Bank Polski

100 1919/2019

The PKO Bank Polski SA Group Directors' Report for 2019

prepared jointly with
the PKO Bank Polski SA Directors' Report

Report publication date:

12 February 2020

CONTENTS

1. Introduction 4
1.1 Characteristics of the operations of the PKO Bank Polski SA Group 4
1.2 The PKO Bank Polski SA Group's competitive edge 7
1.3 PKO Bank Polski SA Group– historical background 8
1.4 Major Events in 2019 9
1.5 The PKO Bank Polski SA Group development directions 13
1.6 Market position of the Bank's Group 16
2. External Business Conditions 17
2.1 Macroeconomic environment 17
2.2 Situation on the financial market 19
2.3 Position of the Polish banking sector 20
2.4 Position of the Polish non-banking sector 22
2.5 Ukrainian market 24
2.6 Regulatory and Legal Environment 25
2.7 Factors with an impact on the financial results of the Bank's Group in 2020 28
3. Financial results of the PKO Bank Polski SA Group 30
3.1 Key financial indicators 30
3.2 Consolidated income statement 30
3.3 Consolidated statement of financial position 36
4. Financial standing of the PKO Bank Polski SA 38
4.1 Key financial indicators 38
4.2 Income statement 38
4.3 Statement of financial position 43
5. Equity and capital adequacy measures 45
5.1 Equity and return on equity 45
5.2 Capital adequacy measures 46
5.3 Dividends 47
6. Organization of the PKO Bank Polski SA Group 49
6.1 Subsidiaries covered by the financial statements 49
6.2 Key changes to the structure of the Bank's Group in 2019 51
6.3 transactions with related entities 52
7. Activities of the PKO Bank Polski SA Group 53
7.1 Operating segments of the Bank's Group 53
7.2 Other services 59
7.3 Distribution network and access channels 61
7.4 Sources of financing operations 65
7.5 International cooperation 66
7.6 Operations of other PKO Bank Polski SA Group companies 66
7.7 PRIZES AND AWARDS FOR THE PKO BANK POLSKI SA GROUP 70
8. RISK MANAGEMENT 72
8.1 PRINCIPLES OF RISK MANAGEMENT 72
8.2 Comprehensive stress-tests 74
8.3 Capital adequacy 75
9. Benefits for managers and supervisors 75
9.1 Principles for remunerating Members of the Bank' Management Board 75
9.2 Variable remuneration components for members of the Management Board and key managers who have a material impact on the Bank's risk profile 77
9.3 Information on non-financial remuneration components due to individual members of the Management Board and key managers 78
9.4 Principles for remunerating members of the Bank's Supervisory Board 78
9.5 Agreements concluded between the Bank and management members 79
9.6 Liabilities due to pensions for former supervisors and managers 79
10. Corporate governance 79
10.1 Information for investors 79

10.2 Statement of compliance with the corporate governance principles 85
10.3 Shares of PKO Bank Polski SA held by the Bank's authorities 112
10.4 Diversity policy 112
11. Other information 114
12. Statement on the non-financial information 118
12.1 Introduction 118
12.2 Organizational profile 119
12.3 Management matters 120
12.4 Environmental matters 132
12.5 Social matters 140
12.6 Employment matters 167
12.7 GRI CONTENT INDEX [GRI 102-55] 177
13. Glossary 179

1. INTRODUCTION

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

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

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

Apart from strictly banking operations, the PKO Bank Polski SA Group also provides specialized financial services in respect of leases, factoring, investment funds, pension funds and insurance, and provides car fleet management services, transfer agent services, technological solutions, outsources IT professionals and supports other entities' operations, manages properties, and through its branches in Germany and the Czech Republic, as well as subsidiaries in Ukraine, engages in banking and financial services outside Poland.

Throughout the period of its operations, the Bank's Group has been systematically building its brand prestige. Its long tradition and Customers' trust are important elements in identifying the PKO Bank Polski SA Group, therefore, consistent actions are taken to consolidate the perception of the Group as a group of institutions which are characterized by:

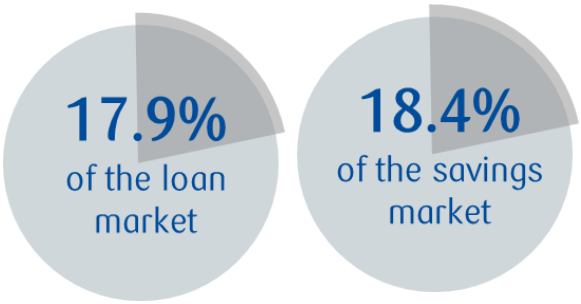
- their safety, strength and competitiveness;
- their modern and innovative nature, customer-friendly attitude and efficient management;
- corporate social responsibility and care for the cultural awareness of Poles.

10.9 million
of the Bank's Customers

4.2 million
of active IKO applications

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

The PKO Bank Polski SA Group has leading shares in the Polish savings sector (18.4%) and loans (17.9%) and the market for investment funds for individuals (20.1%). PKO Bank Polski SA is the leader in terms of current accounts and payment cards maintained.



The high Customer service standards and effective credit risk assessment procedures allowed the Bank's Group to increase its portfolio of financing granted to Customers in 2019 to over PLN 245 billion. At the end of 2019, amounts due to Customers reached over PLN 256 billion.

3.1 thousand

ATMs

1,115

branches

538

agencies

In 2019 the Bank's Group continued activities aimed at increasing the effectiveness of the distribution network. As at the end of 2019 the branch network of PKO Bank Polski SA, which is the largest such network in Poland, covered 1 155 branches and 538 agencies. The Bank's Customers may use state-of-the-art e-banking services offered under the iPKO brand and in respect of the Inteligo account and IKO – mobile banking accounts. The Customers of PKO Bank Polski SA have at their disposal a highly developed network of ATMs, which as at the end of 2019 comprised 3 080 ATMs.

The PKO Bank Polski SA Group is one of the largest employers in Poland. As at the end of 2019 the PKO Bank Polski SA Group employed almost 28 thousand FTEs. The comprehensive training and education offer is aimed at building a professional team of staff, which is capable of achieving effective work.

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

THE PKO BANK POLSKI SA GROUP BETWEEN 2015 AND 2019[1]

	2019	2018	2017	2016	2015
Statement of financial position (in PLN million)					
Total assets	348,044	324,255	296,912	285,573	266,940
Total equity	41,578	39,101	36,256	32,569	30,265
Financing granted to Customers	245,279	230,438	214,361	208,987	195,229
Amounts due to Customers	256,170	238,723	217,306	200,404	191,005
Income statement (in PLN million)					
Net profit	4,031	3,741	3,104	2,874	2,610
Net interest income	10,279	9,345	8,606	7,755	7,029
Net fee and commission income	3,047	3,013	2,969	2,693	2,851
Result on business activities	14,670	13,339	12,560	11,790	10,665
Net write-downs and impairment	-1,712	-1,451	-1,617	-1,623	-1,476
Administrative expenses	-6,148	-5,897	-5,784	-5,590	-6,036
Financial ratios					
ROA net	1.2%	1.2%	1.1%	1.1%	1.0%
ROE net	10.0%	10.0%	9.0%	9.1%	9.0%
ROTE net	10.9%	11.0%	10.0%	10.2%	10.2%
C/I (cost to income ratio)	41.9%	44.2%	46.0%	47.4%	56.6%
Net interest margin	3.4%	3.4%	3.3%	3.2%	3.0%
Share of impaired loans	4.1%	4.9%	5.5%	5.9%	6.6%
Cost of credit risk	0.47%	0.59%	0.71%	0.75%	0.72%
Total capital ratio	18.42%	18.88%	17.37%	15.81%	14.61%
Number of Customers of PKO Bank Polski SA (in thousand), including:	10,933	10,653	10,330	10,080	9,855
Individuals (in thousand)	10,427	10,179	9,877	9,648	9,423
Companies and enterprises (in thousand)	491	459	438	418	419
Corporate Customers (in thousand)	16	15	15	15	14
Operational data					
Number of branches of PKO Bank Polski SA (in thousand)	1,115	1,155	1,194	1,238	1,278
Number of employees (in FTE)	27,708	27,856	28,443	29,163	28,944
Number of current accounts in the Bank (in thousand)	8,012	7,697	7,362	7,034	6,728
Information on shares					
Stock exchange capitalisation (in PLN million)	43,075	49,338	55,388	35,175	34,163
Number of shares (in million)	1,250	1,250	1,250	1,250	1,250
Share price (in PLN)	34.46	39.47	44.31	28.14	27.33
Dividend per share (in PLN) (paid in a given year out of profit of the previous year)	1.33	0.55	0.00	0.00	0.00

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

1.2 THE PKO BANK POLSKI SA GROUP'S COMPETITIVE EDGE

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

THE MOST VALUABLE POLISH COMPANY

PKO Bank Polski SA is the most valuable company listed on the Warsaw Stock Exchange. As at the end of 2019, its value was assessed at PLN 43.1 billion. The current scale of operations, results achieved, and scale of technological projects performed by PKO Bank Polski SA outperforms its domestic competitors.

The Bank, as the technological leader of the Polish banking sector, uses its potential for building and implementing solutions, which increase the level of advancement of the financial sector, economy and quality of life of Poles.

In 2019, PKO Bank Polski SA was awarded the title of "Bank of the Year in Poland" for the fifth time.

In 2018, the Bank, as the only company out of 37 Polish firms, was included in the group of large companies in the FTSE Russell's index for developed markets.

INNOVATION

The Bank is continuing its digital transformation. It utilizes innovation and modern technology by swiftly transforming itself into the PKO Bank of the Future.

IKO – the Bank's mobile application, which is the most popular and most transactional application on the Polish market, was distinguished as the best in the world according to the Retail International Banker ranking, which covers 100 bank applications worldwide.

The Bank is engaged in the development of e-administration, supporting the digitization of social life. Operator Chmury Krajowej sp. z o.o., a company initiated by the Bank in which the Bank has shares, will support the digital transformation processes and provide innovative technological solutions.

PKO Bank Polski SA, in cooperation with start-ups, systematically implements innovative technological solutions. It is also a pioneer in the use of blockchain technology in the Polish banking sector.

THE LARGEST DISTRIBUTION NETWORK IN POLAND

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

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

The Bank is constantly improving Customer service conditions in the branch network based on modern standards of fittings and advanced technology, which support the process of serving and educating Customers.

INVOLVEMENT IN THE DEVELOPMENT OF POLISH ENTREPRENEURSHIP

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

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

Corporate Customers, apart from the standard banking services, can on their own – using iPKO – e.g. conduct bookkeeping operations or open an online shop.

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

THE LARGEST CUSTOMER BASE

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

HIGHLY COMPETENT AND COMMITTED STAFF

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

STABLE BASE OF FINANCING

PKO Bank Polski SA has a secure and stable financing structure based on Customer deposits, mainly deposits of retail Customers, and PKO Bank Hipoteczny SA is the leader among Polish issuers of mortgage covered bonds. The Bank's competence in the field of issues on the debt market enables access to the Polish and international market thus ensuring diversification of the sources of financing operations.

The high assessment of the Bank's financial reliability has been verified during European stress-tests, which confirmed that PKO Bank Polski SA is the safest bank in Europe.

1.3 PKO Bank Polski SA Group– historical background

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

1919–1938	1.	Pocztowa Kasa Oszczędności was established on 7 February 1919 by virtue of a decree signed by the Head of the country Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde – PKO's founder and first president.
	2.	Pocztowa Kasa Oszczędności was vested with legal personality as a state institution, operating under the supervision of and with the guarantee of the State.
	3.	The first local branch of Pocztowa Kasa Oszczędności was opened in Poznań.
	4.	Pocztowa Kasa Oszczędności began running School Savings Unions (Szkolne Kasy Oszczędności).
	5.	With the initiative of Pocztowa Kasa Oszczędności, the Ministry of the Treasury decided to set up Bank Polska Kasa Opieki (today Pekao SA) as a public company to facilitate the transfer of foreign currencies to Poland by Poles living abroad.
	6.	Pocztowa Kasa Oszczędności strongly contributed to the development of non-cash transactions – every other larger industrial plant and every large enterprise had a cheque account with Pocztowa Kasa Oszczędności, and cheque turnover in Poland was one and a half times higher than the cash turnover.
1939–1945		The Second World War was a period in which Pocztowa Kasa Oszczędności's activity came to a standstill and it suffered huge losses.
1946–1990	1.	Pocztowa Kasa Oszczędności was transformed into Powszechna Kasa Oszczędności.
	2.	The Banking Law Act introduced a privilege for saving deposits held in Powszechna Kasa Oszczędności; they were covered by a State guarantee.
	3.	Powszechna Kasa Oszczędności introduced a modern product: a current account.
	4.	In the years 1975–1987, Powszechna Kasa Oszczędności was merged into the structures of the National Bank of Poland (NBP), yet it retained its identity.
1991–2001	1.	The first Internet information portal of the Bank and the first e-PKO Internet branch were launched.
	2.	PKO Towarzystwo Funduszy Inwestycyjnych SA (PKO TFI SA) began its operations.
	3.	PKO BP BANKOWY PTE SA was formed.
	4.	Bankowy Fundusz Leasingowy SA (currently PKO Leasing SA) was formed which provides operating and finance leases of non-current assets and property.
	5.	PKO Bank Polski SA, as one of the founders, formed Centrum Elektronicznych Usług Płatniczych eService SA (currently CEUP eService sp. z o.o.).
	6.	In 2000, the Bank was transformed into a joint-stock company fully owned by the State Treasury under the name Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA).
2002–2009	1.	The Bank acquired Inteligo Financial Services SA, a company that provides services covering the maintenance and development of ICT systems used in banking systems, also including electronic access to bank accounts (Inteligo account).
	2.	The Bank acquired 66.65% shares in KREDOBANK SA. The company is registered and operates in Ukraine. At present, the Bank holds 100% of shares in the company's share capital.
	3.	In 2004, PKO Bank Polski SA's floatation took place – at the end of the first day of quotations, shares reached a price of PLN 24.50 against the issue price fixed at PLN 20.50.
	4.	PKO BP Faktoring SA (currently PKO Faktoring SA) began its operations.
2010–2015	1.	2013–2015 strategy: "PKO Bank Polski. Every day the best" strengthened the position of the Bank's Group as a leader in key market segments.
	2.	In 2013, PKO Bank Polski SA set a new standard of mobile payments – IKO – an innovative solution on the market of mobile payments, transformed in 2015 into the BLIK payment system, which became the Polish market standard.
	3.	PKO BP signed an agreement for a twenty-year strategic alliance in the electronic payment market with EVO Payments International Acquisition GmbH, and at the same time sold a significant portion of shares in CEUP eService sp. z o.o.
	4.	PKO Bank Hipoteczny SA was formed; its operations include issuing long-term mortgage covered bonds and granting long-term mortgage loans to retail Customers.
	5.	PKO Bank Polski SA acquired shares in the Nordea Group companies, including shares in Nordea Bank Polska SA, and a portfolio of amounts due from corporate Customers. In October 2014, the merger of the banks was carried out.

	6.	PKO Towarzystwo Ubezpieczeń SA was formed, which provides property insurance services to the retail Customers of PKO Bank Polski SA.
	7.	Expansion into foreign markets by establishing the first foreign branch of the Bank (in Frankfurt-am-Main in the Federal Republic of Germany).
2016–2018	1.	Approval of the 2016–2020 strategy: "We support the development of Poland and the Poles" the objective of which is to continue to strengthen the position of the Bank's Group as a leader in key market segments, enhance innovativeness and adapt to Customer needs.
	2.	PKO Leasing SA belonging to the Bank's Group successfully closed the transaction of acquiring Raiffeisen-Leasing Polska SA, thus becoming the main lease provider in Poland.
	3.	The Bank's Group acquired KBC TFI SA and the merger with PKO TFI SA helped additionally accelerate the current dynamic development of PKO TFI SA, and strengthened its leading position in the retail funds segment.
	4.	The Bank's Group increased by companies which offered new technological solutions: ZenCard sp. z o.o. (IT services and products supporting trade and service sectors) and Operator Chmury Krajowej sp. z o.o. (cloud computing services).
	5.	PKO Bank Polski SA established an investment fund managed by PKO TFI SA under the business name PKO VC, which pursues an appropriate policy for a venture capital fund and invests in technological financial innovations.
	6.	PKO Bank Polski SA continued its development abroad and formed a second foreign branch – the corporate branch in Prague (Czech Republic).
	7.	As the only company in Poland from among 37, PKO Bank Polski SA was accepted to the FTSE Russell index for large companies in developed markets.
2019	1.	PKO Bank Polski SA celebrated its centenary.
	2.	PKO Bank Polski SA accomplished its financial goals set for 2020 and announced an updated strategy for the years 2020–2022 "PKO Bank of the Future. We support the development of Poland and the Poles".
	3.	PKO Leasing SA completed the acquisition of Prime Car Management SA with its subsidiaries (Masterlease Group) and strengthened its position on the lease market, as well as extended its offer of services related to the car fleet management and rental of cars.
	4.	Operator Chmury Krajowej sp. z o.o. announced its strategic partnership with Google. They were joined by a second partner – Polski Fundusz Rozwoju SA.
	5.	PKO Bank Polski SA has once again become the most valuable company quoted on the WSE. The value of the Bank's shares as at the end of the year was over PLN 43 billion.
	6.	The IKO application once again ranked first in the ranking of mobile applications of the 100 largest banks in the world with a total of 4.2 million activations.

1.4 Major Events in 2019

In 2019 the Bank's Group began the fourth year of pursuing the strategy "We support the development of Poland and the Poles", in response to the changing market environment and the need to adapt to the new challenges, which the banking sector and the Polish economy face. The direction of the transformations of the Bank's business model is closely related to the dynamically developing digitization of social life and Poland's economic development strategy.

In 2019 PKO Bank Polski SA celebrated its centenary. The Bank's history began on 7 February 1919 when the Chief of State Józef Piłsudski, Prime Minister Ignacy Paderewski and the Minister of Post and Telegraphs, Hubert Linde signed a decree based on which Pocztowa Kasa Oszczędnościowa was created. Since then the Bank has been the trendsetter on the Polish market of financial institutions, introducing attractive products and services, investing in ground-breaking technologies and implementing innovative solutions.

New strategy of PKO Bank Polski SA

In 2019, PKO Bank Polski SA updated its strategy "We support the development of Poland and the Poles". In subsequent years, the Bank will utilize modern technologies and deepen its relations with Customers by the further development of remote channels, precise personalization of its offer and advanced data analysis, in order to become PKO Bank of the Future.

Following the update, the strategy of PKO Bank Polski SA had its horizon extended to 2022 and acquired new challenging financial goals. By 2022, the Bank's Group plans to achieve ROE of 12%, reduce C/I to 41%, and maintain the costs of risks within the range of 0.60–0.75%, and earn annual net profit over PLN 5 billion. One of the goals is also related to the effective management of capital adequacy so that the capital ratios allow for payment of dividends. The strategy also includes non-financial factors (ESG).[2]

PKO Bank Polski SA will focus on four attributes, as the Bank of the Future is has to be:

- accessible, mobile and personal;
- open and innovative;
- digital and effective;
- shaping the competence of the future.

Best Mobile Banking in the World

PKO Bank Polski SA offers its Customers the most developed mobile banking system in the world – the IKO application. As at the end of 2019 the total number of activations reached 4.2 million.

In February 2019, for the second time, IKO ranked first in the 100 Retail Banker International ranking of mobile applications. The ranking is based on Customer reviews posted in iOS and Android application stores. IKO with a total score of 4.8/5 from among nearly 300 thousand reviews outstripped banks from all over the world.

PKO Bank Polski SA Group extends its operations

- As a result of a call to purchase shares, PKO Leasing SA acquired 11.2 million shares in Prime Car Management SA (PCM), which is 94.4% of the Company's share capital. It acquired the remaining shares as a squeeze out and by the end of June 2019 it reached a 100% share in the capital of PCM. The effect of synergy resulting from the acquisition of Prime Car Management SA and its subsidiaries is the reinforcement of the PKO Leasing SA Group's leading position in the lease sector (including operating leases) and the expansion of fleet management and car rental services.
- In 2019 Operator Chmury Krajowej sp. z o.o. announced its strategic partnership with the global technological partner – Google. The purpose of the cooperation is to support Polish companies in implementing and utilizing advanced cloud technology in their business. Google Cloud Platform products will be included in the company's offer, and Google will open the Google Cloud region in Warsaw – i.e. an infrastructure and software hub for Customers from Poland and the Central European region. The Bank owns 50% of the company's shares. On 5 September 2019, a second partner joined the partnership, namely Polski Fundusz Rozwoju SA.
- PKO BP Finat sp. z o.o. and Polski Fundusz Rozwoju SA concluded an agreement to create an Employee Capital Plan Records System (System Ewidencji Pracowniczych Planów Kapitałowych) which started operating on 1 July 2019. The system was integrated with all entities that service Employee Capital Plans so as to ensure on-going aggregation of information from the whole market.

PKO Bank Polski SA as the title sponsor of Ekstraklasa (Polish Premier League)

From 1 July 2019, for two seasons, the top class in Poland will hold the name of PKO Bank Polski Ekstraklasa. The brand of the Bank, as the title sponsor, will be present at all 296 matches during 37 rounds. Under the agreement, PKO Bank Polski SA remains the Official Bank of Ekstraklasa and continues projects, which were launched in the previous season, such as Official Card of Ekstraklasa, *Kanapa Kibica* (Fan's Sofa), or the election of a young fan of the month.
In 2019, the Bank also launched the Partnership Programme addressed to the clubs in Ekstraklasa. The new initiative allows the clubs to obtain additional financing as a result of promotion of the Bank's products among fans.

[2] ESG (environmental, social and governance)

THE BANK'S GROUP INTRODUCES "GREEN PRODUCTS" AND IMPROVES ITS ESG RATING

In 2019, the Bank's Group introduced in its offer subsequent products, which support sustainable development in the environmental area (chapter 12.4.2). The Bank's activities are reflected in the improved ESG ratings.

In 2019, PKO Bank Polski SA:
- improved its ESG rating awarded by FTSE Russell (an increase from 1.6 to 3.3 on a scale of 1 to 5, where 5 is the highest score);
- increased its rating awarded by MSCI from BB to BBB;
- in the Sustainalytics rating reduced its ESG risk score from 32.9 to 24.0 (on a scale from 0 to 100), which means its decrease from the high to medium level.

The ESG Sustainalytics rating is used as one of the elements of adjustment of the Bank's participation in the WIG-ESG index launched on 3 September 2019. The Bank's participation in the index is at the highest possible level of 10%.

The Bank's Group develops its digital services

The Bank's Group offers modern and comprehensive solutions. The Bank addresses its Customers' needs by introducing and developing innovative services in digital communication, namely online iPKO and iPKO Biznes services and IKO mobile application. The Bank's Group provides its Customers with professional tools that facilitate control over finances and conducting business activities.

In its actions taken in 2019 by the PKO Bank Polski SA Group, among other things:
- launched further e-banking services for companies: e-bookkeeping (an accounting application integrated with the iPKO system that enables, among other things, invoicing, finance management, quick access to payments, analysis of current sales and costs, and forecasting expenses) and e-prawnik (e-lawyer, a tool developed by a startup TuPrawnik, which enables remote, quick and comprehensive resolution of a legal problem), and eWindykacja (e-Enforcement, an application to monitor one's own payments and collection through enforcement scenarios or retain a legal enforcement firm through the platform);
- launched e-Tożsamość (electronic identification) service for creating e-Identities (Electronic Identification) through iPKO, thanks to which the Bank's Customers can log on to public administration portals using the bank's login and password in order to use official online services;
- implemented an investment advisory services in the iPKO online service, Inwestomat, which helps Customers make investment decisions;
- as the first Bank in Poland, it launched the possibility to pay income tax from governmental portal www.epodatki.gov.pl using the Paybynet system;
- launched a service, via the iPKO site, enabling the purchase of gift cards with codes to provide continued access to selected platforms (e.g. Google Play, Office 365 or Netflix).
- introduced the possibility of purchasing city transport tickets in the IKO mobile application (performed via moBilet service available in most of the cities in Poland);
- provided two functions in its online currency exchange office – the possibility of ordering currency exchange when the exchange rate reaches the required value, and setting standing orders;
- adapted itself to the PSD2 recommendations – implemented changes for Customers in iPKO and Inteligo services, IKO mobile application, and in handling payment cards, among other things, by introducing additional authorization for certain operations, masking one-off passwords, or shortening sessions in the service.

Operations conducted by the PKO Bank Polski SA Group in 2019 allowed it to achieve very good financial results, and strengthen its leading position among the largest financial institutions in Poland.

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

	2019	2018	Change (y/y)
Net profit	4,031	3,741	+7.8%
Net interest income	10,279	9,345	+10.0%
Net fee and commission income	3,047	3,013	+1.1%
Result on business activities	14,670	13,339	+10.0%
Administrative expenses	-6,148	-5,897	+4.3%
Tax on certain financial institutions	-1,022	-950	+7.6%
Net write-downs and impairment	-1,712	-1,451	+18.0%
Total assets	348,044	324,255	+7.3%
Total equity	41,578	39,101	+6.3%
ROA net	1.2%	1.2%	0,0 p.p.
ROE net	10.0%	10.0%	0,0 p.p.
ROTE net	10.9%	11.0%	-0.1 p.p.
C/I (cost to income ratio)	41.9%	44.2%	-2.3 p.p.
Net interest margin	3.41%	3.41%	0,0 p.p.
Share of impaired loans	4.1%	4.9%	-0.8 p.p.
Cost of credit risk	0.47%	0.59%	-0.12 p.p.
Total capital ratio	18.42%	18.88%	-0.46 p.p.
Tier 1 capital ratio (CET 1)	17.16%	17.54%	-0.38 p.p.

Net profit of the PKO Bank Polski SA Group in 2019 amounted to PLN 4 031 million, which accounts for an increase of 7.8% y/y. The net profit growth was determined by:

1) an improvement in the result on business activities, which reached PLN 14 670 million (+10.0% y/y), mainly due to an increase in net interest income of 10.0% y/y, realized as a result of an increase in volumes;
2) an increase in operating expenses of 4.3% y/y, mainly costs of employee benefits and amortization and depreciation;
3) deterioration of net write-downs and impairment of PLN 261 million as a result of:

- recognizing, in 2019, the costs of legal risk of mortgage backed loans in convertible currencies of PLN -451 million;
- improvement in the remaining net write-downs and impairment of PLN 190 million and a reduction in the cost of credit risk to 0.47%.

As a result of the steps also undertaken in 2019, there was a clear y/y increase in the scale of operations:

- total assets reached a level of over PLN 348 billion (+PLN 24 billion y/y);
- financing granted to Customers increased to more than PLN 245 billion (+PLN 15 billion y/y);
- amounts due to Customers increased to PLN 256 billion (+PLN 17 billion y/y).

In 2019 the Bank's Group:

- retained a high share in the loans and savings market at a level of 17.9% and 18.4% respectively;
- was the leader on the investment funds market for individuals with a share of 20.1%.

1.5 THE PKO BANK POLSKI SA GROUP DEVELOPMENT DIRECTIONS

Who we are – our mission
PKO BankPolski SA strategy for 2020–2022
Performance of the Strategy for 2016–2020

The development directions of PKO Bank Polski SA are set out in the Strategy for 2020–2022 "PKO Bank of the Future. We support the development of Poland and the Poles" (Strategy), approved by the Supervisory Board on 17 November 2019.

WHO WE ARE – OUR MISSION

"WE SUPPORT THE DEVELOPMENT OF POLAND AND THE POLES"

For 100 years we have been delivering financial solutions to our Customers; therefore, we understand the needs of Poles and Polish firms.

We are consistently changing, investing in development, and we responsibly implement modern technologies to enable easy finance management at any place or time. We are proud of our history and of our Polish roots.

We wish to continue exerting a positive influence on Poland – its people, firms, culture and the environment. As one of the largest banks in Central and Eastern Europe we responsibly care for the interests of the shareholders, Customers, employees, and local communities.

PKO BANK POLSKI SA STRATEGY FOR 2020–2022

In 2019, PKO Bank Polski SA announced its updated strategy "PKO Bank of the Future. We support the development of Poland and the Poles" for 2020–2022.

The Strategy is a response to the changing environment in which the Bank operates, as well as new challenges which have emerged in recent years. With regard to technology, they are related to the unavoidable need to use the computation cloud and technologies such as artificial intelligence or blockchain, as well as the growing importance of cybersecurity. At the same time, the ever growing expectations of Customers with regard to the services offered by financial institutions, have an impact on the growing personalization of products and services based on data available in real time.

The Strategy takes into account non-financial factors (ESG): environmental, social and governanace. PKO Bank of the Future:

- is aware of the challenges resulting from climate change;
- is gradually eliminating actions that are harmful to the environment;
- supports environmental education;
- is driven by the social responsibility principle;
- takes into account the impact of its activities on society, Customers, suppliers, employees and shareholders;
- is improving its corporate governance, and
- ensures transparency of the principles of the bank management.

In the coming years, PKO Bank Polski SA will follow its path of digital transformation. To the extent even larger than hitherto, it will use innovations and modern technologies by transforming itself into the PKO Bank of the Future. The Bank will also reinforce relations with its Customers by further intensive development of remote channels and personalization of its offer based on advanced data analytics. The PKO Bank Polski SA network will gradually evolve and transform into an advisory and digital education centre for Customers.

The Bank's financial goals defined for 2022 are as follows:

- net profit over PLN 5 billion;
- ROE at the level of 12%;
- C/I ratio at the level of approx. 41%;
- cost of risk in the 0.60% – 0.75% bracket;
- capability to pay out dividend.

The current strategy, in its new version, focuses on four pillars which the Bank plans to develop and reinforce. PKO Bank of the Future will be:

1. **Accessible, mobile and personal.** The digital banking model assumes the increasing use of remote channels and further digitization of sales and post-sale processes. The Bank will reinforce its relations with the Customer due to a personalized offer drawing on data. It also relates to the development of the firm and enterprise segment. In turn, the network of traditional branches will increasingly play an advisory role and support the digital education of Customers.
2. **Open and innovative.** PKO Bank Polski SA will use the possibilities provided by API, by engaging the strength of the entire Bank's Group. It will also offer its Customers services which go beyond traditional banking operations. Operator Chmury Krajowej sp. z o.o., a company initiated by the Bank in which the Bank has shares, will be the channel for selling pioneer services for companies. The company is to support the transformation processes and provide the innovative solutions necessary to accelerate the development of businesses of Polish enterprises, irrespective of their scale of operations. It will consistently pursue the strategy of international expansion by the development of the network of foreign branches and tools, which support the operations of Polish enterprises abroad.
3. **Digital and effective.** The Bank will continue digitization of the processes, using, among other things, robotics, artificial intelligence and advanced data analytics. As a result of using cloud services, the IT infrastructure will be easily scalable and will be easily adapted to the growing demand for computing power. In order to increase cybersecurity, PKO Bank Polski SA will intensively use new technologies in respect of detecting and reacting to threats.
4. **Shaping the competence of the future.** The Bank will develop a friendly and modern work environment. In order to achieve this goal, it will use agile methods and build autonomous teams, focusing on the growing cooperation within the organization. It will also develop technological and leadership skills, ensuring its employees, in particular IT teams, work in an environment of state-of-the-art technologies.

PURSUIT OF THE STRATEGY FOR 2016–2020

PKO Bank Polski SA accomplished, two years in advance, the strategic financial goals for 2020 set in November 2016 with regard to ROE, effectiveness, risk appetite and capital adequacy, and at the same time it maintained the ability to pay out dividend. This was one of the key reasons for updating the Strategy and setting new goals for the organization with regard to 2022.

Currently, due to the scale of its operations, PKO Bank Polski SA is outperforming its domestic rivals in key categories. It provides services to 10.4 million individual Customers, nearly 500 thousand firms and enterprises, and 15.8 thousand corporate, local-government and institutional Customers.

Within the strong PKO Bank Polski Group there are leaders of the financial market in their segments, among others, PKO Leasing SA on the lease market, and PKO TFI SA, which is the leader on the market of investment funds for individuals.

From the moment of adoption of the 2016–2020 Strategy, the PKO Bank Polski Group has improved its ROE from 9.1% at the end of 2016 to 10.0% at the end of 2019. At the same time, it systematically increased the effectiveness of its operations by reducing the C/I ratio from 47.4% at the end of 2016 to 41.9% at the end of 2019.

PKO Bank Polski SA is a bank that is available wherever it is needed by its Customers, who in line with predominant world trends tend to choose remote banking channels. The number of current accounts of individual Customers went up by almost 14% over the past three years, despite a drop in the number of outlets from over 1 200 to 1 115.

The number of active IKO applications went up from 1 million to over 4.2 million, and the number of transactions performed via IKO increased from PLN 9.9 million at the end of 2016 to PLN 119.5 million at the end of 2019. The safety, ease of use of the applications and access to attractive products available through them result in the best scores from our Customers. This is why IKO has already twice been regarded by users as the best mobile banking application in the world.

In 2019, PKO Bank Polski SA for the fifth time was awarded the title of "Bank of the Year in Poland" which is granted by the British monthly journal, *The Banker*. International experts appreciated the bank for its digital transformation, which is permanently embedded in the organization's DNA.

The effects of the pursuit of strategic goals in 2019 in the area of particular strategic levers were, among others:

1. Being close to the Customer

- PKO's offer of Konto dla Młodych (Account for the Young) – a modern form of cash management using internet and mobile banking earmarked for 18 to 26 years old;
- PKO Business account "e-Biznes", earmarked for individuals engaged in business activities, covering access to tools supporting online sales;
- e-Prawnik – a new service for small- and medium-sized enterprises enabling a fast and totally remote and comprehensive resolution of a Customer's legal problem;
- e-Księgowość – tools and solutions for small- and medium-sized enterprises that facilitate independent management of the finances and accounting systems of a business, integrated with other electronic banking services;
- e-Windykacja – a solution for small and medium-sized companies, which facilitates effective collection of overdue invoices.
- Providing entrepreneurs with the ability to confirm online their data entered on the Social Insurance Office (ZUS - Zakład Ubezpieczeń Społecznych) account.
- Providing corporate Customers with the ability to check a counterparty's account on the white list of VAT taxpayers, attach to iPKO biznes accounts from other banks, also foreign ones, as well as SWIFT Global Payments Innovation services which allows money to be sent between banks in different countries within express deadlines.
- Introducing changes in the iPKO, Inteligo and IKO transactional services which ensure reinforced security for account holders: strong authorization, masking one-off passwords, shortening of sessions in the transactional service.
- Implementing new solutions and facilitations in servicing the deaf in all branches and agencies of PKO Bank Polski SA.

2. Distribution Excellence

- Mobile authorization of transactions; a new method of authorizing transactions commissioned in the iPKO internet service, Inteligo and on the hotline using the IKO application.
- Comprehensive servicing of foreign exchange transactions in IKO – foreign currency accounts with a multi-currency card and activation of eKantor (electronic currency exchange office) were placed under one mobile service;
- Google Play, Netflix and other gift cards available through the iPKO internet service – a new service enabling Customers to top-up their platforms with entertainment and applications.
- Implementing the possibility of purchasing city transport tickets in the IKO mobile application.
- Enabling the sale of automotive insurance in remote channels (IKO and iPKO).
- Introducing the "mojeID" (my ID) service (in effect of the cooperation with the National Clearing House) that enables remote confirmation of identity.
- Further optimization of the network of branches based on the economic feasibility of their operation, which includes both changing the character of the outlets and reducing their number.
- Opening the revitalized Rotunda building, which is one of the architectural landmarks in Warsaw and Poland.
- PKO TFI SA reaching a level of nearly 1.8 thousand agreements for managing PPKs (*Pracownicze Plany Kapitałowe* – Employee Capital Plans) – the highest number among all financial institutions which offer PPKs.

3. Operating Efficiency

- First use of SAF (Standard Audit Files) on the market by PKO Bank Polski SA with regard to enhancing and digitizing Customer service processes.
- Completion of another stage of digitization of sales and service processes.
- Merger of the Contact Center with the Operation Center (as the third bank in Europe) that led to increase in efficiency of processes and use of human capital.
- Making available a new solution in the network of branches, which enables the authorization of selected transactions and orders using SMS (text messages) – material paper savings in the Bank.
- Achieving a level of over 0.7 million Trusted Profiles in the Bank's transaction service sites and promoting fast and easy access to public e-administration services.
- Implementing the first automated processes in the RPA (Robotic Process Automation) technology to increase the effectiveness of back-office processes without the need to increase the number of employees.

4. MODERN ORGANIZATION

- Continuing the Digital Transformation Programme "New Organization and Cooperation" aimed at changing the corporate culture into a more modern, effective and constantly improving one.

5. INNOVATIONS AND TECHNOLOGIES

- Development of the "Let's Fintech" programme, which enables PKO Bank Polski SA to develop cooperation with start-ups and to engage in searching for new technological solutions available on the market.
- Continuing work on implementing solutions based on AI (Artificial Intelligence), in particular advanced data analytics and voice assistant.
- Starting operating activities of Operator Chmury Krajowej sp. z o.o. and concluding a strategic partnership with the global technological partner – Google.
- Providing production API as part of open banking.
- Launching an innovative advisory service in the investment funds offer, "Inwestomat", with fully automated purchase processes in remote channels.

6. EXPANDING THE BUSINESS MODEL

- Acquisition of Prime Car Management SA by PKO Leasing SA.
- Accession of PKO Bank Polski SA and PKO Bank Hipoteczny SA (as the first banks in Poland) to the pilot project Energy Efficient Mortgages (EEM).

1.6 MARKET POSITION OF THE BANK'S GROUP

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

In 2019, the Bank's Group:

- maintained high shares in the loan market, both in terms of volume and sales of selected products;
- strengthened its position on the savings market, both in respect of individuals and institutional entities;
- maintained its position as leader on the individuals investment fund market.

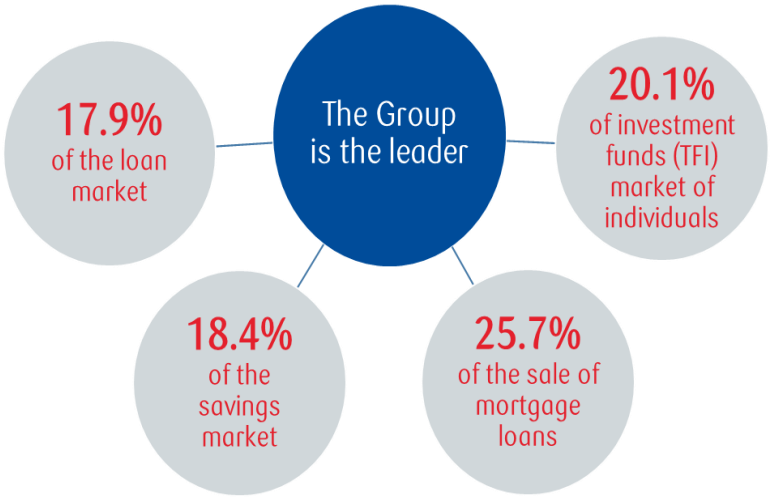


Table 2. Market shares

	31.12.2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	Change 2019/2018
Loans for:	**17.9%**	**17.6%**	**17.7%**	**17.8%**	**17.9%**	**0.3 p.p.**
private individuals, of which:	22.8%	22.9%	23.0%	22.8%	22.9%	-0.1 p.p.
housing	25.8%	26.1%	26.1%	25.7%	25.5%	-0.3 p.p.
PLN	27.6%	28.3%	28.6%	28.6%	28.7%	-0.7 p.p.
foreign currency	20.9%	21.0%	21.2%	21.4%	21.5%	-0.1 p.p.
consumer and other	16.3%	15.8%	15.9%	15.8%	16.1%	0.5 p.p.
in current account	32.4%	32.1%	32.0%	32.6%	33.9%	0.3 p.p.
institutional entities	13.1%	12.7%	12.8%	12.9%	13.0%	0.4 p.p.
Non-Treasury debt securities (indebtedness)	**30.7%**	**32.4%**	**29.3%**	**29.2%**	**28.8%**	**-1.7 p.p.**
Sales of mortgage loans	**25.7%**	**28.9%**	**29.6%**	**31.9%**	**24.9%**	**-3.2 p.p.**
Total savings[1)]	**18.4%**	**18.4%**	**17.3%**	**16.1%**	**16.5%**	**0,0 p.p.**
savings of individuals[2)]	22.7%	22.1%	21.2%	20.8%	20.8%	0.6 p.p.
Deposits:	**17.9%**	**18.1%**	**17.9%**	**17.3%**	**17.9%**	**-0.2 p.p.**
individuals	20.8%	20.2%	20.4%	20.7%	20.7%	0.6 p.p.
institutional entities	13.8%	15.2%	14.5%	12.4%	14.0%	-1.4 p.p.
TFI assets - funds of individuals	**20.1%**	**22.1%**	**17.5%**	**14.6%**	**14.7%**	**-2,0 p.p.**
market[3)]	**7.5%**	**7.7%**	**14.7%**	**9.4%**	**9.1%**	**-0.2 p.p.**

Source: NBP, GPW, ZBP, Analizy Online
1) Total savings include total deposits, TFI assets and retail savings bonds.
2) Savings of individuals include deposits of individuals, funds of individuals and saving Treasury bonds.
3) Taking into account, in 2017, the effect of intermediation in the sale of shares of Pekao SA. On elimination of this effect, the share in brokerage activities in transactions on the secondary market would amount to 11.2%,

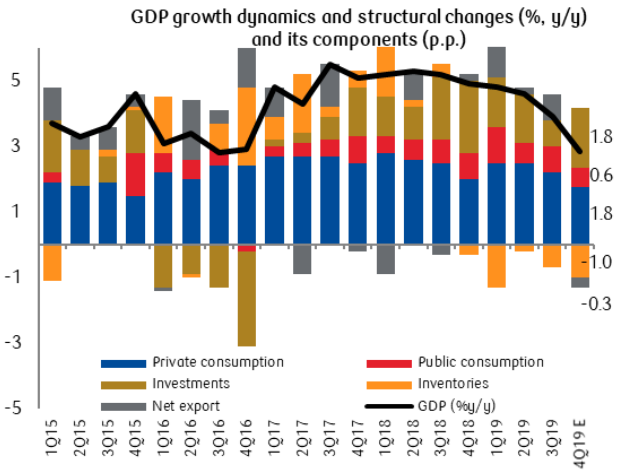
2. External Business Conditions

Macroeconomic environment
Situation on the financial market
Position of the Polish banking sector
Position of the Polish non-banking sector
Ukrainian market
Regulatory and legal environment
Factors with an impact on the financial results of the Bank's Group in 2020

2.1 Macroeconomic environment

Macroeconomic factors, which shaped the national economy in 2019:

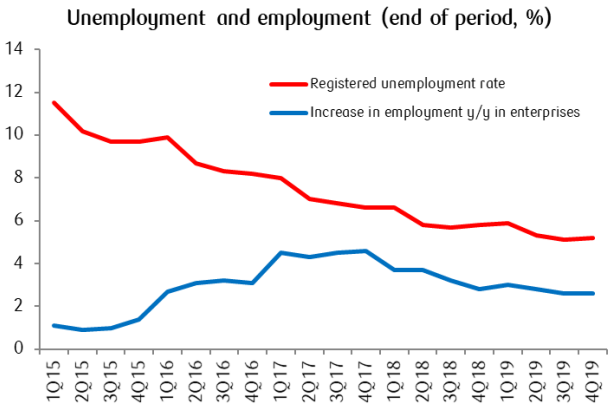
Moderate slowdown in economic growth



In 2019, the economic growth rate slowed down systematically. The initial data published by GUS indicates that the rate of growth of GDP slowed to 4.0% against 5.1% in 2018.

In 2019 private consumption continued to be the main GDP growth factor; it was stimulated by the increase in wages and salaries, which remained high, and optimistic consumer moods. Investments, which considerably contributed to GDP growth at the turn of 2018 and 2019, decelerated mid-year, mainly due to the expiry of public projects financed from European funds, but their annual growth amounted to a solid 7.8%. Polish exports went up despite a slow-down in world trade, and its resilience was due to geographical diversification, a considerable share of consumer goods

and the previous inflow of foreign investments. Poland's importance as a services exporter continued to grow.



CONTINUING IMPROVEMENT ON THE LABOUR MARKET

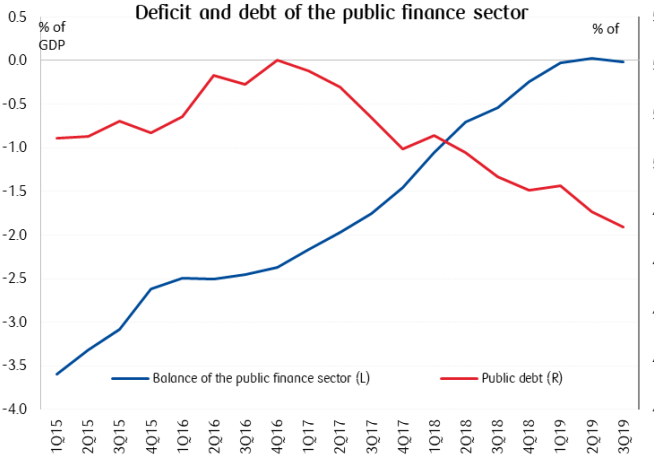
The unemployment rate registered in December 2019 dropped to 5.2% y/y compared with 5.8% y/y at the end of 2018. During the year, the unemployment rate maintained its downward trend, with a record low of 5.0% in October, despite signs of a slow-down in demand for labour and continuing limitations in supply (no qualified employees). The same factors also contributed to the deceleration in the rate of increase in employment. The rate of growth of wages and salaries in the enterprise sector in the second half of 2019 slowed down and in October-November was below 6% y/y, which could reflect the suspension of salary increases before the minimum wage rise planned for 2020 of more than 15%.

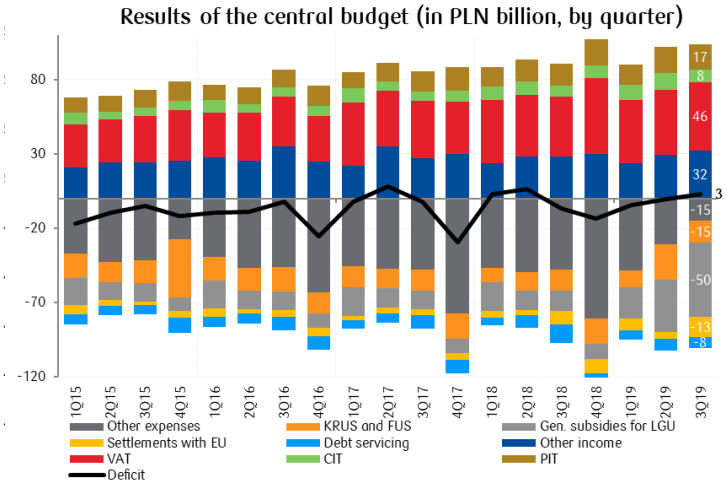
SHARP INCREASE IN INFLATION

From May 2019, CPI inflation was above the National Bank of Poland's (NBP) target (2.5% y/y). In December, CPI inflation went up to 3.4% y/y, and therefore was close to the top limit of the allowable target deviations bracket. It was the highest CPI inflation level since 2012. Average annual CPI inflation amounted to 2.3% compared with 1.6% in 2018. Core inflation (CPI without food and energy) accelerated from 0.8% y/y in January to over 3.0% y/y in December. The clear upward trend reflected the tensions on the domestic labour market over the last years, and changes in administered prices.

IMPROVEMENT IN THE PUBLIC FINANCES CONDITION

In Q3 2019 (last available data), in the third consecutive quarter, the public finance sector was close to balancing (according the EU ESA2010 methodology) and reported a record-breaking low deficit of 0.02% GDP. Public debt in Q3 2019 (according to ESA2010) went down to 47.4% GDP from 48.9% GDP as at the end of 2018. Over the entire year, the central budget maintained its very good situation – at the end of November 2019 it recorded a slight deficit of PLN 1.9 billion (considerably below the anticipated deficit for the year), despite the start of a new fiscal package (payment of new pensions totalling approx. PLN 10 billion and the start of paying Rodzina 500+ benefits for a first child). For the first time in history, the draft budget Act for 2020 assumes a balance between expenditure and incomes.





Stabilization of the Monetary Policy

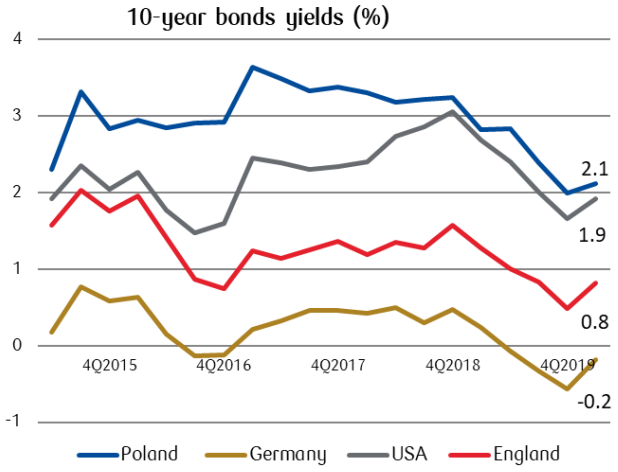
In 2019, the Monetary Policy Council (RPP) did not change the National Bank of Poland's (NBP) base interest rates. During the year, both requests for an increase and decrease of interest rates appeared. However, the base scenario for most members of RPP involves stabilization of interest rates. It is supported by the stabilization of inflation expected by NBP in the second half of 2020, and probable slow-down in the pace of economic growth.

NBP interest rates:

- reference rate 1.50%
- bill rediscount rate 1.75%
- lombard rate 2.50%
- deposit rate 0.50%

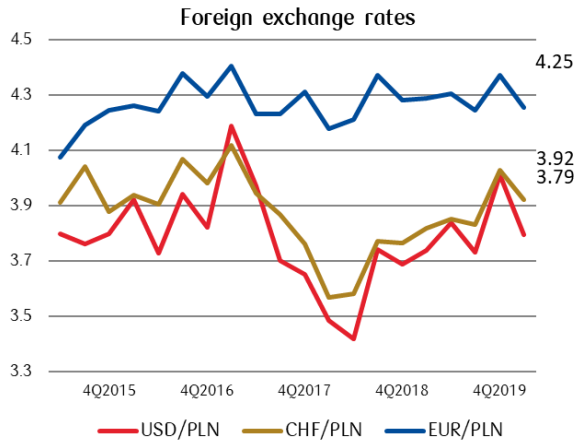
2.2 Situation on the financial market

Interest Rate Market

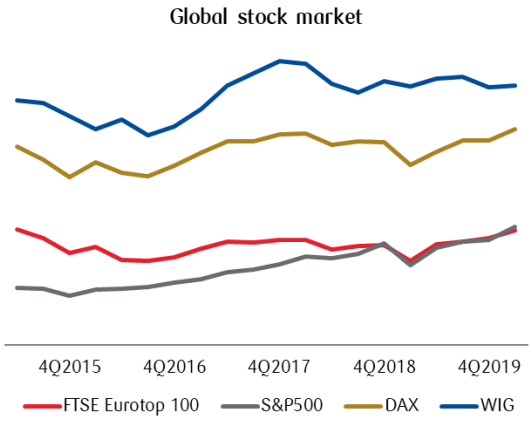


In 2019, the return on long-term bonds dropped rapidly. In the 5-year sector the return went down even by 47 bp to 1.83%, and in 10-year sector by 72 bp to 2.13%. The short end of the yield curve showed greater stabilization. Quotations of 2-year bonds remained near NBP reference rate level which amounted to 1.50% over the entire period. The domestic interest rate market received strong support from the lower supply of Treasury securities as a result of an improvement in the state of public finances. The positive macroeconomic environment was also due to moderate inflation pressure, the central bank's promises of no changes in monetary policy in the long-term perspective, as well as the widely forecast slight slow-down of the Polish economy in subsequent years. Indirectly, the valuation of Polish Treasury securities also reinforced changes on the base markets, where there were increasing concerns about the slow-down of the global economy as a result of the escalation of the trade war between the USA and China. Weaker macroeconomic data and deteriorating moods among entrepreneurs worldwide forced the European Central Bank and Fed to loosen the monetary policy, which resulted in a sharp drop in the yield on Treasury securities on base markets. Returns on 10-year German bonds went down in the entire period by 43 bp to -0.43%, and American ones by 78 bp to 1.91%.

Currency Market



In 2019, the US dollar strengthened against the Euro from 1.15 to 1.12. The economic downturn in the Euro zone and escalating trade dispute between the USA and China until the end of September weakened the Euro against the US dollar to 1.09, while, EU currency partly recovered its position in the last quarter. The Fed's launch of the purchase of short-term Treasury bills (mid-October) and information about agreeing the first phase of a trade agreement between the USA and China (mid-December) enabled the recovery of the EUR/USD exchange rate to 1.12 by the end of the year. The PLN started the year at a level of 4.29 against the EUR, and ended at around 4.26. The clear slow-down in the Euro zone did not affect the rate of economic growth in Poland, as a result of which in the first months, the PLN exchange rate remained relatively stable. The PLN dropped considerably against the EUR, to approx. 4.40, only in the third quarter as a result of the escalation of the trade dispute between the USA and China and concerns regarding the effect of the judgment of the EU Court of Justice (EUCoJ) concerning mortgage loans in convertible currencies on the financial stability of certain banks. Nevertheless, after short-term stability, the PLN started to recover, which was partly due to the growing probability of a trade agreement between the USA and China, the reduced risk of a "hard" Brexit, and the slightly better mood of the global economy, which supported the currency baskets of emerging markets.



Share Market

The year 2019 was not successful for the Warsaw Stock Exchange, although the economic condition on foreign exchanges was good. The WIG index recorded a slight increase, and WIG20 showed a loss of 5.6%, whereas the main world indices brought two-digit profits, often in the range 20-30%. Increases on the global share markets resulted mainly from the deep policy changes of the main central banks. Concerns about an economic slow-down forced the US Federal Reserve and the European Central Bank not only to withdraw from planned increases in the interest rates, but even to reduce them in combination with other motivating activities of a monetary nature, such as e.g. resuming the purchase of assets. This led to a relative increase in the attractiveness of shares as a class of investment assets and was generally received by the market as an action contributing to increased economic activity, which ultimately turned out to be better than the pessimistic forecasts. Investors' moods were not affected even by the permanent turbulence related to Brexit and the trade conflict between the USA and China. In Poland, despite an increase in GDP at a rate of 4%, which was a very good result compared with other countries, the stock exchange performed poorly. This was largely due to the fact that in the main indices the banking and power sectors dominated, which were perceived by investors as too risky in light of the problems related to mortgage loans in convertible currencies and uncertainty as to official electricity prices in view of growing production costs.

2.3 Position of the Polish banking sector

Net profit and returns
Loan and deposit market

Net profit and returns[3]

In the January-November 2019 period, banks pursued their activities in a stable and growing economy, with a high regulatory burden and changes in legal environment.

PLN 14.5 billion
net profit of the banking sector generated in January – November 2019

2.2% y/y
rate of change of the banking sector's net profit in January – November 2019

6.5% (-1.0 p.p. y/y)
return on equity of the banking sector as at the end of November 2019

In this period, the banking sector earned net profit of PLN 14.5 billion, i.e. 2.2% higher than in the corresponding period of 2018.[4] Net interest income was the main item[5] which had a positive impact on net profit. Net commission income broke the downward trend, but growth was still slow.

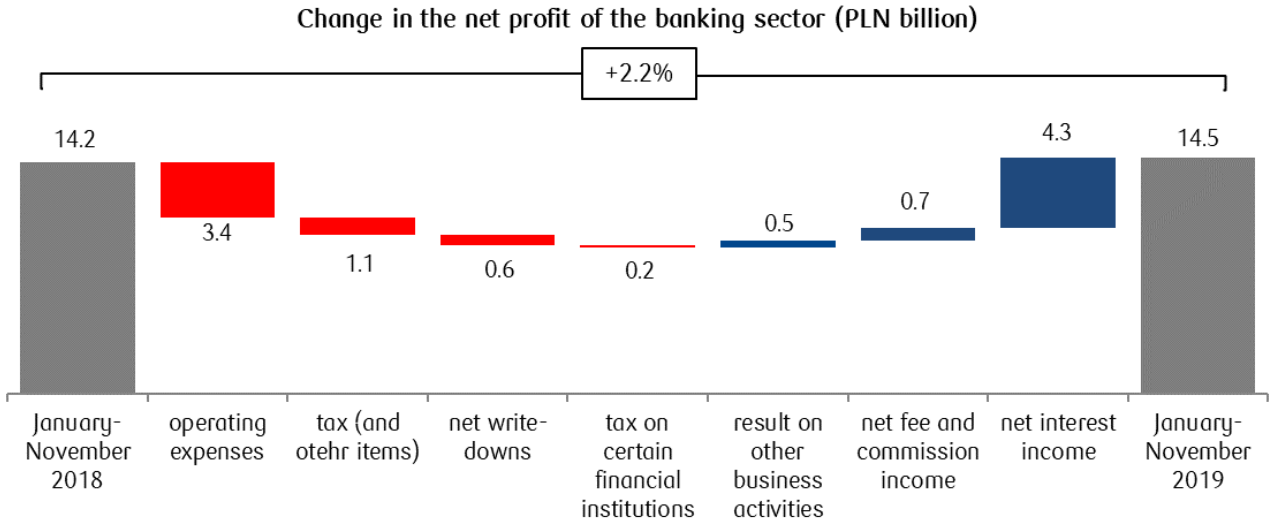
The increase in operating expenses, determined in particular by a large increase in the charges payable to the Bank Guarantee Fund (BGF) had the largest impact on the drop in net profit. Apart from an increase in operating expenses, the deterioration in net impairment allowances, which were impacted by an increase in the loan portfolio and the

[3] Based on the last available data of the Polish Financial Supervision Authority, calculations of PKO Bank Polski SA.

[4] Data relating to the banking sector published by the PFSA for the January-November 2018 period takes into account the effect of the merger with two commercial banks. In consequence, according to PKO Bank Polski SA, amounts that related to the spun-off and transferred operations of the acquired banks were removed from the key income statement items, and the total result on those operations was presented in: "Profit/(loss) on discontinued operations". This hampered the comparability of individual result components between 2019 and 2018 (with the comparability of the "net profit" item unaffected). Therefore, the presented comments to changes in individual result components refers to the trends observed in the January-October period (comparable periods).

[5] The increase in the profit/(loss) on other business operations is due to the method of presentation of dividend income from companies valued under the equity accounting method. It is recognized in "profit/(loss) on other business operations", and charged to "income tax (and other items)". It results in an increase in "profit/(loss) on other business operations" and a decrease in "income tax (and other items)".

increased share of higher-risk products (mainly consumer loans) in the structure of the loan portfolio as well as a deterioration in the condition of selected significant borrowers in the corporate segment, had a negative impact on net profit.

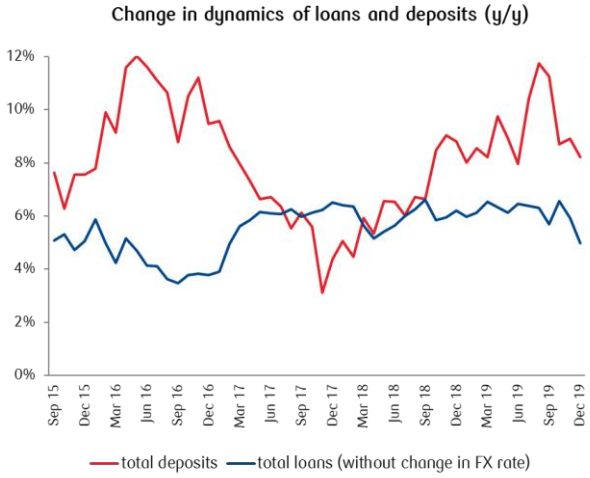


As at the end of November 2019, return on equity in the banking sector (ROE[6]) was still lower y/y, also due to the poor financial results of individual banks; ROE dropped to 6.5% (7.4% at the end of November 2018).

The level of net profit and profitability of the banking sector in the whole 2019 will be negatively influenced by created by banks (in December 2019) reserves on legal risk connected with possessed loans in convertible currencies.

LOAN AND DEPOSIT MARKET[7]

In 2019, the position of the banking sector remained stable, supported by the continued high growth rate of the economy, the good situation on the labour market and the optimism of consumers (the registered unemployment rate went down to 5.2% in December 2019 from 5.8% in December 2018, and average remuneration in the enterprises sector in December increased by 6.2% y/y).



At the end of 2019, the annual growth rate of total loans (net of exchange rate fluctuations) was significantly lower than at the end of 2018 (5.0% and 6.2%). In the case of deposits, the annual growth rate slowed to 8.2% (compared with 8.8% at the end of 2018), remaining, among other things, under the influence of the slow-down in the growth rate of deposits of government institutions.

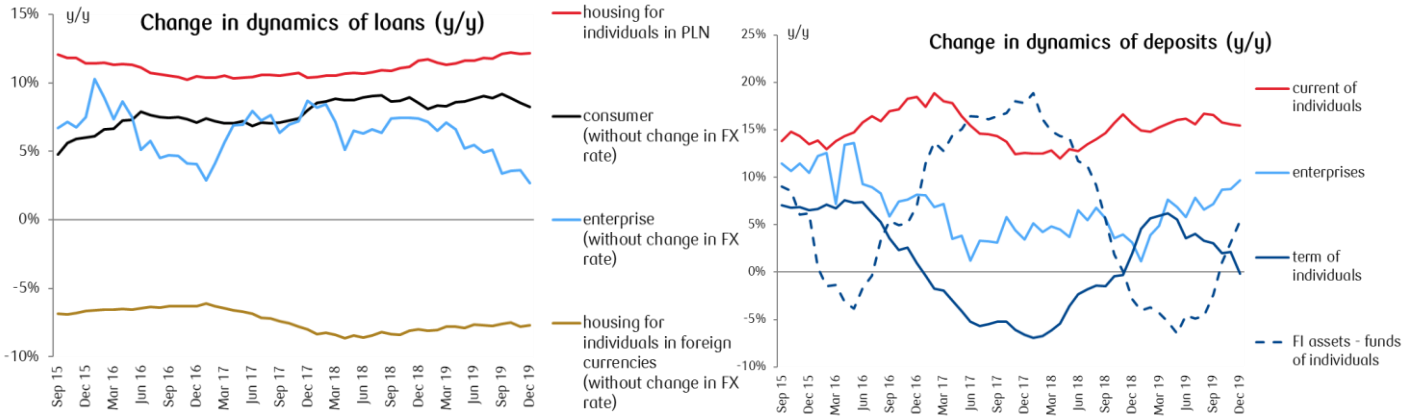
The good financial position of households, supported by an increase in wages and salaries, and low unemployment, supported maintaining the high growth rate of housing loans (12.2% y/y). The growth rate of consumer loans slowed down (8.3% y/y compared with 8.5% at the end of 2018 – net of exchange rate fluctuations). Own funds remained the main source of financing enterprises' investments. In such conditions, the growth rate of loans granted to enterprises slowed down to 2.7% y/y (net of exchange rate fluctuations) at the end of 2019 (7.4% as at the end of 2018).

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

7 Based on the data of NBP, Analizy Online service site.

The annual growth rate of deposits of individuals, supported by the good situation of households, was at the high level of 9.3%, despite observed slow deceleration (9.9% at the end of 2018). Current deposits increased by 15.4% y/y (15.7% at the end of 2018) and term deposits recorded a drop of 0.2% y/y. At the end of 2019, return rates on 12M investment funds were higher than interest rates on new sales of household deposits. The liquidity situation of enterprises was supported by high growth rate of their deposits – the annual growth rate accelerated to 9.7% (3.1% as at the end of 2018).

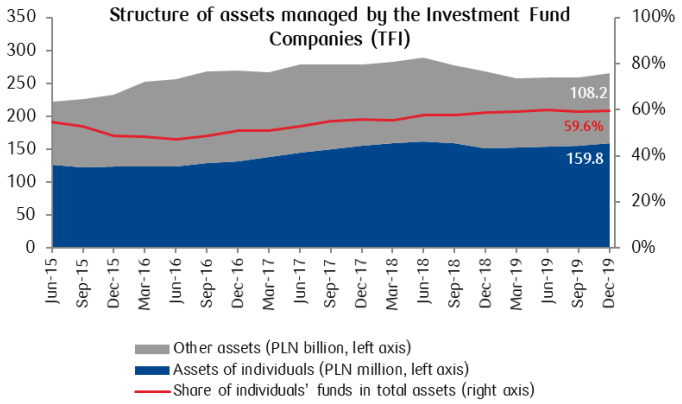
The liquidity position of the banking sector remained good – the loan to deposit ratio decreased to 94.1% as at the end of 2019 (-2.8 p.p. compared with the end of 2018) and was the lowest since August 2007.



2.4 Position of the Polish non-banking sector

Investment Funds Market

In the second half of 2019, the investment funds market recorded an upward trend in respect of average annual rates of return in the main segments of funds for individuals, and a downward trend in respect of average interest rates on deposits. As at the end of the analysed period, the average annual rates of return from safe funds with high exposure on the Polish debt market were considerably higher than the average interest rates on new term deposits of households.



The improvement in return rates had an impact on individuals' demand for investment fund units. The balance of payments and redemptions by individuals on the investment funds market increased from PLN 0.6 billion in 2018 to PLN 2.5 billion in 2019, of which PLN 0.06 billion accounted for net inflows to the PPK target date funds. Total net assets of TFI in 2019 increased by PLN 10.8 billion (+4.2%) to PLN 268.1 billion, of which: assets of individuals' investment funds increased by PLN 8.2 billion (+5.4%) to PLN 159.8 billion, and assets of institutional entities' investment funds by PLN 2.7 billion (+2.5%).

Open Pension Funds Market

In the first half of 2019 assets of Open Pension Funds (OFE) decreased by 1.6% (PLN -2.5 billion) to PLN 154.8 billion. At the same time the number of OFE participants dropped (by -232 thousand, to 15.7 million).

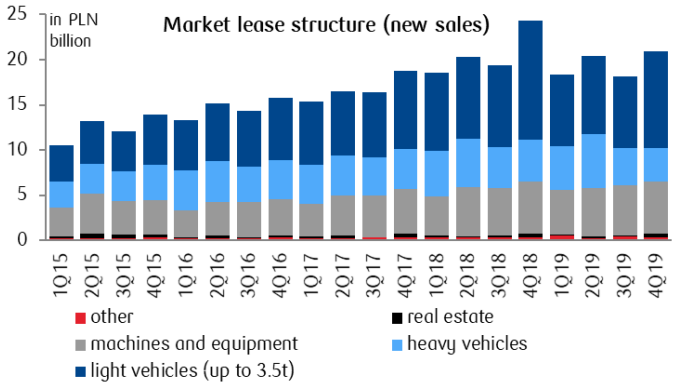
The OFE market remained under the influence of: an improvement in the labour market conditions, supported by an increase in wages and salaries and a drop in unemployment, social welfare programmes, stable conditions on the WSE (increase in the WIG index of 0.2%), and uncertainty as to the future regulations governing operations

(Government project recommending the transfer of funds accumulated in OFE to Individual Pension Accounts (IKE) or the Social Insurance Office (ZUS)).

Shares continued to dominate OFE assets (approx. 82%).

