - Customer reports directed by:
 - the PFSA;
 - external institutions dealing with the protection of Customer rights (such as the Banking Consumer Arbitration, the Arbitration Court at the Polish Banks Association, the Arbitration Court at the Polish Financial Supervision Authority, the Municipal or County Consumer Ombudsman and the Financial Ombudsman);
 - Individual cases, in particular in connection with the significance of the reported issue.

Complaints or appeals are dealt with promptly, with due diligence, reliably, thoroughly and punctually. The Bank's Code of Ethics, the Code of Good Banking Practice and the standards of Customer service quality are additionally applied when considering notices.

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

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

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

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

The dates of replying are in line with the provisions of the law, in particular with the above-mentioned Act and the agreements concluded with the Customers.

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

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

Every unit at the Bank that examines complaints and appeals of Customers:

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

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

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

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

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

COMPLAINTS PROCESS IN THE REMAINING BANK'S GROUP ENTITIES

Procedures for accepting and handling Customer complaints are implemented and executed in all the subsidiaries. These procedures:

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

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

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

INDICATORS OF THE COMPLAINTS PROCESS

In 2018, the Group entities received a total of over 243 000 notices. Of all the cases, approximately 61% have been fully or partially settled in the Customer's favour.

11.2.4 ETHICS MANAGEMENT

The main document governing the issue of ethics at PKO Bank Polski SA is the Bank's Code of Ethics. Apart from it, the Bank also applies "The Code of Banking Ethics (Principles of Good Banking Practice)" by the Polish Bank Association. The subject matter of the two documents is in principle the same.

The Bank's Code of Ethics supports the binding organizational culture of the Bank. It is also a tool supporting popularization and implementation of values which should be followed by all employees of the Bank, regardless of their position or function.

The Bank's Code of Ethics covers four areas:

- the Bank's relations with Customers;
- relations between the Bank's employees;
- the Bank's approach to cooperation with Business Partners;
- the Bank's activities outside the business area.

The Bank's Code of Ethics and the Bank's Employment Regulations contain provisions, *inter alia*, regarding the prevention of discrimination by gender, age, disability, religion and creed, race, ethnic origin, nationality, political convictions, union membership, sexual orientation, employment for a definite or indefinite term and full-time or part-time employment.

Other than these issues, the Bank's Code of Ethics and the Bank's Employment Regulations address such issues as not using confidential information for private purpose, not taking steps that would be in conflict with their employment duties, the prohibition to conduct lobbying activities and the prevention of corrupt practices.

Each employee is obliged to comply with the Bank's Code of Ethics and participate in the development and promotion of the organization's culture and the related values. A new employee undergoes online training the purpose of which it to present to him/her the basic information about the organization. The training contains a module devoted to ethics.

In order to counteract breaches of the principles of ethics, the Bank applies separate internal regulations: The principles of counteracting mobbing and discrimination and the procedure for handling complaints concerning violation of employee rights. Moreover, the Bank analyses each case in terms of non-compliance and violations related to conflicts of interests. The employees send their notices to specially designated email addresses.

In 2018, the majority of stationary management trainings contained elements related to value and ethics at the Bank.

The Bank's Group pays great attention to promoting solutions in the area of ethics. The remaining entities in the Bank's Group adopt solutions similar to those implemented at the Bank:

- some subsidiaries use a formal set of standards and principles of ethical conduct in the form of the code of ethics as part of their ethics management policy;
- violations in the area of ethics in the subsidiaries are reported to a special anonymous box or by telephone;

- the behaviour that is not in compliance with the regulations and provisions of the law is subject to sanctions arising from the provisions of the Labour Code and the Employment Regulations;
- the responsibility for managing the ethical issues lies in principle with the Management Boards of the subsidiaries who are supported by the HR structures.

11.3 ENVIRONMENTAL MATTERS

11.3.1 DIRECT AND INDIRECT ENVIRONMENTAL IMPACT

The scale of the impact on the natural environment
 Indicators
 The program of optimizing energy consumption at the Bank
 The program for optimizing printouts and reduction in paper consumption

SCALE OF THE IMPACT ON THE NATURAL ENVIRONMENT

The nature of the business activity means that the Bank's and Bank's Group direct impact on the natural environment is marginal. In 2018, none of the entities of the Bank's Group entities conducted a project that could significantly affect the environment.

Merkury – fiz an (the Mercury Fund) identified the risk of environmental contamination as significant as a result of its property management activity. The object of the Mercury Fund's activity is the investment of money collected through a non-public offering of purchase of investment certificates. The fund is managed by PKO Towarzystwo Funduszy Inwestycyjnych SA and conducts investment activities through subsidiaries, which buy and sell real property to its own account, as well as property management. Within the framework of the management of the above the risk, properties are analysed for potential sources of pollution, tenants are checked with regard to their business and properties and equipment that may contribute to pollution are regularly inspected.

The Bank takes into account the environmental criteria in its investment and modernization processes. An example of such an approach in connection with poor technical condition of a facility is the revitalization of the Rotunda building in Warsaw which houses the seat of the Bank's branch no. 3. The revitalization project has been divided into three sections:

- social consultations (more than 10k questionnaires filled in) devoted to the building's look and use;
- international architectural competition;
- realization of the investment – construction works started in February 2017 and lasted throughout 2018.

The new building was constructed in line with the standards of sustainable construction and focus was placed on integration with the environment. The project opens the way to applying for sustainable construction certificates (LEED and BREEAM), which will take place after commissioning the building (2019) and following the first period of its use.

LEED Certification US Green Building Council	BREEAM Certification Building Research Establishment (BRE)
<p>In 2015, the investment successfully passed the first stage of the assessment process: Design Review. The design stage was verified and 44 planned points were obtained.</p> <p>Further assessment will be carried out on completion of the construction works – on this basis the final rating will be issued and the final certificate granted.</p>	<p>In 2016, BRE granted the following certificate: Interim Certificate – Design Stage with the rating Excellent. The certificate ends the first stage, i.e. the design works.</p> <p>Further assessment will be performed at the stage of the construction works and commissioning. The expected final certification level: BREEAM Excellent</p>

INDICATORS

Table 17. Energy consumption and production of waste

	THE BANK'S GROUP				of which: BANK				of which: other entities			
	2018	2017	2016	2018/ 2017 (%)	2018	2017	2016	2018/ 2017 (%)	2018	2017	2016	2018/ 2017 (%)
Energy use (boiler houses, aggregates, vehicles)												
gas ('000 m ³)	1 984	1 885	2 045	5	1 584	1 689	1 821	-6	400*	196	224	104
heating oil (m ³)	357	413	436	-13	335	404	429	-17	22	9	7	145
coal (t)	42	43	40	-2	42	43	40	-2	-	-	-	-
fuels ('000 l)	3 906	3 957	3 871	-1	2 844	2 683	2 667	6	1 062	1 274	1 204	-17
electricity (MWh)	88 515	b.d.	b.d.	-	75 266	74 948	81 113	0	13 249	b.d.	b.d.	-
Waste produced, other than municipal waste (t)	782	894	824	-12	773	850	783	-9	9	44	41	-79

* the increase in the use of gas in 2018 in other entities of the Bank's Group results from including the real estate recovered by PKO Leasing SA in the calculation

The direct impact on the environment depends on the manner of consumption of limited natural resources. All entities belonging to the Bank's Group monitor the consumption of such resources and are involved in activities aimed at reducing their consumption. A number of Group entities performed the energy efficiency audit (2017 – the Bank, 2018 – PKO Leasing SA, PKO Towarzystwo Ubezpieczeń SA, PKO Życie Towarzystwo Ubezpieczeń SA), based on which areas with the highest energy saving potential were identified and action plans were drawn up which are currently successively implemented. As a result of these activities, the consumption of all energy carriers (except for gas) went down in 2018 in the Bank's Group.

The use of electric energy went slightly up at the Bank. The data on energy use in the Group entities was collected for the first time. The estimate is incomplete and contains only data from 10 subsidiaries because the remaining companies make the respective settlements based on the service charge.

Apart from electricity consumption arising from the work of the offices / branches, energy consumption in the Bank's Group is related to the use of boiler rooms and electricity generators (consumption mainly by the Bank) and travelling with its own car fleet.

Apart from the streamlining activities, the decline in the consumption of heating oil resulted from reducing the number of boiler rooms by 11 (10 in the Bank and 1 in other entities) and from favourable weather conditions (shorter heating season). There are still two boiler rooms using coal but they also reduced the use of this raw material. The higher use of fuels in boiler rooms resulted from including vindicated real estate of which PKO Leasing SA is the owner as part of lease agreements and the management of which was taken over due to terminating contracts with the Customers (data for 2018 includes for the first time the use of fuel in the boiler rooms).

The car fleet and aggregates affect the consumption of fuels. In spite of the increased number of cars in the Bank and in the Bank's Group (accompanied by a drop in the remaining entities), the fuel consumption was lower. At the same time, the structure of fuel consumption changed towards higher consumption of petrol and lower use of diesel oil (by more than 30% in the Bank) which is more harmful to the natural environment due to higher concentration of harmful gases. The consumption of fuels went down in spite of the increase in the number of aggregates by 11.

For the purpose of this report, an effort has been made to estimate the use of water by all of the Bank's Group entities. Selected entities from the groups (Centrum Haffnera sp. z o.o., Merkury fiz an, PKO Leasing SA and KREDOBANK SA) used 56 200 m³ of water, and the remaining entities perform settlements based on the service charge. As part of this review it was impossible to obtain similar data for the Bank. The Bank does not have a groundwater intake.

The impact on the natural environment depends on management of waste. In 2018 the amount of waste other than municipal waste was reduced. The Bank entrusts the task of recycling or neutralizing non-municipal waste to specialized companies. In terms of municipal waste, selective collection was conducted in five of the Bank's Group companies. The Bank conducts selective collection of waste in some branches.

The Centrum Haffnera sp. z o.o. Group (i.e. the indirect subsidiaries of the Bank) successively conduct environmental protection activities comprising segregation of waste (including fat) and introducing bio products to the pipelines for the purpose of initially decomposing the fat.

In 2018, there was one administrative procedure pending against the Bank initiated by the Zachodniopomorski Voivodeship Environmental Protection Inspectorate concerning serving an administrative penalty in connection with the delay in submitting the collective information on the types and amounts of waste and their management, and installations used for recovery and neutralization of such waste for 2014 to the Marshal of the Zachodniopomorskie Voivodeship. The proceedings were finalized in December 2018 and an administrative fine of PLN 500 was charged. No

administrative proceedings related to a breach of the environmental regulations were conducted with respect to any of the subsidiaries that would result in any financial penalties.

The Bank's Group entities may indirectly affect the environment through the effects of their cooperation with other firms in the supply chain. Agreements with contractors of the Bank's Group entities (including the Bank) do not contain clauses explicitly referring to respect for the natural environment. However, according to the enquiry of every entity of the Bank's Group, by joining the purchasing procedure, the suppliers state, among other things, that they "... care for the natural environment and its resources, including complying with the law in this respect and have clearly defined and written objectives to minimize the negative impact on the environment and monitoring progress in their pursuit." None of the Bank's Group entities conducted audits at their business partners' premises related to compliance with environmental protection regulations.

PROGRAM OF OPTIMIZING ENERGY CONSUMPTION AT THE BANK

The Bank does not have a formal energy saving policy or, for example, an ISO 50001 System regarding an energy management system. However, the Bank is planning to analyse a possibility of implementing this system in the organization and assess the profitability of its implementation. The Bank is working towards optimizing energy consumption with a simultaneous cost optimization policy.

An energy efficiency audit of the business was conducted at the Bank in 2017 (in accordance with the Energy Efficiency Act), on the basis of which the areas of the greatest energy-saving potential and the action plan were identified. Moreover, the Bank regularly defines new areas in which it is possible to take actions related to limiting the consumption of energy.

In terms of electricity, the main objectives of these activities include:

- completing the realization of investments planned in the years 2017-2018, the currently pending (completion planned for the 2nd quarter of 2019) modernization of one of the largest refrigeration installations at the Bank, further analyses of the possibilities of conducting new investments in this area;
- the modernization of lighting: LED lighting has been introduced into the standard; a gradual replacement of lighting from fluorescent luminaires to LED lighting is planned in the largest properties after taking into account the economic calculation and successive replacement in the branches in accordance with the modernization plans;
- the analysis and modernization of other technical infrastructure installations in the facilities in line with the modernization plans;
- ongoing design optimization during modernizations and investments.

With regard to the other energy media (gas, heat energy, heating oil and diesel fuel) the main objectives of these activities include:

- preparing the implementation of a change in the supply of central heating boilers from heating oil to gas – a cleaner and cheaper source of heat energy (a detailed technical and financial analysis of the individual locations was performed in 2018 for the individual locations, locations were selected in which the implementation is possible and justified);
- standardization of hot water temperature settings to reduce “overheating” of hot domestic water;
- preparing a plan of modernization of the infrastructure of central heating installations supplied with heat energy from external suppliers, e.g. by modernizing of heat exchangers, control automation systems, etc., taking into account the economic calculation;
- other modernizations in accordance with the modernization plans for the entire infrastructure of facilities;

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

PROGRAM FOR OPTIMIZING PRINTOUTS AND REDUCTION IN PAPER CONSUMPTION

One of the strategic goals of the Bank for the years 2016-2020 is to simplify and streamline its processes by limiting the amount of paper documents. The SMARTOP project regarding the digitization of sales and support processes was launched in 2017.

In 2018, the Customers were offered a possibility of placing 28 new instructions through the internet banking tool iPKO (which could so far be placed in the Bank's outlets and through the Contact Center). The Customers made use of this

solution approx. 85 thousand times. The possibility of placing instructions through a remote channel has a positive impact on the Customer satisfaction and results in reducing the number of documents printed at the branch.

At the same time, works were conducted on digitalization of the processes conducted in the branch. In 2018, the Bank implemented in the entire network of branches and agencies a possibility of authorizing instructions by a text message instead of a signature on a paper document for 23 instructions (including the most frequent deposits, withdrawals and transfers). One month after implementing this functionality 26.6% of the instructions (for which the text message authorization is available) were placed in a "paperless" form.

In 2018, the effects of another change implemented in 2017 were also noticeable. This change concerned reducing by 50% the number of documents generated for two most frequently executed cash transactions.

All the activities conducted at the Bank (including the SMARTOP project) resulted in a more than 20% reduction in paper consumption compared with 2017, which is a continuation of a trend (a 7% reduction in 2017).

11.3.2 EXTENDED ENVIRONMENTAL RESPONSIBILITY: PRODUCTS AND SERVICES

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

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

1. The Bank, together with the other entities from the Bank's Group, supports the development of the economy by financing investments in new technologies, the modernization of technological lines and energy-saving projects.
2. The Bank influences the attitudes of customers by participating in the financing of pro-ecological projects, including the construction of waste incineration plants, sewage treatment plants and power generation systems using modern, pro-ecological technologies.
3. The Bank has been actively involved for many years in cooperation with local authority units (LAUs), including through the financing of projects regarding environmental protection or the pro-environmental modernization of public service facilities.
4. Issues related to the environmental impact in the credit products offered by the Bank to enterprises are taken into account in the assessment of the business and transactions. Such an assessment is conducted in the case of all transactions related to the financing of investment projects.
5. In the case of specialized financing, in its investment project assessment, the Bank analyses the impact of the project on the environment, including in particular:
 - possession of all administrative permits regarding environmental protection arising from the applicable law (e.g. environmental decision, water permit, permit for the production of waste, integrated permit for installations that can cause significant pollution of individual elements of nature or the environment as a whole and permit for emitting gases or dust into the air);
 - geographic and environmental conditions within the area of impact of the project (e.g. the project's location, the presence of landfills and sewage treatment plants, ecological and social aspects).
6. In the process of analysing property valuations constituting security of its receivables, the Bank pays attention to whether the valuation report contains a description of the environmental factors affecting the value of the property, including the type and degree of contamination of the environment and the presence of harmful substances at the property or in its immediate vicinity (e.g. petrol, oil, solvents and paints).
7. At the stage of implementation of investment projects, the Bank monitors their course, including through an independent technical consultant (ITC). In his reports, the ITC assesses whether the conditions of all the required permits have been satisfied, especially with regard to environmental protection.

The Bank and the remaining entities from the Bank's Group take environmental issues into account in the process of managing credit risk. For example, appropriate provisions on not financing projects which cause harm to the natural environment were included in the lending policy of KREDOBANK SA.

Another example of special care about environmental issues are activities of PKO Leasing SA where as part of cooperation with IFC and EBRD in 2016 it partially implemented a policy related to protection of the natural environment, health and safety of the employees. The social and environmental policy has two dimensions: (1) one referring to PKO Leasing SA as an enterprise and (2) another one referring to PKO Leasing SA as a lessor.

