



Bank Polski



Report  
of the Supervisory Board  
of Powszechna Kasa Oszczędności Bank Polski  
Spółka Akcyjna  
for 2018

## TABLE OF CONTENTS

<b>EVALUATION OF THE FINANCIAL STATEMENTS OF PKO BANK POLSKI S.A. FOR THE YEAR ENDED 31 December 2018, THE CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE YEAR ENDED 31 December 2018, AND THE PKO BANK POLSKI S.A. GROUP DIRECTORS' REPORT FOR 2018 PREPARED IN COMBINATION WITH THE DIRECTORS' REPORT OF PKO BANK POLSKI S.A.</b> .....	<b>3</b>
<b>EVALUATION OF THE MANAGEMENT BOARD'S PROPOSAL FOR APPROPRIATION OF THE PROFIT EARNED BY PKO BANK POLSKI S.A. FOR 2018 AND OFFSET OF ACCUMULATED LOSSES</b> .....	<b>6</b>
<u>INFORMATION ON THE SUPERVISORY BOARD'S TERM OF OFFICE AND THE CONSECUTIVE YEAR OF ACTIVITY DURING THE TERM OF OFFICE, AND ON THE COMPOSITION OF THE SUPERVISORY BOARD, FUNCTIONS PERFORMED IN THE SUPERVISORY BOARD AND CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD DURING THE FINANCIAL YEAR</u> .....	<u>6</u>
<u>INFORMATION ON THE NUMBER OF MEETINGS HELD BY THE SUPERVISORY BOARD AND THE NUMBER OF ADOPTED RESOLUTIONS</u> .....	<u>8</u>
<u>INFORMATION ON THE ATTENDANCE OF MANAGEMENT BOARD MEMBERS AT MEETINGS</u> .....	<u>9</u>
<u>SIGNIFICANT ISSUES ADDRESSED BY THE SUPERVISORY BOARD</u> .....	<u>9</u>
<u>INSPECTIONS PERFORMED</u> .....	<u>12</u>
<u>INFORMATION ON CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD INTRODUCED BY THE SUPERVISORY BOARD, SUSPENSIONS OF MANAGEMENT BOARD MEMBERS FROM PERFORMING THEIR FUNCTIONS AND DELEGATING MEMBERS OF THE SUPERVISORY BOARD TO PERFORM THE FUNCTIONS OF MEMBERS OF THE MANAGEMENT BOARD</u> .....	<u>12</u>
<u>INFORMATION ON THE FULFILMENT OF THE INDEPENDENCE CRITERIA BY MEMBERS OF THE SUPERVISORY BOARD</u> .....	<u>12</u>
<u>SELF-ASSESSMENT OF THE SUPERVISORY BOARD'S WORK</u> .....	<u>13</u>
<u>OTHER INFORMATION ON THE SUPERVISORY BOARD'S WORK</u> .....	<u>13</u>
<b>ASSESSMENT OF THE COMPANY'S POSITION, TAKING INTO ACCOUNT INTERNAL CONTROL SYSTEMS, RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT FUNCTIONS</b> .....	<b>14</b>
<u>ASSESSMENT OF THE COMPANY'S POSITION</u> .....	<u>14</u>
<u>ASSESSMENT OF ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM, INCLUDING THE CONTROL FUNCTION, COMPLIANCE UNIT AND INTERNAL AUDIT UNIT</u> .....	<u>16</u>
<u>ASSESSMENT OF THE RISK MANAGEMENT SYSTEM (INCLUDING ITS ADEQUACY AND EFFECTIVENESS)</u> .....	<u>19</u>

## APPENDICES

Appendix No. 1 List of resolutions adopted by the Supervisory Board of PKO Bank Polski S.A. in 2018

Appendix No. 2 Report on the operations of the Nomination and Remuneration Committee of the Supervisory Board, hereinafter called "the Nomination and Remuneration Committee", in 2018

Appendix No. 3 Report on the operations of the Risk Committee of the Supervisory Board, hereinafter called "the Risk Committee", in 2018

Appendix No. 4 Report on the operations of the Audit Committee of the Supervisory Board, hereinafter called "the Audit Committee", in 2018

Appendix No. 5 Report on the operations of the Strategy Committee of the Supervisory Board, hereinafter called "the Strategy Committee", in 2018

EVALUATION OF THE FINANCIAL STATEMENTS OF PKO BANK POLSKI S.A. FOR THE YEAR ENDED 31 DECEMBER 2018, THE CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI S.A. GROUP FOR THE YEAR ENDED 31 DECEMBER 2018, AND THE PKO BANK POLSKI S.A. GROUP DIRECTORS' REPORT FOR 2018 PREPARED IN COMBINATION WITH THE DIRECTORS' REPORT OF PKO BANK POLSKI S.A.

Pursuant to Article 382 § 3 of the Commercial Companies Code, § 70 item 1 point 14 and § 71 item 1 point 12 of the Decree of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State and § 15 item 1 point 15 of the Articles of Association of PKO Bank Polski S.A., the Supervisory Board of PKO Bank Polski S.A. expressed a positive opinion on:

- 1) the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2018 (the consolidated financial statements);
- 2) the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2018 (separate financial statements);
- 3) and the PKO Bank Polski S.A. Group Directors' Report for 2018 prepared in combination with the Directors' Report of PKO Bank Polski S.A. (the Directors' Report)

on the basis of:

- the contents of the aforementioned documents presented and discussed by the Management Board of PKO Bank Polski S.A.;
- reports on the audits of separate and consolidated financial statements (the financial statements) and the audit firm's additional report for the Audit Committee of the Supervisory Board of PKO Bank Polski S.A.
- meetings with representatives of the audit firm, including the key registered auditor;
- recommendation of the Audit Committee of the Supervisory Board of PKO Bank Polski S.A. for an opinion on the audited financial statements;

The financial statements were audited by the audit firm KPMG Audyt spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, selected by the Supervisory Board to audit the separate financial statements of PKO Bank Polski S.A. and the consolidated financial statements of the PKO Bank Polski S.A. Group for 2018.

The results of the evaluation performed, including their justification, are presented below.

1. The Supervisory Board has read and analysed the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2018, comprising:
  - 1) the income statement for the period from 1 January 2018 to 31 December 2018;
  - 2) the statement of comprehensive income for 2018;
  - 3) the statement of financial position as at 31 December 2018;
  - 4) the statement of changes in equity for the year ended 31 December 2018;
  - 5) the cash flow statement for the period from 1 January 2018 to 31 December 2018;
  - 6) notes to the financial statements.
2. The Supervisory Board of PKO Bank Polski S.A. has read and analysed the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2018, comprising:

- 1) the consolidated income statement for the period from 1 January 2018 to 31 December 2018;
  - 2) the consolidated statement of comprehensive income for 2018;
  - 3) the consolidated statement of financial position as at 31 December 2018;
  - 4) the statement of changes in consolidated equity for the year ended 31 December 2018;
  - 5) the consolidated cash flow statement for the period from 1 January 2018 to 31 December 2018;
  - 6) notes to the consolidated financial statements.
3. The Supervisory Board of PKO Bank Polski S.A. has read and analysed the PKO Bank Polski S.A. Group Directors' Report for 2018 prepared in combination with the Directors' Report of PKO Bank Polski S.A., which includes the statement on non-financial information.

The financial statements have been prepared within the statutory deadline, in accordance with International Financial Reporting Standards endorsed by the European Union, and the adopted accounting policies.

The financial statements present the accounting policies applied consistently in all the years disclosed, with the exception of International Financial Reporting Standard 9 "Financial instruments", whose impact on the opening balances has been described in detail in Note 4 "IFRS 9 Financial instruments", and International Financial Reporting Standard 15 "Revenue from contracts with customers", described in Note 5 "IFRS 15 Revenue from contracts with customers".

In addition, the financial statements include estimates and judgments used to estimate the carrying amounts of assets and liabilities.

The Supervisory Board concluded that the PKO Bank Polski S.A. Group Directors' Report for 2018 prepared in combination with the Directors' Report of PKO Bank Polski S.A. complies, in all material respects, with the requirements set out in Articles 49 and 55 item 2a of the Accounting Act and in Decree of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State.

Having analysed the registered auditors' reports from the audit, the audit firm's additional report for the Audit Committee and based on meetings with the audit firm, and a positive recommendation of the Audit Committee issued on 28 February 2019 by the Audit Committee, the Supervisory Board positively considered the financial statements.

In particular, the independent registered auditor presented the following opinions:

- with regard to separate financial statements – that they present a fair and clear view of the financial and economic position of PKO Bank Polski S.A. as at 31 December 2018 and have been prepared, in all material respects, on the basis of properly maintained books of account in accordance with the provisions of Section 2 of the Accounting Act, and that they comply, in all material respects, in terms of their form and content, with the legislation applicable to PKO Bank Polski S.A. and the Articles of Association of PKO Bank Polski S.A.;
- with regard to the consolidated financial statements – that they present a fair and clear view of the financial and economic position of the PKO Bank Polski S.A. Group as at 31 December 2018 and comply, in all material respects, in terms of their form and content, with the legislation applicable to the PKO Bank Polski S.A. Group and the Articles of Association of PKO Bank Polski S.A.;

In addition, with regard to the Directors' Report, the registered auditor concluded, based on the work performed during the audit of the financial statements, that the Directors' Report has been prepared, in all material respects,

in accordance with the applicable legislation and is consistent with the information included in the separate and consolidated financial statements.

Based on the above, the Supervisory Board of PKO Bank Polski S.A. believes that the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2018, the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2018 and the PKO Bank Polski S.A. Group Directors' Report prepared in combination with the Directors' Report of PKO Bank Polski S.A. are consistent with the books of account, documents and with the facts.

Pursuant to Article 4a item 1 of the Accounting Act, the Supervisory Board also assures that all elements of the said reports meet the requirements of the aforesaid Act.

In connection with the above, the Supervisory Board has requested that the Annual General Meeting of PKO Bank Polski S.A. approve the said reports.

#### EVALUATION OF THE MANAGEMENT BOARD'S PROPOSAL FOR APPROPRIATION OF THE PROFIT EARNED BY PKO BANK POLSKI S.A. FOR 2018 AND OFFSET OF ACCUMULATED LOSSES

Taking into account a positive recommendation of the Audit Committee, the Supervisory Board expresses a positive opinion on the motion of the Management Board concerning appropriation of the profit earned by PKO Bank Polski S.A. for 2018 and the offset of accumulated losses.

In accordance with motion of the Management Board and the said opinion of the Supervisory Board:

The accumulated balance sheet loss of PLN 535 150 178 is proposed to be covered with the reserve capital. The loss resulted from changes in the accounting policies due to the first-time adoption of International Financial Reporting Standard 9 ("Financial Instruments").

The net profit of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna earned in 2018 in the amount of PLN 3 335 302 049 is proposed to be appropriated as follows:

- 1) for the dividend for shareholders PLN 1 662 500 000;
- 2) for the reserve capital in the amount of PLN 51 51 025.

The remainder of the profit in the amount of PLN 1 667 651 024 is proposed to be left unappropriated.

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD AS A COMPANY'S GOVERNING BODY IN 2018

Information on the Supervisory Board's term of office and the consecutive year of activity during the term of office, and on the composition of the Supervisory Board, functions performed in the Supervisory Board and changes in the composition of the Supervisory Board during the financial year.

As at 31 December 2018, the Composition of the Supervisory Board was as follows:

(all members appointed for a joint, 3-year term of office which started on the date of the Annual General Meeting of PKO Bank Polski S.A. convened for 22 June 2017)

No.	Name and surname	Function	Date of appointment/ Dismissal
1.	Piotr Sadownik	Chairman of the Supervisory Board	<p>Appointed to the Supervisory Board on 25 February 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-1583/2016, Resolution No. 14/2016)</p> <p>On 25 February 2016, the State Treasury, acting as an authorized shareholder within the meaning of the Bank's Articles of Association, appointed Mr Piotr Sadownik chairman of the Supervisory Board.</p> <p>Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 37/2017)</p> <p>On 22 June 2017, the State Treasury, acting as an authorized shareholder within the meaning of the Bank's Articles of Association, appointed Mr Piotr Sadownik chairman of the Supervisory Board.</p>
2.	Grażyna Ciużyńska	Vice-Chairman of the Supervisory Board	<p>Appointed to the Supervisory Board on 30 June 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-5497/2016, Resolution No. 31/2016)</p> <p>On 30 June 2016, the State Treasury, acting as an authorized shareholder within the meaning of the Bank's Articles of Association, appointed Ms Grażyna Ciużyńska Vice-Chairman of the Supervisory Board.</p> <p>Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 38/2017)</p>

			On 22 June 2017, the State Treasury, acting as an authorized shareholder within the meaning of the Bank's Articles of Association, appointed Ms Grażyna Ciurzyńska Vice-Chairman of the Supervisory Board.
3.	Zbigniew Hajłasz	Secretary of the Supervisory Board	<p>Appointed to the Supervisory Board on 30 June 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-5497/2016, Resolution No. 32/2016)</p> <p>On 14 July 2016, the Supervisory Board selected Mr Zbigniew Hajłasz to act as Secretary of the Supervisory Board.</p> <p>Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 39/2017)</p> <p>On 24 August 2017, the Supervisory Board selected Mr Zbigniew Hajłasz Secretary of the Supervisory Board.</p>
4.	Mariusz Andrzejewski	Member of the Supervisory Board	<p>Appointed to the Supervisory Board on 22 June 2017 for the term which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolution No. 44/2017)</p>
5.	Mirosław Barszcz	Member of the Supervisory Board	<p>Appointed to the Supervisory Board on 25 February 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-1583/2016, Resolution No. 8/2016)</p> <p>Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 46/2017)</p>
6.	Adam Budnikowski	Member of the Supervisory Board	<p>Appointed to the Supervisory Board on 25 February 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-1583/2016, Resolution No. 9/2016)</p> <p>Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 40/2017)</p>
7.	Wojciech Jasiński	Member of the Supervisory Board	<p>Appointed to the Supervisory Board on 25 February 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-1583/2016, Resolution No. 11/2016)</p> <p>Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-</p>

			appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 41/2017)
8.	Andrzej Kisielewicz	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-1583/2016, Resolution No. 12/2016)  Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 47/2017)
9.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	Appointed to the Supervisory Board on 26 June 2014 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-3969/2014, Resolution No. 37/2014)  Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 42/2017)
10.	Janusz Ostaszewski	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term which commenced on the day of the Annual General Meeting convened for 26 June 2014. (notarial deed /Repertorium A-1583/2016, Resolution No. 13/2016)  Dismissed from the Supervisory Board on 22 June 2017, and subsequently re-appointed to the Supervisory Board for the term of office which commenced on the day of the Annual General Meeting convened for 22 June 2017. (notarial deed /Repertorium A-8117/2017, Resolutions Nos. 36/2017 and 43/2017)

Changes in the composition of the Supervisory Board in 2018:

On 14 May 2018, Mr. Jerzy Paluchniak resigned from the Supervisory Board of the Bank: effective from 18 May 2018.