LEASE MARKET[8]

In 2019 the lease market recorded a decrease compared with the previous year. The lease industry financed assets worth PLN 77.8 billion (-5.8% y/y). The largest drop was in leases of light vehicles (cars and trucks up to 3.5 tonnes), which was related to tax changes that came into effect as of 1 January 2019. The value of assets financed in this segment amounted to PLN 35.3 billion (-11.7% y/y), which was approx.. 45% of the total financing granted by lease companies (a decrease of 3 p.p. y/y). The slight fall was registered also for heavy vehicles (-4.6% y/y), with the value of leased assets of PLN 18.6 billion. There was increase in the lease of machinery and equipment by 3.5%, with total value of new contracts of PLN 21.5 billion. The highest growth was recorded for lease of forklift trucks (37.4% y/y).



INSURANCE MARKET

In the first three quarters of 2019 insurance companies earned net profit of PLN 6.0 billion (+5.8% y/y), which was the result of an increase in y/y net profit in the other personal and property insurance segment (+6.2% to PLN 3.9 billion) and an increase in net profit in the life insurance segment (+4.9% to 2.1 billion). The y/y increase in gross written premium to PLN 47.0 billion (+1.5%), with a simultaneous decrease in claims to PLN 29.6 billion (-2.7%) had an impact on the financial results of insurance companies as a whole. Costs of insurance activities were +5.4% higher y/y (PLN 10.9 billion).

In the life insurance segment, gross written premium dropped by -3.1% y/y (to PLN 15.9 billion). Premiums in the group of insurance connected, among other things, with capital fund – UFK Insurance Capital Funds (Ubezpieczeniowe Fundusze Kapitałowe), which has not been offset by increases in premiums in the group of sickness and accident insurance, as well as in the group of life insurance. Claims paid out in the life insurance segment dropped by -11.8% y/y. Costs of insurance activities in the life insurance segment decreased slightly y/y (-1.4% to PLN 3.7 billion).

The segment of other personal and property insurance noted a y/y increase in gross written premium of +4.0% (to PLN 31.1 billion), with an increase in claims of 7.2% (to PLN 15.6 billion). Costs of insurance activities in the other personal and property insurance segment increased by +9.2% (to PLN 7.2 billion).

FACTORING MARKET

In 2018 a high demand for factoring services prevailed. Sales of companies associated in the Polish Factors Association increased by approx. 16% reaching PLN 282 billion.

The number of business entities using the services of factoring firms increased to 18 thousand.

The largest demand on the part of enterprises was for factoring without recourse, whose share in sales of factoring firms was approx. 51%. The share of the second largest market segment, i.e. recourse factoring, was 31%. Manufacturing and distribution companies remained the entities that most often used factoring services.

[8] According to data of the Polish Leasing Association.

2.5 UKRAINIAN MARKET

ECONOMIC CONDITIONS

The year 2019 was even better for the Ukrainian economy than 2018.

After the slow-down in GDP growth to 2.5% y/y in the first quarter, the next two quarters brought about a clear acceleration of the GDP dynamics to 4.6% and 4.1%, respectively, which was mainly due to private consumption. The data available for the fourth quarter indicates a continuation of solid growth, which means that GDP in the whole year could grow faster than in 2018 (i.e. faster than 3.3%). Industrial data shows that it was under pressure from the decrease in global demand and the strengthening of the hryvna. Retail sales, in turn, noted an upward trend (the average growth rate in January-November was 10.2% y/y compared with 6.3% y/y on average in 2018).

The high increase in consumption demand resulted from the fast growth of wages and salaries, and increase in the number of transfers of wages from Ukrainians working abroad (USD 5.8 billion in the first three quarters of the year, compared with USD 5.2 billion in the corresponding period of 2018 and USD 7.2 billion over the whole of 2018). The nominal growth rate of wages and salaries (despite a moderate downward trend) remained at a high, two-digit level over the entire year (in January-November wages and salaries on average grew by 18.8% y/y compared with 25.0% y/y in 2018). In view of decreasing inflation (to 8.3% y/y compared with 11.0% y/y in the corresponding periods) the slow-down in the real increase in wages and salaries was only slight.

Growing revenue from PIT and CIT as well as fast economic growth allowed the reduction of public debt (50.7% of GDP as at the end of November, compared with 60.9% of GDP as at the end of 2018), despite the increase in budget spending. The appreciation of the hryvna, which reduced the value of the foreign debt denominated in hryvna also had an impact. Over the entire year, there was a downward trend in the UAH/USD exchange rate, and the hryvna strengthened to 23.69 UAH/USD at the end of the year compared with 27.69 UAH/USD a year earlier.

The decrease in the CPI inflation (to 5.1% y/y in November 2019 compared with 9.8% y/y in December 2018) and the base inflation (to 4.8% y/y compared with 8.7% y/y in corresponding periods) allowed the Central Bank to lower interest rates (five times over the entire year), including the main discount rate from 18.0% to 13.5%.

UKRAINIAN BANKING SECTOR

In accordance with data from the National Bank of Ukraine (NBU) the number of banks, which engaged in operations in Ukraine dropped to 75 in November 2019 (compared with 77 in December 2018).

The value of total assets in the Ukrainian banking system in 2019 increased to UAH 1.40 trillion (at the end of November) from UAH 1.36 trillion (as at the end of 2018). Equity increased to UAH 197.4 billion from UAH 155.7 billion, and at the end of November 2019 accounted for 14.1% of the balance sheet total, compared with 11.4% at the end of December 2018. This relation was the highest since the end of 2013.

Ukrainian banks are well capitalized, which leads both to reducing the value of loans in UAH (appreciation of the domestic currency), as well as better profitability and capitalization. In the period from January to November 2019 the volume of loans decreased (by UAH 69.4 billion to UAH 1 054.5 billion). The change resulted entirely from the drop in foreign currency loans (of UAH 81.6 billion). In terms of the structure of entities that took out the loans, all of the decrease was due to loans taken out by residents, including approx. 80% by private enterprises, and 20% by public enterprises. The lending campaign for households increased by UAH 16.6 billion, i.e. by a solid 8.0% y/y, which supported private consumption. In the period under discussion, the value of deposits went up by UAH 67.2 billion (up to UAH 1,023 billion). Despite the appreciation of the hryvna, the volume of foreign currency deposits increased (by UAH 14.6 billion), almost entirely due to payments of residents, which confirms the Ukrainians' distrust in their own currency (and results from foreign transfers). The drivers of the growth in total deposits were the household sector (approx. 50% of the increase) and enterprises (approx. 35% of the increase). The loans/deposits ratio decreased to 103.1% as at the end of November 2019 from 117.6% in December 2018.

In the period from January to November 2019 both ROA (4.72% compared with 1.69%) and ROE (37.37% compared with 14.67%) improved. The capital adequacy ratio in the sector was 18.7% at the end of November 2019 (the level required in 2019 is 10%) compared with 15.5% as at the end of December 2018.

2.6 Regulatory and Legal Environment

New legal and regulatory solutions, which became binding in 2019, and judgments of the Court of Justice of the European Union, had an impact on the financial and organizational position of the PKO Bank Polski SA Group and on the financial sector, including:

Solution	Impact
Loans in convertible currencies and early repayment of loans	
Judgment of the Court of Justice of the European Union (EUCoJ) of 3 October 2019 related to foreign currency housing loans of households and defining the line of interpretation in the case of national courts finding abusive clauses in loan agreements.	Impact on financial results – recognition of costs related to the legal risk of foreign currency mortgage loans
Judgment of EUCoJ of 11 September 2019 and the position of the Financial Ombudsman and the President of the Office for Competition and Consumer Protection (UOKiK) regarding the interpretation of Article 49 of the Act on consumer loans, in respect of a proportionate refund of costs relating to a loan in the event of prepayment.	Impact on financial results – reimbursement of part of comission to Customers
Charges on behalf of the BGF	
The resolutions of the BGF Board from February 2019 (9/2019 and 11/2019), which implemented a change in the charge payable by the banking sector to the system for the protection of deposits and mandatory restructuring by approx. +27% in total:	Increase in operating expenses, profit, profitability
Prudential and Capital Requirements	
The Act on macro-prudential supervision of the financial system and crisis management (Journal of Laws of 2017, item 1934, as amended), which, among other things, as of January 2019 increased the conservation buffer from 1.875% to 2.5%.	Increase in the minimum capital adequacy ratio
Regulation of the Minister of Finance, Investments and Development of 3 October 2019 on the materiality level of outstanding loan liabilities (Journal of Laws of 2019, item 1960);	Impact on capital requirements and the level of write-downs
New Accounting Standard	
IFRS 16, which introduced new principles for identifying and recognizing leases in the lessees' books of account as of 1 January 2019; in effect of which the division between operating and finance leases disappeared.	Increase in total assets, increase in debt ratios, decrease in capital ratios
Investment Funds	
Regulation of the Minister of Finance dated 13 December 2018, which introduced the maximum amount of the investment fund management company's fixed fee for managing an open-ended investment fund or a specialist open-ended investment fund (Journal of Laws of 2018, item 2380); The introduction of the fee limit was distributed over the years 2019-2021. In 2020, the maximum value of the fee may not exceed 3% of net assets (in 2019, the limit was 3.5%).	Limitation of revenue of investment fund management companies
Act on Employee Capital Funds of 4 October 2018 (Journal of Laws of 2018, item 2215), which, as of 1 July 2019, introduced an additional, voluntary system of long-term savings for pension purposes.	Increase in the scale of operations and impact on the level of revenue and costs of investment fund management companies
Leases	
The Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts, which introduced tax changes to PIT and CIT taxation of leases and the use of passenger cars (Journal of Laws of 2018, item 2193);	Impact on business activities
Issue of mortgage covered bonds and bonds	
Act of 9 November 2018 on amendments to certain acts in connection with reinforcing supervision	Change in the structure of

over the financial market and on protecting investors on that market (Journal of Laws of 2018, item 2243), which introduced, as of 1 July 2019, changes to the scope of the dematerialization of mortgage covered bonds and bonds, and to the registration of those securities.	business volumes
PSD2	
Act of 10 May 2018 amending the Act on payment services and certain other acts (Journal of Laws of 2018, item 1075), aimed at aligning the national regulations on providing payment services with the Directive of the European Parliament and of the Council (EU) 2015/2366 of 25 November 2015 on payment services in the internal market.	Change in the business model
CONSUMER BANKRUPTCY	
Act of 30 August 2019 amending the Bankruptcy Law Act and certain other acts, which introduced new solutions that eliminated the existing weaknesses of the consumer bankruptcy solutions aimed at further simplification and acceleration of that process.	Impact on the course of the debt collection process and level of recovery
SEALING THE TAX SYSTEMS	
Amendments to the Act on exchange of tax information with other countries (Journal of Laws of 2019, item 648, as amended), which obliges banks, brokerage houses, investment funds, insurance companies to accept tax residency declarations from Customers that had opened accounts with the entities in the period from 1 January 2016 to 30 April 2017.	Increase in operating expenses
CHANGES IN TAXES	
Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Code and certain other acts (Journal of Laws of 23 November 2018), which introduced, as of 1 January 2019, among other things: - new duties for identifying and reporting information on tax plans to the Chief of the National Revenue Administration (mandatory disclosure rules – MDR); - new tax principles for charging certain income paid to non-residents with withholding tax (WHT), including: • the option of an alternative to WHT method of taxing with a 3% tax on the interest on bonds issued before 1 January 2019 and interest on certain loans granted before 1 January 2019; • interest income and discounts on certain bonds issued after 1 January 2019, earned in Poland, were exempted from taxation; • the requirements to be met by a non-resident to be considered a "rightful owner of receivables received" in order to be exempt from WHT were expanded; - new transfer pricing regulations; - changes to taxation of so-called commercial properties.	Diverse impacts on financial results and increase in operating expenses
Act of 23 October 2018 amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other acts (Journal of Laws 2018, item 2159), changed the principles for accounting for expenses on passenger cars as tax-deductible (came into force as of 1 January 2019).	Diverse impacts on financial results and increase in operating expenses
Act of 4 April 2019 amending the Act on exchange of tax information with other countries and certain other acts (Journal of Laws of 2019, item 694) waived, as of 30 April 2019, the obligation of banks to prepare and transfer to the Chief of the National Revenue Administration information about opened and closed bank accounts connected with conducting business activities (data only reported in the STIR system).	Reduction in the number of operating obligations
Act of 30 August 2019 amending the Personal Income Tax and the Act amending the Personal Income Tax Act and certain other acts (Journal of Laws of 2019, item 1835) modified, as of 1 October 2019, the taxation of, among other things, revenue from a service relationship, employment relationship by reducing the tax rate, increasing tax-deductible costs and changing the amount by which tax is reduced.	Increase in the number of operating tasks
Act of 4 July 2019 amending the Personal Income Tax Act, the Act on family benefits, and the Act on healthcare benefits financed from public funds (Journal of Laws of 2019, item 1394) exempted from taxation income received by taxpayers up to 26 years old, among other things, from employment relationships and contracts of mandate.	Increase in the number of operating tasks

Act of 9 August 2019 amending the Act on tax on goods and services (VAT) and certain other acts (Journal of Laws of 2019, item 1751) introduces as of 1 November 2019 an obligation to apply a split payment mechanism in payments made for specific types of goods and services (listed in Appendix No. 15 to the VAT Act) documented with an invoice with a total amount of at least PLN 15 thousand. Failure to comply with these obligations is related in particular to the risk of joint and several liability of the purchaser and the supplier for the tax specified in the invoice, the potential risk of fiscal penal liability, inability to include the expense in tax-deductible costs, and the possibility of an additional tax liability being charged.	Increase in the number of operational actions, adaptation of Customer applications
Act of 16 October 2019 on amending the Act on public offering and conditions for introducing financial instruments to the organized trading system and on public companies, and certain other acts (Journal of Laws of 2019, item 2217) as of 30 November 2019, excludes from taxation with CIT revenue earned in transactions of merging closed-end investment funds, provided that the privileged tax regulations do not apply when the main or sole purpose of the merger is to avoid or evade taxation.	Diverse impact on financial results and increase in operating expenses
Act of 16 October 2019 on determining disputes related to double taxation and concluding advance pricing arrangements (Journal of Laws of 2019, item 2200) defines the procedure for issuing advance pricing arrangements and implements solutions related to the mechanisms of solving disputes related to double taxation (the regulations apply as of 29 November 2019).	Increase in the number of operating activities when new solutions are used

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

SOLUTION	IMPACT
CHANGE IN BASE INTEREST RATES	
Decision of the Management Board of the Central Bank of Ukraine (NBU) No. 199/2019, in which the discount rate was maintained at 18% and decisions of the NBU: No. 311/2019, No. 393/2019, No. 493/2019, No. 645/2019, No. 797/2019, No. 925/2019, under which the discount rate was gradually reduced to 13.5% in December 2019.	Impact on banks' net interest income and their returns
NEW ACCOUNTING STANDARD IFRS 16	
NBU Decisions Nos 22/2019 and 51/2019 on the gradual transition to the new IFRS 16 and therefore the use of new lease identification and recognition principles, as a consequence of which, among other things, leases will no longer be classified as finance operating leases.	Increase in total assets, increase in debt ratios, decrease in capital ratios
LIQUIDITY	
NBU Decision No. 158/2019 of 24 December 2019 "On introducing the net stable financing ratio (NSFR)", in which a new prudential standard for Ukrainian banks was adopted.	Impact on liquidity management
RISK	
NBU Decision No. 130/2019 of 7 November 2019, based on which the deadline for banks to adapt their regulatory capital and share capital to UAH 300 million, by 1 January 2021; NBU Decision No. 132/2019 of 7 November 2019, based on which the principles for assessing the credit risk of securities were introduced. NBU Decision No. 147/2019 of 5 December 2019, which simplifies the terms and conditions for granting loans by banks to individuals-entrepreneurs. In order to assess individuals who are entrepreneurs, banks will be allowed to use the portfolio approach. This principle will apply to all loans up to UAH 5 million. NBU Decision No. 156/2019 of 27 December 2019 and No. 157/2019 of 24 December 2019 in respect of the procedure for determining the minimum amount of operating risk and taking it into account in the calculation of capital ratios.	Impact on the management of risk and capital
CURRENCY MANAGEMENT	
NBU Decision No. 148/2019 of 10 December 2019 related to determining the official UAH exchange rate to foreign currency and introducing changes in the foreign currency and bank metals classification matrix, according to which NBU will publish official the daily exchange rate of the hryvna against all foreign currencies.	Impact on business activities and results of banks

2.7 Factors with an impact on the financial results of the Bank's Group in 2020

The following external factors may have impact on the operations of the Bank's Group in 2020:

In the world

- expected slow-down of the economy in the United States and China, and low economic growth rate in the Euro zone;
- stabilization of the monetary policy in the Euro zone (in which further loosening might not bring any effects) and potential, very prudent, continuation of the cycle of interest rate reductions in the USA;
- possible increase in geopolitical tensions (Iran, Hong Kong, Syria, Russia-Ukraine, North Korea, Venezuela);
- uncertainty related to the ultimate outcome of economic relations between the United Kingdom and the European Union following Brexit, which took place on 31 January 2020, and the transition period after the United Kingdom leaving the European Union started at the end of January and will last to the end of 2020;
- global political events, in particular, the presidential elections in the USA in November;
- continued possible escalation of tensions in trade policy, although this risk factor was limited by signing phase I of the US-China trade agreement;
- political and economic conditions in Ukraine.

In Poland

- expected slow-down of the inflow of EU funds and reducing the dynamics of public investments;
- probable deceleration of the growth of consumption with a possible deterioration in consumer moods, clearly higher inflation than in 2019, solid growth of nominal wages and salaries, and stabilization of the unemployment rate (for demographic reasons);
- increase in the minimum wage by more than 15% (and further increases planned for the following years), which in the macro-scale should have a close to neutral impact on employment with a positive impact on productivity (moving employees to more effective enterprises and sectors), but in the micro-scale it may have negative impact on the financial standing and employment in certain sectors of the economy and regions of the country;
- potential limitation of demand for Polish exports related to the continuing difficult situation in the German economy
- clear acceleration of inflation, in particular in the first quarter, resulting from the accumulation of regulatory changes and maintaining tensions on the labour market; in the second half of the year inflation will probably go down, towards the NBP target;
- stabilization of NBP interest rates at a record-breaking low level;
- potential stabilization of deposit dynamics (with an increase in the rate of growth of deposits in the public sector, high rate of growth of deposits of individuals, and slowing-down in the increase in deposits of enterprises), and slightly weaker demand for loans. Limitations in the supply of loans combined with the continued good situation in the household sector will lead to maintaining a strong growth in loans for individuals (in particular housing loans) and a further slow-down in lending activities in the enterprise segment.

New regulatory solutions

- Regulation of the European Parliament and of the Council amending Regulation (EC) No. 924/2009 regarding certain charges on cross-border payments in the European Union and currency conversion fees as of 15 December 2019;
- draft Act on amending certain acts to counteract usury;
- potential statutory solutions relating to the transfer of the funds accumulated in OFE to IKE or to ZUS;
- potential regulatory solutions, which apply to foreign currency housing loans for households, including resulting from the judgment of EUCoJ of 3 October 2019, determining the line of interpretation in the case of abusive provisions in loan agreements;
- resolutions of the BGF Board of 2020, which will implement a change in charges payable by the banking sector to the system for protecting bank deposits and mandatory restructuring;
- new version of Recommendation R of the Polish Financial Supervision Authority regarding consistency of processes, systems, tools and data used in the measurement and evaluation of credit risk, estimation of anticipated credit losses in order to recognize them in the accounting records and determine expected losses for capital adequacy purposes;
- new version of Recommendation S of the Polish Financial Supervision Authority in respect of including in the offer of mortgage covered loans fixed interest rates or periodically fixed interest rate.
- NBU Decision No. 130/2019 of 7 November 2019, based on which the deadline for banks to adapt their regulatory capital and share capital to UAH 300 million, by 1 January 2021;
- NBU Management Board's resolution No. 926/2019 of 12 December 2019 amending the requirements regarding mandatory bank reserves – as of 10 March 2020 the standards for mandatory bank reserves will depend on the currency in which the funds were obtained, and not on their maturity. A zero reserve rate will be determined for funds in UAH, and for foreign

currencies – 10%.

CHANGES IN TAXES	
Act of 12 April 2019 amending the Act on tax on goods and services (VAT) and certain other acts (Journal of Laws of 2019, item 1018) levied on taxpayers, as of 1 January 2020, an obligation to verify settlement accounts to which taxpayers make payments for transactions, on the (White) List maintained by the Chief of the National Revenue Administration, if the transaction value exceeds PLN 15 thousand. Payments made to accounts which are not on the List may be included in tax-deductible costs only if a respective notification is filed with the tax office within 3 days of the payment.	Increase in operating expenses, increase in operating tasks
Act of 4 July 2019 amending the Act on tax on goods and services (VAT) and certain other acts (Journal of Laws of 2019, item 520) which: 1) introduced, as of 1 January 2020, individual tax accounts for taxpayers and tax remitters, through which PIT, CIT and VAT as well as non-tax budget dues will be settled; 2) as of 1 April 2020, modifies the method of filing tax returns and information in respect of VAT (in particular replaces the obligation to file tax returns with an obligation to file transformed JPK-VAT (SAF-T) files).	Modification of operating burden
Act of 4 July 2019 amending the Act on supporting borrowers in a difficult financial situation, who drew housing loans, and certain other acts (Journal of Laws of 2019, item 1358), included in the list of costs which are non-deductible for tax purposes the payments made to the Borrowers Support Fund (*Fundusz Wsparcia Kredytobiorców*) and amounts for support or a loan for repayment of debt within the meaning of Art. 8a (7) of the Act on supporting borrowers who drew housing loans and are in a difficult financial situation. The Act came into force as of 1 January 2020.	Increase in tax burden
Act of 19 July 2019 amending certain other acts to limit payment backlogs (Journal of Laws of 2019, item 1649) entitles creditors who have not received payment within 90 days of the payment deadline specified on the invoice (bill) or in the agreement, to reduce the taxation base by the unpaid amount of receivables included by the creditor in revenue receivables. At the same time, the debtor is obliged to increase their taxation base by the amount or liability included in tax-deductible costs, but not paid within the deadline. The Act came into effect on 1 January 2020, and applies to transactions with payment deadlines after 31 December 2019.	Diverse impacts on financial results and increase in operating expenses
Act of 16 October 2019 on determining disputes related to double taxation and concluding advance pricing arrangements (Journal of Laws of 2019, item 2200), which, as of 1 July 2020, implements the concept of an agreement for collaboration (*umowa o współdziałanie*). The agreement is concluded by the taxpayer with the Chief of the National Revenue Administration on the taxpayer's request, after an audit. Over the first three years of applying the regulations, the Chief of the National Revenue Administration can limit the number of entities with which it concludes an agreement to 20. Taxpayers covered by the agreement enjoy various facilitations in the process of their tax compliance	Modification of operating burden

3. FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP[9]

Key financial indicators
Consolidated income statement
Consolidated statement of financial position

3.1 KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group enabled key financial effectiveness ratios to be obtained at the levels presented in the table below:

Table 3. Financial indicators of the PKO Bank Polski SA Group

	31.12.2019	31.12.2018	Change
ROE net (net profit/average total equity)	10.0%	10.0%	0,0 p.p.
ROTE net (net profit/average equity less intangble assets)	10.9%	11.0%	-0.1 p.p.
ROA net (net profit/average total assets)	1.2%	1.2%	0,0 p.p.
C/I (cost to income ratio)	41.9%	44.2%	-2.3 p.p.
Net interest margin (net interest income/average interest bearing assets)	3.4%	3.4%	0,0 p.p.
Share of impaired loans	4.1%	4.9%	-0.8 p.p.
Cost of credit risk	0.47%	0.59%	-0.12 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	18.42%	18.88%	-0.46 p.p.
Tier 1 capital ratio (CET 1)	17.16%	17.54%	-0.38 p.p.

3.2 CONSOLIDATED INCOME STATEMENT

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

The consolidated net profit of the PKO Bank Polski SA Group earned in 2019 amounted to PLN 4,031 million and was PLN 290 million (+7.8%) higher than in 2018.

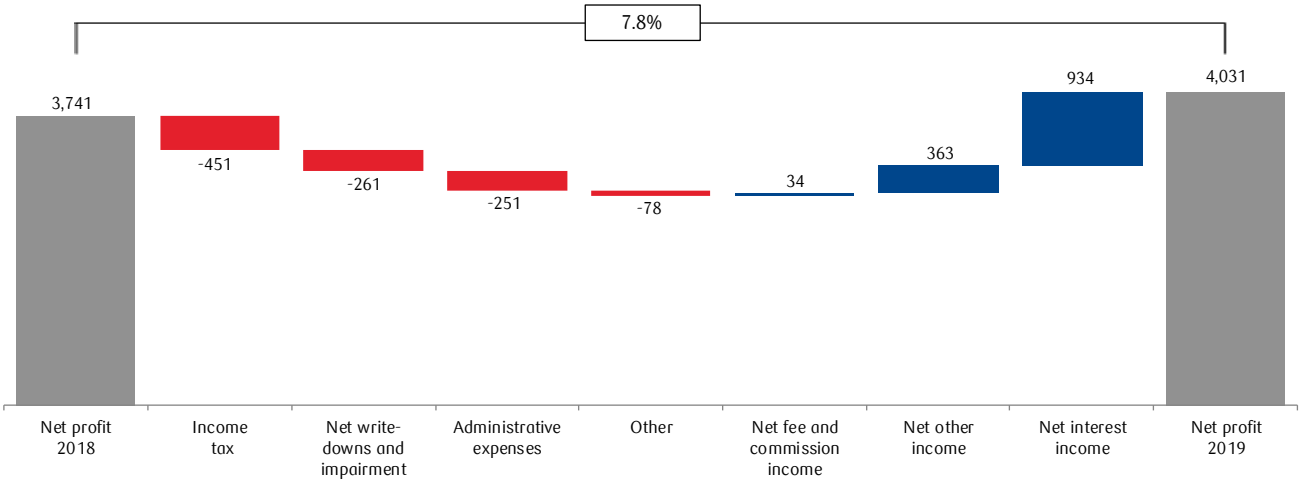
The result on business activities of the PKO Bank Polski SA for 2019 amounted to PLN 14 670 million and was PLN 1 331 million (i.e. 10.0%) higher y/y, mainly as a result of an increase in net interest income.

[9] In this section, any differences in totals, shares and dynamics resulted from the rounding the amounts to full PLN millions and rounding percentage amounts to two decimal places.

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

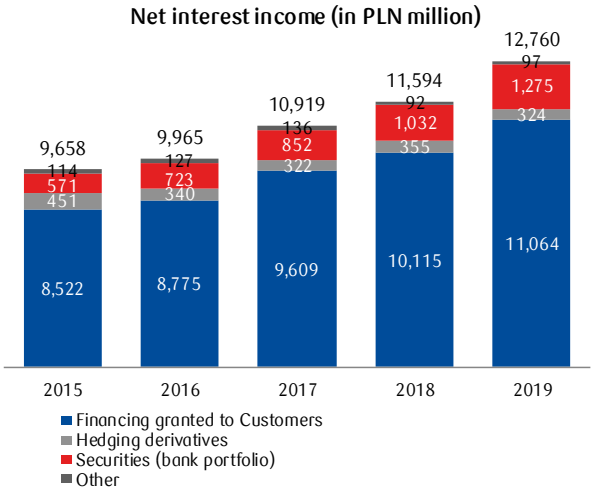
	2019	2018	Change (in PLN million)	Change (in %)
Net interest income	**10,279**	**9,345**	**934**	**10.0%**
Net fee and commission income	**3,047**	**3,013**	**34**	**1.1%**
Net other income	**1,344**	**981**	**363**	**37.0%**
Dividend income	14	12	2	16.7%
Net income/expense on financial operations	320	163	157	96.3%
Net foreign exchange gains/(losses)	473	489	-16	-3.3%
Net other operating income and expenses	537	317	220	69.4%
Result on business activities	**14,670**	**13,339**	**1,331**	**10.0%**
Administrative expenses	-6,148	-5,897	-251	4.3%
Tax on certain financial institutions	-1,022	-950	-72	7.6%
Net operating profit/(loss)	**7,500**	**6,492**	**1,008**	**15.5%**
Net write-downs and impairment	-1,712	-1,451	-261	18.0%
Shares in profits (losses) of associates and jointly controlled entities	31	37	-6	-16.2%
Profit before tax	**5,819**	**5,078**	**741**	**14.6%**
Income tax	-1,787	-1,336	-451	33.8%
Net profit (including non-controlling shareholders)	**4,032**	**3,742**	**290**	**7.7%**
Profit (loss) attributable to non-controlling shareholders	1	1	0	0.0%
Net profit	**4,031**	**3,741**	**290**	**7.8%**

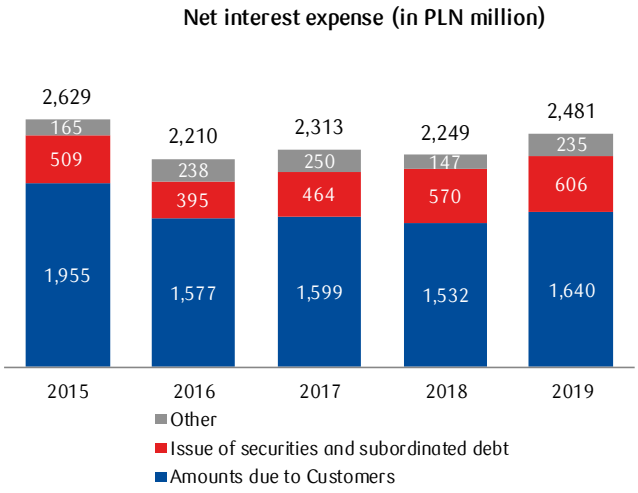
Change in net profit of the PKO Bank Polski SA Group (PLN million)



NET INTEREST INCOME

Net interest income for 2019 amounted to PLN 10 279 million, i.e. PLN 934 million more than in the previous year. The higher result was determined by an increase in volume and the same interest margin.



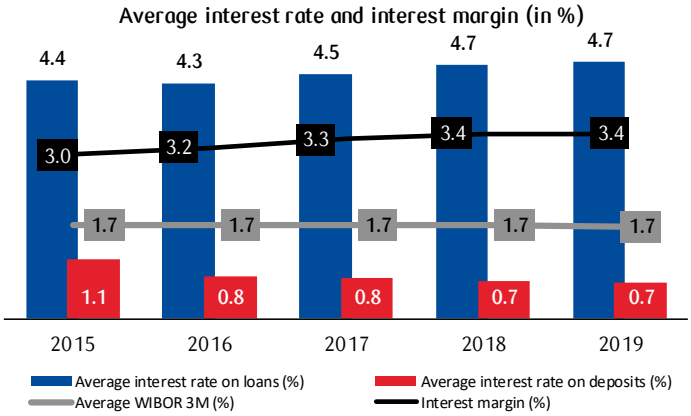


Interest income[10] amounted to PLN 12 760 million and was PLN 1 166 million higher than in 2018, mainly in effect of:

- an increase in financing granted to Customers of PLN 949 million y/y – related to the increase in the amounts due from loans and leases of over PLN 17 billion and an increase in average interest rate resulting from a change in their structure (an increase in the share of consumer loans and lease receivables mainly at the expense of foreign currency housing loans) with stable market interest rate levels for PLN, CHF and EUR;
- higher income on securities (PLN +243 million y/y), mainly as a result of the increase in the average volume of Treasury bonds of PLN 12 billion.

In 2019 interest income dropped by PLN 178 million in connection with the judgment of the Court of Justice of the European Union in respect of a consumer's right to reduce the cost of a loan in the event of repaying the loan before the deadline specified in the loan agreement.

Interest expense amounted to PLN 2 481 million and was PLN 232 million higher than in the corresponding period of 2018. This resulted mainly from an increase in the costs of the deposit base of PLN 134 million y/y, connected with an increase in the average volume of deposits of PLN 24 million compared with the prior year, with higher costs of external financing of PLN 45 million and higher costs of premium on securities of PLN 58 million.



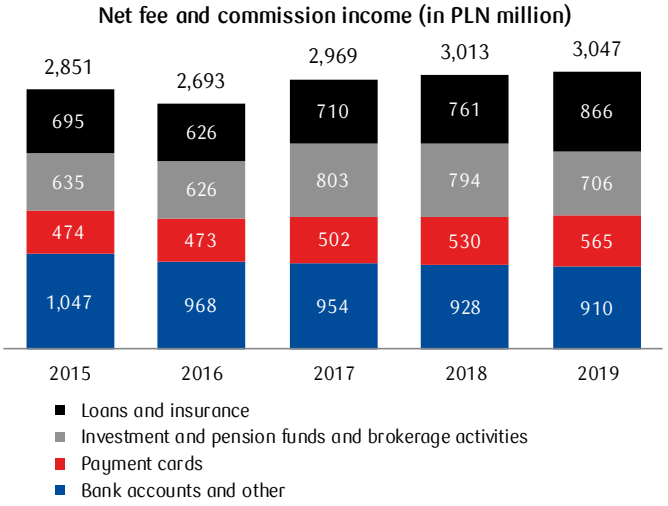
The net interest margin remained at the prior year level and amounted to 3.4% as at the end of 2019. As at the end of 2019 the average interest rate on PKO Bank Polski Group SA loans was 4.7%, and the average interest rate on total deposits was 0.7%, compared with 4.7% and 0.7% respectively as at the end of 2018.

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

NET FEE AND COMMISSION INCOME

In 2019 net fee and commission income amounted to PLN 3 047 million, i.e. PLN 34 million more than in the previous year. The level of the net commission income was determined – among other things – by:

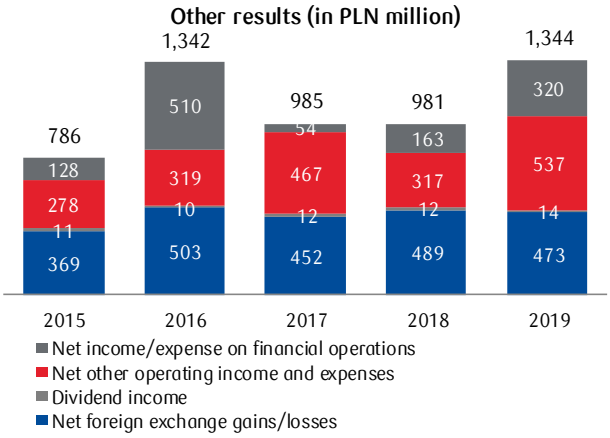
- higher net income on loans and insurance (PLN +105 million y/y), mainly in effect of an increase in commission on business loans and leases, and sales of insurance products linked to housing loans;
- higher net income on payment and credit cards (PLN +35 million y/y) due to the higher number of cards and higher volumes of non-cash transactions;
- lower net income on servicing bank accounts and on other activities (- PLN 18 million y/y), related – among other things – to the fall of commissions in cash operations, as a result of growing volume of non-cash transations;
- lower net income on investment funds, pension funds and brokerage activities (PLN -88 million y/y), mainly due to a drop in sales of the funds and changes in its structure, and reducing commission for managing funds, mainly as a result of regulatory changes.



NET OTHER INCOME

Other income, net, earned in 2019 amounted to PLN 1 344 million and was PLN 363 million higher than in 2018, among other things, as an effect of:

- higher net income on financial operations (PLN +157 million y/y) – mainly as a result of a higher net result of the remeasurement of shares and net income on embedded derivatives;
- other net operating income and higher costs of PLN 220 million y/y – among other things, as a result of:
  - Recognizing profit on one-off acquisition of Prime Car Management SA of PLN 102 million and recognizing that Company's result in 2019 (PLN 127 million);
  - Partially releasing the provision for proceedings before the President of the Office for Competition and Consumer Protection concerning practices which violate the collective interests of consumers[11] (PLN 58 million), which was set up in 2018 in the amount of PLN 62.5 million;
  - Setting up a provision for return of costs to Customers in respect of the early repayment of consumer and mortgage covered loans of PLN 127 million;
- lower net foreign exchange gains/(losses) (PLN -16 million y/y) – mainly as a result of a drop in the ineffectiveness of CIRS hedges in Hedge Accounting.



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

ADMINISTRATIVE EXPENSES

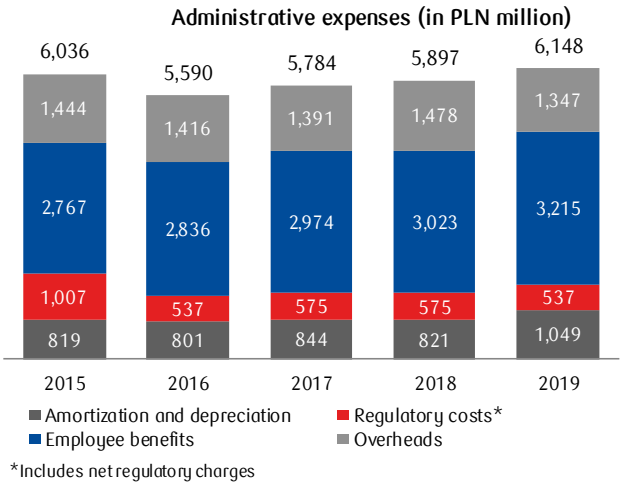
In 2019 operating expenses amounted to PLN 6,148 million and were 4.3% y/y higher. Their level was mainly determined by:

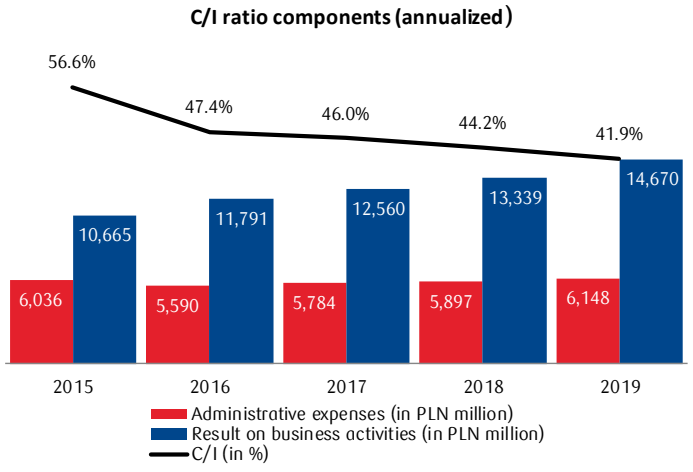
- an increase by PLN 192 million, i.e. of 6.4% of employee benefits, including in Bank growth by PLN 112 million mainly as a result of conducted in 2019 valuation of working positions and in entities growth by PLN 79 million, mainly as a result of purchase of Prime Car Management SA;
- a decrease in overheads of PLN 131 million, i.e. of 8.9%, mainly in connection with a decrease in the following expenses:
  - costs of maintenance and lease of fixed assets (of PLN 185 million, mainly lower costs of property management related to introducing IFRS 16 as of January 2019);

  with simultaneously higher expenses on:
  - marketing (of PLN 22 million), mainly due to Bank centenary;
  - IT (of PLN 21 million);
- an increase of PLN 82 million, i.e. of 19.2% in contributions to the Bank Guarantee Fund (BGF) – BGF costs amounted to PLN 509 million, of which PLN 348 million constituted the contribution to the fund for the mandatory restructuring of banks. In the corresponding period of the prior year costs in respect of the BGF were PLN 427 million, of which the contribution for mandatory bank restructuring was PLN 167 million;
- an increase of PLN 13 million, i.e. 46.4% of payments to the Polish Financial Supervision Authority (PFSA);
- an increase of PLN 228 million, i.e. of 27.8% in depreciation, mainly in effect of implementing IFRS 16 in respect of the lease of property and cars, and recognition of the costs of acquisition of Prime Car Management SA of PLN 87 million, with a simultaneous drop in the amortization of intangible assets related to extending the period of using the Integrated IT System (ZSI) from the end of 2023 to the end of 2030;
- a drop of PLN 130 million in the costs of withheld tax on the issue of foreign bonds related to adjustments in gross-ups of interest for the years 2017-2019 and accounting for the 3% tax on interest paid for the period 2014-2019) due to changes in tax regulations.

As a result of the implementation of IFRS 16, non-personnel costs were not charged with lease instalments of approx. PLN 219 million. The costs of lease instalments were allocated to depreciation in the amount of approx. PLN 206 million and to interest expenses of PLN 26 million.

The effectiveness of operations of the PKO Bank Polski SA Group measured with the C/I ratio on an annual basis was 41.9% and improved by 2.3 p.p. y/y in consequence of better results on business activities (+10.0% y/y), with an lower increase in operating expenses (+4.3% y/y).



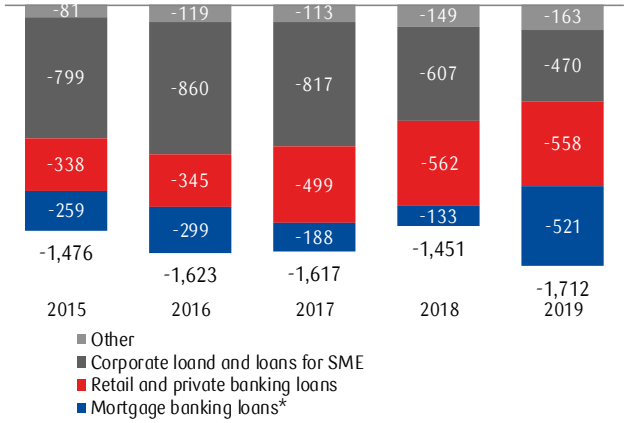


NET WRITE-DOWNS AND IMPAIRMENT

In 2019, net write-downs and impairment with costs of the legal risk of mortgage loans in convertible currencies amounted to PLN -1 712 million and was PLN 261 million less favourable than in 2018.

In 2019 the Bank recognized the impact of legal risk of mortgage loans in convertible currencies of PLN -451 million; of which: PLN -29 million for repaid foreign currency loans for potential litigation, PLN -281 million for active loans in respect of changed estimated cash flows and PLN -141 million for the provision for pending litigation. The balance sheet value of gross loans was adjusted by PLN -422 million. The legal risk is connected with the portfolio of mortgage loans in convertible currencies granted to households and relates to potential Customer claims.

Net write-downs and impairment (in PLN million)



*includes cost of legal risk of mortgage loans in convertible currencies in amount PLN 451 million

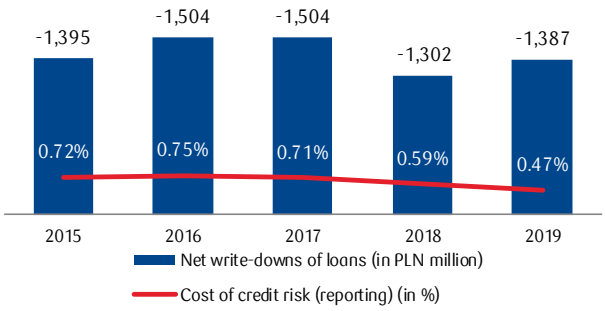
After excluding the costs of the legal risk, the net write-downs and impairment in 2019 amounted to PLN -1 261 million and was PLN 190 million better than in 2018. The improvement was mainly related to loans.

The share of impaired loans amounted to 4.1% as at the end of 2019 (a 0.8 p.p. decrease compared with the end of 2018). In 2019, a part of the consumer loan portfolio measured at amortized cost (approx. PLN 9 billion) was reclassified to the portfolio measured at fair value through profit or loss which resulted in a decrease in the share of impaired loans of approx. 0.2 p.p.

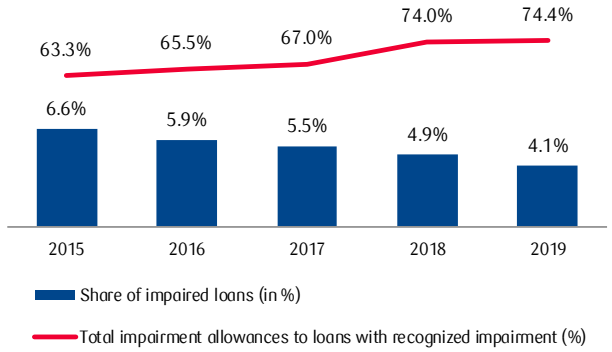
The cost of credit risk was 0.47% as at the end of 2019, which is a 0.12 p.p. improvement compared with the prior year.

The improvement in risk ratios with a simultaneous increase in the gross loans and advances to Customers of 3.6% y/y is the effect of the continuation of the current conservative credit risk management policy of the Bank's Group and strict monitoring of the receivables portfolio.

Cost of credit risk of the Bank's Group



Quality of the Bank's Group's loan portfolio



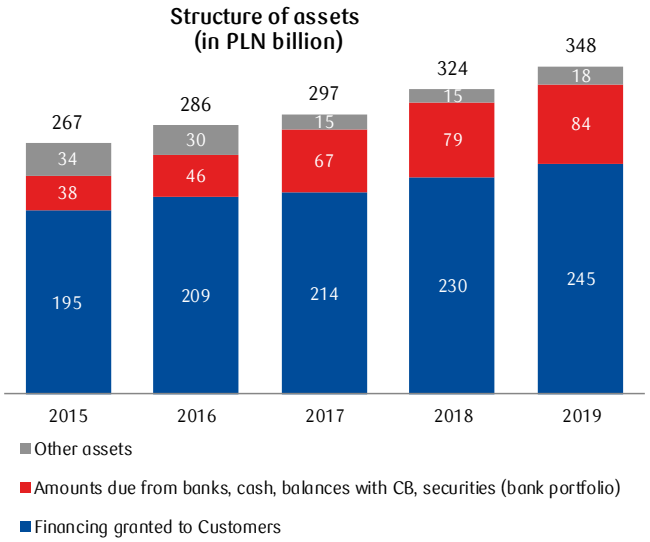
3.3 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

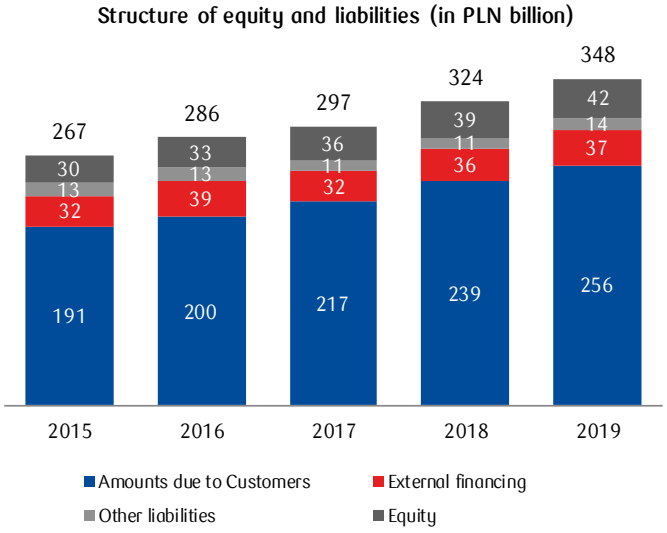
Main items of the Statement of financial position
Financing granted to Customers
Amounts due to Customers
External financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

As at the end of 2019 the PKO Bank Polski SA Group's total assets amounted to approx. PLN 348 billion and increased by approx. PLN 24 billion as of the beginning of the year. Thus, the PKO Bank Polski SA Group strengthened its leading position in terms of size on the Polish banking market.

The Bank's Group noted an increase in financing granted to Customers, in cash and balances with the Central Bank and in the securities portfolio. In respect of the sources of financing, from the beginning of the year, there was an increase in amounts due to Customers, mainly the population, and in external financing in the form of issues of securities.





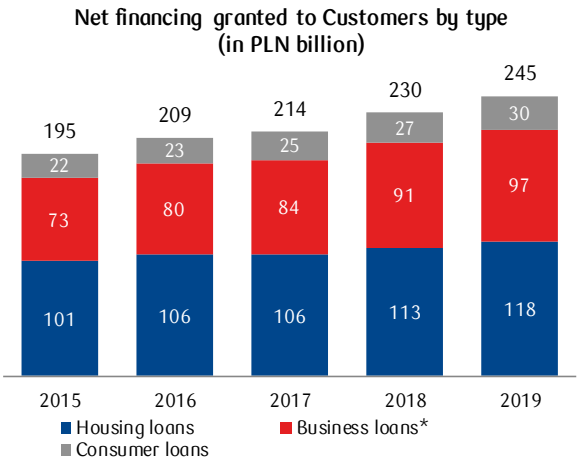
FINANCING GRANTED TO CUSTOMERS

As at the end of 2019, financing granted to Customers of the Bank's Group exceeded PLN 245.3 billion and increased by over PLN 15 billion y/y.

Housing loans and business loans were the main items in the structure of the net loan portfolio by type, with shares of 48.3% and 39.5% of the portfolio as at the end of 2019.

In 2019, an increase in loans and advances granted to corporate Customers of PLN 5.9 billion, an increase in housing loans of PLN 5.7 billion and in consumer loans of PLN 3.3 billion was recorded.

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

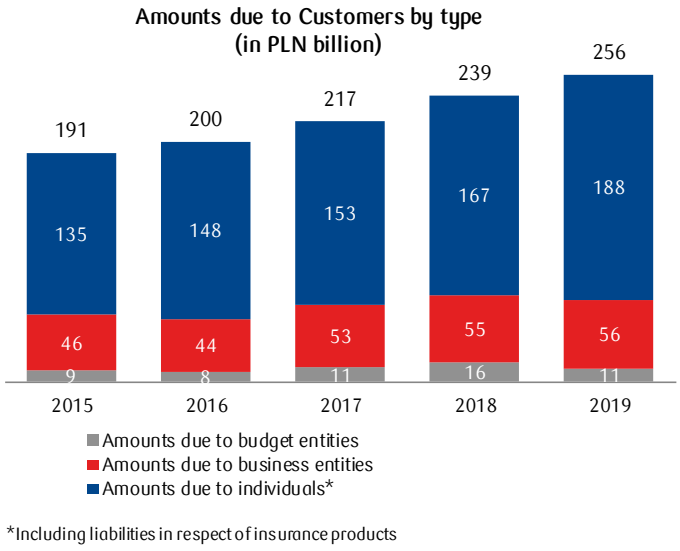


*including lease receivables and non-Treasury bonds (excluding held for trading)

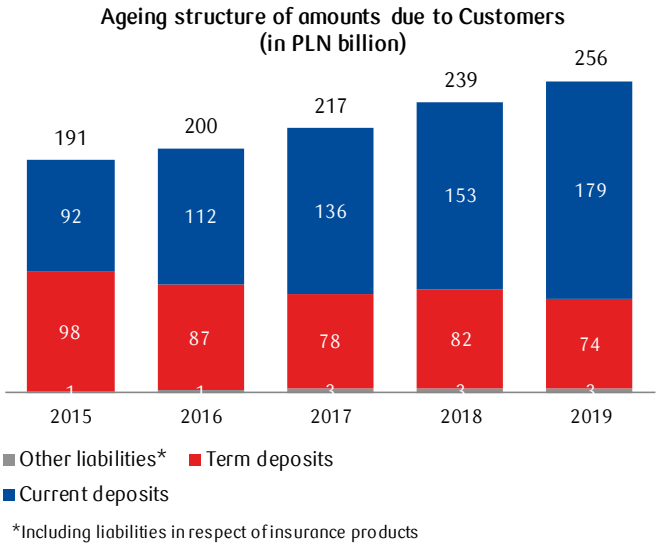
AMOUNTS DUE TO CUSTOMERS

Amounts due to Customer constitute the basic source of financing the assets of the Bank's Group. As at the end of 2019 they amounted to PLN 256.2 billion, which is a PLN 17.4 billion increase since the beginning of the year. The main factor that contributed to the increase in the deposit base was the increase in deposits placed by individuals (PLN +21.4 billion) and business entities (PLN +1.1 billion), accompanied by a decrease in deposits placed by State budget entities (PLN -5.1 billion).

In the breakdown of amounts due to Customers by type, the largest component are the amounts due to individuals (74% as at the end of 2019). The second largest component were amounts due to business entities (22% of the portfolio as at the end of 2019).



*Including liabilities in respect of insurance products



*Including liabilities in respect of insurance products

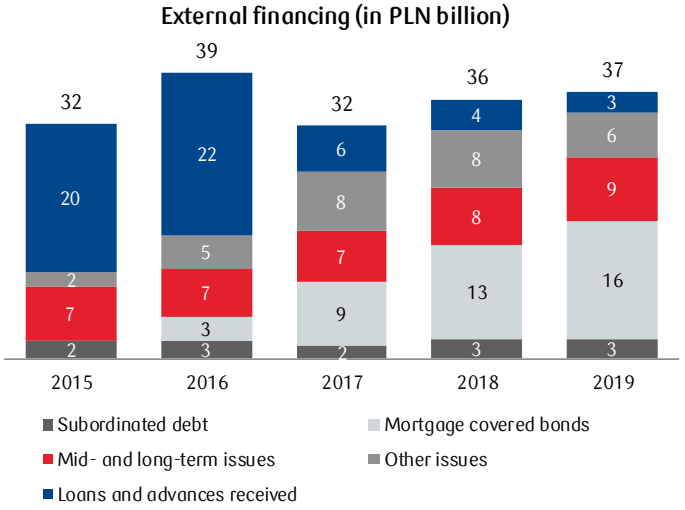
The share of current deposits in the break-down of total deposits increased and amounted to 69.8% (+5.6 p.p. compared with the end of 2018).

EXTERNAL FINANCING

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

As at the end of 2019 the level of long-term external financing was approx. PLN 37 billion and it increased by PLN 1.0 billion compared with the beginning of the year. The following factors had an impact on the level of financing:

- continued issue of mortgage covered bonds by PKO Bank Hipoteczny SA (with a nominal value of EUR 700 million and PLN 500 million);
- redemption of bonds issued by PKO Finance AB of EUR 500 million in January 2019;
- issue, in September 2019, as part of the securitization of lease receivables of PKO Leasing SA, bonds with a nominal value of PLN 1.8 billion taken up by external investors;
- repayment of loans received from international financial institutions.



4. FINANCIAL STANDING OF THE PKO BANK POLSKI SA[12]

Key financial indicators
Income statement
Statement of financial position

4.1 KEY FINANCIAL INDICATORS

The results achieved by PKO Bank Polski SA in 2019 enabled the key financial efficiency indicators to achieve the following levels shown in the table below.

Table 5. Key financial indicators of PKO Bank Polski SA

	31.12.2019	31.12.2018	Change
ROE net (net profit/average total equity)	9.8%	9.1%	+0.7 p.p.
ROTE netto (wynik finansowy netto/średni stan kapitałów własnych pomniejszonych o WNiP)	10.4%	9.7%	+0.7 p.p.
ROA net (net profit/average total assets)	1.3%	1.2%	+0.1 p.p.
C/I (cost to income ratio)	41.0%	43.5%	-2.5 p.p.
Net interest margin (net interest income/average interest bearing assets)	3.4%	3.4%	0,0 p.p.
Share of impaired loans	4.2%	5.0%	-0.8 p.p.
Cost of credit risk	0.46%	0.61%	-0.15 p.p.
Total capital ratio	20.66%	21.33%	-0.67 p.p.
Tier 1 capital ratio (CET 1)	19.21%	19.80%	-0.59 p.p.

4.2 INCOME STATEMENT

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

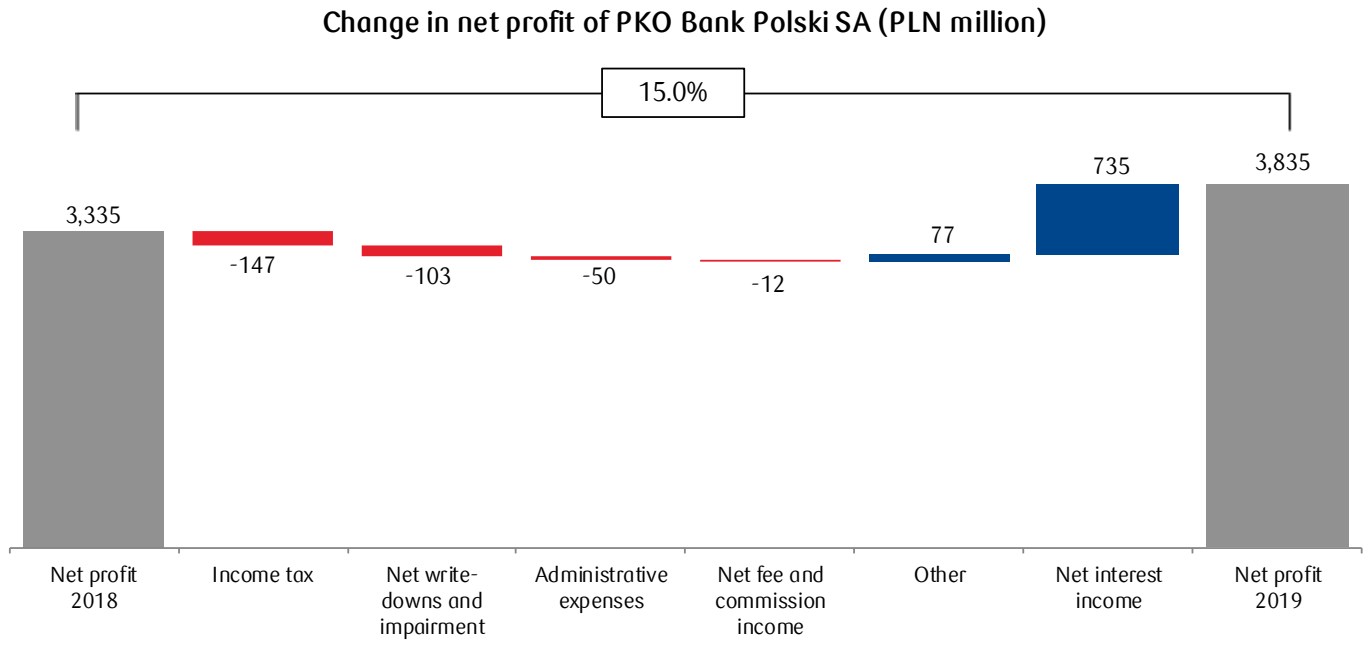
In 2019 PKO Bank Polski SA generated net profit of PLN 3 835 million (15.0%, i.e. PLN 500 million higher y/y), mainly as a result of higher profit on business activities and a better net write-downs and impairment balance, with higher administrative expenses.

The result on business activities in 2019 amounted to PLN 12 786 million and was PLN 848 million, i.e. 7.1% higher than in 2018, mainly in effect of an increase in net interest income of PLN 735 million y/y, and other income of PLN 125 million y/y, accompanied by a drop in net fee and commission income of PLN 12 million y/y.

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

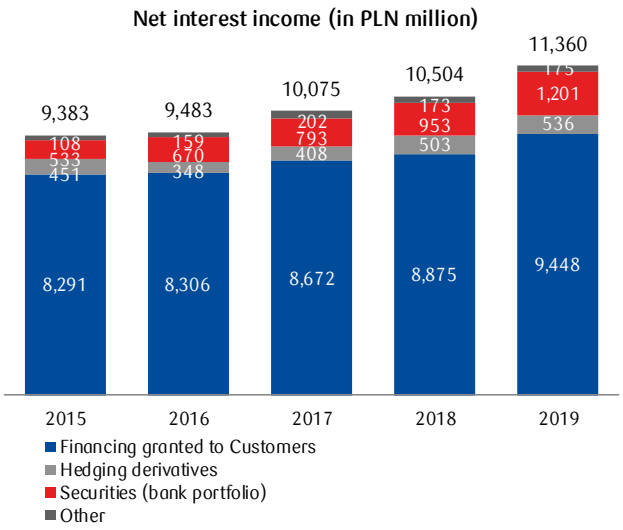
Table 6. Income statement of PKO Bank Polski SA (in PLN million)

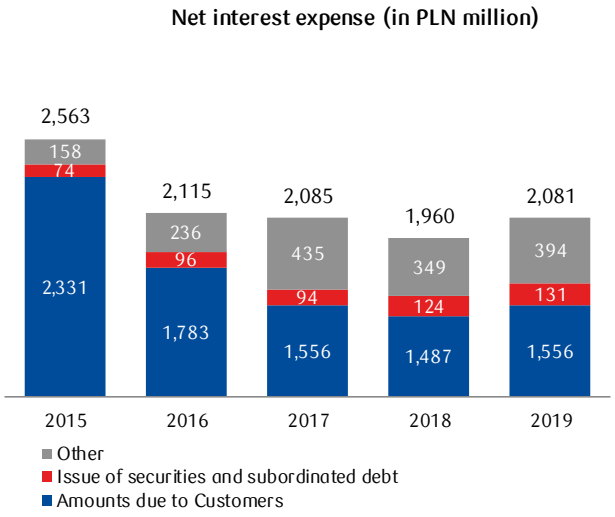
	2019	2018	Change (in PLN million)	Change (in %)
Net interest income	**9,279**	**8,544**	**735**	**8.6%**
Net fee and commission income	**2,470**	**2,482**	**-12**	**-0.5%**
Net other income	**1,037**	**912**	**125**	**13.7%**
Dividend income	561	323	238	73.7%
Net income/expense on financial operations	329	175	154	88.0%
Net foreign exchange gains/(losses)	475	469	6	1.3%
Net other operating income and expenses	-328	-55	-273	6x
Result on business activities	**12,786**	**11,938**	**848**	**7.1%**
Administrative expenses	-5,237	-5,187	-50	1.0%
Tax on certain financial institutions	-931	-883	-48	5.4%
Net operating profit/(loss)	**6,618**	**5,868**	**750**	**12.8%**
Net write-downs and impairment	-1,500	-1,397	-103	7.4%
Profit before tax	**5,118**	**4,471**	**647**	**14.5%**
Income tax	-1,283	-1,136	-147	12.9%
Net profit	**3,835**	**3,335**	**500**	**15.0%**



NET INTEREST INCOME

Net interest income for 2019 amounted to PLN 9 279 million, i.e. PLN 735 million more than in the previous year. The higher result y/y was determined mainly by an increase in income on financing granted to Customers, and income on securities in effect of the increase in the volumes.

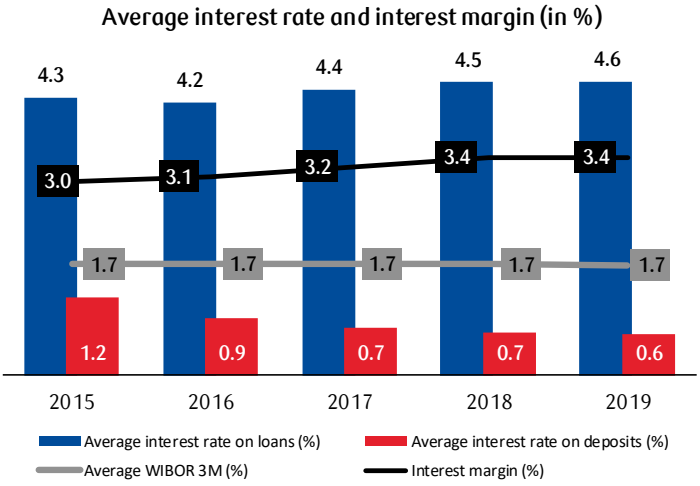




In 2019 interest income[13] amounted to PLN 11 360 million and was 8.1% higher than in 2018, mainly in effect of:

- an increase in income from financing granted to Customers of PLN 573 million y/y – related to the increase in the average volume of financing granted to Customers of PLN 11 billion, with a change in the loan structure (an increased share of consumer and business loans and a decrease in the share of foreign currency housing loans), with unchanged levels of market interest rates for PLN, CHF and EUR;
- higher income on securities (PLN +248 million y/y), mainly as a result of the increase in the average volume of PLN 12 billion, which resulted from purchases of T-bonds.

In 2019 interest income went down by PLN 178 million in connection with the judgment of the Court of Justice of the European Union in respect of the consumer's right to reduce the cost of the loan in the event of repaying the loan before the deadline specified in the loan agreement.



Interest expense amounted to PLN 2 481 million and was PLN 121 million higher than in 2018. The higher interest expense was mainly the effect of an increase in the costs of the deposit base of PLN 69 million y/y, mainly current deposits.

The net interest margin remained unchanged y/y and amounted to 3.4% as at the end of 2019. In 2019 the average interest rate on PKO Bank Polski SA loans was 4.6%, and the average interest rate on total deposits was 0.6%, compared with 4.5% and 0.7% respectively in 2018.

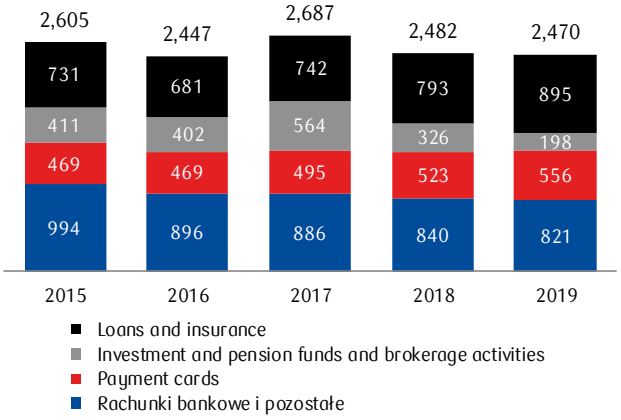
[13] To ensure data comparability interest income was adjusted: income from non-Treasury bonds, which are recognized in income from debt securities in the Financial Statements were transferred to income from financing granted to Customers.

NET FEE AND COMMISSION INCOME

In the first half of 2019 net fee and commission income amounted to PLN 2 470 million and was PLN 12 million lower than in the previous year. The level of the net fee and commission income was determined – among other things – by:

- lower net income on investment funds and brokerage activities (PLN -128 million y/y), mainly due to a drop in sales of the funds and changes in its structure, and reducing commission for managing funds and distributing participation units;
- lower net income on servicing bank accounts and on other activities (- PLN 19 million y/y), related – among other things – to the fall of commissions in cash operations, as a result of growing volume of non-cash transations;

Net fee and commission income (in PLN million)



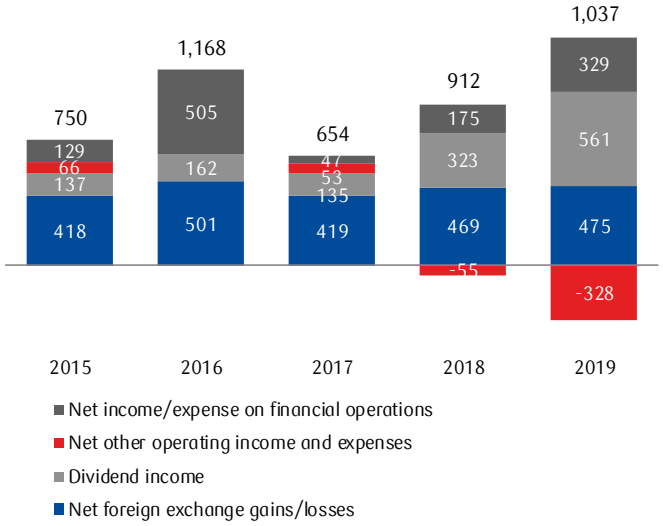
- higher net income on loans and insurance granted (PLN +102 million y/y), mainly in effect of an increase in commission on business loans and leases, and sales of insurance products linked to these loans;
- higher net income on payment and credit cards (PLN +33 million y/y) due to the higher number of cards and higher volumes of non-cash transactions.

NET OTHER INCOME

In 2019 net other income amounted to PLN 1 037 million and was PLN 125 million higher than that earned in 2018, among other things, due to:

- higher dividend income (PLN +238 million);
- higher net income on financial operations (PLN +154 million y/y) – mainly as a result of higher net income on the remeasurement of the Bank's investment securities and net income on embedded derivatives;
- higher net foreign exchange income (PLN +6 million y/y) – mainly due to a better result on Customer activities.
- lower net other operating income and costs (PLN -273 million y/y), among other things, as a result of:
  - recognizing costs of additional financing for a subsidiary of PLN 274 million;
  - setting up a provision for return of costs to Customers in respect of the early repayment of consumer and mortgage covered loans of PLN 127 million;
  - partially releasing the provision for proceedings before the President of the Office for Competition and Consumer Protection concerning practices which violate the collective interests of consumers[14] (PLN 58 million), which was set up in 2018 in the amount of PLN 62.5 million.