In the first dimension, PKO Leasing SA is obliged to conduct its operations so as to limit the risk for the natural environment and for the employees and the society. In the second dimension, PKO Leasing SA performs an assessment of environmental and social risk generated by the lessees and the proposed financing entities, and takes actions to mitigate the above-mentioned risk. The Company is obliged to maintain the exposure from Customers belonging to the so-called excluded industries (per the criteria set by EBRD/IFC) at below 1% of the portfolio²⁴. In 2019, the monitoring of social and environmental risks will be extended to the entire new portfolio of PKO Leasing SA.

The share of environmental protection investments at the Bank to the total amount of financing of the sector of business and public entities (including loans and debt securities), as at 31 December 2018, was 1.4% (0.9% in 2017). The list of areas included in the indicator includes:

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

The Bank's commitment to the financing of the mining sector as at the end of 2018 amounted to 2.2% (the share in the loan portfolio of business and public entities) and it has not changed significantly for several years (1.9% in 2017 and 2.3% in 2016).

INVOLVEMENT IN THE MARGUERITE FUND

From December 2009, the Bank as one of the main investors participated in the project named "The 2020 European Fund for Energy, Climate Change and Infrastructure" ("Marguerite Fund I"). The Bank's commitment (investment commitment) was EUR 100mn, and the share in the fund's capital is 14%. Marguerite Fund I was the first example of a pan-European model of financing infrastructure projects in the history of the European Union, especially in the area of road and energy infrastructure, as well as infrastructure related to renewable energy sources. Infrastructure projects worth almost PLN 2bn have been implemented in Poland with the involvement of the Marguerite Fund I, and important investments have been conducted in the European Union countries, for example:

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

In 2017, the fund's resources were utilized in full. Upon achievement of the assumed strategic goals, the Bank decided to withdraw from the Marguerite Fund I and on 27 April 2018 closed the negotiations with Bank Gospodarstwa Krajowego (BGK) concerning the sale of shares. The decision to sell the shares is related to the financial involvement of BGK in the newly formed fund Marguerite II with which new investment projects will be financed.

11.4 SOCIAL MATTERS

11.4.1 PRODUCT SAFETY AND CUSTOMER SECURITY

Compliance of the products with the applicable standards Correct product labelling Customer security while using the products Customer satisfaction survey

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

- compliance of the products with the applicable standards;
- their correct labelling;
- Customer security while using them.

²⁴ Applying the same criteria for the Bank indicates that the share of the so-called excluded industries as at the end of 2018 is 3.3% of the financing of the corporate and public sector.

The scope of this policy at the Bank and in the Bank's Group encompasses both the stage of formulating the product offering, its presentation to the Customer, its purchase (i.e. signature of the agreement) and the stage of use of the product by the Customer. The principles and mechanisms of pursuing the compliance policy and the appropriate labelling of products apply to the Bank and the whole of the Bank's Group.

COMPLIANCE OF THE PRODUCTS WITH THE APPLICABLE STANDARDS

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

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

These rules apply not only to the Bank and entities from the Bank's Group, but also to companies to which the Bank has entrusted the performance of specific operations related to product sales or handling.

MANAGING THE RISK OF THE PROPER SALES OF THE PRODUCTS TO CUSTOMERS (MISSELLING)

As part of ensuring compliance of the products with the applicable regulations, the Bank manages the misselling risk at the stage of creating and introducing the product, and then at the stage of offering the product to Customers. Each product undergoes pre-implementation analysis for the risks it generates and the identification of target Customer groups. The Bank also identifies the groups of Customers to which the Bank should not propose the purchase of a given product because of its inadequacy to the Customer's needs or for other reasons (the so-called anti-group). If there are such anti-groups, control mechanisms are implemented to mitigate the risk of misselling. The risk of misselling is also mitigated at the stage of undertaking sales activity – before proposing to a Customer the purchase of a product it is assessed whether a given product is adequate to the needs of this type of Customers (in order to eliminate cases, for example, of selling unemployment insurance to pensioners or long-term investment products to elderly persons). Additionally, the Bank always provides reliable and comprehensive information to Customers so that they can make an informed choice of a specific product. The bank acquaints Customers with the benefits as well as the risk arising from the purchase of individual products.

The Bank considers any irregularities reported by the Bank's Customers, in particular in the form of a complaint, within the deadlines arising from the provisions of the law. Depending on the findings, the Bank takes steps to fix them, prevent them from taking place in the future and improving the quality of service (more in sub-chapter 11.2.3).

Similar solutions concerning managing the risk of misselling, in keeping with the principle of proportionality, are also in place in the remaining entities from the Bank's Group which produce financial products or are involved in the process of their sale, i.e. in: PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO Bank Hipoteczny SA, PKO Towarzystwo Funduszy Inwestycyjnych SA and in PKO BP Finat sp. z o.o.

ADMINISTRATIVE PROCEEDINGS

In 2018, the Bank was a party to three administrative proceedings conducted before the Office of Competition and Consumer Protection (UOKiK) regarding compliance of the Bank's products with the applicable regulations. One of these proceedings was closed. At present, two proceedings with the Bank's participation, initiated in 2017, are in progress. In 2018, no new administrative proceeding was initiated.

Table 18. Administrative proceedings related to the principle of compliance of the PKO Bank Polski SA Group's products, including PKO Bank Polski SA's products with the applicable provisions of the law.²⁵

Description of administrative proceedings pending or completed in 2018	Status
BANK	
1.Proceedings initiated by the President of the UOKiK <i>ex officio</i> regarding the Bank's application of practices breaching collective consumer interests by providing notice of proposed changes to the terms and conditions of the payment service agreement exclusively with the use of electronic messages and failing to attach the contractual legal basis and factual	The proceedings are closed (no administrative penalties). By a letter dated 11 July 2018, the Bank submitted a motion to issue an obligating decision, together with proposals of actions intended to end the breach and remedy its consequences. The President of the UOKiK acceded to the motion and on 27 August 2018 issued an obligating decision to the Bank. The decision

²⁵ Does not include cases before common courts and explanatory proceedings.

<p>circumstances justifying the change (regulations and rates of the bank's fees and charges to individuals) in the messages sent to consumers, therefore making it impossible for consumers to verify the acceptability of changing the terms of the agreement.</p>	<p>became valid on 4 October 2018.</p>
<p>2.Proceedings initiated by the President of the UOKiK <i>ex officio</i> for regarding the provisions of the model agreement as inadmissible on the Bank's application in model agreements, annexes to loan and mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and appendices thereto, the contractual provisions concerning the method of establishing the buying and selling rates of foreign currencies which in the opinion of the President of UOKiK may be considered inadmissible in the light of Article 385 § 1 of the Polish Civil Code.</p>	<p>The proceedings are pending. By a letter dated 31 July 2018, the Bank submitted a motion to issue an obligating decision, together with proposals of actions intended to end the breach and remedy its consequences.</p>
<p>3.Proceedings initiated by the President of the UOKiK <i>ex officio</i> on the Bank applying practices breaching collective consumer interests. The Bank is charged with collecting higher instalments on loans and foreign currency loans than those arising from the instructions concerning forex risk presented to the consumers before concluding agreements and transferring to the consumers of the possible forex risk.</p>	<p>The proceedings are pending. By a letter dated 27 September 2017, the Bank responded to the allegations of the President of the UOKiK, requesting the discontinuation of the proceedings due to the fact that the proceedings were initiated after the passage of the strict deadline or (alternatively) because of the irrelevance of the Bank's alleged practice or (in the event of the failure to discontinue the proceedings) to take evidence from an expert opinion or a legal person (scientific unit) to present the circumstances specified in the Bank's response.</p>

OTHER ENTITIES FROM THE GROUP

No proceedings.

LITIGATION

In 2018, two court proceedings were conducted at the Bank related to the application unfair competition practices (one is before the Court of Appeal and the other one before the Supreme Court). No new court proceedings were initiated in 2018 concerning anti-competitive or anti-market practices.

Table 19. Court proceedings concerning PKO Bank Polski SA

Description of court proceedings pending in 2018	Status
<p>The Bank is a party to a court proceeding brought by the President of the Office of Competition and Consumer Protection (UOKiK) by the decision dated 23 April 2001 based on a motion by the Polish Organization of Trade and Distribution – the Employers Association against the operators of the Visa payment system, Europay and banks – issuers of Visa cards and Europay/ Eurocard/ Mastercard. The proceeding relates to practices restricting competition on the market of card payments in Poland, consisting of jointly agreeing upon an interchange charge for transactions concluded using Visa and Europay/ Eurocard/ Mastercard/ cards, and restricting access to the market for other entities.</p>	<p>The court proceedings are pending. On 29 December 2006, UOKiK concluded that the practice of jointly agreeing upon an interchange charge restrict competition and ordered their discontinuation, at the same time imposing a fine of PLN 16.6 million on the Bank. The Bank appealed against the said decision of the President of UOKiK to the Court of Competition and Consumer Protection (SOKiK). By the ruling of 21 November 2013, SOKiK reduced the fine imposed on the Bank to PLN 10.4 million. The parties to the proceedings filed an appeal. The Court of Appeal in Warsaw in its ruling dated 6 October 2015 reinstated the initial amount of the imposed fines set in the decision of the UOKiK, i.e. the fine of PLN 16.6 million (the fine imposed on PKO Bank Polski SA) and the fine of PLN 4.8 million (the fine imposed on Nordea Bank Polska SA). The Bank paid the fine in October 2015. As a result of a cassation appeal brought by the Banks, the Supreme Court by the ruling of 25 October 2017 annulled the contested ruling of the Court of Appeal in Warsaw and remanded the case. The fines paid by the Bank were returned to the Bank on 21 March 2018. The case is currently pending before the Court of Appeal in Warsaw. The hearing was postponed without setting the date of the next hearing.</p>
<p>The Bank is a party in a court proceeding brought by the decision of the President of the UOKiK in connection with the suspicion of applying illegal contractual provisions in template agreements for granting consumer loans, excluding credit card agreements.</p>	<p>The court proceedings are pending. By the decision of 31 December 2013, the President of UOKiK concluded that the Bank's practices violated the collective interests of the consumers and imposed a fine on the Bank of PLN 29 million. The Bank appealed against this decision to</p>

SOKiK. By the ruling dated 9 July 2015, SOKiK annulled in full the decision of the President of UOKiK. On 21 August 2015, the President of UOKiK brought an appeal against this ruling. On 31 May 2017, the Court of Appeal in Warsaw upheld the decision of SOKiK favourable to the Bank on annulling of the decision in which the UOKiK concluded that the Bank breached the collective interests of the consumers by applying the so-called variable interest rate clauses, and in consequence annulling the penalty of PLN 17 million. As regards the second alleged practice of the Bank of using an information form the Court of Appeal considered that the appeal was partly reasonable, and at the same time reduced the penalty imposed by UOKiK on the Bank from PLN 12 million to PLN 6 million. The penalty was paid on 17 July 2017. On 23 October 2017, the Bank brought a cassation appeal against the ruling of the Court of Appeal. The cassation appeal was also brought by the President of UOKiK. The Bank is waiting for the decisions of the Supreme Court concerning acceptance of the cassation appeals for consideration.

CORRECT PRODUCT LABELLING

The PKO Bank Polski SA Group, including PKO Bank Polski SA, fulfils the requirements concerning correct labelling of the bank products and investment products by providing the Customers with all the necessary information about them, especially at the pre-contract stage.

The scope of information provided about the products is specified by the applicable provisions of the law and the recommendations of the Polish Financial Supervision Authority. The general rule is that the highest level of protection is available to retail Customers – consumers. This information is formulated in such a way that it is understandable to the so-called “Average consumer”, namely – in accordance with the Act on counteracting unfair market practices – a consumer who is sufficiently well-informed, attentive and cautious. However, the scope of information provided to financial institutions and other professional recipients of products and financial services is narrower.

The Bank performs its statutory information obligations

a) in relation to deposit products, including by:

- informing Customers about the principles of the deposit guarantee system;
- informing Customers about the possibility of submitting instructions in the event of death;
- reminding customers about accounts held at the Bank, on which there have been no transactions for many years, no later than 6 months before the end of the 10-year period in which there were no transactions on the account, indicating that the agreement will be terminated if there is no further activity;
- providing template agreements used for concluding agreements with Customers before the conclusion of the agreement using a given template, and during the agreement, at the Customer's every request.

b) in relation to investment products, including by:

- providing the Customers with the required information arising from the MiFID Regulation (including in the form of an Information Brochure on the Requirements of MiFID);
- the provision of the “Key Information Documents” to Customers before concluding the agreement/transaction for the FIZ funds, in accordance with the requirements of the Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products;
- the provision of the “Key Information for Investors” to Customers before concluding the agreement/transaction for the FIO and SFIO funds, in accordance with the requirements of the Act on investment funds and managing alternative investment funds and the Directive UCITS IV;
- providing template agreements used for concluding agreements with Customers before the conclusion of the agreement using a given template, and during the agreement, at the Customer's every request.

c) in relation to loan products, in accordance with the provisions of the Act on consumer credit, the Mortgage Loan Act and supervision over mortgage brokers and agents), including by:

- providing an information form to Customers at the pre-contractual stage, together with a personalized draft loan agreement and, in the case of applying for a mortgage loan – also a loan decision;
- providing general information on the mortgage loan agreement to Customers at any time;
- informing the Customers who are late in repaying the loan liabilities, about the ability to submit a debt restructuring request.

d) in relation to insurance products, in accordance with the provisions of the Act on insurance agencies and the Recommendation U of the Polish Financial Supervision Authority regarding good bancassurance practices, including by:

- showing Customers a power of attorney document and, in the case of natural persons performing agency activities, a document authorizing it to represent the insurance agent, at the time of performing the first agency activity and at every request of the Customer;
- notifying Customers as to whether the Bank is representing one or multiple insurance companies;
- informing Customers about the wording of the entry into the register of insurance agents and the method of checking the entry in the register and about the stocks or shares held by the Bank in the insurance company entitling it to at least 10% of the votes at the general meeting;
- providing information to Customers regarding their rights and obligations related to obtaining insurance protection, including the provision of an information card about an insurance product.

The proper product labelling also applies to the Bank's advertising messages which support its sales activities and shape its brands' image. All marketing materials published by the Bank take into account the specific obligations arising from the commonly binding provisions of the law (e.g. the Consumer Credit Act – within the scope of advertising this type of loans) as well as market standards and the PFSA guidance formulated in the enacted "Rules of advertising banking services".

The Bank makes every effort that the marketing communications about products should clearly indicate to which product or service they relate, that they should be formulated reliably and not mislead their recipients, as well as show the recipients how to access the complete information about the advertised product and about the benefits and risks related to it.

SECURITY OF CUSTOMERS WHILE USING THE PRODUCTS

One of the Bank's priorities is to set the highest security standards. Customer security in the process of using the Bank's and the Bank Group's products primarily includes security of the funds of Customers, as well as physical security of Customers in the Bank's facilities. The matter of security is regulated by the internal regulations, including the Security Policy at PKO Bank Polski SA and – in detail – the provisions regarding specific areas of security, i.e.: (i) protection of people and property; (ii) IT System security; (iii) managing safety incidents.

SECURITY OF CUSTOMER FUNDS

The activities of the Bank and other entities of the Bank's Group related to ensuring the security of Customer funds apply to both the assurance of security of the funds entrusted, as well as the funds invested with the use of the products offered. The initiatives implemented regarding the assurance of a stable and secure ICT infrastructure enabled the achievement of very high reliability indicators for the operation of the IT infrastructure applications in 2018.

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

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

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

THE RISK OF UNAUTHORIZED ACCESS TO CUSTOMER FUNDS THROUGH ELECTRONIC BANKING

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

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

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

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

In 2018, the Bank began works on creating the platform supporting the SIEM class system (Security Information and Event Management). This will enable better detection of incidents and anomalies, and automation of many activities related to incident handling. The process of implementing the solution monitoring threats on the Bank's workstations was completed. This enabled, among other things detection of advanced types of malware. After integrating the solution with the Bank's SIEM system, it will be possible to immediately respond to the incidents detected.

The specialist CERT unit operating within the Bank's structures executes a strategy of ensuring IT security of the services provided. CERT PKO Bank Polski is a member of an international forum of responders – FIRST, and belongs to the task force of European responding teams – TERENA TF-CSIRT and the related Trusted Introducer organization. In 2018, the Bank initiated the CERT certification process for compliance with the requirements of SIM3 methodology: Security Incident Management Maturity Model. As a result of these actions, the Bank will be the first organization in the financial sector in Poland to hold the CERT certificate.