Information on the number of meetings held by the Supervisory Board and the number of adopted resolutions

In 2018, the Supervisory Board held 9 recorded meetings on the following dates: 8 February, 8 March, 19 April, 17 May, 21 June, 23 August, 20 September, 5 November and 13 December.

In 2018, the Supervisory Board adopted 116 resolutions.

The list of resolutions adopted by the Supervisory Board in 2018 is attached as Appendix No. 1 to this Report.



#### Information on the attendance of Management Board members at meetings

All absences of the Supervisory Board members at meetings in 2018 were justified by resolutions of the Supervisory Board Nos.: 14/2018, 25/2018, 36/2018, 40/2018, 49/2018, 50/2018, 51/2018, 63/2018, 64/2018, 71/2018, 80/2018, 103/2018 and 104/2018. This related to the absences of 6 Supervisory Board members at 8 meetings of the Supervisory Board.

#### Significant issues addressed by the Supervisory Board

In 2018, in addition to matters relating to the adoption of documents by the Annual General Meeting (resulting from the generally applicable law and the Bank's Articles of Associations) and those specified in the resolutions adopted by the Supervisory Board in 2018, listed in Appendix No. 1 to this Report, the Supervisory Board addressed, among other things, the following issues:

- 1) discussing the current macroeconomic and market situation, including forecasts for 2018 and macroeconomic projections for 2019-2020;
- 2) reviewing selected strategic programmes implemented by PKO Bank Polski S.A.
- 3) discussing the Financial Plan of the Bank and the PKO Bank Polski S.A. Group, including the Capital Plan of the Bank and the PKO Bank Polski S.A. Group for 2019;
- 4) the "Digital Transformation 2020" project and IT Transformation in Poland;
- 5) international expansion of PKO Bank Polski S.A.;
- 6) the status of the GRDP project implemented by PKO Bank Polski S.A.;
- 7) reviewing the operations of selected regional retail branches of PKO Bank Polski S.A. and the Bank's Group companies;
- 8) the idea of creating a venture capital within the PKO Bank Polski S.A. Group;
- 9) the sponsoring projects to support culture carried out by PKO Bank Polski S.A. in 2017;
- 10) the effects of the promotional activities undertaken by PKO Bank Polski S.A. in the last five years;
- 11) cooperation between PKO Bank Polski S.A. and public sector customers;
- 12) work relating to the celebration of the centenary of PKO Bank Polski S.A.;
- 13) the progress on the new branch of PKO Bank Polski S.A. located in the reconstructed "Rotunda" building;
- 14) information on agreements for the permitted non-audit services concluded by PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group companies with the audit firm KPMG;
- 15) information on the adequacy and operational effectiveness of the compliance unit and the control function in PKO Bank Polski S.A.;
- 16) a report on the operations of the Internal Audit Department;
- 17) civil liability insurance of members of the Bank's governing bodies and proxies (D&O);
- 18) a framework work plan for the Supervisory Board for 2019.

Topics discussed by the Supervisory Board on a regular basis are:

- 1) report on the implementation of the PKO Bank Polski S.A. strategy for 2016-2020;
- 2) information on the financial results of the PKO Bank Polski S.A. Group and the results of PKO Bank Polski S.A. against the background of competitor banks;

- 3) information on the application of the accounting policies relating to bankassurance;
- 4) reports: Model risk in PKO Bank Polski S.A., Credit risk in PKO Bank Polski S.A., Financial risks in PKO Bank Polski S.A., Operating risk in PKO Bank Polski S.A., Capital adequacy in PKO Bank Polski S.A., Business and macroeconomic risk in PKO Bank Polski S.A., Compliance risk and conduct risk, Reputation risk;
- 5) information on the condition of the Bank's IT System;
- 6) information on the Bank's security;
- 7) materials on the situation of KREDOBANK S.A.;
- 8) information on outsourced activities;
- 9) materials on court proceedings involving PKO Bank Polski S.A. as a party;
- 10) information on the results of the Supervisory Review and Evaluation (SREP) and on the updates of the SREP results (quarterly evaluation of banks risk analysis report KOBRA);
- 11) information on the updates of the separate and group Recovery Plans of PKO Bank Polski S.A.;
- 12) information on the correspondence sent to the Supervisory Board.

On 23 August 2018, the Supervisory Board analysed the possibility of the early selection of an audit firm to audit the financial statements of the Bank and the Bank's Group for 2020 and subsequent years, in the context of, among others, new generally applicable legislation in this regard and the reasons in favour of such a solution (in this respect, the validity of the existing agreement with an audit firm), and learned about the timetable of the said process, and acknowledged the related information.

On 20 September 2018, following a recommendation of the Audit Committee, the Supervisory Board unanimously adopted a resolution whereby it: (i) decided to commence the procedure for ordering an audit of the financial statements of Bank Polski S.A. and consolidated financial statements of the PKO Bank Polski S.A. Group for 2020-2021; (ii) adopted a detailed timetable for the procedure of selecting an audit firm to audit the financial statements of Bank Polski S.A. and consolidated financial statements of the PKO Bank Polski S.A. Group for 2020-2021; (iii) specified the content of the information for a request for a proposal concerning the audit of the financial statements of Bank Polski S.A. and consolidated financial statements of the PKO Bank Polski S.A. Group for 2020-2021 to be published in a country-wide daily; (iv) specified the content of the request for a proposal concerning the audit of the financial statements of Bank Polski S.A. and consolidated financial statements of the PKO Bank Polski S.A. Group for 2020-2021 to be published on the Bank's website; (v) specified the criteria for selecting an audit firm and evaluating proposals for an audit of the financial statements of Bank Polski S.A. and consolidated financial statements of the PKO Bank Polski S.A. Group for 2020-2021.

On 5 November 2018, the Supervisory Board reviewed proposals from the audit firms and passed them on for further detailed analysis by the Committee for the selection of an audit firm.

On 13 December 2018, having reviewed the documentation relating to the selection of an audit firm and analysed the recommendations of the Audit Committee in this regard, prepared in accordance with the legislation applicable as at the date of selection and the internal regulations governing the selection of an audit firm adopted by the Supervisory Board, the Supervisory Board adopted a resolution on the selection of the audit firm to conduct audits and reviews of the financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A.'s Group for 2020-2021, by which:

- 1) it appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. as the audit firm to conduct audits and reviews of the financial statements of Bank Polski S.A. and consolidated financial statements of the PKO Bank Polski S.A. Group for 2020-2021.
- 2) granted its consent to PKO Bank Polski S.A. concluding an agreement with the selected audit firm referred to in item 1;
- 3) it obliged the Management Board to conclude the agreement referred to in item 2, no later than by 25 January 2019;
- 4) recommended undertaking steps, as part of exercising rights from shares, with a view to recommending that the subsidiaries from the PKO Bank Polski S.A. Group should conclude agreements for the audit firm PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k., its related entities, members of its network, the audit firm ESO Audit s.c. or the audit firm RSM Ukraine LLC, on terms and conditions not materially differing from those negotiated by the Bank. In the case of auditing the financial statements of the subsidiaries which are public interest entities within the meaning of Article 2 point 9 of the Act on registered auditors, audit firms and public supervision, the requirement of selecting the audit firm in accordance with Article 130 item 2 and 3 of the Act on registered auditors, audit firms and the public supervision relating to recommendations presented to the Supervisory Board by a company's Audit Committee should be taken into account;
- 5) obliged the Management Board to communicate the recommendation for the selection of the audit firm referred to in item 1 to subsidiaries no later than by 20 December 2018.

On 28 February 2019, having read the annual statement on independence issued by the audit firm KPMG spółka z ograniczoną odpowiedzialnością spółka komandytowa, the Supervisory Board issued a statement (taking into account the related recommendation of the Audit Committee) concerning the audit firm conducting the audit of the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2018 and the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2018, prepared pursuant to § 70 item 1 point 7 and § 71 item 1 point 7 of the Decree of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State. In the statement, the Supervisory Board declared that the selection of the audit firm conducting the audit of the consolidated financial statements of the PKO Bank Polski S.A. Group for the year ended 31 December 2018 and the financial statements of PKO Bank Polski S.A. for the year ended 31 December 2018 (the Audit) complied with the legislation applicable as at the date of selection and the internal regulations governing the selection of the audit firm adopted by the Supervisory Board.

At the same time, the Supervisory Board stated, that:

- 1) the audit firm KPMG spółka z ograniczoną odpowiedzialnością spółka komandytowa and member of the team performing the Audit met the conditions for preparing an impartial and independent report on the Audit, in accordance with the generally applicable legislation, professional standards and professional ethics principles;
- 2) PKO Bank Polski S.A. complied with the generally applicable legislation relating to the rotation of the audit firm and the key registered auditor conducting the audit of the consolidated financial statements of the PKO Bank

Polski S.A. Group and the financial statements of PKO Bank Polski S.A. and those relating to the mandatory cooling-off period;

- 3) PKO Bank Polski S.A. had in place the policies and procedures for selecting an audit firm to audit the financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group and the policy regarding the provision of non-audit services by the audit firm conducting the audit, its related entities and members of the audit firm's network to the Bank and the Bank's Group, including services conditionally exempt from the ban on their provision by an audit firm.

#### Inspections performed

In 2018, in justified cases, the Supervisory Board obtained additional information on projects implemented by the Bank and audits performed with the participation of the Internal Audit Department and the Bank's compliance unit.

#### Information on changes in the composition of the Management Board introduced by the Supervisory Board, suspensions of Management Board members from performing their functions and delegating members of the Supervisory Board to perform the functions of members of the Management Board

In 2018, the Supervisory Board did not make any decisions to change the composition of the Management Board, suspend members of the Management Board or delegate members of the Supervisory Board to perform the functions of the Management Board members.

#### Information on the fulfilment of the independence criteria by members of the Supervisory Board

In accordance with point II.Z.6 of the Best Practices 2016, the Supervisory Board of a public company shall evaluate whether or not relations or circumstances exist which may affect the fulfilment of the independence criteria by a Supervisory Board member. In connection with the above, the Supervisory Board read the independence statements submitted by individual members of the Supervisory Board and on 5 November 2018, it adopted resolutions whereby:

- it acknowledged the statements by Mr Piotr Sadownik, Mr Zbigniew Hajłasz, Mr Mariusz Andrzejewski, Mr Mirosław Barszcz, Mr Adam Budnikowski, Mr Andrzej Kisielewicz, Ms Elżbieta Mączyńska-Ziemacka and Mr Janusz Ostaszewski on the fulfilment of the independence criteria referred to in point II.Z.4 of the Best Practices 2016. In addition, the Supervisory Board concluded that the said members of the Supervisory Board complied with the independence criteria. The Supervisory Board was not aware of any circumstances that could have a negative impact on these persons' compliance with the independence criteria referred to above.
- acknowledged the statements by Ms Grażyna Ciużyńska and Mr Wojciech Jasiński on their non-compliance with the independence criteria referred to in point II.Z.4 of the Best Practices 2016 and concluded that these members of the Supervisory Board did not comply with the said independence criteria.

### Self-assessment of the Supervisory Board's work.

At its meeting on 24 January 2019, the Supervisory Board of PKO Bank Polski S.A. made a self-assessment of its work.

The Supervisory Board of PKO Bank Polski S.A. concluded that it fulfilled its duties in a diligent and effective manner, by exercising continuous supervision over the operations and development of PKO Bank Polski S.A. in all aspects of its functioning. In the opinion of the Supervisory Board, the professional experience and diverse competencies of the Supervisory Board members allow it to comprehensively examine and express an opinion on the topics presented to it and to represent a broad spectrum of the views with regard to evaluating the Management Board's work and the functioning of PKO Bank Polski S.A.

When evaluating the cooperation between the Supervisory Board and the Management Board, the Supervisory Board evaluated it positively, emphasizing the truth and fairness of the information provided by the Management Board. At the same time, the Supervisory Board appreciated the responses of the Management Board to individual inquiries of the Supervisory Board members, including questions asked outside the meeting of the Supervisory Board and the Management Board's active participation in the Supervisory Board meetings (referring motions addressed to the Supervisory Board and providing relevant explanations).