Other results (in PLN million)



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

ADMINISTRATIVE EXPENSES

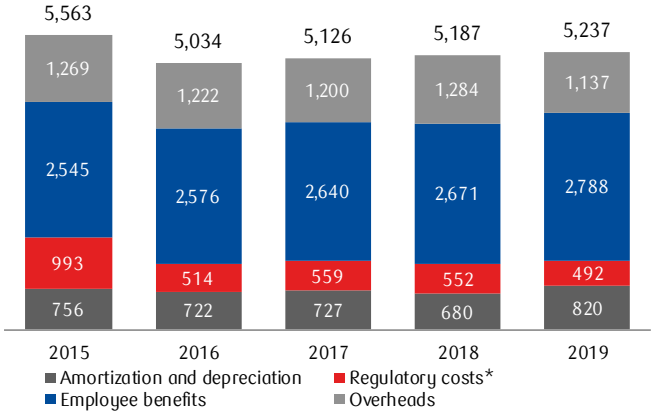
In 2019 administrative expenses amounted to PLN 5 237 million and were 1.0% y/y higher. Their level was mainly determined by:

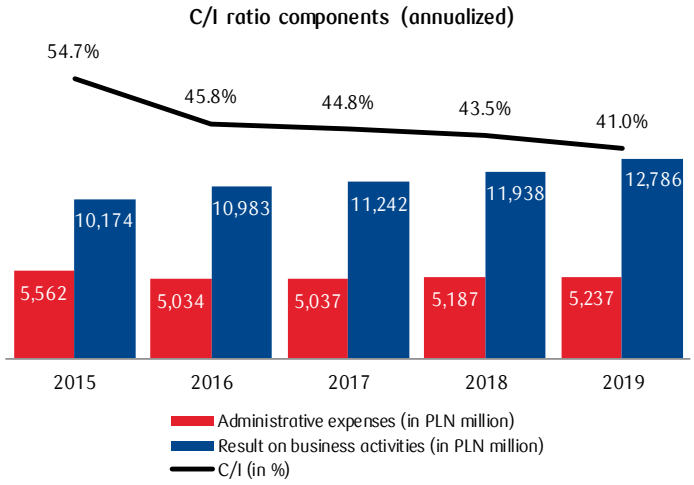
- an increase in the costs of employee benefits of PLN 117 million, i.e. of 4.4%, mainly as a result of conducted in 2019 valuation of working positions;
- a decrease in non-personnel costs of PLN 147 million, i.e. of 11.4%, mainly in connection with lower expenses on the costs of maintenance and lease of fixed assets (mainly lower costs of property management related to introducing IFRS 16 as of January 2019);
- an increase of PLN 65 million, i.e. 15.4% in contributions to the Bank Guarantee Fund (BGF);
- an increase of PLN 12 million, i.e. 48% of payments to the Polish Financial Supervision Authority (PFSA);
- an increase of PLN 140 million, i.e. of 20.6% in depreciation, mainly in effect of implementing IFRS 16 in respect of the lease of property and cars, with a simultaneous drop in the amortization of intangible assets related to the computerization of the Bank, which resulted mainly from extending the period of using the Integrated IT System (ZSI) from the end of 2023 to the end of 2030;
- a drop of PLN 135 million in the costs of withheld tax on the issue of foreign bonds related to adjustments in gross-ups of interest for the years 2017-2019 and accounting for the 3% tax on interest paid for the period 2014-2019), due to changes in tax regulations.

In the first half of 2019 the Bank incurred entertainment costs, expenditure on legal services, marketing services, public relations and social communication services, and advisory services related to management totalling PLN 204 million, which represented 3.9% of the Bank's total administrative expenses.

As part of employee costs, in 2019, the Bank incurred costs of prizes paid of PLN 57 million.

The effectiveness of operations of PKO Bank Polski SA measured with the C/I ratio on an annual basis was 41.0% and improved by 2.5 p.p. y/y in consequence of materially better results on business activities (+7.1% y/y), with a limited increase in operating expenses (+1.0% y/y).





*Includes net regulatory charges

NET WRITE-DOWNS AND IMPAIRMENT

In 2019, net write-downs and impairment together with costs of the legal risk of mortgage loans in convertible currencies amounted to PLN -1 500 million and was PLN 103 million less favourable than in 2018.

In 2019 the Bank recognized the impact of the legal risk of mortgage loans in convertible currencies of PLN -451 million; of which: PLN -29 million for repaid foreign currency loans for potential litigation, PLN -281 million for active loans in respect of changed estimated cash flows and PLN -141 million for the provision for pending litigation. The balance sheet value of gross loans was adjusted by PLN -422 million. The legal risk is connected with the portfolio of mortgage loans in convertible currencies granted to households and is related to potential Customer claims.

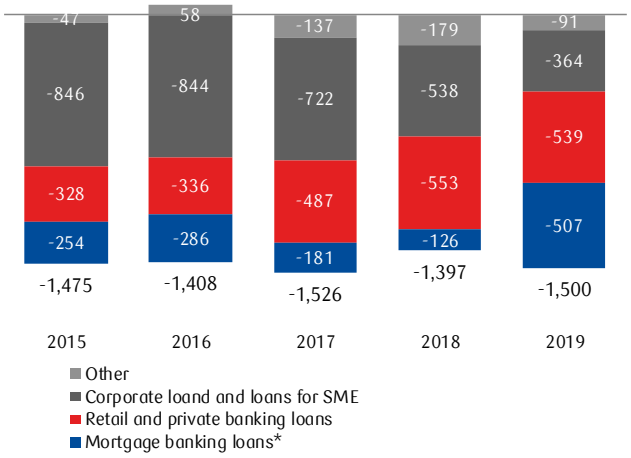
After excluding the costs of legal risk, the result amounted to PLN -1 049 million and was PLN 348 million better in the prior year. The improvement was related to all items, mainly business loans.

The share of impaired loans amounted to 4.2% as at the end of 2019 (a 0.8 p.p. decrease compared with 2018).

The cost of credit risk was 0.46% as at the end of 2019, which is a 0.15 p.p. improvement compared with the prior year.

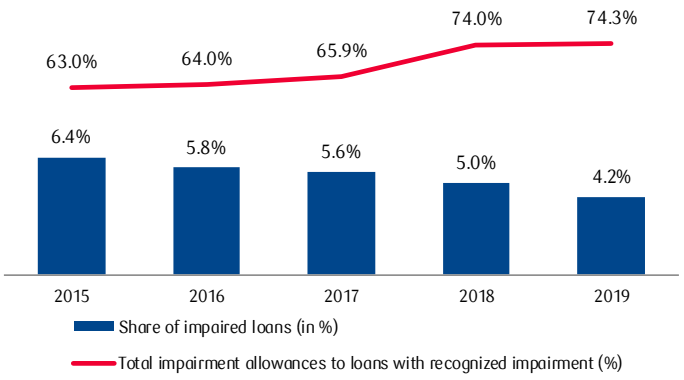
The improvement in risk ratios with a simultaneous increase in gross financing granted to Customers of approx. 1.0% y/y is the effect of the continuation of the current conservative credit risk management policy of the Bank and of strict monitoring of the receivables portfolio.

Net write-downs and impairment (in PLN million)

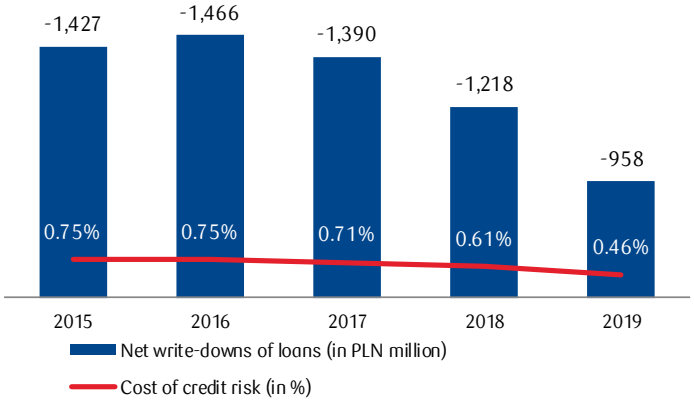


*includes cost of legal risk of mortgage loans in convertible currencies in amount PLN 451 million

Quality of the Bank's loan portfolio



Cost of risk of the Bank



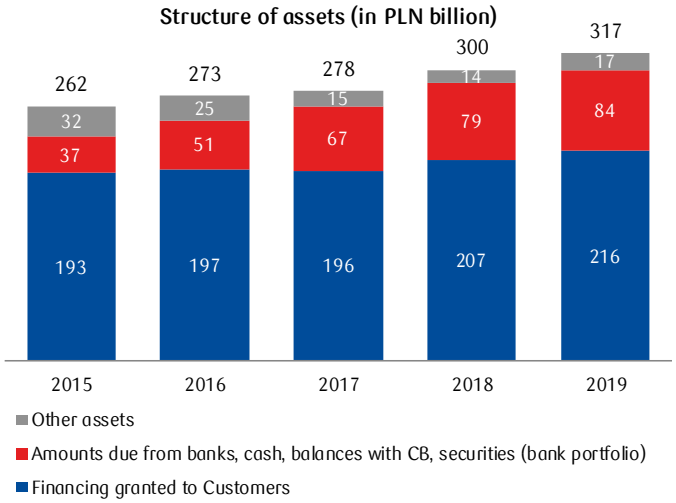
4.3 STATEMENT OF FINANCIAL POSITION

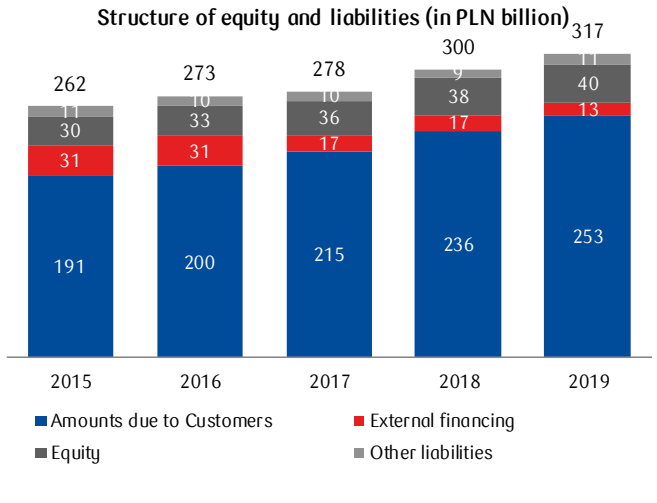
Main items of the Statement of financial position
Financing granted to Customers
Amounts due to Customers
External financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets, and total equity and liabilities of PKO Bank Polski SA exceeded PLN 317 billion as at the end of 2019 and increased by PLN 16.8 billion since the beginning of the financial year. Therefore, PKO Bank Polski SA strengthened its leading position in terms of size in the Polish banking sector.

On the assets side, the Bank noted an increase in financing granted to Customers, and in the securities portfolio. With regard to the sources of financing, from the beginning of the year, there was an increase in amounts due to Customers, mainly the population, and other liabilities, connected with recognizing in this component liabilities relating to the lease in connection with the implementation of IFRS 16.





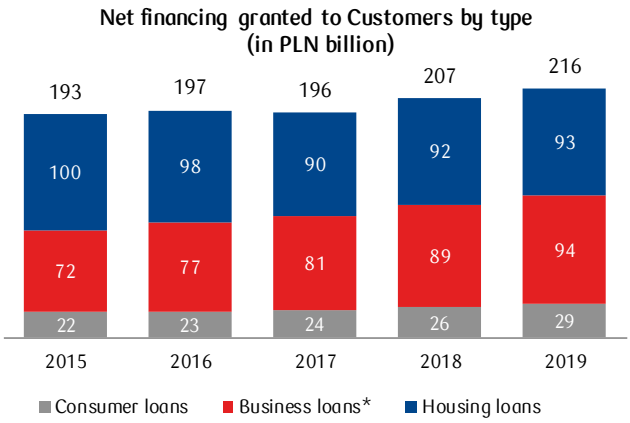
FINANCING GRANTED TO CUSTOMERS

As at the end of 2019 financing granted to the Bank's Customers amounted to PLN 215.9 billion, which is an increase of PLN 8.8 billion y/y.

Business loans and housing loans were the main items in the structure of net loan portfolio by type, with shares of 43.6% and 42.9% of the portfolio as at the end of 2019.

In 2019 a further increase was noted in the most profitable consumer loans (of PLN 3.0 billion) and business loans (of PLN 4.9 billion). The Bank's housing loans only increased by PLN 0,8 billion y/y due to the further sale of mortgage covered housing loans to PKO Bank Hipoteczny SA.

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



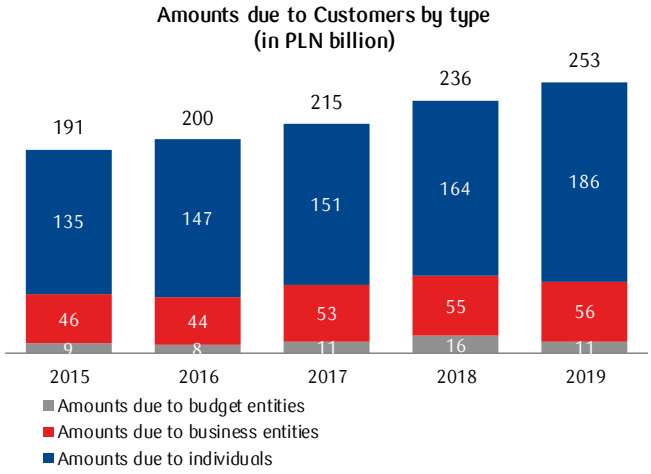
*including non-Treasury bonds (excluding held for trading)

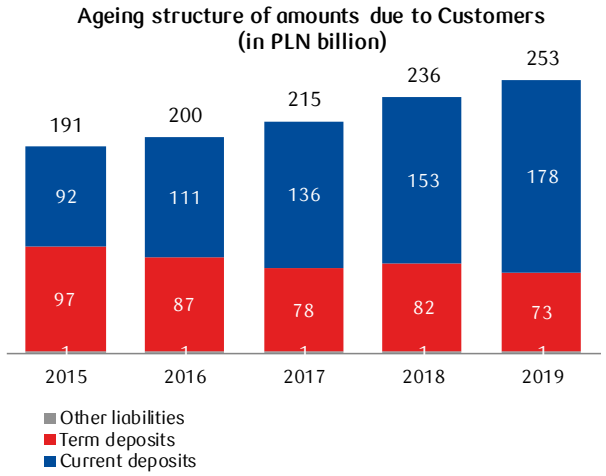
AMOUNTS DUE TO CUSTOMERS

Amounts due to Customers constitute the basic source of finance for the Bank's assets. As at the end of 2019 amounts due to Customers amounted to PLN 252.9 billion, which is an increase of PLN 16.6 billion since the beginning of the year. The main factor that contributed to the increase in the deposit base was an increase in deposits placed by individuals (PLN +21.2 billion) and deposits placed by business entities (PLN +0.4 billion), accompanied by a decrease in deposits placed by State budget entities (PLN -5.1 billion).

In the breakdown of amounts due to Customers by type, amounts due to individuals constitute the main item (73.4% as at the end of 2019). Amounts due to business entities are the second largest item (22.1% of the portfolio as at the end of 2019).

In the break-down of total amounts due to Customers, the share of current deposits increased to 70.4% (+5.7 p.p. compared with the end of 2018).



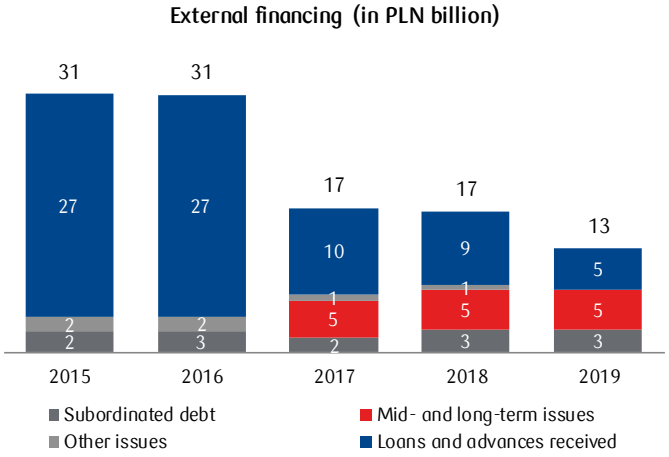


EXTERNAL FINANCING

PKO Bank Polski SA has been an active participant of the debt securities markets, both Polish and international for many years, which enables it to diversify the sources of financing its operations and to adapt them to the regulatory requirements regarding the long-term financial stability.

In 2019 borrowings decreased by PLN 4.4 billion, including:

- loans received from non-monetary financial institutions, including primarily from the subsidiary PKO Finance AB, went down by PLN 2.1 billion.
- loans received from international financial institutions decreased by PLN 1.6 billion.
- own issues for the domestic market went down by PLN 0.6 billion.



Detailed information on the issues conducted by PKO Bank Polski SA is provided in Notes 30 and 31 of the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2019.

5. EQUITY AND CAPITAL ADEQUACY MEASURES

Equity and return on equity
Capital adequacy measures
Dividends

5.1 EQUITY AND RETURN ON EQUITY

Equity of the PKO Bank Polski SA Group went up by 6.3% y/y.

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

	31.12.2019	31.12.2018	Change (in PLN million)	Change (in %)
Total equity, including:	**41,578**	**39,101**	**2,477**	**6.3%**
Share capital	1,250	1,250	0	0.0%
Supplementary capital	29,429	29,354	75	0.3%
General banking risk fund	1,070	1,070	0	0.0%
Other reserve capitals	3,237	3,831	-594	-15.5%
Accumulated other comprehensive income	469	250	219	87.6%
Retained earnings	2,101	-385	2,486	x
Net profit/loss for the year	4,031	3,741	290	7.8%
Non-controlling interests	-9	-10	1	-10.0%
Equity	**39,417**	**37,850**	**1,567**	4.1%
Total capital ratio	**18.42%**	**18.88%**		**-0.46 p.p.**

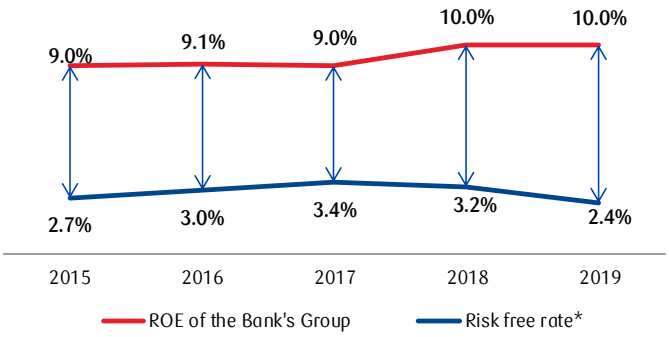
The reinforcement of the capital base (an increase in average equity of 7.9% y/y) with an increase of profit of 7.8% y/y enabled maintaining the rate of return on equity (ROE) at a level of 10.0 p.p.

5.2 CAPITAL ADEQUACY MEASURES

The capital adequacy of the PKO Bank Polski SA Group in 2019 remained significantly above supervisory limits.

As at the end of 2019 the total capital ratio of the PKO Bank Polski SA Group amounted to 18.42% and compared with the end of 2018 it dropped by 0.46 p.p., and the core capital T1 ratio amounted to 17.16% and dropped by 0.38 p.p.

ROE of the PKO Bank Polski SA Group

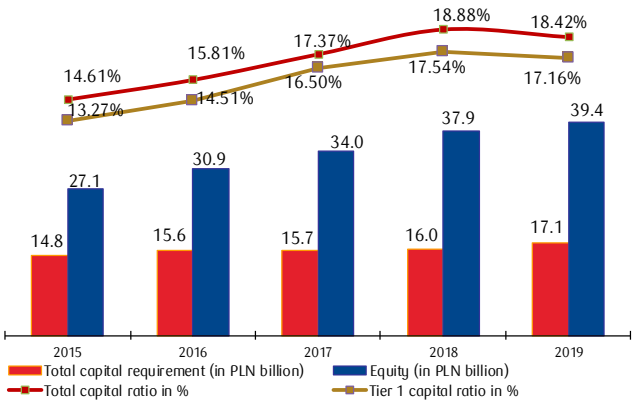


*risk-free rate calculated as the annual average of returns on 10-year Treasury bonds.

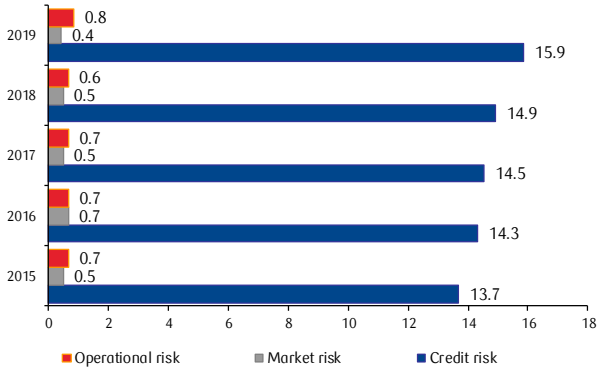
The decrease in the capital ratios was mainly due to an increase in capital requirements of approx. PLN +1.1 billion (mainly with respect to credit risk as a result of an increase in total assets), with an increase in own funds of approx. PLN 1.6 billion. The increase in equity was mainly stimulated by accumulation of 50% of the Bank's profit of 2018 of PLN 1.7 billion, and accumulation of a part of the net profit of the Bank's Group subject to prudential consolidation earned in the first half of 2019 of PLN 1 038 billion.

As at the end of 2019 IFRS 16, which was implemented as of 1 January 2019, also had an impact on the equity ratios, as it led to an increase in requirements of PLN 0.08 billion and to a decrease in own funds of approx. PLN -0.11 billion as a result of writing off the rights to perpetual usufruct of land, which in turn led to a decrease in the total capital ratio of approx. 15 bp and of the T1 base capital ratio of approx. 14 bp.

Capital adequacy measures of the PKO Bank Polski SA Group

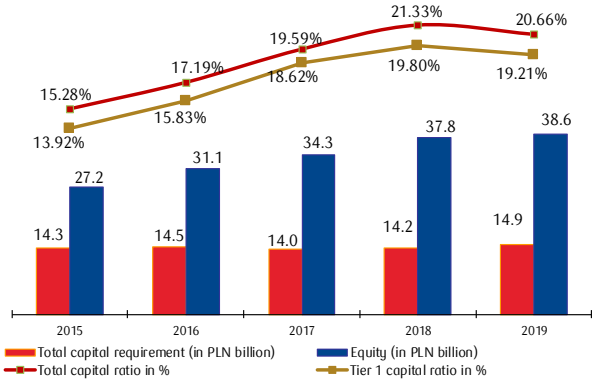


Capital requirement of the PKO Bank Polski SA Group in PLN billion

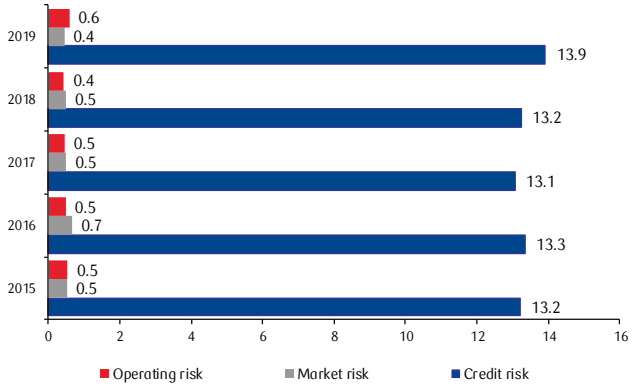


As at 31 December 2019 compared with 31 December 2018 the total capital ratio of PKO Bank Polski SA dropped by 0.67 p.p. to 20.66%, and the core capital T1 ratio went down by 0.59 p.p. to 19.21%. The drop in the T1 ratio mainly resulted from an increase in capital requirements of approx. PLN 0.8 billion which was party compensated by an increase in own funds, mainly as a result of the accumulation of a part of the Bank's net profit earned in the first half of 2019 of PLN 1 042 billion.

Capital adequacy measures of PKO Bank Polski SA in PLN billion



Capital requirement of PKO Bank Polski SA in PLN billion



5.3 Dividends

On 6 May 2019 the Ordinary General Shareholders' Meeting of PKO Bank Polski SA passed a resolution on the appropriation of the PKO Bank Polski SA profit earned in 2018 and offsetting the accumulated losses (6/2019). In accordance with the resolution the net profit of PLN 3 335 million was earmarked as follows:

- dividend to shareholders PLN 1 662.5 million;
- reserves PLN 5.2 million.

The remaining part of the profit of PLN 1 667.7 million remained unappropriated.

Dividend amounted to PLN 1.33 gross per share. The Annual General Shareholders' Meeting of PKO Bank Polski SA set the dividend date (date of vesting rights to dividend) at 31 July 2019, and the dividend payment date at 14 August 2019. The dividend was distributed on all 1 250 million shares.

The Resolution of the Bank's Annual General Shareholders' Meeting on the appropriation of the Bank's profit for 2018 complies with the individual recommendation of the Polish Financial Supervision Authority of 25 February 2019 to increase own funds by leaving at least 50% of the profit earned in the period from 1 January to 31 December 2018 unappropriated. At the same time, the PFSA confirmed that the Bank met the requirements to pay dividend at the level of 50% of net profit earned in 2018.

DIVIDEND POLICY

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

The dividend policy assumes stable dividend payments in the long-term in accordance with the binding provisions of the law and the position of the Office of the Polish Financial Supervision Authority on the assumptions for dividend policies in commercial banks. The Bank can pay dividend if it has a surplus of own funds above the minimum capital adequacy ratios defined in Art. 92 (1) of CRR,[15] Art. 55 (4) of the Act on macro-prudential supervision[16] and Art. 138 (1) (2a) of the Banking Law. The dividend policy pursued by the Bank also includes assumptions as to the optimum equity structure, return on equity and its cost, as well as capital needs related to the development of the Bank and the Bank's Group.

PFSA RECOMMENDATIONS AS TO DISTRIBUTION OF DIVIDEND

On 3 December 2019 the PFSA took a stand on the dividend policy of commercial banks.

The PFSA recommends that only those banks that meet all the criteria specified below should distribute dividend from their 2019 profits:

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

The PFSA recommends that the banks that simultaneously meet all of the above criteria pay out up to 50% of the profit earned in 2019.

Moreover, the PFSA recommended that the following payments are possible:

- up to 75% of the profit earned in 2019 by banks which meet all the above criteria, taking into account an additional buffer of 1.5 p.p. as part of the capital criteria.
- up to 100% of the profit earned in 2019 by banks which meet all the above criteria, taking into account the bank's sensitivity to an unfavourable macroeconomic scenario, as part of the capital criteria.

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

- Criterion 1- based on the share of currency housing loans for households in the entire portfolio of receivables from the non-financial sector:
    - banks with a share exceeding 10% – adjustment of the dividend rate by 20 p.p.
    - banks with a share exceeding 20% – adjustment of the dividend rate by 30 p.p.
    - banks with a share exceeding 30% – adjustment of the dividend rate by 50 p.p.
- Criterion 2 – based on the share of foreign currency housing loans granted in 2007 and 2008 in the foreign currency housing loans for households portfolio:
    - banks with a share exceeding 20% – adjustment of the dividend rate by 30 p.p.
    - banks with a share exceeding 50% – adjustment of the dividend rate by 50 p.p.

whereas the total value of the adjustment is the total of the adjustments resulting from both criteria.

[15]Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (EU OJ L 176/1).

[16]Act on macro prudential supervision over the financial system and on crisis management in the financial system.

The above criteria should be met by banks both at the separate and at the consolidated level.

At the same time, in the case of distribution of prior year profits, banks should take into account Art. 77 and 78 of CRR and Art. 129 of the Banking Law. The PFSA expects banks to obtain approval to decrease own capital by undistributed profits from the prvious years devoted to dividend. Bank considers that fulfils CRR criteria that define the conditions of granting such approval by PFSA.

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

- at the consolidated level:
  - Core Tier 1 capital ratio (CET1) = 12.69%
  - Tier 1 capital ratio T1 = 14.26%
  - total capital ratio TCR = 16.35%
- at the separate level:
  - Core Tier 1 capital ratio (CET1) = 12.75%
  - Tier 1 capital ratio T1 = 14.32%
  - total capital ratio TCR = 16.42%

As at 31 December 2019 the ratios amounted to:

- at the consolidated level:
  - Tier 1 capital ratio T1 and basic capital ratio T1 (CET1) = 17.16%
  - total capital ratio TCR = 18.42%
  - Criterion 1 = 10.51%
  - Criterion 2 = 45.15%
- at the separate level:
  - Tier 1 capital ratio T1 and basic capital ratio T1 (CET1) = 19.21%
  - total capital ratio TCR = 20.66%
  - Criterion 1 = 13.09%
  - Criterion 2 = 45.53%

After accounting for adjustments to the dividend ratio by Criteria 1 and 2, according to the data as at 31 December 2019 the Bank meets the requirements as to the distribution of dividend up to 50% of the net profit for 2019.

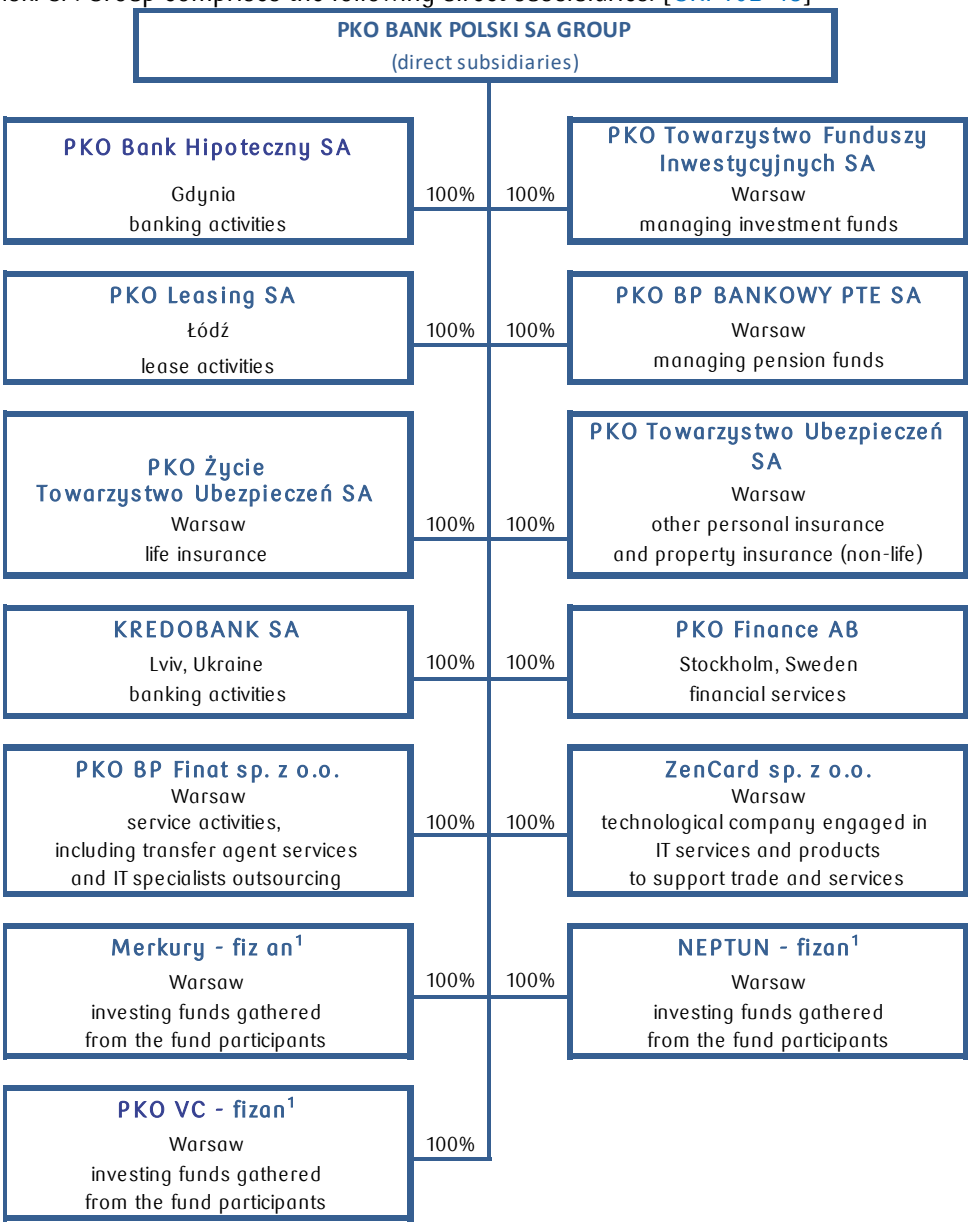
6. ORGANIZATION OF THE PKO BANK POLSKI SA GROUP

Subsidiaries covered by the financial statements
Key changes to the structure of the Bank's Group in 2019
Transactions with related parties

6.1 SUBSIDIARIES COVERED BY THE FINANCIAL STATEMENTS

As at 31 December 2019 the PKO Bank Polski SA Group was composed of the Bank, which was the parent, and 41 direct or indirect subsidiaries (at all levels). The consolidated financial data included PKO Bank Polski SA – the parent of the PKO Bank Polski SA Group – and its subsidiaries within the meaning of IFRS 10 "Consolidated financial statements".

The PKO Bank Polski SA Group comprises the following direct subsidiaries: [GRI 102-45]



[1] - PKO Bank Polski SA has investment certificates of the fund.

The list presents the share of PKO Bank Polski SA in the company's share capital, and in the case of funds – share of the fund's investment certificates held. All subsidiaries listed in the consolidated financial statements of the Bank's Group are accounted for using the acquisition accounting method.[17]

[17] A full list of the Bank's subsidiaries, associates and joint ventures is presented in the Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019 – in Notes 38 and 39.

6.2 KEY CHANGES TO THE STRUCTURE OF THE BANK'S GROUP IN 2019

In 2019 the following important events took place which had an impact on the structure of the PKO Bank Polski SA Group.

ACQUISITION OF PRIME CAR MANAGEMENT SA BY PKO LEASING SA

PKO Leasing SA (the Bank's subsidiary) acquired a total of 100% of the shares in a public company, Prime Car Management SA (PCM), including:

- on 27 May 2019, it acquired 11 244 402 shares in PCM (which accounted for 94.42% of the Company's share capital carrying 94.42% of votes at the General Shareholders' Meeting) as a result for a call to subscribe for the sale of PCM shares announced by PKO Leasing SA on 18 April 2019 in accordance with Art. 74 (1) of the Act dated 29 July 2005 on public offering and on the conditions of introducing financial instruments to the organized trading system and on public companies (Act on Public Offering), by settling the acquisition of shares covered by the subscription under phase 1 of the call;
- on 24 June 2019, it acquired 664 438 shares of PCM (the remaining shares) as part of a squeeze-out procedure in accordance with Art. 82 (1) of the Act on Public Offering and Regulation of the Minister of Finance of 14 November 2005 on acquiring shares in a public company through a squeeze-out.

The total acquisition price amounted to PLN 283 million. The purchase of shares was financed from an overdraft facility granted to PKO Leasing SA by PKO Bank Polski SA.

The business operations of the acquired company consist of conducting leasing activities (finance and operating leases) and managing a car fleet.

The company's share capital as at 31 December 2019 amounted to PLN 23 817 680 thousand and was divided into 11 908 840 shares with a nominal value of PLN 2 each.

By 17 June 2019 PCM's shares were traded on the Warsaw Stock Exchange Main Market, and on 31 October 2019 were excluded from trading on the regulated market.

Due to the purchase of PCM, its subsidiaries joined the PKO Leasing SA Group: The core activities of PCM's subsidiaries comprise primarily car rental, finance lease, sale of motor vehicles as well as maintenance and repair of motor vehicles.

Table 8. PCM's subsidiaries

Company	Share capital (PLN)	Number of shares	Nominal value of share (PLN)
Masterlease sp. z o.o.	7,905,000	158,100	50
MasterRent24 sp. z o.o.	2,850,000	28,500	100
Futura Leasing SA	1,689,320	1,689,320	1

The acquisition of PCM (with its subsidiaries) is aimed at strengthening the PKO Leasing SA Group's leading position in the lease sector (including operating leases) and the expansion of fleet management and car rental services.

At the same time, in June 2019, PKO Bank Polski SA granted two loans totalling PLN 1 890 million to PCM to change the financing structure of PCM and its group (refinancing the existing liabilities of PCM resulting from loan agreements concluded and bonds issued, and financing and refinancing current operations).

OTHER CHANGES IN THE PKO LEASING SA GROUP

On 28 June 2019, the National Court Register with jurisdiction over the acquirer registered the merger between Qualia Development sp. z o.o. (the Bank's subsidiary) as the acquiree, and PKO Leasing SA as the acquirer. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in the share capital of the acquirer and conversion of the shares in the acquiree into the shares of the acquirer.

After the merger, PKO Bank Polski SA holds 34 785 566 shares in PKO Leasing SA with a total nominal value of PLN 347 855 660, constituting 100% of the company's share capital carrying 100% of the votes at the General Shareholders' Meeting.

On 26 September 2019 PKO Leasing SA sold its portfolio of securitized lease receivables to the special purpose vehicle Polish Lease Prime 1 Designated Activity Company (Polish Lease Prime 1 DAC) with its registered office in Dublin (Ireland). According to IFRS 10, Polish Lease Prime 1 DAC is a subsidiary of PKO Leasing SA and is consolidated.

CHANGE IN THE CLASSIFICATION OF OPERATOR CHMURY KRAJOWEJ SP. Z O.O.

On 5 September 2019 an increase in the share capital of Operator Chmury Krajowej sp. z o.o. of PLN 60 million, which was taken up by Polski Fundusz Rozwoju SA, and amendments to the company's Articles of Association were entered in the National Court Register.

As at 31 December 2019, the share capital of Operator Chmury Krajowej sp. z o.o. amounted to PLN 120 million and was divided into 1 200 000 shares with a nominal value of PLN 100 each. PKO Bank Polski SA holds 600 000 shares of the company with a total value of PLN 60 million, constituting 50% of the company's share capital carrying 50% of the votes at the General Shareholders' Meeting.

PKO Bank Polski SA changed the classification of the entity from a subsidiary to a joint venture.

Moreover, in 2019, PKO Bank Polski SA provided additional capital to its subsidiaries (by taking up shares in the increased share capital of these entities) in a total amount of PLN 406 million, including PKO Bank Hipoteczny SA totalling PLN 350 million and Operator Chmury Krajowej sp. z o.o. totalling PLN 56 million.

6.3 TRANSACTIONS WITH RELATED ENTITIES

In 2019 PKO Bank Polski SA provided services on market terms to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, issuing debt securities, granting guarantees and spot exchange transactions, and offering units and certificates of investment funds, lease products, factoring products and insurance products of the PKO Bank Polski SA Group, and services offered by Biuro Maklerskie PKO Banku Polskiego SA.

PKO Bank Polski SA provided services to PKO Bank Hipoteczny SA within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of the post-transaction services in respect of these loans and support tasks under the outsourcing agreement. The Bank offered its infrastructure and IT services, and rented office space to selected companies of the Bank's Group. Together with Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. it provided payment transaction clearing services.

A summary of significant transactions between PKO Bank Polski SA and its subordinated entities, including these companies' indebtedness vis-à-vis the Bank as at 31 December 2019 is presented in the Financial Statements of PKO Bank Polski SA for the year ended 31 December 2019 (Note 44).

7. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP[18]

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

7.1 OPERATING SEGMENTS OF THE BANK'S GROUP[19]

Retail segment
Corporate and investment segment

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

RETAIL SEGMENT

The retail segment offers a full range of banking products and services to individuals and as part of retail and private banking. Moreover, it comprises transactions concluded with companies and enterprises, developers, co-operatives and real estate managers. The products and services offered to Customers in this segment include, among other things: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services, consumer and housing loans, business loans and leases.

NUMBER OF CUSTOMERS: 10.9 MILLION

FINANCING GRANTED: 179 BILLION

SAVINGS VOLUME: 263 BILLION

CORPORATE AND INVESTMENT SEGMENT

The corporate and investment segment includes transactions concluded with corporate Customers, local government authorities and financial institutions. Products and services offered to Customers comprise: transactional banking (including maintaining accounts), deposits and other products for liquidity management, trade finance, Treasury products, loan-related products which finance both current and investment needs (including leasing and factoring). This segment also comprises brokerage activities and own activities, i.e. managing the Bank's liquidity and investing activities.

NUMBER OF CUSTOMERS: PLN 15.8 THOUSAND

FINANCING GRANTED: 74 BILLION

DEPOSITS VOLUME: 50 BILLION

[18] Financial data of members of the PKO Bank Polski SA Group is presented in accordance with the companies' financial statements prepared in line with IAS/IFRS.

[19] The subsection includes the Bank's management data; potential differences in the totals, shares and dynamics result from rounding.

7.1.1 RETAIL SEGMENT

Segment Customers
Business volumes
Activities in 2019

In 2019, the PKO Bank Polski SA Group continued to build strong and long-term relationships with Customers in the retail segment. It focused on adapting products to Customer needs and on developing access tools and channels, enabling Customers convenient finance management from any place and at any time.

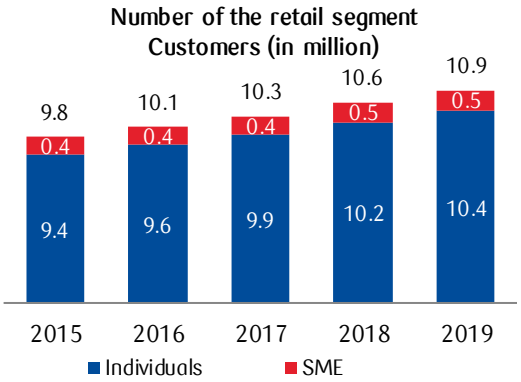
The PKO Bank Polski SA Group offer covers a wide range of credit, deposit and insurance products.

Individuals can take advantage of financing offered under the consumer products available as cash advances, mortgage loans, revolving loans, credit cards and housing loans. The credit offer for companies and enterprises is available in the form of investment and investor loans, revolving loans, leases and factoring.

The deposit and investment offer is addressed to retail Customers and comprises, among other things, regular saving products, term deposits, investment products of PKO Towarzystwo Funduszy Inwestycyjnych SA, and Treasury savings bonds.

The Bank's Group offers insurance services, both those related and those not related directly to bank products, to all Customers in the retail segment. Insurance connected with Bank products is offered to Customers in connection with, among other things, consumer loans and mortgage loans, savings and settlement accounts and bank cards. The insurance offer, independent of Bank products, includes, among other things, life insurance, insurance of real estate, travel, oncological insurance policy OnkoPlan, and insurance of leased assets.

SEGMENT CUSTOMERS



As at the end of 2019 the Retail segment serviced nearly 10.9 million[20] Customers, including:

- 10.4 million individuals;
- 0.5 million companies and enterprises.

From the beginning of 2019 the number of Customers serviced in the retail segment increased by 279 thousand, these comprised mainly retail and private banking Customers.

BUSINESS VOLUMES

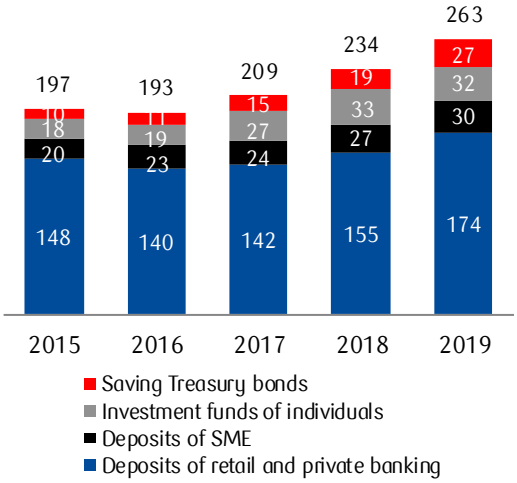
As at the end of 2019:

- the aggregate financing of retail segment Customers amounted to nearly PLN 179 billion and went up by approx. PLN 10.7 billion (i.e. 6.4%) since the beginning of the year. This was mainly due to the growth of the portfolio of PLN-denominated mortgage banking loans (PLN +7.8 billion), loans for companies and enterprises (PLN +2.1 billion), and retail and private banking (PLN +2.9 billion), accompanied by a decrease in the portfolio of foreign currency mortgage loans (PLN -2.0 billion).
- lease receivables in the retail segment amounted to PLN 13.0 billion and from the beginning of the year, grew by 16.3%.

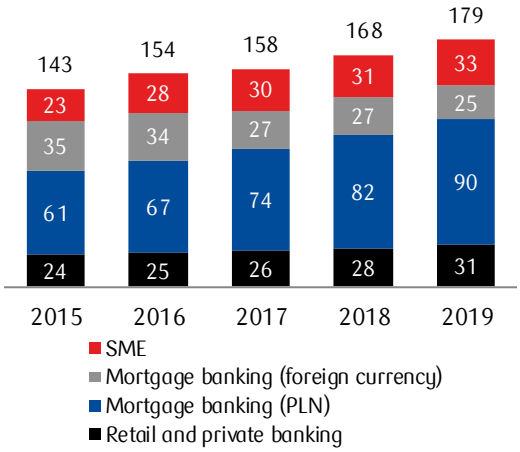
[20] In 2019, the method of presentation of the number of segment Customers changed. The existing approach was based on the product perspective and individual business lines, and the new methodology is Customer-oriented and is focused on the Bank' potential. The new methodology was applied to all years presented on the chart.

- savings in the retail segment amounted to PLN 263 billion and increased as of the beginning of the year by PLN 28.8 billion (i.e. 12.3%). This was partly due to an increase in the level of retail and private banking deposits (mainly current deposits) and Treasury savings bonds.

Customer savings in retail segment (in PLN billion)



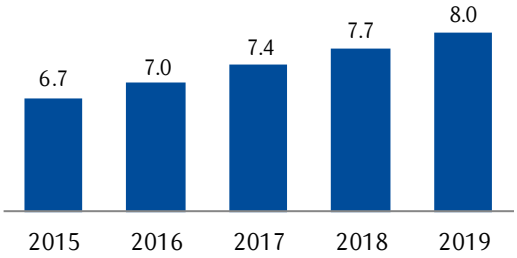
Gross loans in retail segment (in PLN billion)



The Bank's Group strengthened its position as leader on the market in terms of the number of current accounts maintained, which amounted to 8.0 million[21] and went up by 315 thousand during the year.

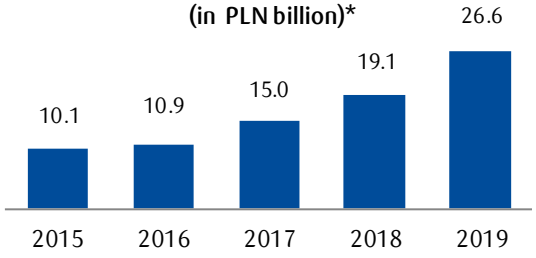
In 2019, the Bank's Group sold nearly 173 million Treasury savings bonds (i.e. 36% more than in 2018), and the debt in respect of the Treasury savings bonds issued to the domestic market amounted to PLN 26.6 billion[22] and was more than PLN 7.5 billion higher than in the corresponding period of the prior year.

Number of current accounts (in million)*



* new method of counting the ROR accounts includes all active accounts which have potential for increased cooperation with the Customer.

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

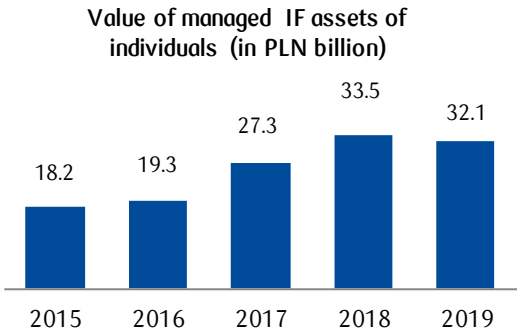


* nominal value of savings bonds; source: Biuro Maklerskie PKO Banku Polskiego SA.

[21] Starting from Q3 2019, the Bank changed its rules for classifying current (ROR) accounts. According to the new, simpler criteria, the Bank reports all active accounts which have potential for increased cooperation with the Customer. The new methodology was applied to all years presented on the chart.

[22] Nominal value; source: Biuro Maklerskie PKO Banku Polskiego SA.

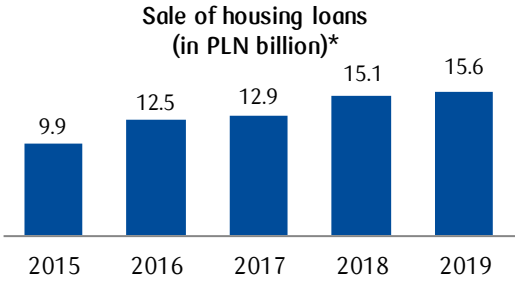
The Bank's Group offers its retail and private banking Customers 55 funds and sub-funds for individuals in which assets amounting to PLN 32.1 billion[23] have been accumulated.



ACTIVITIES IN 2019

In the first half of 2019, among other things, the PKO Bank Polski SA Group:

- with regard to activities on the housing loans market:
  - granted loans to individuals totalling PLN 15.6 billion, which allowed it to maintain its leading position on the market with a 25.7% share over the whole of 2019;
  - provided the option of "green mortgage" in its offer, thanks to which Customers can obtain a lower margin based on an energy performance certificate for the real property which constitutes collateral;
  - in its new offer, replaced 3M WIBOR with 6M WIBOR as the reference ratio for mortgage loans and advances;
  - made it possible to activate a further tranche of mortgage loans through the iPKO service;
  - enabled correspondence to be sent to the e-mail address of Customers who have mortgage loans;
  - supplemented the offer of the Własny Kąt mortgage housing loan with the possibility of signing loan agreements with a fixed interest rate with an initial 5-year lending period (hitherto, Customers could switch to the 5-year rate only after the entire loan with a variable rate had been activated);
- with regard to consumer loans:
  - introduced the possibility of documenting income based on the account history or a bank statement, instead of an employer certificate – this option is available for selected sources of income up to PLN 200 thousand of the loan exposure in the Bank;
  - cancelled the requirement to apply security for a revolving loan up to PLN 200 thousand of the Bank's total exposure to the Customer in respect of consumer transactions;
  - increased the availability of financing for Customers by reducing the minimum amount of cash advances from PLN 1 thousand to PLN 500;
  - increased the maximum available amount of the loan for basic segment Customers – the amount went up from PLN 120 thousand to PLN 200 thousand;
  - extended the offer to include a loan earmarked for financing the purchase and installation of photovoltaic panels.



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

[23] Source: Analizy Online

- with regard to activities and financing for companies and enterprises, it provided a guarantee Kreatywna Europa – supporting the financing of entities which operate in culture and creativity sectors (such as design, visual arts, architecture, the audiovisual sector, publishing, music and culture), as part of the new guarantee programme "Creative Europe" launched on the initiative of the European Commission – the programme was launched on 9 December 2019;
- with regard to the transactions and savings offer:
  - to mark the Bank's centenary, in Q1 2019, it introduced in its offer a deposit for new funds with an interest rate of 1.919% p.a.
  - as the first Bank in Poland, it launched the possibility to pay income tax from the governmental portal www.epodatki.gov.pl using the Paybynet system;
  - it extended the time for concluding currency conversion transactions via iPKO dealer for corporate Customers of PKO Bank Polski SA – the currency exchange office is available for 24 hours from Monday to Friday;
  - carried out a subscription for structured deposits, such as: 18-month structured deposits based on the EUR/PLN exchange rate (3 subscriptions) and 25-month structured deposits based on the share baskets of Swiss, Spanish, Dutch, and pharmaceutical companies in the luxury goods sector;
- with regard to the insurance offer, it implemented the "Bezpieczny Plan" ("Safe Plan") life insurance – financial safety for close relatives in the event of the death of the insured person, not linked to a bank product, earmarked for personal banking Customers;
- with regard to the digitization of Customer services, a virtual car rental centre was launched at www.autowynajem.pkoleasing.pl.
- launched Program Partnerski (Partners' Plan) designated for Ekstraklasa (Premier League) clubs which involves clubs in the promotion of bank products (personal accounts, cash advances, mortgage loans), and in exchange, the clubs will obtain from PKO Bank Polski SA remuneration for each product purchased in this way, and furthermore, signed a factoring agreement with Ekstraklasa SA, as a result of which the clubs can more effectively manage their liquidity.

7.1.2 CORPORATE AND INVESTMENT SEGMENT

Segment Customers Business volumes Activities in 2019

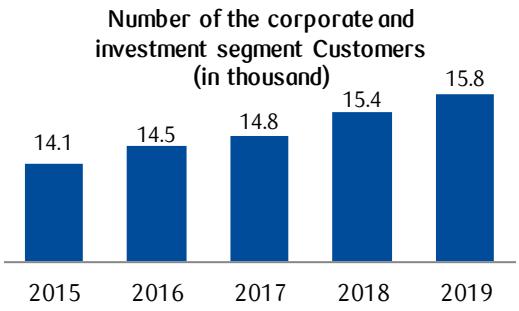
Implementation of management standards in the corporate sales network enabled the PKO Bank Polski SA Group to consistently deepen its cooperation with Customers and increase its range based on the wide scope of offered products.

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

SEGMENT CUSTOMERS

As at the end of 2019 the Corporate Segment and the Investment Segment services over 15.8 thousand Customers, including:

- nearly 8.5 thousand corporate Customers;
- nearly 1.3 thousand strategic Customers,
- 4.9 thousand local and central government institutions plus budgetary and related entities;
- nearly 0.9 thousand foreign Customers;
- 0.4 thousand financial Customers.



Since the beginning of 2019 the number of Customers serviced in this segment increased by more than 0.4 thousand. The Bank maintains its position as leader on the market of servicing the largest local government units: handles the budgets of 9 voivodships and 9 voivodship main cities. The Bank has been systematically reinforcing its leading position in the financing of the Polish economy, both on its own and as a major member of banking syndicates, with a share commensurate with its market position.

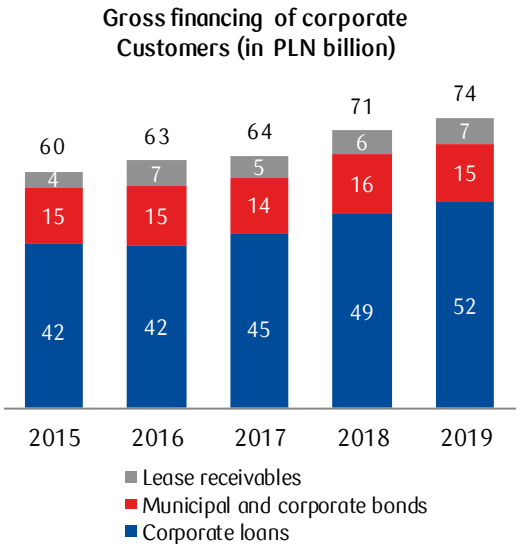
Under the Bank Group's offer corporate Customers may use lease and factoring products and services. Any fixed asset may be financed in the form of a lease, depending on the Customers' needs. Apart from standard products, the offer also includes services of renting car fleet and cooperation with suppliers.

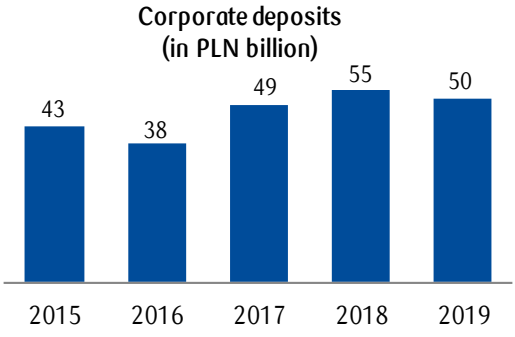
BUSINESS VOLUMES

The Bank supports the Polish economy and participates in the financing of strategic investment projects and local government investments. Such financing takes the form of syndicated and bilateral loans or issues of securities.

As at the end of 2019 total financing of Corporate Customers, including loans, bonds issued and lease receivables amounted to PLN 74 billion and increased since the beginning of the year by PLN 3.1 billion (i.e. 4.4%). The increase was mainly related to loan and lease receivables.

The Bank maintains securities accounts for Customers and facilitates Polish and foreign market transactions, and acts as a depositary for pension and investment funds.





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

The level of corporate deposits as at 31 December 2019 amounted to nearly PLN 50 billion and decreased by more than PLN 5 billion from the beginning of the year, mainly due to the drop in term deposits of the budgetary sector.

The Bank's Group intensified its activities in respect of pension products: Employee Pension Schemes (PPE – Pracownicze Programy Emerytalne) and Employee Capital Plans (PPK – Pracownicze Plany Kapitałowe) offered to corporate Customers.

ACTIVITIES IN 2019

In 2019, the PKO Bank Polski SA Group, among other things:

- with regard to Customer service and transaction banking:
  - performed tasks which enables a corporate branch to be launched in Slovakia at the beginning of 2020;
  - extended the agreement with ZUS social insurance office for opening and maintaining consolidated FUS, FEP and Zakład (Facility) and effecting mass transfers;
  - implemented regulatory changes resulting from PSD2;
  - implemented regulatory changes resulting from changes in the VAT regulations;
  - introduced new Wpłatomats located in Customer locations, which accept cash in PLN, EUR in banknotes, which are accounted for on-line;
- with regard to the product offer, it launched:
  - International Multi-currency Cash Pooling service;
  - individual accounts for Small Payment Institutions;
  - Deposit Identification System;
  - adapted transactional banking products to changes in the regulations regarding court enforcement officers;
  - SWIFT GPI transfers – immediate money transfers abroad;
  - Treasury transactions on the market of greenhouse gas emission allowances;

- with regard to financing corporate Customers in the form of banking syndicates and organizing bond issues, it concluded:
  - 1,792 agreements on management of PPK (Employee Capital Plans) including 1,301 agreements with companies employing 250 and more persons – that allowed achieve the leader position among financial institutions offering PPK;
  - 21 loan agreements in a banking consortium totalling PLN 28.6 billion and USD 2.5 billion, in which the Bank's share amounted to PLN 6.6 billion;
  - 6 agreements for the arrangement of corporate bond issues without underwriting of PLN 7.8 billion and two issue programme agreements with underwriting amounting to PLN 139.6 million;
  - 164 agreements on the issue of municipal bonds with a total value of PLN 1.25 billion, which enabled it to obtain the largest share in the market of municipal bonds issues;
- with regard to brokerage activities (Biuro Maklerskie PKO Banku Polskiego SA):
  - turnover on the secondary market of shares reached PLN 29.7 billion, which accounted for 7.5% of the market turnover, and placed Biuro Maklerskie PKO Banku Polskiego SA as leader in the ranking of brokerage houses;
  - on the primary market, among other things, organized transactions of the sale of shares of Santander Bank Polska SA by Deutsche Bank with a value of approx. PLN 560 million, sale of SPO (Secondary Public Offer) of the shares of Grupa Azoty Zakłady Chemiczne "Police" SA with a value of approx. PLN 501.6 million, issue of bonds of Echo Investment SA for approx. PLN 34 million, distribution of bonds of Ghelamco Invest sp. z o.o. for PLN 35 million. Biuro Maklerskie BP, acting as an intermediary, also organized, among other things: a call for the subscription and buyout of shares of PFLEIDERER GROUP SA for Volantis Bidco B.V. totalling approx. PLN 535 million, a call for subscription for the sale of shares of STELMET SA with a value of approx. PLN 202 million and buyback of own shares by Benefit Systems SA with a value of approx. PLN 57 million. Moreover, with regard to mergers and acquisitions, Biuro Maklerskie BP, as the seller's advisor, successfully completed the acquisition of 100% of shares of L'biotica sp. z o.o. by OCEANIC SA and the sale of 95% of shares in Przedsiębiorstwo Budowy Szybów SA by PRIMETECH SA;
  - maintained nearly 123 thousand securities and cash accounts and over 223 thousand register accounts. In terms of the number of securities accounts (according to the National Depository for Securities as at 31 November 2019), Biuro Maklerskie BP was the third among 38 market participants,
  - provided services concerning units in 377 funds and sub-funds managed by 12 fund management companies.

7.2 Other services

Online currency exchange service
Apple Pay and Garmin Pay in PKO Bank Polski SA
Sign language online translator at PKO Bank Polski SA branches
Energy-effective mortgages – pan-European project with the participation of PKO Bank Polski SA and PKO Bank Hipoteczny SA
e-Księgowość
e-Prawnik
e-Windykacja
e-Tożsamość
Inwestomat

Online currency exchange service

PKO Bank Polski SA makes available an online currency exchange service in the iPKO transaction service and in the IKO mobile application as a simple and intuitive tool enabling fast and safe online currency exchange. The currency exchange service handles 10 foreign currencies – EUR, GBP, USD, CHF, DKK, NOK, SEK, CZK, HRK, HUF.

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

- exchange currencies in real time, with immediate settlement of the transaction;
- transact at attractive rates and free of charge for accessing the service (the possibility to trade in respect of several dozen currency pairs;

- follow currency charts online and use text message notifications when the exchange rate reaches a certain level;
- in combination with other products such as a multi-currency card, manage their finances more effectively and handle daily payments in foreign currencies;
- order currency exchange when its exchange rate reaches the required value;
- set up a standing order thanks to which the Bank will exchange currency on a predefined date.

APPLE PAY AND GARMIN PAY IN PKO BANK POLSKI SA

The Bank's Customers can use the Apple Pay and Garmin Pay services.

The Apple Pay service allows the use of an Apple mobile phone instead of a payment card and make cashless transactions using Apple devices, which are charged to the account of a PKO Bank Polski SA credit card.

Garmin Pay enables the Bank's individual Customers with smartwatches that are equipped with this function, to make proximity payments by using their payment cards.

SIGN LANGUAGE ONLINE TRANSLATOR AT PKO BANK POLSKI SA BRANCHES

In each facility of PKO Bank Polski SA, an institution breaking down barriers, focused on modern technologies, people with impaired hearing can freely communicate with employees and handle all banking matters. They can use the assistance of Migam, an online sign language translator which participates in the conversation between the advisor and the Customer. This form enables the language barrier to be overcome and offer the same level of services to all Customers. The online translator service is available to Customers during branch working hours. Meetings with the use of online Polish sign language translators do not have to be arranged in advance.

ENERGY-EFFECTIVE MORTGAGES – PAN-EUROPEAN PROJECT WITH THE PARTICIPATION OF PKO BANK POLSKI SA AND PKO BANK HIPOTECZNY SA

PKO Bank Polski SA and PKO Bank Hipoteczny SA, were the first banks in Poland to join the pilot project Energy Efficient Mortgages (EEM). The project is aimed at creating standardized, pan-European solutions for mortgage loans granted for financing apartments and houses which use energy-saving solutions.

The purpose of the EEM project is, among other things, to build a package of preferential terms for lenders which will encourage them to buy energy-efficient real estate, or to improve the energy efficiency of existing buildings. In the long term, the activities conducted under the programme may result in a reduction in risk weights for banks. This should be an incentive for banks to play the key role in stimulating activities addressing climate change in the European construction sector. 45 banks in various European countries are currently participating in the initiative.

E-KSIĘGOWOŚĆ

The e-Księgowość (electronic accounting) service which was made available in 2019, addressed to companies and enterprises facilitates, among other things, invoicing, corporate finance management, quick access to payments, analysis of current sales and costs, and forecasting expenses. This tool is integrated with the iPKO online banking system, and Asystent Firmowy (a company assistant) and enables the management of finance in respect of accounts and settlements.

E-PRAWNIK

In 2019, PKO Bank Polski SA provided a new service, e-Prawnik (electronic lawyer), addressed to Customers in the companies and enterprises sector. The tool allows an entirely remote, quick and comprehensive resolution of legal problems. The e-Prawnik service helps quickly find a lawyer who will perform the legal service requested for a pre-agreed fee. The Customer receives offers of legal assistance with the best matching specializations, and can select the one that best suits his needs. The new solution will help smaller companies overcome development barriers.

E-WINDYKACJA

In the second half of 2019, PKO Bank Polski SA made available a new service, e-Windykacja (electronic debt collection), which allows corporate Customers to use the Vindicat platform to monitor payments on their own, select a debt collection scenario adequate to the counterparty, effectively recover receivables from unpaid invoices, and also order enforcement to a legal firm via the platform.

E-TOŻSAMOŚĆ

In 2019, PKO Bank Polski SA as the first Identity Supplier integrated its systems with the National Electronic Identification Hub (Krajowy Węzeł Identyfikacji Elektronicznej) which promotes and facilitates the use of electronic public administration services. Due to integration with the National Hub, the Bank's Customers can log in to public administration portals using their bank login and password in order to use official online services, and confirm their identity with the bank electronic identification service (e-Tożsamość).

INWESTOMAT

On 15 November 2019, PKO Bank Polski SA, was the first entity to launch on the market an innovative service of investment advice based on full automation of the purchase process in remote channels. Inwestomat is characterized by intuitive navigation and simple communication with the Customer, and helps understand difficult concepts and risks related to investing. Inwestomat shows possible scenarios for market development and presents the recommended product, and in a simple way shows how appropriate funds can be selected, which may help the Customer attain the desired goal. The offer takes into account the level of risk tolerance and expected profit level as well as timing of the investment. Customers can use Inwestomat to invest their funds starting from PLN 100.

7.3 DISTRIBUTION NETWORK AND ACCESS CHANNELS

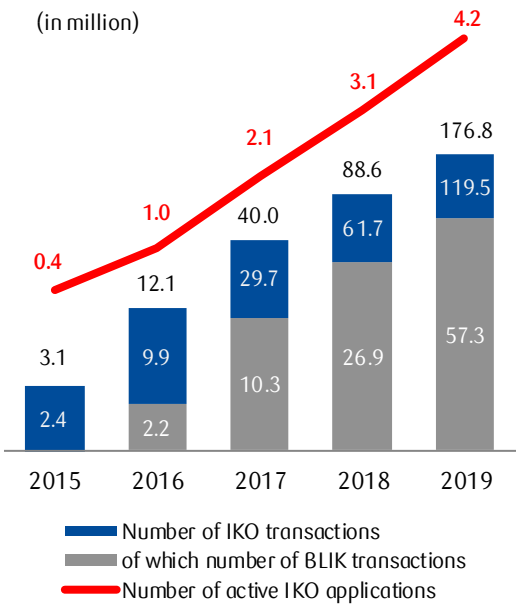
IKO mobile banking
Electronic banking
PKO Bank Polski SA's Contact Centre
Branch network and agencies
Private banking centre
Corporate banking centre
Self-service points

IKO MOBILE BANKING

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

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

As at the end of 2019, the total number of IKO activations reached over 4.2 million. Also the number of Customers who log in to the Bank from their mobile devices is growing. At the end of the first half of 2019, more than 3.4 million of the Bank's Customers logged in to the Bank from a mobile device[24] at least once a month, i.e. 23 % more than a year before.



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

The mobile application is developed with various functions. In 2019 the IKO application was expanded, among other things, by:

[24] Logging in via IKO mobile application, a mobile version of the iPKO service or the full version of iPKO.