Joining the international organizations enables the Bank's CERT team to respond faster and more effectively to cybersecurity threats by operational collaboration and exchange of experience and knowledge with similar entities throughout the world. The membership is also a confirmation of a high level of the services rendered and acknowledgement of the professionalism and skills in the area of ensuring IT security at the Bank.

In 2018, the Bank's Cybersecurity Centre appointed the CERT team operating as part of ZBP – FinCERT.pl. As a result of the support granted by PKO Bank Polski SA, the team joined the Trusted Introducer.

The high organizational maturity in the area of handling cybersecurity incidents is particularly important in the light of the decision of the PFSA of 2018 concerning acknowledging PKO Bank Polski SA as an operator of a key service as defined by the Act on the national cybersecurity system.

PHYSICAL SECURITY OF CUSTOMERS

The Bank and the remaining entities from the Bank's Group fulfil the condition of ensuring the highest quality of direct services to the Customers, among other things, by ensuring proper standards of comfort and safety. The sites of the Group's entities conducting retail operations, including the Bank, use state-of-the-art technical solutions in the area of physical security of customers and their funds, including physical protection and monitoring.

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

Being concerned about the safety of Customers and employees, an obligatory first aid course was introduced at the Bank in 2010, as part of the health and safety training. In 2018 alone, 5477 of the Bank's employees were trained (as

part of obligatory periodic trainings) and additionally 39 persons were trained in first aid as part of individual presentations organized on approval by the Director of the Health and Safety at Work Office. Since starting the programme, more than 25 thousand persons were trained.

CUSTOMER SATISFACTION SURVEY

During the dialogue with Customers regarding, among others, the products offered, Customer satisfaction surveys are conducted at the Bank, which are divided into two main segments: the retail Customer and corporate Customer. Most of the surveys at the Bank's Group are conducted by the Bank. The companies do not conduct their own survey processes. KREDOBANK SA is an exception.

RETAIL CUSTOMER SATISFACTION SURVEYS

In 2018, the Bank continued the strategic approach to the issue of Customer satisfaction, which resulted not only in carrying out the former surveys aimed at identifying the level of Customer satisfaction but also in implementing a mechanism that would take into account the aspect of Customer satisfaction in designing and implementing the most important products and solutions offered to the Customers by the Bank.

With regard to retail customers, the Bank conducted two types of satisfaction survey:

1. Relational research – conducted in all Customer segments, including firms and enterprises, measuring the strength of the relationship with the Bank and satisfaction with the cooperation with the Bank in general terms, encompassing the whole of the Customer's experience.
2. Transactional research – performed at the key points of contact between the Customer and the Bank, immediately after the event, measuring satisfaction with a given interaction, which is defined in space and time, also including surveys for the needs of process design and implementation.

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

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

Overall, in 2018, the Bank held almost 130k interviews with retail Customers using various methods. The plans encompass continually increasing the number of processes monitored for Customer satisfaction (products and sales channels) – in 2019 approx. 170k interviews will be conducted.

Also KREDOBANK SA in its daily operations takes measures aimed at monitoring the satisfaction level of its retail Customers. The basic measure of satisfaction in KREDOBANK SA's surveys is the Net Promoter Score (NPS). In 2018, KREDOBANK SA conducted more than 3.5k interviews, and it plans further extension of the surveys in 2019, i.e. conducting more than 4k interviews.

CORPORATE CUSTOMER SATISFACTION SURVEYS

The year 2018 was the second full year of the operation of the NPS Programme (implemented also in PKO Leasing SA and PKO Faktoring SA) for the corporate Customer segment. The Bank continued to conduct telephone interviews with the Customers of corporate, strategic and international banking in order to better understand how they perceive their relationship with the Bank's Group, the individual products and service channels. The Customers respond well to this form of dialogue, as confirmed by the continued high Response Rate of 64%.

The purpose of the Programme is to respond to the Customers' needs, both through contact with the individual entities and by developing long-term solutions. Since the programme was started, 71 initiatives have been completed, including 31 in 2018. The changes were implemented, among others, in the area of further digitization of service processes, the settlements system of PKO Leasing SA, the service model and the system in PKO Faktoring SA. The measures undertaken render measurable effects – compared with 2017, the NPS for corporate Customers increased by 5 percentage points.

11.4.2 MARKETING COMMUNICATIONS

PKO Bank Polski SA operates within the limits of the Bank's internal regulations concerning the principles of conducting marketing activities. In marketing communications, the Bank complies with the norms, which are described in the Appendix to these principles named "General requirements for creating advertising messages regarding trading in financial instruments".

The Bank's internal regulations concerning the principles of conducting marketing activity define the features of the appropriate advertising message, as well as the list of undesirable actions. According to detailed provisions, the advertising message (*inter alia*):

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

In addition to the accepted internal regulations, in its marketing communications the Bank follows:

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

In its marketing activities, the Bank has mechanisms that prevent the creation of unethical and unreliable messages. The units, which have the task of verifying the compliance of messages with the generally applicable laws as part of their duties, are consulted on the correctness of the communication every time.

The principles of ethics in marketing communication and the mechanisms for preventing the risk of unethical and unreliable communications also apply to materials prepared at the request of the Bank by external entities (advertising agencies, event agencies).

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

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

With regard to their marketing activities, all of the remaining entities in the Bank's Group have control mechanisms to prevent the risk of an irresponsible or unethical communication from the company. The marketing communication is appropriately approved by the company's supervisory units respectively, or additionally – in the case of companies that have agreements with the Bank concerning commissioning of marketing services for the Bank's Group – by the Bank's relevant departments.

With regard to the marketing activities conducted by the Bank's Group and the Bank, no administrative proceedings were conducted in 2018 related to a breach of the regulations regarding ethics in the marketing communication.

In March 2018, a situation occurred at the Bank that was incidental in nature. One of the branches undertook distribution of a leaflet about a cash loan that did not comply with the principles of the Consumer Credit Act. Due to the above, the President of UOKiK summoned PKO Bank Polski SA to voluntarily stop a practice that violates collective consumer interests. The idea of distributing the leaflet and its contents were not consulted with the Bank's Head Office and were not approved by it. The branch withdrew from distributing this advertising leaflet and in order to prevent similar practices in the future, the Bank sent a communication to the branch network reminding the branches are not allowed to produce marketing materials on their own.

11.4.3 PROTECTION OF PRIVACY

In accordance with the generally applicable regulations, including the Regulation of the European Parliament and of the Council (EU) 2016/679 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, and repealing Directive 95/46/EC (General Data Protection Regulation) and the Personal Data Protection Act, PKO Bank Polski SA has internal personal data protection regulations.

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

- security of protected information;
- IT System security;

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

MANAGEMENT OF THE RISK OF UNAUTHORIZED ACCESS TO CUSTOMER INFORMATION

The risk of unauthorized access to Customer information is managed in accordance with the Security Policy of PKO Bank Polski SA. Whereas the Principles of protected information security at PKO Bank Polski SA regulate the issues of confidentiality of information and the maintenance of bank secrecy, as well as personal data security, including the liability of the Bank's employees regarding personal data protection. In accordance with these principles:

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

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

Since the General Data Protection Regulation became binding, i.e. since 25 May 2018, cases of breach of personal data protection resulting in a risk breaching personal rights and freedoms are reported to the President of the Personal Data Protection Office (UODO).

11.4.4 PREVENTION OF CORRUPTION

Anti-corruption system at the Bank System of reporting breaches and reporting Anti-corruption system at the Bank's Group
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ANTI-CORRUPTION SYSTEM AT THE BANK

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

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

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

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

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

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

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

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

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

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

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

SYSTEM OF REPORTING BREACHES AND REPORTING

The Bank has an anonymous system for reporting breaches (the institution of the whistle-blower relates to all unethical or illegal acts). Additionally, under the internal regulations, each of the Bank's employees is obliged to report any suspicion of a crime having been committed in connection with the Bank's activities. A report regarding a member of the management board is escalated to the Supervisory Board, in other cases – to the vice-president of the Bank's Management Board (from 1 January 2019, to the President of the Bank's Management Board). Each matter is dealt with on the basis of the internal regulations. There is a requirement at the Bank to submit regular reports to the Management Board about identified cases of fraud, including those involving corrupt activities.

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

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

ANTI-CORRUPTION SYSTEM AT THE BANK'S GROUP

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

Among the incidents which occurred in 2018, no critical events and no corruption activities were identified in the Bank's Group entities which would result in disrupting the operations of the Bank or of the other entities belonging to the Bank's Group.

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

11.4.5 HUMAN RIGHTS, INCLUDING CHILDREN'S RIGHTS

Internal documents related to human rights Respecting human rights Communicating human rights internally and externally

In the process of developing regulations, procedures and policies referring to human rights, the individual entities belonging to the Bank's Group draw from the achievements of international organizations and respect the fundamental principles set in the International Bill of Rights which is composed of the following three documents: (1) the Universal Declaration of Human Rights; (2) the UN Convention: the International Covenant on Civil and Political Rights; (3) the UN Convention: the International Covenant on Economic, Social and Cultural Rights.

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

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

INTERNAL DOCUMENTS RELATED TO HUMAN RIGHTS

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

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

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

- PKO Bank Polski SA's Code of Ethics;
- the principles of counteracting mobbing and discrimination and the procedure for handling complaints concerning violation of employee rights;
- the principles of recruitment and the Standards of Recruitment;
- agreements concluded with service providers (applies to personal data protection agreements);

as well as in strategic programmes such as:

- Culture of a modern organization and

- Improving the processes of managing employee potential.

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

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

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

RESPECTING HUMAN RIGHTS

One of the most crucial elements/stages of the analysis is the identification of human rights in the context of the operations conducted. The Bank's Group operates in several countries where it provides financial services, which sets the scope of the human rights to be considered, and thus eliminates the challenges faced, for example, by manufacturing or mining companies. The countries in which the Bank's Group operates are characterized by a similar level of development, and thus also challenges related to employment – no cases of underage employment or forced labour were identified. An immense task is the issue of observing the human rights in the supply chain, which in the context of the Bank's Group entities boils down to relations with suppliers and outsourcing of services (mainly banking services). The issues of compliance with human rights are reflected in the procedures and agreements signed with these entities. Despite the fact that there is no formal clause about the right to conduct audits at the suppliers', the Bank conducted a survey among them for the first time, checking for compliance with the principles of social and environmental responsibility which they agreed to observe when joining the bidding process.

Examples of activities conducted within the Bank's Group entities, in which respect for human rights is disclosed, are presented below:

- counteracting mobbing and discrimination;
- basing the rules of the periodic appraisal on a dialogue with the employee, the employee's involvement in the appraisal with the employee's ability to appeal against the appraisal of skills and the results of the work issued by the superior;
- use of recruitment principles that ensure equal treatment of candidates during the selection process for filling vacancies, without any discrimination, prejudice and without obtaining information that could breach the candidate's rights and personal dignity.
- basing promotion decisions on an objective appraisal of qualifications, skills and results of work;
- supporting diversity in management, in particular with respect to age, experience, style of work, thinking; promotion of diversity among managers as an asset and not a limitation;
- Enabling employees to express their opinions and influence important issues regarding the organization and working conditions, management, organizational culture, as well as enabling the provision of information about perceived crimes and fraud – assuring their anonymity and confidentiality (whistleblower mechanism);
- protection of personal rights (personal data, sensitive data) of employees and customers through carefully prepared procedures and systems and inclusion of restrictive entries in contracts concluded with service providers who have access to such data;
- creation of conditions for satisfying needs related to recreation and culture, as well as respect for principle of the work-life balance;
- assurance of freedom of association;
- creation of a safe working environment.

The Bank's Group applies the same human rights standards within the entire supply chain in its business activities. In relations with external entities, special attention is paid to:

- safety of the workplace;
- not using children's work or forced position of co-workers and contractors;
- acting in a manner that does not breach the personal rights of the co-workers;
- preventing discrimination or mobbing activity;
- objectivity in selecting bids;
- care about natural environment and its resources.

According to the assessment conducted in this report, there were no cases of breaches of human rights in 2018, and the actions taken have the objective of preventing such an eventuality.

The Bank's Group entities monitor the risks accompanying the individual human rights and manage them at the firm's level. The types of these risks and the manner of their management have been discussed in detail in the chapters referring to the individual human rights.

COMMUNICATING HUMAN RIGHTS INTERNALLY AND EXTERNALLY

The basic internal communication tool is the Intra portal which is regularly updated and contains information on benefits, rights and obligations of the Bank's employees. Additionally, the employees receive all types of the necessary information via internal mail in the form of dedicated bulletins or information campaigns (screen savers, posters, pop-ups). On the internal portal the employees may find the following documents referring in various ways to the human rights issues:

- The PKO Bank Polski SA's Code of Ethics;
- The Principles of Recruitment (regulations updated and communicated to the organization in 2018);
- The recruitment standards (regulations updated and communicated to the organization in 2018);
- The rules on the prevention of mobbing and discrimination and the procedure for handling complaints concerning breaches of the employee rights (provision updated and communicated to the organization in 2018; a clear presentation of the rules of the prevention of mobbing and discrimination and the procedure for handling complaints was attached to the text of the regulations, to facilitate the use of the procedure to the employees;
- The rules of periodic appraisal (the regulations were updated and communicated to the organization in 2018). A special webpage was created on the Bank's internal portal, available to the managers, i.e. the persons conducting the appraisals. The issues emphasized there included way of conducting interview with the employees, ways of discussing the appraisal and guidance on how to guard against potential distortions, understating or overstating employee appraisals. New managers are invited to a webinar where the tutors emphasize similar issues concerning proper appraisal and effective periodic interview);
- Good practices in serving the disabled;

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

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

The Bank verified its approach to the issue of observing human rights by making available the non-financial report to all potential stakeholders and taking into account the report's assessment performed by the La Strada Foundation on request of the Reporting Standards Foundation.

11.4.6 IMPACT ON THE SOCIAL ENVIRONMENT

Impact on the social environment and its development through the products offered and initiatives on the financial market A special approach to groups of disabled people Other conveniences for customers while using the Group's products Local communities Involvement in pro-social activities
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The Bank's and the Bank Group's impact on the social environment is exerted by many channels, through

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

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

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

- In 2018, PKO Bank Polski SA and PKO Bank Hipoteczny SA granted private individuals housing loans of PLN 15.1 billion (28.9% share of new sales of mortgage loans in 2018).
- The Bank has been participating in an initiative supporting the satisfaction of the housing needs of Poles since 2014 – the “Mieszkanie dla Młodych” [Housing for the Young] programme. The program enabled Customers to obtain co-financing for the owner’s contribution and support in the form of repayment of a part of the loan from the state budget. In 2018, the Bank granted 4,800 loans in the MdM programme amounting to PLN 0.3 billion. On 4 January 2018, Bank Gospodarstwa Krajowego finished accepting the final pool of applications for co-financing the purchase of apartments. Officially, the government programme expired as of the end of 2018.
- PKO Bank Polski SA has been involved in a nationwide initiative supporting large families since 2014. The Bank introduced a special offer to holders of a Large Family Card, under which it reduced the commission on the *Własny Kąt Hipoteczny* [My Own Place Mortgage] housing loan by half.

PKO BANK POLSKI SA SUPPORTS BORROWERS WITH A MORTGAGE LOAN

- PKO Bank Polski SA treats responsibility for its business as an integral part of its business strategy. It supports Customers whenever they have problems with the punctual repayment of their liabilities. In such situations, the Bank adjusts its actions to the Customer’s situation. In 2018, the Bank supported borrowers having CHF mortgage loans and offered conveniences to them in order to mitigate the negative effects of the change in this currency’s exchange rate.

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

- For many years, the Bank Polski SA Group and especially PKO Bank Polski SA and PKO Leasing SA, has been actively involved in working with public sector entities. This cooperation also includes loan support of their activities, for instance, with regard to the expansion and renovation of schools, hospitals, road projects and environmental protection. As at the end of 2018, loans to the sectors O, Q, R (table below) represented in total 7.6% of the loan portfolio for the corporate and public sectors. In the Bank’s Group, the share was 7.2%. The decrease in the share for section O resulted from the reduced scale of financing the Social Insurance Fund in connection with its improved financial standing.

Table.20. The share in the loan portfolio for business and public entities by the selected sections of the Polish NACE codes.