In 2018, all members of the Supervisory Board actively participated in its meetings and demonstrated commitment to properly performing their duties, and the discussions conducted took into account assessments of the current situation of PKO Bank Polski S.A., market changes and good practices and standards. In 2018, the Supervisory Board performed its statutory tasks and, at the same time, was committed to continuously improve its work with this regard. Discussions held at the Supervisory Board meetings were characterized by a high level of technical knowledge.

The number and duration of the meetings, and access to resources were sufficient to enable the Supervisory Board to fulfil its duties, and the documents developed for the Supervisory Board contained material information and were prepared sufficiently in advance.

The substantive value of the materials provided to the Supervisory Board meeting was assessed as high.

### Other information on the Supervisory Board's work

In 2018, the Supervisory Board had the following committees: Nomination and Remuneration Committee (established as a result of a transformation of the Remuneration Committee by resolution of the Supervisory Board of 23 August 2018), the Risk Committee, the Audit Committee and the Strategy Committee. Annual reports on the operations of the said committees are attached as appendices nos. 2, 3, 4 and 5, respectively, to this Report.

On 28 February 2019, the Supervisory Board issued a statement relating to the Audit Committee, prepared in accordance with § 70 item 1 point 8 and § 71 item 1 point 8 of Decree of the Minister of Finance of 29 March 2018

on current and periodical information submitted by issuers of securities and conditions for considering as equivalent the information required under the legislation of a non-Member State. In the statement, the Supervisory Board stated that:

- 1) PKO Bank Polski S.A. complies with the regulations relating to the appointment, composition and operation of the Audit Committee, including those relating to the independence of its members and the requirements concerning to the knowledge of and skills required in the sector in which PKO Bank Polski S.A. operates and those relating to accounting or audit;
- 2) The Audit Committee in PKO Bank Polski S.A. performed and continued to perform the tasks of the audit committee specified in the applicable legislation.

ASSESSMENT OF THE COMPANY'S POSITION, TAKING INTO ACCOUNT INTERNAL CONTROL SYSTEMS, RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT FUNCTIONS.

#### Assessment of the Company's position

The development of the PKO Bank Polski S.A. Group's business activities in 2018 and the financial results achieved strengthened the position of PKO Bank Polski S.A. as the leader of the Polish banking sector. The market value of PKO Bank Polski S.A. reached almost PLN 50 billion at the end of 2018 which means that PKO Bank Polski S.A. was the most valuable domestic company listed on the Warsaw Stock Exchange

After reclassification of the Polish market to advanced markets, PKO Bank Polski S.A. was the only company from among 37 Polish enterprises to be included in the FTSE Russell's developed market Large Cap index, and after stress tests conducted by the European Banking Authority in the 48 largest European Banks, it turned out to be the most resilient to negative macroeconomic scenarios in this group.

In 2018, the PKO Bank Polski S.A. Group was the leader in terms of the share in the Polish banking market in savings (18.4%) and loans (17.6%), in the leasing market (11.2%) and in the private individual investment fund market (22.2%). PKO Bank Polski S.A. is the leader in terms of the number of current accounts maintained and payment cards.

High client service standard and effective credit risk assessment procedures enabled the PKO Bank Polski S.A. Group to increase the portfolio of financing granted to customers to more than PLN 230 billion in 2018. Amounts due to customers reached nearly PLN 243 billion in 2018.

The PKO Bank Polski S.A. Group achieved its financial goals planned for 2020 two years in advance:

- reached ROE of 10%;
- decreased the C/I ratio to 44.2%;
- reduced cost of the risk to 0.59%;
- was able to pay dividend.

At the end of 2018, the largest country-wide network of PKO Bank Polski S.A. covered 1,155 branches and 577 agencies, and the developed ATM network comprised 3,133 ATMs. The number of employees of the PKO Bank Polski S.A. Group was almost 28 thousand FTEs.

The mobile banking system offered by PKO Bank Polski S.A. – the IKO application – was ranked on the first position in a ranking of mobile applications of the 100 largest global banks, published in Retail Banker International, and the total number of activations of the IKO application at the end of 2018 exceeded 3.1 million.

As part of the activities undertaken in 2018:

- PKO Bank Polski S.A. fully implemented a solution based on the blockchain technology. PKO Bank Polski S.A. used the new technology for confirming authenticity and inalterability of documents sent electronically. The first distribution of new product regulations in digital form covered more than 5 million of the Bank's customers. In terms of its scale, it was the largest application of the blockchain technology in banking in Europe. The solution was developed jointly with Krajowa Izba Rozliczeniowa (the national clearing chamber), in cooperation with the Polish-British company Coinfirm, as part of the platform for development of innovation and new technologies "Let's Fintech with PKO Bank Polski!".
- On 29 November 2018, the Articles of Association of the company Operator Chmury Krajowej sp. z o.o. was signed. In 2019, another shareholder, Polski Fundusz Rozwoju S.A., is expected to join the company. The scope of activities of the company will include providing comprehensive data storage and processing activities. The product offer will include, in particular, cloud services, transformation and security for businesses and public institutions. The company is supposed to accelerate digitization of the Polish economy and provide safe solutions consistent with the global trend of the migration of data to cloud computing.
- Within the Bank's Group, an investment fund PKO VC (venture capital) was formed to invest in start-ups and fintechs. The new fund will operate in two ways: firstly, it will search for companies which merit majority investments with a view to inclusion in the structures of the PKO Bank Polski S.A. Group, and secondly, it will invest in minority shareholding. In August 2018, PKO Bank Polski S.A. purchased investment certificates issued by PKO VC, a close-ended non-public assets investment fund, totalling PLN 200 million.
- As part of the Digital Transformation Programme, PKO Bank Polski S.A. started implementing the New Work Model based on agile project management methodologies. The new model is aimed at accelerating and increasing productivity of the implementation of changes which will contribute to increasing customer satisfaction and help achieve mid- and long-term business objectives.

The steps undertaken by the PKO Bank Polski S.A. Group in 2018 facilitated earning strong financial results and strengthening its position as one of the largest financial institutions in Poland.

The net profit for 2018 of the PKO Bank Polski S.A. Group amounted to PLN 3,741 million, which means a two-digit growth of 20.5%, i.e. PLN 637 million, compared with the prior year. The net profit earned was largely due to the following:

- 1) improvement of the profit on business operations which reached PLN 13,347 million (+6.3% y/y), mainly as a result of an increase in net interest income of 8.7% y/y resulting from an increase in interest income due to both higher volumes and higher interest margin;
- 2) a slight increase in administrative expenses (an increase of 2.1% y/y);
- 3) a decrease in cost of the risk to 0.59%.

As a result of the steps undertaken in 2018, there was a clear increase in the scale of operations:

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

In 2018, the PKO Bank Polski S.A. Group:

- retained a high share in the loans and savings market of 17.6% and 18.4%, respectively;
- strengthened its position of the leader in the market of investment funds for private individuals with the market share of 22.2%;
- held the first position on the market of selling housing loans to private individuals,<sup>1</sup> with a share of over 28%. In 2018, loans granted amounted to a record high of over PLN 15 billion.

## ASSESSMENT OF ADEQUACY AND EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM, INCLUDING THE CONTROL FUNCTION, COMPLIANCE UNIT AND INTERNAL AUDIT UNIT

The internal control system is one of the elements of the management system in place in PKO Bank Polski S.A.

The Supervisory Board supervises the internal control system which has been designed and implemented by the Management Board of PKO Bank Polski S.A. and regularly monitors and evaluates its adequacy and effectiveness, including the control function, the compliance unit and the internal audit unit. The Supervisory Board evaluates the internal control system based on information, including opinions, periodical reports provided by the Management Board of PKO Bank Polski S.A., the Audit Committee, the compliance unit and the internal audit unit, findings of the register auditor and those resulting from supervisory activities of the competent institutions, other information and documents relevant to adequacy and effectiveness of the internal control system, and taking into account specific evaluation criteria, which include, among others, formal solutions of the internal control system, ensuring mechanisms for independence of the compliance unit and the internal audit unit. In this regard, the Supervisory Board is supported by the Audit Committee which is responsible, in particular, for monitoring the effectiveness of the internal control system.

The objectives of the internal control system are to ensure:

1. effectiveness and efficiency of PKO Bank Polski S.A.'s operations;
2. reliability of the financial reporting;

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<sup>1</sup>Data according to the Polish Bank Association



3. compliance with the risk management policies at PKO Bank Polski S.A.;
4. compliance of PKO Bank Polski S.A.'s operations with the generally applicable legislation, internal regulations of PKO Bank Polski S.A., regulatory recommendations and market standards adopted by PKO Bank Polski S.A.

The internal control system in PKO Bank Polski S.A. is organized at three separate, independent levels:

1. the first level consists of the organizational structures of PKO Bank Polski S.A. executing operating activities, in particular: product sales and customer service, and other organizational structures of PKO Bank Polski S.A. executing risk-generating operational tasks and operating on the basis of separate internal regulations of the Bank;
2. the second level consists of the operation of the compliance units and identification, measurement or estimation, control, monitoring and reporting of material risks, and any irregularities identified. These tasks are performed by a specialized organizational structure whose objective is to ensure that the operations of the first level are properly designed, do not generate excessive risk and ensure the effectiveness of the operations conducted by PKO Bank Polski S.A.;
3. the third level is represented by the operations of the internal audit unit which consists of an independent audit of the elements of the PKO Bank Polski S.A.'s risk management system, including the risk management and internal control systems.

Within the internal control system, PKO Bank Polski S.A. has the following separate elements:

1. control function;
2. compliance unit;
3. internal audit unit.

The control function ensures compliance with the controls relating, in particular, to the risk management at PKO Bank Polski S.A. and covers all entities and organizational positions within these units which are responsible for executing the tasks assigned to the control function. The control function comprises:

1. controls;
2. independent monitoring of controls;
3. reporting within the control function.

The Bank determines and the Management Board of PKO Bank Polski S.A. approves the list of material processes which have a material impact on the achievement of the internal control system objectives and business objectives of PKO Bank Polski S.A. and ensures periodical reviews of the processes in place in PKO Bank Polski S.A. from the perspective of their materiality.

Controls are embedded in the processes in place in PKO Bank Polski S.A. and applications which support these processes. These controls are tailored to the internal control system objectives and to the specific nature of the operations conducted by PKO Bank Polski S.A. These controls are subject to independent monitoring including a periodical evaluation of their adequacy and effectiveness.

The compliance unit is a separate, independent unit which fulfils the key role in ensuring compliance and managing the non-compliance risk, understood as the risk of legal sanctions, financial losses or reputation loss as a result of non-compliance on the part of PKO Bank Polski S.A., its employees or entities operating on its behalf with the

generally applicable legislation, the internal regulations of PKO Bank Polski S.A. or the market standards adopted by PKO Bank Polski S.A.

The objective of the compliance unit is to shape the solutions for ensuring compliance and managing non-compliance risk, as well as identification, evaluation, monitoring and reporting of such risk within PKO Bank Polski S.A.

Internal audit represents an independent and objective assurance and advisory activity consisting in a systematic and orderly assessment of the PKO Bank Polski S.A.'s areas of operations and identifying operating directions which contribute to improving the quality and effectiveness of PKO Bank Polski S.A.'s operations.

The objective of the internal audit unit as part of its compliance activities is to evaluate the adequacy and effectiveness of the risk management and internal controls systems at the first and second level of the internal control systems, taking into account the adequacy and effectiveness of the risk controls and control mechanisms selected for audit, and as part of its advisory activity, adding value to and improving processes in PKO Bank Polski S.A.

At PKO Bank Polski S.A., the following mechanisms are in place to ensure independence of the compliance unit and the internal audit unit:

1. approval of the Audit Charter and the rules for ensuring compliance and managing the non-compliance risk by the Management Board of PKO Bank Polski S.A. and the Supervisory Board;
2. direct subordination of the compliance unit to the President of the Management Board of PKO Bank Polski S.A.;
3. functional subordination of the internal audit unit to the Audit Committee and its administrative subordination to the President of the Management Board of PKO Bank Polski S.A.
4. the internal audit unit, as a third level unit, not being subject to independent monitoring by second-level organizational units of PKO Bank Polski S.A.;
5. ensuring direct access to members of the Management Board and the Supervisory Board of PKO Bank Polski S.A. to directors of the said units;
6. participation of the directors of the said units in the meetings of the Management Board of PKO Bank Polski S.A.;
7. participation of the directors of the said units in meetings of the Supervisory Board and the relevant Committees, when their agenda includes issues relating to the internal control system or risk management;
8. appointing and dismissing the directors of the said units and determining their remuneration subject to the consent of the Audit Committee or the Supervisory Board;
9. notifying the Polish Financial Supervision Authority of any changes of directors of the said units, including reasons for those changes;
10. ensuring access to any necessary information (including confidential and sensitive), rooms and IT systems (without the possibility of intervention), and communication with PKO Bank Polski S.A.'s employees for employees of the said units, to the extent they deem necessary to perform their duties;
11. non-participation of the employees of the said units in the execution of day-to-day business tasks;

12. ensuring that remuneration for employees of the said units guarantees their independence and objectivity in the performance of their tasks and enables employing people with the appropriate qualifications, experience and skills;
13. protecting employees of the said units from unjustified termination of their employment;
14. ensuring financial resources necessary for the effective performance of duties and continuous improvement of the skills and qualifications of the employees of the said units;

Information on irregularities, results of assessments and other material issues identified by individual components of the internal control system were presented in periodical reports addressed to the Management Board of PKO Bank Polski S.A., the Audit Committee or the Supervisory Board. If irregularities or weaknesses were identified, recommendations, action plans and recovery plans were developed in order to eliminate them, and the execution of the related tasks was monitored and reported to the Supervisory Board, the Audit Committee and the Management Board of PKO Bank Polski S.A.

Taking into account the information obtained, including opinions, periodical reports, other information and documents relevant for the adequacy and effectiveness of the internal control system, taking into account specific assessment criteria, the Supervisory Board did not identify any significant weaknesses in the operation of the internal control system of PKO Bank Polski S.A. which affect the ability of achieving the goals of the said system.

#### Assessment of the risk management system (including its adequacy and effectiveness).

Risk management is one of the most important internal processes in PKO Bank Polski S.A. It is aimed at ensuring the profitability of the business activities while ensuring an appropriate level of capital adequacy measures, and monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank, in a changing macroeconomic and legal environment. The risk management system is supervised by the Supervisory Board which regularly monitors and evaluates whether or not the risk identification, measurement or estimation, control, monitoring and reporting methods are tailored to the size and the risk profile of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group. The Supervisory Board evaluates whether or not the current and planned activities of PKO Bank Polski S.A. are properly taken into account in the risk management system. In the opinion of the Supervisory Board, the risk management system is appropriately tailored to the scale of operations and materiality, scale and complexity of individual types of risk, and is monitored and adjusted on an on-going basis to take account of the new risks and their sources. According to the assessment of the Supervisory Board, PKO Bank Polski S.A. has the organizational structure adjusted to the magnitude and the profile of risks borne by PKO Bank Polski S.A. and ensuring effective management of these risks. To the best of its knowledge, the adequacy of findings concerning risk management at PKO Bank Polski S.A. and the effectiveness of the risk management system, as well as the management monitoring system which enables monitoring the risk level and capital adequacy assure that the adopted risk management system is appropriate from the perspective of the risk profile and Strategy of PKO Bank Polski S.A.

The risk management system supports the implementation of PKO Bank Polski S.A.'s Strategy by ensuring consistency with the risk management strategy applicable in PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group. It addresses the achievement of the desired capital objectives, the risk tolerance label and the capital planning process, including the policy relating to the sources of capital.

All organizational units of PKO Bank Polski S.A. participate in the risk management process. The process is supervised by the Supervisory Board which controls and evaluates the adequacy and effectiveness of the risk management system. In addition, the Supervisory Board evaluates whether or not individual elements of the risk management system contribute to ensuring the correctness of the process for determining and pursuing the specific objectives of PKO Bank Polski S.A. In particular, the Supervisory Board verifies, if:

1. formal rules are applied to determine the magnitude of the risk taken;
2. formal rules designed to identify, measure or estimate and monitor the risks arising in the operations of PKO Bank Polski S.A. are applied and if these rules take into account the anticipated level of future risks;
3. formal risk-mitigating limits and procedures to be followed when these limits have been exceeded are applied as part of the risk management system;
4. the adopted management reporting system enables risk level monitoring;
5. if the risk management system is updated on an on-going basis to take into account new risk factors and sources.

PKO Bank Polski S.A. has an integrated risk management structure which ensures that all risks which have a material impact on the activities of PKO Bank Polski S.A. are identified, measured, monitored and controlled. Setting the level of risk which PKO Bank Polski S.A. is in a position to accept in its current and future operations is one of the key elements of risk management. With regard to the level of the risk generated, the scope of the risk is determined from the perspective of the achievement of the risk management objectives, taking into account financial, capital and strategic plans. As part of risk measurement, stress tests are conducted based on the assumptions which ensure a robust evaluation of the risk. Stress tests are used to estimate the potential losses in the case of a market situation which is not typically described using statistical measures. PKO Bank Polski S.A. develops contingency plans for emergencies which may materially affect its functioning, particularly the contingency plans required by the generally applicable legislation and the internal regulations of PKO Bank Polski S.A. The risk management structure is complemented by a consistent and transparent risk level reporting system, the application of risk-reducing limits and management actions which shape the process of managing specific risks. The maximum magnitude of the risk which PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group are prepared to assume has been determined by setting strategic tolerance limits for specific risks specified in the Risk Management Strategy of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group.

The Supervisory Board is supported by the following committees:

1. the Risk Committee, with respect to expressing opinions on the current and future preparedness of PKO Bank Polski S.A. to assuming risk, which takes the form, in particular, of the strategic risk tolerance limits, supervising the implementation by the Management Board of the risk management system in PKO Bank Polski S.A., evaluating the adequacy and effectiveness of the risk management system and in supervising the risk management strategy;

2. the Audit Committee, with respect to monitoring the financial reporting process and the performance of audits, independence of the registered auditor and the audit firm, effectiveness of the internal control and risk management systems;
3. the Nominations and Remuneration Committee, with respect to fulfilling statutory duties and performing remuneration-related tasks resulting from the law;
4. the Strategy Committee, with respect to supervising the implementation of the strategy and expressing opinions on those strategic activities of PKO Bank Polski S.A. which require the consent of the Supervisory Board.

The risk management process is carried out in three independent but complementary lines of defence:

1. the first line of defence – is formed of organizational structures responsible for product management, executing sales of products and customer servicing, and of other structures which perform risk-generating operating tasks based on internal regulations. This function is realized in all the organizational units of PKO Bank Polski S.A. and entities of the PKO Bank Polski S.A. Group. Organizational units implement the relevant risk control mechanisms (especially limits) developed by the units in the second line of defence, and ensure that the limits are adhered to by applying the relevant controls. At the same time the entities of the PKO Bank Polski S.A. Group and PKO Bank Polski S.A. are obliged to have comparable and consistent systems for risk assessment and control, taking into account the specific characteristics of each entity and its market;
2. the second line of defence – covers the compliance units and involves identification, measurement, evaluation or control, monitoring and reporting significant types of risks, and the threats and irregularities identified; the tasks are executed by dedicated organizational structures acting on the basis of the applicable internal regulations of PKO Bank Polski S.A.; the objective of these structures is to ensure that the tasks performed as part of the first line of defence are properly governed in the internal regulations of PKO Bank Polski S.A. and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan (i.e. the budget), to the extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. The function is performed, in particular, by the Risk Management Area, the Compliance Department and relevant committees;
3. the third line of defence – consists of the internal audit function which performs independent audits of individual components of PKO Bank Polski S.A.'s management system, including the risk management system, and of the internal control system; the internal audit operates independently of the first and second lines of defence and may support their actions by way of consultations, but without participating in their decision-making. The function is executed in accordance with the internal regulations of PKO Bank Polski S.A. governing the functioning of the internal control system.

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

1. the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence;
2. the function of the third line of defence is independent of the functions of the first and second lines of defence;

3. the function of non-compliance risk management is subordinated to the President of the Management Board.<sup>2</sup>

In the opinion of the Supervisory Board, the structure of risk management is adequate in relation to the size of PKO Bank Polski S.A., the type of its operations and the profile of the risks incurred, taking into account the macroeconomic environment and the possibility of unfavourable events materializing. Risk management is integrated into the planning and controlling systems. The Supervisory Board supervises and evaluates the risk management process, including on the basis of regular reports on the risk, taking into account individual risks, which take into consideration current information on the implementation of the Strategy and include conclusions from stress tests. If necessary, the Supervisory Board orders the verification of the risk management system.

In 2018, the Supervisory Board assessed the risk management system as effective, efficient and consistent with the external regulations, including recommendations of the Polish Financial Supervision Authority.

In the opinion of the Supervisory Board, in 2018 PKO Bank Polski S.A. operated in a safe manner, having its own funds at an adequate level, in particular:

- it classified as own funds (in accordance with a decision adopted by the Annual General Meeting of the Bank) the net profit of PKO Bank Polski S.A. for the financial year 2017 of PLN 2,086 million (setting aside, at the same time, PLN 687.5 million for dividend to shareholders), a part of the net profit for 2017 (PLN 1,822 million) had already been included in own funds as at 31 December 2017 after the Bank had obtained the relevant permission of the Polish Financial Supervision Authority for including the net profit earned by the Bank for the three quarters of 2017, less the applicable charges, in the common equity Tier 1 capital;
- after obtaining the relevant permissions from the Polish Financial Supervision Authority, it included the net profit of PKO Bank Polski S.A. for the first half of 2018, less the anticipated charges, of PLN 1,135 million in common equity Tier 1 capital;
- after obtaining the relevant permissions from the Polish Financial Supervision Authority, it included the net profit of PKO Bank Polski S.A. for the third quarter of 2018, less the anticipated charges, of PLN 500 million, in common equity Tier 1 capital;
- issued subordinated bonds amounting to PLN 1 billion with a maturity of 10 years, and incurred a loan in PLN from the European Investment Bank for the PLN equivalent of EUR 150 million, with a maturity of 5 years;
- repaid the loan from Nordea AB of about EUR 358 million and about CHF 308 million;
- maintained a good liquidity position – as at the end of 2018, the loan to deposit ratio of PKO Bank Polski S.A. (amounts due to customers) amounted to 81.9%, the core deposit base constituted approximately 93.9% of all deposits with PKO Bank Polski S.A. (excluding the interbank market);
- obtained financing by issuing own short-term bonds to regularly renew the maturing issues and adapting its sources of financing to the liquidity needs;
- the capital adequacy level remained at a safe level, above supervisory and regulatory limits: as at 31 December 2018, the total capital ratio (TCR) of PKO Bank Polski S.A. was 21.33% and the common equity Tier 1 capital (CET1) of PKO Bank Polski S.A. was 19.8%. In 2018, PKO Bank Polski S.A. retained a safe capital base;
- throughout 2018, the level of utilization of the strategic tolerance limits for specific risks and capital adequacy were maintained at safe levels;

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<sup>2</sup> In the period covered in the report, the function was subordinated to the Vice-President responsible for the Legal and Compliance Area.

- maintained a favourable level of the financial results due to the balance sheet structure linked with a safe level of equity;
- took into account in the risk management and capital adequacy:
  - the Act on macro-prudential supervision over the financial system and on crisis management which, among other things, increased the capital buffer from 1.25% to 1.875% starting from 1 January 2018;
  - the Decree of the Minister of Development and Finance on the systemic risk buffer which introduced the systemic risk buffer of 3% starting from 1 January 2018;
  - Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, technical standards of EBA and recommendations of the Polish Financial Supervision Authority which, among other things, increased the short-term liquidity ratio LCR for 2018 to 100% from 80% in 2017;
  - decision of the Polish Financial Supervision Authority of 22 October 2018 on maintaining own funds to cover additional capital requirements for the risk resulting from foreign currency loans and advances to households secured with mortgage.

PKO Bank Polski S.A. participated in a subsequent round of European stress tests conducted by the European Banking Authority (EBA) with the participation of the Polish Financial Supervision Authority. Stress tests are intended to provide regulators and market participants with consistent and comparable data on the resilience of the European banks to unfavourable market conditions. The results of stress tests announced by EBA confirmed that PKO Bank Polski S.A. is the most resilient bank in Europe to negative macroeconomic scenarios.

In the opinion of the Supervisory Board, the following key areas of involvement for the Management and Supervisory Board will be particularly important to the development of PKO Bank Polski S.A.:

- effective and rational management of capital adequacy, to maintain TCR and CET1 ratios above the regulatory and supervisory levels;
- counteracting the increased threat of cyber attacks;
- maintaining priorities in terms of operating effectiveness, good liquidity position and stable sources of financing while at the same time optimizing costs and maintaining a safe level of risk and the expected capital adequacy level;
- supporting the economic development of Poland, taking into account the needs shaped by the new market technologies;
- the increasing complexity of the regulatory environment, including capital requirements, liquidity, management of individual risks and data security in banking systems.

Warsaw, 04.04.2019

### **List of resolutions of the Supervisory Board of PKO Bank Polski SA passed in 2018**

1. Resolution No. 1/2018 of the Supervisory Board dated 8 January 2018 on granting consent for an agreement to be concluded by the Bank
2. Resolution No. 2/2018 of the Supervisory Board dated 25 January 2018 on granting consent for marketing service agreements to be concluded by the Bank in 2018
3. Resolution No. 3/2018 of the Supervisory Board dated 25 January 2018 on granting consent for a marketing service agreement to be concluded by the Bank
4. Resolution No. 4/2018 of the Supervisory Board dated 25 January 2018 on granting consent for a marketing service agreement to be concluded by the Bank
5. Resolution No. 5/2018 of the Supervisory Board dated 8 February 2018 on determining the consolidated text of the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
6. Resolution No. 6/2018 of the Supervisory Board dated 8 February 2018 on approval of the financial plan, including the capital plan for the year 2018
7. Resolution No. 7/2018 of the Supervisory Board dated 8 February 2018 on the change in the total nominal value of mortgage receivables sold to PKO Bank Hipoteczny S.A. and concluding agreements for sale of receivables with PKO Bank Hipoteczny S.A.
8. Resolution No. 8/2018 of the Supervisory Board dated 8 February 2018 on granting consent for concluding a release from debt agreement
9. Resolution No. 9/2018 of the Supervisory Board dated 8 February 2018 on the Rules of Procedure of the Remuneration Committee
10. Resolution No. 10/2018 of the Supervisory Board dated 8 February 2018 on approval of the Organizational Rules of Procedure of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
11. Resolution No. 11/2018 of the Supervisory Board dated 8 February 2018 on approval of the principles of operation of the internal control system at PKO Bank Polski SA



12. Resolution No. 12/2018 of the Supervisory Board dated 8 February 2018 on approval of the principles for ensuring compliance and managing compliance risk and procedural risk at PKO Bank Polski SA
13. Resolution No. 13/2018 of the Supervisory Board dated 8 February 2018 on approval of the Operational plan of the Compliance Department for the year 2018
14. Resolution No. 14/2018 of the Supervisory Board dated 8 March 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
15. Resolution No. 15/2018 of the Supervisory Board dated 8 March 2018 on the consolidated financial statements of the PKO Bank Polski SA Group for the financial year ended 31 December 2017
16. Resolution No. 16/2018 of the Supervisory Board dated 8 March 2018 on the financial statements of PKO Bank Polski SA for the financial year ended 31 December 2017
17. Resolution No. 17/2018 of the Supervisory Board dated 8 March 2018 on the Directors' Report of the PKO Bank Polski SA Group for the year 2017 prepared jointly with the Directors' Report of PKO Bank Polski SA
18. Resolution No. 18/2018 of the Supervisory Board dated 8 March 2018 on the Management Board's report on non-financial information of the PKO Bank Polski SA Group for the year 2017
19. Resolution No. 19/2018 of the Supervisory Board dated 8 March 2018 on MbO goals and their values and weights for the Management Board Members for 2018
20. Resolution No. 20/2018 of the Supervisory Board dated 8 March 2018 on adoption of the report "Evaluation of the remuneration policy at PKO Bank Polski S.A. in 2017."
21. Resolution No. 21/2018 of the Supervisory Board dated 8 March 2018 on the principles of the information policy at PKO Bank Polski SA concerning capital adequacy and other information subject to publication
22. Resolution No. 22/2018 of the Supervisory Board dated 8 March 2018 on giving consent for concluding an agreement for support services in the process of preparing the cybersecurity risk management model

23. Resolution No. 23/2018 of the Supervisory Board dated 22 March 2018 on the position of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski S.A. on executing the recommendation of the Polish Financial Supervision Authority
24. Resolution No. 24/2018 of the Supervisory Board dated 30 March 2018 on granting consent for marketing service agreements to be concluded by the Bank with a value exceeding PLN 500,000 net per annum
25. Resolution No. 25/2018 of the Supervisory Board dated 19 April 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
26. Resolution No. 26/2018 of the Supervisory Board dated 19 April 2018 on assessing the achievement of the MbO goals by the Bank's Management Board Members in 2017
27. Resolution No. 27/2018 of the Supervisory Board dated 19 April 2018 on giving consent for opening a branch of PKO Bank Polski SA in the United Kingdom of Great Britain and Northern Ireland
28. Resolution No. 28/2018 of the Supervisory Board dated 19 April 2018 on approval of payment of the variable salary component for the year 2017
29. Resolution No. 29/2018 of the Supervisory Board dated 19 April 2018 on the distribution of profit of PKO Bank Polski SA generated in 2017
30. Resolution No. 30/2018 of the Supervisory Board dated 19 April 2018 on evaluating PKO Bank Polski SA's policy regarding sponsorship and charity activities in 2017
31. Resolution No. 31/2018 of the Supervisory Board dated 19 April 2018 on evaluating the application of "Corporate governance principles for supervised institutions" at PKO Bank Polski S.A.
32. Resolution No. 32/2018 of the Supervisory Board dated 19 April 2018 on evaluating compliance of PKO Bank Polski SA with the disclosure requirements concerning the application of corporate governance principles
33. Resolution No. 33/2018 of the Supervisory Board dated 19 April 2018 on the report of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for 2017
34. Resolution No. 34/2018 of the Supervisory Board dated 19 April 2018 on draft resolutions of the Annual General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

35. Resolution No. 35/2018 of the Supervisory Board dated 26 April 2018 on giving consent for amending the marketing service framework agreement by the Bank and concluding marketing service agreements as part of this framework agreement with a value exceeding PLN 500,000 net per annum
36. Resolution No. 36/2018 of the Supervisory Board dated 17 May 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
37. Resolution No. 37/2018 of the Supervisory Board dated 17 May 2018 on accepting the appointment and approving the fixed salary of the Director of the Internal Audit Department at Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
38. Resolution No. 38/2018 of the Supervisory Board dated 17 May 2018 on a draft resolution of the Annual General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
39. Resolution No. 39/2018 of the Supervisory Board dated 17 May 2018 on giving consent for donation agreements, release from debt agreements and other similar agreements to be concluded by the Bank
40. Resolution No. 40/2018 of the Supervisory Board dated 17 May 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
41. Resolution No. 41/2018 of the Supervisory Board dated 28 May 2018 on giving consent for the marketing service framework agreement to be concluded by the Bank and for concluding marketing service agreements on its basis with a value exceeding PLN 500,000 net per annum
42. Resolution No. 42/2018 of the Supervisory Board dated 28 May 2018 on giving consent for the marketing service framework agreement to be concluded by the Bank and for concluding marketing service agreements on its basis with a value exceeding PLN 500,000 net per annum
43. Resolution No. 43/2018 of the Supervisory Board dated 15 June 2018 on giving consent for the Bank to employ advisers for the purpose of executing the project of opening a branch of the Bank in the United Kingdom of Great Britain and Northern Ireland
44. Resolution No. 44/2018 of the Supervisory Board dated 15 June 2018 on giving consent for amending the marketing service framework agreements by the Bank and concluding marketing service agreements as part of this framework agreement with a value exceeding PLN 500,000 net per annum

45. Resolution No. 45/2018 of the Supervisory Board dated 15 June 2018 on granting consent for concluding a release from debt agreement
46. Resolution No. 46/2018 of the Supervisory Board dated 15 June 2018 on a draft resolution of the Annual General Meeting of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
47. Resolution No. 47/2018 of the Supervisory Board dated 15 June 2018 on giving consent for a marketing service agreement to be concluded by the Bank
48. Resolution No. 48/2018 of the Supervisory Board dated 21 June 2018 on approval of the Organizational Rules of Procedure of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
49. Resolution No. 49/2018 of the Supervisory Board dated 21 June 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
50. Resolution No. 50/2018 of the Supervisory Board dated 21 June 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
51. Resolution No. 51/2018 of the Supervisory Board dated 21 June 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
52. Resolution No. 52/2018 of the Supervisory Board dated 21 June 2018 on approving the payment of variable salary components to members of the Bank's Management Board for the years 2014-2016 to be made in 2018 and in January 2019, and determining that there are reasons for limiting the amount of those payments
53. Resolution No. 53/2018 of the Supervisory Board dated 21 June 2018 on the Rules of Procedure of the Audit Committee
54. Resolution No. 54/2018 of the Supervisory Board dated 21 June 2018 on the Risk Management Strategy of PKO Bank Polski SA and the PKO Bank Polski SA Group
55. Resolution No. 55/2018 of the Supervisory Board dated 21 June 2018 on the Rules of Procedure of the Risk Committee
56. Resolution No. 56/2018 of the Supervisory Board dated 6 July 2018 on giving consent for amending the marketing service framework agreements by the Bank and concluding marketing service agreements as part of this framework agreement with a value exceeding PLN 500,000 net per annum

57. Resolution No. 57/2018 of the Supervisory Board dated 20 July 2018 on giving consent for a marketing service agreement to be concluded by the Bank
58. Resolution No. 58/2018 of the Supervisory Board dated 20 July 2018 on giving consent for the marketing service framework agreement to be concluded by the Bank and for concluding marketing service agreements on its basis with a value exceeding PLN 500,000 net per annum
59. Resolution No. 59/2018 of the Supervisory Board dated 27 July 2018 on the Recovery Plan of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
60. Resolution No. 60/2018 of the Supervisory Board dated 27 July 2018 on the Recovery Plan of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group
61. Resolution No. 61/2018 of the Supervisory Board dated 28 July 2018 on giving consent for a marketing service agreement to be concluded by the Bank
62. Resolution No. 62/2018 of the Supervisory Board dated 8 August 2018 on the donation to the PKO Bank Polski Foundation
63. Resolution No. 63/2018 of the Supervisory Board dated 23 August 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
64. Resolution No. 64/2018 of the Supervisory Board dated 23 August 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
65. Resolution No. 65/2018 of the Supervisory Board dated 23 August 2018 on giving consent for a consulting and advisory service agreement to be concluded
66. Resolution No. 66/2018 of the Supervisory Board dated 23 August 2018 on approval of the resolution of the Management Board amending the resolution on the principles for ensuring compliance and managing compliance risk and procedural risk at PKO Bank Polski SA
67. Resolution No. 67/2018 of the Supervisory Board dated 23 August 2018 amending the resolution on appointing the Remuneration Committee
68. Resolution No. 68/2018 of the Supervisory Board dated 23 August 2018 on the Rules of Procedure of the Nominations and Remuneration Committee
69. Resolution No. 69/2018 of the Supervisory Board dated 23 August 2018 on granting consent for concluding a release from debt agreement

70. Resolution No. 70/2018 of the Supervisory Board dated 27 August 2018 on giving consent for the marketing service framework agreement to be concluded by the Bank and for concluding marketing service agreements on its basis with a value exceeding PLN 500,000 net per annum
71. Resolution No. 71/2018 of the Supervisory Board dated 20 September 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
72. Resolution No. 72/2018 of the Supervisory Board dated 20 September 2018 on introducing the Rules of Procedure for granting loans, cash loans and bank guarantees to members of the Bank's bodies, persons occupying managerial positions at PKO BP SA and to entities related to them
73. Resolution No. 73/2018 of the Supervisory Board dated 20 September 2018 on the policy for selecting the audit firm to conduct the audit of the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group
74. Resolution No. 74/2018 of the Supervisory Board dated 20 September 2018 on the procedure for selecting the audit firm to conduct the audit of the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group
75. Resolution No. 75/2018 of the Supervisory Board dated 20 September 2018 on starting the procedure for commissioning the audit of the financial statements of PKO Bank Polski SA and the PKO Bank Polski SA Group for the years 2020-2021
76. Resolution No. 76/2018 of the Supervisory Board dated 20 September 2018 on giving consent for the social communication service framework agreement to be concluded by the Bank and for concluding social communication service agreements on its basis with a value exceeding PLN 500,000 net per annum
77. Resolution No. 77/2018 of the Supervisory Board dated 20 September 2018 on giving consent for the social communication service framework agreement to be concluded by the Bank and for concluding social communication service agreements on its basis with a value exceeding PLN 500,000 net per annum
78. Resolution No. 78/2018 of the Supervisory Board dated 11 October 2018 on giving consent for appointing a member of the Management Board of PKO Bank Polski SA as the supervisory board member of a company from outside the Bank's Group
79. Resolution No. 79/2018 of the Supervisory Board dated 15 October 2018 on giving consent for PKO Bank Polski SA to conclude a one-off cash donation agreement with PKO Bank Polski Foundation

80. Resolution No. 80/2018 of the Supervisory Board dated 5 November 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
81. Resolution No. 81/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
82. Resolution No. 82/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
83. Resolution No. 83/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
84. Resolution No. 84/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
85. Resolution No. 85/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
86. Resolution No. 86/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
87. Resolution No. 87/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
88. Resolution No. 88/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
89. Resolution No. 89/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
90. Resolution No. 90/2018 of the Supervisory Board dated 5 November 2018 on evaluating whether the Supervisory Board member meets the independence criteria
91. Resolution No. 91/2018 of the Supervisory Board dated 5 November 2018 on approval of the Organizational Rules of Procedure of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
92. Resolution No. 92/2018 of the Supervisory Board dated 5 November 2018 on giving consent for PKO Bank Polski SA to conclude an agreement of formation of the Tax Group of PKO Bank Polski S.A.
93. Resolution No. 93/2018 of the Supervisory Board dated 5 November 2018 on the internal audit plan at PKO Bank Polski SA for 2019

94. Resolution No. 94/2018 of the Supervisory Board dated 5 November 2018 on approving the “Policy on appropriateness of the Management Board members and of persons holding the key functions in the Bank and in the Bank’s Group companies”
95. Resolution No. 95/2018 of the Supervisory Board dated 5 November 2018 on approving the “Principles and procedures for assessing the appropriateness of the candidates for the Bank’s Management Board members and of the Bank’s Management Board members”
96. Resolution No. 96/2018 of the Supervisory Board dated 5 November 2018 on approving the Strategy of the Bank’s management
97. Resolution No. 97/2018 of the Supervisory Board dated 5 November 2018 on giving consent for marketing service agreements to be concluded by the Bank with a value exceeding PLN 500,000 net per annum
98. Resolution No. 98/2018 of the Supervisory Board dated 5 November 2018 on giving consent for a marketing service agreement to be concluded by the Bank with a value exceeding PLN 500,000 net per annum
99. Resolution No. 99/2018 of the Supervisory Board dated 5 November 2018 on giving consent for the marketing service framework agreement to be concluded by the Bank and for concluding marketing service agreements on its basis with a value exceeding PLN 500,000 net per annum
100. Resolution No. 100/2018 of the Supervisory Board dated 5 November 2018 on giving consent for a marketing service agreement to be concluded by the Bank
101. Resolution No. 101/2018 of the Supervisory Board dated 5 November 2018 on granting consent for concluding a release from debt agreement
102. Resolution No. 102/2018 of the Supervisory Board dated 19 November 2018 on giving consent for amending an agreement concluded by the Bank
103. Resolution No. 103/2018 of the Supervisory Board dated 13 December 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
104. Resolution No. 104/2018 of the Supervisory Board dated 13 December 2018 on excusing the absence of the Supervisory Board Member at the Supervisory Board's meeting
105. Resolution No. 105/2018 of the Supervisory Board dated 13 December 2018 on approval of the Organizational Rules of Procedure of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna



106. Resolution No. 106/2018 of the Supervisory Board dated 13 December 2018 on selecting an audit firm to conduct 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
107. Resolution No. 107/2018 of the Supervisory Board dated 13 December 2018 on approving the "Audit Chart"
108. Resolution No. 108/2018 of the Supervisory Board dated 13 December 2018 on giving consent for a member of the Bank's Management Board to perform the function of the Supervisory Board member of Bank Pocztowy SA
109. Resolution No. 109/2018 of the Supervisory Board dated 13 December 2018 on giving consent for concluding donation agreements with the PKO Bank Polski Foundation and agreements for releasing the PKO Bank Polski Foundation from debt
110. Resolution No. 110/2018 of the Supervisory Board dated 13 December 2018 on giving consent for marketing service agreements to be concluded by the Bank
111. Resolution No. 111/2018 of the Supervisory Board dated 13 December 2018 on giving consent for amending the public relations and social communication framework service agreement concluded by the Bank and concluding public relations and social communication service agreements on its basis with a value exceeding PLN 500,000 net per annum
112. Resolution No. 112/2018 of the Supervisory Board dated 13 December 2018 on granting consent for marketing service agreements to be concluded by the Bank with a value exceeding PLN 500,000 net per annum
113. Resolution No. 113/2018 of the Supervisory Board dated 13 December 2018 on the Risk Management Strategy of PKO Bank Polski SA and the PKO Bank Polski SA Group
114. Resolution No. 114/2018 of the Supervisory Board dated 13 December 2018 on the principles of managing capital adequacy and equity at PKO Bank Polski SA and the PKO Bank Polski SA Group
115. Resolution No. 115/2018 of the Supervisory Board dated 13 December 2018 on selling rights to real estate
116. Resolution No. 116/2018 of the Supervisory Board dated 13 December 2018 on selling rights to real estate



Bank Polski



REPORT  
ON THE OPERATIONS  
OF THE NOMINATIONS AND  
REMUNERATION COMMITTEE  
IN 2018

#### 1. Legal basis:

1. The Remuneration Committee (which operated until 23 August 2018) was established pursuant to Resolution No. 52/2011 of the Supervisory Board dated 2 November 2011 (as amended) to support the Supervisory Board in exercising its statutory duties and tasks following from the universally binding law and recommendations of the supervisory bodies, in particular the Polish Financial Supervision Authority and the European Banking Authority.
2. On 24 August 2018 the Supervisory Board passed a resolution amending the resolution on establishing the Remuneration Committee according to which the then functioning Remuneration Committee was transformed into the Nominations and Remuneration Committee. The change was aimed at adapting the Committee to Article 9cd of the Banking Law (based on which important banks are required to appoint a nomination committee) and the Regulation of the Minister of Finance dated 7 May 2018 on the detailed scope of tasks of nominations committees in important banks. The Nominations Committee was established within the Bank's structure by transforming the Remuneration Committee which had been operating within the Supervisory Board into the Nominations and Remuneration Committee ("Committee").  
The Committee is operating in accordance with the Rules of the Nominations and Remuneration Committee, which specify the aims of the Committee's operations, the functioning principles and tasks of the Committee.
3. The Report has been prepared based on § 3 section 6 of the Rules of the Nominations and Remuneration Committee, which constitutes an appendix to Resolution No. 68/2018 of the Supervisory Board dated 23 August 2018.

#### 2. In 2018 the Committee comprised:

As at 31 December 2018, the following people were on the Committee:

Name and surname	Function
Piotr Sadownik	Chairman of the Committee
Grażyna Ciużyńska	Vice-Chairman of the Committee (as of 8 February 2018).
Wojciech Jasiński	Member of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Janusz Ostaszewski	Member of the Committee

#### 3. Number of meetings of the Committee in 2018:

In 2018 seven meetings of the Committee took place: on 8 February, 8 March, 19 April, 17 May, 21 June, 23 August and 5 November 2018. The number of Members of the Committee who participated in the meetings in 2018 enabled all the meetings of the Committee to be held correctly.

#### 4. Topics of the Committee's work

As a result of the analyses performed, the Committee gave its positive opinion and presented to the Supervisory Board the following:

- 1) proposed objectives of MbO and their values and weights for members of the Bank's Management Board for 2018;
- 2) accounting for the objectives of MbO for members of the Management Board for 2017;
- 3) payment of variable remuneration to the Director of the Internal Audit Department and the Director of the Compliance Department for 2017;
- 4) determining the amount of fixed remuneration of the Director of the Internal Audit Department;
- 5) payment of variable remuneration to the Bank's Material Risk Takers indicated in the Resolution on the amount of that remuneration for 2017.

Additionally, the Committee:

- 1) adopted the draft report titled: "Assessment of the remuneration policy of PKO Bank Polski in 2017" and recommended to the Supervisory Board that it approve a report compliant with the draft on which it gave its opinion, in order to submit it to the Annual General Meeting;
- 2) gave its opinion on the Policy of appropriateness of the members of the Bank's Management Board and the key executives of the Bank and in the Group Companies, and on the "Principles and procedures for assessing the appropriateness of candidates for members of the Bank's Management Board and the members of the Management Board";
- 3) assessed the Rules of the Committee and recommended to the Supervisory Board the introduction of amendments to the Rules.

In 2018 the Committee, among other things:

- 1) did not have any comment on the planned payments of variable remuneration components for the years 2014-2016 to members of the Bank's Management Board in 2018 and in January 2019;
- 2) in respect of the variable remuneration for the years 2014-2016, it did not find any basis for reducing or depriving anyone of the variable remuneration, for reducing the amount of the deferred variable remuneration or for limiting the amount of funds for the payment of the variable remuneration referred to in § 15, 16 and 17, respectively, of the "Principles for employing and remunerating members of the Bank's Management Board", which constitute an appendix to Resolution No. 43/2017 of the Supervisory Board dated 14 June 2017 on approving the "Principles for employing and remunerating members of the Bank's Management Board".

The Committee also analysed the list of Material Risk Takers and presented its recommendations in this respect.

#### **5. Assessment of the effectiveness of the Committee's work**

The Nominations and Remuneration Committee assessed the effectiveness of the Committee's work in 2018 at a meeting held by the Supervisory Board on 24 January 2019.

In 2018, the Nominations and Remuneration Committee performed its statutory tasks, at the same time taking care to constantly improve its work in this field. All members of the Nominations and Remuneration Committee actively participated in the meetings, and the discussions conducted took into consideration an assessment of the company's current condition, changes on the market, good practices and standards – to effectively assess and improve the remuneration policy.

Cooperation of the Nominations and Remuneration Committee with the Management Board was good; the Committee reacted to the information received in a constructive manner, to ensure transparency and correctness of the communication process in the future.

In 2018 members of the Supervisory Board of PKO Bank Polski SA, including the members of the Nominations and Remuneration Committee, did not notify of any events that would necessitate changing the statements of independence submitted, referred to in item II.Z.4 of Best Practice for GPW Listed Companies 2016 in the wording constituting the appendix to Resolution No. 26/1413/2015 of the Exchange Supervisory Board.

Warsaw, 28.02.2019



Bank Polski



REPORT ON THE OPERATIONS  
OF THE RISK COMMITTEE  
OF THE SUPERVISORY BOARD IN 2018

1. Legal basis:

- The Risk Committee of the Supervisory Board, hereinafter called the “Risk Committee” was appointed by Resolution No. 35/2015 of 4 November 2015,
- The Report on the Operations of the Risk Committee has been prepared based on § 3 section 3 of the Rules of the Committee constituting an appendix to Resolution of the Supervisory Board No. 55/2018 dated 21 June 2018 concerning the Rules of the Risk Committee.

2. Composition of the Risk Committee in 2018

**Composition of the Risk Committee as at 31.12.2018**

<b>Name and surname</b>	<b>Function</b>
Andrzej Kisielewicz	Chairman of the Risk Committee
Grażyna Ciużyńska	Vice-Chairman of the Risk Committee
Mariusz Andrzejewski	Member of the Risk Committee
Adam Budnikowski	Member of the Risk Committee
Elżbieta Mączyńska-Ziemacka	Member of the Risk Committee

**Changes in the composition of the Risk Committee in 2018**

The composition of the Risk Committee in the period from 1.01.2018 to 18.05.2018 was as follows:

Andrzej Kisielewicz – Chairman of the Committee;  
Grażyna Ciużyńska – Deputy Chair of the Committee;  
Mariusz Andrzejewski – Member of the Risk Committee;  
Adam Budnikowski – Member of the Risk Committee;  
Elżbieta Mączyńska-Ziemacka – Member of the Risk Committee;  
Jerzy Paluchniak – Member of the Risk Committee; (on 14 May 2018 he resigned from the function of Member of the Bank’s Supervisory Board, with effect as of 18 May 2018).

3. Information on meetings of the Risk Committee in 2018:

In 2018, the Risk Committee, as part of its regulatory duties, held seven meetings (on 8 February, 8 March, 19 April, 21 June, 23 August, 20 September and 13 December). The number of members of the Risk Committee participating in particular meetings of the Risk Committee in 2018 enabled all the meetings of the Risk Committee in 2018 to be held correctly.

The following persons were invited to and participated in meetings of the Risk Committee: Members of the Bank’s Management Board and the following Directors: of the Banking Risk Function, Internal Audit Department and Compliance Department.

#### 4. Topics of the Risk Committee's work:

In 2018 the Risk Committee's most significant tasks related to:

- 4.1 Expressing opinions on the Bank's total, current and future risk appetite, in consideration of the risk profile of the Bank's Group, and on the risk management strategy in the Bank's operations passed and adopted by the Management Board, as well as information on the pursuit of this strategy and other periodic reports on risk management and capital adequacy, including:
  1. analysing and providing opinions on periodic reports on risk management, including those relating to credit risk, financial risk, operational risk and business risk, as well as the risk of macroeconomic fluctuations;
  2. analysing and providing opinions on the lack of compliance and on the conduct risk in PKO Bank Polski SA, and the reputational risk of PKO Bank Polski SA;
  3. analysing and providing opinions on periodic reports on capital adequacy;
  4. analysing the concentration risk management in PKO Bank Polski SA;
  5. monitoring the levels of model risk in PKO Bank Polski SA, including an analysis and opinions on the annual report on model risk.
- 4.2 Supporting the Supervisory Board in overseeing the implementation of the Bank's operational risk management strategy and on-going monitoring of the risk management system.
- 4.3 Providing opinions on the principles of compliance and compliance risk management, and conduct risk of PKO Bank Polski SA.
- 4.4 Providing opinions on capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group, and providing opinions on the principles of PKO Bank Polski SA's information policy on capital adequacy and of other information subject to publication.
- 4.5 Providing opinions on solutions for offsetting risks with the use of the Bank's property insurance and civil liability insurance of members of the Bank's authorities and proxies.
- 4.4 Reviewing the report and recommendations for the Supervisory Board in respect of approving the report titled: "Assessment of the remuneration policy of PKO Bank Polski in 2017".
- 4.5. Reviewing the Rules of the Risk Committee.
- 4.6 Recommending the List of Material Risk Takers.

#### 5. Description of the Risk Committee's work.

- 5.1. Expressing opinions on the Bank's total, current and future risk appetite, in consideration of the risk profile of the Bank's Group, and opinions on the risk management strategy in the Bank's operations passed and adopted by the Management Board, as well as information on the pursuit of this strategy and other periodic reports on risk management and capital adequacy. Supporting the Supervisory Board in overseeing the implementation of the Bank's operational risk management strategy and on-going monitoring of the risk management system.

In its pursuit of the tasks mentioned above, the Risk Committee, on a quarterly basis, analysed and opinions provided on the following risks: credit risk, financial risk, operational risk, and business risk, as well as on the macroeconomic fluctuations, which were then subject to discussions at the Supervisory Board meetings.

The Risk Committee monitored the risk level on an on-going basis, based on the information included in the monthly reports developed for the purposes of the Risk Committee by the Banking Risk Function.

Additionally, the Risk Committee, on a quarterly basis, analysed and provided opinions on compliance risk and conduct risk, and on a six-monthly basis it analysed and provided opinions on the reports on reputational risk, which were then subject to discussions by the Supervisory Board.

Additionally, on 20 September 2018 the Risk Committee reviewed the materials on the concentration risk management in PKO Bank Polski SA as at 30.06.2018 and analysed the tools that support the process, including: the system of external and internal limits, the principles and methods for identifying and updating groups of related entities, the segregation of competencies and duties in the concentration risk management process, the methods of reporting and the issues of adapting the concentration risk management policy to the recommendations of the Polish Financial Supervision Authority.

As part of the on-going monitoring of the effectiveness of the Bank's risk management system the Risk Committee jointly with the Audit Committee met with the Director of the Banking Risk Function on 13 December 2018 (without the participation of the members of the Management Board).

The Risk Committee also obtained information on the results of the European stress tests published by the EBA in November 2018, in which the 48 largest European banks participated. The results showed that PKO Bank Polski SA is the most resilient institution in the group to negative macroeconomic scenarios and that it has an effective risk management system.

Additionally, the Risk Committee, after analysing the scope of the changes introduced, recommended that the Supervisory Board adopt:

- 1) on 21 June 2018, the Risk management strategy in PKO Bank Polski SA and in the PKO Bank Polski SA Group which would account, among other things, for the following: amendments to the strategic tolerance limits (as a result of the review of those limits conducted) and adding information on the principles for conducting stress tests in respect of concentration risk, by entity, and stress tests following from Recommendation S and T of the Polish Financial Supervision Commission;
- 2) on 13 December 2018, the Risk management strategy in PKO Bank Polski SA and in the PKO Bank Polski SA Group which would account, among other things, for the following: amendments to the strategic tolerance limits and the DtL and LtV ratios (as a result of the review of those limits conducted) and relating to the more precise definition of reputation risk.

#### 5.2 Providing opinions for ensuring compliance and compliance risk management, and conduct risk of PKO Bank Polski SA.

After analysing the scope of the changes introduced, the Risk Committee recommended that the Supervisory Board adopt:

- 1) on 8 February 2018, principles for ensuring compliance and compliance risk management, and conduct risk of PKO Bank Polski SA., taking into consideration among other things the changes in the Bank's adaptation to the requirements of Recommendation H of the Polish Financial Supervision Commission;
- 2) on 23 August 2018, the principles for ensuring compliance and compliance risk management, and conduct risk of PKO Bank Polski SA which takes into account in particular the changes resulting from the recommendations of the Internal Audit Committee.

#### 5.3 Monitoring the levels of model risk in PKO Bank Polski SA.

The Risk Committee analysed and provided its opinion on the annual report relating to the model risk in PKO Bank Polski SA as at the end of 2017, which was then the subject matter of the Supervisory Board meeting.

#### 5.4 Providing opinions on the principles of capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group, and analysing and providing opinions on the periodic reports on capital adequacy.

After performing the analysis, on 13 December 2018 the Risk Committee recommended to the Supervisory Board to adopt the principles for capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group, taking into consideration in particular the changes related to the emergency plan in respect of capital which relates to an event of high capital risk, and ensuring consistency with the Risk management strategy.

On a quarterly basis, the Risk Committee analysed and provided opinions on capital adequacy, which were then subject to discussions by the Supervisory Board.

After performing an analysis, on 8 March 2018 the Risk Committee recommended to the Supervisory Board adopting the principles of information policy of PKO Bank Polski SA in respect of capital adequacy and other information subject to publication, in particular in consideration of adapting to the changes following from Recommendations P and H of the Polish Financial Supervision Authority and updating the information on the frequency and scope of information published on an interim basis.



5.5 Providing opinions on solutions for offsetting risks with the use of the Bank's property insurance and civil liability insurance of members of the Bank's authorities and proxies;  
As part of the tasks mentioned above, on 13 December 2018 the Risk Committee acquainted itself with the material titled The Bank's assessment of the actions taken to offset risks with the use of the Bank's property insurance and civil liability insurance of members of the Bank's authorities and proxies, and gaining information on the results of the optimization of the scope and terms of insurance, including in particular D&O insurance;

5.6 On 8 March 2018, after performing an analysis, the Risk Committee adopted the draft report titled "Assessment of the remuneration policy of PKO Bank Polski in 2017" and recommended approving this report by the Supervisory Board and forwarding it to the Ordinary General Meeting of Shareholders of PKO Bank Polski S.A.

5.7 As a result of the periodic review of the Rules of the Committee on 21 June 2018 the Risk Committee recommended to the Supervisory Board introducing amendments to the Rules of the Risk Committee specified in the Resolution on the said recommendations.

5.8. In 2018 the Risk Committee analysed the list of Material Risk Takers twice (on 8 March and on 23 August) and presented its recommendations in this respect.

5.9. Working plan of the Risk Committee for 2019.

At the meeting on 13 December 2018 the Risk Committee adopted the Framework Working Plan for the Risk Committee for 2019.

6 Assessment of the effectiveness of the Risk Committee's work in 2018.

The Risk Committee assessed the effectiveness of the Committee's work in 2018 at a meeting held by the Supervisory Board of PKO Bank Polski SA on 24 January 2019.

The Risk Committee assessed that the members of the Risk Committee have appropriate competencies and experience to effectively perform the functions of Risk Committee Members.

In 2018 all members of the Risk Committee actively participated in the meetings of the Risk Committee and showed high commitment to the correct performance of their duties.

The number and length of the meetings, as well as the access to the resources were sufficient to enable the Risk Committee to fully discharge its duties.

In 2018, the Risk Committee performed its statutory tasks, at the same time taking care to constantly improve its work in this field. The discussions held at meetings of the Risk Committee were of a high technical and factual level.

The cooperation of the Risk Committee with the Management Board and with other key Bank executives was positive; the Risk Committee reacted to the information received in a constructive manner to ensure transparency and correctness of the communication process in the future.

In 2018 Members of the Supervisory Board of PKO Bank Polski SA, including Members of the Risk Committee, did not notify of any events that would necessitate changing the statements of independence submitted, referred to in item II.Z.4 of Best Practices for GPW Listed Companies 2016 in the wording constituting the appendix to Resolution No. 26/1413/2015 of the Exchange Supervisory Board.



Bank Polski



# REPORT ON THE OPERATIONS OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD IN 2018

1. Legal basis:

- The Audit Committee of the Supervisory Board, hereinafter called “the Audit Committee” was established by Resolution No. 44/2006 of the Supervisory Board dated 30 November 2006 (as amended);
- The Report on the operations of the Audit Committee was prepared on the basis of § 3 section 4 of the Rules of the Committee constituting an appendix to Resolution No. 53/2018 of the Supervisory Board dated 21 June 2018 concerning the Rules of the Audit Committee.

2. In 2018 the Audit Committee comprised:

**Composition of the Audit Committee as at 31.12.2018**

Name and surname	Function
Zbigniew Hajłasz	Chairman of the Audit Committee
Grażyna Ciużyńska	Vice-Chairman of the Audit Committee
Mariusz Andrzejewski	Member of the Audit Committee
Andrzej Kisielewicz	Member of the Audit Committee
Janusz Ostaszewski	Member of the Audit Committee
Piotr Sadownik	Member of the Audit Committee

**Changes to the composition of the Audit Committee in 2018**

On 14 May 2018 Jerzy Paluchniak resigned as Member of the Bank’s Supervisory Board, with effect as of 18 May 2018.

In the period from 1.01.2018 to 18.05.2018 the composition of the Audit Committee was as follows:

Zbigniew Hajłasz – Chairman of the Audit Committee;  
Grażyna Ciużyńska – Deputy Chair of the Audit Committee;  
Mariusz Andrzejewski – Member of the Audit Committee;  
Andrzej Kisielewicz – Member of the Audit Committee;  
Janusz Ostaszewski – member of the Audit Committee;  
Jerzy Paluchniak – Member of the Audit Committee;  
Piotr Sadownik – member of the Audit Committee.

3. Information on the meetings of the Audit Committee in 2018:

In 2018, the Audit Committee, as part of its regulatory duties, held nine meetings (on 8 February, 8 March, 19 April, 17 May, 21 June, 23 August, 20 September, 5 November and 13 December). The number of members of the Audit Committee participating in particular meetings of the Audit Committee in 2018 enabled all the meetings of the Risk Committee in 2018 to be held correctly.

The following persons were invited to and participated in meetings of the Audit Committee: Members of the Bank’s Management Board and the following Directors: of the Internal Audit Department and of the Compliance Department.

During the meetings in 2018 the Audit Committee held meetings – without the participation of members of the Management Board – with the following Directors: of the Banking Risk Function, Internal Audit Department, Legal Department and Compliance Department, and with the audit firm.

The Audit Committee worked according to the Working Plan of the Audit Committee for 2018.

#### 4. Topics of the Audit Committee's work:

In 2018 the Audit Committee's work related to monitoring:

- 1) the process of financial reporting;
- 2) the effectiveness of the internal control system and the operations of the Internal Audit Department (DAW);
- 3) the operations of the Compliance Department (DZG);
- 4) the effectiveness of the risk management system.

The Committee also performed tasks in respect of:

- 1) monitoring audit activities, controlling and monitoring the independence of the independent registered auditor and of the audit firm;
- 2) amending the policy and procedure for appointing the audit firm to carry out the audit of the financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group;
- 3) recommending the appointment of the audit company to conduct an audit and review of the Bank's and the Bank's Group's financial statements for the years 2020-2021;
- 4) reviewing the degree of implementation of the post-audit recommendations of the audit firm addressed to the Management Board and the recommendations from the previous years which had not been implemented;
- 5) accepting the post-audit recommendations of the audit firm addressed to the Management Board for the year ended 31 December 2017 and the manner in which the recommendations were implemented;
- 6) legal issues of material significance to the Bank and reviewing the Rules of the Audit Committee.

#### 5. Description of the Audit Committee's work.

##### 5.1. Monitoring the process of preparation of the financial statements.

#### 1. Review of the interim and annual financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group (separate and consolidated).

As part of the review of the interim and annual financial statements of the Bank and the Bank's Group (separate and consolidated respectively) the Audit Committee concentrated on:

- 1) analysing the results achieved by PKO Bank Polski SA and the PKO Bank Polski SA Group in particular periods, with special emphasis on the most significant events that had an impact on the functioning and financial results of the Bank's Group and benchmarking the Bank's results against the results of its peers, and analysing the amounts of particular income statement items and respective changes. The Audit Committee analysed information on the results of PKO Bank Polski and of the PKO Bank Polski SA Group on a quarterly basis;
- 2) the results of the independent registered auditor's audit of the financial statements of PKO Bank Polski SA and of the PKO Bank Polski SA Group for 2017 and obtaining confirmation from the registered auditor that:
  - the consolidated financial statements of the PKO Bank Polski SA Group present a fair and clear image of the consolidated asset and financial position of the Bank's Group as at 31 December 2017, the consolidated profit/(loss) and the consolidated cash flows for the financial year ended on that date, in accordance with IFRS EU, and the adopted accounting policies, comply as to their form and content, in all material respects, with the legal regulations and the provisions of the Articles of Association of the Parent;
  - the separate financial statements of PKO Bank Polski SA present a fair and clear image of the asset and financial position of the Bank as at 31 December 2017, the profit/(loss) and the cash flows for the financial year ended on that date, in accordance with IFRS EU, and the adopted accounting policies, comply as to their form and content, in all material respects, with the legal regulations and the provisions of the Articles of Association of the Bank.

The Audit Committee, after acquainting itself with the following:

- the financial statements of PKO Bank Polski SA for the year ended 31 December 2017 and the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2017;
- the registered auditor's report on the financial statements referred to above and the additional reports for the Audit Committee prepared by the audit firm (in connection with the audit of the said financial statements) and their discussion;

and after analysing those reports, and keeping in mind the opinion issued by the audit firm, recommended to the Supervisory Board that it issue a positive opinion on the financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the year ended 31 December 2017 and on the consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2017, and presented those recommendations to the Supervisory Board together with the submitted financial statements referred to above.

After the Audit Committee:

- has acquainted itself with the condensed interim consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group for the six months ended on 30 June 2018 and the condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski SA for the six months ended on 30 June 2018, the results of the review of those financial statements by the audit firm, and taking into consideration the respective unqualified review report issued by the audit firm, and after discussion, approved the said reports;
  - has reviewed the reports of the PKO Bank Polski SA Group for the first quarter of 2018 and for the three quarters of 2018, and after discussing them, approved the PKO Bank Polski SA Group Report for the first quarter of 2018 and the PKO Bank Polski SA Group Report for the three quarters of 2018.
2. Review of the degree of implementation of the post-audit recommendations of the audit firm (from previous years, not fully implemented yet) and the recommendations from the previous years which had not been implemented.  
In the analysis of the degree of implementation of the said post-audit recommendations, the Audit Committee periodically (on a quarterly basis) focused on monitoring the recommendations which are being implemented.
  3. Accepting the post-audit recommendations of the audit firm addressed to the Management Board for the year ended 31 December 2017 and the manner in which the recommendations were implemented.  
In the process of analysing the post-audit recommendations of the audit firm for the year ended 31 December 2017 and the manner in which the recommendations were implemented the Audit Committee received information about the details of the audit firm's letter to the Management Board and the number of recommendations issued and their level of importance, and it accepted those recommendations.
  4. On 19 April 2018 the Audit Committee recommended that the Supervisory Board issue a positive opinion at the request of the Management Board concerning the distribution of PKO Bank Polski SA's profit earned in 2017. At the same time the Audit Committee congratulated the Bank's Management Board on the results achieved for 2017, which enable distributing dividend to the Bank's shareholders while meeting the requirements of the Polish Financial Supervision Authority in this respect.

## 5.2. Monitoring the effectiveness of the internal control system and of the Internal Audit Department (DAW)

On 8 February 2018 the Audit Committee passed a resolution in which it gave a positive opinion of the principles of operations of the internal control system in PKO Bank Polski SA that implement the provisions of Recommendation H of the Polish Financial Supervision Authority concerning the internal control system in banks (in force as of 1 January 2018) to the Bank's internal regulations.

### Adequacy of the internal control system in 2017

In 2018 the Audit Committee acquainted itself with and adopted the information on the adequacy and effectiveness of the risk management system and the internal control system in 2017 prepared by DAW, which was required according to Recommendation H of the Polish Financial Supervision Authority.

Additionally, on a quarterly basis the Audit Committee reviewed the degree of completion of the Bank's internal audit plans for 2018 and interim audits, and discussed the results of the audits conducted by DAW and the degree of implementation of the respective recommendations.

After acquainting itself with the draft internal audit plan at PKO Bank Polski SA for 2019 and after analysing the plan, on 5 November 2018 the Audit Committee passed a resolution in which it gave a positive opinion on the draft plans.

On 13 December 2018 the Audit Committee passed a resolution in which it gave a positive opinion on the "Audit Charter" which encompasses the Bank's internal audit policies and the principles of operation of the Bank's Internal Audit Department, in consideration of the amendments concerning, among other things, standardizing the list of bodies authorized to commission DAW to perform unplanned audits and adapt the provisions to the changes in audits planned from 2019, precisely determining the dates for reporting periodic information by DAW, precisely defining the provisions which concern determining the exact number of auditors compared to the number of the Bank's employees and the number of auditors with professional certificates compared to the overall number of auditors employed in DAW.

### Review of DAW's operations

On 5 November 2018 after performing an analysis, the Audit Committee approved the DAW Directors' Report.

On 13 December 2018 the Audit Committee passed a resolution in which it gave a positive opinion on the draft Internal Rules of DAW.

### Monitoring the level of remuneration of DAW employees

After obtaining information according to which the level of remuneration of DAW employees is consistent with the remuneration benchmark adopted by the Bank and with the market levels, and whether the level of achievement of the bonus goals by the DAW employees, including the managerial staff, does not depart from the bonus goals of employees from other areas of the Bank's operations, the Audit Committee approved the Report on remuneration of the DAW employees – an analysis relating to 2017.

In connection with the termination of employment with the Bank of the previous DAW Director and his transfer to another position, on 17 May 2018 the Audit Committee gave a positive opinion on the candidate for the position of DAW Director of Powszechna Kasa Oszczędności Bank Polski SA.

On 5 November 2018 the Audit Committee held a meeting with the DAW Director – without the participation of members of the Management Board – at which it obtained information, among other things, on:

- DAW employee resources,
- changes in DAW's organizational structure planned for 2019, aimed at optimizing processes and actions performed by DAW,
- identification of key risks and risks related to the Bank's operations from the perspective of an external auditor,
- DAW's cooperation with the registered auditor.

### 5.3 Monitoring the operations of DZG

As part of the tasks mentioned above, the Audit Committee:

1. in quarterly cycles, received and analysed the Report prepared by DZG concerning the compliance risk and conduct risk, acquainting itself with, among other things, information on the most important adaptations to the new regulations and standards which have an impact on the Bank's operations, proceedings concerning consumer issues and their current statuses, assessments of operation of control mechanisms and reporting as of January 2018 to the Bank's bodies on irregularities of a "critical" nature observed during the performance of internal control functions, cooperation with the Polish Financial Supervision Authority in respect of the post-control recommendations submitted by the Authority, the next edition of the BION audit and assessment, the level of compliance risk, number of compliance cases in litigation;
2. analysed DZG's material on the adequacy and effectiveness of operations of the compliance unit and the control function in PKO Bank Polski SA, during which it obtained information concerning the resources and internal structure of DZG and its key challenges in 2018. Additionally, it received confirmation from the Director of DZG that there are no weaknesses which would have a negative impact on the operation of the compliance unit and control function in PKO Bank Polski SA;
3. analysed and approved the Report concerning the remuneration of DZG employees (an analysis relating to 2017) receiving a confirmation of the consistency of the level of remuneration of DZG employees with the remuneration benchmark adopted by the Bank and with market peers;
4. on 19 April 2018 it passed a resolution which confirmed the amount of variable remuneration payable to the DZG Director for 2017;
5. during the meeting on 17 May 2018 with the DZG Director – without the participation of members of the Management Board – it obtained information on the human resources and level of remuneration of DZG employees.

### 5.4 Implementation of the PFSA recommendations

The Audit Committee (in quarterly cycles) analysed and accepted information on the degree of completion of implementation of the recommendations issued by the PFSA.

### 5.5 Monitoring the effectiveness of the Bank's risk management system

As part of the on-going monitoring of the effectiveness of the Bank's risk management system the Audit Committee, jointly with the Risk Committee, met with the Director of the Banking Risk Function on 13 December 2018 (without the participation of the members of the Management Board).

## 5.6 Cooperation with the audit firm.

On 8 March the Audit Committee met with the audit firm (without the participation of members of the Management Board).

During the meeting, among other firms, the following issues were discussed:

- the auditor's cooperation with the Bank's Management Board during the audit of the financial statements for 2017. The auditor confirmed that the cooperation was good. The auditor received all the required documents and explanations necessary to prepare the audit report from the Bank's Management Board;
- identification of areas which require special attention in the context of improvements by the auditor, as a result of the conducted audit. The auditor's respective observations were included in the Management Letter relating to the audit of the financial statements for 2017.

On 13 December 2018 the Audit Committee met with the audit firm to discuss the audit plan and approach to the audit of the financial statements for 2018, including the potential key audit issues. During the meeting the representatives of the audit firm discussed:

- the audit timetable indicating the dates of the preliminary audit which commenced in October 2018, and of the final audit;
- areas of special interest during the audit, identified as areas of material risk and planned procedures for the audit of those areas.

The Audit Committee acquainted itself with the document prepared by the audit firm: "Independence Statement", in which, in connection with the audit of PKO Bank Polski SA, the audit firm (KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp.k.):

- 1) confirmed the independence of the audit firm KPMG Audyty Spółka z ograniczoną odpowiedzialnością Sp.k., of the key registered auditor, of the partners, the executives and managers conducting the audit. Appropriate independence requirements are defined in the documents referred to in the said Statement;
- 2) confirmed that it did not provide any prohibited services, in accordance with the regulations specified in the said Statement.

Additionally, in the opinion of the audit firm, based on the professional standards, there are no issues which would have an impact on the independence of the audit firm, which would require disclosing.

The Audit Committee also acquainted itself with the information included in the said Statement on the total fee for the audit firm for the period covered by the financial statements.

The Audit Committee reviewed and proposed changes to the policy of appointing the audit firm and the procedure of selecting the audit firm which was aimed, among other things, at accounting for the possibility of more than one audit firm submitting proposals for the audit, according to a joint audit formula, i.e. an audit conducted by more than one audit firm, and the possibility of appointing an audit firm one year in advance. On 20 September 2018 the Audit Committee passed the following resolutions:

- on recommending to the Supervisory Board the amendments to the policy for appointing the audit firm to carry out the audit of the financial statements of PKO Bank Polski S.A.;
- on recommending to the Supervisory Board the amendments to the policy for changing the procedure for appointing the audit firm to carry out the audit of the financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group;
- on recommending to the Supervisory Board passing a resolution on commencing proceedings for appointing the audit firm to carry out the audit of the financial statements of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group for the years 2020–2021.

At the meeting on 13 December 2018 the Audit Committee, after:

- acquainting itself with the Report of the Commission on the procedure of appointing the audit firm to audit the financial statements for the years 2020–2021 from among the proposals received by the Bank, formed as a result the assessment of the proposals by the Commission and its respective conclusions and ratings of particular proposals;
- obtaining the statement in accordance with the provisions of the Act on statutory auditors, audit firms and public supervision that the Commission was free of the influence of third parties during the assessment of the proposals and drawing conclusions for the Audit Committee;

passed a resolution which approved the Commission's Report on the completion of the procedure of appointing the audit firm to audit and review the financial statements of PKO Bank Polski SA and of the PKO Bank Polski SA Group

for the years 2020–2021, and recommended to the Supervisory Board the appointment of the audit firm specified in the resolution.

Under the regulatory task of consenting to the provision of permissible services other than the audit to the Bank and the Bank's Group by the audit firm, the audit firm's related entities and a member of the audit firm's network, on 17 May, 23 August and 13 December 2018, after verifying the services in terms of relationships with the tax policy and assessing threats and securing independence, the Audit Committee passed resolutions in which it gave its consent to the provision of the services referred to in those resolutions by the said entities.

#### 5.7 Legal issues of material significance to the Bank

During the meeting of the Audit Committee with the Director of the Legal Department on 13 December 2018 – without the participation of members of the Management Board – the Director of the Department, among other things:

- confirmed that in the period under discussion there were no issues which would be significant from the legal point of view, of which the Supervisory Board was not informed;
- discussed the level of human resources in the Legal Department and the level of funds earmarked for legal services.

On 21 June 2018 the Audit Committee reviewed the binding Rules of the Audit Committee and passed a resolution on recommendations to the Supervisory Board in respect of amending the Rules of the Audit Committee relating to the modification of its tasks in the areas of monitoring the operations of the Audit Committee by adapting the catalogue of actions included in the scope of monitoring actions of the Department to Recommendation H of the Polish Financial Supervision Authority.

#### 5.8 Working plan of the Audit Committee for 2019

At the meeting on 13 December 2018 the Audit Committee adopted the Framework Working Plan for the Audit Committee for 2019.

### 6 Assessment of the effectiveness of the Audit Committee's work in 2018

The Audit Committee assessed the effectiveness of the Committee's work in 2018 at a meeting held on 24 January 2019.

The Audit Committee assessed that members of the Audit Committee have appropriate competencies and experience to effectively perform the functions of Audit Committee members.

In 2018 all Members of the Audit Committee actively participated in the Audit Committee meetings and showed high commitment to the correct performance of their duties.

The number and length of the meetings, as well as access to the resources were sufficient to enable the Audit Committee to fully discharge its duties, and the documents prepared for the Committee included significant information and were prepared for meetings appropriately in advance.

In 2018 the Audit Committee performed its statutory tasks, at the same time taking care to constantly improve its work in this field. The discussions held at meetings of the Audit Committee were highly technical and factual.

Cooperation of the Audit Committee with the Management Board, DAW, DZG, the Legal Department, the Bank's Risk Function and with other key persons in the Bank, and with the audit firm, was good. The Audit Committee reacted to the information received in a constructive manner to ensure transparency and correctness of the communication process in the future. The Audit Committee found the independence of the audit process satisfactory as a result of monitoring the process and based on an analysis of the information and materials received from the Bank and from the audit firm.

Based on the periodic reports and other documents, the Audit Committee regularly monitored the financial reporting process and the information to be disclosed, the effectiveness of the internal control system, internal audit and the Bank's risk management system, compliance, and audit activities, as well as the independence of the independent registered auditor.

In 2018 Members of the Supervisory Board of PKO Bank Polski SA, including the members of the Audit Committee, did not notify of any events that would necessitate changing the statements of independence submitted, referred to in



item II. Z.4 of Best Practice for GPW Listed Companies 2016 in the wording constituting the appendix to the Resolution No. 26/1413/2015 of the Exchange Supervisory Board. In addition, the Members of the Audit Committee did not notify of any events that would necessitate changing the statements of independence submitted, referred to in the Act on statutory auditors, audit firms and public supervision, or in respect of the accounting and auditing knowledge and competencies.

Warsaw, 28.02.2019



Bank Polski



# REPORT ON THE ACTIVITIES OF THE STRATEGY COMMITTEE FOR 2018

1. Legal basis:

- 1) The Strategy Committee was established under Supervisory Board Resolution No. 73/2016 of 25 August 2016.
- 2) This report has been prepared on the basis of § 3 item 3 of the Strategy Committee Regulations which constitutes an appendix to Supervisory Board Resolution No. 73/2016 of 25 August 2016 regarding the establishment of the Strategy Committee (as amended under Supervisory Board Resolution No. 90/2017 of 21 September 2017).

2. Composition of the Strategy Committee as at 31 December 2018

Name and surname	Role
Grażyna Ciurzyńska	Chairman of the Strategy Committee
Zbigniew Hajłasz	Vice-Chairman of the Strategy Committee
Mirosław Barszcz	Member of the Strategy Committee
Adam Budnikowski	Member of the Strategy Committee
Elżbieta Mączyńska-Ziemacka	Member of the Strategy Committee
Janusz Ostaszewski	Member of the Strategy Committee
Piotr Sadownik	Member of the Strategy Committee

3. Number of meetings of the Committee in 2018:

In 2018, as part of fulfilling its statutory duties, the Strategy Committee held three meetings on the following dates: 19 April, 21 June and 20 September 2018. The number of Members of the Strategy Committee participating in the individual meetings of the Strategy Committee in 2018 warranted the proper course of all the meetings of the Strategy Committee in 2018.

4. Topics addressed by the Committee:

The most important issues which the Strategy Committee worked on in 2018 were those connected with supporting the Supervisory Board in overseeing the implementation of the PKO Bank Polski Strategy for 2016-2020 "We Support the Growth of Poland and Poles", particularly by reviewing the level of accomplishment of the strategic goals covered by the regular PKO Bank Polski Strategy Implementation reports.

The Strategy Committee reviewed and accepted the PKO Bank Polski Strategy 2016-2020 Implementation Reports as at: 31 December 2017 as well as 31 March and 30 June 2018.

The Committee monitored the competitive position of PKO Bank Polski and the developments in the market environment, especially for risks affecting the implementation of the Strategy.

5. Appraisal of the performance of the Strategy Committee in 2018

The Strategy Committee appraised the Committee's performance in 2018 at the meeting of the Supervisory Board of PKO Bank Polski SA on 24 January 2019.

The Strategy Committee found that the Members of the Strategy Committee had the relevant competencies and experience allowing them to play the role of Strategy Committee Members effectively.

In 2018, all the Strategy Committee Members took an active part in the Strategy Committee meetings and demonstrated great commitment to the proper fulfilment of their duties.

In 2018, the Strategy Committee performed its statutory duties, at the same time ensuring the constant improvement of its performance in this regard. The discussions during the meetings of the Strategy Committee were highly professional.

The co-operation of the Strategy Committee with the Management Board and other key officers of the Bank was positive.

In 2018, the Members of the Supervisory Board of PKO Bank Polski SA, including the members of the Strategy Committee, did not report any events which would have made it necessary to amend the submitted declarations of fulfilment of the independence criteria specified in section II. Z.4 of Best Practice for WSE-Listed Companies 2016 according to the form as attached to Resolution No. 26/1413/2015 of the Stock Exchange Board.

Warsaw, 4.04.2019