- mobile authorization which enables faster and safer approval of operations in the IKO mobile application using PIN codes for transactions which are ordered in iPKO, Inteligo, mobile IKO application, using the telephone helpline or in the branch;
- possibility to pay parking fees and buy tickets for public transport in the majority of cities and towns in Poland directly in the IKO application – the services are performed by moBiLET;
- possibility to buy vehicle insurance for a car – Customers can easily compare 6 insurance offers and decide which they like the best;
- the "Pomagaj z nami" ("Help us help") function which makes it possible for Customers to transfer funds to areas supported by the Fundacja PKO Banku Polskiego foundation such as: Edukacja (Education), Nadzieja (Hope), Zdrowie (Health), PKO Bieg Charytatywny (PKO Charity Run) or any other non-governmental organization;
- application for a currency account within which Customers can also activate an online currency exchange office and attach the newly-opened account to a multi-currency account;
- application for an overdraft, after the submission of which the Customer can accept the Bank's offer and sign an agreement directly in the IKO application;
- application for a credit card and possibility to apply for changing the limit of the credit card, which allows Customers to quickly and easily submit applications in the IKO, without the need to log into the online service or leave home.

In addition to mobile banking and payment functions, IKO is becoming an important sales channel. Nearly three out of four loans in remote channels are sold via the mobile banking application.

At the beginning of 2019, the IKO application again won first place as the most appreciated by Customers in the Retail International Banker ranking which covers 100 bank applications worldwide. The ranking is based on Customer ratings, given in application stores for iOS and Android. Customers have already given IKO more than 450 thousand assessments with an average of 4.8 out of 5 available stars. It is the largest number of evaluations of a mobile application on the Polish banking services market. IKO is also the most often downloaded bank application in Poland.

ELECTRONIC BANKING

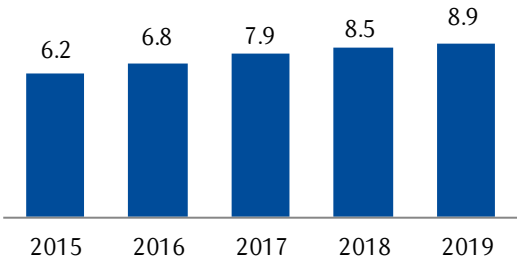
The Bank's Customers can use iPKO and iPKO Biznes services as part of the electronic banking services. These services provide Customers with access to information on their accounts and products, and enable them to effect transactions through the Internet, self- service points and by telephone.

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

In 2019, the Bank introduced, among other things, the following novelties in the iPKO:

- new design of the login page for iPKO and the Płacę z iPKO service (Interpay and PayByNet) – modern, rejuvenated and responsive (RWD) graphic layout of the login page;
- new design and functionalities of the Rachunki (Accounts) section and reorganized transaction history;
- new mechanisms steering the display of offers in the "Transakcje" (Transactions) section and in the account history, which enable the contents of ads to be adapted to the current needs of Customers (RTM);
- e-Tożsamość, a new service – a function implemented in iPKO and Inteligo for creating e-Identities (Electronic Identification) and releasing the data stored in the e-Tożsamość for the purposes of public and commercial service providers;
- new tool supporting Customers in attaining their investment goals – PKO Inwestomat;
- virtualization and broader offer of Funds in iPKO,
- simplified process of applying for cash advances in iPKO – smaller number of fields to be completed and tips on the application form which make it easier to navigate through it;
- an application for vehicle insurance (OC, AC, NNW and Car Assistance),

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



* from the second quarter of 2019 the definition changed - number of retail Customers who have active product relation in the iPKO service

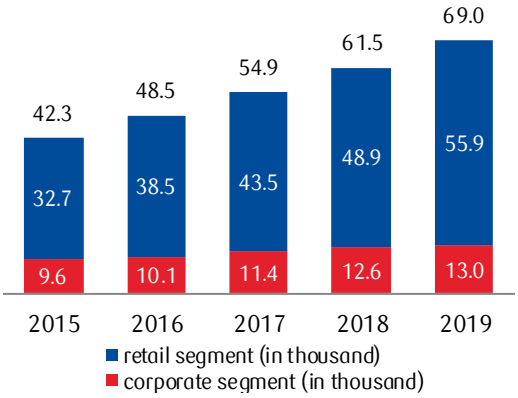
- e-Paragon, a new service – pilot implementation of a functionality corresponding to collecting a cash receipt by electronic means in respect of payments with a debit card at selected ORLEN fuel stations;
- possibility of uploading to the service certificates of no arrears in ZUS contributions, sending an insurance policy for loan or mortgage advances, and sending the policy documents / confirmation of payment of the premium for Customers – companies and enterprises;
- regulatory changes in the iPKO and Inteligo servicies resulting from PSD2 – AIS, PIS, CAF, RTS,
- alerts about upcoming expiry dates of identity documents and expired identity documents, and cyclical alert confirming the data in iPKO;
- changes in the Split payment in iPKO, among other things, allowing funds from a VAT account to be used for paying tax liabilities other than VAT;
- change in the method of performing a money transfer abroad with the option of a negotiated currency rate and presentation of information about the fees for foreign currency transfers (SEPA);
- detailed information about enforcement seizures in the "Blokady" section;
- allowing for early repayment of Pożyczka Gotówkowa (Cash Advance) in iPKO;
- Oficjalna Karta Ekstraklasy and two new images for debit cards prepared on the occasion of the Bank's centenary, which are available in the application for an account, a debit card, and a change in the image on an existing card;
- application for a debit card to be completed by children with PKO Konto Pierwsze (parent's approval in iPKO is required).

The iPKO biznes electronic banking system is addressed to all institutional Customers interested in an online channel of access to the standard products and specialist bank services, also via a mobile application.

In 2019, PKO Bank Polski SA made available to the iPKO biznes users new functionalities, such as:

- handling JPK file – Standard Audit File-Tax (SAF-T);
- to make it easier for Customers to apply additional mechanisms securing the use of accounts, default transaction limits were assigned to accounts available in the service;
- a function of unblocking a user by the administrator directly in iPKO biznes to facilitate the process of handling the account;
- history on accounts connected with loans;
- in respect of ordering foreign transfers – a function of defining foreign standing orders as well as a mechanism of waiting for funds, which allows ordering foreign transfers despite insufficient funds on the account – the system automatically monitors the balance and performs the transfer when sufficient funds arrive in the account;

Number of Customers with access to iPKO biznes



- implemented changes related to the tax micro-account and verification of so-called White Lists of counterparties in iPKO biznes;
- carrying out the digitization of processes in iPKO biznes;
- presentation of accounts from other banks in iPKO biznes;
- mobile iPKO biznes application for Customers of branches in the Czech Republic and Germany.

PKO Bank Polski SA's Contact Centre

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

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

In 2019, at PKO Bank Polski SA the structures of Retail Customer Service (Contact Centre) and Operating Centre were combined, which allowed to increase the tasks performed in the combined team per one FTE in selected processed by approx. 27% and resulted in a significant increase in sales (approx. 70% increase 2019/2018) with stringent cost discipline maintained. PKO Bank Polski SA is the third bank in Europe in which these structures were combined.

In 2019, as part of the process of automation of the Customer service, the Contact Centre consultants were given the support of a robot which presents answers to verification questions during a conversation, which shortens the time of the consultant's conversation with the Customer by even as much as 20 seconds.

BRANCH NETWORK AND AGENCIES

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

As at the end of 2019, the network of branches of PKO Bank Polski SA consisted of 1 043 retail branches clustered in 11 regional divisions, 8 private banking offices and 11 corporate banking offices. Compared with the end of 2018, the total number of retail branches decreased by 40.

The optimization of the branch network is carried out on a continuous basis, and the decision on the branch's operation in a particular micro-market is made by reference to economic criteria, taking into account the growth potential of that micro-market. The Bank is constantly improving Customer service conditions in the branch network as part of projects performed in the Bank based on the Nowy Format Oddziałów (NFO) model which assumes creating a modern bank facility which is friendly to Customers and the Bank employees. The new standard was supported by the availability of new technologies – a WIFI zone, self-service tills, the possibility of charging mobile phones, LCD monitors, tablets, authorization of selected Customer orders at the counter using text messages, which firmly support the process of providing services with regard to educating Customers and changing their habits.

The sales network of the corporate segment comprises 33 Regional Corporate Centres clustered in seven Corporate Regional Divisions and branches in the Federal Republic of Germany and the Czech Republic.

Table 9. Operating data of the retail and corporate segment

	2019	2018	2017	2016	2015	Change since: 2018
Number of branches in the retail segment:	**1,073**	**1,113**	**1,153**	**1,198**	**1,238**	**-40**
regional retail branches	11	11	11	11	11	0
retail branches	1,043	1,083	1,132	1,179	1,219	-40
private banking branches	8	8	8	8	8	0
corporate banking branches	11	11	2	0	0	0
Number of branches in the corporate and investment segment:	**42**	**42**	**41**	**40**	**40**	**0**
regional corporate branches	7	7	7	7	7	0
regional corporate centres	33	33	32	32	32	0
foreign branches	2	2	2	1	1	0
Number of ATMs	**3,080**	**3,133**	**3,190**	**3,206**	**3,196**	**-53**
Number of agencies	**538**	**577**	**745**	**837**	**881**	**-39**

The branch and ATM network is complemented by the agency network. As at the end of June 2019, PKO Bank Polski SA collaborated with 538 agencies. As of the beginning of the year the number of agencies decreased by 39.

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

PRIVATE BANKING CENTRE

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

The Private Banking Offices serve Customers in the largest Polish cities: Warsaw, Gdańsk, Kraków, Katowice, Poznań, Wrocław, Łódź, Szczecin and Bydgoszcz. As at the end of 2019, the Private Banking Centre managed a portfolio of assets with a value of nearly PLN 32 billion (as at the end of 2018, the value of the portfolio amounted to PLN 25 billion). Over 2019, the number of Customers served in the Private Banking Centre increased by 13% and amounted to 15.3 thousand as at the end of the year.

CORPORATE BANKING CENTRE

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

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

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

SELF-SERVICE POINTS

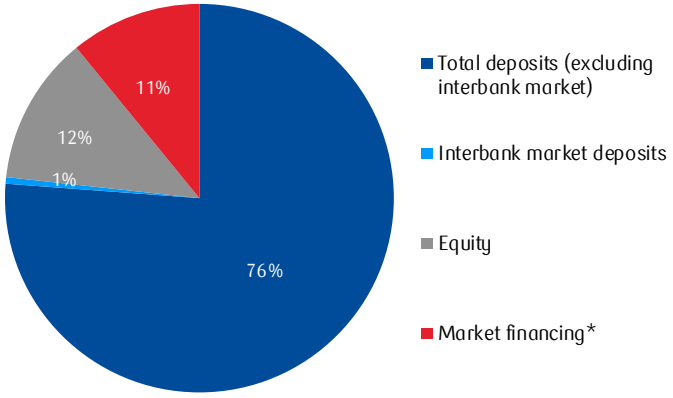
All individual and corporate Customers of PKO Bank Polski SA who have cards for their bank accounts can use self-service cash windows with touch screens.

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

7.4 SOURCES OF FINANCING OPERATIONS

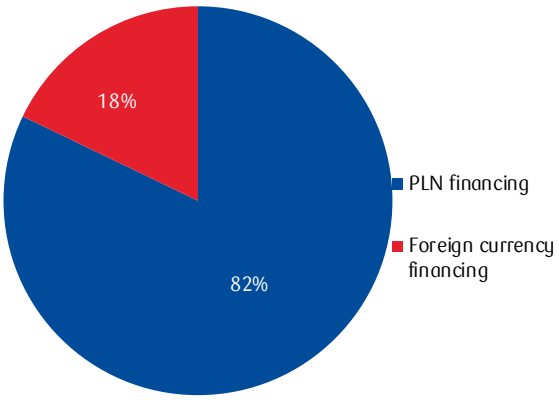
The PKO Bank Polski SA finances its operations from domestic and foreign sources, which comprise deposits (including interbank deposits), equity and wholesale market funds, which include liabilities from issuing securities, subordinated liabilities and loans and advances from monetary and non-monetary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

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



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

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



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

7.5 INTERNATIONAL COOPERATION

The PKO Bank Polski SA Group also acquires funds for the needs following from business growth by engaging in international cooperation.

The Bank's Group acquires funds from foreign financial markets, among other things by obtaining loans from international financial institutions (among others the Development Bank of the Council of Europe and the European Investment Bank) and participates in guarantee programmes (including: of the European Investment Fund). Detailed information about loans received under the international cooperation is given in Note 31 to the Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019.

PKO Leasing SA cooperates with international institutions by developing preferential offers for small- and medium-sized enterprises. The newest product was launched thanks to the participation of the European Investment Bank in the new lease receivables securitization programme. Moreover, PKO Leasing SA participates in guarantee programmes of the European Investment Fund (programmes: COSME 2 and InnovFin 2), which allows it to provide lease services to enterprises with lower creditworthiness.

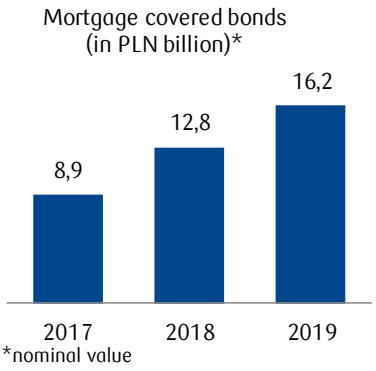
Insurance companies in the Bank's Group cooperate under reinsurance agreements, including: PKO Życie Towarzystwo Ubezpieczeń SA with: Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München, MetLife Insurance Inc., RGA International Reinsurance Company Ltd, Partner Reinsurance Europe SE; and PKO Towarzystwo Ubezpieczeń SA with: Hannover Rück SE, VIG Re Zajistovna, a.s., Swiss Re Europe SA.

7.6 OPERATIONS OF OTHER PKO BANK POLSKI SA GROUP COMPANIES

Apart from strictly banking activities, the PKO Bank Polski SA Group provides specialized financial services related to leases, factoring, investment funds, pension funds, insurance and provides car fleet management services, transfer agent services, provides technological solutions, IT outsourcing, debt collection, business support services, and also real estate management.

Characteristics of selected PKO Bank Polski SA Group companies[25]

PKO BANK HIPOTECZNY SA



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

PKO Bank Hipoteczny SA specializes in granting residential mortgage loans to individual Customers and acquires receivables following from such loans from PKO Bank Polski SA. PKO Bank Hipoteczny SA acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA. The company issues mortgage covered bonds which constitute the main source of long-term financing of loans secured with mortgages in the PKO Bank Polski SA Group.

In 2019 PKO Bank Hipoteczny SA earned a net profit of PLN 89.2 million (vs PLN 85.8 million in 2018).

In 2019, under the Receivables Sale Framework Agreement signed with PKO Bank Polski SA in 2015, PKO Bank Hipoteczny SA acquired further portfolios of residential mortgage loans of PLN 2.75 billion in total. The total gross value of the PKO Bank Hipoteczny SA loan portfolio as at 31 December 2019 amounted to PLN 25.9 billion, including PLN 13.8 billion of mortgage covered housing loans purchased from PKO Bank Polski.

In 2019 the company conducted:

a) foreign issues of EUR-denominated mortgage covered bonds, addressed to institutional investors, with a total nominal value of EUR 700 million;

[25] The results of operations presented in the description are derived from the financial statements of each company prepared according to IAS/IFRS (including in the case of the KREDOBANK SA Group – in accordance with the policy applicable in the PKO Bank Polski SA Group), and in respect of insurance companies, according to Polish Accounting Standards. Data available as at the date of the respective financial statements.

b) domestic issues of PLN-denominated green mortgage covered bonds addressed to institutional investors, with a total nominal value of PLN 500 million.

Green mortgage covered bonds are bonds the proceeds from which are only used to finance new or refinance existing long-term housing loans for real property with high energy efficiency. Such bonds should meet the criteria laid down by the International Capital Market Association (ICMA) as the Green Bond Principles (GBP). The Principles constitute a set of guidelines for transparency, publicity and reporting, which are used to promote the consistency of the Green Bonds market.

PKO Bank Hipoteczny SA has developed criteria of energy efficiency which were approved by the Climate Bonds Initiative and are recommended for low-emission residential properties in Poland (Low Carbon Building Criteria).

The green mortgage covered bonds of PKO Bank Hipoteczny SA are certified by the Climate Bonds Initiative the certificates of which are granted to bonds that meet the highest international green standards.

The above foreign issues of mortgage covered bonds are listed on the Stock Exchange in Luxembourg and Warsaw (Secondary Securities Market), and domestic issues of mortgage covered bonds on the Secondary Securities Market in Warsaw and on the BondSpot regulated market.

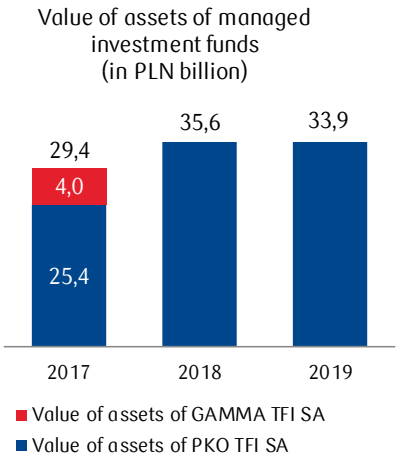
The total value of the mortgage covered bonds issued by PKO Bank Hipoteczny SA, which were traded (at nominal value) as at the end of 2019 amounted to PLN 16.2 billion.

PKO Bank Hipoteczny SA is a member of The European Covered Bond Council (ECBC). In 2018, it was the first in Poland to join the Covered Bond Label which is a quality certificate, the aim of which is to create an awareness of necessary security and high quality of mortgage bond assets among their issuers.

PKO Towarzystwo Funduszy Inwestycyjnych SA

The core business of the company is creating and managing investment funds. The company also offers specialized investment programs and conducts employee pension programs (PPE) and employee capital plans (PPK).

In 2019 the company earned net profit of PLN 291.1 million (vs PLN 257.0 million in 2018). The increase in the profit was primarily the effect of a change in the rules for assessing remuneration for distributors in accordance with recommendations of the Polish Financial Supervision Authority.



The value of the funds' net assets under PKO TFI SA's management amounted to PLN 33.9 billion as the end of 2019, which represents a 4.7% decrease compared with the end of 2018. The decrease in net assets results from negative gross sales balance.
PKO TFI SA ranks second in terms of net asset value and has a 12.65% share in the investment funds market*; and it ranks first with a 20.1% share in terms of assets of individuals in funds under management*.

As at 31 December 2019, the company managed 69 investment funds and sub-funds. In 2019, it introduced in its offer a new fund, PKO EMERYTURA – a specialist open-ended investment fund with separated sub-funds, i.e. a fund for participants of the employee capital plans (PPK) maintained by PKO TFI SA and 3 sub-funds under PKO Parasolowy – an open-ended investment fund (PKO Ekologii i Odpowiedzialności Społecznej Globalny, PKO Obligacji Globalny and PKO Obligacji Rynku Polskiego).

In 2019, PKO TFI SA carried one issue of closed-ended investment fund certificates, whereby it acquired assets with a total value of PLN 26.8 million.

In 2019, the company conducted activities to obtain companies for the employee capital plans (PPK), and reached the leading position. In its online service it launched a function for signing agreements electronically. By 31 December 2019, it had signed 1 792 management agreements[26] (including 1 301 agreements with companies with 250 and more employees), and at the same time obtained nearly 400 thousand participants in the PKO EMERYTURA – sfio fund.

**Source: Analizy Online*

PKO BP BANKOWY PTE SA

The company manages PKO BP Bankowy Otwarty Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (Indywidualne Konto Emerytalne – IKE) and Individual Retirement Security Account (Indywidualne Konto Zabezpieczenia Emerytalnego – IKZE) are offered.

[26] 2 027 management agreements signed by 31 January 2020.

The company's net profit in 2019 amounted to PLN 8.6 million (vs PLN 14.0 million in 2018).

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

As at the end of 2019, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 6.9 billion, which is a decrease of 1.8% compared with the end of 2018. The decrease results mainly from the negative balance between premiums received and total instalments transferred to the ZUS in 2019.

As at the end of December 2019, PKO BP Bankowy OFE had over 901 thousand members.

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

In 2019 the Polish Financial Supervision Authority (PFSA) announced OFE rates of return as at the end of March and September, for 36 months. In accordance with the PFSA announcement, for the period from 31 March 2016 to 29 March 2019, PKO BP Bankowy OFE generated a rate of return of 20.995%, compared with the weighted average rate of return for the funds market of 19.700%. In the second schedule, which accounts for the period from 30 September 2016 to 30 September 2019, the fund generated a rate of return of 12.928% and compared with the weighted average rate of return for the funds market of 15.679%.

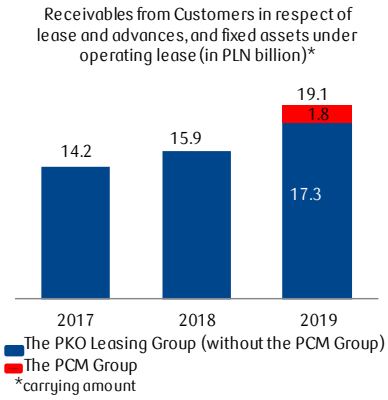
* *Source: www.knf.gov.pl*

PKO LEASING SA GROUP

The PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) offers financial services in respect of lease and factoring and provides insurance agent, fleet management and vehicle rental services.

In 2019, PKO Leasing SA acquired Prime Car Management SA, and therefore the PKO Leasing SA Group[27] was extended by the aforesaid company and its subsidiaries (i.e. Futura Leasing SA, Masterlease sp. z o.o. and MasterRent24 sp. z o.o.). The Group also included Polish Lease Prime 1 DAC – a company created for the purposes of securitization of lease receivables, and a merger took place of Qualia Development sp. z o.o. as the acquiree with PKO Leasing SA as the acquirer.

In 2019, the PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) earned a net profit of PLN 282 million. This result takes into consideration the settlement of the acquisition of Prime Car Management SA (PCM) and the result of the Prime Car Management SA Group (PCM Group) obtained between June and December 2019 at the total amount of PLN 138 million. The net profit of the PKO Leasing SA Group in 2018 amounted to PLN 114.2 million.



Lease activities:

In September 2019, PKO Leasing SA Group carried out the securitization of its assets. It sold a portfolio of high-quality lease receivables with a total value of PLN 2.5 billion to the special-purpose vehicle Polish Lease Prime 1 DAC which carried out a private issue of securities and placed them on the market.[28] The programme obtained – for the first time on the Polish market – the prestigious status of STS (simple, transparent, standardised) granted to ABS (asset-backed securities) programmes. It was also the largest transaction of this type on the Polish market.

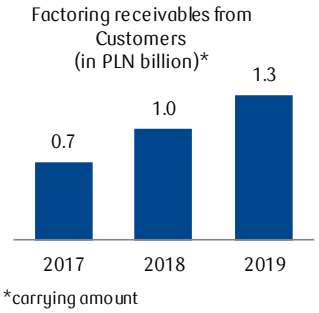
As at the end of 2019, the carrying value of receivables from Customers from leases and advances (due and not yet due) and the carrying value of fixed assets under operating leases of the PKO Leasing SA Group totalled PLN 19.1 billion, including the aforesaid value of the PCM Group of PLN 1.8 billion.

In 2019, the PKO Leasing SA Group reached a record sale level of above PLN 10 billions and at the same time the dynamic of financing the fixed assets exceeded 10% y/y.

According to the data of the Polish Leasing Association (PLA), the PKO Leasing SA Group (excluding the PCM Group) was the leader on the lease market in terms of the value of funds granted to Customers in 2018. At the end of 2019 share of PKO Leasing SA Group in the lease market was 13.1% (company's calculations based on data published by PLA.

[27] A group according to the International Financial Reporting Standards.

[28] Including bonds with a value of PLN 640 million which were taken up by PKO Leasing SA with a guaranteed possibility of selling them to one of the investors in February 2020.



Factoring activities:

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

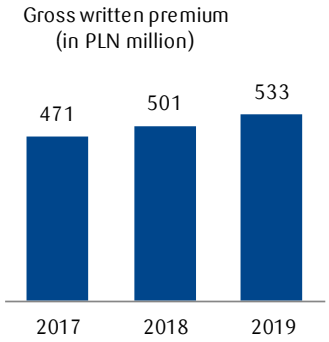
The carrying value of receivables from Customers in respect of factoring amounted to PLN 1.3 billion as at the end of 2019.

In 2019, the value of factoring turnover amounted to PLN 20.7 billion (in 2018, the turnover amounted to PLN 18.0 billion).

As at 31 December 2019, PKO Faktoring SA ranked seventh (by turnover) among the factoring companies associated in the Polish Factors' Association, with a market share of 7.35%.

PKO Życie Towarzystwo Ubezpieczeń SA Group

The PKO Życie Towarzystwo Ubezpieczeń SA Group consists of PKO Życie Towarzystwo Ubezpieczeń SA and its subsidiary, Ubezpieczeniowe Usługi Finansowe sp. z o.o.



The PKO Życie Towarzystwo Ubezpieczeń SA Group generated a net profit of PLN 30.5 million in 2019 (in 2018, the group's net profit was PLN 24.4 million).

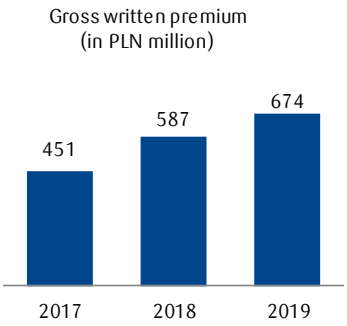
PKO Zycie Towarzystwo Ubezpieczen SA's business consists of insurance activities in the scope of Section I: life insurance. The Company focuses on insuring the life and health of its Customers, it offers standalone products and products linked to the banking products offered by PKO Bank Polski SA.

In 2019, the company introduced to its offer Ubezpieczenie Bezpieczny Plan – an insurance with an insured amount of up to PLN 1 million which can ensure the payment of a benefit for a close relative in the event of the death of the insured person. Bezpieczny Plan addresses Customers' needs for whom the key value is the ability to ensure the safety of their families.

Gross written premiums from insurance contracts concluded by the company were PLN 532.9 million in 2019.

As at the end of 2019, the company insured 1,012 thousand people (847 thousand people as at the end of 2018).

PKO Towarzystwo Ubezpieczeń SA



In 2019 the company earned net profit of PLN 57 million (compared to PLN 35.2 million in 2018).

The company's business consists of insurance activities in the scope of Section II – other personal insurance and property (non-life) insurance. The company focuses on insuring the risk of loss of income, personal accidents and sickness, and on insuring properties for borrowers and mortgage borrowers.

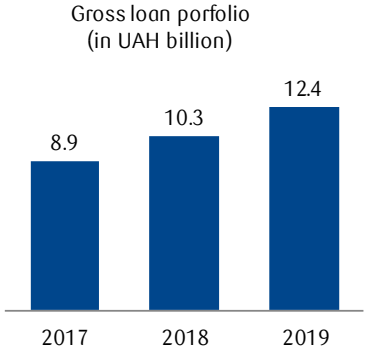
In the first six months of 2019, the Polish Financial Supervision Authority approved a change in the scope of the company's activities by extending them to include insurance activities in group 3 (accident and theft insurance in respect of land vehicles) and 10 (third-party liability of owners of mechanical vehicles, including shipper's liability) in Section II.

In 2019 the company introduced in its offer Truck Assistance and Car Assistance for Customers of the PKO Leasing SA Group, as well as a package of vehicle insurance PKO Auto for Customers of PKO Leasing SA. The new business lines addresses Customers' needs connected with the insurance of leased vehicles.

Gross written premiums from insurance contracts concluded by the company were PLN 673.8 million in 2019.

As at the end of 2019, the company insured 1 003.5 thousand people (804 thousand people as at the end of 2018).

KREDOBANK SA Group



The KREDOBANK SA Group consists of KREDOBANK SA and its subsidiary, Finansowa Kompania "Idea Kapitał" sp. z o.o.

KREDOBANK SA is a universal bank, focused on services for retail Customers and small and medium-sized enterprises which operate mainly in the western part of Ukraine and in Kiev. At the same time the Company strives to attract corporate Customers with high creditworthiness.

In 2019, the KREDOBANK SA Group's net profit amounted to UAH 605 million (PLN 91 million). In 2018, KREDOBANK SA Group's net profit amounted to UAH 469 million (PLN 62

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

The loan portfolio of the KREDOBANK SA Group (gross) increased by UAH 2 056 million, i.e. 19.9%, in 2019, and as at 31 December 2019, it amounted to UAH 12 385 million (the gross credit portfolio expressed in PLN amounted to PLN 1 984 million). The increase in the loan portfolio in UAH is mainly the result of the increase in the number of new loans.

Term deposits of Customers of the KREDOBANK SA Group increased by UAH 856 million, i.e. 15.2%, in 2019, and amounted to UAH 6 478 million as at 31 December 2019 (term deposits expressed in PLN amounted to PLN 1 038 million as at the end of 2018). UAH-denominated deposits are the effect of the high credibility and ranking of KREDOBANK SA on the Ukrainian banking market.

As at 31 December 2019 the network of KREDOBANK SA outlets covered the Head Office in Lviv and 86 branches in 22 of 24 provinces of Ukraine. In 2019, two new branches were opened, the location of one branch was changed and nine branches were closed down.

PKO BP FINAT SP. Z O.O.

In 2019 PKO BP Finat sp. z o.o. earned a net profit of PLN 38.1 million (vs PLN 43.3 million in 2018).

PKO Finat sp. z o.o. provides comprehensive services to companies in the financial sector, among other things, in respect of providing technical solutions, transfer agent, fund accounting and outsourcing skilled IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company provides services as a national payment institution. Its Customers are both companies of the Bank's Group, as well as companies outside this Group.

According to the ranking of Dziennik Gazeta Prawna published in December 2019, the company is among the top ten largest fintechs in Poland.

On 1 July 2019, as part of cooperation with Polski Fundusz Rozwoju SA, the company launched Employee Capital Plan Records System. The platform is integrated with all entitles handling PPKs so as to register information about PPK contributions paid on the entire market. Ultimately, the system may contain the data of 11.5 million employees. PKO BP Finat sp. z o.o. is commissioned by Polski Fundusz Rozwoju SA to maintain and operate all the records of PPK.

7.7 PRIZES AND AWARDS FOR THE PKO BANK POLSKI SA GROUP

In 2019 the PKO Bank Polski SA Group received many prizes and awards, the most important of which are:

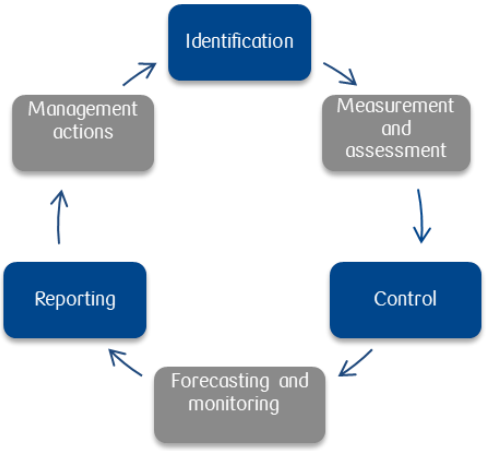
BANK OF THE YEAR 2019 IN POLAND	In 2019, PKO Bank Polski SA was awarded the title of the "Bank of the Year in Poland" for the fifth time. This prestigious award in the financial sector confirms that the digital transformation strategy pursued by the Bank is appreciated both in Poland and abroad. PKO was also the "Best Bank in Poland" in 2016, 2014, 2011 and 2007. The "Bank of the Year" competition is organized each year by *The Banker*, owned by the *Financial Times*. The magazine analyses the financial results of banks, their development strategies and projects performed in specific years in the context of the position of the financial sector in a given country.
BEST BANK 2019	PKO Bank Polski SA won the main award in the large commercial bank category in the 27th Best Bank competition held by *Gazeta Bankowa*. The leader of the Polish bank sector was appreciated for its results, rate of growth, structure of its portfolio, and its effectiveness. The competition is organized with the support of the advisory company BDO.
PKO BANK POLSKI SA AS COMPANY OF THE YEAR IN CENTRAL AND EASTERN EUROPE	During the 29th Economic Forum in Krynica, PKO Bank Polski SA was awarded the title of Company of the Year of Central and Eastern Europe. In the justification, the Programme Council emphasised the Bank's involvement in key investments in Poland.
INNOVATIVE FINANCIAL INSTITUTION	In the IT@BANK 2019 ranking PKO Bank Polski SA was the winner in the category of the most innovative financial institutions. Representatives of IT companies appreciated the Bank, among other things, for its digital transformation, Operator Chmury Krajowej sp. z o.o. and the IKO mobile application. The editorial Board of the financial monthly *Miesięcznik Finansowy BANK* conducted the IT@BANK ranking for the 14th time.
GOLDEN BANKER	In the 10th edition of the Złoty Bankier (Golden Banker) ranking, PKO Bank Polski SA was awarded two prizes. In the category of fin-tech innovation – for the largest implementation of blockchain in the European banking sector and in the category of advertising spots. The Bank was

	also appreciated in the category of credit cards. Złoty Bankier is the largest competition in Poland in which banks are rewarded, among other things, for the quality of service, innovative products, social involvement, advertising communication and social media presence. It is organized by Bankier.pl, *Puls Biznesu*, Kantar TNS and Obserwatorium.biz.
GLOBAL OPEN FINANCE AWARDS	In the Global Open Finance Awards competition PKO Bank Polski SA was nominated in the category of companies in the financial sector which are most open to new technologies. The international jury which included experts from advisory firms specializing in finance, open banking and fintechs, appreciated the "Let's Fintech with PKO Bank Polski!" acceleration programme. The competition is organized by the international association of fintech companies, FDATA (The Financial Data and Technology Association).
IKO – THE BEST MOBILE APPLICATION IN THE WORLD	The IKO mobile application was yet again the best in the prestigious ranking of banking applications of the British *Retail Banker International* financial monthly. The application developed by PKO Bank Polski SA has left behind the solutions of such global banking giants as JP Morgan Chase, Barclays or Bank of America. For the second time, IKO turned out to be the best evaluated application worldwide according to its Customers. In the two largest application shops Customers have already given IKO more than 300 thousand assessments, with an average of 4.8 out of the 5 available stars.
BEST ONLINE BANKING	In the Best Online Banking for Entrepreneurs 2019 ranking, PKO Bank Polski SA was awarded second prize for solutions used in the iPKO service, and in the Best Online Banking for Companies 2019 ranking – it was third, after iPKO Biznes. The solutions in the electronic banking service iPKO were appreciated, in particular the following modules: Asystent Firmowy, e-Sklep, e-Prawnik, or e-Księgowość. The Best Online Banking 2019 was organized by SME Banking Club. This is a new initiative in which electronic banking solutions important for the companies and enterprises segment, offered by 25 banks in the CEE region, were analysed.
SUPERBRANDS	In the 14th edition of the Superbrands Polska competition, PKO Bank Polski SA won the title of Superbrand 2020, thereby confirming its position as one of the strongest brands on the Polish market. The award received confirms the strength of its brand, attractiveness of its image and its high quality. The Superbrand title was awarded based on the largest independent consumer survey concerning brands in Poland, and the opinion of experts in the Brand Board (Rada Marek). The key criterion taken into account was recommendations for the brand. The survey covering 2 thousand consumer brands was carried out by the ARC Rynek i Opinia institute.
PKO BANK POLSKI SA – ETHICAL FIRM OF THE YEAR 2018	PKO Bank Polski SA was awarded in the fifth Ethical Company competition for its practices concerning fair and transparent business in compliance with ethical standards and systemic approach to reinforcement of the organizational culture in line with the corporate social responsibility principles. The competition's purpose is to promote companies which carry on efforts to build and reinforce ethic-based organizational culture in a systemic manner. The competition is organized by "Puls Biznesu" with the technical support of PwC.
TRANSPARENT COMPANY OF THE YEAR	PKO Bank Polski SA was awarded the title of "Transparent Company of the Year 2019 from the WIG 20 Index" in the third ranking of communication of public companies with the market. What was appreciated was its financial and other reporting, investor relations and corporate governance principles. The ranking is prepared by Instytut Rachunkowości i Podatków (Institute of Accounting and Taxation) and *Gazeta Giełdy Parkiet*. Its purpose is to raise the quality of communication between companies and the market and promote transparent business.
BEST CONTACT CENTRE	Contact Centre PKO Banku Polskiego SA won in the 19th survey regarding the quality of Customer service on bank hotlines and in e-mail contacts, both in the category of telephone contact and e-mail/www form contact. The availability of the Bank's hotline was highly appreciated in the first place, likewise the waiting time for connection, the system of selecting topics, and the commitment, professional attitude and product knowledge of the consultants. The survey was organized by ARC Rynek i Opinia.
SUPER WEKTOR FOR ZBIGNIEW JAGIEŁŁO, THE	Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA was awarded the Super Wektor 2018 prize which is granted by Employers of the Republic of Poland. He was

President of the Management Board of PKO Bank Polski SA	appreciated for building an effective and flexible organization oriented towards ambitious goals, ready to compete with the largest international rivals, and for developing a distinctive team of associates. The Super Wektor prize is granted for significant achievements, and its benefits extend to supporting the development of Polish entrepreneurship, economy and the entire State.
Visionary of Finance	Zbigniew Jagiełło, the President of the Management Board of PKO Bank Polski SA was awarded a prize in the Visionary of Finance category in the competition "Leader of the Banking and Insurance World". He was appreciated for the implementation of an ambitious idea of transformation of the bank sector, creating innovations which are beneficial to the sector, national economy, entrepreneurship and society. The competition is an initiative of MMC Polska. Its purpose is to award entrepreneurs who are outstanding due to their authority, bold decisions, engagement and effective management.
Zbigniew Jagiełło – the most valued President among the bosses of listed companies	Zbigniew Jagiełło, President of the Management Board of PKO Bank Polski SA, was yet again elected most valued President among the bosses of listed companies. His value is nearly PLN 1.3 billion, after an increase of PLN 389 billion during the year. The valuation was a result of, among other things, capitalization of the company run by him. The ranking of the most valued Presidents was published by *Rzeczpospolita* based on a report by Martis Consulting.

8. Risk management

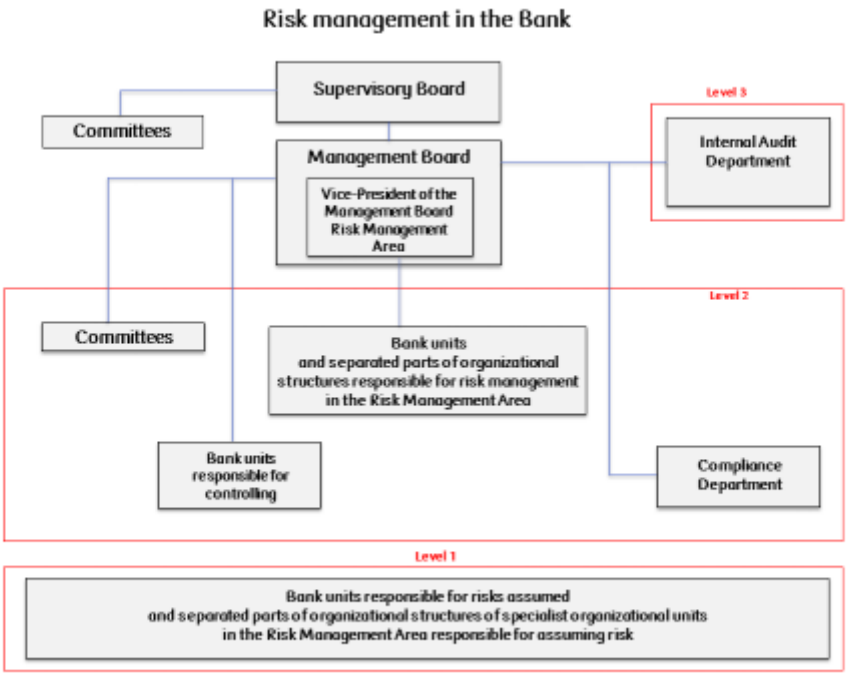
8.1 Principles of Risk Management



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

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

The risk management system covers:
- organizational structure, allocation of duties and responsibilities;
- internal regulation system;
- tools, including information databases.



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

- the Bank's Group manages all identified types of risk;
- the risk management process is appropriate from the perspective of the scale of operations and materiality, scale and complexity of a given risk, and adjusted on an on-going basis to take account of new risks and their sources;
- risk management methods (especially models and their assumptions) and risk management measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Bank's Group and its operating environment, and are periodically verified and validated;
- the area of risk management remains organizationally independent from business activities;
- risk management is integrated into the planning and controlling systems;
- the level of risk is monitored and controlled on an on-going basis;
- the risk management process supports the implementation of the Bank's strategy in compliance with the Risk Management Strategy, in particular with respect to the level of risk tolerance.

The Bank regularly, at least annually, assesses the materiality of the identified risks. Some of them have a material impact on the profitability and capital necessary to cover the exposure. Internal capital is assessed for risks that are regarded as material. All risks classified as material for PKO Bank Polski SA are also material for the Bank's Group.

In 2019, the Bank recognized the currency risk of mortgage loans for households as material.

Below is a list of all risks regarded as material in PKO Bank Polski SA.

- CREDIT RISK – the risk of incurring losses due to the Customer's default in payments to the Bank's Group or as a risk of a decrease in the economic value of amounts due to the Bank's Group as a result of a deterioration in the Customer's ability to repay amounts due to the Bank.
- RISK OF FOREIGN CURRENCY MORTGAGE LOANS FOR HOUSEHOLDS – the risk of incurring losses due to the Customer's default in payments related to a foreign currency mortgage loan.
- CURRENCY RISK – the risk of incurring losses due to unfavourable exchange rate changes, generated by maintaining open currency positions.
- INTEREST RATE RISK – the risk of incurring losses on the Bank's Group's statement of financial position and off-balance sheet items sensitive to interest rate changes, as a result of changes in interest rates on the market.
- LIQUIDITY RISK, INCLUDING FINANCING RISK – the lack of possibility to pay debts on time due to the lack of liquid assets. Lack of liquidity may result from an inappropriate structure of the statement of financial position, mismatch of cash

flows, payments not received from counterparties, sudden withdrawal of cash by Customers or other market events. The Bank's Group also manages the financing risk, which takes into account the risk of loss of financing sources and the lack of opportunities to renew matured funding, or loss of access to new financing sources.

- OPERATIONAL RISK – the risk of losses being incurred due to a failure or unreliability of the internal processes, people and systems or due to external events. Operational risk includes legal risk, and does not include reputation risk and business risk.
- BUSINESS RISK – the risk of failing to achieve the adopted financial targets, including incurring losses, due to adverse changes in the business environment, making bad decisions, incorrectly implementing the decisions made, or not taking appropriate actions in response to changes in the business environment.
- MACROECONOMIC RISK – the risk of deterioration in the Group's financial situation as a result of an adverse impact of changes in macroeconomic conditions.
- MODEL RISK – the risk of losses resulting from taking incorrect business decisions based on the models in place. Model risk is managed within the Bank's Group both at the level of the given member of the Group (the model owner) and at the level of the Bank as the Group's parent company.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN 2019

In 2019, the Bank's Group issued short-term bonds (mainly 3-6-month bonds) and mortgage covered bonds. It made early repayment of the financing received from the European Investment Bank, and repayment of maturing own issues under the EMTN programme, as well as repayment of a loan instalment for the Council of Europe Development Bank.

In September 2019, PKO Leasing SA carried out the largest transaction of securitization of its assets on the domestic market. The transaction involved the sale of a high-quality lease receivables portfolio with a total value of PLN 2.5 billion.

In 2019, PKO Bank Hipoteczny SA conducted two issues of mortgage covered bonds in PLN addressed to institutional investors with a total nominal value of PLN 500 million and redemption period of approx. 5 years from the date of issue. Both domestic and international institutional investors acquired these mortgage covered bonds. PKO Bank Hipoteczny SA's mortgage covered bonds are among the safest debt instruments on the Polish financial market. This is reflected in the highest possible rating which can be obtained by Polish securities of Aa3 assigned by Moody's. Moreover, in 2019, PKO Bank Hipoteczny SA carried out one issue of mortgage covered bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 600 and redemption period of approx. 3 years from the date of issue, and an issue of the second tranche of Series 1 mortgage covered bonds of 2016 with a nominal value of EUR 100 million.

As part of the monitoring of the credit loss estimation model the Bank's Group updated its assumptions for LGD and PD parameters. In the LGD parameter the recoveries at the long end of the curve have been corrected and the historical data line has been shortened to better reflect the current economic situation. Also the method of determining the PD parameter for retail portfolios as well as companies and enterprises portfolios was changed to take more account of the value of exposure to liabilities that are becoming overdue.

A detailed description of the principles of managing material risks, including risk mitigation techniques, hedges used and hedging accounting policy is provided in the Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019 (in the chapter on the risk management principles and objectives, and in Note 21 on hedging accounting) and in the Capital Adequacy Report, as well as other disclosures of the PKO Bank Polska SA Group as at 31 December 2019.

8.2 COMPREHENSIVE STRESS-TESTS

The comprehensive stress tests (CST) take account of the risks identified in the activities of the Bank and the Bank's Group, in the first instance the risks considered to be material and supplement the stress tests specific for individual risks. The tests are the tool for evaluating the potential impact of unfavourable changes in the macroeconomic environment and the operation of the Group on the Group's financial position, and in particular on the capital standing of the Bank's Group. Calculations are made using the Bank's internal models, taking into account the macroeconomic assumptions adopted.

Comprehensive stress tests include periodic tests and supervisory tests. Periodic tests are carried out once a year and are used to evaluate the risk of macroeconomic changes, and for the purposes of preparing recovery plans.

Supervisory tests are carried out on the request of external supervisory authorities, in accordance with the assumptions provided by them.

Reverse stress tests (RST) complement the results of the comprehensive stress tests and are aimed at assessing the Bank's resilience to macroeconomic changes. Reverse stress tests are conducted in the form of sensitivity analyses and consist in defining potential adverse scenarios, and then identifying events which contribute to their materialization.

In 2019, the Bank carried out the RTS, periodical and supervisory tests on the request of the Polish Financial Supervision Authority.

8.3 Capital adequacy

Capital adequacy management is a process intended to ensure that the level of risk which the PKO Bank Polski SA and the Bank's Group take in connection with the development of their business may be covered with their capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the Bank's Group, and the capital planning process, including the policy concerning the sources of acquisition of capital.

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

In the year 2019 the Bank's Group maintained a safe capital base exceeding the supervisory and regulatory limits.

On 4 November 2019, PKO Bank Polski SA received a letter from the Bank Guarantee Fund regarding the plan of achieving the minimum requirement for own funds and eligible liabilities (MREL). The amount of MREL determined for the Bank at the consolidated level is 14.376% of the sum of total liabilities and own funds ("TLOF"), which corresponds to 22.807% of the total risk exposure ("TRE"). This requirement must be satisfied from 1 January 2023. The BGF indicated the path to attaining the target MREL level which showed that at the end of 2019 the level of MREL in relation to TLOF is 9.316% on the consolidated level, which corresponds to 14.779% of TRE.

The amount of MREL determined for the Bank at the entitiy level is 13.726% TLOF that corresponds to 23.014% TRE. This requirement must be satisfied from 1 January 2023. The BGF indicated the path to attaining the target MREL level, which showed that at the end of 2019 the level of MREL in relation to TLOF is 8.923% on the entity level, which corresponds to 14.961% of TRE.

A detailed description of capital adequacy management is provided in the Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019, in the part related to capital adequacy (Note 65) and in the Capital Adequacy Report, and other disclosures of the PKO Bank Polski SA Group as at 31 December 2019.

9. Benefits for managers and supervisors

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

9.1 Principles for remunerating Members of the Bank' Management Board

Principles of setting the remuneration of Members of the Management Board were defined by resolution No. 2/2017 of the Extraordinary General Meeting of the Bank's Shareholders of 13 March 2017 (amended by resolution No. 4/2019 of the Extraordinary General Meeting of the Bank's Shareholders of 17 September 2019).

In 2019, the Principles of employing and remunerating members of the Bank's Management Board adopted by the Supervisory Board in 2017, and amended by a resolution of the Supervisory Board of 12 August 2019 (No. 71/2019) applied in PKO Bank Polski SA. The principles implement the provisions of the Act of 9 June 2016 on the terms of

setting the remuneration of managers of certain companies (Journal of Laws of 2016, item 1202, as amended). In accordance with these Principles, Members of the Management Board are entitled to:

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

The fixed remuneration is determined as a specific amount in the service agreement and may not be higher than:

- in the case of the President of the Management Board: -times 15;
- in the case of the member of the Management Board in charge of the risk management area who substitutes for the President of the Management Board: -times 14.5;
- in the case of remaining members of the Management Board: -times 14;

the base amount stipulated by the universally applicable law.

EMPLOYEE BENEFITS FOR MEMBERS OF THE MANAGEMENT BOARD OF PKO BANK POLSKI SA RECEIVED, DUE OR POTENTIALLY DUE FROM PKO BANK POLSKI SA

Table 10. Employee benefits for members of the Bank's Management Board received, due or potentially due from PKO Bank Polski SA (in PLN thousand)

	Benefits in cash			Share-based payments settled in cash		
	remuneration received in 2019	other received in 2019	contingent, due as at 31.12.2019	received in 2019	due as at 31.12.2019	contingent, due as at 31.12.2019
Zbigniew Jagiełło	795	934	466	753	632	466
Rafał Antczak	707	287	155	101	187	155
Rafał Kozłowski	707	206	137	-	204	137
Maks Kraczkowski	705	617	310	370	317	310
Mieczysław Król	707	621	312	369	329	312
Adam Marciniak	707	269	160	53	216	160
Piotr Mazur	751	766	369	584	496	369
Jakub Papierski	707	744	353	586	477	353
Jan Emeryk Rościszewski	707	601	298	350	312	298
Management Board of the Bank	**6,493**	**5,045**	**2,560**	**3,166**	**3,170**	**2,560**
Members of the Management Board who ceased to perform their functions in previous years	-	**1,216**	**387**	**1,333**	**729**	**387**
Total	**6,493**	**6,261**	**2,947**	**4,499**	**3,899**	**2,947**

	Benefits in cash			Share-based payments settled in cash		
	remuneration received in 2018	other received in 2018	contingent, due as at 31.12.2018	received in 2018	due as at 31.12.2018	contingent, due as at 31.12.2018
Zbigniew Jagiełło	793	297	302	768	372	302
Rafał Antczak	687	-	-	-	-	-
Rafał Kozłowski	687	-	-	-	-	-
Maks Kraczkowski	687	32	64	193	49	64
Mieczysław Król	687	45	73	222	57	73
Adam Marciniak	687	-	-	-	-	-
Piotr Mazur	740	208	204	594	258	204
Jakub Papierski	687	216	204	604	266	204
Jan Emeryk Rościszewski	687	38	59	177	45	59
Management Board of the Bank	**6,342**	**836**	**906**	**2,558**	**1,047**	**906**
Members of the Management Board who ceased to perform their functions in previous years	-	**713**	**592**	**1,719**	**868**	**592**
Total	**6,342**	**1,549**	**1,498**	**4,277**	**1,915**	**1,498**

Table 11. Remuneration of members of the Bank's Management Board received from related entities (in PLN thousand)

	2019	2018
Rafał Kozłowski	83	3
Jan Emeryk Rościszewski	85	116
Total	**168**	**119**

9.2 Variable remuneration components for members of the Management Board and key managers who have a material impact on the Bank's risk profile

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

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

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

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

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

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

If the variable remuneration component for the particular year exceeds PLN 700 thousand, the amount of PLN 280 thousand plus 60% of the excess over the amount of PLN 700 thousand shall be deferred. Variable remuneration components cannot exceed 100% of the annual basic salary.

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

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

The bonus amount:

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

In the case of:

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

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

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

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

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

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

9.3 Information on non-financial remuneration components due to individual members of the Management Board and key managers

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

9.4 Principles for remunerating members of the Bank's Supervisory Board

The monthly remuneration of members of the Supervisory Board was set by resolution no. 3/2017 of the Extraordinary General Shareholders' Meeting of PKO Bank Polski Spółka Akcyjna of 13 March 2017, amended by resolution of the Extraordinary General Shareholders' Meeting of 17 September 2019 (No. 5/2019). According to the amending resolution, the monthly remuneration of members of the Supervisory Board is determined as a product of the assessment base referred to in Art. 1 (3) (11) of the Act of 9 June 2016 on the terms of setting the remuneration of managers of certain companies and the multiplier:

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

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

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

REMUNERATION RECEIVED BY MEMBERS OF THE SUPERVISORY BOARD FROM PKO BANK POLSKI SA

Table 12. Remuneration received by members of the Supervisory Board from PKO Bank Polski SA (in PLN thousand)

	2019	2018
Piotr Sadownik	168	160
Grażyna Ciurzyńska	168	173
Dariusz Górski	74	-
Zbigniew Hajłasz	134	137
Mariusz Andrzejewski	120	119
Mirosław Barszcz	120	119
Adam Budnikowski	123	121
Wojciech Jasiński	119	119
Andrzej Kisielewicz	119	119
Elżbieta Mączyńska-Ziemacka	120	120
Krzysztof Michalski	33	-
Janusz Ostaszewski	42	117
Jerzy Paluchniak	-	47
Total	**1,340**	**1,351**

9.5 AGREEMENTS CONCLUDED BETWEEN THE BANK AND MANAGEMENT MEMBERS

In 2019 every member of the Bank's Management Board has concluded a management agreement with the Bank, laying down, among other things, the remuneration terms and competition ban.

9.6 LIABILITIES DUE TO PENSIONS FOR FORMER SUPERVISORS AND MANAGERS

Within the meaning of § 70 section 7 point 18 of the Regulation of the Minister of Finance of 29 March 2018 on current and periodical information submitted by issuers of securities and the conditions for recognizing as equivalent the information required by the law of a non-member country (Journal of Laws of 2018, item 757), in 2019, no liabilities due to pension and similar benefits for former managers, supervisors or former members of the

10. CORPORATE GOVERNANCE

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

10.1 INFORMATION FOR INVESTORS

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

10.1.1 SHARE CAPITAL AND OWNERSHIP STRUCTURE OF PKO BANK POLSKI SA

As at 31 December 2019, the share capital of PKO Bank Polski SA amounted to PLN 1 250 000 thousand and comprised 1 250 000 thousand shares with a par value of PLN 1 each; the shares are fully paid-up. The share capital of PKO Bank Polski SA remained unchanged compared with its status as at the end of 2018. The issued shares of PKO Bank Polski SA are not preference shares.

Table 13. Structure of the share capital of PKO Bank Polski SA

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

According to PKO Bank Polski's best knowledge, as at 31 December 2019, the three shareholders who held, significant blocks of shares (at least 5%) directly or indirectly, were the State Treasury, Aviva Otwarty Fundusz Emerytalny and Nationale-Nederlanden Otwarty Fundusz Emerytalny.

Table 14. Shareholding structure of PKO Bank Polski SA

	As at 31.12.2019		As at 31.12.2018		Change in share in number of votes at GM
	Number of shares	Share in number of votes at GM and in the share capital	Number of shares	Share in number of votes at GM and in the share capital	
State Treasury	367,918,980	29.43%	367,918,980	29.43%	-
Aviva Otwarty Fundusz Emerytalny[1)]	88,010,319	7.04%	89,163,966	7.13%	-0.09 p.p.
Nationale-Nederlanden Otwarty Fundusz Emerytalny (until 23.06.2015, ING Otwarty Fundusz Emerytalny)[1)]	94,500,000	7.56%	95,472,008	7.64%	-0.08 p.p.
Other shareholders[2)]	699,570,701	55.97%	697,445,046	55.80%	+0.17 p.p.
Total	1,250,000,000	100.00%	1,250,000,000	100.00%	-

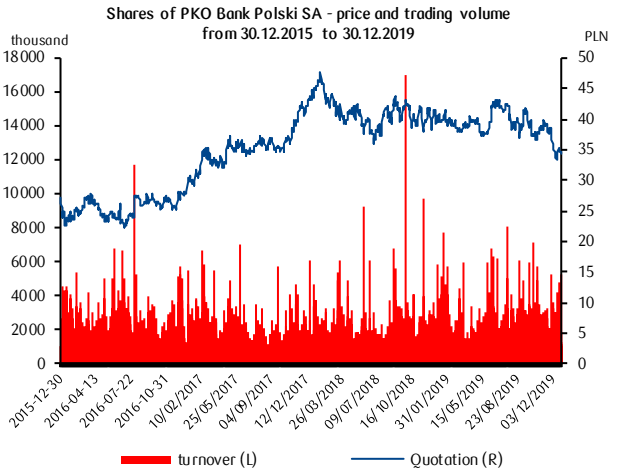
1) Calculated taking into account the number of shares held as at the end of the particular year, published by PTE in the annual information on the structure of assets of the fund and the price from the stock exchange list.

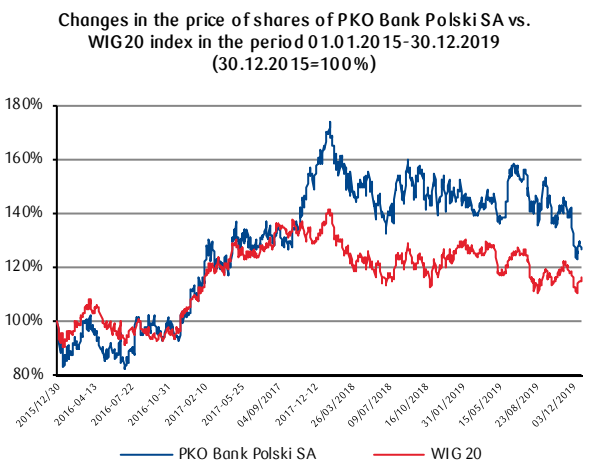
2) Including Bank Gospodarstwa Krajowego that, as at 31 December 2019 and at 31 December 2018 held 24 487 297 shares entitling to 1.96% of the votes at the General Meeting.

Shares of PKO Bank Polski SA do not give any special controlling rights to their holders. None of the shares are preferred as to votes or dividend (each share entitles to one vote).

10.1.2 Quotations of shares of PKO Bank Polski SA on the Warsaw Stock Exchange

In 2019, the price of shares of PKO Bank Polski SA decreased by 12.7%, and as at the end of 2019, it was PLN 34.46, while WIG20 and WIG Banki indices dropped by 5.6% and 9.2% respectively.





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

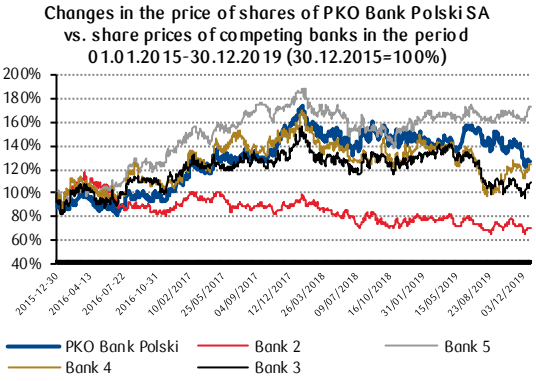
- increase in the risk that negative effects for financial results of the banking sector connected with the CHF-denominated housing loans portfolio, may materialize after the judgment of the Court of Justice of the European Union (EUCoJ);
- costs connected with provisions for refunding to borrowers the costs incurred in connection with an advance in the case of its early repayment, after the EUCoJ judgment;
- slow-down in economic growth and forecast further deterioration in economic conditions;
- the tense international situation, among other things, escalation of the trade conflict between the USA and China.

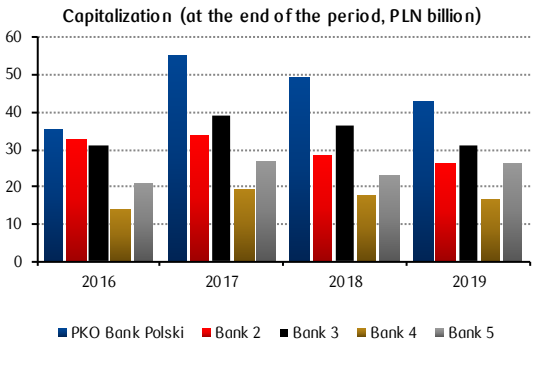
In 2019 as in previous years, the Bank focused on consistently generating attractive business results for investors and on adjusting the business model to the new market environment, in order to ensure a return on equity above the cost of capital, and thus, build shareholder value.

In 2019, two years early, the Bank achieved its strategic financial goals and updated the strategy. It also continued digital transformation, including the development of the most popular and the most transactional mobile application on the Polish market – IKO.

As at the end of 2019, PKO Bank Polski SA was yet again the most valuable company on the Warsaw Stock Exchange. At the end of the last session in 2019 investors valued it at over PLN 43 billion.

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





10.1.3 RESTRICTIONS IMPOSED ON SHARES OF PKO BANK POLSKI SA

All the shares of PKO Bank Polski SA carry the same rights and obligations. None of the shares are preferred with respect to votes or dividend (one share carries one vote). The Articles of Association of PKO Bank Polski SA limit the voting right of shareholders holding more than 10% of the total number of votes at the Annual General Shareholders' Meeting and prohibit these shareholders from exercising more than 10% of the total number of votes at the Annual General Shareholders' Meeting. The aforementioned limitation does not apply to:

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

Moreover, the limitation to the voting rights shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.
In accordance with § 6 (2) of PKO Bank Polski SA's Articles of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires the approval of the Council of Ministers expressed in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares will result in the expiry of the above mentioned restrictions in respect of the conversion into bearer shares or transfer to the extent to which the approval was given.

Pursuant to Article 13 (1) (26) of the Act of 16 December 2016 on the principles for public property management (apart from the statutory exceptions), the shares of PKO Bank Polski SA held by the State Treasury cannot be sold.

10.1.4 Assessment of the creditworthiness of PKO Bank Polski SA

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

Ratings of PKO Bank Polski SA

In 2019, the creditworthiness of PKO Bank Polski was assessed by Moody's Investors Service rating agency which awards a paid rating to the Bank, in accordance with its own bank assessment procedure.

Table 15. Ratings of PKO Bank Polski SA as at 31 December 2019 (paid rating)

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

In 2019, the Bank improved its three ESG ratings.

Table 16. ESG ratings of PKO Bank Polski SA as at 31 December 2019

FTSE Russell	3.3
MSCI	BBB
Sustainalytics	24 (Medium)

Rating of PKO Bank Hipoteczny SA

As at 31 December 2019 PKO Bank Hipoteczny SA had the following ratings granted by Moody's Investors Service rating agency:

Table 17. Ratings of PKO Bank Hipoteczny SA as at 31 December 2019 (paid rating)

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

Ratings for mortgage covered bonds issued are confirmed for every issue.

RATING OF THE PKO LEASING SA GROUP

As at 31 December 2019, bonds issued by ROOF Poland Leasing 2014 DAC and Polish Lease Prime 1 DAC, special purpose vehicles established within the PKO Leasing SA Group for the purposes of the asset securitization programme, had the following ratings:

Table 18. Ratings of bonds of ROOF Poland Leasing 2014 DAC as at 31 December 2019 (paid rating)

Rating of B bonds	
Fitch Agency	AA
Scope Agency	AAA

The aforementioned rating was updated by Scope in April 2019.

Table 19. Ratings of bonds of Polish Lease Prime 1 DAC as at 31 December 2019 (paid rating)

Rating of A bonds	
Scope Agency	AAA
ARC Agency	AA-
Rating of B bonds	
Scope Agency	BB-
ARC Agency	BB+

Agencies granted their ratings in September 2019.

RATING OF KREDOBANK SA

As at 31 December 2019, KREDOBANK SA had the following ratings granted by Ukrainian rating agencies:

Table 20. Ratings of KREDOBANK SA as at 31 December 2019 (paid ratings)

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

The aforementioned ratings were granted in 2016-2017, and were confirmed in December 2019.

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

10.1.5 INVESTOR RELATIONS

Key objectives of investor relations
Activities in 2019

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

KEY OBJECTIVES OF INVESTOR RELATIONS

In 2019, the Bank's investor relation activities focused on the following areas:

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

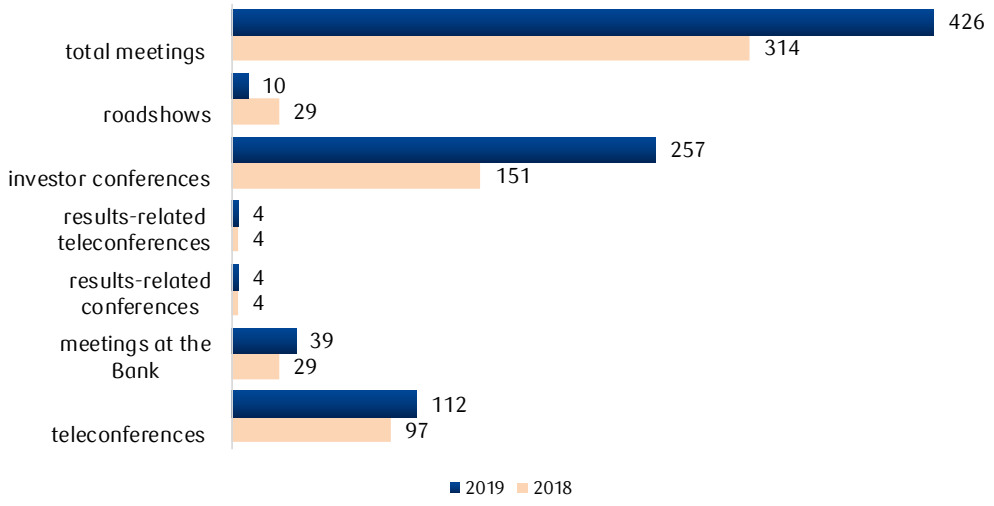
ACTIVITIES IN 2019

As part of market communication, in 2019, members of the Management Board and key managers participated in regular meetings and teleconferences with investors and analysts, both at the Bank's registered office and during investor conferences. In 2019, a total of 426 investor meetings took place, i.e. 36% more than in 2018.

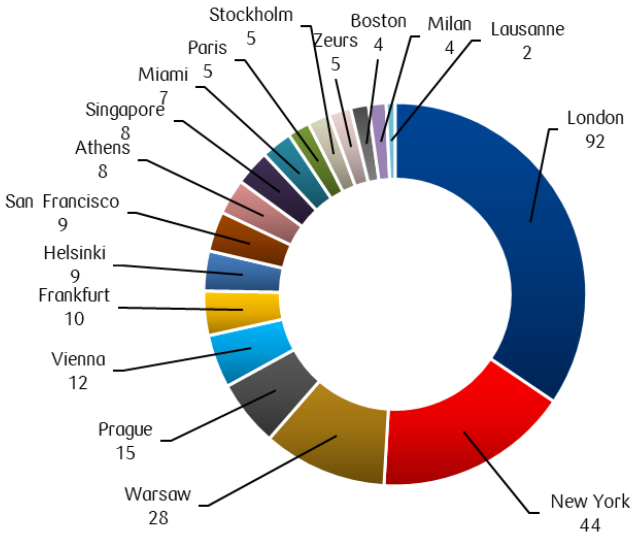
In 2019:

- Bank organized about 40 meetings at its office and over 100 teleconferences;
- after the end of each quarter, the financial results of the Bank and the Bank's Group were presented by the Bank's Management Board in meetings with investors and capital market and debt securities market analysts, held at the Bank's registered office, and via teleconferences, in each case with the participation of over 60 analysts and investor representatives in total;
- in connection with the update of the Strategy PKO Bank Polski SA organized Investor Days with participation of the Management Board in Warsaw and London. Over 30 analysts and investors participated in the Warsaw meeting. At the next day during the presentation of the Strategy in London 12 analysts and investors participated, and over 30 in the conference webcast.