Section of the Polish NACE codes	GROUP		of which: Bank	
	2018	2017	2018	2017
O. Public administration and national defence, mandatory social security, including LAUs	5.3%	7.2%	6.0%	8.2%
Q. Healthcare and social welfare	1.4%	1.3%	1.1%	1.1%
R. Cultural, entertainment and recreational activities	0.5%	0.5%	0.5%	0.5%
Sections O, Q, R in total	7.2%	9.0%	7.6%	9.8%

PKO BANK POLSKI SA IMPROVES THE OPPORTUNITIES FOR YOUTH EDUCATION

- PKO Bank Polski SA increases the opportunity to educate young people, offering student and doctoral student preferential loans with low interest rates. The Bank allows for the forgiveness of a part of the loan for the best graduates. At the end of 2018, the value of preferential student loans was PLN 822mn.

THE PKO BANK POLSKI SA GROUP SUPPORTS THE DEVELOPMENT OF FIRMS AND ENTERPRISES AND PEOPLE STARTING THEIR OWN BUSINESSES

The Bank’s Group provides financing for the current and investment needs of firms and enterprises, through a large and flexible product offering.

- The Bank has been providing support to enterprises in the form of BGK *de minimis* guarantees since 2013. At the end of 2018, the Bank was the largest lender among the banks granting loans with *de minimis* guarantees (the market share in sales of *de minimis* guarantees was 20%).
- In February 2016, the Bank began to grant loans based on an agreement concluded in October 2015 with BGK on a portfolio guarantee line with a counter-guarantee granted by the European Investment Fund under the COSME

programme (PLG COSME). The value of loans granted under the “*Portfelowa Linia Gwarancyjna COSME*” [COSME Portfolio Guarantee Line] at the end of 2018 was PLN 332.8mn.

- In 2018, the Bank supported firms and enterprises by organizing free trainings, sharing knowledge and tools supporting their operations. Three editions of the trainings were conducted: “*Firma w ekspansji*” [Firm’s Expansion], “*Siła marki w MŚP*” [Brand Strength in SME] and “*Dzień Dobry Biznes*” [Good Morning Business].
- Since December 2017, the Bank has been enabling entities starting business to take out a *Pożyczka na Start* Loan, which has features that are particularly appreciated by young entrepreneurs: ease and speed of obtaining funds, flexibility of the product in repayment and the method of spending – entrepreneurs can use it for any purpose related to their business, independently deciding on the form of repayment and, during the term of the agreement, they can benefit from, *inter alia*, a suspension of the loan repayments for one month each year.
- The Bank’s subsidiary, PKO Leasing, has also launched facilitations for young entrepreneurs, offering customers *Leasing na Start* [Lease for the Start]. It enables them to obtain financing of up to PLN 120k on a new and used vehicle or delivery vehicle of up to 3.5t, and up to PLN 500k on vehicles, machinery and equipment. The use of leasing without an initial fee is available to companies operating for 3 months.
- In 2017, the Bank was the first Polish financial institution to invest in a fintech start-up ZenCard sp. z o.o. Thanks to the transaction, in 2018, PKO Bank Polski SA offered an innovative tool to its corporate customers for creating loyalty programmes, which enables entrepreneurs to organize promotion and rebate campaigns only using a payment card and a payment terminal.
- The Bank enabled those entrepreneurs who so far were not accepting non-cash payments to join the *Polska Bezgotówkowa* [Cashless Poland] Programme in its branches. Under the programme, the entrepreneurs will be able, among other things, to obtain cover of the costs of the terminal within 12 months.
- As part of supporting entrepreneurs in their daily business, in 2018 the Bank introduced the functions of the “Firm’s Assistant” and “E-shop”. The “Firm’s Assistant” is linked to the firm’s account and enables ongoing control over costs and income, as well as managing the calendar and contacts. “E-shop” enables the Bank’s Customers to open an online shop on their own, directly from the iPKO banking level and from there monitoring current information related to running an online shop.

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

- PKO Bank Polski SA is open to cooperation with young, innovative companies. PKO Bank Polski SA is open to cooperation with young, innovative companies. It was an initiator and partner of programmes such as MIT Enterprise Forum Poland, Bridge to Mass Challenge Warsaw, The Heart Warsaw and ScaleUP (implemented by the Ministry of Development).
- PKO Bank Polski SA made use of its experience in the FinTech sector to develop its own comprehensive ecosystem for supporting promising technological firms. Since 2018, the Bank has conducted an acceleration programme addressed to startups “Let’s fintech with PKO Bank Polski” as part of which it is looking for solutions in the fintech sector, ready to carry out internal and manufacturing pilot programmes and to scale up the firm in partnership with the Bank. It provides participants with mentoring and technical support in the form of test environments, which is a unique opportunity to verify the ideas presented and assess the value for Customers.
- The Bank carried out the largest implementation of blockchain technology in Europe: in September 2018, over 5 million of the Bank’s Customers for the first time received product rules and regulations in a digital technology using blockchain. Thanks to this technology, the Customers have a system at their disposal which thanks to the advanced mathematics and cryptographic techniques enables checking the validity and authenticity of a document received.
- Digitization is one of the trends in the technological revolution currently taking place, which affects the competitiveness of the economy, *inter alia*, through the development of firms and enterprises. Grounding digital services in a modern and local infrastructure increases safety and reduces costs of digitization for business and administration. For this reason, in 2018, the Bank and Polski Fundusz Rozwoju SA (PFR) initiated the formation of a technological company – an operator of the national cloud computing. The entity will provide IT services to public administration and entrepreneurs. It will also offer services of data storage and processing, provision of IT infrastructure, provision of business applications operating in the cloud and support in digital transformation processes.
- PKO Bank Polski SA meets the expectations of customers related to changes taking place in the external environment, including the digitization of social life. An example of an innovative solution is the IKO application on the basis of which the Blik mobile payments system was created. The cooperation between the Bank and other

banks in Poland has meant that Blik has become a market standard for mobile payments in Poland, appreciated by specialists from around the world and popular among the Customers.

- As a leader in modern banking, the Bank is constantly developing the iPKO electronic website as well as the functionality of the IKO mobile application, which is becoming increasingly popular – over 3 million users used it in 2018.
- In 2018, the Bank formed an investment fund PKO VC, which invests in technological financial innovations.

PKO BANK POLSKI COUNTERACTS FINANCIAL EXCLUSION

- The Bank has the largest network of branches and agencies of the banks in Poland (1155 branches and 577 agencies at the end of 2018). The coverage of the Bank's distribution network also enables access to banking services to people living in towns where the Bank's main competitors do not have branches. Electronic banking is an important supplement to the distribution network of banking products and services.
- The Contact Centre is of particular importance in servicing the segment of retail Customers, whose objective is not only to provide Customers with banking products and services, but also to increase the security of transactions ordered by the Bank's Customers.
- A very important element in counteracting financial exclusion is the support of disabled customers, which is discussed separately in sub-chapter 11.4.6.

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

Since the beginning of its existence, PKO Bank Polski SA has been teaching Poles how to save. In 2018, the Bank effectively responded to the needs of customers looking for valuable capital investment options, including:

- it enabled retail and private banking Customers to invest money in investment funds within the cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA;
- it is the only bank in Poland which has enabled Customers to invest in treasury bonds, including long-term treasuries. There is an offer of ROD and ROS bonds for the beneficiaries of the 500+ programme available in more than 1000 locations, i.e. in the network of Customer service points of the Bank's Brokerage House and the network of brokerage service points located in the Bank's branches.

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

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

PKO BANK POLSKI SA EDUCATES AND BUILDS CONSUMER AWARENESS

- The Bank conducts consistent and multi-level financial education addressed to various Customer groups. Its main goal is to reduce financial exclusion, build consumer awareness and act in the field of cyber security.
- The Bank educates Customers by showing them the capabilities and functions of modern products, giving them access to practical economic knowledge and providing tools facilitating the management of personal and company budgets.
- An important role in the Bank's financial education is played by publishing houses and the generally accessible Bankomania.pkobp.pl portal.
- The bank has a modern offering of bank accounts. In joining the government's 500+ programme, the Bank enabled the programme's beneficiaries to open a *Konto za Zero Rodzina 500+* [Account for Nothing 500+ Programme] account.
- The continuation of children's education by the Bank is of major public significance. Its objective is to teach good habits in the area of saving, budget management and the use of banking services. The Bank offers educational

products for children aged under 13 and their parents through the PKO Junior offering. The PKO Junior offering includes: *PKO Konto Dziecka* [PKO Child's Account], *ROR Rodzica* [Parent's Savings and Settlements Account], *Pierwsze Konto Oszczędnościowe* [First Savings Account] and the junior.pkobp.pl and junior.inteligo.pl sites. At the end of 2018, there were 332 000 PKO Konto Dziecka accounts. The "Brawo Bank" [Bravo Bank] economic guide for children plays an important role in education. The children's magazine is available in paper, electronic, mobile and AR ("Augmented Reality") versions.

- The Bank takes care of the financial education of pupils as part of the *Szkolne Kasy Oszczędnościowe* [School Savings Accounts] programme. This is the oldest, largest and most modern financial education programme for pupils in Poland. The SKO offering includes www.sko.pkobp.pl, *SKO Konto dla Ucznia* [SKO Pupil's Account] and a platform for school pupils from the SKO: SzkolneBlogi.pl. At the end of 2018, there were 146k SKO Konto dla Ucznia accounts.
- Pupils who turned 18 and students till the age of 25 – who have a valid school or student ID on the date of opening an investment account with Internet access, will be granted reduced rates for maintaining the account and reduced commission on purchase or sale instructions in respect of financial instruments listed on the WSE, submitted through the Internet system (including the mobile service), *inter alia*, free-of-charge maintenance of the investment account for each year until the year in which they turn 25 (inclusively).
- Technological progress and the digitization of banking services mean that cyber security not only applies to large companies, but also to individual Customers. The Bank regularly warns its Customers about online threats and handles extensive educational activities in this area. One of the objectives of the activities is to popularize knowledge about the principles of security in electronic and mobile banking, as well as the use of payment cards.
- The Bank was also the first in Poland to start working with the Police to prevent the so-called "grandchild" scams.

PKO BANK POLSKI SUPPORTS SENSITIVE GROUPS

- On 5 November 2018, the campaign "Pomaganie przez zbliżanie" [Helping by drawing near] was launched in the Internet. Together with PKO Bank Polski SA, the Customers helped young people from children's homes who were entering adulthood – with each pay pass payment using the telephone the Bank transferred 50 grosz to the PKO Bank Polski Foundation.

A SPECIAL APPROACH TO GROUPS OF DISABLED PEOPLE

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

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

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

The Group's branches satisfy all the norms specified in the regulations regarding the adaptation of buildings to the needs of the disabled. Additionally, the principles of choosing locations and ensuring an arrangement of the Bank's branches which is friendly for the disabled are set out in the internal regulations. The most important of these are:

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

By the end of 2018, 714 branches had been adapted to the needs of the disabled in accordance with the Bank's internal regulations, which is 66% of the total number, while parking spaces designated for the disabled were marked at 333 branches (31%)²⁶.

2) Standard of fittings at the Bank's outlets and ground infrastructure

New Format of Branches

A standard of the New Format of Branches (NFB) was introduced in 2018, in which solutions and technologies were used to help serve Customers at the branch, develop self-service channels and digitize sales processes. The NFB will

²⁶ The decline in the number of branches adapted to the needs of the disabled compared with the previous year results from the decrease in the general number of branches.

also encompass the Bank's agencies. This format takes into account the recommendations of the Integration Foundation, which audited the available space for Customers on contract to the Bank. The conclusions from the audit, including those regarding disabled people, are taken into account at new sites for branches, as well as branches being relocated and modernized.

Dedicated rooms in the branches

The Bank also provides a possibility of individual service adapted to the type and degree of a Customer's disability and if required, offers services in a dedicated, comfortable and safe room.

Support of the hard of hearing and the deaf

The Bank is also constantly raising the standard of service of the deaf and the hard of hearing using the Polish Sign Language. In 2018, arrangements were completed concerning implementing mass support of the deaf in all of the Bank's branches. A pilot programme has been carried out in this scope and works initiated in connection with the communication at the Customer-Bank level. Apart from the traditional form, the communication will also comprise remote channels and perform the educational function by ensuring access to information materials on the basic financial products.

As part of the initiative planned for 2019, the deaf persons who are the Bank's Customers will receive an application supporting the use of the Bank's services using the sign language through which they can communicate with the adviser in the Bank's outlets without incurring any cost. The advisers will be trained on the use of the tool and contact with persons hard of hearing, and the Customers using the application will be able to rate the tool based on their experience.

From 2019, the Bank is also participating in a joint initiative of the Polish banking circles realized by the Polish Bank Association with the support from the Polish Association of the Deaf on updating and expanding the generally available glossary of terms of banking products and services in the Polish Sign Language.

Support of the blind and visually impaired

The Bank also makes it easier for blind and visually impaired Customers to use financial services – the number of ATMs equipped with a panel equipped with a Braille alphabet and an audio module is steadily increasing. At the end of 2018, of 3270 ATMs, 2031 (62%) were equipped with audio modules. Information on the location of such devices can be found on the Bank's website and in the Dostępny Bankomat [Available ATM] service.

Available ATM

The purpose of the "Available ATM" project is to counteract social and digital exclusion by removing limitations and increasing access to financial services to persons with various needs. In 2018, the Bank, in cooperation with the Polish Bank Association and Fundacja Widzialni [The "Visible" Foundation] participated in the project the purpose of which was to launch a web site and a mobile application showing the location of ATMs of selected Banks and informing about conveniences for the handicapped in the individual devices.

Fingerprint signature

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

Electronic Authorization by a Text Message

In 2018, the Bank implemented a system of Electronic Authorization by a Text Message in the entire network of the Bank's branches, which enables authorizations of the declarations of will without a hand signature, by typing a code sent by the Bank in the form of a text message.

3) Facilitations in modern banking

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

OTHER CONVENIENCES FOR CUSTOMERS WHILE USING THE GROUP'S PRODUCTS

The following conveniences were introduced in 2018:

- the Bank continued to equip branches with self-service stations, which all individual and business Customers who have cards attached to the bank account are able to use. The Bank is planning to gradually fit them in further branches and expand the scope of their functionality;

- the speed and convenience of service continued to improve; this objective was achieved, among others, through the initiative of reducing the number of paper documents in customer service processes;
- the number of child-friendly branches of the Bank was increased where adults – during visits to the branch – are able to leave their children in specially arranged play corners; At the end of 2018, as many as 77% of branches had an area dedicated to children. The interest shown in such a solution means that this percentage will be increased.
- Polish companies present on the German and Czech markets can count on direct support through foreign branches of the Bank – in Frankfurt am Main and Prague. Banking services are offered by KREDOBANK SA, a member of the Group, to businesses operating in Ukraine.

Since 2017, the Bank's representatives have actively participated as experts in reviewing the drafted version of the EU Directive "European Accessibility Act" which specifies the accessibility requirements for the service sector on the territory of the EU, also including the financial sector. In the fourth quarter of 2018, the Bank's employees served as experts during community consultations on the Polish horizontal "Accessibility Act" prepared as part of the government project "Accessibility plus". In both cases, the activities were executed in cooperation with the Polish Bank Association coordinating cooperation of the financial sector entities with government institutions responsible for legislative activity.

LOCAL COMMUNITIES

The Bank's Group entities, including the Bank, affect the local communities in which they operate through several channels:

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

The Bank's Group is an important employer because it creates jobs for 28.1k people. This figure is 24.3k for the Bank, of whom more than half are in branches dispersed throughout Poland. By offering a salary level which is, on average, above the national average they have a positive impact on the levels of income of local communities.

- impact on relationships

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

- raising sports and social activity

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

- contributing to the state budget and the local budgets

Table 21. Central and local taxes forming revenues of the state and local governments' budgets (in PLN mn)

	Group		of which: Bank	
	2018	2017	2018	2017
Central taxes, including:	3403	2929	2924	2586
Corporate income tax	1611	1264	1343	1080
Tax on certain financial institutions	950	932	883	894
Personal income tax	310	301	277	269
Lump sum personal income tax	326	248	323	243
Lump sum corporate income tax	77	76	77	75
Value added tax	129	109	22	25
Local taxes, including:	66	86	21	21
Vehicle tax	23	40	0	0
Property tax	30	33	14	15
Charge for perpetual usufruct	10	9	6	6
Other taxes and charges	3	4	1	1
Total taxes	3469	3015	2945	2607

Note: The table encompasses data of the subsidiaries which were a part of the Bank's Group at the year end and had taxation liabilities to the Polish state budget

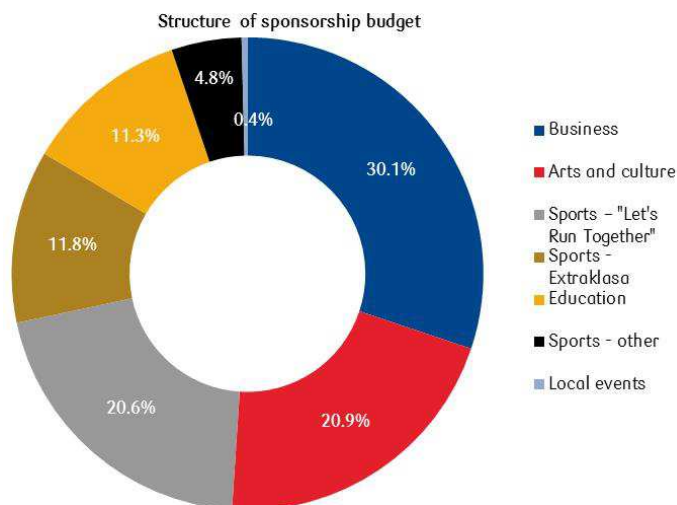
Within their operations, the Bank and other entities of the Group also support the state budget and local budgets. In reference to 2018, the amount of taxes of entities from the Bank's Group operating in Poland was equal to PLN 3,469mn, of which PLN 3,403mn were central taxes and PLN 66mn were local taxes. The Bank's Group subsidiaries paid UAH 274mn to the Ukrainian budget and UAH 4.5mn in respect of local taxes.

Additionally, after a break of several years, in 2018 dividend was paid for 2017 in an amount of PLN 687.5mn, which strengthened the budgets of the shareholders, including the state budget and the OFE portfolios.

INVOLVEMENT IN PRO-SOCIAL ACTIVITY

THE BANK'S INVOLVEMENT IN PRO-SOCIAL ACTIVITY

For many years, the Bank has been initiating and implementing social projects integrating business objectives with activities for all stakeholder groups. In accordance with the slogan of the current Strategy, the Bank develops relations with the community, actively performing activities for society and with its involvement. It supports educational, civic, cultural and charity events and projects. The bank is a socially responsible institution for which freedom and attachment to tradition are natural values. Therefore, it conducts activities that consolidate awareness and national identity, supporting the development of national heritage and popularizing the ideas of modern patriotism. The Bank implements this mission, among others, through sponsorship and patronage.



Both the Bank, as a part of its sponsoring activities, and Fundacja PKO Banku Polskiego (the Foundation), as a part of its charity activities, verify every partner and beneficiary of the support provided. No negative impact on the Bank's image was identified in 2018 in these areas. Care for the rationality of the sponsorship and charity policies pursued is achieved through the synergy of activities. In the Foundation, the Programme Council consisting of representatives of the Bank takes care of this. The Bank and the Foundation implement projects jointly or separately in the most important programme areas in terms of image, such as culture, tradition, education and sport. Furthermore, the Foundation performs activities, the objectives of which are social welfare, protection of life and health and ecology. On the one hand, such a division of commitment to programme areas strengthens the Bank's image-related benefits, while on the other, it broadens their range.

a) Sponsorship activity

Objectives

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

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

Principles of sponsorship policy

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

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

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

In 2018, the Bank received 733 applications, of which 276 were accepted – both national and smaller – dedicated to local communities.

Examples of support in the main areas

- Business: support of business events (e.g.: Congress 590, Economic Forum in Krynica, European Financial Congress and Vision for Development Forum) as well as sectoral projects (e.g.: Retail Banking Congress, Top Industry Summit and Polska Chemia Congress), cooperation with the FinTech sector;
- Culture: cooperation with museums, philharmonic orchestras, operas, theatres and film festivals. Support of cultural events organized for anniversaries of important historical events, such as the adoption of the Constitution of 3 May, Warsaw Uprising or a 100th anniversary of regaining Independence;
- Sport: support for 34 events throughout Poland, development of the “PKO Bank Polski. Let’s Run Together” programme, running trainings as part of the “BiegamBoLubię” [IRunBecauseILikeTo] campaign on nearly a 100 athletic stadiums throughout Poland (53 000 participants), participation in 43 sporting events, support for Ekstraklasa [Top-League] (from July 2018) – long-term cooperation for the development of the league and young football talents.

Support of the Polish National Foundation (PFN)

The Bank is one of the founders of the Polish National Foundation (PFN), the mission of which is to “promote our successes in science, extensive culture, wonderful history and unique nature”. According to the PFN’s statutes, each of the founders was obliged to make contributions to the Foundation’s founding fund and make annual payments towards the organization’s activities for 10 years (starting from 2017).

b) Charity activities

Principles and objectives of the charity activities

The Foundation substantively and financially supports projects of importance to the development of Poland, implemented for and in consultation with the local communities, serving the purpose of building a civic society. The scope of the Foundation’s activities is specified in the Foundation’s Statutes, while the principles of cooperation between the Bank and the Foundation are governed by the agreement. Grants awarded by the Bank based on the resolutions of the Management Board constituted the main source of financing of the Foundation’s statutory objectives in 2018. Additionally, the Bank transfers to the Foundation a part of the profit generated in non-cash transactions in charity cards Inteligo Visa payWave: *Dobro procentuje* [Good pays dividends] (130 000 Customers of the Bank hold such cards). The support is designated to one of the four charity initiatives, selected by the Customer.

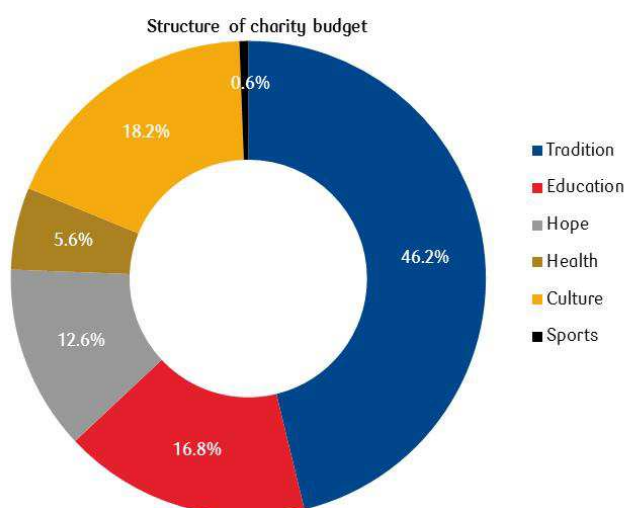
Programme areas

In 2018, the Foundation received 889 applications for granting monetary donations for social activities. 336 projects were approved. The donation is transferred under a donation agreement concluded by and between the Foundation and the project partner.

The Foundation also transfers substantive donations to non-governmental organizations, in the form of IT hardware and furniture withdrawn from use from various banking units. In 2018, a substantive donation in the form of computers was provided to 7 organizations, while furniture was transferred to 41 beneficiaries.

Examples of support in the main areas

- Tradition: supporting initiatives that consolidate national awareness, support the development of national heritage and develop civic attitudes. The Foundation works, among others, with the Warsaw Uprising Museum, and is involved in helping the charges of the Warsaw Uprising Association.
- Education: cooperation, among others, with the Siemacha Association, the Youth Initiatives Foundation, the Polish Economic Society, the Museum of Józef Piłsudski in Sulejówek and the Academy of Modern Patriotism;



- Hope: help to people under threat of exclusion, victims and the disabled in cooperation with, among others, the Disabled Drivers Help Association “SPiNKa” and the Assembly of Care and Upbringing Centres “The Spring” (Krzydlina Mała).

Own projects

The Foundation also implements its own projects, including:

- Integration Santa Claus Meetings for the charges of the care and upbringing centres and the children of the Bank's employees (6 050 children took part in group Christmas fun in 2018 at 39 meetings in 24 towns in Poland. Gifts were also sent to 37 care and upbringing centres; the activities were supported by 65 volunteers);
- the Banking Honorary Blood Donation Campaign, the objective of which is to raise further generations of honorary blood donors (1776 people joined the campaign in 2018, thanks to whom nearly 800 litres of blood were provided to the needy);
- a charity running campaign “I am running for ...” (56 events were organized in 2018 and 34,820 runners participated in them, collecting PLN 730k, from which 72 beneficiaries benefited, including 56 children and 16 adults. A total of 378 such events have been conducted since the start of the programme, i.e. since 2013, with over 158k people taking part, while the Foundation supported 428 beneficiaries with more the PLN 3.8mn).
- PKO Charity Run (6,500 people took part in the fourth Charity Run in 2018, including 4,220 adults and 2,280 children). The runners made the total of 34,796 laps. Thanks to them the Foundation designated PLN 705.9k for 16 organizations which fight against poverty among children and young pupils and students, and against malnutrition in this social group. Moreover, the supporters who were the best at cheering on their relay teams could choose an additional charity purpose for which the Foundation gave PLN 150k.
- The Bank's Collection – as part of the programme promoting the works of young artists, the Foundation executes a number of actions aimed at supporting and promoting Polish modern art. It organizes and finances plein-air painting for arts schools and individual exhibitions for outstanding students. One of the special projects was a vernissage of a charge of the Warsaw Hospice for Children.
- Righteous among the Nations – disseminating an appeal addressed to the governments and parliaments of Poland and Israel through the Polish and foreign media in the context of the situation related to the Polish-Jewish dialogue with reference to our joint history and tradition. The project has been entered in the national heritage preservation.
- promoting historical truth – publishing the declaration of the prime ministers of Poland and Israel in a dozen or so titles of the international press, revealing their joint position concerning the tragic events of the World War II, in particular the Holocaust the sole perpetrator of which was the Nazi Germany. The purpose of the project is to popularize the historic truth and build the proper image of Poland in the world, which was began on publication of the Appeal of the Righteous Among the Nations

INVOLVEMENT OF THE REMAINING ENTITIES FROM THE BANK'S GROUP IN PRO-SOCIAL ACTIVITY

The Bank (within the scope of sponsorship activities) and the Foundation (within the scope of activities for public benefit) conduct pro-social activities on behalf of the remaining entities from the Bank's Group. Applications for sponsorship and charity sent to companies are redirected to the Bank and the Foundation.

Moreover, in 2018, some of the subsidiaries carried out a dozen or so projects on their own initiative, which were addressed to the local communities. PKO Leasing SA when executing an authorial programme “We can do more together, not only in business” in which the company's employees participate, mainly provided financial support and organized picnics and educational campaigns for children from care and upbringing centres and the campaign 5+ for children starting education. The Centrum Haffnera sp. z o.o. Group was involved in 2018 in helping families, organizing events for children, helping older people and supporting animal shelters. KREDOBANK SA conducts its own pro-social activities focusing on the following objectives:

- creating an image of the representative of the Capital Group of the largest Polish bank (diplomatic Christmas Fair in Odessa, IWCK “Charity Bazaar” organized by the Consulate of the Republic of Poland in Kiev);
- support of the Ukrainian culture and spirituality (“Music in Old Lviv” festival);
- support of initiatives in the areas of healthcare, education and sport (Jarmark Kariery [Careers Fair] addressed to students, purchase of equipment for intensive therapy of infants for a hospital).

DEVELOPMENT OF VOLUNTEER WORK

The Foundation encourages the employees of all the Bank's Group entities to become involved in work for local communities. The involvement of the employees in charity activities is steadily increasing (1442 registered volunteers at the end of 2018, i.e. 77 more than a year before). Volunteers not only join the projects initiated by the Foundation, but often initiate them themselves.

In March 2018, a charity collection "Polacy Kresowym Straceńcom" was organized for the benefit of our compatriots living in Polish former Eastern Territories (in Lithuania, Belarus and Ukraine) – collection of food products with long shelf life, school articles for children and patriotic and national symbols (used during the celebrations of the 100th anniversary of regaining Independence by Poland).

Since 2017, an authorial project of the Foundation "Busola na start" [Compass for a start] has been in operation. Due to the need to provide systemic aid to foster care wards in the process of their professional stimulation, the Bank offers a possibility to them of apprenticeship/internship with an opportunity of obtaining long-term employment. The professional guardians (the Bank's employees) not only care for the professional development of the young people but are also their guardians/mentors in the process of gaining practical life skills. Each of the guardians is at the same time a volunteer.

In 2018, the campaign "PKO to the Heroes" was continued. This is a campaign addressed to persons who rendered service to our country – those who fought in the Warsaw Uprising and veterans. The volunteers were involved, for example, in renovating an apartment and providing the necessary household equipment.

11.4.7 USE OF STATE AID AND PUBLIC PROCUREMENT

State aid received Revenue from public procurement

STATE AID RECEIVED

The Bank did not record any receipts from State aid in 2018. Other entities from the Bank's Group received State aid with a total value of PLN 219 000 (this value does not include receipts within the Group), and 85% of this State aid was related to real estate tax relief. In the majority of cases, the final beneficiary of this aid was the lessee of the real estate to which the relief was related.

REVENUE FROM PUBLIC PROCUREMENT

CHANGES IN THE LEGAL ENVIRONMENT

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

The Directives on public procurement have been transposed to the Polish legislation, including the Public Procurement Law Act and the Regulation of the Prime Minister of 27 June 2017. These regulations forced the public sector entities to introduce from 18 October 2018 an obligation to maintain electronic communication with the ordering entities where the bid value exceeds the EU thresholds. The Bank adapted the technological solutions and internal processes, thus enabling its participation in such bids.

SCOPE OF SUPPORT OF THE PUBLIC SECTOR

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

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

The Bank is gradually strengthening its position as a leader in servicing local authority units at all levels. The comprehensive product offer in cash management and the extensive network of the Bank's branches is conducive to reaching the local authority Customer throughout Poland at all level of the local authority units and ensures response to diverse Customers' needs. The Bank is also a member of Fundacja Polska Bezgotówkowa [Cashless Poland

Foundation] which promotes the development of non-cash payments. The Bank maintains the position of a leader on the market of servicing the largest local authority units: it services the budgets of 9 voivodeships and 9 voivodeship cities.

On request of the Ministry of the Environment, it also handled the cash desk accounting to the Climate Summit in Katowice (COP24).

For many years now, the Bank has also been active in financing the public sector. It continues to increase its share in the market of municipal bonds (more than 40%). The share in the market of financing to local authorities remains stable (19%).

THE PROCESS OF THE BANK TENDERING TO PUBLIC SECTOR ENTITIES

In response to a request for bid from a Customer or a tender announcement for public procurement of a financial service, the Bank's organizational units responsible for Customer relations prepare the relevant proposals. Submitting an offer is preceded by an analysis of the documentation submitted by the Customer and obtaining appropriate corporate approvals on the Bank's side, including lending decisions.

11.4.8 OTHER SOCIAL AND MARKET ISSUES

Cooperation with external entities in the area of banking activities Cooperation with suppliers of goods and services related to the ongoing procurement of the Group's entities

COOPERATION WITH EXTERNAL ENTITIES IN THE AREA OF BANKING ACTIVITIES

OPERATIONAL RISK RELATED TO OUTSOURCING BANKING ACTIVITIES TO EXTERNAL ENTITIES

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

In accordance with the Bank's internal regulations regarding operational risk management, contracting for the performance of activities for the Bank to external entities other than agents and intermediaries (outsourcing), cooperation with agents, brokers and online brokers, risk management related to outsourcing activities to external entities at the Bank applies to all stages of outsourcing, starting from planning the outsourcing of activities, through the selection of the entity that will perform the activities, the conclusion of the outsourcing contract, monitoring cooperation and ending the cooperation.

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

- evaluates the contractor at the selection stage of selection of the external entity, in particular his credibility and financial situation and a possibility of ensuring continuity of the operations entrusted as part of the outsourcing agreements;
- maintains and regularly updates the record of agreements concluded, including information about the external entities to which the Bank entrusted performing operations on its behalf;
- ensures that the interests of the Bank and its Customers are appropriately secured in contracts with contractors (including securing data which is subject to bank secrecy);
- has contingency plans of the Bank and of the contractors to ensure the continuous and uninterrupted operation of the activities encompassed by the outsourcing contract and reviews the documents for validity;
- evaluates the risk related to entrusting activities at the stage of planning the outsourcing of activities in the case of every material change in the contract and during the annual assessment of operational risk related to the performance of the outsourcing contract;
- supervises the performance of contracts, reports irregularities in the contracts' execution, calculates and monitors the KRI indicators providing information about the scale of breaches in the cooperation with external entities;
- performs an annual assessment of the cooperation with external entities executing outsourcing contracts, and reports its result to the relevant bodies.

Operational risk management related to outsourcing services to external entities in the Bank's Group also takes place at PKO Bank Hipoteczny SA, which applies the Bank's best practice in outsourcing-related operational risk management, as the Bank's 100% subsidiary. The procedures implemented at PKO Bank Hipoteczny SA correspond to the standards applied at the Bank.