CONTACTS WITH INVESTORS IN 2019 IN TOTAL



ACTIVITIES OF PKO BANK POLSKI SA AT INVESTOR CONFERENCES AND ROADSHOWS – NUMBER OF MEETINGS



Additionally, members of the Bank's Management Board answered the investors' questions during investor conferences held both in Poland and abroad. In 2019, in total, over 260 meetings were held during 30 investor conferences and one roadshow arranged in: Austria (17 meetings), the Czech Republic (15 meetings), Finland (9 meetings), France (5 meetings), Greece (8 meetings), Germany (10 meetings), Poland (28 meetings), Singapore (8 meetings), Switzerland (2 meetings), Sweden (5 meetings), the United States (64 meetings), the United Kingdom (92 meetings) and Italy (4 meetings).

The Investor Relations Office maintained on-going contacts with analysts as well as institutional and individual investors, and answered numerous telephone or email inquiries pertaining to business operations and the financial performance of PKO Bank Polski SA.

All information of significant importance to the Bank's investors and shareholders was immediately published on the Investor Relations website (www.pkobp.pl/investors). In 2019, the Bank once again launched its on-line annual report in the form of an internet service site in two language versions: Polish and English (http://www.raportroczny2018.pkobp.pl/ http://www.raportroczny2018.pkobp.pl/en/), which facilitates obtaining key financial and business information about the PKO Bank Polski SA Group.

After publication of annual financial results, the Bank, in cooperation with the Individual Investors Association organized a chat with the Vice-President who supervises the Finance and Accounting Area, designated for individual investors. Approx. 170 people participated in the chat.

10.2 STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES

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

10.2.1 CORPORATE GOVERNANCE POLICIES AND SCOPE OF APPLICATION

Corporate governance principles included in the document titled "Best Practice for GPW Listed Companies 2016"
Corporate governance principles for supervised institutions issued by the PFSA

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

In relation to the "Best Practice for GPW Listed Companies 2016" coming into force as of 1 January 2016, the Bank adopted the principles and recommendations contained in this document, with the reservation that recommendation IV.R.2., which concerns enabling the shareholders to participate in the General Shareholders' Meeting using electronic means of communication would not be applied, unless the General Shareholders' Meeting makes appropriate amendments to the Bank's Articles of Association which authorize the Management Board to organize a General Meeting using means of electronic communication. The Bank applies recommendation IV.R.2 in part concerning the real-time broadcast of General Shareholders' Meetings. PKO Bank Polski SA enables participation by shareholders, who are interested in taking part in General Shareholders' Meetings, by setting convenient dates and times for such meetings. In 2019, no incidental breaches of the Principles occurred in the Bank.

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

Since 1 January 2016, information on the status of the Bank's application of recommendations and principles included in the "Best Practice for GPW Listed Companies 2016" is available on the Bank's website, at (http://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/lad-korporacyjny/dobre-praktyki-spolek-notowanych-na-gpw-2016). This information is prepared on the form provided by the Warsaw Stock Exchange and shows the detailed status of compliance or non-compliance with each of the recommendations and principles, and results directly from the application of principle I.Z.1.13.

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

INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

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

PKO Bank Polski SA maintains regular contact with investors, using various means of communication preferred by investors. Questions can be asked by e-mail, by telephone or during face-to-face meetings with the Bank's representatives. Moreover, in accordance with the "Best Practice for GPW Listed Companies 2016", information about sponsoring and charity activities is included in the report.

The Bank also has recommended internal regulations with regard to providing explanations and rectifications relating to untrue, imprecise or harmful information presented in the media.

In accordance with the principles defined in the "Best Practice for GPW Listed Companies 2016", the Bank operates a corporate website in two language versions: Polish and English. The website provides all information and corporate documents required under the "Best Practice for GPW Listed Companies 2016", including, inter alia, information about the status of the Bank's compliance with the recommendations and principles contained in the "Best Practice for GPW Listed Companies 2016".

In 2019, as part of the organization of the Bank's General Shareholders' Meetings, materials to be submitted to the General Meeting were published on the Bank's website, including, among other things, assessments, reports and positions submitted by the Supervisory Board of the Bank, justifications for all draft resolutions, in particular resolutions pertaining to matters and decisions of significant importance or potentially giving rise to any doubt by the shareholders. Information about the planned transmission of a General Meeting was published no later than 7 days before the date of the General Meeting. Audio or video recordings of General Meetings of the Bank's Shareholders are also available on the Bank's website.

MANAGEMENT BOARD AND SUPERVISORY BOARD

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

In particular, persons who have high qualifications and experience are appointed to the Bank's Management Board and Supervisory Board. The internal allocation of responsibilities for individual areas of activities to members of the Management Board is published on the Bank's website. In 2019, the functions on the Bank's Management Board were the main area of the professional activity of members of the Bank's Management Board. The introduction to duties and succession planning is stipulated in the policy adopted by the Supervisory Board in respect of the appropriateness of members of the Management Board.

In 2019, members of the Supervisory Board devoted the time necessary to perform their duties. Ten meetings of the Supervisory Board of the Bank were held in 2019.

In accordance with the "Best Practice for GPW Listed Companies 2016", the required number of members of the Board met the independence criteria. In accordance with their declarations, 9 out of 11 members of the Supervisory Board are independent. Additionally, the person performing the function of Chair of the Audit Committee met the independence criteria.

The Supervisory Board prepared and presented to the Annual General Shareholders' Meetings the requisite assessment of the company's standing, in consideration of internal controls assessment, risk management, compliance and internal audit functions, and a report on the activities of the Supervisory Board. Additionally, the Supervisory Board prepared and presented to the Annual General Shareholders' Meetings an assessment of the manner of fulfilment of information duties by the Bank with respect to the application of corporate governance principles, and an assessment of the rationality of the policy pursued by the Bank with respect to sponsorship and charity activities. In 2019 the Supervisory Board examined and gave a positive opinion on the draft resolutions of the Annual General Shareholders' Meetings presented to the General Meeting convened for 6 May 2019 and draft resolutions of the Extraordinary General Shareholders' Meeting convened for 17 September 2019.

INTERNAL SYSTEMS AND FUNCTIONS

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

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

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

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

General Shareholders' Meeting and shareholder relations

In respect of the organization of the General Meetings of Shareholders, the Bank decided not to apply the recommendation which concerns enabling the shareholders to participate in the General Shareholders' Meeting using electronic communication, unless the General Shareholders' Meeting makes appropriate amendments to the Bank's Articles of Association. This decision was taken in consideration of the organizational and legal risk related to this method of communication.

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

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

The Bank set the place and date of General Meetings so as to allow the greatest possible number of shareholders to participate in the Annual General Shareholders' Meeting convened for 6 May 2019 and the Extraordinary General Shareholders' Meeting convened for 17 September 2019. Draft resolutions of the General Shareholders' Meetings were prepared and presented together with the justification thereof.

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

Furthermore, the Bank ensured a public broadcast of the General Shareholders' Meeting during the Annual General Shareholders' Meetings of 6 May 2019 and Extraordinary General Shareholders' Meeting of 17 September 2019, as well as the presence of the media.

Conflict of interests and related party transactions

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

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

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

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

Remuneration

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

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

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

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

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

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

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

The Bank's Supervisory Board adopted for use the "Corporate Governance Principles for supervised institutions" (Principles) concerning the responsibilities and obligations of the Supervisory Board, i.e. supervising the conduct of the Bank's affairs in compliance with the generally binding laws and the Bank's Articles of Association.

In its resolution of 2015, the General Shareholders' Meeting of the Bank declared that, acting in line with its competencies, it will follow the "Corporate Governance Principles for supervised institutions" issued by the Polish Financial Supervision Authority, although it ruled out the application of the principles set out in:

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

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

In accordance with the justification presented by the State Treasury together with the proposed draft resolution of the Annual General Shareholders' Meeting, waiving the application of the principle specified in §10 section 2 and §12 section 1 was justified by the uncompleted process of the Bank's privatization by the State Treasury.

Waiving the application of the principle set out in § 28 section 4 was justified, in accordance with the motion of the State Treasury, by the excessive scope of the remuneration policy in question, subject to the assessment of the decision-making authority.

In the opinion of the above mentioned shareholder, the policy for remunerating employees who perform key functions but who are not members of the supervisory and management authorities, should be assessed by the employer or the principal, i.e. the Bank represented by the Management Board, the activities of which are supervised by the Supervisory Board.

The text of the Principles is published on the Polish Financial Supervision Authority's website at the address:
https://www.knf.gov.pl/dla_rynku/Zasady_ladu_korporacyjnego

10.2.2 CONTROLS IN THE PROCESS OF PREPARING FINANCIAL STATEMENTS

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

INTERNAL CONTROL SYSTEM

PKO Bank Polski SA has an internal control system functioning as part of the Bank's management system. Designing, implementing and ensuring the functioning of the adequate and effective internal control system is the responsibility of the Bank's Management Board. The Supervisory Board supervises the implementation and the functioning of the internal control system, and evaluates its adequacy and effectiveness, including the adequacy and effectiveness of the control functions, compliance unit, and the internal audit unit. The internal control system is evaluated based on agreed assessment criteria and taking into account information provided by the Bank's Management Board, Supervisory Board Audit Committee, compliance unit and the internal control unit, findings of the statutory auditor and findings resulting from supervisory activities of responsible institutions, as well as other information and documents material from the point of view of adequacy and effectiveness of the internal control system. In this respect, the Supervisory Board is supported by the Supervisory Board Audit Committee that is responsible, in particular, for monitoring the effectiveness of the internal control system.

The objectives of the internal control system are as follows:
- ensuring the efficiency and effectiveness of the Bank's operations;
- reliability of the financial reporting;
- compliance with risk management principles in the Bank;
- compliance of the Bank's activities with the generally binding legal regulations, internal regulations of the Bank, supervisory recommendations and market standards adopted in the Bank.

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

The internal control system in the Bank comprises:
- control function;
- compliance unit;
- independent internal audit unit.

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

The control function consists of:
- controls;
- independent monitoring of controls;
- reporting.

PKO Bank Polski SA identifies, and the Bank's Management Board approves a list of material processes which have a significant impact on the performance of the internal control system objectives and the Bank's business goals, and ensures periodical reviews of the processes functioning at the Bank with regard to their materiality.

Controls are embedded in the processes in place at PKO Bank Polski S.A. and IT applications. These controls are tailored to the objectives of the internal control system and the specific nature of the operations conducted by the

Bank. These controls are subject to independent monitoring including a periodical evaluation of their adequacy and effectiveness.

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

The internal audit carries out independent and objective assurance and advisory activities in order to:

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

The assessment of individual areas of the Bank's operations is carried out in a systematic and organized manner. Suggestions and recommendations issued under the audit are aimed at eliminating identified gaps and increasing the quality and effectiveness of the functioning of the Bank.

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

On its website (www.pkobp.pl) PKO Bank Polski SA gave a description of its internal control system which takes into account, in particular, a description of goals: objectives of the internal control system; the role of the Management Board, Supervisory Board and the Audit Committee of the Supervisory Board, three independent levels on which the internal control system is organized, i.e. the control function, compliance unit and internal audit unit.

Other entities of the Bank's Group have internal control systems adapted to the specific nature of the entities' operations. These entities develop and implement internal regulations defining, in particular, control tasks performed within the framework of the internal control system, and the allocation of responsibility for these tasks. The manner of functioning of internal control systems depends on the size and scope of the business of entities making up the Bank's Group. The majority of the entities have separated organizational units or positions that report directly to the Management Board or the Supervisory Board of the particular entity. If this is justified by the operating profile of the company and its organizational structure (small entities with a limited scope of business) the internal control functions are performed by the management staff, without structurally separating this function or internal control unit.

CONTROLS IN THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

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

The process of preparing financial statements is subjected to regular multi-level verification, in particular with regard to the correctness of the account reconciliation, substantive analysis and reliability of the information. In accordance with the internal regulations, the financial statements are approved by the Management Board of PKO Bank Polski SA and the Audit Committee of the Supervisory Board appointed by the Supervisory Board of PKO Bank Polski SA in 2006.

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

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

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

AUDIT FIRM

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

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

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

is included in Note 53 of the Consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019.

Moreover, on 13 December 2018, the Supervisory Board of PKO Bank Polski SA appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt spółka komandytowa as the audit firm for the audit and review of the financial statements of PKO Bank Polski SA and the consolidated financial statements of the PKO Bank Polski SA Group for the years 2020-2021.

10.2.3 ARTICLES OF ASSOCIATION OF PKO BANK POLSKI SA

Principles for amending the Articles of Association of PKO Bank Polski SA
Amendments to the Articles of Association introduced in 2019

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

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

AMENDMENTS TO THE BANK'S ARTICLES OF ASSOCIATION IN 2019

IN JANUARY 2019

On 9 January 2019, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, registered amendments to the Articles of Association of the Bank arising from resolution No. 33/2018 of the Annual General Shareholders' Meeting of PKO Bank Polski SA of 18 June 2018, which were approved by the Polish Financial Supervision Authority on 20 December 2018.

The amendment involves adding letters g-h in §4 in section 1 point 9 of the Bank's Articles of Association, in the following wording: "provision of services of initiating payment transactions" and "provision of services of access to information about accounts", which means extending the object of the Bank's activities by new payment services in respect of initiating payment transactions and providing access to information about accounts.

Additionally, in §4 section 1 point 9 of the Bank's Articles of Association letter e was amended from *"enabling the execution of payment transactions initiated by or through a merchant, with the payer's payment instrument, in particular, authorizations processing, sending the payer's or the merchant's payment orders aimed at transferring*

funds due to the merchant to the issuer of the payment card or payment systems" to "*enabling the acceptance of payment instruments and execution of payment transactions initiated with the payer's payment instrument, by or through a merchant, in particular, processing authorizations, sending the payer's or the merchant's payment orders aimed at transferring funds due to the merchant to the issuer of the payment card or payment systems*".

In August 2019

On 26 August 2019, the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, registered an amendment to the Articles of Association of the Bank arising from resolution No. 32/2018 of the Annual General Shareholders' Meeting of PKO Bank Polski SA of 18 June 2018, which was approved by the Polish Financial Supervision Authority on 24 July 2019.

The amendment involves adding the letter d in §4 section 2 point 15 of the Bank's Articles of Association in the following wording: "offering financial instruments", which allows the Bank to conduct activities in respect of offering financial instruments.

10.2.4 General Shareholders' Meeting

Authorizations of the General Shareholders' Meeting Principles of functioning

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

Authorizations of the General Shareholders' Meeting

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

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

Principles of functioning

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

certificate confirming their right to participate in the General Shareholders' Meeting shall be entitled to participate in the General Shareholders' Meeting.

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

A power of attorney shall be issued in writing, otherwise null and void, and shall be enclosed with the minutes of the General Shareholders' Meeting, or shall be issued in electronic form. The right to represent a shareholder, who is not a natural person, shall arise from the original or copy of the excerpt from the relevant register presented possibly with a power of attorney or a chain of powers of attorney. These documents shall be presented upon drawing up the attendance list or sent in electronic form no later than on the day preceding the date of the General Shareholders' Meeting, to the email address indicated on the announcement convening the General Shareholders' Meeting.

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

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

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

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

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

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

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

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

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

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

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

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

During the General Shareholders' Meeting, the Management Board (subject to statutory exceptions) shall present information about the company upon the request of a shareholder. In 2019, shareholders used this right and asked several questions regarding ESG issues. The video recording of the Annual General Shareholders' Meeting at which questions were asked and replies were given by the Management Board in respect of environmental issues is available on the Bank's website https://www.pkobp.pl/grupa-pko-banku-polskiego/relacje-inwestorskie/walne-zgromadzenie/zwyczajne/2019/nagranie-obrad-zwyczajnego-walnego-zgromadzenia-pko-banku-polskiego-sa-z-dnia-6-maj-2019-r-wersja-video/ .

10.2.5 Supervisory Board of PKO Bank Polski SA during the reporting period

Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2019
Changes in the composition of the Supervisory Board in 2019
Principles of the functioning of the Supervisory Board
Competencies of the Supervisory Board
Committees of the Supervisory Board

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

As at 31 December 2019, the Supervisory Board consisted of 11 persons.

The current term of office of Members of the Supervisory Board started on 22 June 2017.

Composition of the Supervisory Board of PKO Bank Polski SA as at 31 December 2019

Piotr Sadownik- Chair of the Bank's Supervisory Board

Member of the Supervisory Board since 25 February 2016.

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

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

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

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

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

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

Grażyna Ciurzyńska – Deputy Chair of the Supervisory Board

Member of the Supervisory Board since 30 June 2016.

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

Since 1996 connected with the banking sector.

She held higher management positions in the corporate business area supervising, among other things, cooperation with strategic customers and the development of enterprise financing programmes. Subsequently, with regard to retail, she was responsible for retail business strategy, sales and pricing policy, bancassurance development, sales network management, designing and implementing products. She was also an advisor to the President of the Management Board of the bank. For several years, she was related to the payments market, and was responsible for card activities area, cooperation with international payment organizations and suppliers of technology and bank services. She was a member of the Council of Polska Bezgotówkowa Foundation, member of the executive committee of the Council of Banking Card Issuers and previously the executive committee of the Council of Cash Management.

For more than 15 years she was involved in academic work and teaching in the Warsaw School of Economics and focused on international economics, foreign direct investments and European integration.

Recently, in government administration, she was responsible for strategic and legislative activities in the area of private investments, for cooperation with investors and financial institutions in Poland and

abroad, managing special economic zones and large investment projects.

Currently she is acting President of the Management Board of Polska Agencja Inwestycji i Handlu SA. She is in particular responsible for promoting the Polish economy and supporting enterprises in their expansion abroad and investment processes. Deputy Chair of the Supervisory Board of Polski Holding Nieruchomości SA.

Graduated from the Faculty of Foreign Trade at the Warsaw School of Economics and Post-graduate Studies in European Banking Law at the Institute of Law Studies of the Polish Academy of Sciences.

ZBIGNIEW HAJŁASZ – SECRETARY OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 30 June 2016.

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

On 24 August 2017 re-appointed as Secretary of the Supervisory Board.

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

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

In 1993-1996 and since 2005 – academic lecturer (Wrocław University of Technology, University of Wrocław, Academy of Fine Arts in Wrocław), winner in the Business Gazelles ranking in 2015 and 2016. Since May 2018 – President of the Management Board of KGHM TFI SA.

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

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

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

MARIUSZ ANDRZEJEWSKI – MEMBER OF THE SUPERVISORY BOARD

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

Professor at the Kraków University of Economics, Dean of the Faculty of Finance and Law, and Head of the Department of Financial Accounting. Holds a full doctoral degree in economics. In 2013-2019 he has also been working as associate professor at the School of Banking and Management in Kraków. In the years 2003-2013 worked in the Bielsko-Biała School of Finances and Law, where he was also head of the Finance Department.

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

He obtained business experience while sitting on supervisory boards of companies including: Zakłady Chemiczne Alwernia SA, Kombinat Koksochemiczny Zabrze SA, Północ Nieruchomosci SA (company listed on NewConnect), PolRest SA (a company listed on the Warsaw Stock Exchange), Media Nieruchomości SA, Przedsiębiorstwo Inżynierii Miejskiej sp. z o.o. in Czechowice-Dziedzice, AWSA Holland II BV, Instal Kraków SA. He was also President of the Management Board of Altair sp. z o.o., member of the Management Board in charge of finance of TBS Złocień sp. z o.o. and advisor to the Management Board at the Institute of Business Law and Foreign Investments (Instytut Prawa Spółek i Inwestycji Zagranicznych – IPSiZ sp. z o.o.). He was an Arbitrator at the Arbitration Court at the Polish Financial Supervision Authority. He is currently the Chair of the Supervisory Board of PKP Polskie Linie Kolejowe SA and Deputy Chair of the Supervisory Board of Tauron Sprzedaż sp. z o.o. In 2005-2006 he

was Undersecretary of State in the Ministry of Finance.

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

Author or co-author of over 150 academic publications and several dozen expert opinions on economics.

MIROSŁAW BARSZCZ – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

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

Graduated from the Catholic University of Lublin with an M.A. in Law.

In 2016-2019 he was President of the Management Board of PFR Nieruchomości SA. From 2014 to 2016, he was an advisor in the Strategy Department at PGNiG SA. He has extensive professional experience gained in audit firms (1996-1997 Ernst & Young, 1998-2001 Arthur Andersen, 2001-2004 PricewaterhouseCoopers), and government administration (2005-2006 Undersecretary of State in the Ministry of Finance, 2007 – Minister of Construction).

From 2000 is a licenced tax advisor.

ADAM BUDNIKOWSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

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

Professor at the Warsaw School of Economics, in the Institute of International Economics.

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

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

During his professional career, he has also collaborated with other academic and educational institutions, including the Polish Academy of Sciences, the Polish Economic Society, the Institute for Business Cycles and Prices in International Trade (was Deputy Director of the Institute in 1992-1993), the Catholic University of Lublin, Radom Academy of Economics, Academy of Diplomacy in Warsaw, and the National School of Public Administration. Since 2001 he has been a member of the Association of Polish Economists. In the years 2012-2019 a member of the executive committee of the Economic Sciences Board of the Polish Academy of Sciences. Member of the Central Commission for Degrees and Titles (2011-2013 and 2017-2020). During his academic and research career, he has frequently lectured and been a visiting researcher at Western universities. He was, among other things, a Fulbright scholar at the Massachusetts Institute of Technology, and in 1996 he took part in the World Bank's missions in Turkey and Romania.

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

DARIUSZ GÓRSKI – MEMBER OF THE SUPERVISORY BOARD[29]

On 6 May 2019, he was appointed to the Supervisory Board for the current term of office.

He graduated from the Warsaw School of Economics. During his professional career, he attended numerous training sessions in finance, financial analysis and management, among other things, an investment advisor course and related to corporate finance (Erasmus scholarship at the University of Rotterdam).

He started his professional career in 1992 as a financial analyst at Caresbac Polska SA, one of the first venture-capital companies on the Polish market. In 1993-1996, worked at Business Management & Finance SA as a financial analyst, and from 1995 as head of projects in the field of strategic advisory, mergers and acquisitions, privatization and restructuring. In 1996 started working for Robert Fleming & Co (in 2000 acquired by Chase Manhattan Bank) as a share analyst specializing initially in the food, industrial and IT sectors. From 1998 Central Europe banking sector analyst. In 2001 started working for ING Securities SA as a share analyst covering the whole Polish market, specializing in the banks, companies, raw materials and fuels sectors. From 2004 at Deutsche Bank Securities SA (DB Securities SA) as the head of share market analyses for Central Europe responsible for a comprehensive product and banking sector. In 2008 appointed to the function of share portfolio strategist at Opera TFI SA. In the years 2009-2011, head of the department of analyses of the Polish share market at Wood & Co responsible for the financial sector, media and strategy for the share market. From 2011 to March 2019 worked for Dom Maklerski BZ WBK SA (currently Santander Biuro Maklerskie), initially as a senior analyst, deputy head of the Analyses Team, and from 2015 Director of the Stock Exchange Analyses responsible for the supervision and products of the team, financial sector analysis, and strategy for the share market.

His professional achievements include, among other things, several high positions in international and domestic investor rankings. In 2004, the analysts team at ING Securities SA in Warsaw was third in the ranking of *Institutional Investor Magazine*, and in 2003 it was first in the same ranking. In 2007, the team of DB Securities SA was first in the ranking of Thomson Extel in the category of the Hungarian/Czech market and second in the category of the Polish market, and the bank team was first in the category of EMEA Financials. In 2006, the Polish team of DB Securities SA was third in the ranking of *Institutional Investor Magazine* (fourth in 2005), and the bank analysts team of DB Securities SA – was second (third in 2005). In rankings of analytic experts of *GG Parkiet* he was in top positions – banking sector 2nd/3rd/3rd in the years 2017/2016/2015, respectively, and market strategy 5th/2nd in the years 2017/2016.

WOJCIECH JASIŃSKI – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

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

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

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

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

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

[29] On 23 January 2020, Mr Dariusz Górski resigned as a member of the Supervisory Board of the Bank, effective as of the end of 29 January 2020. According to his statement, the resignation is the result of his intention to accept employment with another financial institution and the resulting future conflict of interest.

From June 2018 to July 2019 – plenipotentiary of the Management Board of Energa SA for the development of investments and energy markets.

ANDRZEJ KISIELEWICZ – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 25 February 2016.

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

Professor of Mathematical Sciences. He works at the University of Wrocław, at the Faculty of Mathematics and Computer Science. He obtained his full doctoral degree from the University of Wrocław, and was awarded a Ph.D. in mathematics from the Polish Academy of Sciences. Graduated from the University of Wrocław. He gained his professional experience in various academic centres, including: Vanderbilt University (Nashville, USA), Polish Academy of Sciences, Technische University (Darmstadt, Germany), the University of Manitoba (Winnipeg, Canada), Blaise Pascal University (Clermont-Ferrand, France), Wrocław University of Technology. He has experience as a member of supervisory boards. Currently, he is Chairman of the Supervisory Board of KGHM Polska Miedź SA.

He is the author of more than 75 academic publications in foreign journals on mathematics, logistics and computer science as well as books (e.g. *Sztuczna inteligencja i logika* [Artificial Intelligence and Logic], *Wprowadzenie do informatyki* [An Introduction to Computer Science], etc.). He is also the author of many opinions, reviews and expert opinions, including for the National Science Centre and the European Commission. His research interests include the application of mathematics, logic and computer science in practice, artificial intelligence, business intelligence, informatization and argumentation theory.

ELŻBIETA MĄCZYŃSKA-ZIEMACKA – MEMBER OF THE SUPERVISORY BOARD

Member of the Supervisory Board since 20 June 2013.

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

Professor PhD – in economics, graduated from the University of Warsaw (Faculty of Political Economics, specialty – Econometrics).

Her professional career has been connected with the Warsaw School of Economics, currently she is Head of Postgraduate Studies: "Property Valuation" organized by the Institute of Corporate Finance and Investments at the College of Enterprise at the Warsaw School of Economics.

Member of the Executive Committee of the "Poland 2000 Plus" Forecast Committee and the Committee of Economics of the Polish Academy of Sciences (social functions, elected by academics). President of the Polish Economics Society (third term of office since 2005 – social function, elective). Member of the Supervisory Board of PZU SA (since May 2019).

Editor-in-chief and member of the Editorial Committee of the bi-monthly *Ekonomista* published by the Polish Economic Society and the Committee of Economics of the Polish Academy of Sciences. Chair of the Academic Council of the quarterly of Warszawskie Stowarzyszenie Rzeczoznawców Majątkowych (Warsaw Property Valuation Experts Association) *Wycena Nieruchomości i Przedsiębiorstw*. Member of the Editorial Board of *Kwartalnik Nauk o Przedsiębiorstwie*, published by the Warsaw School of Economics and member of the editorial staff of the quarterly *International Journal of Sustainable Economy* (IJSE), Inderscience Publishers Editorial Office, UK.

Author of approx. 300 publications, among other things, in the area of prediction models for enterprise bankruptcies, financial analysis, and enterprise and property valuation. She developed original models for early warning about bankruptcy of enterprises, which are used in practice. Her studies and publications were to a large extent related to the academic scholarships she won (such as Deutscher Akademischer Austauschdiens, DAAD), grants and internships/study stays, which included Germany – Mannheim University, Austria – Wiener Institut für Internationale Wirtschaftsvergleiche, WIIW and in Wirtschaftsuniversität Wien.

In the years 2005-2007 an independent member of the Supervisory Board of GŻ SA and in the years 1996-1998 an independent member of the Supervisory Board of Polski Bank Rozwoju SA.

Member of the Team for Amendments to the Law on Bankruptcy and Rehabilitation established by the Minister of Justice in 2012 and operating until 2014. In the years 1990-1991 advisor and consultant to the Polish-Swedish company SWEA SYSTEM sp. z o.o.

Author and co-author of many expert opinions prepared on the commission of enterprises (such as Telekomunikacja Polska SA and Poczta Polska).

Member of the National Development Council of the President of the Republic of Poland (currently).

Chair of the Economic Strategic Thinking Committee of the Ministry of Economy (2013-2015).

In 1994-2005, academic secretary and member of the Executive Committee of the Social and Economic Strategy Council of the Council of Ministers.

KRZYSZTOF MICHALSKI – MEMBER OF THE SUPERVISORY BOARD

On 17 September 2019, he was appointed to the Supervisory Board for the current term of office.

He graduated from the Faculty of Law and Administration Faculty and Faculty of Political Sciences at the Maria Curie-Skłodowska University in Lublin. He has also awarded an MBA diploma – Innovation and Data Analysis – at the Institute of Computer Science of the Polish Academy of Sciences and Woodbury School of Business at Utah Valley University.

He started his professional career in a foreign trade company with a global range of operations, and was responsible, among other things, for market research, creating new products, marketing and sales development on foreign markets. From 2017 leader of the investor cooperation team in the Ministry of Development and Ministry of Entrepreneurship and Technology. Was responsible for activities in the area of private investments, cooperation with investors and financial institutions in Poland and abroad, and supporting the performance of large investment projects.

Currently member of the expert team for the Prime Minister at the Chancellery of the Prime Minister (KPRM) Responsible for analyses and advisory in tax, economic and financial matters. Also deals with international relations issues.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD IN 2019[30]

On 6 May 2019 the Annual General Meeting of Shareholders of PKO Bank Polski SA dismissed Mr Janusz Ostaszewski from the Supervisory Board and appointed Mr Dariusz Górski to the Board.

On 17 September 2019, the Extraordinary General Shareholders' Meeting of PKO Bank Polski SA appointed Mr Krzysztof Michalski to the Supervisory Board.

In accordance with the declarations made by members of the Supervisory Board, Piotr Sadownik, Grażyna Ciurzyńska, Zbigniew Hajłasz, Mariusz Andrzejewski, Mirosław Barszcz, Adam Budnikowski, Dariusz Górski, Andrzej Kisielewicz and Elżbieta Mączyńska-Ziemacka meet the criteria of independence for members of a supervisory board specified in the "Best Practice for GPW Listed Companies 2016". The remaining Members of the Supervisory Board, i.e. Wojciech Jasiński and Krzysztof Michalski declared they did not meet the criteria of independence vis-à-vis the Bank and major related entities of the Bank.

PRINCIPLES OF THE FUNCTIONING OF THE SUPERVISORY BOARD

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

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

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

In 2019, the Bank's Supervisory Board carried out 10 meetings and adopted 126 resolutions.

COMPETENCIES OF THE SUPERVISORY BOARD

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

- approving the strategy of PKO Bank Polski SA and the annual financial plan accepted by the Management Board;
- approving the of the overall risk tolerance level determined by the Management Board;

[30] On 23 January 2020, Mr Dariusz Górski resigned as a member of the Supervisory Board of the Bank, effective as of the end of 29 January 2020. According to his statement, the resignation is the result of his intention to accept employment with another financial institution and the resulting future conflict of interest.

- appointing an entity to conduct the audit or review of the Bank's financial statements the consolidated financial statements of the Bank's Group.
- passing the Rules:
  - of the Supervisory Board;
  - for granting loans, advances, bank guarantees and warranties to a Member of the Management Board, the Supervisory Board and a person holding a managerial position in the Bank, and to entities related by capital or organization with these persons;
- appointing and dismissing the President of the Management Board, Vice-Presidents and other Members of the Management Board, as well as suspending Members of the Management Board and delegating Members of the Supervisory Board to temporarily carry out the duties of Members of the Management Board;
- approving strategies, policies and rules accepted by the Management Board, among other things: Bank management strategy, Risk management strategy, Dividend policy, Remuneration policy, Rules of the Management Board, Rules for managing special funds created from the net profit, Organization rules of the Bank;
- granting prior consent to activities satisfying predetermined criteria including, among other things, to purchase and sell fixed assets, establishment of a company, taking up or acquiring shares, PKO Bank Polski SA concluding a transaction with a shareholder holding at least 5% of the total number of votes at the Bank or with a related party, the Bank concluding agreements for legal services, marketing services, public relations services and social communication;
- applying to the Polish Financial Supervision Authority for consent to the appointment of the President of the Management Board and a Management Board Member supervising the management of risk material to the Bank's activities, and to entrusting the function of Management Board Member supervising the management of risk material to the Bank's activities to a current Management Board Member who has not supervised the management of this risk;
- evaluation of the functioning of the Bank's remuneration policy and submission of a report in this regard to the Annual General Shareholders' Meeting;
- opinion on the application of "Principles of Corporate Governance for supervised institutions" by the Bank.

COMMITTEES OF THE SUPERVISORY BOARD

In accordance with the Bank's Articles of Association, the Supervisory Board appoints from among its members committees which it is required to appoint under the binding legislation. The Supervisory Board may also appoint other committees from among its members.

The Supervisory Board has appointed the following committees:

AUDIT COMMITTEE OF THE SUPERVISORY BOARD

TASKS

1) monitoring the financial reporting process including the review of separate and consolidated interim and annual financial statements (separate and consolidated);
2) monitoring the effectiveness of the internal control system, including with respect to financial reporting;
3) monitoring the effectiveness of the risk management system, including with respect to financial reporting, in particular by analysing information received from the Risk Committee;
4) monitoring the audit activities, in particular performance of the audit by the audit firm, taking into account all conclusions and findings of the Polish Financial Supervision Authority, as referred to in the Act on registered auditors, resulting from inspections carried out in the audit firm;
5) controlling and monitoring the independence of the statutory auditor and the audit firm carrying out the audit of the financial statements, in particular when the audit firm provides services other than audit to the Bank's Group;
6) informing the Supervisory Board of the audit results and explaining how the audit contributed to the fairness of the Bank's financial reporting and what the role of the Committee was in the audit process;
7) assessing the independence of the audit company and consenting to the provision of permissible services other than the audit to the Bank and the Bank's Group by the audit company's related entities and a member of the audit company's network, in accordance with the policy;
8) developing a policy for selecting the audit firm to conduct an audit and providing the Supervisory Board with recommendations as to the policy adopted;
9) developing a policy for the provision of services other than the audit by the audit company which carried

out the audit, its related entities and a member of the audit company's network, and providing the Supervisory Board with recommendations as to the policy adopted;

10) developing a procedure for appointing the audit company to conduct an audit and providing the Supervisory Board with recommendations as to the policy adopted;
11) submitting to the Supervisory Board recommendations as to the appointment of the audit company to conduct the audit;
12) submitting to the Supervisory Board recommendations aimed at ensuring fairness of the Bank's financial reporting to the Supervisory Board.
13) submitting to the Supervisory Board recommendations as to the statement concerning the audit firm conducting the audit of the annual financial statements of the Bank and consolidated financial statements of the Bank's Group;
14) developing the rules for the procedure in respect of the process of disclosing and exchanging data and information between the Polish Financial Supervision Authority, the audit firm, key auditor and the Bank, and recommending their adoption to the Supervisory Board.

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019

Zbigniew Hajłasz (Chair of the Committee);
Grazyna Ciurzyńska (Deputy Chair of the Committee);
Mariusz Andrzejewski (member of the Committee);
Dariusz Górski (member of the Committee);
Andrzej Kisielewicz (member of the Committee);
Krzysztof Michalski (member of the Committee);
Piotr Sadownik (member of the Committee).

By 6 may 2019, Mr Janusz Ostaszewski was a member of the Committee.

INDEPENDENCE CRITERIA AND COMPETENCIES

	Meets the criterion of independence set in the Act on registered auditors, audit firms and on public supervision	Knowledge and skills in the area of accounting or financial statement auditing		Has knowledge and skills in the banking field*
		Meets the criterion	Manner of obtaining	
Zbigniew Hajłasz	yes	yes	Has academic title MPhil in Economics	yes
Grażyna Ciurzyńska	yes	no	-	yes
Mariusz Andrzejewski	yes	yes	Holds a full doctoral degree in economics and licence of certified auditor	yes
Dariusz Górski	yes	yes	Financial analyst. Completed numerous training sessions, including an investment advisor course and related to corporate finance (Erasmus scholarship at the University of Rotterdam).	yes
Andrzej Kisielewicz	yes	no	-	no
Krzysztof Michalski	yes	no	-	no
Piotr Sadownik	yes	no	-	no

* Knowledge and skills arise, among other things, from education, professional experience, functions performed (described in more detail in biography notes in section 10.2.5).

NUMBER OF MEETINGS

In 2019 nine meetings of the Audit Committee of the Supervisory Board took place.

POLICY FOR THE APPOINTMENT OF THE AUDIT COMPANY

In 2019 the audit company KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa provided permissible non-audit services to the Bank, in particular pertaining to reviews of financial statements. The Bank's Audit Committee assessed the independence of the audit firm and gave its consent for the performance of those services.

The policy for the appointment of an audit firm to audit the financial statements of the Bank and the consolidated financial statements of the Bank's Group assumes that the Supervisory Board will conduct proceedings relating to commissioning the audit of the Bank and the Bank's Group under an unlimited tender

procedure. All decisions of the Bank's Supervisory Board as to the appointment of the audit firm require a prior recommendation by the Audit Committee of the Bank's Supervisory Board (Committee). As a result of the appointment procedure organized by the Bank, the Committee submits its recommendations as to the appointment of the audit firm to the Supervisory Board. If this refers to renewal of an audit commission there should be no less than two recommendations with justification, and an indication of the preferred firm. The Bank's Supervisory Board appoints the audit firm based on the Committee's recommendation. Clear and unbiased criteria are applied in the selection of the audit firm on the basis of the proposals submitted.

The policy for performing permissible services other than the audit to the Bank and the Bank's Group by the audit firm and its related entities, and a member of the audit firm's network assumes that the provision of permissible services by the audit company performing the audit, its related entities and a member of the audit company's network to the Bank require the consent of the Audit Committee of the Bank's Supervisory Board. The Committee's consent to the provision of permissible services other than audit services to a Bank's Group company is given based on a request of the Bank's Group company, a necessary element of which is the consent of the audit committee or the Supervisory Board of the requesting Bank's Group company.

NOMINATIONS AND REMUNERATION COMMITTEE

TASKS

Expressing opinions on monitoring the Remuneration Policy adopted by the Bank and supporting the Bank's authorities in developing and implementing this policy. In particular, the Committee shall be responsible for the performance of the following tasks:

1) expressing opinions on the general rules of remuneration policy of persons whose professional activities have a material impact on the Bank's risk profile to be approved by the Supervisory Board;
2) conducting an annual review of the Remuneration Policy and presenting the results of the review to the Supervisory Board;
3) presenting to the Supervisory Board proposals of principles for remunerating Members of the Management Board;
4) evaluating goals pursued and achieved by the Members of the Management Board;
5) assessing tools and systems adopted to guarantee that the remuneration system in the Bank's Group properly account for all types of risk, liquidity and equity levels and that the Remuneration Policy be compliant with the proper and effective risk management principles and support such management, and was consistent with the business strategy, goals, culture and corporate values, and the long-term interests of the Bank's Group;
6) supervising fixed remuneration of the leader of the Bank's compliance unit;
7) providing opinions and monitoring variable remuneration components of leaders of the legal, compliance, internal audit, risk management and human resources units;
8) submitting to the Supervisory Board opinions on MbO goals defined by the Supervisory Board for members of the Management Board and evaluating performance of the goals;
9) Preparing draft report of evaluation of the functioning of the Remuneration Policy in the Bank, which is presented by the Supervisory Board to the General Shareholders' Meeting.

Additionally, the Committee's tasks include:

1) expressing opinions on the diversity policy in the composition of the Management Board;
2) recommending candidates to the Management Board to the Supervisory Board;
3) recommending the scope of duties for the candidate to the Management Board specified by the Supervisory Board;
4) recommending the target level to be defined by the Supervisory Board for the representation of underrepresented gender in the Management Board;
5) periodically assessing the structure, size, composition and effectiveness of the Management Board's functioning, and recommending respective changes to the Supervisory Board;
6) periodically assessing the knowledge, competencies and experience of the Management Board as a whole, and of particular Members of the Board, and informing the Management Board of the results of the assessment;
7) periodically assessing the Management Board's policy in respect of the selection and appointment of persons to managerial positions at the Bank and submitting respective recommendations to the Management Board.

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019	Piotr Sadownik (Chair of the Committee); Grażyna Ciurzyńska (Deputy Chair of the Committee); Wojciech Jasiński (Member of the Committee); Elżbieta Mączyńska-Ziemacka (Member of the Committee). By 6 may 2019, Mr Janusz Ostaszewski was a Member of the Committee.
NUMBER OF MEETINGS	In 2019 five meetings of the Remunerations and Nominations Committee of the Supervisory Board took place.

RISK COMMITTEE

TASKS

1) evaluating the overall current and future readiness of the Bank to take risks, taking into account the risk profile of the Bank's Group;
2) expressing opinions on the Bank's operational risk management strategy adopted by the Management Board, and information on the implementation of this strategy submitted by the Management Board, as well as other periodic reports on risk management and capital adequacy;
3) expressing opinions on other resolutions of the Management Board in respect of risk management and capital adequacy which are subject to approval by the Supervisory Board;
4) supporting the Supervisory Board in overseeing the implementation of the Bank's operational risk management strategy;
5) reviewing whether the price of assets and liabilities offered to Customers fully envision the Bank's business model and its strategy in terms of risk, and indicating to the Management Board directions for correcting actions;
6) assessing the risks related to the products and services offered;
7) expressing opinions on solutions for reducing business risk with the use of the Bank's property insurance and civil liability insurance for members of authorities and proxies of the Bank;
8) ongoing monitoring of the risk management system and providing the Supervisory Board with information on the results of this monitoring;
9) expressing opinions on the Bank's information on risk management strategy and risk management system, addressed to the public;
10) conducting an annual review of the Remuneration Policy of the Bank and the Bank's Group;
11) ongoing monitoring of the implementation of risk management strategy and providing recommendations to the Supervisory Board;
12) advising on the selection of external advisors, experts and consultants in the event that the Supervisory Board wishes to use their services;
13) evaluating recommendations of external and internal auditors, and follow-up connected with appropriate implementation of respective measures;
14) performance of other tasks specified by the Supervisory Board with regard to risk management in the Bank.

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019	Andrzej Kisielewicz (Chair of the Committee); Grażyna Ciurzyńska (Deputy Chair of the Committee); Mariusz Andrzejewski (Member of the Committee); Adam Budnikowski (Member of the Committee); Elżbieta Mączyńska-Ziemacka (Member of the Committee).
NUMBER OF MEETINGS	In 2019 six meetings of the Risk Committee of the Supervisory Board took place.

STRATEGY COMMITTEE

TASKS

1) expressing opinions on the Bank's strategy adopted by the Management Board, the approval of which is the competence of the Supervisory Board;
2) supporting the Supervisory Board in overseeing the implementation of the strategy, in particular by analysing periodic information on the implementation thereof, presented by the Management Board;
3) expressing opinions on strategic activities of the Bank, which require the prior consent of the Supervisory

	Board, in particular on their consistency with the binding strategy of the Bank; 4) performance of other tasks specified by the Supervisory Board with regard to the implementation of strategic goals and key projects of the Bank.
COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2019	Grażyna Ciurzyńska (Chair of the Committee); Zbigniew Hajłasz (Deputy Chair of the Committee); Mirosław Barszcz (Member of the Committee); Adam Budnikowski (Member of the Committee); Dariusz Górski (Member of the Committee); Elżbieta Mączyńska-Ziemacka (Member of the Committee); Krzysztof Michalski (Member of the Committee); Piotr Sadownik (Member of the Committee). By 6 may 2019, Mr Janusz Ostaszewski was a Member of the Committee.
NUMBER OF MEETINGS	In 2019 seven meetings of the Strategy Committee of the Supervisory Board took place.

10.2.6 MANAGEMENT BOARD OF PKO BANK POLSKI SA DURING THE REPORTING PERIOD

Composition of the Management of PKO Bank Polski SA as at 31 December 2019
Changes in the composition of the Management Board in 2019
Principles of operations of the Bank's Management Board
Competencies of the Bank's Management Board
Committees of the Bank's Management Board

In accordance with § 19 sections 1 and 2 of the Articles of Association of PKO Bank Polski SA, Members of the Management Board are appointed by the Supervisory Board for a joint three-year term of office.

The Management Board consists of 3 to 9 members. Appointing two members of the Management Board, including the President of the Management Board, requires the consent of the Polish Financial Supervision Authority. As at 31 December 2019, the Management Board consisted of 9 persons.

The current term of office of the Management Board began on 2 July 2017.

COMPOSITION OF THE MANAGEMENT OF PKO BANK POLSKI SA AS AT 31 DECEMBER 2019

ZBIGNIEW JAGIEŁŁO - PRESIDENT OF THE MANAGEMENT BOARD

Member of the Management Board since 1 October 2009. On 14 June 2017, he was re-appointed to the Management Board for the current term of office.	President of the Management Board of PKO Bank Polski SA since October 2009, appointed for subsequent terms of office in 2011, 2014 and 2017. Before that, for almost 9 years he was President of the Management Board of Pioneer Pekao TFI SA. Within the global structure of Pioneer Investments he was also responsible for supervising distribution in the CEE region. In the second half of the 1990s, as Vice President of the Management Board, he participated in the process of establishing PKO/Credit Suisse TFI SA. In his twenty years of working on the financial markets he was responsible, among other things, for: • successfully steering PKO Bank Polski SA through a critical period of turmoil on the international financial markets, while strengthening the Bank's position as leader in terms of assets, equity and earnings in Poland and the CEE region; • developing and implementing the PKO Bank Polski SA's strategy for the years 2010-2012 and 2013-2015, which resulted in a significant increase in assets and strong business efficiency gains as well as in increased interest in the company among domestic and international investors; • adjustment of PKO Bank Polski SA to the requirements of the ever more competitive financial market through the increased attractiveness of its product offer and quality of its customer service; • refocusing of the PKO Bank Polski SA Group's operational model towards its core activity of providing financial services. He is actively involved in the development and promotion of high standards of operations of the financial market in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institute International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, among other things, that of Chairman of the Chamber of Fund and Asset Management.

	He graduated from the Wroclaw Technical University's Faculty of Computer Science and Management. He also completed Postgraduate Management Studies at the Gdansk Foundation for Management Development and the University of Gdansk, with an Executive MBA certified by the Rotterdam School of Management, Erasmus University. He was awarded the Officer's Cross of the Order of Polonia Restituta by the President of the Republic of Poland, and the Social Solidarity Medal for promoting the idea of corporate social responsibility. He was Chairman of the Programme Council of the PKO Bank Polski's Foundation that was established on his initiative, in 2010. Recipient of several awards and titles. He was selected CEO of the Year by the stock exchange journal Parkiet in 2011. He was awarded the Wektor 2011 and 2018 prize granted by the Polish Employers' Committee, and the Golden Banker prize in the Personality of the Year 2011 category. He was also a recipient of the Manager of the Year 2011, 2014 and 2016 awards in a competition organized by Gazeta Bankowa. In 2012, 2014 and 2015, Bloomberg Businessweek Polska singled him out as one of the Top 20 Managers in the Polish Economy. He was honoured by Bank – financial monthly – with the title of "Innovator of the Banking Sector 2012." He also received the special award of "Man of the Year 2013" from Brief monthly and "Visionary 2013" from Dziennik Gazeta Prawna. In 2014, he received an honourable mention from Gazeta Finansowa as one of the "25 Most Valuable Managers in the World of Finance." In 2015, he received a medal from the Polish Chamber of Commerce (KIG) for supporting the development of economic self-government and entrepreneurship, and he was awarded an eDucat statuette by the Foundation for the Development of Non-cash Payments for his vision of the development of non-cash payments and the effective building of a coalition for the mobile payment standard. The industry service Mediarun.com recognized him as the most pro-marketing president, and the chancellery of Responsible Business Awards awarded him the title of Outstanding CEO Philanthropist. In 2017, he was awarded the Lesław A. Paga Prize for his contribution to the development of the Polish economy and promotion of high standards of operations of the financial market in Poland. In 2019, he was granted the titles of Personality of the Year in the Golden Laurel competition organized by Super Biznes and Finance Visionary in the "Banking and Insurance Leaders" competition; he was also granted the Bulls and Bears award by the stock exchange journal Parkiet and he was elected the most valuable CEO among the managers of listed companies in the ranking published by Rzeczpospolita daily.
Functions performed in Committees as at 31 December 2019	Assets and Liabilities Management Committee (Chair of the Committee); Risk Committee (Chair of the Committee); Transformation Committee (Chair of the Committee); Strategy Committee (Chair of the Committee); IT Security Committee (Chair of the Committee).

Rafał Antczak - Vice-President of the Management Board of the Bank in charge of the Enterprise Banking, Analyses and Administration Area

On 14 June 2017, he was appointed to the Management Board for the current term of office.	Economist and manager with more than 25 years of experience in international and domestic projects for companies in the financial and real economy sectors, governments and research institutions. He graduated from the Faculty of Economic Sciences at the University of Warsaw and a Comprehensive Course in Market Economics at the Joint Vienna Institute (1997). From October 2008 to January 2017, he was a Member of the Management Board of Deloitte Consulting S.A., responsible, among other things, for research, micro and macroeconomic projections, strategic and business consulting. From 2006 to 2008, he was Managing Director and Chief Economist of the PZU Group and Member of the Supervisory Boards of PZU Asset Management, PZU-Ukraina, PZU-Ukraina Ubezpieczenia na Zycie and UFG. In 2006-2008, active lecturer at the Faculty of Management and the MBA Programme of the University of Warsaw. In 1994-2006, economist with the Centre for Social and Economic Research CASE Science Foundation. Author of many publications on economics and market research. Since December 2018, member of the Supervisory Board of Centralny Port Komunikacyjny sp. z o.o., chairman of the Supervisory Board of PKO Leasing SA and PKO Faktoring SA.
Functions performed in Committees as at 31 December 2019	Strategy Committee (Member of the Committee); The Bank's Loan Committee (Member of the Committee).

Rafał Kozłowski - Vice-President of the Management Board of the Bank in charge of Finance and Accounting Area

Appointed to the position of Vice-President of the Management Board of the Bank on 21 December 2017, as of 1 January 2018 appointed for the current joint term of office of the Management Board.

Since 2012 he has been associated with PKO Bank Polski SA, where he was responsible, among other things, for launching the mortgage bank. Since the establishment of PKO Bank Hipoteczny SA, as President of its Management Board he was responsible for the development of the institution and quickly guided it to the top of the list of the largest mortgage banks in Poland. Under his management the bank quickly became the largest issuer of mortgage-covered bonds on the Polish market, and conducted the largest issues of Polish mortgage-covered bonds abroad.

Rafał Kozłowski is from Łomza. He graduated from the Warsaw School of Economics (faculty: Quantitative Methods and Information Systems) and the University of Warsaw and the University of Illinois, where in 2008 he completed his Executive MBA studies. He has been in the banking business since 1995. He worked at managerial positions in Powszechny Bank Kredytowy SA, Bank BPHPBK SA, Bank Pekao SA and PKO Bank Polski SA. He was also Finance Director and Member of the Management Board in the Corporation of European Pharmaceutical Distributors N.V. in Amsterdam, where he managed an international holding of 160 companies in Poland, Lithuania and the United Kingdom.

In the course of his professional career he engaged in the construction of banking strategies and budgets and their monitoring, preparing financial analyses and stock exchange reports, and preparing public offerings and acquisitions of foreign entities.

He is top class specialist in controlling, accounting and reporting, finance risk and mortgage banking.

He is a member of the Supervisory Board of Bank Pocztowy SA and Operator Chmury Krajowej sp. z o.o.

Functions performed in Committees as at 31 December 2019

Assets and Liabilities Committee (Member of the Committee);
Data Quality Committee (Deputy Chair of the Committee);
Risk Committee (Member of the Committee);
Operational Risk Committee (Member of the Committee);
Transformation Committee (Member of the Committee);
Strategy Committee (Member of the Committee).

Maks Kraczkowski - Vice-President of the Management Board of the Bank in charge of the International and Transaction Banking and Cooperation with Local Government Authorities and Government Agencies

Member of the Management Board since 4 July 2016.

On 14 June 2017, he was re-appointed to the Management Board for the current term of office.

He graduated from the University of Warsaw's Faculty of Law and Administration. He obtained an Executive MBA diploma in the Management University (Wyzsza Szkota Menadżerska) in Warsaw and completed the Advanced Management Program 194 at the Harvard Business School.

He was Member of the Sejm in the 5th, 6th, 7th and 8th terms. As an MP he mainly engaged in economic and financial market topics. He was Chair and Deputy Chair of the Economic Committee of the Sejm (2005-2006, 2007-2015) and member of the Parliamentary Legislation Committee (2005-2011, 2015-2016). In the years 2015-2016 he was Deputy Chair of the Parliamentary Committee for Economy and Development.

He has many years of experience in establishing laws and knowledge of Polish and international business matters.

Currently he is Chairman of the Supervisory Board of KREDOBANK SA. Due to the changes in organizational structures, since 2 September 2019 he has also been responsible for supervising the operations of KREDOBANK SA.

Functions performed in Committees as at 31 December 2019

The Bank's Loan Committee (Member of the Committee),
Strategy Committee (Member of the Committee).

Mieczysław Król - Vice-President of the Management Board of the Bank in charge of the Operations Area

Member of the Management Board since 6 June 2016.

On 14 June 2017, he was

Banker, finance specialist, manager, holder of an MA in economics, a graduate of the Warsaw School of Economics (the Faculty of Finance and Statistics) and the International School of Management. He completed his post-graduate studies at the Warsaw School of Economics (Collegium of Management and Finance).

He has been working in banking and finance for over thirty years. He has worked, among other things,

re-appointed to the Management Board for the current term of office.	at the National Bank of Poland. He was a director at PKO Bank Polski SA for many years. In 2006-2010, he was Director of the Audit Department at PKO Bank Polski SA and Chair of the Audit Committee at KREDOBANK SA; then, in 2011-2015, he was Director of the Audit Department at Bank Ochrony Srodowiska SA in Warsaw. In 2006-2007, he was a member of the Supervisory Board of the Financial and Banking Centre in Warsaw. In 2007, he was Chairman of the Supervisory Board of Zakłady Chemiczne Organika Sarzyna in Nowa Sarzyna and of the Monument Preservation and Conservation Workshops. He has lectured at the Academy of Business Activity in Warsaw. He has authored many articles about banking and economics. In 1998-2002, he was a councillor for the County [powiat] of Warsaw. He was Deputy Chairman of the Budget Committee and a member of the Audit Committee. In 2002-2014, he was a councillor for the City of Warsaw, where he was, among other things, Chairman and then Deputy Chairman of the Budget and Finance Commission and a member of the Health Commission. As part of his social activities, he managed the Social Board at the Father Jerzy Popiełuszko Hospital in Warsaw – Bielany. He is a member of the Supervisory Boards of PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA.
FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2019	Operational Risk Committee (Member of the Committee); Strategy Committee (Member of the Committee).

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

On 21 September 2017, he was appointed to the Management Board for the current term of office effective from 1 October 2017.	He has worked for PKO Bank Polski SA since 2011. In 2011-2017 Director of the Application Development and Maintenance Division of PKO Bank Polski SA; from 2011 to 2014, Vice-President of Inteligo Financial Services SA; until 2017 Member of the Supervisory Board of PKO Bank Hipoteczny SA; and currently Chair of the Supervisory Boards of: PKO BP Finat sp. z o.o. and Operator Chmury Krajowej sp. z o.o. Previously, he worked for Pekao SA as the Operating Director of the Electronic Channels Development and Management Office and the Director of the IT Department in the Central Brokerage Office of Pekao SA. He is Chair of the Executive Committee of the Electronic Banking Council of the Polish Bank Association. At the turn of 2015/2016 he co-created the Bankowe Centrum Cyberbezpieczenstwa (Banking Cyber Security Centre). Recipient of many industry awards and titles, including the title of Ambassador for Electronic Economy at the 10th Congress of Electronic Economy, and the CIO Diamond awarded by the jury of the 2015 CIO of the Year competition of IDG Poland SA. He won the special title of "Banking Market Innovator 2015" of Miesięcznik Finansowy BANK and the Nicholas Copernicus Medal awarded by the Polish Bank Association in 2016. He also won the title of "Leader of Digitization of the Banking Sector 2018" granted by Members of the Banking Technologies Forum in 2018 for achievements and projects completed within the PKO Bank Polski SA Group and for the banking sector as a whole. He graduated from the Military Technical Academy in Warsaw and the Warsaw Management University.
FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2019	IT Architecture Committee (Chair of the Committee); Data Quality Committee (Chair of the Committee); Operational Risk Committee (Deputy Chair of the Committee); IT Security Committee (Deputy Chair of the Committee); Risk Committee (Member of the Committee); Transformation Committee (Member of the Committee); Strategy Committee (Member of the Committee).

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

Member of the Management Board since 8 January 2013. On 14 June 2017, he was re-appointed to the Management Board for the current term of office.	He is Vice President of the Management Board of PKO Bank Polski SA in charge of the Risk Management Area, upon the approval of the Polish Financial Supervision Authority granted on 8 January 2013. He graduated from the Faculty of Organization and Management at the Academy of Economics in Wroclaw. He has more than 20 years of experience in banking; since 2000, he has been working as manager, mainly in charge of risk, restructuring and loans. He has worked for international financial groups operating in Europe, the USA and South America. He is a member of supervisory boards, creditors' committees, a member and chairman of key risk management committees. He participated in the development of the strategy of Bank Zachodni WBK SA, was directly responsible for risk management, the optimization of debt collection and restructuring processes, and cooperated with

	the regulators in Poland and abroad. After graduating in 1991, he began his professional career in Bank BPH SA, in the area of loans. In 1992, he started work at Bank Zachodni SA, and then, after the merger with Wielkopolski Bank Kredytowy SA, he worked for BZ WBK SA. In the years 1992-2000 he was employed in the Department of Capital Investments, and then in the years 2000-2005 he was Director of the Department of Credit Quality Control. In the years 2005-2008 he was Director of the Business Intelligence and Risk Management Area, and in the years 2008-2010 – Deputy Chief Risk Officer. From January 2011 he was Chief Credit Officer and from March 2012 also Deputy Chief Risk Officer. Moreover, he was Chairman of the Loan Committee at BZ WBK SA, Deputy Chairman of the Credit Risk Forum, and Deputy Chairman of the Risk Model Forum.
Functions performed in Committees as at 31 December 2019	The Bank's Loan Committee (Chair of the Committee); Operational Risk Committee (Chair of the Committee); Risk Committee (Deputy Chair of the Committee); Assets and Liabilities Management Committee (Member of the Committee); Strategy Committee (Member of the Committee); IT Security Committee (Member of the Committee); Data Quality Committee (Member of the Committee).

Jakub Papierski - Vice-President of the Management Board of the Bank in charge of the Corporate and Investment Banking Area

Member of the Management Board since 22 March 2010. On 14 June 2017, he was re-appointed to the Management Board for the current term of office.	He graduated from the Warsaw School of Economics. He has a Chartered Financial Analyst (CFA) licence. He started his professional career in 1993 in the consulting company Pro-Invest International. From 1995 to 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started work for Deutsche Morgan Grenfell/Deutsche Bank Research, where he was responsible for the banking sector in Central and Eastern Europe. From November 2001 to September 2003, he worked for Bank Pekao SA as Executive Director of the Financial Division, directly supervising the financial and fiscal policy of the bank, management information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Assets and Liabilities Management Committee in the Bank. In October 2003, he was appointed President of the Management Board of Centralny Dom Maklerski Pekao SA. In September 2006, he also took up the position of Deputy Chairman of the Supervisory Board of Pioneer Pekao TFI SA. From May 2009, he was acting President of the Management Board of Allianz Bank Polska SA and in October 2009 he became President of the Management Board. From 2005 to 2009, he was Chairman of the Programme Council of the Capital Market Leader Academy established at the Lesław Paga Foundation and is now a member of the Programme Council. He is a member of the supervisory boards of PKO Bank Hipoteczny SA, PKO Leasing SA, PKO BP BANKOWY PTE SA and KREDOBANK SA.
Functions performed in Committees as at 31 December 2019	The Bank's Loan Committee (Member of the Committee), Assets and Liabilities Management Committee (Member of the Committee); Risk Committee (Member of the Committee); Strategy Committee (Member of the Committee).

Jan Emeryk Rościszewski - Vice-President of the Management Board of the Bank in charge of the Retail Market Area

Member of the Management Board since 18 July 2016. On 14 June 2017, he was re-appointed to the Management Board for the current term of office.	He graduated from the Faculty of Humanities of the Catholic University of Lublin, with an MA in history. He earned a DEA diploma from the Paris Institute of Political Studies (Institut d'Etudes Politiques de Paris) and holds an Executive MBA diploma. He completed various training courses in finance, insurance and management in France, Great Britain and Poland. He also has insurance broker's qualifications. In 1990-1991 he worked in France for AXA Banque and AXA International, and in 1991-1993 for Groupe Azur. From 1993 to 1996, he was a Member of the Management Board of TU Azur Ostoja SA and TUnŻ Azur Życie SA. From 1996 he worked for BNP Paribas. In 1998-2016, he managed – as President of the Management Board – TUnŻ Cardif Polska SA. Simultaneously, in 2001-2016 he held

	the position of Director General of Cardif Assurance Risques Divers in Poland. He also performed the function of Deputy Chair of the Audit Committee of the Polish Chamber of Insurance. He was Chair of the Supervisory Board of Pocztylion-Arka PTE SA (1998-2016), Deputy Chair of the Supervisory Board of Pocztowa Agencja Usług Finansowych SA (2000-2014), member of the Audit Committee of the Polish Chamber of Insurance (2012-2016), member of the Supervisory Board of BBI Development NFI SA (2011-2018), member of the Supervisory Board of PKO Leasing SA (2016-2018), PKO Faktoring SA (2017-2018) and PKO Bank Hipoteczny SA (2017-2019). Currently he is Chair of the Supervisory Board in the following PKO Bank Polski SA Group companies: PKO Towarzystwo Funduszy Inwestycyjnych SA, PKO Towarzystwo Ubezpieczeń SA and PKO Życie Towarzystwo Ubezpieczeń SA. He is Deputy Chair of the Supervisory Board of Bank Pocztowy SA. From 1981 to 1983, he was active in the charity organization of the Primate's Committee for Help to People Deprived of Liberty. He is a Knight of Honour and Devotion of the Sovereign Military Order of Malta, and has held the position of hospitaller of the Polish Association of the Sovereign Military Order of Malta. He is a member of PTHer and a member of the Warsaw Mountaineering Club. He was awarded the Officer's Cross of the Order of Polonia Restituta and Bene Merito of the Ministry of International Affairs for strengthening Poland's position on the international arena. He is author and co-author of historical books and articles on finance and management.
FUNCTIONS PERFORMED IN COMMITTEES AS AT 31 DECEMBER 2019	Risk Committee (Member of the Committee); Strategy Committee (Member of the Committee); The Bank's Loan Committee (Member of the Committee).

CHANGES IN THE COMPOSITION OF THE MANAGEMENT BOARD IN 2019

In 2019 there were no changes in the composition of the Bank's Management Board.

PRINCIPLES OF OPERATIONS OF THE BANK'S MANAGEMENT BOARD

The Management Board makes decisions in the form of resolutions.

In 2019, the Bank's Management Board held 48 meetings and passed 561 resolutions.

Declarations on behalf of the Bank are made by:

- the President of the Management Board acting independently;
- two members of the Management Board acting jointly or one member of the Management Board acting jointly with a proxy;
- two proxies acting jointly;
- attorneys acting independently or jointly, within the framework of the power of attorney granted.

As at 31 December 2019 the Bank had five proxies. No proxy was cancelled or granted in 2019.

COMPETENCIES OF THE BANK'S MANAGEMENT BOARD

In accordance with § 20 section 1 of the Articles of Association of PKO Bank Polski SA, the competencies of the Management Board include all matters related to managing the affairs of PKO Bank Polski SA, including purchase and disposal of real estate, share in real estate or perpetual usufruct, that do not fall within the competencies of the General Shareholders' Meeting or the Supervisory Board, in accordance with the provisions of the generally applicable law or provisions of the Articles of Association of PKO Bank Polski SA.

Taking decisions on incurring liabilities or disposal of assets, the total value of which in respect of one entity exceeds 5% of equity, shall remain within the competencies of the Management Board, unless it is reserved for the General Shareholders' Meeting.

Decisions on the acquisition of the Bank's shares for the purposes of their redemption and determining the value of remuneration for shares redeemed, and on increasing or reducing the Bank's share capital are not within the competencies of the Management Board – they are taken by the General Shareholders' Meeting.

Resolutions of the Management Board are required with respect to all matters exceeding the scope of the Bank's ordinary business. Resolutions of the Management Board are passed by an absolute majority of votes. In the event of an equal number of votes, the President of the Management Board has the casting vote. The Management Board's working procedures and matters that require a Management Board resolution are specified in the Rules of the Management Board. Members of the Management Board participate in managing the activities of the Bank in line with the principles set out in the Rules of the Management Board and the Organizational Rules of the Bank. Members of the

Management Board supervise the areas of activities allocated to them, and take decisions on matters of ordinary management within the areas supervised by them.

COMMITTEES OF THE BANK'S MANAGEMENT BOARD

As at the end of 2019, the following standing committees functioned in the Bank with the participation of Members of the Management Board:

ASSETS AND LIABILITIES MANAGEMENT COMMITTEE OF PKO BANK POLSKI SA

PURPOSE	Managing assets and liabilities by influencing the structure of the balance sheet of PKO Bank Polski SA and its off-balance sheet items in a manner conducive to achieving the optimum financial result.
TASKS	Supporting the Management Board in the following activities of the Bank and its Group: • shaping the structure of the Bank's balance sheet; • capital adequacy management; • managing profitability, taking into account the specific nature of the individual areas of activity and the respective risks; • managing financial risk, including market and liquidity risks, business risk, and credit risk (settlement and pre-settlement risk) of the transaction on the wholesale market.

RISK COMMITTEE

PURPOSE	Setting strategic directions and tasks with respect to banking risk in the context of the Bank's strategy and circumstances arising from the macroeconomic situation and the regulatory environment, analysing periodic reports related to banking risks and developing appropriate guidance based thereon, as well as preparing the banking risk management strategy and its periodic reviews.
TASKS	• Monitoring the integrity, adequacy and effectiveness of the banking risk management system, capital adequacy and allocation of internal capital to individual business lines and implementing the risk management policy pursued as part of the adopted Strategy of the Bank; • analysing and evaluating the utilization of strategic risk limits set in the Banking Risk Management Strategy; • expressing opinions on periodic risk reports submitted for approval to the Supervisory Board and taking into account information from these reports when issuing opinions.

LOAN COMMITTEE OF THE BANK

PURPOSE	Management of credit risk occurring when taking lending decisions or decisions concerning liabilities managed by responsible units of the Bank, as well as management of the risk of incurring losses as a result of taking wrong business decisions on the basis of the credit risk models.
TASKS	• Taking lending decisions concerning the biggest matters of the Bank's Customers, as well as issuing recommendations for the Bank's Management Board in lending matters; • taking decisions in matters concerning restructured receivables; • setting industry limits concerning appetite for portfolio credit risk and exposure concentration risk; • taking decisions concerning the implementation of credit risk models and anti-fraud models in lending processes, in particular with respect to scoring or rating; • taking decisions on the implementation of a model for determining allowances for expected credit losses on financial assets; • accepting reports on the monitoring or review of models and loan portfolio quality, in which credit risk models are used; • accepting monthly and quarterly credit risk reports.