Cooperation of KREDOBANK SA with agents and partners has been regulated in internal regulations of KREDOBANK SA. Establishing cooperation with external entities to entrust to them the performance of activities on behalf of KREDOBANK SA is preceded by conducting an assessment of risk related to entrusting these activities. The detailed description of operational risk management is included in internal regulations.

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

The task of the Bank's Procurement Department is to punctually supply the materials and services needed of the required quality. These activities are accompanied by systematic cost optimization. On the other hand, the Bank follows the principles of business ethics, aiming towards transparent relationships with suppliers. The procurement policy is developed based on best market practice. The main regulatory provisions are the Principles and Procedures of purchasing goods and services at the Bank.

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

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

Payment terms in contracts with suppliers vary according to the supplier's standard contracts and individual arrangements. The standard term at the Bank is 30 days (55% of contracts, 57% in 2017), but, in many cases, the payment term is half of this (i.e. 14 days: 24% of contracts, 26% of contracts in 2017). In the Bank's Group, the payment terms are shorter which is due to the subsidiaries: 14-day payment terms are prevalent (60% of contracts) and a large percentage of payment terms are regulated in individual contracts with suppliers, depending on the type of contract and the company's policy.

The Bank and entities from the Bank's Group reliably approach the issue of settling their liabilities to suppliers on time. In 2018, the value of invoices paid late, on which interest was charged as a result, constituted a marginal percentage of all the invoices paid and it decreased significantly in terms of the entire Bank's Group. The list does not include payments, a possible delay in which was agreed with the supplier, because the collection of this information would be excessively laborious.

Table 22. Share of the value of invoices on which interest was paid to the total value of invoices paid in the Bank's Group, including at the Bank

	GROUP		BANK	
	2018	2017	2018	2017
Share in the total value of invoices (%)	0.114	1.053	0.039	0.003

The suppliers may register at the 'PKO Zakupy' procurement platform on their own. Every such supplier must be approved by the Procurement Department. The suppliers, who have obtained approval, are able to take part in procurement proceedings.

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

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

Suppliers receive a survey from the Bank once a year, which enables valuable information to be gathered about the functionality of the procurement platform and general observations about the cooperation with the Bank. The

conclusions from the survey are the premises for improving the terms of cooperation between the Bank and the suppliers.

In December 2018, the Procurement Department sent another questionnaire to 266 suppliers, this time concerning the socio-environmental process in the supply chain. The data about which the suppliers were asked are related to the statement submitted by them when joining the tender procedure in which they declare that they will pay attention to specific principles and values. Only 11% of the suppliers responded to the questionnaire and they all confirmed that in 2018, there were no court proceedings against the firm in connection with breaching employee rights (including mobbing) and there were no court cases against the firm related to breaches of the HS regulations, neither was a penalty imposed on the firm for polluting the environment. Several suppliers refused to answer the questionnaire questions stating that the data required by the Bank were confidential.

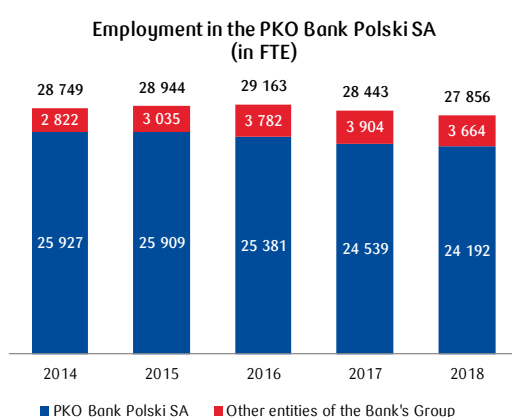
11.5 EMPLOYMENT MATTERS

11.5.1 LEVEL OF EMPLOYMENT AND LEVEL OF SALARIES

Employment
 Salaries
 Additional benefits
 Recruitment policy

The employment and remuneration policy at the Bank and the Bank's Group is maintained so as to enable professional development to each employee by ensuring the same rights and conditions of non-discrimination. The employee community is feminized and 75% of the persons employed at the Bank's Group are women. The employed men are better educated and more than 82% of them have university degrees (72% of women), which is reflected in their duties and salary level. Employee turnover does not depend on age: persons newly employed and leaving in 2018 belonged to various age groups. The employment policy in place does not discriminate the handicapped (1%) or foreigners. A decrease in the ratio of sick leave in the reporting period is a positive phenomenon. The Bank's Group has a joint salary policy which is applied to all of its entities. The aggregate data shows that the salaries are diversified depending on sex to women's detriment (64% of men's salary in the Group). Differences in the salary level result from a different structure of employment: men are better educated and more men hold higher positions. The analysis of salaries by sex, job type and type of entity shows that the differences are considerably smaller that is suggested by the collective ratio and they decrease on higher levels (they are considerably lower among senior management than among regular employees).

EMPLOYMENT



The employment policy at the Bank and the Bank's Group is based on the principle that people are important, regardless of their sex, age, health, sexual orientation, religious denomination, civil status or country of origin. This principle is visible in the processes described through the regulations implemented. In the Bank, it is contained in the following documents and activities: The Principles of ethics, preventing discrimination and mobbing; Recruitment standards consistent with the EU Directive on equal treatment in employment; assessing job positions based on objective criteria; the policy of development for all employees; the regulations concerning adapting the workplace to the needs of the handicapped; apprenticeship and internship programmes; competence model and employee assessment system.

The employment policy applies to all employees. As at 31 December 2018, the number of employees in the Bank's Group was 28,100 persons²⁷ (27,900 FTEs). During 2018, the number of employees went down by 600 persons. Employment restructuring resulted from optimizing the support processes in entities, digitization of the sales and service processes and from increasing effectiveness of sales management and service quality. Both in 2018 and in 2017, the employees of the Bank represented 86% of the total number. As in the previous year, the majority of the employees were women (75% in 2017 and in 2018).

²⁷ Data on employment does not comprise Members of the Management Board of the Bank's Group entities.

The majority of the employees are persons with university degrees, both in the Bank's Group and in the Bank (74% and 73% respectively). The percentage of persons with the university degree was higher among men than among women. In the Bank's Group, 82% of men had university degrees compared with 72% of women.

Employees aged 36-45 were the largest age group in the Bank's Group (33% in 2018 and 34% in 2017). Employees aged 56+ constituted over 9% of the total number of employees (in the Bank the percentage was even higher: over 10%). This ratio went down: in 2017 it was 11% in the Group and 13% in the Bank. The decrease was probably due to the changes that took place in the law concerning the reduction of the retirement age.

Tabela 23. Level (in thousands) and structure of employment by sex and age (31.12.2018)

	< 25 lat	25-35 lat	36 -45 lat	46-55 lat	56-65 lat	> 65 lat
GROUP						
Total employees	1.7	7.5	9.4	6.9	2.6	0.05
share in total number of employees (%)	6%	27%	33%	24%	9%	0.2%
Women	1.2	5.3	6.7	5.5	2.2	0.01
share in total number of women (%)	6%	25%	32%	26%	10%	0.1%
Men	0.5	2.2	2.7	1.3	0.4	0.03
share in total number of men (%)	6%	31%	38%	19%	6%	0.4%
of which: BANK						
Total employees	1.3	6.0	8.1	6.4	2.5	0.04
share in total number of employees (%)	5%	25%	33%	26%	10%	0.2%
Women	1.0	4.3	5.8	5.2	2.1	0.01
share in total number of women (%)	5%	23%	32%	28%	11%	0.1%
Men	0.3	1.7	2.2	1.2	0.4	0.03
share in total number of men (%)	6%	29%	38%	20%	6%	0.5%

The majority of persons employed in the Bank's Group are citizens of the country in which the company has its seat; there are barely 41 foreigners (27 in 2017). The foreigners employed are mainly persons from outside the European Union.

The prevailing form of employment both in the Bank's Group and in the Bank was the full-time employment contract (in 2018, 98% of the employees having employment contracts worked on such terms).

Tabela 24. Full-time vs. part-time employment (2018)

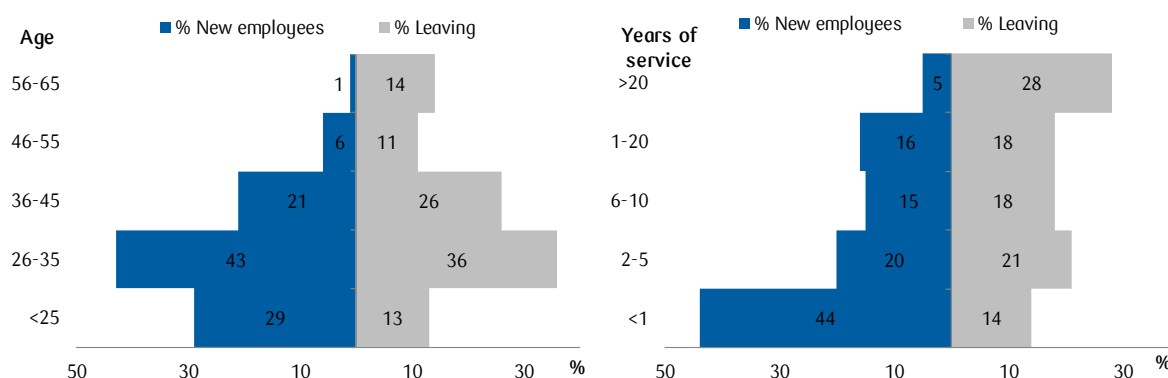
	Total	men	women	Total	men	women
Full-time	98.0%	98.1%	97.4%	99.2%	99.1%	99.4%
Part-time	2.0%	1.9%	2.6%	0.8%	0.9%	0.6%

Persons working on the basis of civil-law contracts constituted less than 10% of people employed in the Bank's Group and the percentage was even smaller at the Bank: less than 9%.

In 2018, the Bank's Group employed 4 451 persons, of which 71% were women. The majority of the newly employed were persons aged up to 35 (72% of the new employees). The majority of the new employees had university degrees. A similar tendency was observed last year. The employees employed in the Bank's Group are mainly persons with short professional experience (44% of the new employees had up to 1 year of professional experience and 64% - up to 5 years).

At the same time 4 946 left the Group. Of this number 19% related to retirement and dismissals for reasons not related to the employees, i.e. the so-called group redundancies. The departures applied to women to a relatively greater extent. The fluctuation index in 2018 in the Bank's Group was 17.3% and in the Bank - 15.7%.

Employee turnover in the Bank's Group by age and years of service in 2018



At the end of 2018, the Bank's Group employed 279 disabled people, which constituted 1% of all employees (as in the prior year). Out of this number, 219 disabled people were employees of the Bank; disabled people accounted for 0.9% of total employment at the Bank.

The sick leave ratio (calculated as the number of days of sick leave / (number of working days * number of FTEs) in the Bank in 2018 was 6.1% compared with 6.5% in the prior year. In the sales network it was 6.7% in 2018 compared with 7.3% in the prior year, and in the corporate network it was 3.5% in 2018 compared with 4.3% in 2017.

SALARIES

The Policy for remunerating the employees of the Bank and the PKO BP Group ensures a consistent salary system (implemented by resolution no. 42/2017 of the Supervisory Board dated 14 June 2017) by:

- applying a salary system which is in line with market trends, acquiring optimal job candidates;
- adjusting mechanisms, tools and salary levels to the Bank's and Bank Group's strategy and goals;
- taking into account the Bank Group's ability to shape the desired mechanisms and salary levels;
- setting permanent salaries on the basis of job valuations;
- developing the remuneration structure on the basis of the results of work achieved and appraisal of the skills of the employees;
- building employee responsibility for the tasks being assessed on the basis of objectivized criteria;
- ensuring that the variable components of the salaries are parameterized so that they take into account the Bank's and Bank Group's long-term cost of risk, the capital cost and liquidity risk;
- establishing a system in which monetary or non-monetary forms of remuneration do not encourage the people involved to favour their own interests or the interests of the Bank and other entities from the Bank's Group to the detriment of Customers.

A Collective Bargaining Agreement concluded with the company's trade union organizations is in force at the Bank, regulating, among other things, salary issues. According to the Collective Bargaining Agreement the Bank's employees are entitled to the following salary components: (i) a basic salary, (ii) allowances for working overtime and in conditions which are particularly onerous and harmful to their health, (iii) bonuses and rewards for special achievements at work.

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

The Bank has the bonus system under which the amount of a bonus depends on the achievement of set targets. The targets set for the employees are related to the Bank's key management indicators.

Apart from the bonus system, there is a system for awarding the Bank's employees. Employees may receive awards:

- individually – for those employees who achieve outstanding professional results or attainments bringing important effects for the Bank;
- for recommending candidates as the Bank's employees;
- for actions related to employee retention.

The key actions related to the Bank's employee remuneration system in 2018 included:

- launching the application "Twój Całkowity Pakiety Wynagrodzeń" [You Aggregate Salary Package] enabling the employees to view their salary components and additional benefits;
- prizes for the Bank's 100th anniversary to employees meeting specified criteria;
- competitions for employees of selected organizational units – in particular for employees of the retail network units. The competition winners were awarded financial prizes and additional trainings raising their professional qualifications.

In the Bank's Group entities, depending on the level of employment, the principles of paying employees are defined in the salary regulations and in the employment contracts or just in the employment contracts. In the individual entities belonging to the Bank's Group there are separate bonus systems for the employees.

The average basic salary in the Bank's Group in 2018 was PLN 5,894 (excluding the salaries of the Management Boards of the Bank's Group entities), and in the Bank it was: PLN 6,075.

Tabela 25. Average salary in the Bank's Group, including the Bank, in PLN, by gender

	GROUP		of which: BANK	
	2018	2017	2018	2017
Average basic salary (PLN)	5894	5718	6075	6040
women	5170	5044	5372	5335
men	8029	7778	8305	8250
Ratio of women's to men's salary (%)	64%	65%	65%	65%

The employment policy does not discriminate employees based on their gender. Due to the fact that the number of women in the Bank's Group is three times higher than the number of men, there are positions on which only women are employed, and there are considerably more women among the regular employees. This makes the aggregate ratio of women's salaries to men's quite low as it amounts to only 64% in the Bank's Group. An analysis of salaries by type of entity and position shows that:

- on the same level of employment the differences between women's and men's salaries are considerably lower than the average for the entire Bank's Group;
- going up, the differences in women's and men's salaries decline from 79% for regular employees to 95% for senior management.

Tabela 26. Percentage of men in the number of employees and women's to men's salaries by type of entity and employment level

		Regular employees	Management	Senior management	TOTAL
Headquarters	Share of men in employment	50%	49%	64%	50%
Branches		12%	18%	38%	14%
Regional retail branches		35%	33%	57%	40%
Regional corporate branches		29%	47%	100%	32%
Specialist business units		26%	33%	53%	28%
Headquarters	Ratio of women's to men's salaries	85%	83%	90%	82%
Branches		89%	94%	94%	78%
Regional retail branches		95%	95%	95%	80%
Regional corporate branches		85%	90%	--	64%
Specialist business units		79%	88%	83%	73%

ADDITIONAL BENEFITS

Additional benefits offered in the Bank and in the Bank's Group manifest the care for a widely defined well-being of the employees. The range of additional benefits offered is wide. Moreover, the Bank finds it important to adapt the benefits offered to its employees to the trends on the labour market because activities in this respect are strictly correlated with creating the Bank's image as an employer.

The offer of benefits other than salaries available to the Bank's employees is very highly assessed by them. The results of the employee satisfaction survey carried out in 2017 show that 90% of the respondents know what social and additional benefits are available to them and 70% considers them attractive.

The main additional benefits offered to the employees include:

MEDICAL CARE

The Bank provides its employees with additional medical care, to which the employees are entitled according to differentiated packages of benefits dedicated to specific groups of jobs. All employees have the opportunity to benefit from medical consultations with doctors of all specializations and a wide range of diagnostic examinations free of charge. The employees are also able to benefit from the prophylaxis programme called "Zdrowie jak w Banku" [Guaranteed health], which has the objective of the early detection of diseases and the promotion of a healthy lifestyle. As part of the prophylaxis programme, the Bank's employees may have an annual examination of their health. The employer regularly monitors the level of execution of the medical services by the supplier. 100% of the employees in the Bank avail themselves of the additional (non-statutory) medical care.

Other companies in the Bank's Group (operating in Poland) provide medical care to their employees on the terms negotiated with the healthcare provider by the Bank, based on separately concluded agreements. 98% of the employees in the Bank's Group have additional (non-statutory) medical care.

EPP – EMPLOYEE PENSION PROGRAMME

An Employee Pension Programme (EPP) has been operating at the Bank for more than 5 years now. Under this programme, employees are able to enter into a long-term savings programme to supplement their pension income received from the mandatory parts of the pension system. The Bank's EPP is operated in the form of an agreement on the Bank contributing a Basic Contribution (previously 3% of the salary, from 10 December 2018 raised to 3.5% of an employee's salary) and the Additional Employee Contribution to Investment Funds managed in 2018 by PKO Towarzystwo Funduszy Inwestycyjnych SA. Employee Pension Programmes are also provided to the employees of the larger companies of the Bank's Group.

MYBENEFIT CAFETERIA SYSTEM AND RELATED BENEFITS

Employees are able to benefit from the MyBenefit cafeteria system from the funds from the Corporate Social Benefits Fund (CSBF), enabling the employees to select their preferred additional benefits. An employee may use the awarded funds for active recreation, in various shops, on cultural events and other dedicated activities according to her/his preferences. The level of funds received from the cafeteria depends on the gross income per person in a given family. Some of the other entities belonging to the Bank's Group also offer the possibility of using the MyBenefit platform to their employees, and the remaining entities provide other benefits, such as Sodexo vouchers or Christmas bonuses.

SPORTS CARDS

Good practice at the Bank and other Bank's Group companies is to provide employees with the ability to use sports cards. In view of promoting healthy lifestyle among employees, the Bank provides them with an opportunity of buying several types of sports cards so as to ensure that they obtain a benefit that is best adapted to their needs, and thus really support their pro-health activity.

OTHER BENEFITS

The catalogue of additional benefits offered at the Bank also includes offers and discounts for the Bank's employees, the PKO Zawsze Nowe Auto [PKO Always New Car] programme or a possibility of accessing group insurance.

It is also worth mentioning that the Bank as part of the PKO after hours programme supports sports initiatives and activities (for example, there are running, mountain sports and football teams at the Bank) and the employees' charity activities.

Tabela 27. Major non-salary benefits for the employees in 2018

	Number of beneficiaries	Share in total employment (%)
BANK		
Medical packages	24 244	100
Employee pension fund	20 028	82.6
Subsidization of organized recreation	4 010	16.5
Welfare payments	971	4.0
Housing loans	3 904	16.1
Benefits available from MyBenefit platform or special social benefits, such as Christmas bonuses	24 255	100
Sports cards	4 034	16.6
GROUP		
Medical packages	27 627	98.3
Employee pension fund	20 789	73.9
Subsidization of organized recreation	4 307	15.3
Welfare payments	1 009	3.6
Housing loans	3 904	13.9
Benefits available from MyBenefit platform or special social benefits, such as Christmas bonuses	24 862	88.3
Sports cards	4 543	16.2

RECRUITMENT POLICY

The objective of the recruitment policy at the Bank's Group is to acquire the best candidates from various sources. On the one hand, internal recruitment is promoted (in the entire Bank's Group) as part of the professional development in other business areas. On the other hand, candidates are recruited from the market who have diversified professional experience and competences.

The Bank cares about the candidates' experience in the recruitment process, attempting to diversify the channels of reaching the appropriate candidates, shortening the recruitment time or applying modern selection methods. The candidates experience is surveyed and on this basis the recruitment processes are improved.

In 2018, the Bank carried out an opinion poll on the candidates' experience of the recruitment processes twice. This was the *Candidate Experience* survey. In a short online questionnaire, the candidates answered how they assessed the recruitment process on its individual stages. The results served the purpose of improving the actions affecting the recruitment process. The survey was conducted at the turn of February and March and the next one at the turn of November and December 2018. Together with the recruitment teams and HR business partners the results of the surveys are discussed and specific actions for implementation agreed in order to improve the candidates' experience.

In 2019, the Bank plans cyclical surveys among the candidates to monitor the level of their satisfaction with the recruitment process and design the individual components of the process so that the experience with the Bank's brand as the employer is the best possible.

The Bank also conducts cyclical satisfaction surveys of the managers who engage employees for their teams (the so-called Hiring Managers) participating in the recruitment process, so as to continually improve this process on the basis of the opinions received.

In 2018, cooperation with new suppliers of recruitment services was established. They ensure constant inflow of applications. The purpose of this is friendly recruitment that enables reaching candidates using various communication channels, and at the same time enables better matching of offers and adapting the communication to various groups present on the labour market – younger persons, high school graduates and university graduates, experts (in various fields), as well as older persons with long professional experience.

In the recruitment process, the Bank and the entities from the Bank's Group care about human rights and ensure equal opportunities. The recruitment policy is based on high standards of counteracting discrimination and personal data protection with the support of modern technologies and information systems. In 2018, the recruitment system was changed (the so-called ATS – *applicant tracking system*), which enables efficient communication with candidates (by e-mail and text messages), increased automation of actions, and which is fully adapted to the requirements of GDPR.

In 2018, the Recommendation Programme was extended. Its purpose is to encourage the Bank's employees to join in the process of looking for appropriate candidates to work in our organization. There are about 100 job positions in the programme, for example, in areas such as the retail market, IT, corporate and investment banking and risk management for which the employees may recommend candidates with appropriate qualifications. Financial gratification is provided for an effective recommendation.

For years now, the Bank's strength has been to offer internships dedicated to students and young graduates. As part of the Internship Academies organized at the Bank, the total of nearly 250 persons were invited to internship in various areas, such as IT and data analytics.

Cooperation with universities and high schools is of importance. In 2018, several “Good morning Career!” workshops were organized at selected universities in Poland, during which the students were able to become acquainted with selected areas of operations. These actions improve the Bank’s perception. In 2018, the Bank received several awards confirming yet again its attractiveness on the market as an employer.

In the prestigious ranking of employers - Universum Student Survey – the Bank was ranked 5th in the business category and 7th in the law category. Students rated the Bank highly for technological innovations, an ample package of employee benefits and ethical conduct. The Talent Survey conducted by an advisory firm Universum is one of the largest in the world. It encompasses professional preferences and goals, career and sectors in which the respondents would like to work. More than 17,500 students from 71 Polish universities participated in the last year’s edition.

In 2018, the Bank was among the winners of the Business Inspirers: Best Employer competition organized by the Newseria information agency. The jury appreciated the work conditions, the incentive system and the opportunities of development.

The Bank was also among the most desirable employers in the Employer of the Year 2017 ranking by the international student organization AIESEC, having been ranked 7th. The Bank has a strong position of the best employer in the financial sector and is regularly listed among the Top 10 on AIESEC lists. The ranking is formed based on a survey conducted among 4th and 5th year students in the fields of economy from the largest academic centres in Poland.

11.5.2 RELATIONS WITH THE EMPLOYEE PARTY AND FREEDOM OF ASSOCIATION

Trade union organizations Support of employees Employee satisfaction survey

TRADE UNION ORGANIZATIONS

Employees are represented at the Bank by the trade unions and the Employee Council.

The Bank has two trade union organizations:

- The National Trade Union of PKO BP SA Employees – 2,598 members, including 2,505 employees;
- “Solidarity” Independent Self-Governing Trade Union of PKO BP SA Employees – with 1,010 members, including 1,003 employees;

whereby only the former is a representative union.

Approx. 16% of the total number of employees as at 31 December 2018, who were employees, were trade union members.

The Employee Affairs Department is responsible for relations with the trade unions. Cooperation with the trade union organizations is good; there were no collective disputes either in 2018 or in previous years.

The Bank’s Employee Council also operates at the Bank. The principles of cooperation with the Bank’s Employee Council have been set in a separate agreement.

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

The employees may report their complaints through trade unions. They can also provide information to the Bank directly. The Bank has a procedure for reporting complaints and irregularities. Under this procedure since June 2018 it is possible to report all types of complaints to one e-mail box.

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

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

SUPPORT OF EMPLOYEES

The Bank's employees may obtain any information on employee matters from one place by asking a question at the Helpdesk – the service dedicated to HR support services. A team of consultants answers questions, among other things, on HR and payroll support, social issues, recruitment and training. The new solution accelerates and simplifies the communication process between employees and the HR services – the units responsible for personnel management.

EMPLOYEE SATISFACTION SURVEY

The Bank attaches a great deal of importance to the opinions of employees on matters related to their work and the opportunities for individual development. The Bank and the entities belonging to the Bank's Group cyclically hold employee satisfaction and commitment studies in the form of an online questionnaire. An additional module concerning organizational culture was introduced for the first time in the study for 2017. In recent years, the ratio of satisfaction with working at the Bank was increasing and it is currently above the Polish benchmark.

In the most recent survey, the questionnaire was filled in by 13,335 employees. Each employee employed based on an employment contract and working for more than 3 months was invited to participate. Employees during the notice period were not surveyed. The most recent employee satisfaction and commitment survey was also conducted in the four remaining entities of the Bank's Group.

The results of the survey for 2017 were communicated to the employees in 2018. At that point quality studies were also performed with the participation of the Bank's managers to deepen the results of the questionnaire survey. The results of the main survey and the quality study were presented to the Bank's Management Board. The next edition is planned for 2019. The results constitute an additional tool in analysing and shaping appropriate relations with the employees and in forming the programmes for development or changes in the Bank's Competence Model.

11.5.3 DIVERSITY MANAGEMENT

POLICY ON MOBBING AND DISCRIMINATION

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

- the Bank's Employment Regulations;
- the Principles of counteracting mobbing and discrimination and the procedure for handling complaints concerning violation of employee rights.

The Bank's Code of Ethics also presents significant provisions concerning the attitudes and values promoted among the employees.

The Bank is strongly opposing any forms of discrimination, intolerance and other behaviours that are in contrast with the organization's values, and promotes attitudes based on mutual trust among the employees. Any conduct that can suggest the presence of mobbing is unacceptable.

The Bank has principles in place for counteracting mobbing and discrimination. These principles guarantee counteracting undesirable phenomena in the employee relations and specify how to react to situations of interpersonal conflicts. Based on these principles, the Bank's employee may without worrying about the consequences report a complaint about any breach of employee rights defined in the commonly binding provisions of the law and the Bank's internal regulations. The employee may choose the best (in his or her assessment) way of reporting the complaint. He/she can do it electronically, by sending a message to the designated e-mail address or submit a written complaint.

An employee is entitled to additional support in the process of clarifying the complaint through a possibility of indicating a representative of a trade union organization or an employee representative appointed by separate internal regulations of the Bank – to participate in meetings with the employee or to submit opinions on the validity of the claim.

All information related to the issue of counteracting of mobbing, discrimination and other breaches of employee rights are available to the employees via the Internet. Additionally, the Bank communicates any changes in the procedure of reporting breaches of employee rights, and implements initiatives promoting the values that are treasured at the Bank. Ongoing support to the employees is offered by the HR Contact Center through which the employees may obtain up to date information about the way to report complaints and anonymous notifications of breaches of employee rights.

In 2018, 15 complaints of mobbing were reported at the Bank, of which one was considered justified. Three other complaints were recorded, including an allegation of discrimination, which are still being reviewed. No complaints of sexual harassment were recorded.

Complaints concerning widely defined breaches of employee rights are reviewed individually, therefore, optimal review deadlines are set for them separately, which enables formulating appropriate conclusions and recommendations or taking appropriate additional actions or HR-related decisions. In the course of verifying the complaints various methods are applied (for example, anonymous surveys, detailed interviews with employees, verification of fluctuation ratios and other HR data). Each time, when deciding what measures should be taken, the Bank takes into account care for ensuring the highest possible impartiality of the review, therefore, many times representatives of different entities participate in the process of clarifying the matter, in line with the Bank's organizational structure.

As part of the process of handling employee affairs with reference to all displays of employee discrimination, various measures are undertaken in order to mitigate operational risk related to displays of discrimination, including the Bank's internal regulations on reviewing complaints concerning breaches of employee rights or recruitment standards.

Other entities belonging to the Bank's Group also have the necessary solutions in their internal regulations guaranteeing compliance with the applicable law regarding the prevention of mobbing, discrimination and sexual harassment – in separate regulations or through appropriate provisions in the employment regulations, ethics codes and other regulations applicable to a given entity.

In 2018, one complaint was recorded in other companies from the Bank's Group regarding breaches of employee rights in the form of mobbing, discrimination or sexual harassment; the investigations did not confirm the allegations.

The Bank's aim is for every employee to have equal opportunities, be respected and accepted. The Bank offers training to the managerial staff to encourage the Bank's managers to draw on the wealth of resources brought by diversity and the skilful management of people. The basis for organizing such training by the Bank is the conviction that appropriate diversity management contributes to an increase in the efficiency of the work of the team, an improvement in the atmosphere at work, the retention of valuable, experienced employees at the Bank, and an improvement in innovativeness and creativity within the team. In 2018, 231 managers participated in trainings on Diversity Management.

11.5.4 OCCUPATIONAL SAFETY AND HEALTH (OSH)

OSH organization and strategy
Indicators

OSH ORGANIZATION AND STRATEGY

The OSH Service at the Bank has been organized as an OSH Office and placed within the structures of the Administration Centre. The Office encompasses field teams, supporting all units of the Bank throughout the country. The Bank's branches located abroad have their own OSH service and act in accordance with the law which is applicable to the place where they are located.

The strategy of the OSH Office is based on preventive action by visiting facilities and monitoring the working conditions on an ongoing basis. An important tool in the monitoring process is having a risk assessment at the work posts. The assessment of occupational hazard has been developed at the Bank for all the employees. Any defects or threats that are noticed are reported and removed by the administrative services as they arise.

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

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

INDICATORS

None of the establishments of the Bank or other Bank's Group entities carries a high occupational risk related to the work performed. The accident rate is at a negligible level, which proves the effectiveness of accident prevention. The Occupational Risk Assessment encompassed 92.7% of positions in the Bank's Group and 100% of the positions at the Bank. Among the positions assessed, there are no positions for which the level of occupational risk is high and actions to reduce it would be necessary

Tabela 28.OSH indicators in the Bank's Group, including at the Bank in 2018

Ratio	GROUP	of which: BANK
Number of accidents at work, including equivalent to accidents at work	124 accidents in total 114 excluding incidents which were not considered as accidents at work	111 accidents in total 101 excluding incidents which were not considered as accidents at work
Frequency of accidents (accidents at work per 1000 employees)	4.4 incidents on average / 1000 employees Ratio excluding incidents not considered as accidents: 4 incidents / 1000 employees	4.6 incidents on average / 1000 employees Ratio excluding incidents not considered as accidents: 4.2 incidents / 1000 employees
Number of fatal accidents	0	1 fatal accident (the Bank) not considered as accident at work based on the proceedings carried out
Most frequent causes of accidents at work	1. Insufficient concentration 2. Tripping/ slipping 3. Road accidents	1. Insufficient concentration 2. Tripping/ slipping 3. Road accidents
Number of diagnosed occupational diseases	0	0
Work positions for which occupational risk assessment was performed	92.7% positions	100% positions
Number of employees performing jobs for which the level of assessed occupational risk is high (i.e. it is necessary to implement actions to mitigate the level of risk)	0 (of 92.7% positions assessed in terms of occupational risk)	0

11.5.5 DEVELOPMENT AND EDUCATION

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

The principles of Knowledge Management in PKO Bank Polski SA set the goals, conditions and organization of trainings, not only for the Bank's employees but also for agents, brokers and other co-workers of the Bank, as well as persons employed by them. The main assumption made in the training policies is the support of:

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

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

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

The Bank enables the employees to use various forms of improving their professional qualifications. The Bank's internal portal contains the Catalogue of Trainings which is updated and communicated once every quarter. It contains a number of development activities to select from, both for employees and managers, with the description of these activities and easy to use tool for signing in to the individual trainings.

Projects are conducted to develop both hard and soft skills. A team of several dozen internal trainers conducts group training, on-the-job training and internal workshops. Group training is held by external companies in selected projects. The Bank's employees also actively use the internal e-learning platform, including on training regarding product knowledge, as well as knowledge of processes and use of IT applications. Academies and Programmes dedicated to specific groups of employees and organizational units are launched as part of the strategic initiatives. In 2018, as a

result of the Digital Transformation, a number of development activities were made available to the employees participating in the process, mainly in the area of agile methodology.

The Bank's employees may also use language courses, both individual and group (including Virtual Classes, i.e. on-line group classes). An internal e-learning platform is also actively used at the Bank, mainly for holding trainings on product knowledge, knowledge of processes and use of IT applications.

The Bank also holds adaptation trainings for new employees of the retail network, the objective of which is to prepare the new employees for working at the Bank branch in the position for which he/she was recruited and acquiring skills in talking to Customers in accordance with the Customer service standard in force at the Bank.

In 2018, 2708 employees of the retail sales network were trained in the adaptation process in 657 training sessions in 205 groups.

Additionally, as part of the pilot adaptation programme for employees of the corporate network, three job post briefing trainings were carried out for the total of 8 persons.