OPERATIONAL RISKS COMMITTEE

PURPOSE	Effective management of operational risk, improving the safety of the Bank's operating activities.
TASKS	• Determining the directions of operational risk management development; • supervising the functioning of operational risk management, including the tasks concerning continuity of the Bank's operations; • coordinating operational risk management;

	• determining measures to be taken in the event of an emergency which exposes the Bank to reputational risk and results in operating losses.
TRANSFORMATION COMMITTEE	
PURPOSE	Ensuring effective transformation of the Bank in accordance with the Bank's accepted development directions, including those that are implemented in the form of projects.
TASKS	• Operational management of the Bank's Strategy, also by creating autonomous project teams; • taking decisions pertaining to the implementation of and changes to strategic programmes and projects, as well as decisions pertaining to material costs and other operating costs; • supervising and monitoring the implementation of strategic programmes and projects, operational projects and projects carried out within the framework of the replacement portfolios, in particular of the status of works, project budgets, financial and non-financial benefits; • initiating activities enhancing the Bank's effectiveness; • managing the annual financial limit for the implementation of projects; • solving disputes within the area of competencies of the Committee, on lower decision-making levels.
STRATEGY COMMITTEE	
PURPOSE	Oversight of the strategic planning process and management of the Bank's strategy.
TASKS	• Managing the activities related to strategy development and implementation; • approving the strategy development schedule and the strategy implementation schedule; • taking key decisions necessary to ensure the implementation of the strategy, including the implementation of strategic initiatives; • solving potential disputes arising when working on individual strategic initiatives.
IT ARCHITECTURE COMMITTEE	
PURPOSE	Development of the IT architecture ensuring the implementation of the Bank's Strategy.
TASKS	• Development of key assumptions of the IT architecture of the Bank (principles); • periodic evaluation of the IT architecture functioning in the Bank; • development of a target architecture model; • initiating activities aimed at implementing the target architecture model.
IT SECURITY COMMITTEE	
PURPOSE	Increasing the effectiveness of supervision and control over the IT system safety in PKO Bank Polski SA (SIB).
TASKS	Issuing recommendations on the SIB safety, in particular related to: • coordination and monitoring of work related to the SIB safety; • setting the directions of the activities of the Bank with respect to SIB safety; • specifying desirable actions, which in the Committee's opinion should be taken in the event of emergency situations which put the Bank's image at risk and cause operating or financial losses in the area of SIB safety; • monitoring the risk related to SIB safety.
DATA QUALITY COMMITTEE	
PURPOSE	Setting strategic directions of the activities relating to data quality management and data architecture in the Bank in the context of the Data Management System (DMS), oversight of its functioning and assessment of its effectiveness and the activities undertaken by the individual organizational units of the Bank.
TASKS	Taking decisions on data management in the Bank, including in particular decisions pertaining to: • DMS development directions; • recommendations to organizational units of the Bank regarding data management activities; • detailed data management solutions; • assessing the effectiveness of the operations of the DMS, determining priority measures as part of the DMS, and drawing up periodical action plans; • allocation of the ownership of data groups; • solving disputes pertaining to the DMS at the request of the Committee members;

- approving – in cases justified especially by the need to ensure the continuity of the Bank's operations – deviations from data quality criteria and rules as well as data quality solutions standards.

In addition to the aforementioned functions, Members of the Bank's Management Board were also members of non-standing committees, including steering committees established within the framework of projects being implemented.

10.3 Shares of PKO Bank Polski SA held by the Bank's authorities

The table below presents the shares in the Bank held by Members of the Management Board as at 31 December 2019. The nominal value of each share is PLN 1.

Tabela 21. Shares of PKO Bank Polski SA held by the Bank's authorities

No.	Name and surname	Number of shares as at 31.12.2019	Purchase	Disposal	Number of shares as at 31.12.2018
	Management Board of the Bank				
1.	Zbigniew Jagiełło, President of the Management Board	11,000	0	0	11,000
2.	Rafał Antczak, Vice President of the Management Board	0	0	0	0
3.	Rafał Kozłowski, Vice President of the Management Board	0	0	0	0
4.	Maks Kraczkowski,Vice President of the Management Board	0	0	0	0
5.	Mieczysław Król, Vice President of the Management Board	5,000	0	0	5,000
6.	Adam Marciniak, Vice President of the Management Board	0	0	0	0
7.	Piotr Mazur, Vice President of the Management Board	4,500	0	0	4,500
8.	Jakub Papierski, Vice President of the Management Board	3,000	0	0	3,000
9.	Jan Emeryk Rościszewski, Vice President of the Management Board	0	0	0	0

As at 31 December 2019 and at 31 December 2018, Members of the Supervisory Board of PKO Bank Polski SA did not hold any shares in PKO Bank Polski SA or in related companies of PKO Bank Polski SA, understood as its subsidiaries, joint ventures and associated companies.

The Bank is not aware of any agreements concluded in 2019, based on which any changes could occur in the future in the proportions of the shares held by the current shareholders or bond holders.

10.4 Diversity policy

Diversity management in the Bank pertains to all its employees, authorities and key managers. Diversity-related activities relate to many aspects of the activities of the Bank's Group, and their aim is to ensure respect for other people, equal treatment and the utilization of employee potential. Once a year, these initiatives are presented to the Supervisory Board and the Management Board of the Bank.

Diversity means that people are important irrespective of their gender, age, health, sexual orientation, religion, marital status or country of origin.

Rules of ethics, counteracting discrimination and mobbing

The Bank's Code of Ethics and Work Rules include provisions pertaining to, among other things, counteracting discrimination due to gender, age, disability, race, religion, nationality, political views, trade union membership, ethnic origin, sexual orientation or due to employment for a fixed or indefinite period or on a full-time or part-time basis.

Recruitment standards consistent with the EU Employment Equality Directive

When carrying out recruitment projects, the Bank's Group complies with provisions on equal treatment in employment and occupation. Processes related to candidate selection are based on objective grounds, and their subsequent stages are carried out in compliance with the agreed procedures and rules.

JOB VALUATION BASED ON OBJECTIVE CRITERIA

The essence of the job valuation process in the Bank's Group is the job valuation based on substantial criteria, which prevents discrimination.

REGULATIONS ON ADJUSTING WORKSTATIONS TO THE NEEDS OF PERSONS WITH DISABILITIES

Principles for the implementation of occupational health and safety tasks, as well as technology and technical solution standards require taking the steps necessary to adjust workstations to the needs of persons with disabilities.

INTERNSHIP PROGRAMME

The Bank's Group employs and provides development opportunities for pupils, students and graduates of secondary schools and universities with various profiles.

COMPETENCE MODEL AND EMPLOYEE APPRAISAL SYSTEM BASED ON COMPETENCIES AND PERFORMANCE

Employee appraisals are carried out on an annual basis, based on a competence model including general corporate, leadership and specific competencies. As part of the periodic appraisal system, every employee together with his/her superior agrees on an individual development plan during the periodic interview.

DIVERSITY POLICY WITH RESPECT TO MANAGERS AND SUPERVISORS AS AT 31 DECEMBER 2019

[GRI 405-1] Diversity management also pertains to members of the Supervisory Board and the Management Board of PKO Bank Polski SA and key managers. Managers and supervisors are persons of different gender, age and experience.

Table 22. Diversity according to gender, age and experience

Gender	Women	Men
Supervisory Board	2	9
Management Board	-	9
Key management	119	187

Age	30-40 years	41-50 years	51-60 years	above 60 years
Supervisory Board	1	2	3	5
Management Board	-	5	3	1
Key management	61	176	62	7

Years of service in PKO Bank Polski SA	up to 5 years	5-10 years	10-15 years	15-20 years	above 20 years
Supervisory Board	10	1	-	-	-
Management Board	6	2	1	-	-
Key management	61	102	49	41	53

The Bank also introduced provisions which set the directions for selecting, appointing and planning succession, including staff resources and assessing the appropriateness of the Management Board members and persons holding the key functions at the Bank. These persons are assessed in terms of their competencies, knowledge and skills, experience adequate to the position and reputation understood as sufficiently unblemished opinion, honesty and ethical behaviour. As a result of the regulations implemented, the Supervisory Board makes decisions on the selection and assessment of the Management Board Members and the Management Board Members make decisions on the selection and assessment of the MRT (Material Risk Takers). The Supervisory Board monitors the effectiveness of the Policy applied and, if appropriate, makes changes taking into account the recommendations of the Committee for Nominations and Remuneration.

11. OTHER INFORMATION

Acquisition and disposal of treasury shares
Information about activities of the Bank's Group by EU member states and third countries
Published forecasts of financial results for 2019
Employee share plan
Significant agreements and material agreements with the central bank or supervisory authorities
Issues of securities of PKO Bank Polski SA in 2019
Underwriting agreements and guarantees granted to subsidiaries
Information on proceedings at court, before an arbitration tribunal or a public administration body
Value of collateral set up on accounts or assets of the borrowers
Loans incurred and loan, guarantee and surety agreements
Financial and guarantee liabilities granted
Information on transaction(s) with related parties concluded by the Issuer or its subsidiary, if material, individually or jointly, and on terms other than on an arm's length basis
Seasonality or cyclicality of activities in the reporting period
Significant post-balance sheet events

ACQUISITION AND DISPOSAL OF TREASURY SHARES

PKO Bank Polski SA did not acquire own shares on its own account and did not dispose any such shares.

INFORMATION REQUIRED BASED ON ARTICLE 111A OF THE BANKING LAW

Table 23. Activities of the Bank's Group by EU member states and third countries[31] (in PLN million)

	Turnover (revenue)*	Profit/(loss) before tax	Income tax	Profit/(loss) after tax	Number of employees in FTE**
In the EU Member States					
- Poland	17,974	5,987	-1,465	4,522	25,431
- the Czech Republic	8	1	0	1	8
- Germany	7	-5	0	-5	5
- Sweden	195	1	0	0	0
- Irleland	28	0	0	0	0
In third countries:					
- Ukraine	452	101	-18	83	1,936

*turnover (revenues) defined as the sum of interest income, fee and commission income and other operating income.

**Information on the number of employees is provided according to the guidance published by the Central Statistical Office in 2008 in "Methodical principles of labour market and salary statistics". Number of employees is calculated based on employment contracts, excluding employees on child care leave and unpaid leave granted for periods longer than 3 months continuously.

PKO Bank Polski SA and subsidiaries of the Bank, on a consolidated basis, within the meaning of Article 4(1)(48) of Regulation no. 575/2013 of the European Parliament and of the Council, have their registered offices in the territory of Poland (where they mainly conduct the following activities: banking, asset management, investment and pension fund management, leasing and factoring, and provide brokerage and transfer agent services), Ukraine (banking and debt collection activities), Sweden (leasing and raising funds from bond issues) and Ireland (securitization of lease receivables). PKO Bank Polski SA also provides services through its branches in the Czech Republic and Germany.

[31] The table presents data in accordance with prudential consolidation, covers only subsidiaries which meet the definition of an institution, a financial institution or an ancillary services undertaking.

In 2019 PKO Bank Polski SA did not sign any agreements mentioned in Article 141t section 1 of the Banking Law, i.e. financial support agreements with entities which are subject to consolidated supervision, which operate within the same holding, or with closely related entities.

Rates of return on assets of the Bank's Group and the Bank are presented in table no. 3 and table no. 6, respectively.

PUBLISHED FORECASTS OF FINANCIAL RESULTS FOR 2019

PKO Bank Polski SA did not publish any forecasts of its financial results for 2019.

EMPLOYEE SHARE PLAN

No employee share plan is in place at PKO Bank Polski SA.

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

PKO Bank Polski SA is obliged to inform in the current reports about all agreements meeting the definition of confidential information provided in Regulation (EU) no. 596/2014 of the European Parliament and of the Council on market abuse. The Bank did not sign any agreements meeting the definition of confidential information in 2019 and therefore it did not publish any information on such agreements.

In 2019, the Bank did not conclude any material agreements with the Central Bank or with the supervisory authorities. The Bank is not aware of the fact of signing or of the content of any agreements between its shareholders that are in force in 2019.

In 2019, the subsidiaries of PKO Bank Polski SA did not conclude any significant agreements or any material agreements with the Central Bank or with the supervisory authorities.

ISSUES OF SECURITIES OF PKO BANK POLSKI SA IN 2019

In 2019, as part of the Bond Issue Programme, PKO Bank Polski SA issued 6 000 bonds with a total nominal value of PLN 600 million. In accordance with the terms and conditions of the Programme, the funds obtained from the issue were used for the general purposes of financing the Bank. All bonds issued as part of the above-mentioned Programme, including those issued in 2018, were redeemed by the end of the year 2019. As at 31 December 2019, the Bank had no liabilities resulting from the issue of bonds as part of the said Programme.

UNDERWRITING AGREEMENTS AND GUARANTEES GRANTED TO SUBSIDIARIES

On 30 August 2017, PKO Bank Hipoteczny SA concluded an agreement with PKO Bank Polski SA amending the agreement signed on 9 November 2015 on the National Mortgage Covered Bond Issue Programme. In accordance with the amending agreement, PKO Bank Polski SA Brokerage Office (BP Brokerage Office) has the role of underwriter (until August 2017, the aforementioned mortgage covered bonds were offered as standard issue bonds). In 2019, PKO Bank Hipoteczny SA as part of the firm commitment underwriting by the BP Brokerage Office issued mortgage covered bonds (at nominal value) with a total value of PLN 500 million. The aggregate nominal value of all mortgage covered bonds issued as part of the above-mentioned firm commitment underwriting was PLN 2 590 million. The BP Brokerage Office portfolio as at 31 December 2019 contained mortgage covered bonds with a total nominal value of PLN 47 million.

As at 31 December 2019, issues of bonds of PKO Bank Hipoteczny SA under the Non-Public Short-Term Bond Issue Programme were governed by the Agreement on the Bond Issue Programme of 30 September 2015, signed with PKO Bank Polski SA, pursuant to which the maximum value of bonds issued and not redeemed based on the programme is PLN 3.5 billion, and the Guarantee Agreement of 30 September 2015, pursuant to which PKO Bank Polski SA is the underwriter of the bonds issue up to a total value of PLN 2 billion. The aforementioned agreements were extended for another 4 years on 30 September 2019. At the same time, PKO Bank Hipoteczny SA signed the Issue Agent Agreement with the BP Brokerage Office on 18 July 2019 and the Dealer Agreement with PKO Bank Polski SA on 18 December 2019.

The company's liability in respect of the bonds issued as part of the aforementioned programme as at the end of December 2019 (in nominal terms) amounted to PLN 3.4 billion The PKO Bank Polski SA portfolio did not contain any bonds issued as part of the aforementioned programme.

On 31 May 2019, PKO Bank Hipoteczny SA signed the Programme Agreement concerning the Public Bond Issue Programme (the National Bond Issue Programme) launched on 11 April 2019 with PKO Bank Polski SA and the BP

Brokerage Office. PKO Bank Polski SA acts as the arranger and calculation agent, and the BP Brokerage Office acts as the offeror and underwriter. In 2019, PKO Bank Hipoteczny SA as part of the firm commitment underwriting by the BP Brokerage Office issued bonds (at nominal value) with a total value of PLN 161.5 million. The BP Brokerage Office portfolio as at the end of 2019 contained bonds with a total nominal value of PLN 10 million.

In 2019, PKO Bank Polski SA granted the following guarantees relating to the business activities and operation of subsidiaries:[32]

- a guarantee in respect of a loan granted to PKO Leasing SA (for the period to June 2024);
- a performance bond in respect of the performance by PKO BP Finat sp. z o.o. of a maintenance and service agreement for the Employee Capital Plan Records (for the period to January 2023);
- a guarantee securing the liability of PKO BP Finat sp. z o.o. resulting from a cooperation agreement for distribution, activation and marketing of prepaid products (for the period to the end of March 2020);
- five guarantees in respect of the repayment of office and parking space rental liabilities by the subsidiaries (to the end of September 2024 at the latest).

PKO Bank Polski SA has also issued the guarantee for Google Ireland – concerning the strategic partnership agreement concluded with entitity Operator Chmury Krajowej sp. z o.o. (for the period to December 2026).

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

On 31 December 2019, the total amount in litigation (suits) in progress where the PKO Bank Polski SA Group companies (including the Bank) are defendants was PLN 1 194 million (as at 31 December 2018 the total amount of the said litigation was PLN 1 784 million), and the total amount of litigation (suits) in progress as at 31 December 2019 where the PKO Bank Polski SA Group companies (including the Bank) are plaintiffs was PLN 2 527 million (as at 31 December 2018, the total amount under the said litigation was PLN 1 838 million).

In 2019 the Bank and the other entities of the Bank's Group were not parties to any material[33] (from the perspective of the Bank's Group) proceedings in court, before an arbitration tribunal or public administration body with respect to liabilities or receivables.

A description of the most significant disputes is presented in note 44 to the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2019.

VALUE OF COLLATERAL SET UP ON ACCOUNTS OR ASSETS OF THE BORROWERS

At the end of 2019, the value of collateral set up on accounts or assets of the borrowers as part of the PKO Bank Polski SA Group was PLN 322 billion. The aforementioned amount concerns loan agreements, leases and loans.

LOANS INCURRED AND LOAN, GUARANTEE AND SURETY AGREEMENTS

In 2019 PKO Bank Polski SA did not receive any loans from international financial organizations or from other banks. Other Group entities received loans from such third parties in 2019 totalling PLN 516 million.[34]

In 2019, the PKO Bank Polski SA Group did not incur any loans or advances, and did not receive any guarantees or sureties that would not be related to operating activities.

FINANCIAL AND GUARANTEE LIABILITIES GRANTED

As at 31 December 2019, financial and guarantee liabilities amounted to PLN 66.9 billion, of which 83% were financial liabilities. The overall dynamics of financial and guarantee liabilities granted was 11.8% y/y, mainly as a result of an increase in business credit lines and limits and consumer credit lines and limits.

[32] The information covers the guarantees which were active as at 31 December 2019.
[33] Liabilities or receivables are considered material if their value represents at least 5% of PKO Bank Polski SA's equity.
[34] This value does not take account of loans within the Bank's Group.

Table 24. Off-balance sheet liabilities granted (in PLN millions)

	31/12/2019	31/12/2018	Change (in PLN million)	Change (%)
Financial liabilities granted:	**55,368**	**49,877**	**5,491**	**11.0%**
Housing credit lines and overdrafts	3,329	4,275	-946	-22.1%
Corporate credit lines and overdrafts	38,265	32,618	5,647	17.3%
Consumer credit lines and overdrafts	9,766	8,974	792	8.8%
Other	4,008	4,010	-2	-
including: irrevocable	*22,756*	*23,378*	*-622*	*-2.7%*
Guarantees granted:	**11,510**	**9,935**	**1,575**	**15.9%**
financial entities	630	437	193	44.2%
non-financial entities	10,620	9,295	1,325	14.3%
state budget entities	260	203	57	28.1%
Total	**66,878**	**59,812**	**7,066**	**11.8%**

INFORMATION ON TRANSACTION(S) WITH RELATED PARTIES CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY, IF MATERIAL, INDIVIDUALLY OR JOINTLY, AND ON TERMS OTHER THAN ON AN ARM'S LENGTH BASIS

In 2019, PKO Bank Polski SA provided services on market terms to its related (subordinated) entities, including maintaining bank accounts, accepting deposits, granting loans and advances, issue of debt securities, granting of guarantees and spot exchange transactions and offering participation units and certificates of investment funds, lease products, factoring products and insurance products of the Bank Group companies, and services offered by the Brokerage Office of PKO Bank Polski SA.

The Bank provided services to PKO Bank Hipoteczny SA within the scope of intermediation in sales of housing loans for individuals, performing tasks as part of post-transaction services in respect of these loans and support tasks under the outsourcing agreement. The Bank offered its infrastructure and IT services and rented office space to selected Bank's Group companies. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o., the Bank rendered services of payment transaction clearance.

Information on significant transactions between PKO Bank Polski SA and its subordinated entities, including indebtedness of these companies towards the Bank as at 31 December 2019, is presented in the separate financial statements of PKO Bank Polski SA for the financial year ended 31 December 2019 (Note 44).

In 2019, the subsidiaries of PKO Bank Polski SA did not conclude any material transactions with related parties on conditions other than arm's length.

SEASONALITY OR CYCLICALITY OF ACTIVITIES IN THE REPORTING PERIOD

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

SIGNIFICANT POST-BALANCE SHEET EVENTS

After the date the PKO Bank Polski SA Group Directors' Report for 2019 was prepared, no substantial events took place, including those that could have a significant impact on future financial results.

12. STATEMENT ON THE NON-FINANCIAL INFORMATION

12.1 INTRODUCTION

[GRI 102-1] The PKO Bank Polski SA Group (the Bank's Group)[35] and PKO Bank Polski SA (the Bank) present their second[36] Statement on the non-financial information, which this year forms a separate part of the Directors' Report. [GRI 102-50] The Statement presents the operations of the PKO Bank Polski SA Group in the period from 1 January 2019 to 31 December 2019. [GRI 102-51] The previous Statement was prepared for the year 2018. [GRI 102-52] The Bank's Group publishes such statements annually. [GRI 102-54] The Statement has been prepared in accordance with the GRI Standards: Core option and in accordance with the non-financial reporting requirements defined in the provisions of the Accounting Act. Both the Bank's Group and the parent entity, namely PKO Bank Polski SA (the Bank) satisfy the criteria of an entity that is required to draw up the Statement. The individual issues have been presented in the Statement with regard to the Group, with the Bank highlighted. [GRI 102-10 , GRI 102-49] The reporting standard was changed in the statement for 2019 from the Non-Financial Information Standard (SIN) to GRI Standards.

[GRI 102-56] The Statement on non-financial information for 2019 is not subject to an external audit.

[GRI 102-48] The Statement does not contain any adjustments of information from the previous reports.

[GRI 102-42, GRI 102-46] The preparation of the Statement was preceded by an analysis of the materiality of the issues specified in the Accounting Act. In the first stage, the analysis of materiality conducted in the autumn of 2019 was based on a review of the stakeholder groups of the Bank's Group, including the Bank, defined to date, and the areas of the interactions between the Group entities and the environment. In the second stage, the scope of management of the areas encompassed by the Statement was analysed and the policies in place at the Bank and all of the Group's subsidiaries were reviewed. The following tools were used in the study of materiality:

- in-depth interviews with representatives of the Headquarters' organizational units in the individual areas;
- analysis of the database of minutes of meetings with investors in terms of raising social and environmental issues of importance to them;
- the Bank sending enquiries to the subsidiaries to supplement knowledge;
- a review of the internal and external regulations (generally applicable provisions of the law).

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

[35] At the end of 2019, the PKO Bank Polski SA Group comprised the parent entity, i.e. PKO Bank Polski SA, 13 direct subsidiaries and indirect subsidiaries.

[36] In the first year of non-financial reporting a separate report on non-financial information was prepared.

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

Significant stakeholder groups[GRI 102-40]	**Key non-financial issues**[GRI 102-47]
1) Customers 2) Employees 3) Social environment, including local communities 4) Shareholders	**Management** 1) Ethics 2) Information policy 3) Internal control system **Environmental** 4) Extended environmental responsibility **Social and employment** 5) Product and consumer safety 6) Marketing communications 7) Protection of privacy 8) Counteracting corruption 9) Human rights 10) Local communities and social involvement 11) Employment, salaries and diversity 12) Relations with the employees 13) Occupational safety and health 14) Development and education 15) Collaboration with public entities 16) Relationships with subcontractors and suppliers

12.2 ORGANIZATIONAL PROFILE

PKO Bank Polski SA was established in 1919. The Bank has 13 direct subsidiaries, in which it holds 100% of the shares.[37] [GRI 102-2] The Bank is a universal bank providing deposit and lending services to individuals and legal entities. Through its subsidiaries, the Bank's Group offers, among other things, mortgage loans, specialist financial services including leasing, factoring, investment funds, pension funds and insurance, fleet management services, transfer agent services, provides technological solutions and manages real estate. It also conducts banking operations and provides debt collection and financial services in Ukraine. [GRI 102-3] The Bank's head office is located in Warsaw. [GRI 102-4, 102-6] The Bank's Group operates in the territory of the Republic of Poland. Moreover, through its subsidiaries it operates in the territory of Ukraine, Sweden and Ireland. It also operates through branches in the Federal Republic of Germany and the Czech Republic. [GRI 102-5] The Bank is a joint-stock company entered into the National Court Register under number KRS 0000026438. The Bank has been listed on the Warsaw Stock Exchange since 2004. The significant shareholders holding more than 5% of the share capital are: the State Treasury and the open pension funds Aviva and Nationale Nederlanden. [GRI 102-7] The Bank offers its services through a network of 1 115 branches

[37] i.e. shares or in the case of investment funds – investment certificates

and 538 agencies in Poland to 10.9 million of retail Customers and 15.8 thousand of corporate Customers. [GRI 102-8] The Bank's Group provides jobs to 28 thousand people.

[GRI 102-9] The Bank's Group cooperates with business partners as a buyer of goods and services and a principal for agency and outsourcing services. As part of its charitable and sponsorship activities, it cooperates with various public benefit organizations.

[GRI 102-13] The Bank is a member of many organizations both branch and regional (e.g. the Polish Bank Association (Związek Banków Polskich), Biuro Informacji Kredytowej SA, NATO Industry Cyber Partnership) and many business organizations such as chambers of commerce and business associations (e.g. Polish Association of Listed Companies (Stowarzyszenie Emitentów Giełdowych), Association of Entrepreneurs and Employers (Związek Przedsiębiorców i Pracodawców), Federation of Polish Entrepreneurs (Federacja Przedsiębiorców Polskich)).

12.3 MANAGEMENT MATTERS

12.3.1 DESCRIPTION OF THE BUSINESS MODEL AND DIRECTIONS OF STRATEGIC DEVELOPMENT

Business model
Development strategy
Non-financial areas of operations
Key non-financial performance indicators

BUSINESS MODEL

MARKET POSITION OF THE BANK AND OF THE BANK'S GROUP

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

PKO Bank Polski SA was the only Polish company on the FTSE Russell index of large companies in the developed markets, and the results of the European stress tests confirmed that PKO Bank Polski SA is the safest bank in Europe.

At the end of 2019, the Bank was the largest company listed on the Warsaw Stock Exchange (WSE) and its value during the last session exceeded PLN 43 billion.

In 2019, the Bank took a number of actions aimed at improving the quality of non-financial reporting, which resulted in an improvement in ESG ratings.

- In August 2019, FTSE Russell increased the rating from 1.6 to 3.3 on a 1 to 5 (the highest score) scale.
- In August 2019, Sustainalytics decreased the ESG risk assessment from 32.9 to 24.0 (on a 0 to 100 scale), which indicates a drop from high to medium.
- In September 2019, MSCI increased the rating from BB to BBB.

PLN 348 billion
assets of the PKO Bank Polski SA Group as at the end of 2019

17.9%
market share of the PKO Bank Polski SA and PKO Bank Hipoteczny loans as at the end of 2019

1 653
number of branches and agencies of PKO Bank Polski SA at the end of 2019

PLN 43.1 billion
market value of PKO Bank Polski SA at the end of 2019

10.9 million
Customers of PKO Bank Polski SA at the end of 2019

27.7 thousand
employees of the PKO Bank Polski SA Group at the end of 2019[38]

BUSINESS SEGMENTS

The Bank's Group conducts its business activities in the retail segment as well as in the corporate and investment segments.

10.9 million [31.12.2019]
number of Bank Customers in the retail segment

PLN 179 billion
volume of amounts due from the Group's Customers in the retail segment

PLN 263 billion
volume of savings of the Bank's Group in the retail segment

15.8 thousand
number of Bank Customers in the corporate and investment segment

PLN 74 billion
volume of amounts due from the Group's Customers in the corporate and investment segment

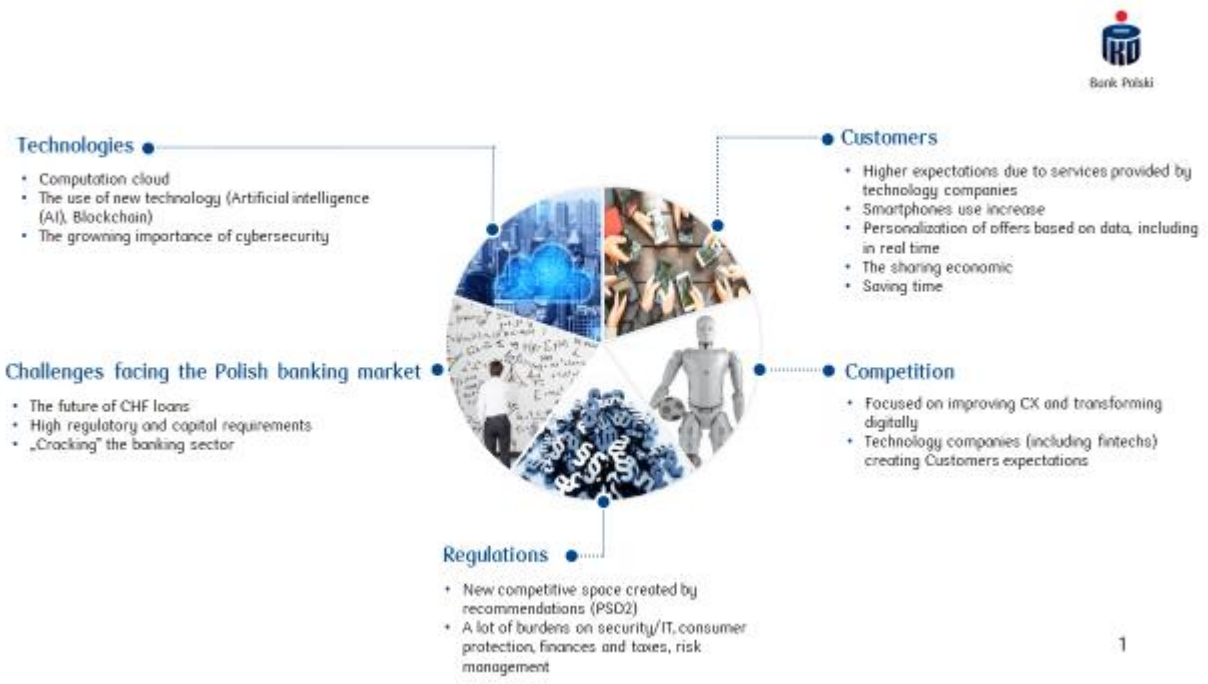
PLN 50 billion
volume of deposits of the Bank's Group in the corporate and investment segment

DEVELOPMENT STRATEGY

PKO Bank Polski SA identifies long-term challenges for the banking sector which affect the operating directions of the Bank and the Bank's Group.

[38] By FTEs

Figure 1 Challenges facing the banking sector

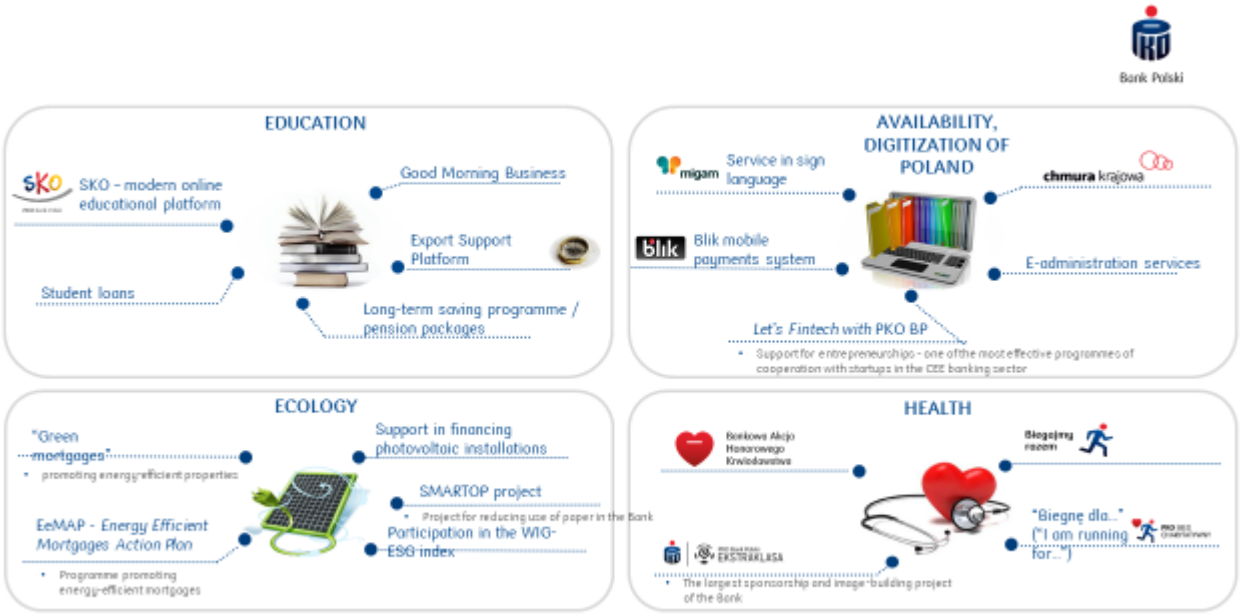


NON-FINANCIAL AREAS OF OPERATIONS

In its operations, PKO Bank Polski SA follows the principle of social responsibility and takes into account the impact of its actions on the shareholders, suppliers, employees and the general public. The principles followed by PKO Bank Polski in the non-financial areas of its operations are as follows:

1. the environment:
   - ✓ it is aware of the challenges resulting from climate changes;
   - ✓ it gradually eliminates the activities that are harmful for the environment;
   - ✓ it supports environmental education;
2. the society:
   - ✓ it follows the principle of social responsibility;
   - ✓ it takes into account the impact of its actions on the general public, the Customers, suppliers, employees and shareholders;
3. corporate governance:
   - ✓ it improves corporate governance;
   - ✓ it ensures transparent principles of management.

To date, the actions presented below have supported sustainable development of the Bank. Most of them are long-term.



KEY NON-FINANCIAL PERFORMANCE INDICATORS

In the process of implementing Strategy 2016-2020, the Bank's Management Board monitored a number of key performance indicators (KPI).

The list of selected non-financial KPI by area (innovations, employment, environment) monitored as part of the Strategy 2016-2020 is presented below.

KPI	Definition	Unit	2019	2018	2017
Innovations					
Share of active individual digital Customers	Percentage of Customers who logged in to remote channels within a specified time	%	52.4	49.8	46.5
Sales in remote channels	Share of sales in remote channels (MSP)	%	14.0	20.4	15.1
Electronization of products	Range of CMGT products (cash management products) not supported comprehensively in electronic channels	pcs.	4	4	9
Increase in the transaction rate of iPKO biznes	Share of the number of transfers made by corporate Customers through iPKO biznes in the total number of transfers made through electronic banking systems	%	96	98	96
Number of innovations implemented	Number of innovative solutions implemented for use by business projects	pcs.	10	6	2
Employment					
Number of employees in the network of branches	Number of employees in branches	FTEs	12 820	13 525	13 981
Level of commitment of the employees	Level of commitment on a scale of 0-100	pt.	70.6	no data	64
Fluctuation index	Percentage of workers who left the Bank during the year under review (all types of initiatives for leaving)	%	14.1	15.7	15.7

Employee resignations	Fluctuation index taking into account employee resignations, excluding retirement or disability pension	%	7.8	8.6	7.7
Average time for recruiting an employee	Time measured from the moment of the employer's formal requirement of the employee to the moment of acceptance of the proposed terms of employment	days	42.1	34.8	30.8
Sick leave index	Percentage of working days in which employees were on sick leave	%	6.2	6.1	6.5
Environment					
Optimizing of printing costs	Scale of the decline in the cost of printouts in the period	%	7.1	5.9	4.7
Reducing the number of paper documents	Reducing the number of paper documents in optimized processes	%	no data	8.0	no data

In connection with the announcement at the end of 2019 of the updated strategy "PKO Bank of the Future. We support the development of Poland and the Poles" for 2020-2022, the Bank is preparing new non-financial key performance indicators.

RESPONSIBILITY IN THE SUPPLY CHAIN

Entities[39] belonging to the Bank's Group apply the principles of social responsibility in the supply chain by managing relations with non-related entities in the following manner:

- they abide by the principles of fair competition;
- they regularly settle their liabilities, thus ensuring liquidity in the supply chain;
- as part of the procurement policy, at the stage of the letter of inquiry they oblige the suppliers to follow the principles of social and environmental responsibility;
- they support diversity in the policy of employment and cooperation with non-related entities.

12.3.2 CORPORATE GOVERNANCE

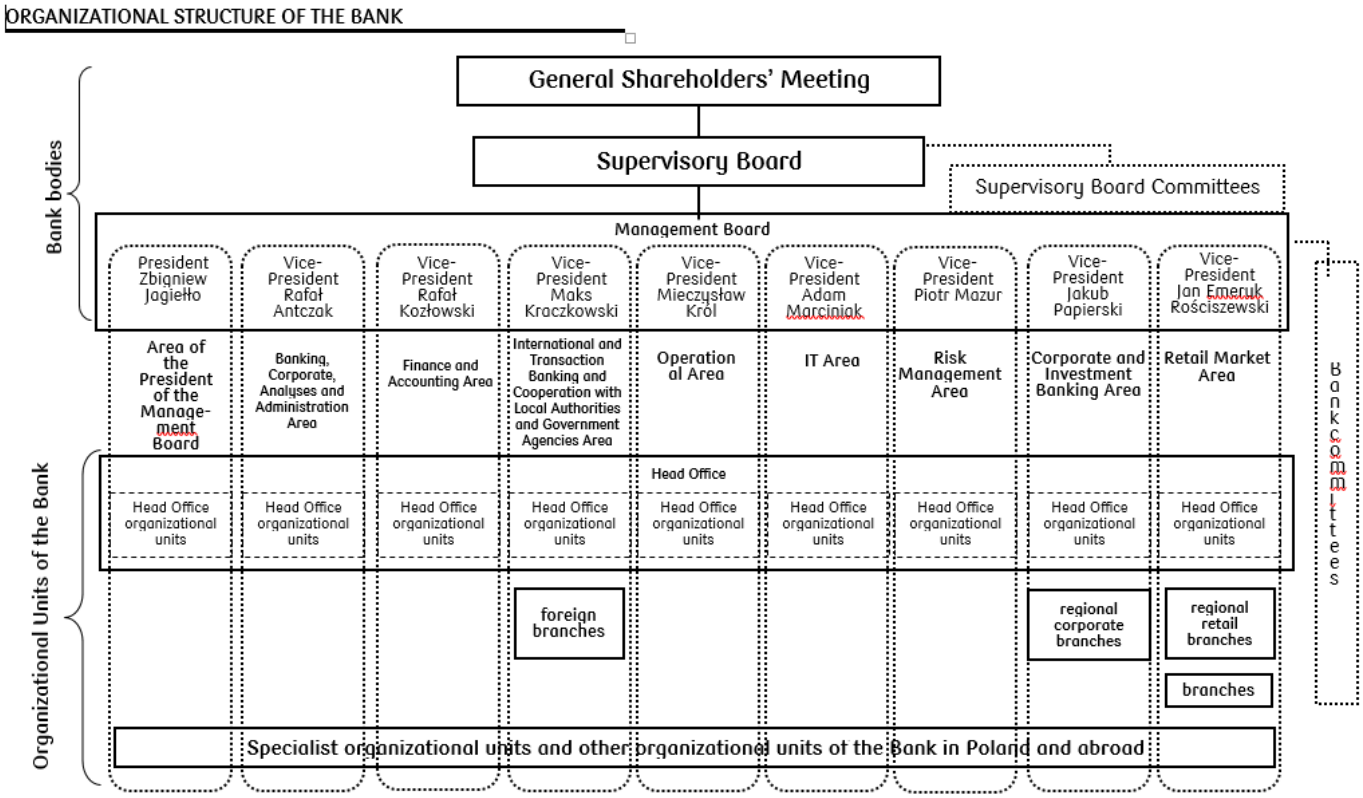
Management structure
Shareholders
Internal control system
Increased standards of corporate governance
Information policy
Investors' interest in social and environmental issues

MANAGEMENT STRUCTURE

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

[39]In this Statement, the entities belonging to the Bank's Group should be construed as PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA (direct and indirect) in accordance with the International Financial Reporting Standards. The remaining/other entities from the Bank's Group should be construed as entities other than PKO Bank Polski SA belonging to the PKO Bank Polski SA Group.

The PKO Bank Polski SA management structure (31.12.2019) [GRI 102-18]



Management of social and environmental issues of the Bank and the Bank's Group is dispersed over different organizational units; activities in this respect at the Bank are performed by the substantively competent organizational units in all nine business areas.

A new organizational unit was set up in the Finance Area in 2019 – the Group Integrated Reporting Office, whose tasks include collecting, analysing and disclosing information on social and environmental topics. This means that the environmental and social issues gained recognition in the management structure of the Bank.

ARTICLES OF ASSOCIATION OF THE BANK AND OF THE GROUP ENTITIES

In accordance with § 1 of the Articles of Association, the Bank conducts operations in compliance with the applicable laws and the Bank's Articles of Association in accordance with market standards adopted by the Bank, with due regard to its national character.

In accordance with the Bank's Articles of Association, all shares of the Bank carry the same rights and obligations. No shares are preference shares, in particular with respect to voting rights or dividend. The Articles of Association restrict the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting (§ 10 of the Articles of Association). This restriction does not apply to the State Treasury and the shareholders acting jointly with the State Treasury (§ 10 section 6 of the Articles of Association).

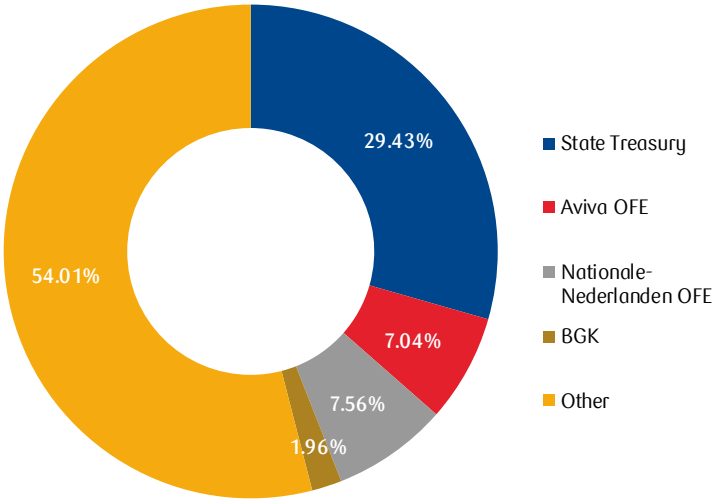
In accordance with the provisions of the Articles of Association of the Bank relating to the powers of the Bank's authorities and the principles of management of fixed assets, some of the Bank's operations are subject to special control by the Supervisory Board. Accordingly, the Supervisory Board's approval is required e.g. for signing agreements for legal, marketing, public relations and social communication or management consulting services on behalf of the Bank if the fees for such services exceed a certain amount or if the maximum fee is not specified (§ 15 section 1.11 of the Articles of Association).

The Articles of Association of entities belonging to the Bank's Group are based on the relevant generally applicable laws. The Articles of Association of direct subsidiaries are standardized in accordance with the Bank's recommendations taking into account the specific nature of the operations of a given entity.

SHAREHOLDERS

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

Shareholding structure of PKO Bank Polski SA (31.12.2019)



According to the Act on the principles of managing State property, the shares of PKO Bank Polski SA belonging to the State Treasury cannot be sold (with some exceptions regulated by the said Act).

Due to the fact that the share of the State Treasury in the capital structure of the Bank remains significant and due to the restrictions in the number of voting rights exercisable by the other shareholders, the Bank incurs a risk of being perceived as a state-owned institution, which could be associated with a risk of the unequal treatment of shareholders. In the Bank's opinion, the risk of the unequal treatment of shareholders is eliminated by a number of management and structural principles and policies adopted by the Bank and other entities of the Bank's Group. Such risk is mitigated not only by strict compliance with the statutory obligation to treat all shareholders equally, but also by applying higher standards, good practices and policies. Their purpose is to ensure full transparency and observe the principles of clear and equal access to information for all shareholders, irrespective of their interest in the capital.

The Group consists of 13 direct subsidiaries fully controlled by the Bank (Chapter 6.1).

INTERNAL CONTROL SYSTEM

PKO Bank Polski SA operates an internal control system that covers all operations of the Bank and is adapted to the scale and nature of these operations and to the regulatory and social environment in which the Bank operates.

The internal control system comprises:

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

The control function ensures compliance with control mechanisms and covers all organizational units of the Bank and the functions therein responsible for performing those tasks.

The compliance unit is an organizationally separate, independent unit playing a key role in ensuring compliance and the managing of compliance risk defined as a risk of suffering legal sanctions incurring financial losses or loss of reputation as a result of incompliance with the provisions of the law and the market standards adopted by the Bank.

Internal audit is an independent and objective assurance and advisory function which performs systematic and organized assessments of the individual areas of the Bank's operations and suggests what steps should be undertaken to increase the quality and effectiveness of its operations.

Information on irregularities revealed, results of risk assessments and the adequacy and effectiveness of control mechanisms, as well as other significant issues identified by the individual components of the internal control system are presented in periodic reports addressed to the Bank's Management Board, the Supervisory Board and the Audit Committee of the Supervisory Board.

Other entities belonging to the Bank's Group have internal control systems adapted to the specific nature of their operations. These entities set and implement internal regulations after obtaining an opinion of the Bank and especially taking into account the Bank's recommendations and the provisions of the law.

INCREASED STANDARDS OF CORPORATE GOVERNANCE

The entities of the Bank's Group are subordinated to standard audit procedures. In addition, together with the Bank, they adopted other, higher standards of corporate governance.

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

In the past three years, the Bank has not violated any of the principles set out in the "Code of Best Practice for WSE Listed Companies 2016".

Furthermore, the Bank and other companies from the Bank's Group which are subject to the supervision of the Polish Financial Supervision Authority (PFSA) adopted the "Principles of corporate governance for supervised institutions (with a few exceptions), issued by this supervisory authority. Some entities from the Bank's Group adopted higher standards in their operations by adopting the relevant industry codes or codes of ethics.

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

INFORMATION POLICY

In order to maintain correct relations with all shareholders, the Bank, whose shareholding is largely dispersed, has adopted an information policy. According to its provisions, the Bank's overriding aim regarding the performance of information activities is to guarantee high standards of communication with the participants of the capital market, which are a sign of respect for the principles of universal and equal access to information. Within the context of its information policy, the Bank takes into account the interests of all investors, provided that they are not in conflict with the Bank's interests, while the objective of the information policy is to define the mechanisms of communication with the participants of the capital market to ensure appropriate, fair and complete access to information about the Bank for all investors, without any preferences (more information on shareholder relations can be found in Chapter 10.1.5).

[GRI 102-43] Due to the ownership structure of the Group, which consists of 13 direct subsidiaries (fully controlled by the Bank), the companies report to the Bank acting as their parent entity (within the scope of the legal regulations).

INVESTORS' INTEREST IN SOCIAL AND ENVIRONMENTAL ISSUES

[GRI 102-44] In 2019, both domestic and foreign investors showed rather limited interest in social and environmental issues. It should be noted, though, that the investors asked questions about the environment more frequently than in 2018. Investors were interested, among other things, in the Bank's approach to financing high emission industries and the mining sector. During their meetings with the Bank, representatives of investment funds managing significant (for a given market) funds informed that they had funds investing in companies that satisfy ESG standards or intended to form such funds in the near future. Such investors pointed out that in the analysis and selection of companies to be included in their portfolio they used ESG assessments prepared by external firms and prepared their own tools for making such assessments.

The conversations of the representatives of the Bank with investors suggest that the importance of environmental, social and corporate governance issues for the investment process will grow in the future (more information on the activities of investors can be found in chapter 10.1.5).

12.3.3 MANAGEMENT OF SOCIAL AND ENVIRONMENTAL RISKS

Risk management system
Social and environmental risks
Complaints process

RISK MANAGEMENT SYSTEM

[GRI 102-11] In accordance with the Risk Management Strategy at the Bank and the Bank's Group, the Bank oversees the risk management systems at the other entities of the Bank's Group and supports the development of these systems, as well as takes into account the risk profile of the operations of the individual entities in the monitoring and reporting of risk at the Bank's Group level. The principles and method of assessment of the individual types of risk in other entities of the Banks' Group are specified by the internal regulations developed taking into account the opinions and recommendations formulated by the Bank, as well as the provisions of the risk management strategy at the Bank and in the Bank's Group.

The risk management system is adapted to the nature, scale and complexity of the Group's operations, as well as the regulatory, social and natural environment. The Bank's Management Board is responsible for the functioning of an effective risk management system. The Management Board regularly monitors whether the methods of identifying, measuring or estimating risk, controlling, monitoring and reporting risk are adjusted to the size and risk profile of the Bank and the Bank's Group as well as the external environment.

By appropriately managing risk, the Bank ensures the stability of its financial result and the strengthening of the Bank's market position. These activities directly affect the feeling of stability and security of the funds entrusted by nearly 10 million Customers using the Bank's services.

Risks have been identified in the Bank's Group which are subject to risk management and some of them are considered material. The materiality of the risk occurring in the operations of the Bank and the Bank's Group is assessed at least once a year. The Bank's credit risk, risk of mortgage loans in foreign currencies for households, forex risk, interest rate risk, liquidity risk, including financing risk, operational risk, business risk, risk of macroeconomic changes and model risk are considered material at the Bank (the group of material risks does not include any socio-environmental risks). The Bank's Group and the Bank manage the said risks taking into account the social aspects. Other entities in the Bank's Group may consider other types of risk than those mentioned above as being material, taking into account the specificity and scale of their operations, as well as the market on which the entity conducts business. The Bank verifies the materiality of the risk at the Bank's Group level for these types of risk.

SOCIAL AND ENVIRONMENTAL RISKS

[GRI 102-11] As the first step in preparing the Statement, the social and environmental risks in the Bank's Group identified in the previous year were reviewed.

The list of key risks remains unchanged and comprises:

- the risk of non-compliance of products with the applicable norms, including the risk of misselling (Chapter 12.5.1);
- the risk of the incorrect marking of products (Chapter 12.5.1);
- the risk of unauthorized access to Customer funds through electronic banking (Chapter 12.5.1);
- the risk of unauthorized access to Customer information (Chapter 12.5.1);
- the risk related to outsourcing services (Chapter 12.5.8)

and the risk of financing operations of entities whose products or services are a threat to the natural environment or to society (identified in two subsidiaries).

THE RISK OF FINANCING ENTITIES/OBJECTS HAVING A NEGATIVE IMPACT ON THE NATURAL ENVIRONMENT AND THE SOCIETY

There are such types of business activity which have a significant negative impact on the natural environment and society due to the effect they exert on the natural environment (air, water, soil, flora and fauna) or on society (employees, Customers, residents). Examples of industries which are characterized by a significant negative impact on the environment include: tobacco, alcohol, gambling, fuel, mining or arms industries. Financing the operations of entities operating in such sectors requires identifying the types of environmental and social risks and their management already in the process of preparing the project and its financing.

In 2016, PKO Leasing SA started cooperation with International Finance Corporation (IFC) and the European Bank for

Reconstruction and Development (EBRD), and subsequently it implemented an environmental and social policy the objective of which is to protect the natural environment, health and safety in a broad sense. Consequently, PKO Leasing SA is taking steps aimed at mitigating the adverse effects of the Customers' activities on the environment. As the first step it assesses the risk in order to:

- make an informed decision on whether the environmental and social risk related to the transaction is acceptable;
- manage and mitigate the said risk;
- manage the environmental and social risk related to the Customers' business activities and promote good practice.

At the same time, the purpose of the environmental and social risk assessment is not to reject a transaction but to help present the complete picture of the related opportunities and threats. PKO Leasing SA performs such assessments for new transactions with the corporate sector and transactions with every Customer who operates in so-called excluded sectors in accordance with the criteria set by IFC/EBRD. When a transaction is approved, but a high level of risk is identified, before signing the contract the Customer is obliged to prepare a plan and schedule of actions that would enable monitoring the social and environmental impacts of the operations, and implement previously prepared mitigating measures, i.e. actions that would level the risk exposure or the effects of a predefined risk being materialized. The Customers with increased risk assessment are subject to annual verification procedures. PKO Leasing SA has agreed to maintain the exposure to Customers belonging to the so-called excluded industries (per the criteria set by IFC/EBRD) at below 1% of the portfolio and it is keeping this promise.

Similar provisions on not financing projects which cause harm to the natural environment are included in the lending policy of KREDOBANK SA.

Climate risk

The Bank carefully monitors the information published on anthropogenic climate change and is aware of corporate responsibility for complying with the obligations resulting from the Paris Agreement. As the biggest bank in Poland, it not only sets trends in innovative banking products, but also assumes responsibility for the effect of its business activities on the social and natural environment. In 2019, the Bank signed the Charter of Environmental Responsibility of Entrepreneurs and Employers in Poland.

The Bank takes into account two directions of impact:

- the impact of climate changes on the Bank, its business model, strategy and financial results;
- the impact of the Bank, its operations, value chain, strategy and policies on climate.

The starting point is a diagnosis of the present situation. The Bank has begun such a diagnosis and identified some of the challenges and addressed them by taking the following actions in 2019:

- conducting the first issue of green mortgage covered bonds on the Polish market;
- calculation of the total energy consumption at the Bank's Group;
- first measurement of its carbon footprint based on direct and indirect emissions (Scope 1 and 2) for the whole of the Bank's Group in accordance with *GHG Protocol*;
- adopting the policies for Carbon Intensive Energy Sector Financing and the Chemistry, Oil and Gas Sector Financing;
- including issues relating to environmental changes in the new Strategy of the Bank;
- ensuring management responsibility for coordinating the Bank's actions relating to climate changes;
- defining the issues that require careful study and preparing an ESG project in this respect, which will be launched at the Bank in 2020 with the aim of developing the procedures and policies in social and environmental areas;
- improving communication with stakeholders expressing interest in the Bank's approach to climate issues;
- increasing the transparency of information disclosed in the reports for 2019 by using the international reporting standards GRI and GHG Protocol.

Complaints process

The complaints process is an important part of building the positive experience of Customers and their satisfaction from cooperation with the Bank's Group entities. Every complaint brought by a Customer is considered individually, and every problem reported is carefully analysed and explained.

Complaints process at the Bank

The submission of complaints or appeals by Customers may take various forms, depending on the Customer's decision: written, oral or electronic.

The complaint handling process is conducted along two lines:

- the first line consists of units dealing with the first complaints of Customers in accordance with the tasks performed, and reports concerning personal data protection addressed to the President of the Personal Data Protection Office;
- the second line is the Customer's Ombudsman and the Office of the Customer's Ombudsman. They consider:
  - appeals of Customers against the position of the Bank's first line in the complaints process;
  - reports concerning the Customers filed by:
    - the PFSA;
    - external institutions dealing with the protection of Customer rights (such as Banking Consumer Arbitration, the Arbitration Court at the Polish Banks Association, the Arbitration Court at the Polish Financial Supervision Authority, the Municipal or County Consumer Ombudsman and the Financial Ombudsman);
  - Individual cases, in particular in connection with the significance of the reported issue.

The solution proposed by the Customer's Ombudsman constitutes the final position of the Bank in a given matter.

Complaints or appeals are dealt with promptly, with due care and diligence, fairly, thoroughly and punctually. The Bank's Code of Ethics, the Code of Good Banking Practice and the standards of Customer service quality are additionally applied when considering complaints.

The consideration of a complaint / appeal involves in particular:

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

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

- a factual and legal justification, unless the complaint was considered in line with the Customer's wishes;
- exhaustive information about the position of the Bank with regard to the reservations submitted, including an indication of the respective parts of the agreement or the product regulations;
- a specification of the date on which the Customer's claim, which has been accepted by the Bank, will be fulfilled.

The deadlines for replying are in line with the provisions of the law, in particular with the Act on handling complaints by financial market entities and on the Financial Ombudsman and the agreements concluded with the Customers.

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

The process of handling Customer complaints is supplemented by the initiation of positive changes at the Bank.

Every unit at the Bank that considers complaints and appeals of the Customers:

- analyses the reports received to identify possible irregularities, causes and places of their occurrence and to identify possible changes to products, services or processes whose implementation would contribute to an improvement in the quality of the services provided by the Bank;
- takes remedial action.

The competent unit (in terms of responsibilities and the subject matter of the initiative):

- takes remedial action to eliminate irregularities;
- implements improvements in products, services or processes;
- provides information on the remedial action taken and the date and method of its implementation to the Office of the Customer's Ombudsman and to the unit handling the report.

This approach to the complaint handling process means that individual reports lead to the implementation of solutions that are beneficial not only for the person filing the report, but also for other Customers.
The implementation of remedial action is monitored by the Office of the Customer's Ombudsman.

COMPLAINTS PROCESS IN THE REMAINING BANK'S GROUP ENTITIES

The Bank's subsidiaries manage complaints on their own. Procedures for accepting and handling Customer complaints are implemented and executed in all entities. These procedures:

- have been specified in the form of internal procedures / regulations of the entities;
- are included in the regulations and contained in the agreements concluded with Customers or
- arise from the generally applicable laws.

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

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

INDICATORS OF THE COMPLAINTS PROCESS

In 2019, the Group entities received more than 271 000 complaints, of which approx. 86% were handled within 14 days. Of all the cases, approximately 61% were fully or partly settled in the Customer's favour.

12.3.4 ETHICS MANAGEMENT

[GRI 102-16] The main document governing the issue of ethics at PKO Bank Polski SA is the Bank's Code of Ethics. Apart from it, the Bank also applies "The Code of Banking Ethics (Principles of Good Banking Practice)" by the Polish Bank Association.

The Bank's Code of Ethics supports the binding organizational culture of the Bank. It is also a tool supporting the popularization and implementation of the Bank's values, such as reliability, Customer satisfaction, entrepreneurship and continuous improvement. These values should be followed by all employees of the Bank, regardless of their position or function.

The Bank strongly promotes ethics among its employees. For this purpose, two large campaigns were carried out in 2019. The first one was carried out in January and it was related to a change of the regulations in the area of ethics. The second one was carried out in October in connection with the election of Ambassadors of Ethics.

The Ambassadors of Ethics are a new function at the Bank. They are elected in a general election by all employees of the Bank from among the candidates who enjoy positive opinions and respect in and outside the banking profession.

The first election of Ambassadors of Ethics, which was conducted in October 2019, was organized in line with the Bank's division into retail regions. In the first election 12 Ambassadors of Ethics were elected for a two-year term, which started on 25 October.

The role of the Ambassadors of Ethics involves supporting persons who report violations of their rights in the area of ethics, such as mobbing or discrimination, and supporting the employer in creating solutions that strengthen the values, principles, norms of conduct and attitudes referred to in the Bank's Code of Ethics. Details of actions aimed at promoting ethics are agreed with the Ambassadors of Ethics.

The Bank's Code of Ethics covers four areas:

- the Bank's relations with Customers;
- relations between the Bank's employees;
- the Bank's approach to cooperation with Business Partners;
- the Bank's activities outside the business area.

The Bank's Code of Ethics and the Bank's Employment Regulations contain provisions, among other things, regarding the prevention of discrimination by gender, age, disability, religion and creed, race, ethnic origin, nationality, political convictions, union membership, sexual orientation, employment for a definite or indefinite term and full-time or part-time employment.

In addition to these issues, the Bank's Code of Ethics and the Bank's Employment Regulations address such issues as not using confidential information for private purpose, not taking steps that would be in conflict with their employment duties, the prohibition to conduct lobbying activities and the prevention of corrupt practices.

Each employee is obliged to comply with the Bank's Code of Ethics and participate in the development and promotion of the organization's culture and the related values. A module devoted to ethics is part of the induction training for new employees.

The employees' doubts concerning ethics are resolved as they are raised.

In order to counteract breaches of the principles of ethics, the Bank applies separate internal regulations: The principles of counteracting mobbing and discrimination and the procedure for handling complaints concerning violation of employee rights. Moreover, the Bank analyses each case in terms of non-compliance and violations related to conflicts of interests. The employees report such cases to specially designated email addresses.

In addition to promoting values among employees, the Bank also monitors employee complaints for potential violations of standards of ethics. Unethical behaviour may be subject to sanctions.

In the Bank's Group:

- some subsidiaries use a formal set of standards and principles of ethical conduct in the form of the code of ethics as part of their ethics management policy;
- some subsidiaries have defined organizational values;
- violations in the area of ethics in the subsidiaries are reported to a special anonymous box or by telephone;
- behaviour that is not in compliance with the regulations and provisions of the law is subject to sanctions arising from the provisions of the Labour Code and the entity's Employment Regulations;
- in principle the responsibility for managing ethical issues lies with the Management Boards of the companies who are supported by the HR structures;
- apart from the possibility of reporting violations, there is no universal mechanism for seeking advice and resolving doubts concerning ethics;
- internal codes of ethics or equivalent regulations in the area of ethics are not published on the webpages accessible to business partners or Customers.

12.4 Environmental matters

12.4.1 Direct and indirect environmental impact

Scale of impact on the environment
The program for optimizing printouts and reducing paper consumption
Other actions
Waste management
Consumption of energy and fuels
Emissions of greenhouse gases

Scale of the impact on the environment

The nature of the business activity means that the Bank's and its Group's direct impact on the environment is limited. In 2019, none of the entities of the Bank's Group conducted a project that could significantly affect the environment. [GRI 307-1] No administrative proceedings related to a breach of the environmental regulations were conducted with respect to any of the companies or the Bank that would result in any financial penalties.

Direct impact on the environment depends on the manner of consuming limited natural resources. All entities belonging to the Bank's Group monitor the consumption of such resources and engage in activities aimed at reducing their consumption. A number of the Bank's Group entities performed energy audits in the prior years (2017 – the Bank; 2018 – PKO Leasing SA, PKO Towarzystwo Ubezpieczeń SA, PKO Zycie Towarzystwo Ubezpieczeń SA), based on which areas with the highest energy saving potential were identified and action plans were drawn up, which are currently being successively implemented. None of the entities of the Bank's Group performed an energy audit in 2019.

[GRI 303-5] For the purposes of this report, all entities of the Bank's Group tried to estimate their water consumption. The selected Group entities (CENTRUM HAFFNERA sp. z o.o., Merkury – fizan, PKO Leasing SA and KREDOBANK SA) consumed 65 900 m^3 of water (17% more than in the previous year), and the other entities account for water consumption on the basis of service charges.

PROGRAM FOR OPTIMIZING PRINTOUTS AND REDUCING PAPER CONSUMPTION

One of the strategic goals of the Bank for the years 2016-2020 is to simplify and streamline its processes by limiting the number of paper documents. The SMARTOP project regarding the digitization of sales and support processes was launched in 2017.

In 2019, Customers were given the possibility of making new types of orders through iPKO internet banking (previously such orders could be made at branches or through the Contact Center), and as the result their number increased to 40 in the end of the year. The Customers used this opportunity approx. 340 thousand times. The possibility of placing instructions through a remote channel has a positive impact on Customer satisfaction and results in reducing the number of documents printed at the branch.

At the same time, works were conducted on the digitization of the processes conducted in the branch. In 2019, the possibility of mobile authorization of orders (using the application IKO) was implemented in the whole network of branches and agencies. As a result of this and SMS authorization, which was implemented in 2018 in place of traditional signatures on paper documents, in December 2019 more than 51% of major orders made at branches or agencies were executed in a paperless form.

24%
Decrease in the paper (A4) consumption to the previous year

57%
Decrease in the paper (A4) consumption for last 3 years

As a result of all actions taken by the Bank (including the SMARTOP project), in 2019 the consumption of paper decreased by approx. 24% compared with 2018, which is a continuation of the permanent downward trend in paper consumption by branches since 2016 (over these years, the paper consumption dropped from 107.5 thousand boxes to 60.9 boxes (a box contains 5 reams)).

OTHER ACTIONS

In 2019, the Bank also carried out other activities aimed at reducing its adverse impact on the environment. It implemented certain solutions to help employees use means of transport that are less harmful for the environment, such as installing bicycle stands and setting up changing rooms for employees who cycle to work.

Segregation of waste is gradually being implemented at the Bank's locations. 12 companies in the Bank's Group segregated their waste.

Disposable plastic cups for drinking water from water dispensers installed in the Bank's facilities are being eliminated and replaced with BIO paper cups.

Bottled spring water dispensers installed in the Bank's facilities are being replaced with point of use dispensers with filters connected to the water supply.

Moreover, in 2019 the non-centralized correspondence sent from the Bank was reduced by 19% compared with the year 2018.

WASTE MANAGEMENT

The Bank and the other Bank's Group entities follow the environmental protection regulations in terms of fulfilling their obligations relating to waste management, maintaining the required documentation and reporting, including keeping records of waste, on the basis of which the Bank monitors the types and quantities of waste produced on an ongoing basis.

In 2019, the Bank signed an agreement for collection of waste other than municipal waste with a new service provider. The service provider holds ISO 9001:2015 and 14001:2005 certificates. Other waste collected from the Bank is handed over by the service provider to other enterprises for management, in accordance with the applicable regulations.

[GRI 306-2] Hazardous electrical and electronic waste is handed over to a specialist entity where it is processed and recycled (100%) in compliance with modern European standards, using the latest recycling technologies available.

Paper bank documentation is collected and destroyed by a specialist entity.

Moreover, in 2019 the Bank's Group entities conducted selective collection of municipal waste.

In 2019, the Bank produced 843 tonnes of non-municipal waste (9% more than in the previous year), and the whole Group produced 897 tonnes (15% more).

Table 25. Non-municipal waste produced by the Bank (in tonnes)

	BANK				BANK'S GROUP				OTHER ENTITIES			
	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016
Total	843	773	850	783	897	782	894	824	54	9	44	41
hazardous*	16	10										
other	827	763										
including:												
bulky waste	488	491										
electronic and electric	136	106										
magnetic and optical data carriers	2	0.5										
paper and cardboard waste (binders)	4	4										
iron and steel waste	152	133										
equipment	44	29										

* electric and electronic appliances, such as air conditioners, old monitors, refrigerators

CONSUMPTION OF ENERGY AND FUELS

The PKO Bank Polski SA Group regularly improves the records of energy and fuel consumption. For the purposes of preparing this report, a comprehensive estimate of energy and fuel consumption and calculation of the carbon footprint were made for the first time. The calculations relate to energy and fuel consumption in 2019 for 100% of the areas used and transport, and:

- for the actual data available for the period from January to October 2019, the consumption reported was measured based on invoiced fuel and energy purchases, whereas consumption in the period from October to December 2019 was estimated based on the actual data from the invoices from October-December 2018. In the case of electricity, the assumptions adopted were very precise, but in the case of heating there was a risk that one year may differ from the other in terms of temperatures. However, a comparison of the temperatures demonstrated that the estimation error is small and acceptable;
- in the case of 85% of electricity consumption, data was collected based on actual consumption, whereas the remaining 15% of electricity consumption (in the areas for which the actual data was unavailable) was estimated based on the 85% of the actual data for different types of areas using the ratios prepared for this purpose;
- in the case of 63% of heat consumption, data was collected based on the actual figures that were available and calculations based on a ratio derived from the actual data, whereas the remaining 37% of energy consumption (in the areas for which the Bank had no information on the source of heat used) was estimated;
- in the case of 67% of natural gas consumption, data was collected based on the actual figures and calculations based on a ratio derived from the actual data, whereas the remaining 33% of natural gas consumption (in the areas for which the Bank had no information on the source of heat used) was estimated.
- data concerning heating oil, diesel oil, LPG, petrol and coal is 100% actual, and in the case of fuels used in transport the accounting period is the period from 01.11.2018 to 31.10.2019.

The consumption of all fuels was translated into an MWh equivalent.

The Bank's Group entities purchased electricity and heat; no purchases of technological steam or cooling were recorded. The vast majority of the energy purchased was from non-renewable sources.

Since it was the first time such a comprehensive estimate has been made, the year 2019 is the base year and comparison with the previous years is not possible.

Table 26. Energy consumption by the organization (in MWh) [GRI 302-1]

	BANK	OTHER ENTITIES	GROUP
		2019	
Total energy consumption	208,862.13	30,149.74	239,011.87
Electricity and heating energy consumption	154,672.32	17,771.01	172,443.33
Electricity purchased	84,093.77	11,111.85	95,205.62
Heating energy purchased	70,578.55	6,659.16	77,237.71
Natural gas	21,836.39	2,320.66	24,157.05
Heating oil	3,367.59	132.43	3,500.02
diesel fuel	27,567.06	4,109.79	31,676.86
in buildings	81.47	16.76	98.23
in vehicles	27,485.59	4,093.03	31,578.63
LPG	0.00	5.72	5.72
Coal	207.67	0.00	207.67
Petrol	1,211.09	5,810.14	7,021.23

Electricity consumption has been monitored and reported since 2018 for the parent entity and 10 subsidiaries. Heat consumption has been monitored and reported since 2019. Changes in the consumption of various fuels (gas and fuels used in vehicles) and electricity between 2019 and 2018 were partly due to the changes (improvements) in data collection methodology implemented in 2019.

The changes in energy consumption were partly due to operational changes, such as:

- changes in the area of the properties used in the operating activities of the Bank and other entities;
- changes in the size of the car fleet used in the operating activities of the Bank and other entities.

For the reasons described above, the data for the years 2019 and 2018 should not be compared directly.

Program for optimizing energy consumption at the Bank

[GRI 302-4] The Bank is preparing a plan to implement the Energy Management System in accordance with ISO50001 in order to optimize energy consumption, introduce a single energy consumption control system and intensify the actions aimed at reducing the consumption of energy carriers. A decision in this respect is expected to be made in the first quarter of 2020.

In addition, the Bank is working towards optimizing energy consumption with a simultaneous cost optimization policy. The Bank regularly defines new areas in which it is possible to take actions related to limiting the consumption of energy.

The main results of the activities relating to energy consumption in 2019 include:

- modernizing one of the largest cooling stations at the Bank, generating annual savings in electricity consumption of approx. 1 350 MWh;
- optimizing and modernizing one of the largest heating substations at the Bank (the Head Office - Puławska 15). The estimated annual savings of heat consumption amount to approx. 810 MWh;
- gradually replacing the lighting with LED lighting;
- ongoing design optimization during modernizations and investments.

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

The Rotunda

In the fourth quarter of 2019, the Rotunda Branch building in Warsaw was opened after modernization, in which the latest technological solutions were used. They make it possible to:

- reduce electricity consumption through:
    - installing advanced LED lighting in the whole building;
    - installing a light intensity steering system, which makes it possible to adjust the light intensity in the individual fixtures, rooms and zones to the current needs;

- using appropriate architectural and structural solutions, such as partitions, insulation, double façade, etc.;
- installing photovoltaic cells that allow the generation of "green" electricity from sunlight.

- reduce water consumption through:
  - using special water saving fittings, which also make it possible to monitor water consumption effectively;
  - using rainwater to water plants;
- reduce heat consumption through centrally steering the HVAC installation;
- improve the micro climate in the building by arranging a "green wall" of natural plants inside the building.

It should also be noted that the use of materials containing volatile organic compounds (VOCs) was minimized during all modernization and construction works. Moreover, materials with the shortest possible transport distance and partly recycled materials were used.

The effect of modernization works will lead to obtaining LEED and BREEAM certificates (the certification process is under way).

THE STANDARD OF BRANCHES

A standard of the New Format of Branches (NFB) was updated in 2019. The standard defines the solutions and technologies to help serve Customers at the branch, develop self-service channels and digitize sales processes. The NFB is applicable to the Retail Market and Corporate Market Areas of the Bank, the Brokerage Offices and the agencies of the Bank. This format takes into account the recommendations of the Integration Foundation, which at the Bank's request audited the space available for Customers. The conclusions from the audit, including those regarding persons with disabilities, are taken into account at new sites for branches, as well as at the branches that are being relocated and modernized.

The standard includes such aspects as:

- reducing the surface area of branches by 20%;
- LED lighting;
- POU water distributors;
- waste segregation;
- plants.

Forty branches of the Bank were modernized in accordance with the NFB standard in 2019.

EMISSIONS OF GREENHOUSE GASES

[GRI 305-1, GRI 305-2] Emissions of greenhouse gases resulting from the company's operations have been monitored in the PKO Bank Polski SA Group since 2019. The intensity of emissions is assessed using four greenhouse gas emission factors at the Bank's Group level, which are presented further in this chapter.

The greenhouse gas emissions reported have been calculated in accordance with the revised "Greenhouse Gas Protocol Corporate Accounting and Reporting Standard".

The organizational boundaries of the reported emissions include:

- In the case of data concerning PKO Bank Polski SA, this entity only (100% of the emissions);
- In the case of data concerning the Bank's Group: the Bank and all the subsidiaries of the Bank in accordance with operational control (100% of the emissions of each entity). The consolidation covers all levels of the Bank's Group.

The scope of emissions reported (operational boundaries):

- In the case of both the parent entity and the Bank's Group, the reported emissions cover scope 1 (direct emissions[40]) and scope 2 (indirect emissions resulting from the generation of the purchased energy).

[40] Scope 1: direct emissions resulting from burning of fuels in the sources owned by the company (e.g. boilers, company cars). Scope 2: indirect emissions resulting from the use of purchased electricity and heating.

Indications of trends of changes in emissions over time:

- The year 2019 is the base year for reporting emissions in the case of both PKO Bank Polski SA and the Bank's Group.
- This is the first report containing data on emissions in accordance with the "GHG Protocol Corporate Accounting and Reporting Standard".

The emissions were calculated using the tools made available in the GHG Protocol (https://ghgprotocol.org/calculation-tools). Detailed information on the emission calculation methodology adopted is presented in the full report of PKO Bank Polski SA on greenhouse gas emissions for 2019, which will be published on the Bank's website.

As a result of the calculations performed, the data confidence level obtained (understood as the percentage of data obtained from sources in the total data set used in the calculations, which includes data obtained from sources and estimated data) was "good" according to the Greenhouse Gas Protocol standard.

Table 27. Direct greenhouse gas emissions (Scope 1) and indirect greenhouse gas emissions (Scope 2) by source in $MgCO_2e$ [GRI 305-1, GRI 305-2]

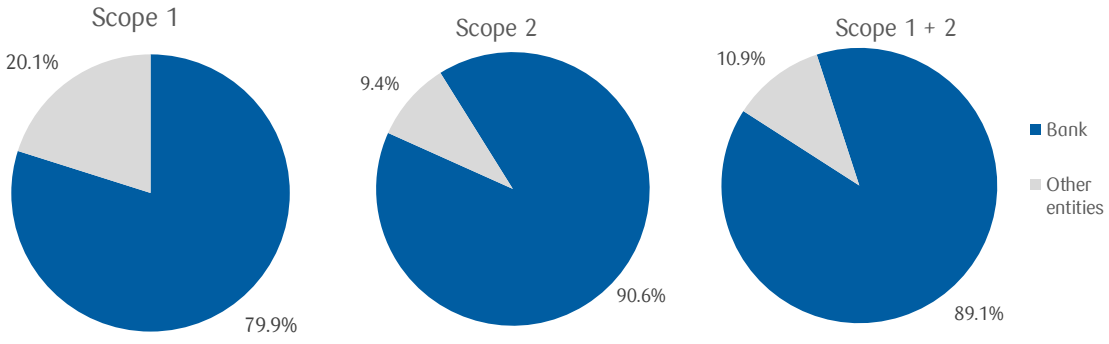
	BANK	OTHER ENTITIES	GROUP
	2019		
Scope 1 - direct emissions	12,093.42	3,049.38	15,142.80
Emissions resulting from the use of fuels in buildings	5,462.25	512.94	5,975.19
Emissions resulting from the use of fuels in vehicles	6,631.17	2,536.44	9,167.61
Scope 2 - indirect emissions resulting from purchase of energy	89,562.16	9,346.80	98,908.96
Emissions resulting from purchase of electricity	64,331.73	7,008.42	71,340.15
Emissions resulting from purchase of heat	25,230.42	2,338.38	27,568.80
Scope 1 and Scope 2 - total emissions	101,655.58	12,396.18	114,051.76

The ratios of greenhouse gas emission intensities are calculated for the Bank's Group only and for both scopes cumulatively (Scope 1+2), because such presentation provides the most complete picture of the carbon footprint generated by the operating activities conducted.

Table 28. Ratios of greenhouse gas emissions intensity in 2019 [GRI 305-4]

Indicator	Unit	Value
GHG emissions Scope 1+2 per employee	Mg CO_2e / person	4.07
GHG emissions Scope 1+2 per Customer	kg CO_2e / person	10.94
GHG emissions Scope 1+2 per PLN 1 million of assets	kg CO_2e / PLN 1 million of assets	327.69
GHG emissions Scope 1+2 per PLN 1 million of net profit	Mg CO_2e / PLN 1 million of net profit	28.29

Share of the Bank and the other entities of the Bank's Group in greenhouse gas emissions



Scope 1 and 2 greenhouse gas emissions in the Bank's Group in 2019 totalled 114 thousand Mg CO_2e (equivalent carbon content tonnes), of which the parent entity generated more than 89%. In the case of the Bank's Group, the majority of the emissions (87%) were Scope 2 emissions. Electricity purchased accounted for more than 72% of the Scope 2 emissions, and the rest was attributable to purchased heat. In the case of the parent entity, the structure of emissions was very similar.

12.4.2 EXTENDED ENVIRONMENTAL RESPONSIBILITY: PRODUCTS AND SERVICES

The extended environmental responsibility of the Bank's Group, including the Bank, is included, among other things, in the policy of financing the activities of business and public entities. The Bank has been taking initiatives with the objective of caring for the environment for years. This applies to several areas of activity:

1. The Bank, together with the other entities from the Bank's Group, supports the development of the economy by financing investments in new technologies, the modernization of technological lines and energy-saving projects.

2. The Bank influences the attitudes of Customers by participating in the financing of pro-ecological projects, including the construction of waste incineration plants, sewage treatment plants and power generation systems using modern, pro-ecological technologies.

3. The Bank has been actively involved for many years in cooperation with local authority units (LAUs), including through the financing of projects regarding environmental protection or the pro-environmental modernization of public service facilities.

4. In the assessment of creditworthiness, the Bank takes into account the impact of the particular business activities on the environment, compliance with the formal requirements regarding environmental permits, geographical and environmental conditions, etc. In the assessment of the business models of borrowers and identification of risks, the sustainable business development concept and the possible benefits for the local community and the natural environment are taken into account.

5. In the process of analysing property valuations, the Bank evaluates environmental risks that could arise in the event of using the property for the purposes of activities causing contamination/devastation of the environment, including in particular: emission of dust, pollution of water, disposal of sewage, storage or production of toxic, inflammable, or explosive materials.

6. The Bank is financing the transformation of the Polish power sector with the exception of transactions financing coal-based projects, unless they are aimed at increasing efficiency and adaptation to the growing environmental requirements. The transformation areas include not only zero emission or low emission energy sources, but also improving the energy efficiency of entities that consume large quantities of energy for the purposes of their production processes and modernizing the transmission network.

7. The following policies were adopted in 2019: Financing of the Carbon Intensive Energy Sector, Financing of the Chemistry, Oil and Gas Sector, and Financing of the Local Government Units. The Bank also has the policies in place addressed to the following industries: Trade, Construction and construction materials, Car dealers and CFM companies, Income-generating real estate, Public healthcare.

POLICY FOR FINANCING THE CARBON INTENSIVE ENERGY SECTOR

The main assumption of the Policy for Financing the Carbon Intensive Energy Sector is a gradual change in the loan portfolio structure towards reducing the exposure to coal-based Customers and transactions and increasing the exposure to entities/transactions supporting zero emission or low carbon intensive energy sources. It is consistent with the European climate policy and the market trends, associated, among other things, with the need to comply with BAT standards, the Winter Package and Paris Agreement provisions, etc.

The policy covers e.g. the following industries: mining of coal and lignite, production of mining (and similar) machinery, generation of electricity (with the exception of renewable energy sources) and supplementary activities in the power sector (transmission, distribution, cogeneration) and it assumes:

- with respect to coal and lignite mining, production of boilers, fireplaces and burners (coal-fired) – reducing the exposure (with the exception of coke, which is on the EU list of critical raw materials);
- with respect to energy production - not financing any new coal or lignite based sources and gradual reduction in the existing exposure;
- reducing general purpose financing and transforming it into ESG financing, dedicated to energy efficiency improvement, changing the energy mix or modernization of transmission networks (coal based projects can be financed on the condition that funds are spent on modernization aimed at meeting the growing environmental requirements; in such cases, the purpose of financing must be precisely defined and the use of funds must be controlled);

- with respect to coal-related industries (e.g. production of mining machines) - gradual reduction in exposure, precise definition of the purposes of financing and control of its use; financing of entities with diversified Customer portfolios (i.e. generating significant revenues from other sources not related to mining) or those transforming their operations is acceptable.

POLICY FOR FINANCING THE CHEMISTRY, OIL AND GAS SECTOR

The Policy for Financing the Chemistry, Oil and Gas Sector defines, among other things, the framework for financing entities operating in the sectors of oil and natural gas extraction, production and distribution of liquid and gaseous fuels, production and trading in chemicals/ chemical products, and production and sales of rubber and plastic products. The Bank adopted a strategy of reducing exposure to operations that will be covered by the EU Single-Use Plastic Directive and a prudent approach to sectors of oil and gas extraction or production of chemicals, chemical products and rubber products. The prudent approach involves, among other things, assessing compliance with environmental standards and impact on the environment and evaluating the business model with regard to the concept of sustainable business development.

8. Pro-environmental activities are supported by the consistent introduction of pro-environmental products to the offer of the Bank's Group. For many years, the Bank has offered a loan for thermal modernization of apartment buildings (for housing cooperatives and homeowner associations). The execution of projects financed with the "Nasz remont" loan with a bonus provided by BGK makes it possible to reduce demand for energy. Those who receive this loan may obtain non-refundable aid from the state budget in the form of a thermal modernization bonus or an overhaul bonus for repaying 20% of the loan.

The following pro-environmental products were introduced in the offer and the following initiatives were taken in 2019:

- PKO Leasing SA launched a lease or loan for entrepreneurs to finance photovoltaic cell devices. This product is subject to a simplified procedure (there is no need to provide financial documents) and the Customer may obtain financing for both the photovoltaic cells and their installation. A loan or lease can be granted for the financing of a complete photovoltaic installation worth up to PLN 250 000 for a period of up to six years. The company finances modules installed on roofs as well as on the ground, so the entrepreneur can choose the surface for the installation.
- The Bank included in its offer Ekopożyczka, a loan for the purchase and installation of photovoltaic panels in an amount of up to PLN 50 000. The repayment period is from 2 to 120 months, the interest rate is 4.99%, and the commission for granting a loan is 0.99%. The Customer should provide an invoice documenting the purchase of photovoltaic devices for a minimum of 85% of the loan amount within 3 months from the date of receipt of the loan. Otherwise the interest is increased to the current maximum interest rate level.
- PKO Bank Polski SA together with PKO Bank Hipoteczny SA launched a "green mortgage" option for Customers who can obtain a lower margin on the "Własny Kąt" mortgage loan based on the energy performance certificate for the property.
- PKO Bank Polski SA and PKO Bank Hipoteczny SA were the first banks in Poland to join the pilot project Energy Efficient Mortgages (EEM). The project is aimed at creating standardized pan-European solutions for mortgage loans granted to finance apartments and houses with energy-efficient solutions.
- The Bank launched new treasury products for corporate Customers: transactions for CO_2 emission rights - Commodity Swap and Commodity Forward. These instruments are addressed to the Bank's Customers who are obliged to redeem such rights every year in accordance with the EU ETS regulations. The Customers may trade in such transactions and hedge against changes in the prices of emission rights.
- PKO Bank Polski SA, jointly with a consortium of foreign banks, organized and placed an issue of Polish green T-bonds of EUR 2 billion on the Euro market. Such bonds are used for raising funds for the financing of investments aimed at mitigating the adverse effect of human activity on the natural environment.
- PKO Bank Hipoteczny SA issued the first green mortgage covered bonds in Poland. Overall, in 2019 PKO Bank Hipoteczny SA carried out two issues of green mortgage covered bonds with a total nominal value of PLN 500 million. Green mortgage covered bonds are a type of bonds, the yields on which are used exclusively to finance new or refinance existing long-term mortgage loans granted for the purchase of highly energy-efficient residential real estate.
- The Bank's Group participated in a consortium of five banks which granted financing to the Energa SA Group in the form of an ESG-linked revolving loan of PLN 2 billion. For the first time in Poland, a mechanism of lending for

sustainable development purposes was used. The Energa SA Group will use the funds obtained to develop renewable energy sources and further modernize power lines (among other things). The Energa SA Group will be evaluated in terms of ESG each year by a third party rating agency, and the result obtained will affect the adjustment of the loan margin in a given year;
- The Bank launched the BIZNESMAX guarantees from BGK and now has a possibility of securing loans for pro-environmental projects, such as circular economy, electromobility, renewable energy sources.
- PKO TFI SA launched a new investment fund "PKO Ekologii i Odpowiedzialności Społecznej Globalny" (PKO Environment and Social Responsibility Global). The fund's assets are invested in entities whose operations are environment friendly and generate a positive impact on the society. The first valuation was performed on 23 October 2019.

As at 31 December 2019, the share of the Bank's balance sheet exposure (loans and debt securities) associated with "green" industries (i.e. generation of energy from renewable sources, thermal modernization loans, sewage or waste disposal, waste collection/processing, rail transport, loans for the purchase of photovoltaic panels, etc.) represented 0.98% of the balance sheet total (0.91% in 2018).

The balance sheet exposure (loans and debt securities) to the carbon intensive energy sectors represents 0.52% of the balance sheet total (0.54% in 2018). This confirms that the policy adopted is being implemented, i.e. the exposure to carbon intensive sectors is gradually being reduced.

12.5 Social matters

12.5.1 Product safety and Customer security

Compliance of the products with the applicable standards Correct product labelling Customer security while using the products Customer satisfaction survey

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

- compliance of the products with the applicable regulations;
- their correct labelling;
- Customer security while using them.

The scope of this policy at the Bank and in the Bank's Group encompasses both the stage of formulating the product offering, its presentation to the Customer, its purchase (i.e. signing the agreement) and the stage of using the product by the Customer. The principles and mechanisms for pursuing the compliance policy and the appropriate labelling of products apply to the Bank and the whole of the Bank's Group.

Compliance of the products with the applicable standards

The Bank and the Bank's Group make every effort to ensure that all products offered meet the requirements set out in the provisions of the law and the accepted market standards. These efforts focus on ensuring that:

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

These rules apply not only to the Bank and entities from the Bank's Group, but also to companies to which the Bank has entrusted the performance of specific operations related to product sales or handling.

Managing the risk of improper sales of products to Customers (misselling)

As part of ensuring compliance of the products with the applicable regulations, the Bank manages the misselling risk at the stage of creating and introducing the product, and then at the stage of offering the product to Customers. Each

product undergoes pre-implementation analysis for the risks it generates and the identification of target Customer groups. The Bank also identifies the groups of Customers to which the Bank should not propose the purchase of a given product because of its inadequacy to the Customer's needs or for other reasons (the so-called anti-groups). If there are any anti-groups, control mechanisms are implemented to mitigate the risk of misselling. The risk of misselling is also mitigated at the stage of undertaking sales activity – before proposing to a Customer the purchase of a product it is assessed whether a given product is adequate to the needs of this type of Customer (in order to eliminate the cases, for example, of selling unemployment insurance to pensioners or long-term investment products to elderly persons). Additionally, the Bank always provides reliable and comprehensive information to Customers so that they can make an informed choice of a specific product. The Bank acquaints Customers with the benefits as well as the risk arising from the purchase of individual products.

The Bank considers any irregularities reported by the Bank's Customers, in particular in the form of a complaint, within the deadlines arising from the provisions of the law. Depending on the findings, the Bank takes steps to eliminate such irregularities, prevent their future occurrence and improve the quality of service (for more information, see sub-chapter 12.3.3).

Similar solutions concerning managing the risk of misselling, in keeping with the principle of proportionality, are also in place in the remaining entities of the Bank's Group which produce financial products or are involved in the process of their sale, i.e. in: PKO Zycie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO Bank Hipoteczny SA, PKO Towarzystwo Funduszy Inwestycyjnych SA and in PKO BP Finat sp. z o.o.

ADMINISTRATIVE PROCEEDINGS

In 2019, the Bank was a party to three administrative proceedings conducted before the Office of Competition and Consumer Protection (UOKiK) – two initiated in 2017 and one initiated in 2019.

Table 29. Administrative proceedings relating to the principle of compliance of the PKO Bank Polski SA Group's products, including PKO Bank Polski SA's products, with the applicable provisions of the law.[41] [GRI 417-2]

Description of administrative proceedings pending or completed in 2019	Status
THE BANK	
1. Proceedings initiated by the President of the UOKiK ex officio for regarding the provisions of the model agreement as inadmissible. The violation allegedly committed by the Bank consists of using in model agreements, annexes to loan and mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and appendices thereto, the contractual provisions concerning the method of establishing the buying and selling rates of foreign currencies, which in the opinion of the President of UOKiK may be considered inadmissible in the light of Article 385 § 1 of the Polish Civil Code.	The proceedings are pending. On 23 December 2019, the Bank informed about its intention to end the proceedings with an obligating decision and requested a meeting with the representatives of UOKiK in order to discuss the Bank's position regarding the liabilities. As at 31 December 2019, the UOKiK President had not taken any further steps in this matter.
2. Proceedings initiated by the President of the UOKiK ex officio on the Bank applying practices breaching collective consumer interests. The Bank is charged with collecting higher instalments on loans and foreign currency loans than those arising from the instructions concerning Forex risk presented to the consumers before concluding agreements and transferring potential Forex risk to the consumers.	The proceedings are pending. In a letter dated 14 March 2019, the UOKiK President asked the Bank 16 detailed questions in order to establish the circumstances that are necessary to resolve the case. The Bank gave the answers in a letter dated 10 May 2019. As at 31 December 2019, the UOKiK President had not taken any further steps in this matter.
3. Proceedings initiated by the President of the UOKiK ex officio for regarding the provisions of the model agreement as inadmissible. The violation allegedly committed by the Bank	The proceedings are pending. In a letter of 31 May 2019, the Bank commented on the

[41] Does not include cases before common courts and explanatory proceedings.

consists of using modification clauses authorizing the Bank to change the contractual terms in model agreements, which in the opinion of the President of UOKiK may be considered inadmissible in the light of Article 385 § 1 of the Polish Civil Code	allegations of the President of UOKiK. In a letter of 19 December 2019, the UOKiK President extended the deadline for completing the proceedings until 30 April 2020.
OTHER GROUP ENTITIES	
No proceedings.	

LITIGATION

In 2019, two court proceedings were conducted with respect to the Bank. They were related to the application of unfair competition practices (one is before the Court of Appeal and the other one was pending before the Supreme Court and was completed). No new court proceedings were initiated in 2019 concerning anti-competitive or anti-market practices.

Table 30. Court proceedings concerning the PKO Bank Polski SA Group

Description of court proceedings pending in 2019	Status
The Bank is a party to court proceedings brought by the UOKiK President by a decision dated 23 April 2001 based on a motion by the Polish Organization of Trade and Distribution – the Employers Association against the operators of the Visa payment system, Europay and banks – issuers of Visa and Europay/ Eurocard/ Mastercard cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using the above cards as well as limiting access to this market for other entities.	The court proceedings are pending. On 29 December 2006, UOKiK decided that the practices consisting of the joint establishment of an 'interchange' fee did limit market competition and ordered that any such practices be discontinued, and imposed a fine on, among others, the Bank, amounting to PLN 16.6 million. The Bank appealed against the above-mentioned decision of the UOKiK President to the Court for the Competition and Consumer Protection / *Sąd Ochrony Konkurencji i Konsumentów* - SOKiK). By the ruling of 21 November 2013, SOKiK reduced the fine imposed on the Bank to PLN 10.4 million. The parties to the proceedings filed an appeal. The Court of Appeal in Warsaw in its ruling dated 6 October 2015 reinstated the initial amount of the imposed fines set in the decision of the UOKiK, i.e. the fine of PLN 16.6 million (the fine imposed on PKO Bank Polski SA) and the fine of PLN 4.8 million (the fine imposed on Nordea Bank Polska SA). The Bank paid the fine in October 2015. As a result of a cassation appeal brought by the Banks, the Supreme Court in a ruling of 25 October 2017 annulled the contested ruling of the Court of Appeal in Warsaw and remanded the case. The fines paid by the Bank were reimbursed to the Bank on 21 March 2018. The case is currently pending before the Court of Appeal in Warsaw. The hearing was postponed without setting the date of the next hearing.
The Bank was a party to court proceedings brought by the decision of the President of the UOKiK in connection with the suspicion of applying illegal contractual provisions in model agreements for granting consumer loans, other than credit card agreements.	The proceedings have been completed. By decision of 31 December 2013, the Bank's activities were considered as practices violating the collective interests of consumers and a fine in the amount of PLN 29 million was imposed on the Bank by the President of UOKiK. The Bank appealed against this decision to SOKiK. By a ruling of 9 July 2015, SOKiK waived the entire decision of the President of the UOKiK. On 21 August 2015, the President of UOKiK brought an appeal against this ruling. On 31 May 2017, the Court of Appeal in Warsaw upheld the decision of SOKiK favourable to the Bank on annulling the decision in which the UOKiK concluded that the Bank breached the collective interests of the consumers by applying the so-called variable interest rate clauses, and in consequence annulling the penalty of PLN 17 million. As regards the second alleged malpractice of the Bank relating to the use of an information form, the Court of Appeal considered that the

	appeal was partly justified, and at the same time reduced the penalty imposed by UOKiK on the Bank from PLN 12 million to PLN 6 million. The penalty was paid on 17 July 2017. On 23 October 2017, the Bank lodged a cassation appeal against the judgment of the Court of Appeal. The cassation appeal was also brought by the President of UOKiK. In its decision dated 10 April 2019, the Supreme Court rejected both cassation appeals.

OTHER GROUP ENTITIES

No proceedings.	

CORRECT PRODUCT LABELLING

[GRI 417-1] The PKO Bank Polski SA Group, including PKO Bank Polski SA, fulfils the requirements concerning correct labelling of the bank products and investment products by providing the Customers with all the necessary information about them, especially at the pre-contract stage.

The scope of information provided about the products is specified by the applicable provisions of the law and the recommendations of the PFSA. The general rule is that the highest level of protection is available to retail Customers - consumers. This information is formulated in such a way that it is understandable to the so-called "average consumer" within the meaning of the Act on counteracting unfair market practices – a consumer who is sufficiently well-informed, attentive and cautious. However, the scope of information provided to financial institutions and other professional recipients of financial products and services is narrower.

The Bank performs its statutory information obligations:

a) in relation to deposit products, by:

- informing Customers about the principles of the deposit guarantee system;
- informing Customers about the possibility of submitting instructions in the event of death;
- reminding Customers about accounts held at the Bank, on which there have been no transactions for many years, no later than 6 months before the end of the 10-year period in which there were no transactions on the account, indicating that the agreement will be terminated if there is no further activity;
- providing model agreements used for concluding agreements with Customers before the conclusion of the agreement using a given model, and during the term of the agreement, at the Customer's every request.

b) in relation to investment products, by:

- providing the Customers with the information required in accordance with the MiFID regulations (including in the form of an Information Brochure on the Requirements of MiFID);
- providing the Customers with the "Key Information Documents" before concluding the agreement/transaction for the FIZ funds, in accordance with the requirements of the Regulation (EU) No 1286/2014 of the European Parliament and of the Council on key information documents for packaged retail and insurance-based investment products;
- providing the Customers with the "Key Information for Investors" before concluding the agreement/transaction for the FIO and SFIO funds, in accordance with the requirements of the Act on investment funds and managing alternative investment funds and the UCITS IV Directive;
- providing model agreements used for concluding agreements with Customers before the conclusion of the agreement using a given model, and during the term of the agreement, at the Customer's every request.

c) in relation to loan products, in accordance with the provisions of the Act on consumer credit and the Act on mortgage loans and supervision over mortgage brokers and agents, by:

- providing an information form to Customers at the pre-contractual stage, together with a personalized draft loan agreement and, in the case of applying for a mortgage loan – also a loan decision;
- providing general information on the mortgage loan agreement to Customers at any time;
- informing Customers who are late repaying their loan liabilities, about the ability to submit a debt restructuring request.

d) in relation to insurance products, in accordance with the provisions of the Act on insurance agencies and Recommendation U of the Polish Financial Supervision Authority regarding good bancassurance practices, by:

- showing Customers a power of attorney document and, in the case of natural persons performing agency activities, a document authorizing them to represent the insurance agent, at the time of performing the first agency activity and at every request of the Customer;

- notifying Customers whether the Bank represents one or more insurance companies;
- informing Customers about the wording of the entry in the register of insurance agents and the method of checking the entry in the register and about the stocks or shares held by the Bank in the insurance company that carry at least 10% of the votes at the general meeting;
- providing information to Customers regarding their rights and obligations related to obtaining insurance cover, including the provision of an information card about an insurance product.

The proper product labelling also applies to the Bank's advertising messages which support its sales activities and shape its brand image. All marketing materials published by the Bank take into account the specific obligations arising from the commonly binding provisions of the law (e.g. the Consumer Credit Act – within the scope of advertising this type of loan) as well as market standards and the PFSA guidance formulated in the "Rules of advertising banking services".

The Bank makes every effort to ensure that the marketing communications about products clearly indicate to which product or service they relate, that they are formulated reliably and do not mislead their recipients, as well as to show the recipients how to access the complete information about the advertised product and about the benefits and risks related to it.

CUSTOMER SECURITY WHILE USING THE PRODUCTS

One of the Bank's priorities is to set the highest security standards. Customer security in the process of using the Bank's and the Bank Group's products primarily includes security of the funds of Customers, as well as physical security of Customers in the Bank's facilities. The matter of security is regulated by the internal regulations of the Bank, including the Security Policy at PKO Bank Polski SA and – in detail – the provisions regarding specific areas of security, i.e.: (i) protection of people and property; (ii) IT System security; (iii) managing safety incidents.

SECURITY OF CUSTOMER FUNDS

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

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

Security of entrusted deposits: With respect to deposit products, the main mechanism guaranteeing security of funds entrusted by Customers is the stability of the Bank's financial result and the results of the other entities belonging to the Bank's Group. An additional mechanism is the Bank's involvement in the obligatory deposit guarantee system, operating under the Act on the Bank Guarantee Fund, the term deposit guarantee system and special resolution.

The security of Customer funds is also guaranteed at the Bank by such procedural solutions that ensure the correct identification of the Customer in every case of performing his instructions.

MANAGING THE RISK OF UNAUTHORIZED ACCESS TO CUSTOMER FUNDS THROUGH ELECTRONIC BANKING

The most important threat to the security of Customers using the Bank Group's products identified by the Bank and PKO Towarzystwo Funduszy Inwestycyjnych SA are potential criminal activities of third parties targeted at Customers using electronic channels of access to banking and investment services.

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

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

- mass educational campaigns, e.g. by initiating texts on the safe use of electronic banking (Bankomania magazine distributed in hard copy in more than 1200 branches and agencies (i.e. in almost 2/3 of them) and the educational portal www.bankomania.pkobp.pl),
- ongoing provision of responses and explanations to Customer enquiries (e-mail, social media);
- ongoing provision by the mass media of the Bank's position regarding false e-mails containing educational elements;
- ongoing response to other signals regarding threats;
- publication of information on the Bank's website, in the transaction website and distributing it to Customers by e-mail on secure logging in and the principles of using electronic banking.

In 2019, the systems for incident, anomaly and advanced malware identification were improved and a large number of actions relating to incident handling were automated. The technology stack of solutions used for computer forensics purposes was replaced.

The specialist CERT unit operating within the Bank's structures executes a strategy of ensuring IT security of the services provided. Incident response operates 24/7/365. CERT PKO Bank Polski is a member of an international forum of responders – FIRST, and belongs to the task force of European responding teams – TERENA TF-CSIRT and the related Trusted Introducer organization.

Joining the international organizations enables the Bank's CERT team to respond faster and more effectively to cybersecurity threats by operational collaboration and exchange of experience and knowledge with similar entities throughout the world. The membership is also confirmation of the high level of the services rendered and acknowledgement of the professionalism and skills in the area of ensuring IT security at the Bank. As a result, the Bank is perceived as an organization that complies not only with domestic, but also international cybersecurity standards.

Representatives of the Bank also engage in the works of the Banking Cybersecurity Centre (BCC) operating within the Polish Bank Association. The purpose of BCC is to take comprehensive and long-term actions on several levels: intrasectoral, intersectoral (including cooperation with telecommunication, transport or power sector institutions), nationwide (cooperation with the state administration or law enforcement) and international, which are aimed at improving the safety of mobile and electronic banking and preparing crisis management tools (structures, procedures, information exchange mechanisms) in the case of e.g. a massive attack of cybercriminals on the banking sector.

As part of the exchange of information on threats, in 2019 the Bank used information on malware, incidents or phishing attacks, including in particular data on trends and new threats, from CIRCL – the Computer Incident Response Center Luxembourg and NICP – the institutions participating in the NATO Industry Cyber Partnership, of which PKO Bank Polski SA is a member (as the only bank from Poland).

The high organizational maturity in the area of handling cybersecurity incidents is particularly important in the light of the decision of the PFSA of 2018 concerning acknowledging PKO Bank Polski SA as an operator of a key service as defined by the Act on the national cybersecurity system.

Physical security of Customers

The Bank and the other entities of the Bank's Group fulfil the condition of ensuring the highest quality of direct service in their locations, among other things, by ensuring proper standards of comfort and safety. The sites of the Bank and the Group's entities use state-of-the-art technical solutions in the area of physical security of Customers, employees, funds and protected information, including bank secret and personal data.

The security is provided in the form of:

- physical protection (construction, mechanical and electronic, including burglary and attack signalling systems, surveillance TV and access control);
- continuous direct physical protection of selected sites of the Bank;
- monitoring of alarm signals by certified security firms and arrival of intervention groups after receiving alarm signals.

Moreover, in the interest of the security of Customers and employees, the Bank holds training courses for all employees of its branches and agencies, including "Counteracting robberies and dealing with security threats".

CUSTOMER SATISFACTION SURVEY

During the dialogue with Customers regarding, among other things, the products offered, Customer satisfaction surveys are conducted at the Bank, which are divided into two main segments: the retail Customer and corporate Customer. The number of companies in the Bank's Group that conducted their own surveys increased in 2019.

RETAIL CUSTOMER SATISFACTION SURVEYS

In 2019, Customer satisfaction and the level of recommendations of the Bank were included in the objectives of the selected Bank units responsible for the development of banking products and processes for the first time. Therefore, the principle that Customer satisfaction is the key to designing and implementing the most important products and solutions offered to the Customers by the Bank was maintained.

With regard to retail Customers, the Bank continued two types of satisfaction surveys:

1. Relational research – conducted in all Customer segments, including firms and enterprises, measuring the strength of the relationship with the Bank and satisfaction with the cooperation with the Bank in general terms, encompassing the whole of the Customer's experience;
2. Transactional research – performed at the key points of contact between the Customer and the Bank, immediately after the event, measuring satisfaction with a given interaction, which is defined in space and time, also including surveys for the needs of process design and implementation (treated as objectives for the Formation).

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

In 2019, the Bank developed the techniques for collecting Customers' opinions, using e-mail, text messages and IVR for the first time. At the same time, telephone messages remained the main source of knowledge on the level of Customer satisfaction.

Relational research is still outsourced, although in 2019 the Bank launched its own continuous relational Customer satisfaction measurement, which is conducted daily. Transactional research is still conducted with the Bank's own resources through the Call Center.

Overall, in 2019, the Bank held more than 220 000 interviews with retail Customers using various methods. The plans encompass continually increasing the number of processes monitored for Customer satisfaction (products and sales channels).

Customer satisfaction measurements were developed in 2019 in the other Bank's Group entities as well. PKO Życie Towarzystwo Ubezpieczeń SA carried out a regular campaign called "NPS Benefits", i.e. a quantitative measurement of the level of recommendation of the process of payment of benefits for sixteen products of the company. Several hundred telephone interviews are conducted as part of this project every year. PKO BP Finat Sp. z o.o. also regularly measures the satisfaction of institutional Customers of the most important business lines. As far as the frequency of Customer satisfaction measurements is concerned, the most advanced Group company (after the Bank) is KREDOBANK SA. The company conducts a number of activities focused on monitoring the level of satisfaction of retail Customers. The basic measure of satisfaction in KREDOBANK SA's surveys is the Net Promoter Score (NPS). In 2019, KREDOBANK SA conducted more than 2 500 interviews.

CORPORATE CUSTOMER SATISFACTION SURVEYS

The year 2019 was the third full year of the operation of the Customer Satisfaction Survey Programme (implemented also in PKO Leasing SA and PKO Faktoring SA) for the corporate Customer segment. We continued to conduct telephone interviews with Customers of corporate, strategic and international banking in order to better understand how they perceive their relationship with the PKO Bank Polski SA Group, the individual products and service channels. The Customers respond well to this form of dialogue, as confirmed by the continued high Response Rate of 63%.

The purpose of the Programme is to respond to Customers' needs, both through contact with the individual entities and by developing long-term solutions. Since the programme was started, 99 initiatives have been completed, including 28 in 2019. The changes were implemented, among other things, in the area of digitization of further service processes (in particular, in the area of loans and opening of new accounts). Moreover, the hours of concluding Forex transactions were extended and changes were made to post-sales service at PKO Leasing SA (development of remote access/service channels, collective invoices, etc.).

The Customer's voice is an indispensable component of the operations of teams that apply agile work methods. Prioritization of work takes into account diagnosed needs of the Customers, and the solutions prepared are verified with the users before their implementation as UX matrices, and after the implementation – through collecting feedback from the first Customers using a given service. This allows fast response and optimum adjustment of solutions to the Customers' needs.

12.5.2 MARKETING COMMUNICATIONS

PKO Bank Polski SA operates in accordance with the Bank's internal regulations concerning the principles for conducting marketing activities. In marketing communications, the Bank complies with the principles of ethics, which are described in the Appendix "General requirements for creating advertising messages regarding trading in financial instruments". The Bank's internal regulations concerning the principles for conducting marketing activity define the features of the appropriate advertising message, as well as the list of undesirable actions. According to these principles, an advertising message in particular:

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

In addition to the Bank's internal regulations, in its marketing communications the Bank follows:

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

In its marketing activities, the Bank has mechanisms that prevent the creation of unethical and unreliable messages. Each time, the correctness of the communication is consulted with the units whose tasks include verifying the compliance of messages with the generally applicable laws. The principles of ethics in marketing communication and the mechanisms for preventing the risk of unethical communications also apply to materials prepared at the request of the Bank by external entities (advertising agencies, event agencies).

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

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

With regard to their marketing activities, all the remaining subsidiaries of the Bank have control mechanisms to prevent the risk of an irresponsible or unethical communication from the company. The marketing communication is appropriately approved by the company's supervisory units respectively, or additionally – in the case of companies that have agreements with the Bank concerning commissioning of marketing services for the Bank's Group – by the Bank's relevant departments.

In 2019, as part of the marketing activities conducted by the Bank's Group and the Bank, no administrative proceedings concerning violation of the regulations regarding ethics in marketing communications were pending and no inconsistencies were noted in marketing communications. [GRI 417-3].

12.5.3 PROTECTION OF PRIVACY

In accordance with the generally applicable regulations, including the Regulation of the European Parliament and of the Council (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, GDPR) and the Personal Data Protection Act of 10 May 2018, PKO Bank Polski SA has internal personal data protection regulations.

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

- security of protected information;
- IT system security;
- protection of people and property;
- security incident management;
- conducting explanatory proceedings;
- preparing and implementing security mechanisms.

DATA PRIVACY

In the process of security management in the Bank's Group, Strategic Companies have been identified and Agreements introducing Security Standards have been signed with them. The Standards address the following issues: personal data protection, business continuity management, ICT security, counteracting money laundering, security incident management, outsourcing principles and security reporting principles.

Furthermore, the Bank's Group has a policy in place for counteracting money laundering.

There are also polices in place that require notifying the Customers about any violations of security of data collected in accordance with the applicable legal requirements, including the principle of data minimization. The Customers receive unambiguous and clear information about the principles for the processing of information and the manner of using it in compliance with the law, including the General Data Protection Regulation. The Customers are also informed about their rights, including the rights to access, change, withdraw, supplement and update information. In addition to the above, there are paths for filing complaints available to the Customers, including the paths for expressing doubts about personal data security. Every employee is obliged to complete appropriate training in personal data protection. Such training is also organized periodically. Actions aimed at ensuring data security are taken with the participation of the Management Board. For this purpose, the best policies and system security solutions are implemented. Such solutions (in terms of both systems and policies) are constantly evaluated, audited and improved in accordance with the best market practices. Any irregularities are addressed in compliance with the law, which includes informing the competent authorities.

MANAGEMENT OF THE RISK OF UNAUTHORIZED ACCESS TO CUSTOMER INFORMATION

The risk of unauthorized access to Customer information is managed in accordance with the Security Policy of PKO Bank Polski SA. At the same time, the Principles of protected information security at PKO Bank Polski SA regulate the issues of confidentiality of information and the maintenance of bank secrecy, as well as personal data security, including the liability of the Bank's employees regarding personal data protection.

In accordance with these principles:

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

Each of the other Bank Group's entities processing personal data, which is required to have appropriate regulations in this respect, has such regulations in place and applies them in practice. They are in line with the generally applicable

regulations and standards applied at the Bank and, to the extent necessary, contain specific regulations which are adequate to the specific nature of the particular entity's business.

In accordance with GDPR, cases of breach of personal data protection resulting in a risk breaching personal rights and freedoms are reported to the President of the Personal Data Protection Office (UODO).

12.5.4 PREVENTION OF CORRUPTION

Anti-corruption system at the Bank System of notifying breaches and reporting

ANTI-CORRUPTION SYSTEM AT THE BANK

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

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

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

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

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

[GRI 205-1] Within the Bank's Group, including the Bank, the risks related to corruption are identified in particular:

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

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

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

- the prohibition to accept benefits, presents or gifts intended for personal use from Customers and potential Customers, as well as representatives of entities cooperating with the Bank or seeking to start cooperation with the Bank, which could:
  - result in an informal obligation to a given Customer or person cooperating with the Bank;
  - cause a conflict of interest;
  - otherwise negatively affect the manner in which the Bank's employee performs his corporate duties.
- this prohibition applies, in particular, to cash or cash equivalents, physical donations (presents and gifts) and other material benefits (in particular financing of travelling expenses, relaxation or training costs, participation in an event, or lending an asset, e.g. a car, for free use or use on terms that deviate from market terms), as well as the acceptance by any person involved in the procurement proceedings organized by the Bank, of any gifts and benefits from entities which are bidders or potential bidders in these proceedings;

- the exclusion of the possibility of circumventing the above prohibition, in particular by persuading other people (e.g. people living together in a household, family members or relatives) to accept the gift on their behalf;
- under exceptional circumstances, it is acceptable to accept a benefit or gift in business relations, on the terms and conditions set out in the Bank's internal regulations regarding the acceptance of benefits, presents or gifts;
- the prohibition to offer any benefits, presents, gifts or incentives to Customers, trading partners, representatives of bodies of public administration and other entities, which are not a part of the Bank's offering of products and services, on behalf of the Bank, in order to persuade those persons to behave in a particular way, especially to take steps which are inconsistent with the provisions of the law or good practices.

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

Corrupt behaviour is treated as non-compliance and as such it should be reported to the Bank's Management Board and Supervisory Board. The risk of corruption is an element of the compliance risk assessment process.

In the remaining entities of the Bank's Group, each of the subsidiaries, the business of which is related to the risk of corruption, has the appropriate regulations on the prevention of corrupt practices. Every employee is required to read and apply these regulations. Each entity formulates appropriate regulations, taking into account the specificity of its activities and its own assessment of the areas of risk of corruption and bribery, which is why the Bank's Group does not have a uniform policy in this respect.

No critical events in this area were identified in 2019 and no corruption activities were identified in the Bank's Group entities which would result in disrupting the operations of the Bank or of the other entities belonging to the Bank's Group.

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

SYSTEM OF NOTIFYING BREACHES AND REPORTING

The Bank has an anonymous system for reporting breaches (the institution of the whistle-blower relates to all unethical or illegal acts). Additionally, under the internal regulations, each of the Bank's employees is obliged to report any suspicion of a crime having been committed in connection with the Bank's activities. A report regarding a member of the Management Board is addressed to the Supervisory Board, in other cases - to the President of the Bank's Management Board. Each matter is dealt with on the basis of the internal regulations. There is a requirement at the Bank to submit regular reports to the Management Board about identified cases of fraud, including those involving corrupt activities.

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

Reporting persons are protected – nobody can be fired or punished otherwise for reporting a breach.

The Bank holds preliminary and regular training for the Bank's employees on the reporting of breaches and cases of non-compliance (including those bearing signs of corruption) and gives them access to the necessary information and internal regulations in this area (also in an electronic form on the Bank's website). Every employee of the Bank is required to undergo training regarding the principles for counteracting any corrupt practices.

Information on the notified breaches is reported to the Management Board and Supervisory Board of the Bank.

Similar solutions are applied at the selected companies of the Bank's Group adequately to the scale and scope of their activities.

[GRI 205-3] No cases of corruption were confirmed in 2019.

12.5.5 HUMAN RIGHTS, INCLUDING CHILDREN'S RIGHTS

Internal documents related to human rights Respecting human rights Communicating human rights

In the process of developing regulations, procedures and policies referring to human rights, the individual entities belonging to the Bank's Group draw from the achievements of international organizations and respect the fundamental principles set in the International Bill of Rights which is composed of the following three documents:

- the Universal Declaration of Human Rights;
- the UN Convention: the International Covenant on Civil and Political Rights;
- the UN Convention: the International Covenant on Economic, Social and Cultural Rights.

Depending on the size and specificity of a given entity of the Bank's Group, observing human rights is manifested equally in the internal provisions, the initiatives undertaken and in everyday practice. This applies, in particular, to the rights to:

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

INTERNAL DOCUMENTS RELATED TO HUMAN RIGHTS

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

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

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

- the PKO Bank Polski SA's Code of Ethics;
- the Principles of counteracting mobbing and discrimination and the procedure for handling complaints concerning violation of employee rights;
- the principles of recruitment and the Standards of Recruitment;
- agreements concluded with service providers (applies to personal data protection agreements);

as well as in strategic programmes such as:

- Culture of a modern organization and
- Improving the processes of managing employee potential.

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

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

The other entities from the Bank's Group consider that there is no need to formalize the issue of respect for human rights, although matters of respect for human rights are taken into account in the processes conducted, everyday practice and in the unwritten rules.

RESPECTING HUMAN RIGHTS

One of the most crucial elements/stages of the analysis is the identification of human rights in the context of the operations conducted. The Bank's Group operates in several countries where it provides financial services, which sets the scope of the human rights to be considered, and thus eliminates the challenges faced, for example, by manufacturing or mining companies. The countries in which the Bank's Group operates are characterized by a similar level of development, and thus also challenges related to employment – no cases of underage employment or forced labour were identified.

An immense task is the issue of observing the human rights in the supply chain, which in the context of the Bank's Group entities boils down to relations with suppliers and outsourcing of services (mainly banking services). The issues of compliance with human rights are reflected in the procedures and agreements signed with these entities.

Examples of activities conducted within the Bank's Group entities, in which respect for human rights is disclosed, are presented below:

- counteracting mobbing and discrimination;
- basing the rules of the periodic appraisal on a dialogue with the employee, the employee's involvement in the appraisal with the employee's ability to appeal against the appraisal of skills and performance issued by the superior;
- use of recruitment principles that ensure equal treatment of candidates during the selection process for filling vacancies, without any discrimination, prejudice and without obtaining information that could breach the candidate's rights and personal dignity;
- basing promotion decisions on an objective appraisal of qualifications, skills and performance;
- supporting diversity in management, in particular with respect to age, experience, style of work, thinking; promotion of diversity among managers as an asset and not a limitation;
- enabling employees to express their opinions and influence important issues regarding the organization and working conditions, management, organizational culture, as well as enabling the provision of information about perceived crimes and fraud – assuring their anonymity and confidentiality (whistleblower mechanism);
- protection of personal rights (personal data, sensitive data) of employees and Customers through carefully prepared procedures and systems and inclusion of restrictive entries in contracts concluded with service providers who have access to such data;
- creating conditions for satisfying needs related to recreation and culture, as well as respect for the principle of the work-life balance;
- assurance of freedom of association;
- creating a safe working environment.

The Bank's Group applies the same human rights standards across the entire supply chain in its business activities. In relations with external entities, special attention is paid to:

- safety of the workplace;
- not using child labour or difficult position of co-workers and contractors;
- acting in a manner that does not breach the personal rights of the co-workers;
- preventing any discrimination or mobbing activity;
- objectivity in selecting bids;
- care about the natural environment and its resources.

According to the assessment conducted in this report, there were no cases of breaches of human rights in the Bank's Group in 2019, and the actions taken are aimed at preventing their occurrence.

The Bank's Group entities monitor the risks accompanying the individual human rights and manage them at the firm's level. These types of risks and the manner of their management have been discussed in detail in the chapters referring to individual human rights.

COMMUNICATING HUMAN RIGHTS

The basic internal communication tool is the Intranet portal of the Bank which is regularly updated and contains information on benefits, privileges, rights and obligations of the Bank's employees. Additionally, the employees receive all types of necessary information via internal mail in the form of bulletins or information campaigns addressed to them (screen savers, posters, pop-ups).

On the intranet portal of the Bank the employees may find the following documents referring in various ways to the human rights issues:

- The PKO Bank Polski SA's Code of Ethics (its provisions were updated and communicated to the organization in 2019; the introduction of the Ambassador of Ethics function has been reflected in these provisions (his/her role consists of supporting persons who notify a breach of their rights in the area of ethics, including mobbing and discrimination, as well as supporting the employer in developing solutions reinforcing the values, standards of behaviour and attitudes referred to in the Code of Ethics);
- The Principles of Recruitment (regulations updated and communicated to the organization in 2018);

- The recruitment standards (regulations updated and communicated to the organization in 2018);
- The rules on the prevention of mobbing and discrimination and the procedure for handling complaints concerning breaches of the employee rights (provisions updated and communicated to the organization in 2018; a clear presentation of the rules of the prevention of mobbing and discrimination and the procedure for handling complaints was attached to the text of the regulations to facilitate the use of the procedure by employees);
- The rules of periodic appraisal (the regulations were updated and communicated to the organization in 2018). A special webpage was created on the Bank's intranet portal, available to the managers, i.e. the persons conducting the appraisals. The issues emphasized there included the way of conducting interviews with the employees, ways of discussing the appraisal and guidance on how to guard against potential distortions, understating or overstating employee appraisals. New managers are invited to a webinar where the tutors emphasize similar issues concerning proper appraisal and effective periodic interviews);
- Good practices in serving the disabled, as well as a presentation of the Bank's Values, which the Bank applies in the relations with the Customers and employees.

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

The Bank verified its approach to the issue of observing human rights by making available the non-financial report to all potential stakeholders.

12.5.6 IMPACT ON THE SOCIAL ENVIRONMENT

Impact on the social environment and its development through the products offered and initiatives on the financial market A special approach to groups with disabilities Other conveniences for Customers using the products of the Bank's Group Local communities Involvement in pro-social activities

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

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

- In 2019, PKO Bank Polski SA and PKO Bank Hipoteczny SA granted private individuals housing loans of PLN 15.6 billion (25.6% share of new sales of mortgage loans in 2019).
- PKO Bank Polski SA has been involved in a nationwide initiative supporting large families since 2014. The Bank introduced a special offer to holders of a Large Family Card, under which it reduced the commission on the Własny Kąt Hipoteczny [My Own Place Mortgage] housing loan by half.

PKO BANK POLSKI SA SUPPORTS BORROWERS WITH MORTGAGE LOANS

- PKO Bank Polski SA treats responsibility for its business as an integral part of its business strategy. It supports Customers whenever they have problems with timely repayment of their liabilities. In such situations, the Bank adjusts its actions to the Customer's situation. The availability of the offer supporting CHF mortgage borrowers by mitigating the adverse effects of changes in the exchange rate was extended until 31 December 2020.

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

- For many years, the Bank Polski SA Group, and especially PKO Bank Polski SA and PKO Leasing SA, has been actively involved in working with public sector entities. This cooperation also includes supporting their activities in the form of loans, for instance, with regard to the expansion and renovation of schools, hospitals, road projects and environmental protection. As at the end of 2019, loans to the sectors O, Q, R (see the table below) represented in total 8.4% of the Bank's loan portfolio for the corporate and public sectors. In the Bank's Group, the share was 6.8%.

Table 31. The share of loans for corporate and public entities in the portfolio by selected sections of the Polish NACE codes

	GROUP			of which: BANK		
Section of the Polish NACE codes	2019	2018	2017	2019	2018	2017
O. Public administration and national defence, mandatory social security, including LGUs	4.8%	5.3%	7.2%	6.6%	6.0%	8.2%
Q. Healthcare and social welfare	1.4%	1.4%	1.3%	1.3%	1.1%	1.1%
R. Cultural, entertaintment and recreational activities	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Sections O, Q, R in total	**6.8%**	**7.2%**	**9.0%**	**8.4%**	**7.6%**	**9.8%**

PKO Bank Polski SA improves the opportunities for youth education

- PKO Bank Polski SA increases the education opportunities for young people, offering students and doctoral students preferential student loans with low interest rates. The Bank offers forgiveness of a part of the loan for the best graduates. At the end of 2019, the value of preferential student loans was PLN 648 million.

PKO Bank Polski SA counteracts financial exclusion

- The Bank has the largest network of branches and agencies of the banks in Poland (1 115 branches and 538 agencies at the end of 2019). The coverage of the Bank's distribution network also enables access to banking services to people living in towns where the Bank's main competitors do not have branches. Electronic banking is an important supplement to the distribution network of banking products and services.
- The Contact Centre is of particular importance in servicing the segment of retail Customers, whose objective is not only to provide Customers with banking products and services, but also to increase the security of transactions ordered by the Bank's Customers.
- A very important element in counteracting financial exclusion is the support for Customers with disabilities, which is discussed separately in the next sub-chapter.

The PKO Bank Polski SA Group implements long-term saving initiatives

Since the beginning of its existence, the Bank has been teaching Poles how to save. In 2019, the Bank effectively responded to the needs of Customers looking for valuable capital investment options, including:

- it enabled retail and private banking Customers to invest money in investment funds in cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA;
- it is the only bank in Poland which has offered its Customers investments in treasury bonds, including long-term treasury bonds. There is an offer of ROD and ROS bonds for the beneficiaries of the 500+ programme available in more than 1000 locations, i.e. in the network of Customer service points of the Bank's Brokerage Office and the network of brokerage service points located in the Bank's branches.

PKO Bank Polski SA is a pioneer in providing public administration services

- The Bank participates in the "Od papierowej do cyfrowej Polski" [From a paper to a digital Poland] programme, which is a part of the government's Responsible Development Strategy. The first project within the framework of the cooperation involved enabling the Customers to submit applications for the 500+ benefit from the level of the Bank's websites; the next project was based on enabling logging in to the ZUS Electronic Services Platform (PUE ZUS) via this route.
- In 2016, the Bank was the first bank in Poland to allow its Customers to set up a Trusted Profile (eGO) via online banking. This was a breakthrough in the dissemination of e-administration services, by making it easier for citizens and firms to use the services of government offices via the Internet.
- The Bank introduced another service to its offer at the beginning of 2018, this time for entrepreneurs who are able to register their firms in CEIDG (the Central Records and Information on Business Activity) through the transaction site.
- As part of the digitization of e-administration services, the possibility of applying for a Dobry Start 300+ benefit (school year starter pack) through the iPKO Inteligo e-banking system was implemented in 2018.
- In 2019, the Bank implemented eIDAS regulations, as part of which it provided the Customers with an opportunity to create the means of electronic identification (e-Identity). Customers who have a unique e-Identity may confirm their data on the websites of the providers of online services (both commercial and public e-administration) that are integrated with an eID node (national or commercial).

PKO Bank Polski SA educates and builds consumer awareness

- The Bank conducts consistent and multi-level financial education addressed to various Customer groups. Its main goal is to reduce financial exclusion, build consumer awareness and act in the field of cybersecurity.
- The Bank educates Customers by showing them the capabilities and functions of modern products, giving them access to practical economic knowledge and providing tools facilitating the management of personal and company budgets.
- An important role in the Bank's financial education is played by publications and the generally accessible Bankomania.pkobp.pl portal.
- The bank has a modern offer of bank accounts. By joining the government's 500+ programme, the Bank enabled the programme's beneficiaries to open a Konto za Zero Rodzina 500+ [Account for Nothing 500+ Programme] account.
- The children's education carried out by the Bank for several decades is of major public significance. Its objective is to teach good habits in the area of saving (not just money, but also natural resources, energy or health), budget management, cybersecurity and the use of various banking product and services (accounts, cards, online banking). The Bank offers educational products for children aged under 13 and their parents through the PKO Junior offer, which includes: PKO Konto Dziecka [PKO Child's Account], ROR Rodzica [Parent's Savings and Settlements Account], Pierwsze Konto Oszczędnościowe [First Savings Account], as well as online services and telephone applications: junior.pkobp.pl and junior.inteligo.pl. Furthermore, the Bank has conducted the Szkolne Kasy Oszczędności [School Savings Accounts] programme in cooperation with schools for 85 years. It is the oldest, largest and at the same time the most innovative financial education programme in Poland. more than 4 500 primary schools (one in three such schools in Poland) participate in this programme. The SKO offer includes three types of accounts: for pupils (with online access through www.sko.pkobp.pl), schools and parents' councils. The Bank also offers a social media platform SzkolneBlogi.pl, where more than 800 schools participating in the SKO programme have their blogs. As at the end of 2019, nearly 570 000 children used the PKO Junior and SKO offers (accounts for children and accounts for pupils).
- Pupils who turned 18 and students until the age of 25 – who have a valid school or student ID on the date of opening at the Brokerage Office of an investment account with Internet access and have granted consent for a permanent electronic carrier, will be granted reduced rates for maintaining the account (free of charge investment account until their 25th birthday) and reduced commission on purchase or sale instructions in respect of financial instruments listed on the WSE, submitted through the Internet system (including the mobile service) until the end of the year in which they turn 25.
- Technological progress and the digitization of banking services mean that cybersecurity issues not only apply to large companies, but also to individual Customers. The Bank regularly warns its Customers about online threats and handles extensive educational activities in this area. One of the objectives of such activities is to popularize knowledge about the principles of security in electronic and mobile banking, as well as the use of payment cards.
- The Bank was also the first in Poland to start working with the Police to prevent so-called "grandchild" scams.

PKO Bank Polski SA supports sensitive groups

- The Bank has signed the first agreement between the State Fund for Rehabilitation of the Disabled (PFRON) with representatives of the financial sector. The PFRON "Aktywni Plus" [Active Plus] programme package is aimed at increasing the professional activity of persons with disabilities and making it easier for them to find employment on the open labour market . The initiative consists of three programmes with a budget of nearly PLN 24 million. A wide group of entities were invited to cooperate on the project execution. They include universities ("Absolwent" [Graduate]), non-governmental organizations and public institutions ("Stabilne zatrudnienie" [Active Employment]) and companies partly owned by the State Treasury ("Praca-Integracja" [Work-Integration]).

A special approach to groups with disabilities

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

The Bank is continuously improving the standard of Customer service, including the services for Customers with disabilities. The Bank's policy in this area has been defined separately for the Bank and for the Bank's Group entities. The main areas of the Bank's activities encompassed by the policy with respect to persons with disabilities are:

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

The Group's branches satisfy all the norms specified in the regulations regarding the adaptation of buildings to the needs of persons with disabilities. Additionally, the principles for choosing locations of the Bank's branches and arranging them in a manner that is friendly to persons with disabilities are set out in the internal regulations of the Bank. The most important of these are:

- location along a main pedestrian route;
- availability of parking spaces.

By the end of 2019, 755 branches (i.e. 72% of the total number) had been adapted to the needs of persons with disabilities in accordance with the Bank's internal regulations.

2) Standard of fittings at the Bank's branches and ground infrastructure

New Format of Branches

A standard of the New Format of Branches (NFB) was updated in 2019, in which solutions and technologies were used to help serve Customers at the branch, develop self-service channels and digitize sales processes. The NFB will also encompass the Bank's agencies, Brokerage Offices, ROD and ROK. This format takes into account the recommendations of the Integration Foundation, which at the Bank's request audited the space available for Customers. The conclusions from the audit, including those regarding persons with disabilities, are taken into account at new sites for branches, as well as at the branches that are being relocated and modernized.

Dedicated rooms in the branches

The Bank also provides the possibility of individual services adapted to the type and degree of a Customer's disability and if required, offers services in a dedicated, comfortable and safe room.

Providing services to persons with hearing impairments and deaf

The Bank is also constantly raising the standard of service for the deaf and persons with hearing impairment using Polish Sign Language. In 2019, the possibility of using a free-of-charge online sign language interpreter was implemented (on smartphones in all branches and locations). All advisers have been trained to provide professional services to deaf Customers. They received e-training and were acquainted with the principles and good practices applicable in the Bank's internal communication.

At the same time, a social media campaign was conducted with the aim of increasing the awareness of (prospective) Customers about the Bank's activities aimed at breaking barriers and reducing social exclusion.

In 2019, the Bank participated in a joint initiative of the Polish banking circles realized by the Polish Bank Association with support from the Polish Association of the Deaf on updating and expanding the generally available glossary of terms of banking products and services in Polish Sign Language. The glossary was published on the Internet in the fourth quarter.

Providing services to the blind and visually impaired

The Bank also makes it easier for blind and visually impaired Customers to use financial services – the number of ATMs with a panel equipped with the Braille alphabet and an audio module is steadily increasing. At the end of 2019, of 3 058 ATMs, 2 191 (72%) were equipped with audio modules. Information on the location of such devices can be found on the Bank's website and in the Dostępny Bankomat [Available ATM] interbank service.

Fingerprint signature

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

Electronic Authorization by a Text Message

The Bank is developing a system of Electronic Authorization by Text Message in the entire network of the Bank's branches, which enables authorizations of declarations of intent without a hand-written signature, by typing a code sent by the Bank in the form of a text message. At present, more than 20 types of orders can be authorized with a text message.

In addition, the Bank is testing the possibility of signing an order on an electronic pad and receiving a document copy by e-mail. This project will be developed in the current year.

3) Facilitations in modern banking

The IKO application, telephone service and electronic banking have been designed and are developed with account taken of the needs of persons with disabilities.

OTHER CONVENIENCES FOR CUSTOMERS USING THE PRODUCTS OF THE BANK'S GROUP

In 2019, the Bank took part in the STOP Barierom [STOP Barriers] social campaign coordinated by the Neuron Plus foundation, whose aim is to support the availability of public and commercial services in a broad sense to persons with disabilities. At the same time, branches and regional offices organized educational meetings for persons with disabilities aimed at improving their knowledge of the banking world and personal finance management.

In addition, in 2019:

- In order to comply with the requirements to provide, at the Customer's request, product rules and regulations and general terms of insurance in an accessible form (printouts in Braille, printouts in large font, translation into the Polish Sign Language, audio recordings), the Bank prepared a process for providing such documents and ordered translations of the most frequently used documents related to its basic products;
- the Bank continued to equip branches with self-service stations, which all individual and business Customers who have cards attached to their bank account are able to use. The Bank is planning to gradually install them in other branches and expand the scope of their functionality;
- the speed and convenience of Customer service continued to improve; this objective was achieved, among other things, through initiatives reducing the number of paper documents in Customer service processes;
- the number of child-friendly branches of the Bank was increased where adults – during visits to the branch – can leave their children in specially arranged play corners. At the end of 2019, as many as 84% of branches had areas dedicated to children. This percentage will be increased due to the popularity of this solution.
- Polish companies present on the German and Czech markets can count on direct support through foreign branches of the Bank – in Frankfurt am Main and Prague. KREDOBANK SA, a member of the Bank's Group, offers banking services to businesses operating in Ukraine.
- The Bank commenced work on the implementation of the "accessible PDF" as the basic format of documents provided to Customers in an electronic form (in particular, product rules and regulations).

The Bank's employees actively participate in the works of the interbank Group for serving persons with disabilities at the Polish Bank Association. For example, they took part in the preparation of interpretation guidelines for the banking sector for the "Act on providing accessibility for persons with special needs" prepared as part of the "Dostępność plus" [Accessibility plus] government project.

LOCAL COMMUNITIES

The Bank's Group entities, including the Bank, affect the local communities through:

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

The Bank's Group is an important employer, because it provides jobs for 28 000 people. The Bank as such employs 23 700 persons, of whom more than half work in branches dispersed throughout Poland. By offering a salary level exceeding the national average, these jobs have a positive impact on the income levels of local communities.

- impact on relationships

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

- raising sports and social activity

By its social activity described below, which includes organizing charity events and sports events, the Bank activates the local community and strengthens interpersonal relationships.

- contributing to the state budget and the local budgets

Table 32. Central and local taxes constituting revenues of the state budget and local budgets (in PLN millions)

	BANK'S GROUP			BANK		
	2019	2018	2017	2019	2018	2017
Central taxes, including:	**3477**	**3403**	**2929**	**2978**	**2924**	**2586**
Corporate income tax	1525	1611	1264	1339	1343	1080
Tax on certain financial institutions	1022	950	932	931	883	894
Personal income tax	316	310	301	281	277	269
Flat-rate personal income tax	371	326	248	366	323	243
Flat-rate corporate income tax	29	77	76	28	77	75
Tax on goods and services (VAT)	214	129	109	33	22	25
Local taxes, including:	**91**	**66**	**86**	**20**	**21**	**21**
Tax on vehicles	55	23	40	0	0	0
real estate tax	24	30	33	13	14	15
Fee for perpetual usufruct	9	10	9	6	6	6
Other taxes and fees	3	3	4	1	1	1
Total taxes:	**3568**	**3469**	**3015**	**2998**	**2945**	**2607**

Note: The table presents data of the subsidiaries which were a part of the Bank's Group at the year end and had taxation liabilities to the Polish state budget.

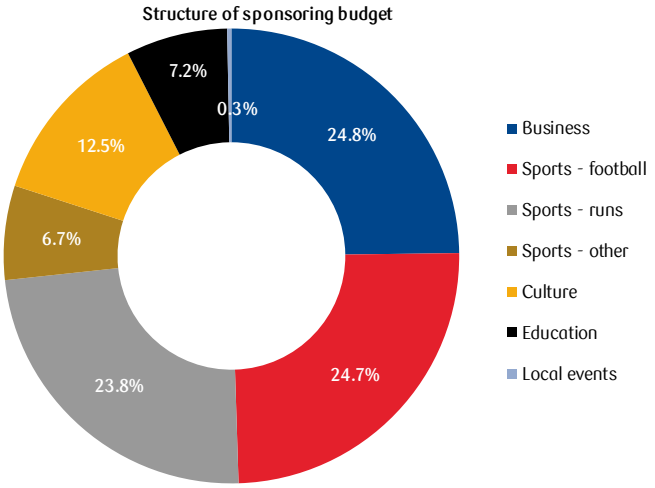
As part of their operations, the Bank and other entities of the Bank's Group support the state budget and local budgets. According to data published by the Ministry of Finance, PKO Bank Polski SA was the biggest CIT payer in Poland in 2018. For the year 2019, the amount of taxes of entities of the Bank's Group operating in Poland totalled PLN 3 568 million, of which PLN 3 477 million were central taxes and PLN 91 million were local taxes. The Bank's subsidiaries paid UAH 314 million of central taxes to the Ukrainian budget and UAH 105 million in respect of local taxes.

Additionally, in 2019 a dividend was paid for the year 2018 in the amount of PLN 1 662,5 million to the shareholders, including the state budget and the portfolios of Open Pension Funds.

INVOLVEMENT IN PRO-SOCIAL ACTIVITIES

INVOLVEMENT OF THE BANK IN PRO-SOCIAL ACTIVITIES

[GRI 102-12] For many years, the Bank has been initiating and implementing social projects combining business objectives with initiatives for all stakeholder groups. In accordance with the slogan of the current Strategy, the Bank develops relations with the community, actively performing activities for and with the community. It supports educational, civic, cultural and sports events and projects. The Bank is a socially responsible institution for which freedom and attachment to tradition are natural values. Therefore, it conducts activities that consolidate awareness and national identity, supporting the development of national heritage and popularizing the ideas of modern patriotism. The Bank implements this mission, among other things, through sponsorship and patronage of institutions and events.



Both the Bank, as a part of its sponsoring activities, and Fundacja PKO Banku Polskiego (the Foundation), as a part of its charity activities, verify every partner and beneficiary of the support provided. No negative impact on the Bank's image was identified in 2019 in these areas. Care for the rationality of the sponsorship and charity policies pursued is achieved through the synergy of activities. In the Foundation, the Programme Council consisting of representatives of the Bank takes care of this. The Bank and the Foundation implement projects jointly or separately in the most important programme areas in terms of image, such as culture, tradition, education and sport. Furthermore, the Foundation performs activities, the objectives of which are social welfare, protection of life and health and ecology. On the one hand, such a division of commitment to programme areas strengthens the Bank's image-related benefits, while on the other, it broadens their range.

a) Sponsorship activity

Objectives

The sponsorship activities of the Bank are aimed at promoting the Bank's image as a reliable financial institution, socially involved, modern and open to its Customers' needs. Another objective of sponsorship activities is to present the Bank as a financial market leader setting new trends and development directions for other institutions with the same profile.

An important aspect of the Bank's sponsorship activities is its commitment to projects inspired by history, promoting patriotic attitudes and the cultural heritage of our country. The Bank joins in and supports cultural events, such as exhibitions and concerts organized for anniversaries of important historical events or commemorating the achievements and attitudes of outstanding Poles. In 2019 the Bank celebrated its 100th anniversary, which was communicated during some of the official events and in media releases associated with projects.

The Bank implements sponsorship projects at both the national and local level and focuses on the following areas:

- culture and art – protecting the Polish cultural heritage, popularizing high culture;
- science and education – promoting sciences, taking care of the economic education of young Poles, supporting educational projects that promote digital solutions in finance;
- sport – encouraging physical activity, promoting mass sports, including running (often combined with charity events and events commemorating important events from the history of our country) and football though a partnership of the Bank with the Polish top football league;
- business – supporting Polish entrepreneurs, developing entrepreneurship and promoting innovation;
- events important for local communities – promoting the Bank's image as an important and active partner of business communities, local governments and cultural centres.

Principles of sponsorship policy

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

- the importance of the project;
- its business and/or image potential;
- the credibility of the organizer, ensuring an appropriate level of execution;
- the business environment in which the Bank appears as a sponsor;
- the budget.

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

In 2019, the Bank received 888 new applications, of which 270 were accepted. Overall, 317 sponsorship projects obtained financial support in 2019 (in addition to 270 new projects, 47 projects initiated in the previous years were continued).

Examples of support in the most important areas

- Business: support of business events (e.g.: Congress 590, Economic Forum in Krynica, European Financial Congress and Vision for Development Forum) as well as sectoral projects (e.g.: Retail Banking Congress, the Polish Chemistry Congress, the Railway Congress, the Air Market Congress), participation in industry competitions, e.g.: the EY Entrepreneur of the Year Competition, the Polish Firm - International Champion Competition.

  The Bank became involved in IT events, such as the Academic Championship of Poland, the Academic Championship of Europe and the International Collegiate Programming Contest, the Independent Nationwide Data Analysis Contest, the Woman in IT Career Day or Warsaw Java Meetup. The Bank took an active part in events promoting innovations in banking. They included: the Blockchain Hackathon, the UX Poland conference and the international programming marathon Hack Yeah. The Bank actively supported projects aimed at promoting modern technologies and young firms, such as the Infoshare conference – one of the largest technological conferences in Poland, which creates an ecosystem combining fintech with business, in which more than 6 000 persons and more than 300 startups participated in 2019. During the Infoshare conference, the Bank promoted a platform for innovation development called "Let's fintech with PKO Bank Polski" by talking to startups and seeking the most promising technological solutions available on the market.
- Culture: cooperation with museums, philharmonic orchestras, operas, theatres and film festivals. Support of anniversaries of important historical events or commemorating famous Poles, e.g. 200th birthday of Stanisław Moniuszko. For many years, the Bank has supported the Ale Kino! International Young Audience Film Festival, which promotes valuable international films for children and adolescents. The Bank's support made it possible to eliminate barriers preventing access to the Festivals by e.g. decreasing the ticket prices. The Ale Autobus! action carried out in primary schools provided transport to the cinemas in Poznań for children who were the most active in the SKO programme. Children from underprivileged and poor social groups can take part in the Festival free of charge.

As part of the celebrations of the Bank's 100th anniversary, an exhibition entitled "Art is an asset. From the PKO Bank Polski's collection". The exhibition was the outcome of long-lasting cooperation between the National Museum in Warsaw and PKO Bank Polski, which is a partner and sponsor of many of the museum's projects. The contemporary art collection of PKO Bank Polski was created in 1998 and the works were selected by Anda Rottenberg, who in the mid 1990s amassed the works of outstanding Polish artists representing three generations, such as: Stefan Gierowski, Jan Tarasin, Łukasz Korolkiewicz, Zofia Kulik, Teresa Murak and Olga Wolniak More than 30 out of the 70 works of art in the collection were on display at the exhibition.

- Sport: partnership in important sports events.

  The Bank supported 37 running events throughout Poland in 2019 as part of the "PKO Bank Polski. Let's Run Together" programme. The following should be noted in particular: PKO Bieg Niepodległości (the Independence Run) in Warsaw, PKO Bieg Powstania Warszawskiego (the Warsaw Uprising Run), PKO Bieg Konstytucji 3 Maja (the Constitution of 3 May 1791 Run) in Warsaw, PKO Białystok Półmaraton (the Białystok Half Marathon), PKO Bydgoski Festiwal Biegowy (the Bydgoszcz Running Festival), PKO Nocny Wrocław Półmaraton (the Wrocław Night Half Marathon), PKO Poznań Półmaraton (the Poznań Half Marathon), PKO Półmaraton Rzeszów (the Rzeszów Half Marathon), and the runs in the PKO Grand Prix Gdynia series. As part of the "Let's Run Together" programme, free of charge running training as part of the "BiegamBoLubię" [IRunBecauseILikeTo] campaign are organized at nearly 100 athletic stadiums throughout Poland. The activities are managed by professional trainers and they are open to all those who want to ensure their good physical condition and well-being.

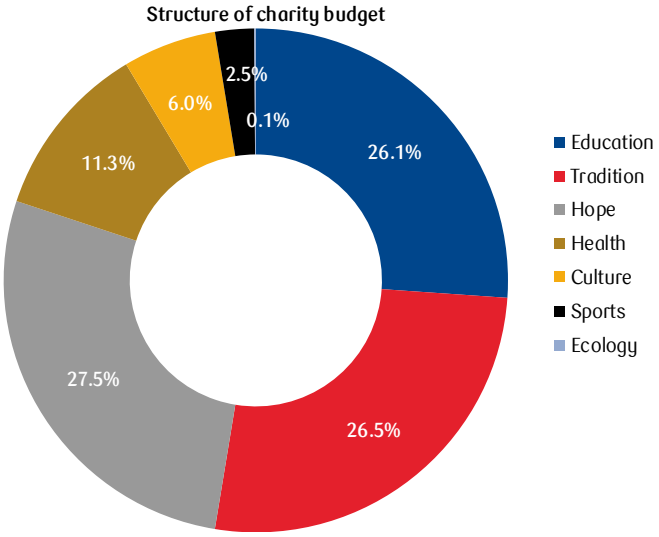
  Apart from the running events, the Bank also supported other prestigious sports events, such as Cavaliada – a series of International Show Jumping Contests and the Sail Szczecin Days of the Sea 2019.

  PKO Bank Polski SA is the main partner of the Polish Extra League (Ekstraklasa). As part of this cooperation, a number of initiatives were taken, including social media channels, cooperation with the "Magazyn GOL" TV programme, player escorts for matches and a number of contests. By engaging in long-term cooperation with Ekstraklasa, the Bank wants to contribute actively to development of the league and young football talents in Poland. One of the events that support this objective is the election of the PKO Bank Polski Young Player of the Month, i.e. the best Polish football player under the age of 21. At the beginning of the year, Official Ekstraklasa Cards - the images of payment cards with various football clubs - were presented. It is the only such product on the market, which was very well received by the Customers and the media. The cards provide a number of benefits for football fans, e.g. their holders may win invitations to matches of their favourite teams (also to the special Fan's Couch located near the sideline).

  In the second half of 2019, the Bank launched the Partnership Programme for the Ekstraklasa clubs – a project aimed at supporting development and innovation in sports marketing. This new initiative will allow the clubs to obtain significant extra funds from the promotion of bank products among their fans. It is the first project in the history of Polish football, which may so significantly improve the financial stability of football clubs.

Support for the Polish National Foundation (PFN)

The Bank is one of the founders of the Polish National Foundation (PFN), the mission of which is to "promote our successes in science, extensive culture, wonderful history and unique nature". According to the PFN's by-laws, each of the founders was obliged to make contributions to the Foundation's founding fund and make annual payments towards the organization's activities for 10 years (starting from 2017).



b) Charity activities

Principles and objectives of the charity activities

The Foundation substantively and financially supports projects of importance to the development of Poland, implemented for and in consultation with the local communities, serving the purpose of

building civic society.

The scope of the Foundation's activities is specified in the Foundation's By-laws, while the principles of cooperation between the Bank and the Foundation are governed by the agreement Grants awarded by the Bank based on the resolutions of the Management Board constituted the main source of financing of the Foundation's statutory objectives in 2019. Additionally, the Bank transfers to the Foundation a part of the profit generated on noncash transactions concluded with charity cards Inteligo Visa payWave "Dobro procentuje" [Good pays interest](130 000 Customers of the Bank hold such cards). The support is designated to one of the four charity initiatives, selected by the Customer.

Programme areas

In 2019, the Foundation received 1 114 applications for granting monetary donations for social activities. 592 projects were approved. 86 applications remained to be considered in 2020. The donation is transferred under a donation agreement concluded and between the Foundation and the project partner.

The Foundation also transfers donations in kind to non-governmental organizations, in the form of IT hardware and furniture withdrawn from use from various banking units. In 2019, furniture was donated to 60 organizations.

Examples of support in the most important areas

- Tradition: supporting initiatives that consolidate national awareness, support the development of national heritage and develop civic attitudes (the Foundation works, among other things, with the Warsaw Uprising Museum, the Maciej Frankiewicz Foundation, and the Cultural Heritage Foundation);
- Education: cooperation, among other things, with the Siemacha Association, the Youth Initiatives Foundation, the Polish Economic Society, the Museum of Jozef Piłsudski in Sulejówek and the Jagiellonian Club on the Academy of Modern Patriotism project;
- Hope: help for people under threat of exclusion, victims and the disabled in cooperation with, among other things, the Disabled Drivers Association "SPiNKa", the Aid for Widows and Orphans of Killed Police Officers Foundation, the Friends of Integration Association.
- Environment: aid for initiatives that inspire sensitivity to nature and teach respect for nature. The initiatives that received support include:
- the art contest "Nature is your friend – respect water, respect forests" on environmental topics for children from foster families, occupational therapy participants, assisted housing residents, pupils in special education – combined with a lecture on environment protection;
- the Wisłobadacze (River Vistula Explorers) project, organized by the River Vistula Year Foundation, consisting of a series of environmental workshops on the River Vistula for Warsaw schoolchildren;
- the project of the Batory Secondary School Foundation on the protection of the coral reef water ecosystem in Australia, carried out in cooperation with the international organization IVHQ, as part of which educational materials on environmental protection and global problems associated with climate changes were prepared.

Own projects

The Foundation also implements its own projects, including:

- Integration Santa Claus Meetings for children in institutional care and children of the Bank's employees. More than 5 000 children took part in group Christmas fun in 2019 at 40 meetings in 25 towns in Poland. Gifts were distributed to 6 000 children of the employees of the Bank, the Bank's Group and cooperating entities; the activities were supported by 70 volunteers;
- The Banking Honorary Blood Donation Campaign, the objective of which is to raise further generations of honorary blood donors. 1 722 people joined the campaign in 2019, thanks to whom nearly 800 litres of blood were provided to those in need;
- Charity running campaign "I am running for..." 70 events were organized in 2019 and 42 414 runners participated in them, collecting PLN 799 000, from which 82 persons benefited (61 children and 21 adults). A total of 448 such events have been conducted since the start of the programme, i.e. since 2013, with nearly 202 700 people taking part, while the Foundation supported 511 beneficiaries with more the PLN 6 075 million;
- PKO Charity Run - 9 248 people took part (both adults and children). The runners ran a total of 44 862 laps. 5 725 athletes took part in the main run, and 3 523 children took part in the PKO Young Charity Run. Thanks to them the Foundation designated PLN 1 066 million for 47 child care institutions, for additional extracurricular activities. Moreover, the supporters who were the best at cheering on their relay teams could choose an additional charity purpose for which the Foundation gave PLN 130 000, supporting 17 institutions and three persons (medical

treatment). Moreover, as part of the celebrations of the 100th anniversary of the Bank, a family picnic was organized, during which whole families could take part in fitness games or relax after the race.

- The Bank's Collection - as part of the programme promoting the works of young artists, the Foundation performed a number of actions aimed at supporting and promoting Polish modern art: it organized and financed open air painting events for art schools and individual exhibitions of outstanding students. It also supported "after the hours" artistic activities of Bank employees by showing their works (stained glass, jewellery, paintings, etc.). Events organized as part of the programme also included an exhibition of a patient of the Warsaw Hospice for Children and young people with Down's syndrome from the Special School No. 105 in Warsaw;
- Aid for a start – a project financed with funds generated by the Bank's charity campaign "Pomaganie przez zbliżanie" [Helping through getting close]. The aim of the project was to provide financial aid to charges of children's homes, institutions and foster care who have attained full age and those who have left an institution or foster care. The purpose of such aid was to support the process of gaining independence and equal chances with the rest of the society. The project was executed with the support of 52 volunteers (Bank employees) from all parts of Poland. It was the first large project of this type in which so many employees of the Bank were involved in the regions. 128 persons received support as a result of the actions taken. The aid was mainly addressed to persons beginning an independent life.
- "Busola na start" [Compass for a start] – an original project of the Foundation executed in cooperation with the Bank. This project is a response to an important social need, which has been noted in the NIK (the Supreme Audit Office) report "Aid for young adults brought up in foster care who are starting an independent life" published in December 2014. The actions focus on helping young people find internships/ on-the-job training with a perspective of finding permanent employment. A skilled person who works with young adults on a daily basis teaches the participants practical skills that are needed in adult life. At the same time, the participants develop their professional skills and other practical skills in the Bank's structure to facilitate the process of starting an independent life outside the institution. Up to the end of 2019, 22 interns were taken in and 4 of them were subsequently employed.

Involvement of the remaining entities from the Bank's Group in pro-social activity

The Bank (within the scope of sponsorship activities) and the Foundation (within the scope of activities for public benefit) conduct pro-social activities on behalf of the remaining entities from the Bank's Group.

Moreover, in 2019, some of the subsidiaries carried out a dozen or so projects on their own initiative, which were addressed to local communities.

- PKO Leasing SA when carrying out its programme "We can do more together, not only in business" in which the company's employees participate, renovated and equipped the facilities of the Special Education Centre in Ostrołęka, built an interactive space for children from the Children's Home in Szymanów, built a Therapeutic Memory Stream and renovated a Home for Single Mothers in Łódź;
- PKO TFI SA helped individuals who faced problems due to disability, illness, poverty or personal circumstances;
- PKO Życie Towarzystwo Ubezpieczeniowe SA and PKO Towarzystwo Ubezpieczeń SA were involved in social campaigns relating to healthcare and providing aid to persons in need, such as: Mammobus (breast cancer prevention), aid for senior citizens' homes or aid for homeless animals in shelters;
- "Sopot Zdrój" sp. z o.o., a Centrum Haffnera Group company, supported local social initiatives by providing conference rooms and the participation of its employees in events such as Christmas parties for children from families receiving help from municipal social aid institutions, Christmas Eve for senior citizens who are clients of municipal social aid institutions, preparing Christmas gift packages for families in need.

KREDOBANK SA conducts its own pro-social activities focusing on the following objectives:

- building the image of KREDOBANK SA (a representative of the Group of the largest Polish bank and the biggest Polish investment in Ukraine) as a "bridge" between Ukraine and Poland, including: support for the 27th Charity Fair "IWCK Charity Bazaar" in Kiev, which is organized by the Consulate of the Republic of Poland, the Kharkiv IT Cluster, the statutory activities of the non-governmental organization "the Ukrainian Taxpayers Association";
- support of the Ukrainian culture and spirituality, including support for: the B.G. Woźnicki National Art Gallery in Lviv, the making of the film "Pogoń Lwów. 10 years", the Odessa National Opera Charity Foundation, the 6th International Festival "Music in Old Lviv", and the preparation of a monograph entitled "Outline of the Lviv Medical Association" by the Polish Cultural Association of the Lviv Region;

- support of initiatives in the areas of healthcare, sport and education, including: aid for Maternity Hospital no. 1 in Lviv in the form of the purchase of intensive therapy equipment, aid for Children's Home no. 1 in Lviv (for children with central nervous system disorders and psychological problems), support for conducting a contest for children "Ecology of awareness: prevent indifference that destroys the world".

In 2019, KREDOBANK SA was also involved in projects initiated by its employees, including:

- open lessons on finance in schools (12 volunteers, including Management Board members, conducted 15 lessons for about 500 school students in Lviv and other regions);
- the "Letter to Santa Claus" campaign whose aim was to make the dreams of children in need come true (120 volunteers collected gifts and organized aid and Christmas parties for children with mental disability).

DEVELOPMENT OF VOLUNTEER WORK

The Foundation encourages the employees of all the Group's entities to become involved in work for local communities. The involvement of the employees in charity activities is steadily increasing (1 583 registered volunteers at the end of 2019, i.e. 141 more than a year before). Volunteers not only join the projects initiated by the Foundation, but often initiate them themselves.

On 3-4 December 2019, gifts were collected for the residents of Homes for Single Mothers from all parts of Poland ("Let's not wait – help"). The residents received food with long use by dates, cleaning products and cosmetics, new clothes for children, toys and books. It was reported to the Foundation that the employees of more than 80 units from all parts of Poland participated in Christmas charity events and provided aid to 26 institutions.

The Aid for a Start project (financed from funds raised during the PKO Bank Polski charity campaign "Pomaganie przez zbliżanie" [Helping by getting close] aimed at supporting the process of gaining independence by and providing equal chances to persons brought up in children's homes, institutions and foster care) was conducted with the participation of 52 volunteers from all parts of Poland, who identified the needs and selected the persons who would receive support, at the same time helping them complete formalities and properly account for the aid received. As a result of the work of the volunteers, 128 persons received support in the process of starting an independent adult life.

Since 2017, the Foundation's own project "Busola na start" [Compass for a start] has been in operation. Due to the need to provide systemic aid to foster care wards in the process of their professional stimulation, the Bank offers them the possibility of apprenticeship/internship with an opportunity to obtain long-term employment. The professional guardians (the Bank's employees) not only care for the professional development of the young people but are also their guardians/mentors in the process of gaining practical life skills. Each of the guardians is also a volunteer.

12.5.7 USE OF STATE AID AND PUBLIC PROCUREMENT

State aid received
Revenue from public procurement
Cooperation with the public sector

STATE AID RECEIVED

The Bank did not record any significant receipts from State aid in 2019. The Bank and two subsidiaries were granted property tax relief totalling PLN 188 000.[42] In the majority of cases, the final beneficiary of this aid was the lessee of the real estate to which the relief was related.

REVENUE FROM PUBLIC PROCUREMENT

In 2019, three subsidiaries obtained revenues from the sale of products and services to public entities as part of the public procurement scheme amounting to PLN 7.5 million.

[42] The information does not cover receipts between the Bank's Group entities.

COOPERATION WITH THE PUBLIC SECTOR

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

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

The Bank is also a member of Fundacja Polska Bezgotowkowa [Cashless Poland Foundation], which promotes the development of non-cash payments.

The Bank maintains the position of a leader on the market of servicing the public sector: it services the budgets of 9 voivodships and 9 voivodship cities The share of loans provided to local authority units as at the end of 2019 was 16.5%.

Public sector Customers appreciate the long and extensive experience of PKO Bank Polski in the cooperation with public sector Customers, its wide distribution network, comprehensive offer of cash management products, and the latest technological solutions offered by the Bank, which are adapted to the changing market environment and guarantee the safety of deposits. In connection with the amendment to the Act of 22 March 2018 on court bailiffs, which entered into force on 1 January 2019, a special type of account addressed to this group of Customers and satisfying the requirements of the Act was added to the Bank's offer.

The agreements concluded by the Bank with public sector Customers in 2019 include:

- the agreement for opening and maintaining consolidated FUS, FEP and ZUS accounts and execution of mass payments;
- comprehensive banking services for the budget of the city of Poznań and its organizational units, including an overdraft;
- comprehensive banking services for the budget of the city of Gorzów Wielkopolski and its organizational units, including an overdraft;
- comprehensive banking services for the budget of the Wielkopolskie voivodship and its organizational units, including an overdraft;
- a syndicated loan for the company Fabryka Wody sp. z o.o. for financing the project of building the "Fabryka Wody – Nowa Gontyka" Water Park in Szczecin in the amount of PLN 329.6 million (of which the Bank's share was PLN 109.9 million);
- a syndicated loan for the company Kujawsko-Pomorskie Inwestycje Regionalne sp. z o.o. for financing projects associated with the modernization of voivodship roads in the amount of PLN 125 million (of which the Bank's share was PLN 62.5 million).

In February 2019, PKO Bank Polski SA with a consortium of foreign banks arranged and placed on the euro market the third and fourth issues of the Polish green treasury bonds (green bonds). The consortium of banks with the participation of PKO Bank Polski SA sold 10-year and 30-year green bonds with a total value of EUR 2 billion. 10-year bonds were sold for EUR 1.5 billion with a yield of 1.057% (i.e. 35 bp above the mid swap rate), and 30-year bonds were sold for EUR 500 million with a yield of 2.071% (77 bp above mid swap). More than 200 investors took part in the transaction.

It should be noted that PKO Bank Polski SA also participated in the previous two issues of green bonds, including the first ever issue of the Polish treasury green bonds (in 2016), which was also the first such transaction in the world.

Green bonds are debt instruments used for raising funds for the financing of investments aimed at mitigating the adverse effect of human activity on the natural environment. The range of products financed is very wide: from transport infrastructure through energy efficient construction and renewable energy sources to waste management.

12.5.8 OTHER SOCIAL AND MARKET ISSUES

Cooperation with external entities in the area of banking activities
Cooperation with suppliers of goods and services related to the ongoing procurement of the Bank's Group entities

COOPERATION WITH EXTERNAL ENTITIES IN THE AREA OF BANKING ACTIVITIES

OPERATIONAL RISK RELATED TO OUTSOURCING BANKING ACTIVITIES TO EXTERNAL ENTITIES

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

In accordance with the Bank's internal regulations regarding operational risk management, contracting for the performance of activities for the Bank to external entities other than agents and intermediaries (outsourcing), cooperation with agents, brokers and online brokers, risk management related to outsourcing activities to external entities at the Bank applies to all stages of outsourcing, starting from planning the outsourcing of activities, through the selection of the entity that will perform the activities, the conclusion of the outsourcing contract, monitoring cooperation and ending the cooperation.

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

- evaluates the contractor at the stage of selection of the external entity, in particular his credibility and financial situation and the possibility of ensuring continuity of the operations entrusted under the outsourcing agreements;
- maintains and regularly updates the record of agreements concluded, including information about the external entities to which the Bank outsourced the operations;
- ensures that the interests of the Bank and its Customers are appropriately secured in contracts with contractors (including securing data which is subject to bank secrecy);
- has contingency plans of the Bank and of the contractors to ensure the continuous and uninterrupted operation of the activities encompassed by the outsourcing contract and reviews the documents in order to keep them up to date;
- evaluates the risk related to entrusting activities at the stage of planning the outsourcing of activities in the case of every material change in the contract and during the annual assessment of operational risk related to the performance of the outsourcing contract;
- supervises the performance of contracts, reports irregularities in the contracts' execution, calculates and monitors the KRI indicators providing information about the scale of breaches in the cooperation with external entities;
- performs an annual assessment of the cooperation with external entities executing outsourcing contracts, and reports its result to the relevant bodies.

Operational risk management related to outsourcing services to external entities in the Bank's Group also takes place at PKO Bank Hipoteczny SA, which applies the Bank's best practice in outsourcing-related operational risk management, as the Bank's wholly owned subsidiary. The procedures implemented at PKO Bank Hipoteczny SA correspond to the standards applied at the Bank.

Cooperation of KREDOBANK SA with agents and partners has been regulated in the internal regulations of KREDOBANK SA. Establishing cooperation with external entities to entrust to them the performance of activities on behalf of KREDOBANK SA is preceded by conducting an assessment of risk related to entrusting these activities.

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

The task of the Bank's Procurement Department is to punctually supply the materials and services needed of the required quality. In addition to the Bank's interest in a broad sense, the Procurement Department oversees the compliance of the procurement processes at the Bank with the principles of ethics, including the principle of treating all participants equally. When selecting suppliers, the Bank also takes into account certain criteria other than the price, including compliance with business ethics, aiming towards transparent relationships with suppliers. The procurement policy is developed based on best market practice. The main regulatory provisions are the Principles and Procedures of purchasing goods and services at the Bank.

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

- honouring the accepted arrangements and obligations;
- settling payments and other liabilities on time and in accordance with the agreed contractual terms;

- resolving difficult and conflict situations through dialogue;
- verifying suppliers only on the basis of substantive and business premises;
- informing suppliers about standards of conduct.

Payment terms in contracts with suppliers vary according to the supplier's standard contracts and individual arrangements. The standard term at the Bank is 30 days (more than half of the analysed contracts), but, in many cases, the term is shorter (usually 14 days). In the Bank's Group, the payment terms are shorter which is due to the subsidiaries: 14-day payment terms are prevalent (60% of contracts) and a large percentage of payment terms are regulated in individual contracts with suppliers, depending on the type of contract and the company's policy.

The Bank and the other entities from the Bank's Group approach the issue of settling their liabilities to suppliers in a timely manner with due care and diligence. In 2019, as in the previous year, the value of invoices paid late, on which default interest was charged, constituted a marginal percentage of all the invoices paid and it decreased significantly in the entire Bank's Group. The list does not include payments, a possible delay in which was agreed with the supplier, because the collection of this information would be excessively laborious.

Table 33. Share of the value of invoices on which interest was paid in the total value of invoices paid in the Bank's Group (including the Bank)

	GROUP			BANK		
	2019	2018	2017	2019	2018	2017
Share in total value of invoices (%)	0.024	0.114	1.053	0.001	0.039	0.003

Suppliers who are interested in starting cooperation with the Bank may register at the 'PKO Zakupy' procurement platform on their own. Every such supplier must be approved by an employee of the Procurement Department. The suppliers who have been approved may take part in procurement proceedings.

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

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

Suppliers receive a survey from the Bank once a year, which provides valuable information on the procurement process. The survey results and the comments collected are consolidated in an anonymous form, aggregated and analysed. The survey allows the Bank to review its procurement policies regularly in order to improve the process of procurement of goods and services.

In 2019, the Bank conducted the procedure of renewal of its CIPS (Chartered Institute of Procurement and Supply) certificate obtained in 2016, which confirms that the organization has implemented the highest procurement standards. The CIPS Corporate Certification is globally recognized confirmation that an organization has achieved the highest global quality in the area of procurement. It also certifies its compliance with the principles of ethics and global trends in Corporate Social Responsibility (CSR). Therefore, the Certificate is proof that PKO Bank Polski is a reliable and solid business partner for its Customers and Suppliers and that it strives to continuously improve its operating processes. PKO Bank Polski is the first financial institution in Poland to obtain this prestigious certificate.

[GRI 414-1] In 2019, all new suppliers (417) were verified in terms of social criteria.

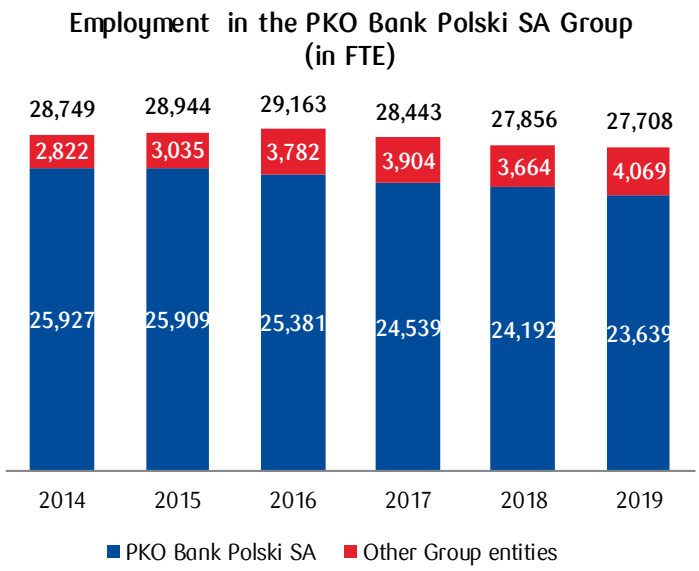
[GRI 414-2] No negative social impact was noted in the supply chain.

12.6 EMPLOYMENT MATTERS

12.6.1 LEVEL OF EMPLOYMENT AND LEVEL OF SALARIES

Employment Salaries Additional benefits Recruitment policy

EMPLOYMENT



The employment policy at the Bank and the Bank's Group is based on the principle that every employee is important, regardless of their sex, age, health, sexual orientation, religious denomination, marital status or country of origin.

[GRI 102-8] As at 31 December 2019, the number of employees in the Bank's Group was 27 700 FTEs, 85% of which were the Bank's employees (23 600 FTEs). The majority of employees were women (74%). Employees aged 30-50 were the largest age group in both the Bank's Group and the Bank (63% in the Group and 61% in the Bank, respectively).
Most employees of the Bank's Group and the Bank are employed full time. Most of those who work part time are women. Regular workers constitute 87% of the employees of the Bank's Group and 88% of the employees of the Bank; the rest are middle and senior managers. 72% of the Bank's employees have been employed for more than 10 years (68% of the employees of the Bank's Group).

Table 34. Structure of employment in the Bank and the Bank's Group by type of position, age, working time and gender [GRI 405-1]

	Bank			Bank's Group		
	women	men	total	women	men	total
by job group and gender						
regular employees	77%	23%	88%	76%	24%	87%
middle management	69%	31%	7%	66%	34%	8%
senior management	56%	44%	5%	52%	48%	5%
total	75%	25%	100%	74%	26%	100%
by age group and gender						
up to 30 years	72%	28%	13%	71%	29%	15%
from 30 to 50 years	72%	28%	61%	71%	29%	63%
above 50 years	84%	16%	25%	83%	17%	23%
total	75%	25%	100%	74%	26%	100%
Full-time vs part-time employment						
Full-time	75%	25%	99%	74%	26%	98%
Part-time	77%	23%	1%	65%	34%	2%
Total number of employees	**75%**	**25%**	**100%**	**74%**	**26%**	**100%**

Share in number of employed by sex or in the total number of employed

Fluctuation index calculated as the ratio of employees terminated in 2019 to the number of employees as at the end of 2018 was 14% for the Bank and 15% for the Bank's Group. The fluctuation was much higher among women than men.

Table 35. New employees and fluctuation in the Bank and the Bank's Group by age group and gender [GRI 401-1]

	Bank	Bank's Group	Bank	Bank's Group
	newly hired		turnover index	
<30	50%	46%	4%	5%
30-50	47%	50%	7%	8%
>50	3%	4%	3%	3%
Total	12%	15%	14%	15%
women	68%	66%	10%	11%
men	32%	34%	4%	4%
Total	12%	15%	14%	15%

Share in the total number of employed

Table 36. Returns to work after parental leave [GRI 401-3]

	Bank		Bank's Group	
parental leave	women	men	women	men
Employees who used parental leave in 2019	953	6	1155	10
Employees who returned to work in the reporting period after the end of parental leave in 2019	628	6	747	8
Employees who returned to work in the reporting period after the end of parental leave, and who are employed at the end of the year	549	6	654	8
share of returns to work after parental leave	66%	100%	65%	80%
share of employees who returned from parental leave and remained at work	58%	100%	57%	80%

Men also used parental leave and after returning to work they remained employed as at the end of the year. In the case of women, some of them terminated their employment after returning from leave.

SALARIES

The Policy for remunerating the employees of the Bank and the Bank's Group ensures a consistent salary system by:

- applying a salary system which is in line with market trends, acquiring optimal job candidates;
- adjusting mechanisms, tools and salary levels to the Bank's and Bank Group's strategy and goals;
- taking into account the Bank Group's ability to shape the desired mechanisms and salary levels;
- setting permanent salaries on the basis of job valuations;
- developing the remuneration structure on the basis of the results of work achieved and appraisal of the skills of the employees;
- building employee responsibility for the tasks being assessed on the basis of objectivized criteria;
- ensuring that the variable components of the salaries are parameterized so that they take into account the Bank's and Bank Group's long-term cost of risk, the capital cost and liquidity risk;
- establishing a system in which monetary or non-monetary forms of remuneration do not encourage the people involved to favour their own interests or the interests of the Bank and other entities from the Bank's Group to the detriment of Customers.

[GRI 102-41] A Collective Bargaining Agreement concluded with the company's trade union organizations is in force at the Bank, regulating, among other things, salary issues. According to the Collective Bargaining Agreement, the Bank's employees are entitled to the following salary components: (i) a basic salary, (ii) allowances for working overtime and in conditions which are particularly onerous and harmful to their health, (iii) bonuses and rewards for special achievements at work.

Basic salaries and additional benefits granted to employees are set on the basis of job valuations and an analysis of market salaries.

The Bank has a bonus system under which the amount of a bonus depends on achieving set targets. The targets set for the employees are related to the Bank's key management indicators.

Apart from the bonus system, there is a system for awarding the Bank's employees. Employees may receive awards:

- individually – for those employees who achieve outstanding professional results or attainments bringing important effects for the Bank;
- for recommending candidates for the Bank's employees;
- for actions related to employee retention.

The key actions related to the Bank's employee remuneration system in 2019 included:

- award campaigns for the Bank's financial results;
- sales support campaigns for employees of selected organizational units – in particular for employees of the retail network units. The competition winners were awarded financial prizes and additional training raising their professional qualifications.

In the Bank's Group entities, depending on the level of employment, the principles of remunerating employees are defined in the salary regulations and in the employment contracts or just in the employment contracts. In the individual entities belonging to the Bank's Group there are separate bonus systems for the employees.

The average gross basic salary in the Bank's Group in 2019 was PLN 6 300 (excluding the salaries of the Management Boards of the Bank's Group entities), and in the Bank it was PLN 6 500.

Table 37. Average salary by gender and the relation of women's to men's salaries [GRI 405-2]

	BANK			GROUP		
	2019	2018	2017	2019	2018	2017
Average basic salary (in PLN thousand)	6.5	6.1	6.0	6.3	5.9	5.7
women	5.7	5.4	5.3	5.5	5.2	5.0
men	8.8	8.3	8.2	8.4	8.0	7.8
Ratio of women's to men's salary (%)	65	65	65	65	64	65
regular employees	70			70		
middle management	76			79		
senior management	73			77		

The employment policy does not discriminate employees based on their gender. The number of women in the Bank's Group is three times higher than the number of men. Moreover, there are positions on which mainly women are employed, and they include mainly sales and Customer service positions. Women represent 85% of the sales force.
Due to the fact that the number of women in the Bank's Group is three times higher than the number of men, there are positions in which only women are employed, and there are considerably more women among the regular employees. This affects the general ratio of women's salaries to men's salaries, which amounts to only 65% in the Bank's Group (the salary gap is 35%. The differences between the salaries of women and men are lower if the type of position and unit is taken into account.

Table 38. Percentage of women in the number of employees and the relation of women's to men's salaries by type of entity and position [GRI 405-2]

		Regular employees	Middle management	Senior management	TOTAL
Head Office	Share of women in the number of employees (%)	49	50	35	48
Sales network (retail and corporate)		88	80	62	85
Specialist business units		73	60	45	72
Total		77	69	56	75
Head Office	Ratio of women's to men's salary (%)	86	83	90	82
Sales network (retail and corporate)		85	85	85	72
Specialist business units		80	88	87	74

ADDITIONAL BENEFITS

Additional benefits offered in the Bank and in the Group manifest the care for the level of satisfaction of the employees. The range of additional benefits offered is wide. Moreover, the Bank finds it important to adapt the benefits offered to its employees to the trends on the labour market because activities in this respect are strictly correlated with creating the Bank's image as a good employer.

The main additional benefits offered to the employees include:

- Medical care

The Bank provides additional medical care, to which the employees are entitled according to differentiated packages of benefits dedicated to specific groups of jobs. All employees have the opportunity to benefit from medical consultations with doctors of all specializations and a wide range of diagnostic examinations free of charge. The employees are also able to benefit from the prophylaxis programme called "Zdrowie jak w Banku" [Guaranteed health], which has the objective of the early detection of diseases and the promotion of a healthy lifestyle. As part of the prophylaxis programme, the Bank's employees are entitled to annual medical check-ups. The employees are provided with additional materials on how to take care of their health and the provider of such materials, in cooperation with the Bank, organizes contests promoting a healthy lifestyle among the employees.

The employer regularly monitors the level of execution of the medical services by the supplier in order to ensure that the employees have the best possible access to such services.

Medical care is provided on equal terms to persons with permanent and temporary employment contracts and those who work part time and full time.

Service providers may use paid medical services generally within the same scope as the basic medical package provided to employees.

The other Group entities (operating in Poland) provide medical care to their employees on the terms negotiated with the provider of such services by the Bank, on the basis of separate agreements, and the medical care is provided to employees irrespective of the type of their employment contract or working time (full or part time).

- EPP- Employee Pension Programme

An Employee Pension Programme (EPP) has been operating at the Bank since 2013. Under this programme, employees are able to enter into a long-term savings programme to supplement their pension income received from the mandatory parts of the pension system. The Bank's EPP is operated in the form of an agreement on the Bank contributing a Basic Contribution (3.5% of an employee's salary) and the Additional Employee Contribution to Investment Funds managed by PKO TFI SA.

The principles for joining EPP are the same whether the employee works full or part time and whether his/her employment contract is temporary or permanent.

Employee Pension Programmes are also provided to the employees of the larger companies of the Group. The pension programmes are provided to employees irrespective of the type of their employment contract or working time (full or part time).

- Cafeteria system and related benefits

Employees can benefit from the MyBenefit cafeteria system financed with funds from the Corporate Social Benefits Fund (CSBF), enabling the employees to select their preferred additional benefits. An employee may use the awarded funds for recreation, sport or shopping in various shops, on cultural events and other dedicated activities according to her/his preferences, including childcare in nurseries or kindergartens. The level of funds received from the cafeteria depends on the gross income per person in a given family. Cafeteria benefits are also provided to persons who have employment contracts for a limited period or work part time on equal terms to those who have employment contracts for an unlimited period.

Some of the other Group companies also offer the possibility of using the MyBenefit platform to their employees, and the remaining entities provide other benefits, such as e.g. vouchers.

- Sports cards

Good practice at the Bank and other Group companies is to provide employees with the ability to use sports cards. In view of promoting healthy lifestyle among employees, the Bank provides them with the opportunity of buying several

types of sports cards so as to ensure that they obtain a benefit that is best adapted to their needs, and thus really support their pro-health activity.

- Other benefits

The list of additional benefits offered at the Bank also includes offers and discounts for the Bank's employees and the possibility of joining group insurance. The Bank supports sports initiatives and activities (for example, there are running, mountain sports and football teams at the Bank) and the employees' charity activities.

[GRI 401-2] All non-salary benefits are available to employees irrespective of their type of contract or working time (full or part time).

Table 39. Major non-salary benefits for the employees in 2019

	Number of beneficiaries	Share in total employment (%)
BANK		
Medical packages*	23 688	100
Employee pension programme	18 428	78
Subsidization of organized recreation	4 198	18
Welfare payments	948	4
Housing advances	3 640	15
Benefits available from MyBenefit platform or special social benefits, such as Christmas bonuses	23 701	100
Sports cards	4 610	19
GROUP		
Medical packages*	27 385	98
Employee pension programme	19 515	70
Subsidization of organized recreation	4 528	16
Welfare payments	1 083	4
Housing advances	3 646	13
Benefits available from MyBenefit platform or special social benefits, such as Christmas bonuses	25 241	90
Sports cards	5 446	19

*medical packages are not used by people who work in foreign branches

RECRUITMENT POLICY

The objective of the recruitment policy at the Bank's Group is to acquire the best candidates from external sources and promote internal talents as well. As a result, the Bank employs persons with different types of professional experience and skills.

The Bank encourages employees to take part in internal recruitment (in the entire Bank's Group) as part of their professional development in other business areas.

In 2019, an image campaign Dzień dobry w pracy [Welcome to work] and #ZajmijStanowisko [#TakeAStand] was undertaken. The campaign is focused on the Bank's employees who reliably present the Bank as an attractive workplace. A new career portal was launched on the Bank's website www.pkobp/kariera and new templates of recruitment announcements were designed and implemented. At the same time, extensive promotional activities were carried out in the social media with the use of dedicated graphics prepared by recruiters for the purpose of job announcements.

In connection with dynamic changes on the job market, the Bank takes ad hoc actions aimed at obtaining candidates with specific skills or for positions that require targeted image-related activities.

The Bank cares about the candidates' experience in the recruitment process by diversifying the channels of reaching different groups of candidates, shortening the recruitment time or applying modern selection methods. At the same time, the candidates' experience is analysed for the purposes of improving the recruitment process. In this area, in 2019 a Candidate Experience survey was carried out – the candidates completed a brief online questionnaire in which they were asked to assess the various stages of the recruitment process.

In the recruitment process, the Bank and the entities from the Bank's Group care about human rights and ensure equal opportunities. The recruitment policy is based on high standards of counteracting discrimination and personal data protection with the support of modern technologies and information systems.

In 2019, the Recommendation Programme was extended. Its purpose is to encourage the Bank's employees to join in the process of looking for appropriate candidates to work in our organization. The programmes include about 100 job positions, for example, in areas such as the retail market, IT, corporate and investment banking and risk management for which the employees may recommend candidates with appropriate qualifications. Financial gratification is provided for an effective recommendation.

For years now, the Bank's strength has been to offer internships dedicated to students and young graduates. As part of the Internship Academies organized at the Bank in 2019, a total of nearly 307 persons were invited to internships in various areas, such as IT and data analytics.

Cooperation with universities and high schools is important. In 2019, a number of workshops were organized at selected universities in Poland and in the Bank's headquarters, during which the students had an opportunity to become acquainted with selected areas of operations.

The Bank also takes part in student projects. For example, it was a partner of the Build up your future and B in Banking student conferences organized by the academic clubs of the Warsaw University and the Warsaw School of Economics.

The Bank promotes itself as an employer at numerous job fairs, university fairs, hackathons, meet-ups and conferences. PKO Bank Polski SA is also the host of the Agile Warsaw meet-up, where it builds its position as an agility leader.

These actions improve the perception of the Bank as an attractive employer. In 2019, the Bank received several awards confirming yet again its attractiveness on the market among candidates.

In the prestigious ranking of employers – Universum Student Survey – the Bank was ranked 7th in the business category and 7th in the law category. Students rated the Bank highly for technological innovations, an ample package of employee benefits and ethical conduct. The Talent Survey conducted by an advisory firm Universum is one of the largest in the world. It encompasses professional preferences and goals, career and sectors in which the respondents would like to work. More than 18 000 students from 71 universities participated in last year's Polish edition, including students of business, law, engineering, IT, medicine, sciences and arts.

The Young Entrepreneurship Foundation granted the "Most Active Firm" title to PKO Bank Polski SA in the 15th edition of its "Day of Entrepreneurship". The Bank received this title for supporting secondary school students entering the job market and providing practical training in entrepreneurship and functioning in the world of finance.

12.6.2 RELATIONS WITH THE EMPLOYEE PARTY AND FREEDOM OF ASSOCIATION

Trade union organizations Support of employees

TRADE UNION ORGANIZATIONS

Employees are represented at the Bank by the trade unions and the Employee Council.

The Bank has two trade union organizations:
- The National Trade Union of PKO BP SA Employees;
- "Solidarity" Independent Self-Governing Trade Union of PKO BP SA Employees,

whereby only the former is a representative union.

Cooperation with these social partners takes place in accordance with the applicable regulations, including holding consultations in the case of planned organizational changes, resulting in significant changes in the organization of work, the level and basis of employment of employees.

The employer does not prevent the employees from joining the trade unions or acting as their members in any way.

Approx. 11% of the persons employed as at 31 December 2019 were trade union members.

The employees may report their complaints, opinions and suggestions through trade unions. All types of complaints may also be filed directly through a special box, in accordance with the procedure for reporting complaints and irregularities.

The Employee Council also operates at the Bank. The principles of cooperation with the Bank's Employee Council have been set in a separate agreement.

Meetings with trade unions and the Bank's Employee Council are organized as necessary – at least several times a year, and information on planned operational changes are communicated to the employee representatives without undue delay [GRI 402-1]. No operations or suppliers characterized by a high risk of restricting the freedom of association and collective bargaining agreements were identified in 2019 [GRI 407-1].

Moreover, 12 Ambassadors of Ethics were elected in 2019 in general elections by all employees of the Bank. Their main role is to support the Bank in promoting ethics.

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

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

SUPPORT OF EMPLOYEES

The Bank's employees may obtain any information on employee matters from one place by contacting the HR Contact Centre. A team of consultants answers questions, among other things, on HR and payroll support, social issues, recruitment and training. This solution accelerates and simplifies the communication process between employees and the HR services – the units responsible for personnel management.

12.6.3 DIVERSITY MANAGEMENT

POLICY ON MOBBING AND DISCRIMINATION

The Bank strongly opposes any forms of discrimination, intolerance and other behaviours that are in contrast with the organization's values, and promotes attitudes based on mutual trust among the employees. Any conduct that could suggest the presence of mobbing is unacceptable.

The Bank's policy regarding mobbing and discrimination is regulated in the internal regulations:

- the Bank's Employment Regulations;
- the Principles for counteracting mobbing and discrimination and the procedure for handling complaints concerning violation of employee rights.

The Code of Ethics of PKO Bank Polski SA also contains significant provisions concerning the attitudes and values promoted among the employees (detailed principles for management of ethics and similar activities are presented in the part of this report devoted to ethics management).

The Bank has internal regulations in place for counteracting mobbing and discrimination. These principles guarantee counteracting undesirable phenomena in employee relations and specify how to react to situations of interpersonal conflicts. Based on these principles, the Bank's employees may without worrying about the consequences report a complaint about any breach of employee rights defined in the commonly binding provisions of the law and the Bank's internal regulations. Moreover, an employee is entitled to additional support in the process of clarifying the complaint through a possibility of indicating a representative of a trade union organization or an employee representative appointed by internal regulations of the Bank – to participate in meetings with the employee or to submit opinions on the validity of the claim. Ongoing support to the employees is offered by the HR Contact Centre through which the employees may obtain up to date information about the way to report complaints and anonymous notifications of breaches of employee rights.

Complaints concerning widely defined breaches of employee rights are reviewed individually, therefore, optimal review deadlines are set for them separately, which enables formulating appropriate conclusions and recommendations or taking appropriate additional actions or HR-related decisions. In the course of verifying the complaints various methods are applied (for example, anonymous surveys, detailed interviews with employees, verification of fluctuation ratios and other HR data). Each time, when deciding what measures should be taken, the Bank takes into account care for ensuring the highest possible impartiality of the review, therefore, many times representatives of different entities participate in the process of clarifying the matter, in line with the Bank's organizational structure.

Other entities belonging to the Group also have the necessary solutions in their internal regulations guaranteeing compliance with the applicable law regarding the prevention of mobbing and discrimination – in separate regulations or through appropriate provisions in the employment regulations, ethics codes and other regulations applicable to a given company.

TRAINING

Appropriate diversity management contributes to increasing team work efficiency, improving the atmosphere at work, retaining valuable and experienced employees, improving innovation and creativity. For these reasons, such training is organized at the Bank. Managers participating in such training acquire knowledge and skills in the area of management of diverse teams, which makes it possible to eliminate undesirable behaviour and situations and support valuable and positive ones.

The scope of diversity management training was tailored to the needs of the employees in 2019 and such training is included in the catalogue of training courses which is available to all employees of the Bank and the Bank's Group.

12.6.4 OCCUPATIONAL HEALTH AND SAFETY (OHS)

Table 40. OHS indicators

THE BANK	THE BANK'S GROUP
[GRI 403-1] OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM	
The OHS Service at the Bank has been organized as an OHS Office and placed within the structures of the Administration Centre. The Office encompasses field teams, supporting all units of the Bank throughout the country, which perform the tasks specified in the Regulation of the Council of Ministers (...) on OHS Service on a daily basis. These tasks comprise: • periodical occupational risk assessment; • analysis of accidents and incidents that have occurred to date and monitoring events that may potentially lead to accidents; • ongoing and periodical OHS control in all units of the Bank; • conducting introductory and periodical OHS training. Moreover, the OHS Office seeks to improve occupational safety and health on an ongoing basis by popularizing prevention, good practices and prophylaxis in a broad sense, thus complying with the legal requirements defining the employer's obligations towards employees.	The Bank's Group OHS policy has not been formulated by the Bank. All subsidiaries of the Bank perform OHS tasks in accordance with the current provisions of the law. These provisions are so clear that, in fact, it means applying the same HS rules throughout the whole Bank's Group. Other entities located outside Poland operate under the rules which apply to the country in which the entity was registered.
[GRI 403-2] HAZARD IDENTIFICATION, RISK ASSESSMENT, AND INCIDENT INVESTIGATION	
Job hazards were identified at the Bank and it was found out that there are no jobs that would be associated with a risk classified as high (i.e. there are no jobs that would require action to reduce the risk level). Occupational risk for 100% of the positions at the Bank was assessed using the Risk Score method. Each assessment is subject to ongoing monitoring and periodical verification. The main hazards include: • falls on the same level (slips, stumbles); • falls to a lower level (steps); • inappropriate lighting or glare; • hitting against fixed objects; • overload of the musculoskeletal system or sight (work at the	Among approx. 90% of positions which were assessed in terms of occupational risk none have been classified as associated with a high risk that would require mitigation actions. Due to the fact that office positions prevail, the identified hazards are consistent with the assessments performed at the Bank and belong to the same groups of hazards.

computer);
- electrical injury (operation of devices powered with electricity);
- traffic accidents (on business).

[GRI 403-3] OCCUPATIONAL HEALTH SERVICES

The Bank has a contract for providing occupational health services with Luxmed. Employees have medical check-ups at the start of their employment and regular check-ups afterwards at Luxmed clinics or clinics cooperating with Luxmed. Every employee may also use specific medical care services free of charge outside the scope of occupational health. The contract also provides the possibility of extending the scope of medical services for the employee or his/her family.

All other Bank's Group entities have contracts with external medical service providers for providing occupational health services. Medical examinations are financed or reimbursed by the employer.

[GRI 403-4] WORKER PARTICIPATION, CONSULTATION, AND COMMUNICATION ON OCCUPATIONAL HEALTH AND SAFETY

Communication between the employees and the employer is carried out in the form of an open dialogue through the trade unions, which operate in the Bank in a sound and representative manner. An employee representative always participates in the OHS Commissions and has the opportunity to communicate directly with an occupational safety and health representative.

A vast majority of the other entities of the Bank's Group employ less than 250 employees, and therefore they are not obliged by law to appoint OHS Commissions. All consultations and communication with the employer take place either directly or through an OHS representative. Entities located outside Poland apply local regulations.

[GRI 403-5] WORKER TRAINING ON OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety training at the Bank is organized by the internal OHS service. Introductory and periodical training is carried out in all locations in Poland using proprietary materials and teaching aids. The dynamics of the OHS service and the number of its members allow maintaining the percentage of persons who have received up-to-date training at 100%. Moreover, the OHS Office staff includes qualified paramedics who regularly train employees in first aid.

All employees participate in the system of OHS training. Such activities are organized in compliance with the law and, depending on the number of employees in a given company, they are executed by:

- the internal OHS service;
- a properly qualifies external provider;
- the employees of the Bank's OHS Office under cooperation agreements.

[GRI 403-6] PROMOTION OF WORKER HEALTH

All entities of the Bank's Group, including the Bank, take voluntary (other than legally required) actions promoting worker health. Popularization of healthy lifestyle contributes to increased interest in the following benefits offered by employers in the Bank's Group:

- free of charge preventive check-ups (e.g. an annual health package, mammography or flu shots);
- training promoting healthy lifestyle (e.g. exercises for office workers);
- access to a number of sports and leisure facilities as part of the employee benefit package;
- organization of sports clubs, competitions and events supporting physical activity and taking care of the environment;
- organization of regular campaigns promoting health, such as "Owoc ma moc" [Fruit Power] – offering free fruit in the offices;

It should also be noted that the Bank takes an active part in external sports events as their organizer, patron or sponsor, thus building its image of an entrepreneur promoting healthy lifestyle.

[GRI 403-7] PREVENTION AND MITIGATION OF OCCUPATIONAL HEALTH AND SAFETY IMPACTS DIRECTLY LINKED BY BUSINESS RELATIONSHIPS

Preventive actions taken at the Bank to improve safety and working conditions:

- support and definition of measures to be taken in the event of the occurrence or psychological or social hazards, such as stress or mobbing;
- information campaigns concerning ergonomics and safety at work (leaflets, brochures, intranet sites);
- additional, non-obligatory training in first aid and safe driving courses for employees using company cars;
- prevention of vision problems: access to eyesight tests, reimbursement of the purchases of eye glasses and corrective lenses;
- accident prevention is carried out by the OHS services during induction and periodical training. Work-related accident prevention is carried out in consultation with the employees;
- the employer provides personal protective equipment for employees doing jobs that are associated with exposure to external factors.

In the other entities of the Bank's Group preventive actions are conducted on a lesser scale and are not precisely defined. This is due to the fact that these entities have far fewer employees, or sometimes to the nature of their operations. All entities are covered by the system of accident prevention and all have access to medical services. Some entities benefit from information campaigns and non-obligatory external training. Moreover, in accordance with good practices each of them can use the resources of the Occupational Health and Safety Office operating in the structure of the Bank.

[GRI 403-8] WORKERS COVERED BY AN OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT SYSTEM	
The basic occupational health and safety management system resulting from generally applicable laws – 100% of the employees.	The basic occupational health and safety management system resulting from generally applicable laws – 100% of the employees.

[GRI 403-9] WORK-RELATED INJURIES	
114 accidents were reported in 2019. As a result of the proceedings conducted, 6 of them were not classified as work-related accidents, and 13 are still pending. The most common work-related injuries include: fractures, bruises, twists and other bodily injuries.	The total number of accidents reported in 2019 in the other entities of the Bank's Group was 8. Two of them concerned persons working based on contracts of mandate. The most common injuries were bruises and burns, joint injuries and neck injuries.

[GRI 403-10] WORK-RELATED ILL HEALTH	
Five instances of suspected work-related ill health in former employees of the Bank were reported in 2019. All proceedings are pending and none of the reported ill health cases has been confirmed to date.	No reported cases of ill health

12.6.5 DEVELOPMENT AND EDUCATION

Development activities are adjusted to the nature of the individual entities of the Bank's Group and regulated by internal regulations, which guarantees a flexible approach to the execution of the development policy.

The principles of employee development and succession planning in PKO Bank Polski SA set the goals, directions and activities of the Bank in the area of management of development of the Bank's employees or co-workers. This document replaced the previous Principles. It simplified the existing provisions and adjusted them to the current expectations of the organization and employees (simplification of wording, changes to the principles of applying, extending the cafeteria of development activities).

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

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

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

When referring employees to training, the entities in the Bank's Group take into account internal appraisal systems, e.g. regular interviews, 360 individual development plans survey, testing of training needs, ISO based assessment system and feedback. In companies in which the competence model was adopted (this applies to the Bank and two other subsidiaries), the improvement of the employee's professional qualifications and skills is related to it.

[GRI 404-2] The Bank enables the employees to use various forms of improving their professional qualifications. The Bank's intranet portal contains the Catalogue of Trainings which is updated and communicated once every quarter. It contains a number of development activities to select from, both for employees and managers, with a description of these activities and easy to use tool for signing in to the individual training sessions.

Projects are conducted to develop both hard and soft skills. A team of several dozen internal trainers conducts group training, on-the-job training and internal workshops (also for interns). Group training is held by external companies in selected projects. In order to address the need to develop programming skills, online training in this area was added to the external training offer in 2019. The Bank's employees also actively use the internal e-learning platform, including on training regarding product knowledge, as well as knowledge of processes and use of IT applications. Academies and Programmes dedicated to specific groups of employees and organizational units are launched as part of the strategic initiatives. For example, two editions of the development programme for managers were conducted in 2019. After completing such training, every participants receives access to a dedicated platform on which he/she can consolidate

the knowledge gained during the course. The Digital Transformation employees have access to both internal and certified training courses in agile methodology.

The employees may also use language courses, both individual and group.

An internal e-learning platform is actively used at the Bank, mainly for holding training on product knowledge, knowledge of processes and use of IT applications.

As part of their professional development, the employees may apply for partial financing of their post-graduate studies, such as Master of Business Administration (MBA), solicitor's training or PhD studies. In addition to the execution of a number of individual applications, a Big Data post-graduate programme addressed to data analysts was completed at the Bank in 2019.

The Bank also holds adaptation training sessions for new employees, which are adjusted to the needs of various business areas. The offer also includes e-learning courses in the most important regulations and procedures and professional courses, including product-related courses, for the retail network employees. The meetings organized on the first day of work are very important for the new employees who receive the most important information on the Bank and get to know their team. All such solutions not only provide the knowledge which is necessary in the initial period of employment, but are also consistent with the organizational culture, which promotes a friendly working environment.

In order to avoid non-financial risk, training was provided in information security, bank secret and bank security and labour protection.

Table 41. Basic data on training in the Bank and the Bank's Group [GRI 404-3, GRI 404-1]

	Bank			Bank's Group		
	women	men	total	women	men	total
days of training in a year	50812	18110	68922	51689	18897	70586
Participation of employees subject to regular performance appraisal and career development reviews (%)	98	94	97	86	78	84
average number of hours in a year per employee*	23	25	23	20	21	20

* average number of hours was estimated by multiplying the registered training days by 8

In the case of internal transfers, employees take part in training to obtain the knowledge they need to perform the tasks in their new job. The employees also participate in training courses to improve their professional knowledge and skills as required under the generally applicable laws.

12.7 GRI CONTENT INDEX [GRI 102-55]

GRI Index	Description	Page
102-1	Name of the organization	118
102-2	Activities, brands, products, and services	119
102-3	Location of headquarters	119
102-4	Location of operations	119
102-5	Ownership and legal form	119
102-6	Markets served	119
102-7	Scale of the organization	119
102-8	Information on employees and other workers	120
102-9	Supply chain	120
102-10	Significant changes to the organization and its supply chain	118
102-11	Precautionary Principle or approach	128
102-12	External initiatives	158
102-13	Membership of associations	120
102-14	Statement from senior decision-maker	Letter of the President of the Management Board is published on the Bank's website along with the annual reports
102-16	Values, principles, standards, and norms of behaviour	131
102-18	Governance structure	125
102-40	List of stakeholder groups	119
102-41	Collective bargaining agreements	168

102-42	Identifying and selecting stakeholders	118
102-43	Approach to stakeholder engagement	127
102-44	Key topics and concerns raised	127
102-45	Entities included in the consolidated financial statements	50
102-46	Defining report content and topic Boundaries	118
102-47	List of material topics	119
102-48	Restatements of information	118
102-49	Changes in reporting	118
102-50	Reporting period	118
102-51	Date of most recent report	118
102-52	Reporting cycle	118
102-53	Contact point for questions regarding the report	178
102-54	Claims of reporting in accordance with the GRI Standards	118
102-55	GRI content index	177
102-56	External assurance	118
205-1	Operations assessed for risks related to corruption	149
205-3	Confirmed incidents of corruption and actions taken	150
302-1	Energy consumption within the organization	135
302-4	Reduction of energy consumption	135
305-1	Direct (Scope 1) GHG emissions	132
305-2	Energy indirect (Scope 2) GHG emissions	136
305-4	GHG emissions intensity	137
306-2	Waste by type and disposal method	133
307-1	Non-compliance with environmental laws and regulations	132
401-1	New employee hires and employee turnover	168
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	171
401-3	Parental leave	168
402-1	Minimum notice periods regarding operational changes	173
403-1	Occupational health and safety management system	174
403-2	Hazard identification, risk assessment, and incident investigation	174
403-3	Occupational health services	175
403-4	Worker participation, consultation, and communication on occupational health and safety	175
403-5	Worker training on occupational health and safety	175
403-6	Promotion of worker health	175
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	175
403-8	Workers covered by an occupational health and safety management system	176
403-9	Work-related injuries	176
403-10	Work-related ill health	176
404-1	Average hours of training per year per employee	177
404-2	Programs for upgrading employee skills and transition assistance programs	176
404-3	Percentage of employees receiving regular performance and career development reviews	177
405-1	Diversity of governance bodies and employees	113
405-2	Ratio of basic salary and remuneration of women to men	169
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	173
414-1	New suppliers that were screened using social criteria	166
414-2	Negative social impacts in the supply chain and actions taken	166
417-1	Requirements for product and service information and labelling	143
417-2	Incidents of non-compliance concerning product and service information and labelling	141
417-3	Incidents of non-compliance concerning marketing communications	147

[GRI 102-53] Contact point for questions regarding the report: esg@pkobp.pl

13. GLOSSARY

Interest-bearing assets – amounts due from banks, securities and loans and advances to Customers;

CPI (Consumer Price Index) - consumer price index;

Customer deposits - amounts due to Customers, excluding transactions with repurchase clause and loans and advances received;

Financing granted to Customers – loans and advances to Customers (including finance lease receivables) less receivables in respect of repurchase agreements and municipal and corporate bonds presented in securities, with the exception of those held for trading;

External financing - subordinated liabilities, own issues of securities measured at amortized cost, loans and advances received presented in amounts due to banks and loans and advances received presented in amounts due to Customers;

Other liabilities – hedging derivatives, other derivative instruments, liabilities in respect of insurance activities, other liabilities, current income tax liabilities, deferred income tax provision, provisions, transactions with repurchase clause presented in amounts due to banks and Customers, amounts due to the Central Bank and other amounts due to banks (other than loans received);

Operating expenses - administrative expenses and net regulatory charges;

Regulatory costs - net regulatory charges;

Total capital ratio – own funds to the total capital requirement multiplied by 12.5;

Securities (banking portfolio - securities less municipal and corporate bonds (excluding bonds held for trading);

Other assets - derivative hedging instruments, other derivative instruments, investments in associates and joint ventures, non-current assets held for sale, intangible assets, property, plant and equipment, current income tax receivables, deferred income tax assets, other assets and repurchase agreements presented in loans and advances to Customers;

Risk-free rate - the average annual yield on 10-year Treasury bonds;

Average interest on loans – interest income on loans and advances to Customers on an annual basis to the average balance of loans and advances to Customers from the last 5 quarters;

Average interest on deposits – interest expense on amounts due to Customers on an annual basis to the average balance of amounts due to Customers from the last 5 quarters;

C/I ratio (costs to income ratio) – administrative expenses and net regulatory charges to the result on business activities on an annual basis;

Financing granted to Customers to deposits – financing granted to Customers (which includes loans and advances to Customers (including finance lease receivables) less repurchase agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading) to amounts due to Customers;

Financing granted to Customers to stable sources of financing – financing granted to Customers (which includes loans and advances to Customers (including finance lease receivables) less repurchase agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading) to stable sources of financing (amounts due to Customers and external financing);

Tier 1 capital ratio – Tier 1 capital to the total capital requirement multiplied by 12.5;

Cost of credit risk – net credit loss allowances for the last 12 months to the average balance of loans and advances to Customers, gross, as at the beginning and the end of the reporting period and interim quarterly periods;

Interest margin ratio - net interest income on an annual basis to the average balance of interest-earning assets (including amounts due from banks, securities and loans and advances to Customers) from the last 5 quarters;

Net ROA – net profit for the year to the average balance of assets from the last 5 quarters;

Net ROE – net profit for the year to the average balance of equity from the last 5 quarters;

Net ROTE – net profit for the year to average balance of equity decreased by intangible assets from the last 5 quarters;

Share of impaired exposures – the portfolio with recognized impairment in the portfolio of exposures measured at amortized cost and in the portfolio of loans measured at fair value through other comprehensive income;

Result on business activities – operating profit excluding administrative expenses, net regulatory charges, tax on certain financial institutions, cost of legal risk on mortgage credits in convertible currencies, net credit losses and impairment of non-financial assets;

Net operating profit – operating profit excluding net credit losses and impairment of non-financial assets;

Net other income - dividend income, net gain/(loss) on financial instruments measured at fair value through profit or loss, net foreign exchange gains/(losses), gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss and net other operating income and expenses;

Result on financial transactions – net gain/loss on financial instruments measured at fair value through profit or loss and gains/losses on derecognition of financial instruments not measured at fair value through profit or loss;

Net write-downs and impairment – result on allowances for credit losses, result on impairment of non-financial assets and cost of legal risk associated with mortgage loans in convertible currencies;

Net profit - net profit recognized in the consolidated income statement understood as the net profit attributable to equity holders of the parent company.

Statement of the Management Board

The Management Board of PKO Bank Polski SA declares that in accordance with its best knowledge the annual Directors' Report of the PKO Bank Polski SA Group for 2019 prepared jointly with the Directors' Report of PKO Bank Polski SA includes an accurate description of the development and achievements, as well as the situation of the PKO Bank Polski SA Group and PKO Bank Polski SA, including a description of the main risks and threats.

This Directors' Report of the PKO Bank Polski SA Group for 2019 prepared jointly with the Directors' Report of PKO Bank Polski SA comprises 181 sequentially numbered pages.

Signatures of all the Members of the Bank's Management Board

11.02.2020	Zbigniew Jagiełło	President of the Management Board
11.02.2020	Rafał Antczak	Vice President of the Management Board
11.02.2020	Rafał Kozłowski	Vice President of the Management Board
11.02.2020	Maks Kraczkowski	Vice President of the Management Board
11.02.2020	Mieczysław Król	Vice President of the Management Board
11.02.2020	Adam Marciniak	Vice President of the Management Board
11.02.2020	Piotr Mazur	Vice President of the Management Board
11.02.2020	Jakub Papierski	Vice President of the Management Board
11.02.2020	Jan Emeryk Rościszewski	Vice President of the Management Board