A total of over 52,000 participants took part in the trainings organized by the Bank in 2018, which means that each employee of the Bank participated in an average of two training courses. A total of 174 trainings were offered in the e-learning formula. In addition, 661 persons took part in trainings from the list of training sessions available to the Bank's employees.

12. OTHER INFORMATION

Purchase of treasury shares
 Information about activities of the Bank's Group by EU member states and third countries
 Published forecasts of financial results for 2018
 Employee share plan
 Significant agreements and significant agreements with the central bank or supervisory authorities
 Issues of securities of PKO Bank Polski SA in 2018
 Underwriting agreements and guarantees granted to subsidiaries
 Information on proceedings at court, before an arbitration tribunal or a public administration body
 Value of collateral set up on accounts or assets of the borrowers
 Loans incurred and loan, warranty and surety agreements
 Financial and guarantee liabilities granted
 Information on transaction(s) with related parties concluded by the Issuer or its subsidiary, if material, individually or jointly, and on terms other than on an arm's length basis
 Proxies, meetings of the Management Board and implementation of resolutions of the General Meeting of Shareholders
 Seasonality or cyclicity of activities during the reporting period
 Significant post-balance sheet events

PURCHASE OF TREASURY SHARES

PKO Bank Polski SA did not purchase any treasury shares on its own account during the period covered by the report.

INFORMATION ABOUT ACTIVITIES OF THE BANK'S GROUP BY EU MEMBER STATES AND THIRD COUNTRIES

Tabela 29. Activities of the Bank's Group by EU member states and third countries

	Turnover (revenue)*	Profit/loss before tax	Income tax expense	Net profit/loss	Number of employees in FTE**
In EU Member States					
- Poland	16,469	5,151	-1,295	3,856	25,655
- Sweden	288	1	0	1	0
- Ireland	25	0	0	0	0
In other countries:					
- Ukraine	332	84	-15	68	1,883

* Turnover (revenue) defined as the sum of interest income, fee and commission income and other operating income

** Information on the number of employees is provided according to the guidance published by the Central Statistical Office in 2008 "Methodical principles of statistics and labour market salaries". Number of employees is calculated based on employment contracts, excluding employees on child care leave and unpaid leave granted for periods longer than 3 months continuously.

The Bank and subsidiaries of the Bank, on a consolidated basis, within the meaning of Article 4(1)(48) of Regulation no. 575/2013 of the European Parliament and of the Council, have their registered offices on the territory of Poland, Ukraine, Sweden and Ireland.

PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2018

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

EMPLOYEE SHARE PLAN

No employee share plan is realized in PKO Bank Polski SA.

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

PKO Bank Polski SA is obliged to inform about the current reports of all agreements concluded with Customers, in the case of which the total value of benefits arising from long-term agreements concluded with the particular Customer met the criteria referred to in the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information submitted by issuers of securities and conditions for recognizing as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757), as well as about the conclusion significant agreements in accordance with the requirements of the binding Regulation (EU) no. 596/2014 of the European Parliament and of the Council on market abuse.

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

ISSUES OF SECURITIES OF PKO BANK POLSKI SA IN 2018

On 28 February 2018, the Bank placed an issue of subordinated bonds with the following parameters:

- a. settlement of the issue: 5 March 2018;
- b. the total nominal value of the bonds: PLN 1 000 million; the nominal value of one bond: PLN 500 000;
- c. the bonds were issued on the basis of the Act on bonds and the funds thus obtained were designated, as approved by the Polish Financial Supervision Authority, for increasing the supplementary funds of the Bank in accordance with Article 127.2.2 of the Banking Law Act and Article 63 of the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013;
- d. the issue was conducted in the 10NC5 format, i.e. with 10-year maturity, with the Bank's right to early repayment of all the bonds 5 years from the issue date, on approval of the PFSA (call option);
- e. the issue price of the bonds was equal to their nominal value;
- f. the bonds bore interest in bi-annual interest periods; interest on bonds was accrued on the nominal amount using the variable interest rate equal to 6M WIBOR, plus a margin of 150 b.p. p.a. over the entire issue period;
- g. the benefits in respect of the bonds were solely monetary in nature;
- h. the bonds were not secured;
- i. the bonds were not issued in the form of documents and were registered in the deposit of securities maintained by Krajowy Depozyt Papierów Wartościowych SA;
- j. on 27 March 2018, the Bank introduced the bonds to trading in the alternative trading system on the Catalyst market.

On 8 March 2018, the Polish Financial Supervision Authority granted its approval for designating the funds obtained from the issue of the subordinated bonds to increasing Tier 2 capital of the Bank pursuant to Article 127.2.2 of the Banking Law in association with Article 63 of the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

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 mortgage bonds were offered as standard-issue bonds). In 2018, PKO Bank Hipoteczny SA as part of the firm commitment underwriting by Dom Maklerski PKO Banku Polskiego SA issued mortgage bonds (at nominal value) with a total value of PLN 1 590 million. The aggregate value of all issued mortgage bonds (at nominal value) as part of the above-mentioned firm commitment underwriting was PLN 2 090 million.

In 2018, PKO Bank Hipoteczny SA conducted issues of bonds under 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, depository and dealer), 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 2018, an annex was signed to the Bond Issue Programme Agreement increasing the amount of the issue under the programme (i.e. the maximum value of the issued and not redeemed bonds under the programme) from PLN 3 billion to PLN 3.5 billion.

At 31 December 2018, the company's liability in respect of the bonds issued under the above programme, in the nominal value, was PLN 2 978.4 million. In its portfolio PKO Bank Polski SA had bonds with a nominal value of PLN 91.1 million, and bonds with a nominal value PLN 54.1 million were acquired under the Guarantee Agreement.

In 2018, PKO Bank Polski SA granted the following guarantees relating to the business activities and operation of subsidiaries:

- a guarantee to the European Investment Bank in respect of the loan granted to PKO Leasing SA (for the period to March 2027);
- four guarantees in respect of the repayment of office and parking space rental liabilities by the subsidiaries (to the end of July 2023 at the latest).

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

On 31 December 2018, the total amount in litigation where the PKO Bank Polski SA Group companies (including the Bank) are defendants was PLN 1 784 million, including PLN 40 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 31 December 2018 where the PKO Bank Polski SA Group companies (including the Bank) are plaintiffs was PLN 1 838 million, including PLN 37 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 2018, the Bank and other entities from the Bank's Group were not parties to any material²⁸ (from the perspective of the Group) proceedings in court, before an arbitration tribunal or public administration body with respect to liabilities and receivables.

VALUE OF COLLATERAL SET UP ON ACCOUNTS OR ASSETS OF THE BORROWERS

At the end of 2018, the value of collateral set up on accounts or assets of the borrowers as part of the PKO Bank Polski SA Group was PLN 257 billion, of which PLN 216.7 billion related to PKO Bank Polski SA.

LOANS INCURRED AND LOAN, WARRANTY AND SURETY AGREEMENTS

On 8 February 2018, the Bank made the complete and final early repayment of the credit line facility granted by Nordea Bank AB (publ) based on an agreement dated 1 April 2014. The credit line was initially granted for a period of 7 years, and thus, the Bank repaid it early, 3 years before its initial maturity. In connection with the repayment of the credit line, based on a separate agreement, the established security of the amount due from the mortgage portfolio was released. The early repayment of the credit line means that the Bank's profit or loss for the period will no longer be charged with interest expense related to the said credit line.

On 19 April 2018, the Bank terminated a guarantee agreement ensuring unfunded credit protection for a portfolio of selected corporate credit liabilities of the Bank, the conclusion of which was reported in the current report no. 51/2017. The Bank terminated the guarantee without stating the reasons, as permitted by the guarantee agreement and in accordance with its terms. According to the wording of the guarantee agreement, as a result of the termination, the Guarantee expired on 24 April 2018.

The total value of the Bank's liabilities subject to the guarantee is (after rounding) PLN 5 494.73 million, and the portfolio comprises the portfolio of bonds of (after rounding) PLN 1 096.6 million (Portfolio A) and portfolio of other liabilities of (after rounding) PLN 4 398.13 million (Portfolio B). The guarantee coverage ratio was 90% for the Portfolio A and 80% for the Portfolio B, as a result of which the total guarantee amount was (after rounding) PLN 4 505.44 million. The maximum guarantee term was 60 months, whereas the Bank was entitled to terminate the guarantee before the expiry of its term.

In 2018, PKO Bank Polski SA and other companies of the Bank's Group did not incur any loans and advances, and did not receive any guarantees or sureties that would not be related to operating activities.

FINANCIAL AND GUARANTEE LIABILITIES GRANTED

As at 31 December 2018, financial and guarantee liabilities were PLN 59.8 billion, of which 83.4% were financial liabilities. The overall dynamics of financial and guarantee liabilities granted was 9.5% y/y, mainly as a result of an increase in housing credit lines and limits and business credit lines and limits.

²⁸ Liabilities or debts the value of which constituted at least 5% of PKO Bank Polski SA's equity have been considered material.

Tabela 30. Off-balance sheet liabilities granted (PLN'000'000)

	31.12.2018	31.12.2017	Change (in PLN million)	Change (%)
Financial commitments granted:	49,877	44,471	5,406	12.2%
Housing credit lines and overdrafts	4,275	5,195	-920	-17.7%
Corporate credit lines and overdrafts	32,618	30,928	1,690	5.5%
Consumer credit lines and overdrafts	8,974	8,348	626	7.5%
Other	4,010	0	4,010	-
<i>including: irrevocable</i>	23,378	33,607	-10,229	-30.4%
Guarantees granted:	9,935	10,140	-205	-2.0%
financial entities	437	572	-135	-23.6%
non-financial entities	9,295	9,221	74	0.8%
state budget entities	203	347	-144	-41.5%
Total	59,812	54,611	5,201	9.5%

INFORMATION ON TRANSACTION(S) WITH RELATED PARTIES CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY, IF MATERIAL AND CONCLUDED ON TERMS OTHER THAN AN ARM'S LENGTH BASIS

In 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 of guarantees and spot exchange transactions and offering units and certificates of investment funds, lease products, factoring products and insurance products of the Bank's Group, and services offered by Dom Maklerski of PKO Bank Polski SA.

The Bank provided services to PKO Bank Hipoteczny SA within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of post-transaction services in respect of these loans and support tasks under the outsourcing agreement. The Bank offered its infrastructure and IT services and rented office space to selected Bank's Group companies. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. the Bank rendered services of payment transaction clearance.

The summary of significant transactions between PKO Bank Polski SA and its subordinated entities, including indebtedness of these companies towards the Bank as at 31 December 2018 is presented in the separate financial statements of PKO Bank Polski SA for the financial year ended 31 December 2018 (Note 42).

PROXIES, MEETINGS OF THE MANAGEMENT BOARD AND IMPLEMENTATION OF RESOLUTIONS OF THE GENERAL MEETING

As at 31 December 2018, there were 5 proxies in the Bank. No proxy was cancelled or granted in 2018.

In 2018, 52 meetings of the Management Board of the Bank were held, and the Management Board passed 698 resolutions.

Major actions and decisions of the Management Board, which affected the Bank's economic and financial position, as well as operations, are presented in various sections of this Directors' Report.

SEASONALITY OR CYCLICALITY OF ACTIVITIES DURING THE REPORTING PERIOD

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

SIGNIFICANT POST-BALANCE SHEET EVENTS

- On 9 January 2019, the District Court for the Capital City of Warsaw in Warsaw, 13th Business Department of the National Court Register registered changes in the Bank's Articles of Association adopted by the resolution no. 33/2018 of the Annual General Meeting of the Bank of 18 June 2018 (<https://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/raporty-biezace/raport-nr-1-2019-rejestracja-zmian-statutu-powszechnej-kasy-oszczednosci-banku-polskiego-spolki-akcyjnej-2/>).
- On 22 January 2019, PKO Bank Polski SA repaid a loan granted by PKO Finance AB of EUR 500 million. On 23 January 2019, PKO Finance AB redeemed bonds with a nominal value of EUR 500 million.
- On 28 January 2019, PKO Bank Hipoteczny SA issued mortgage bonds in a total amount of EUR 500 million with the maturity date set at 23 November 2021. The issued mortgage bonds are listed on the Luxembourg and Warsaw stock exchanges. Next on 25 February 2019 PKO Bank Hipoteczny SA arranged the transaction to

increase the value of issues (Tap) by issuing the second tranche with a nominal value of of PLN 100 million EUR. The issue date of the second tranche was determined on 1 March 2019

4. In the period from 1 January 2019 to the day preceding the signature of these financial statements, PKO Bank Polski SA sold a further portfolio of claims from housing loans secured with mortgages at a level of PLN 861 million within a Frame Agreement on the Sale of Claims signed in 2015 with PKO Bank Hipoteczny SA..
5. On 25 February 2019, Bank received an individual recommendation from PFSA in which PFSA prescribed Bank to increase its own funds by retaining at least 50% of the profit generated in the period from 1 January to 31 December 2018.

13.GLOSSARY

Interest-earning assets – amounts due from banks, securities and loans and advances to customers;

Financing granted to Customers – loans and advances to customers (including finance leases receivables) less receivables in respect of repurchase agreements and municipal and corporate bonds presented in securities, with the exception of those held for trading;

External financing – subordinated liabilities, debt securities in issue measured at amortized cost, loans and advances received presented in amounts due to banks and loans and advances received presented in amounts due to customers;

Other liabilities –hedging derivatives, other derivative instruments, liabilities in respect of insurance activities, other liabilities, current income tax liabilities, deferred income tax provision and provisions;

Regulatory costs – contributions and fees to the Bank Guarantee Fund (BGF), payments to the PFSA, taxes and charges;

Total capital ratio – calculated as the ratio of own funds to the total capital requirement multiplied by 12.5;

Securities (bank portfolio) – securities less municipal and corporate bonds (with the exception of those held for trading);

Other assets – hedging derivatives, other derivative instruments, investments in subsidiaries, associates and joint ventures, non-current assets held for sale, intangible assets, property, plant and equipment, current income tax receivables, deferred income tax asset, other assets and receivables in respect of repurchase agreements presented in loans and advances to customers;

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 (cost 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 – calculated as the ratio of financing granted to Customers loans and advances to customers (including finance leases receivables) less receivables in respect of repurchase agreements and municipal and corporate bonds presented in securities, with the exception of those held for trading) to amounts due to Customers;

Financing granted to Customers to stable sources of finance ratio – calculated as the ratio of financing granted to Customers (loans and advances to customers (including finance leases receivables) less receivables in respect of repurchase agreements and municipal and corporate bonds presented in securities, with the exception of those held for trading) to stable sources of finance (amounts due to Customers and external financing);

Tier 1 capital ratio – calculated as the ratio of Tier 1 capital to the total capital requirement multiplied by 12.5;

Cost of risk – calculated by dividing net credit losses for the 12 months ended 31 December 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;

Net interest margin – net interest income on an annual basis to average balance of interest-earning assets (amounts due from banks, securities and loans and advances to customers) from the last 5 quarters;

Net ROA – net profit for the year to average balance of assets from the last 5 quarters;

Net ROE – net profit for the year to 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/(loss) net of administrative expenses, tax on certain financial institutions, net credit losses and impairment of non-financial assets;

Net operating profit/(loss) – operating profit/(loss) excluding net credit losses and impairment of non-financial assets;

Net other income – includes dividend income, net gain/(loss) on 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 instruments not measured at fair value through profit or loss and net other operating income and expenses,

Result on financial transactions – contains net gain/(loss) on financial instruments measured at fair value through profit or loss, gain/(loss) on investment securities and gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss,

Net write-downs and impairment – includes net credit losses and impairment of non-financial assets;

Net profit – net profit in the consolidated income statement is understood as net profit attributable to equity holders of the parent company.

STATEMENT OF THE MANAGEMENT BOARD

The Management Board of PKO Bank Polski SA declares that in accordance with its best knowledge the annual Directors' Report of the PKO Bank Polski Group for 2018 prepared jointly with the Directors' Report of PKO Bank Polski SA includes an accurate description of the development and achievements, as well as the situation of the PKO Bank Polski SA Group and PKO Bank Polski SA, including a description of the main risks and threats.

This Directors' Report of the PKO Bank Polski SA Group for 2018 prepared jointly with the Directors' Report of PKO Bank Polski SA comprises 174 sequentially numbered pages.

SIGNATURES OF ALL THE MEMBERS OF THE MANAGEMENT BOARD

28.02.2019	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	RAFAŁ ANT CZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	MIECZYŚŁAW KUŚKA	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	ADAM MARCINI AK	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD
28.02.2019	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD