



Bank Polski

Report of the Supervisory Board of PKO Bank Polski S.A. containing the results of the evaluation of: the financial statements of PKO Bank Polski S.A. for the year ended on 31 December 2016, PKO Bank Polski S.A. Directors' Report for 2016, motion of the Management Board on the distribution of profit of PKO Bank Polski S.A. earned in 2016

and report on the activities of the Supervisory Board as an authority of the company in 2016

The Supervisory Board, in compliance with the provisions of the Commercial Companies Code, submits to the Annual General Meeting of PKO Bank Polski S.A. a report which contains the results of the evaluation of:

1. the financial statements of PKO Bank Polski S.A. for the year ended on 31 December 2016,
2. the PKO Bank Polski S.A. Directors' Report for 2016,
3. motion of the Management Board on the allocation of profit of PKO Bank Polski S.A. earned in 2016

and in compliance with "Good Practice of WSE Listed Companies 2016":

1. Assessment of the company's condition, including assessment of internal control and risk management systems, compliance and function of internal audit,
2. Assessment of the rationality of PKO Bank Polski S.A.'s policy on sponsorship and charity policy,
3. Assessment of compliance of PKO Bank Polski S.A. with the disclosure requirements concerning the application of the principles of corporate governance, as laid down in the GPW rules and in the regulations concerning current and periodic disclosures to be made by issuers of securities,
4. Report on the activity of the Supervisory Board as a company authority in 2016, including information on:
 - composition of the Board (composition of the committees is included in annexes to the statements)
 - fulfilment of the criteria of independence by Members of the Supervisory Board,
 - number of meetings of the Board and its committees (number of the Committee meetings is included in the annexes to the report),
 - performed self-evaluation of the work of the Supervisory Board.

FINANCIAL STATEMENTS OF PKO BANK POLSKI S.A. FOR THE YEAR ENDED ON 31 DECEMBER 2016.

The Supervisory Board heard the opinion of the independent auditor from the audit of the financial statements of PKO Bank Polski S.A. for the year ended on 31 December 2016. The auditor issued a positive opinion (without reservations) within the scope of the above Statements. In the opinion of the independent auditor, the financial statements of PKO Bank Polski S.A. for the year ended on 31 December 2016:

- a) give a true and fair view of the Bank's economic and financial condition as at 31 December 2016, its financial performance and its cash flows for the financial year ended on that day, in compliance with International Financial Reporting Standards as adopted by the European Union,
- b) is compliant, in all material aspects, with provisions of the law and of the Bank's Articles of Association which affect the legal form and content of the financial statements,
- c) it was prepared on the basis of accounting books properly maintained in all material aspects.

The Supervisory Board shares the opinions expressed by the auditor and moves to the Annual General Meeting of PKO Bank Polski S.A. to approve the above Statements.

The Supervisory Board -- in compliance with the provisions of Article 382 § 3 of the Commercial Companies Code -- after considering and evaluating the Financial Statements of PKO Bank Polski S.A. for the year ended on 31 December 2016, taking into account positive recommendation of the Audit Committee of the Supervisory Board and positive opinion of the independent auditor without reservations concerning the financial statements of PKO Bank Polski S.A. for the year ended on 31 December 2016, gave a positive opinion regarding the Statements as prepared in compliance with the books and documents and the factual state.

According to Article 4a of the Accounting Act, the Supervisory Board also ensures that all elements of the Financial Statements of PKO Bank Polski S.A. for the year ended on 31 December 2016, meet the requirements provided for in the above Act.

EVALUATION OF THE DIRECTORS' REPORT FOR YEAR 2016

In compliance with Article 382 § 3 of the Commercial Companies Code, the Supervisory Board, after considering and evaluating the PKO Bank Polski S.A. Directors' Report for the year 2016, issued a positive opinion on the PKO Bank Polski Directors' Report for the year 2016 as drawn up in compliance with the books and documents and the factual state.

According to Article 4a of the Accounting Act, the Supervisory Board also ensures that all the elements of the PKO Bank Polski S.A. Directors' Report for the year 2016 meet the requirements provided for in the above Act.

ASSESSMENT OF THE MOTION OF THE MANAGEMENT BOARD ON THE ALLOCATION OF PROFIT OF PKO BANK POLSKI S.A. EARNED IN 2016

The Supervisory Board approved the motion of the Management Board regarding the allocation of PKO Bank Polski S.A.'s profit earned in 2016.

Taking the above into account, it is proposed that the net profit of PKO Bank Polski S.A. for the period from 1 January 2016 to 31 December 2016 for the amount of PLN 2,888,300 thousand be distributed as follows:

1. for the supplementary capital: PLN 2,850,000 thousand,
2. for the reserve capital: PLN 38,300 thousand.

The decision on the recommended allocation of profit for 2016 is consistent with the decision of the Management Board and the Supervisory Board to observe individual recommendation of the Polish Financial Supervision Authority (KNF) concerning the bank's retention of the whole net profit earned in 2016. The Bank informed about PFSA (KNF) recommendation in the report No. 4/2017.

ASSESSMENT OF THE COMPANY'S SITUATION, INCLUDING ASSESSMENT OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS, COMPLIANCE AND FUNCTION OF INTERNAL AUDIT

ASSESSMENT OF THE COMPANY'S SITUATION

In 2016, the banking sector functioned in the conditions of historically low interest rates and new regulatory burdens, with favourable macroeconomic conditions. The situation in the credit and deposit market was shaped by a favourable situation on the labour market. The level of the domestic demand was supported by the government program "Family 500+" and deflation, which increased the real purchasing power of households. In the discussed period, the PKO Bank Polski S.A. Group continued to develop in a sustainable manner, focusing on improving the quality of customer service by increasing the innovativeness of its products and distribution channels. There were initiatives to raise the quality of service, for example through activities leading to increased innovation in terms of new financial solutions, both products and distribution channels, in particular in the field of electronic banking and mobile payments. In 2016, the Bank's Group continued its efforts to increase the efficiency of the distribution network. At the end of 2016, the largest branch network of PKO Bank Polski S.A. in Poland comprised 1,238 branches and 837 agencies. Customers of the Bank were able to benefit from the systematically improved electronic banking services offered under the iPKO brand and as part of the Inteligo account and the newly introduced IKO mobile payments standard. PKO Bank Polski S.A.'s customers continued to have a constantly growing network of ATMs -- at the end of 2016 there were 3,206 of them.

In 2016, the Bank's strategy for 2016-2020 was approved: "We support the development of Poland and Poles". Its purpose is to further strengthen the position of the Bank's Group as a leader in key market segments, increase innovation and adapt to customers' needs.

The most relevant business events for the Bank's activity in 2016 were:

- purchase of Raiffeisen-Leasing Polska S.A. PKO Leasing S.A., which is a member of the Bank's Group, successfully completed the acquisition of Raiffeisen-Leasing Polska S.A. thus becoming the country's main lessor with over 13% of the market share,
- Development of IKO mobile payments system. In 2016 The total number of IKO activations exceeded one million. The application was constantly improved with new functionalities, such as: payments to another IKO user's phone number, payments to CDMs through BLIK-codes and make payments and transfers using QR codes. The introduced changes have transformed IKO from a payment application or mobile payment application into a mobile bank,
- extension of the offer of insurance products, thanks to commencement of operational activity by PKO Towarzystwo Ubezpieczeń S.A.,
- implementation of the New Sale Timeline -- an innovative sales program that provides a wider range of customer knowledge and enables to offer customers the most tailored offers, while streamlining sales processes and formalities,
- provide clients the ability to create a Trusted Profile from the Internet banking level. Trusted Profile allows the use of the services and offices over the Internet, without leaving home and visiting a physical office. With it, customers can electronically register a business while submitting declaration to the tax office, Chief Statistical

Office (GUS), and Social Insurance Company (ZUS), Agricultural Social Insurance Company (KRUS), as well as the use of PUE ZUS,

- strengthening the leading position in the field of services for local self-governments by signing an agreement for comprehensive support for the budget of the Podkarpackie province and its 23 organizational units. In total, the Bank currently supports 6 provinces,
- expansion into foreign markets. In 2016, actions were taken to establish a branch of the Bank in the Czech Republic. The opening of the branch is planned for the first half of 2017,
- cooperation with Poczta Polska S.A. was started when PKO Bank Polski S.A. began cooperating with Poczta Polska Poland S.A. in the scope of the servicing debit cards. By the end of 2016, almost 8 thousand payment terminals across Poczta Polska S.A.'s network were installed, so that customers of more than 4.6 thousand facilities of Poczta Polska S.A. could make card payments for services such as the payment of bills or shipping of packages,
- mortgage bonds emission conducted by PKO Bank Hipoteczny S.A. targeted at institutional investors. Among the institutions which have acquired the bonds there have been both national and foreign investors, including the European Bank for Reconstruction and Development. Mortgage bonds of PKO Bank Hipoteczny S.A. have become one of the safest debt instruments in the financial market in Poland. This is the highest rating Aa3 achievable by the Polish securities conferred by Moody's agency, i.e. compatible with Poland's rating,
- the settlement of the acquisition of the company Visa Europe Limited by Visa Inc., in which PKO Bank Polski S.A. took part. The total value recognized by the Bank in respect of the settlement of the said transaction in the profit and loss account (profit before taxation) amounted to PLN 417.6 million, including the amount settled in other comprehensive incomes in respect of the evaluation of shares of Visa Europe Limited which amounted to PLN 336.7 million.

The net profit achieved by PKO Bank Polski's Group in 2016 was the highest in the Polish financial sector, and the volume of loans and deposits of PKO Bank Polski S.A. were highest among institutions of the banking sector in Poland.

The PKO Bank Polska S.A. Group's net profit achieved in 2016 was PLN 2874.0 million, which represents an increase of 10.1%, i.e. by PLN 264.5 million in relation to the profit from 2015. The reached level of the net profit was determined by:

- 1) improvement of the result of the business activity of the Capital Group of PKO Bank Polski S.A. which has reached a level of PLN 11,790.7 million (+ 10.6% Y/Y), mainly as the result of:
 - interest growth of 10.3% y/y, realized through continuation of activities within the scope of reduction of the cost of financing of the deposit base and an increase in the level of interest-bearing assets,
 - growth of the remaining result by PLN 557.0 million, mainly due to settling in June 2016 the acquisition of Visa Europe Limited by Visa Inc. and sales in the third quarter of 2016 of the assets of the company Qualia Development Sp. z o.o. and its subsidiaries,

at a lower commission result (decrease of 5.5% y/y), inter alia for operations of securities and credit commissions,

- 2) introduction of tax on some financial institutions (the bank tax) since February 2016, resulting in an additional burden of the financial result for the amount of PLN 828.9 million,

- 3) lowering the cost of operations by PLN 445.8 million, related to a lower burden of premiums and deposits to the Bank Guarantee Fund (the 2015 base effect associated with the deposit to the BGF regarding the payment of guaranteed deposits accumulated in the Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin¹ and additional costs associated with the establishment of the Borrowers Support Fund). C/I ratio at the end of 2016 was 47.4% compared to 56.6% at the end of 2015,
- 4) the result of write-offs for depreciation and provisions, which was lower by 146.8 million from the one acquired in 2015, with the growth of the gross loan portfolio by 5% and the cost of risk close to the level achieved in the year 2015.

The net profit of PKO Bank Polski S.A. developed in 2016 amounted to PLN 2,888 million, which means an increase of 12.3%, i.e. PLN 317.2 million in relation to the result achieved in the previous year. The reached level of the net profit was determined by:

- 1) improvement of the result of the business activity that reached the level of PLN 10,983 million (+ 8.0% y/y), mainly as the result of:
 - interest growth of 8,0% y/y, realized through continuation of activities within the scope of reduction of the cost of financing of the deposit base and an increase in the level of interest-bearing assets,
 - as a result of growth remaining at PLN 418.6 million, mainly due to settlement in June 2016 of acquisition of Visa Europe Limited by Visa Inc.,

at a lower commission result (decrease of 6.0% y/y), inter alia for operations on securities and credit commissions,

- 2) introduction from February 2016 of the bank tax, resulting in additional burden on the financial result in the amount of PLN 820.2 million,
- 3) lowering the cost of operations by PLN 528.6 million, associated with lower burden on account of premiums and deposits to the Bank Guarantee Fund. The C/I ratio at the end of 2016 was 45.8% in comparison to the 54.7% at the end of 2015,
- 4) the result of impairment loss and provisions which was better by 66.3 million from the one acquired in 2015, with stable gross loan portfolio and maintenance of the cost of risk at the level similar to that in the previous year.

The structure of the balance sheet of PKO Bank Polski S.A. Group is characterised by a strong deposit base and secure level of equity, allowed growth in the result of the business activity through stable organic growth and acquisitions, representing the next stage in the development of the Bank. Ratio of loans to deposits (liabilities towards clients) at the end of 2016 was 97.8% (ratio of credits to stable sources of financing² amounted to 83.7%), indicating very good liquidity of the Group.

As a result of actions taken in 2016, the Group of PKO Bank Polski S.A.:

- increased the total assets by nearly PLN 19 billion, including more than PLN 10 billion in the portfolio of receivables from customers
- retained the high market share of loans and deposits at respectively 17.8% and 17.3%,

¹ Under Resolution No. 87/DGD/2015 of the Management of the Bank Guarantee Fund (BGF) of November 26, 2015, banks were obliged to pay a fee under the Guaranteed Deposit Protection Fund (FOŚG) to cover the payment of guaranteed deposit to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin in connection with its bankruptcy.

² Stable sources of financing include liabilities to customers and external financing in the form of: subordinated liabilities, own issue of debt securities and loans from financial institutions.

- strengthened its position in the leasing services market through the acquisition of Raiffeisen-Leasing Poland S.A.,
- it was first on the market when it came to the sale of housing loans to individuals³, holding 31.9% share,
- was the largest lender for small and medium-sized enterprises lending loans with de minimis guarantees, with 22.1% market share⁴,
- improved considerably the quality of the loan portfolio, measured by indicator of credits from the recognized loss of value,
- increased the number of customers by more than 216,000, mainly in the segment of the population and the number of customers using mobile banking IKO, the number of which at the end of 2016 was already more than 1 million,
- extended the range of investment and insurance products and property insurance products, inter alia thanks to the start of operational activity by PKO Towarzystwo Ubezpieczeń S.A. in January 2016.
- strengthened its capital position by increasing the equity from accumulation of profit accrued in 2015, leading to an increase in the total capital ratio by 1.2 percentage points in relation to the level from the end of 2015 up to the level of 15.8%.

EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE FUNCTION OF THE INTERNAL AUDIT (INCLUDING AN ASSESSMENT OF THE ADEQUACY AND EFFECTIVENESS OF THE SYSTEM)

Internal audit system

At PKO Bank Polski S.A., there is an internal control system, being part of the management of the Bank.

The purpose of the internal control system is to ensure:

- 1) effectiveness and efficiency of the Bank's operations,
- 2) reliability of financial reporting,
- 3) adherence to the risk management principles in the Bank,
- 4) compliance of the Bank's activities with the generally applicable laws, internal regulations of the Bank, supervisory recommendations and market standards adopted in the Bank.

Based on the internal control system, the Bank identifies the risks associated with each operation, transaction, product, service and process, as well as the organizational structure of the Bank and the Bank Group, and estimates the risk of failing to meet the objectives of the internal control system.

Within the internal control system, the Bank distinguishes:

- a control function whose task is to ensure compliance with control mechanisms concerning, in particular, risk management at the Bank, which includes operations carried out on a continuous basis, consisting in checking the activities performed by all the employees of the Bank, including the use of control mechanisms, in order to ensure compliance of the completed activities with generally applicable provisions of the law and internal regulations of the Bank and the current impact and response to irregularities,

³ Data of the Polish Bank Association.

⁴ According to the data provided by the Centre of Sureties and Guarantees of Bank Gospodarstwa Krajowego of 31 December 2016.

- compliance cell whose task is, in cooperation with other entities and cells of the Bank, identification, evaluation, control and monitoring of the risk of non-compliance of the Bank's activities with the generally applicable provisions of the law, internal regulations of the Bank, adopted in the bank market standards and reporting in these areas,
- an independent internal audit cell whose task is examining and evaluation, in an independent and objective manner, the adequacy and effectiveness of the risk management system and internal control system, with the exception of the internal audit cell.

The Supervisory Board exercises permanent supervision of the internal control system, in particular, through the approval of the principles of functioning of the internal control system adopted by the Management Board and acceptance of periodic reports in respect of the internal control system.

Evaluation of the function of the internal audit

Internal audit provides independent and objective inspection and advisory activities in a systematic and orderly manner in the assessment of the relevant processes and identifying courses of action that affect the quality and effectiveness of the operation of the Bank.

Based on the results of internal audits and other information related to PKO Bank Polski S.A., the Internal Audit Department provides assurance about the effectiveness of the Bank's processes and prepares independent and objective information on the functioning of the internal control system and the risk management system in the Bank and the Bank's Group.

The Internal Audit Department is located within the Bank's organizational structure in a manner that guarantees the performance of tasks in a fully independent and objective manner. Furthermore, the organizational structure and organization of the work of the Internal Audit Department have been adjusted to the organizational structure and specificity of the Bank's operations.

Independence of the internal audit function at PKO Bank Polski S.A. ensures in particular:

- Direct contact of the Director of the Internal Audit Department with the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board,
- participation of the Director of the Internal Audit Department in the meetings of the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board when issues related directly to the Internal Audit Department are supervised by the Internal Audit Department, and at least once a year the meeting of the Director of the Internal Audit Department with the Audit Committee of the Supervisory Board without participation of the members of the Management Board,
- special procedure for appointing and dismissing the Director of the Department of Internal Audit.
- specific mode of remuneration control in the Internal Audit Department,
- detailed internal rules on the protection of employment (including remuneration) of employees of the Internal Audit Department.

Independence of the internal audit unit at PKO Bank Polski S.A. is confirmed annually by the Audit Committee of the Supervisory Board. In 2016, the Internal Audit Department did not find any circumstances threatening the impartiality of internal audit duties.

The Internal Audit Department covers all important areas of the Bank's operations and the Group's entities. During the audit task the risks identified in the Bank's processes are identified and control mechanisms and other actions and actions are taken to reduce the Bank's exposure to risk to an acceptable level.

The Internal Audit Department operates on the basis of three-year and annual audit plans. In 2016, a 2016 internal audit plan approved by a resolution of the Management Board was passed, which also completed the implementation of the three-year internal audit plan for the years 2014-2016.

The results of all internal audits carried out in 2016 have been periodically reported to the Audit Committee of the Supervisory Board and to the Supervisory Board. If gaps were identified within the investigated processes, including the internal control system and the risk management system, recommendations were made to eliminate them. Their execution is monitored on an ongoing basis by the Internal Audit Department and periodically reported to the Management Board, Audit Committee of the Supervisory Board and the Supervisory Board.

The activities of the Internal Audit Department are monitored by the Audit Committee of the Supervisory Board which, inter alia, evaluates the performance of the Internal Audit Department in the light of the available resources. In 2016, the Audit Committee of the Supervisory Board made a positive annual evaluation of performance of the Internal Audit Department in the light of the held resources, including the results of the review of the internal regulations governing the carrying out of the internal audit, as well as the position, authorization, the scope of research and responsibility of the internal audit cell.

After having conducted the analysis, the Supervisory Board received the Internal Audit Department report on the effectiveness of the internal control system for the period from 1 January 2016 to 31 December 2016. On the basis of the results of internal audits carried out by the Internal Audit Department in 2016, as well as assessing the effectiveness of corrective actions taken within the framework of the implementation of recommendations after internal audits, there were no significant weaknesses in the internal control system and the Bank's risk management system.

Compliance assessment (including assessment of cell suitability and effectiveness with regards to compliance)

The Audit Committee of the Supervisory Board, in accordance with the applicable market standards, reviewed the effectiveness of the monitoring system with regards to the Bank's and its employees' compliance with the regulations, with particular regard to the role of the Compliance Unit.

The compliance department has the status of a department and in 2016 it was located in the Division of the President of the Management Board of the Bank.

The purpose of the compliance cell is:

- 1) shaping the Bank's risk management system for non-compliance, business activity and loss of reputation and identifying them,

- 2) developing internal control standards, including control mechanisms,
- 3) coordination of the Bank's cooperation with external supervisory and control authorities, with the exception of authorities conducting, in particular, control within the scope of the labor law, implementation by the Bank of public law obligations, safety of persons and property, and health and safety at work.

The main task of the compliance cell is coordination of the internal process, including: identification, assessment, monitoring and reporting of no compliance risk and preventive and corrective measures to ensure the conformity of the Bank's functioning with the regulations of the law and market standards adopted by the Bank. The findings of the Department of Compliance in this respect were in 2016 presented in:

- 1) the quarterly management reports for the Board, the Risk Committee, the Audit Committee of the Supervisory Board and the Supervisory Board,
- 2) annual information on the effectiveness of compliance of the monitoring system and the activities of the Bank and its employees with the legal regulations, designated for the Audit Committee of the Supervisory Board,
- 3) financial statements of the Bank's Group,
- 4) and information provided to the supervisory authorities.

In line with Good Compliance Practice, for the independent, objective and effective implementation of the tasks, the Department of Compliance:

- 1) does not participate in the execution of the current business tasks,
- 2) has the right to access applications, documents and information, as well as direct communication with the Bank's employees within the scope necessary for the completion of the tasks entrusted to it,
- 3) has the right to investigate, on its own initiative, possible cases of noncompliance.

Furthermore:

- 1) appointment and dismissal of the Director of Compliance requires the approval of the Supervisory Board,
- 2) direct contact is ensured between the Director of the Department of Compliance with the Management Board, the Audit Committee of the Supervisory Board and the Supervisory Board, and participation, at least once a year, in the meetings with the Audit Committee of the Supervisory Board, without participation of the members of the Management Board.

In addition to managing the non-compliance risk, in 2016 the Compliance Department carried out the following tasks:

- 1) reputation risk management,
- 2) operation risk management,
- 3) monitoring and adhering to internal control standards,
- 4) coordination of review and evaluation of the adequacy and effectiveness of control mechanisms in internal processes and their support for IT applications and validation of its results,
- 5) coordination of cooperation with supervisory and control authorities.

According to the contents of the management reports and information submitted to the Supervisory Board in 2016, no significant changes in the level and profile of the Bank's non-compliance risk were reported. It is normal of a large

universal bank serving a wide range of consumers and offering a variety of financial products and services. Information obtained under anonymous reporting system of nonconformities did not reveal any important issues requiring notification to the Supervisory Board. In 2016, the Bank introduced procedures for prevention of and revealing fraud cases in the tax business, there were no incidents relating to the use of confidential information or manipulations on the market of financial instruments.

Accordingly, the Audit Committee of the Supervisory Board, within the framework of the annual assessment of the effectiveness of the compliance monitoring system and of the Bank's and its employees' activities in 2016, did not comment on the functioning of the system and activities of the Compliance Department.

Assessment of the risk management system (including an assessment of the adequacy and effectiveness of the system)

Risk management is one of the most important internal processes in PKO Polish Bank S.A. It is intended to ensure the profitability of the business, while ensuring an adequate level of capital adequacy measure and control the level of risk and its maintenance within the framework of the Bank's risk tolerance and the limits of system in a changing macroeconomic and legal environment. The risk management system is supervised by the Supervisory Board, which regularly monitors and assesses whether the methods of identification, measuring or estimating the risk, control, monitoring and reporting of risk are adapted to the size and risk profile of the Bank and the Group PKO Bank Polski S.A. The Supervisory Board evaluates whether the current and planned activities of the Bank are appropriately taken into account in the risk management system. Opinion of the Supervisory Board risk management system is adapted to the scale of the business and to the relevance, scale and complexity of the individual risks and is continuously monitored and adjusted to the new factors and risks. The Supervisory Board assesses whether PKO Bank Polski S.A. has an organizational structure adjusted to the size and profile of the Bank's risk and ensuring the effectiveness of risk management. According to its best knowledge, the adequacy of the risk management arrangements at PKO Bank Polski S.A. and the effectiveness of any risk management system and the management reporting system allows you to monitor the level of risk and capital adequacy, ensures that the risk management system is appropriate from the point of view of the risk profile and strategy of the Bank.

Risk management system supports the implementation of the Bank strategy while maintaining compliance with the risk management strategy. Takes into account the implementation of the Bank's capital purposes, the level of tolerance to risk and capital planning process, including policy on sources of capital acquisition.

All organizational units of the Bank, and central organizational units participate in the process of risk management. The process is supervised by the Supervisory Board, which controls and evaluates the adequacy and effectiveness of the risk management system. It also assesses whether individual elements of the risk management system are used to ensure the accuracy of the designation process and the achievement of the specific objectives of the Bank, and in particular verifies:

- if the system is used for the formal terms for determining the size of the risk to be taken,

- whether the system uses formalized procedures to identify, measure or estimate and monitor the risks occurring in the Bank's operations, taking into account also the anticipated level of risk in the future,
- whether the risk management framework applies to formalized risk limits and rules of conduct in case of exceeding the limits,
- whether the adopted management reporting system allows to monitor the level of risk,
- whether the risk management system is continuously adapted to new factors and sources of risk.

The Bank has an integrated risk management structure that ensures that all risks that materially affect the Bank's operations are identified, measured, monitored and controlled. One of the basic elements of risk management is to determine the level of risk that the Bank is able to accept while conducting current and future operations. Within the scope of the generated level of risk, the scope of risk is determined from the point of view of achieving risk management objectives, taking into account financial, capital and strategic plans. Risk-based stress tests are conducted on the basis of assumptions that provide a reliable risk assessment. Stress tests are used to estimate potential losses in a market situation that is not standardized by means of statistical measures. The Bank develops contingency plans for the event of a crisis, which may have a particularly significant impact on the Bank's operation, in particular the contingency plans required by the generally applicable laws and the Bank's by-laws. The risk management structure is complemented by a coherent and transparent risk reporting system, the use of risk mitigation limits, and management actions that govern the management of particular types of risk. The maximum risk that the Bank and the Group are prepared to take is determined by the strategic tolerance limits for the different types of risk identified in the "Risk Management Strategy at PKO Bank Polski S.A."

The Supervisory Board is assisted by the following committees:

- 1) Risk Committee [assists] in assessing the Bank's propensity to take risks, expressed in particular through strategic risk tolerance limits, in supervising the Bank's implementation of a risk management system, in assessing the adequacy and effectiveness of the risk management system, and in overseeing risk management strategies,
- 2) Audit Committee of the Supervisory Board [assists] in monitoring the financial reporting process, effectiveness of internal control systems and risk management; in performing financial audit and reviewing independence of the statutory auditor and the entity authorized to audit financial statements,
- 3) Remuneration Committee [assists] in the performance of statutory duties and responsibilities under the law on remuneration,
- 4) Strategy Committee [assists] in overseeing the implementation of strategy and in evaluating the strategic activities of the Bank, which require the consent of the Supervisory Board.

The risk management system is carried out on three, mutually independent, levels:

- 1) the first level is formed by the organisational structures performing the sale of products and the customer service and other structures implementing operational tasks that generate risk, operating on the basis of the internal rules,
- 2) the second level includes activities of the compliance unit and traceability, measurement or estimate, control, monitoring and reporting of significant risks for the Bank, as well as the presence of threats and irregularities –

tasks are carried out by specialized organisational structures operating on the basis of the applicable principles, methodologies and procedures; the purpose of these structures is to ensure that operations carried out on the first level are properly designed and effectively limit the risk, support the measurement and analysis of risk and efficiency of operations,

- 3) the third level is the internal audit, performing independent audits of the management system of the Bank, including risk management system, and internal control system; internal audit functions separately from the first and the second level and may support implemented actions through consultation, but without the ability to influence decisions.

At all three levels, employees apply appropriate control mechanisms tailored to the specifics of the activities of the Bank or independently monitor their observance.

In the opinion of the Supervisory Board the structure of risk management is adequate to the size of the Bank, the type of activity and profile of incurred risks, taking into account the macro-economic environment and the possibility of adverse situations. Risk management is integrated with planning and control systems. The Supervisory Board supervises and evaluates the risk management process, in particular on the basis of cyclical risk reports by different types of risk, which take into account the annual information on the implementation of the Strategy and include the conclusions of the stress tests. The Supervisory Board commissions verification of the risk management system, if it deems it necessary.

In the opinion of the Supervisory Board, the Bank was operating in a safe manner in 2016, with an adequate level of equity, in particular:

- 1) capital adequacy remained at a safe level, above supervisory and regulatory limits. As at 31 December 2016, the Bank's total capital ratio (TCR) was 17.19%, and the Bank's Tier 1 capital ratio (CET1) was at the level of 15.83%. PKO Bank Polski maintained a secure capital base in 2016,
- 2) the profit worked out for the financial year 2015 in the amount of PLN 2,571 million and undistributed profit for the previous years in the amount of PLN 1,250 million was included in the Tier 1 capital due to failure of Meeting Dividend Conditions (acquisition of Raiffeisen-Leasing Polska in December 2016).
- 3) throughout 2016, the usage of the strategic tolerance limits for each type of risk and capital adequacy remained at a safe level,
- 4) the Bank maintained a good liquidity situation -- at the end of 2016, the Bank's loans-to-deposits ratio (liabilities to customers) amounted to 90.3%, the level of core deposits was approx. 93.8% of all deposits placed at the Bank (excluding the interbank market),
- 5) the Bank obtained financing from the market through the issuance of its own short-term bonds, regularly renewing the maturing issues and adjusting the sources of financing to liquidity needs,
- 6) the Bank worked to adapt the European Banking Supervision guidelines on the management of interest rate risk arising from non-trading activities,
- 7) the Bank introduced changes in the concentration risk management process, which fulfil the requirements of Resolution No. 351/2016 of the Polish Financial Supervision Authority of May 24, 2016 on the issue of Recommendation C on the management of concentration risk. These changes include, among others, objectives and process of managing the concentration risk, the new measures of tolerance to the concentration risk,

including the internal limits to reduce the risk of excessive concentration, the manner of conducting stress tests on the concentration risk,

- 8) the Bank continued its work on adjusting to the requirements of the Recommendation W on banks risk management models, issued by the Polish Financial Supervision Authority in July 2015; from June 30, 2016 the process of risk management of models is carried out in accordance with the requirements of the Recommendation W,
- 9) the Bank acknowledged the risk of foreign currency mortgages for households in managing capital adequacy and equity, in particular it analysed the impact of fluctuations in the exchange rate of the Swiss franc on the financial results, taking into account the risk of deterioration in quality of the CHF housing loans portfolio. The Bank has undertaken and continues a number of actions to help its customers while limiting the credit risk increase related to the higher CHF exchange rates, inter alia, by reducing the CHF/PLN transactional exchange rates followed by the conversion of the amount of CHF to be repaid (the so-called foreign exchange spread) and the account of a negative LIBOR rates for all customers.

In 2016, the Bank participated in the another European stress tests conducted by the European Banking Authority (EBA). The tests aimed to provide market supervisors and participants with consistent data on the resilience of EU banks under unfavourable market conditions within the uniform methodology prepared by the EBA. PKO Bank Polski S.A. as the only Polish bank was included in the test directly by the EBA. The tests performed by the Bank confirm the correct and prudent risk management as the Bank is immune to negative macroeconomic scenarios, and the forecasted levels of Common Equity Tier 1 ratio in extreme adverse conditions met the supervisory standards. The Bank's results are primarily an effect of the strong capital base, based mainly on accumulated profits, the positive impact of the Bank's business model and the dominance of the Bank's traditional financial instruments (loans, deposits), including stable sources of financing.

In addition, in 2016, the Bank participated in the next European Transparency Exercise conducted by the European Banking Authority (EBA). Further series of tests carried out by the EBA, which involved PKO Bank Polski S.A., were intended to increase the transparency of the European banking sector and support market discipline by providing a wide range of uniform data on, inter alia, income statement, own funds and capital adequacy. Once again the Bank confirmed its stable capital position and correctness of the data presented in the financial statements.

In the opinion of the Supervisory Board, significant for the Bank's development in subsequent periods will be the key areas of engagement of the Management Board and the Supervisory Board, including:

- 1) implementing the Bank's strategy in the perspective of 2020 by risk assessment, continuing the Bank's stable and prudent management in the area of risk management, in particular reducing the Bank's exposure to risk (reducing or diversifying risk exposures, setting and monitoring limits for risk reduction, using collateral),
- 2) effective and rational capital adequacy management, so that the TCR and CET1 levels are above the regulatory and supervisory requirements,
- 3) engaging in the creation of new standards on a market scale,
- 4) cyber threats prevention,
- 5) maintaining priorities of operational efficiency and effective cost control,
- 6) maintaining a good liquidity position and stable sources of financing while optimizing the costs of financing,

- 7) supporting the development of Polish entrepreneurship, especially in the segment of small and medium enterprises while maintaining a safe level of risk and the expected level of capital adequacy,
- 8) the regulatory environment, including in particular: the prepared amendment to the recommendation S increasing the risk weight for foreign currency loans, Regulation of the Ministry of Finance and Development adopted on 6 March 2017 on the system of risk management and internal control, the remuneration policy and detailed method of assessing internal capital in banks, as well as another planned changes to the prudential regulations at both national and European levels.

REPORT ON ASSESSMENT OF RATIONALITY OF THE SPONSORSHIP AND CHARITY POLICY OF PKO BANK POLSKI S.A.

The Bank's mission is to support the development of Poland and Poles by, inter alia, exerting a positive influence on people, businesses and the environment, and by consistently developing brand credibility. PKO Bank Polski S.A., for which these assumptions are a priority, ensures that all sponsorship and charitable activities serve the creation of the Bank's image as a trustworthy financial institution that is socially engaged, innovative and open to development and customer needs. The Bank takes steps to build and deepen the relationships with the business environment and to ensure a positive public perception of its brand. The sponsorship and charity policy's direction to promote the history and national tradition is consistent with the Bank's mission, which declares the maintenance and promotion of the Bank's Polish character.

The Bank's sponsorship activities are carried out by the organisational units of the Marketing and Communications Division on the basis of an annual marketing plan, which is updated on a quarterly basis. In 2016, the Bank conducted 348 sponsorship projects of various scale: from nationwide projects, which were communicated in the media and supported by promotional campaigns, to smaller projects, which were dedicated to local communities. The expenditures supporting culture and business projects and the implementation of the in-house sports project "PKO Let's run together" ("PKO biegajmy razem") were items with the biggest share of the Bank's sponsorship budget.

In 2016, the sponsorship activities of the Bank were conducted in the areas listed below. In each of the said areas, the Bank also strived to stand out and promote patriotic and historical values, and to recognise the potential to promote the Polish identity.

- CULTURE AND ARTS – protection of the national cultural and artistic heritage, cultivation of tradition;
- EDUCATION – promotion of exact sciences (mainly IT, mathematics and economics), support for educational projects aimed at developing entrepreneurship and promoting innovation;
- SPORT – encouraging people to lead an active lifestyle, supporting grassroots sports, including runs often combined with charity campaigns and campaigns commemorating important events in the history of our country;
- BUSINESS – strengthening the Bank's position in the financial market, supporting Polish entrepreneurs, maintaining and building business relationships;
- EVENTS SIGNIFICANT FOR LOCAL COMMUNITIES – promoting the image of the Bank as an important and active partner of the business community, local governments and community centres.

When deciding on the implementation of a sponsorship project, the Bank takes into consideration, in addition to corporate image benefits such as the value of the brand exposure, business and relationship benefits. In order to identify and optimize such benefits, the Marketing and Communications Division cooperates with business units. An important element of sponsorship projects is to care for an active participation of the Bank's representatives in panel discussions, presentations and awards ceremonies. Through the substantive activities of its representatives, the Bank strengthens its position as an expert in finance.

The Bank's sponsorship policy is governed by the "Principles of Marketing Activities Conducted by PKO Bank Polski S.A." adopted by Resolution No 294/C/2015 of the Management Board (as amended) and a multi-stage project approval process. The rationality of the sponsorship policy is supervised by the Sponsorship Committee established by Resolution No 516/C/2012 of the Management Board. The process of examining sponsorship offers is thorough and rational. In the first phase, the equivalence of the application is assessed taking into account such indicators as:

- project significance,
- business and/or image potential,
- the organiser's reliability and high performance level,
- the business landscape in which the Bank functions as a sponsor, and
- the equivalence of sponsorship benefits in comparison to the budget allocated by the Bank.

Following the equivalence assessment, the offers that have been given a positive opinion are presented to the Sponsorship Committee, which is composed of representatives of retail sales, corporate and markets as well as marketing and PR divisions, which ensures a comprehensive review of each project. In this process, the opinion of business representatives, who identify the potential for promoting bank products and services and building customer relationships, is of particular importance.

The implemented sponsorship projects are monitored on an ongoing basis, analysed and assessed in terms of appropriate involvement of the Bank's employees. Each project is closed with a detailed report on the implementation of the sponsorship agreement.

Charitable activities are carried out for the benefit of the Bank's brand through the PKO Bank Polski Foundation. The scope of the Foundation's activities is specified in its Articles of Association, whereas the rules of cooperation between the Bank and the Foundation are governed by the agreement concluded on 22 May 2015. The main source used to fund the Foundation's objectives under the Articles of Association in 2016 were grants awarded by the Bank under resolutions of the Management Board. Additional funds were transferred to the Foundation under long-term agreements and come from the profit earned on non-cash transactions associated with the affinity-type card: "Dobro procentuje" (Good deeds pay off) (the card was launched in 2013), as made by Inteligo clients.

The purpose of the activities carried out by the Foundation in 2016 was to support institutions and citizens engaged in actions for the common good in the following areas: education, welfare work, health protection and promotion, culture and arts, environmental protection, including supporting the development of local communities. The important aspects included the promotion of social objectives in the banking environment and the promotion of the idea of voluntary services by organizing corporate volunteering at the Bank and other Bank Group companies.

The activities were carried out within seven strategic areas:

- EDUCATION – support for science, education and alternative forms of education in Poland;
- TRADITION – cultivating tradition, protecting the historical heritage and educating in a patriotic way,

- HOPE – welfare work addressed to the persons at risk of social exclusion, notably the harmed and disabled persons,
- HEALTH – health and life protection as well as preventive healthcare,
- CULTURE – protection of the national cultural and artistic heritage and support for artistic works of young Polish artists, made available pro bono,
- ECOLOGY – taking social initiatives to promote knowledge of natural environment protection and protection of water reservoirs in particular, and
- SPORT – encouraging especially children and youth as well as disabled persons to do exercises.

In 2016, the Foundation received 753 applications for cash donations to perform social tasks. 402 projects received positive opinions. The decision-making process involves considering each application received electronically at a meeting of the Foundation team. When an application for a donation of over PLN 20,000 is received, the application is additionally examined by the members of the Foundation Program Board, which is responsible for the rationality of the charity policy.

Through the agency of the Foundation, donations in kind are made to non-governmental organisations, in the form of IT equipment and furniture decommissioned at Bank branches.

The financial statements and the Management Board's report on the activities of the Foundation are audited after each financial year by chartered statutory auditors. In accordance with the principle of transparency, the reports on the activities of the Foundation, which present the completed tasks, are published on the Foundation's website.

In the areas that are crucial in terms of the Bank's image, such as culture, tradition, education and sport, the Bank and the Foundation carry out joint projects caring for the synergy of measures.

In the assessment of the Supervisory Board, the Bank's and the Foundation's sponsorship and charitable activities are carried out in a rational manner and with care for the public interest. According to the assessment of the Supervisory Board, the measures taken in 2016 within the sponsorship and charity policy contribute to building a positive image of the Bank's brand and to strengthening its good reputation, which in turn translates into the satisfaction of stakeholders, namely customers, co-operators, shareholders, representatives of state and local government administration, and also the employees of PKO Bank Polski SA and the Bank Group.

REPORT ON ASSESSMENT OF COMPLIANCE OF PKO BANK POLSKI S.A. WITH THE DISCLOSURE REQUIREMENTS CONCERNING THE APPLICATION OF THE PRINCIPLES OF CORPORATE GOVERNANCE, AS LAID DOWN IN THE GPW RULES AND IN THE REGULATIONS CONCERNING CURRENT AND PERIODIC DISCLOSURES TO BE MADE BY ISSUERS OF SECURITIES

According to the principle contained in section II.Z.10.3 of the 2016 Best Practice for GPW Listed Companies, the Supervisory Board shall prepare and submit to the Annual General Meeting an assessment of the Company's compliance with the disclosure requirements concerning the principles of corporate governance, as laid down in the Rules of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange) (the "GPW Rules") and in the regulations concerning current and periodic disclosures to be made by issuers of securities.

The Supervisory Board of the Bank hereby gives a positive assessment of the Bank's compliance in 2016 with the disclosure requirements concerning the principles of corporate governance.

These requirements were complied with in 2016 in accordance with the GPW Rules as well as the requirements of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic disclosures to be made by issuers of securities and the conditions for recognising information whose disclosure is required under the laws of a non-member state as equivalent ("Regulation").

I. Disclosure requirements concerning the principles of corporate governance, as laid down in the GPW Rules

2016 Best Practice for GPW Listed Companies

On 13 October 2015, the Supervisory Board of GPW adopted "2016 Best Practice for GPW Listed Companies" ("2016 Best Practice") effective 1 January 2016.

On 8 December 2015, the Management Board of the Bank as a body and members of the Management Board adopted the 2016 Best Practice for application while making a stipulation that recommendation contained in Section IV.R.2. on offering the shareholders an option to participate in a General Meeting via electronic communication means would not be applied unless the General Meeting made appropriate amendments to the Bank's Articles of Association authorising the Management Board to organize a General Meeting with the use of electronic communication means. A corresponding resolution on the adoption of the 2016 Best Practice was adopted by the Supervisory Board on 28 December 2015.

As of 1 January 2016, companies shall publish on their websites, regardless of the reports concerning any non-compliance with the detailed principles contained in the 2016 Best Practice, information on the status of compliance with the recommendations and detailed principles contained the 2016 Best Practice.

Therefore, on 1 January 2016, the Bank published on its website information about the status of compliance with the recommendations and detailed principles of the 2016 Best Practice (<http://www.pkobp.pl/pkobppl-en/investor-relations/corporate-governance/best-practice-of-gpw-listed-companies-2016/>). The information is prepared on the template established by the GPW, provides details of the status of compliance or non-compliance with specific recommendations and detailed principles, and constitutes direct fulfilment of the principle contained in Section I.Z.1.13.

In order to constantly monitor the compliance with the 2016 Best Practice, certain mechanisms have been put in place at the Bank to enable such monitoring and the publication, as necessary, of a relevant report in line with the GPW Rules.

In 2016, the detailed principles and recommendations of the 2016 Best Practices were complied with in the Bank, with the exception of:

1. Recommendation contained in Section IV.R.2., on offering the shareholders an option to participate in a General Meeting via electronic communication means, of which the Bank informs on its website, in accordance with the principle expressed in Section I.Z.1.13.;
2. Incidental non-compliance with the detailed principle laid down in Section IV.Z.17., according to which "A resolution of the general meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment takes place before the record date."

The Bank did not comply with this principle in its decision on the distribution of profit for 2015. The resolution of the Annual General Meeting concerning a conditional dividend payment contained conditions whose potential

fulfilment could take place after the record date. The Annual General Meeting of the Bank held on 30 June 2016 adopted a resolution on the distribution of profit for 2015, according to which the dividend payment was to take place provided that the conditions described in the resolution were jointly fulfilled by 8 December 2016 (inclusive) (the “Fulfilment of the Dividend Conditions”). The AGM set 30 September 2016 as the record date and 9 December 2016 as the latest date on which it should be established whether the Dividend Conditions had been fulfilled or not. The dates indicated for the fulfilment of the conditions provided for in the resolution were set in a way that allowed the Bank to carry out the necessary analyses, taking into account the possible deadlines for submitting new supervisory requirements with reference to own funds, and for determining their impact on the levels of capital adequacy ratios contained in the Bank’s financial statements for Q3 2016, which, in turn, was necessary for establishing whether the Dividend Conditions had been fulfilled or not. The above assumptions determined the dividend payment date set. The dividend payment date could not fall earlier than the date that was relevant for establishing whether the dividend payment conditions have been fulfilled or not. In view of the above, the dividend payment date was set for 20 December 2016.

The Bank informed of its non-compliance with the aforementioned detailed principle in a report on 30 June 2016.

II. Disclosure requirements regarding the principles of corporate governance, as laid down in the regulations concerning current and periodic disclosures to be made by issuers of securities

Pursuant to the Regulation, the Bank is required to include in its annual periodic report a statement, forming a separate part of the report, on the compliance with the principles of corporate governance and such declaration should contain the elements listed in the Regulation.

The scope of the statement is defined in § 91(5)(4) of the Regulation.

The statement is included in Chapter 8 (pages 93-122) of the Directors’ Report for 2016 and contains all the elements required under the Regulation.

REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD AS THE COMPANY'S AUTHORITY IN 2016

1. Information about the term of office of the Supervisory Board and the next year of activity within the term of office and about the composition of the Supervisory Board, functions held within the Supervisory Board and changes to the composition of the Supervisory Board during the financial year.

Supervisory Board (Composition of the Supervisory Board as at 31 December 2016): (joint three-year term commenced on the date of the Annual General Meeting convened on June 26, 2014)

No.	Name	Position	Date of appointment/ dismissal
1.	Piotr Sadownik	Chairman of the Supervisory Board	appointed to the Supervisory Board on 25 February, 2016 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-1583/2016, Resolution No. 14/2016) On February 25, 2016, the State Treasury as the Entitled Shareholder appointed Mr. Piotr Sadownik as the Chairman of the Supervisory Board.
2.	Grażyna Ciurzyńska	Vice-Chairman of the Supervisory Board	appointed to the Supervisory Board on June 30, 2016 for the term of office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-5497/2016, Resolution No. 31/2016) On June 30, 2016, the State Treasury as the Entitled Shareholder appointed Mrs. Grażyna Ciurzyńska as the Vice-Chairwoman of the Board.
3.	Zbigniew Hajłasz	Secretary of the Supervisory Board	appointed to the Supervisory Board on 30 June, 2016 for the term of office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-5497/2016, Resolution No. 32/2016) On July 14, 2016, the Supervisory Board appointed Mr. Zbigniew Hajłasz as the Secretary of the Supervisory Board.
4.	Mirosław Barszcz	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February, 2016 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-1583/2016, Resolution No. 8/2016)
5.	Adam Budnikowski	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February, 2016 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-1583/2016, Resolution No. 9/2016)
6.	Wojciech Jasiński	Member of the Supervisory Board	appointed for the Supervisory Board on February 25, 2016 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-1583/2016, Resolution No. 11/2016)
7.	Andrzej Kisielewicz	Member of the Supervisory Board	appointed for the Supervisory Board on February 25, 2016 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-1583/2016, Resolution No. 12/2016)
8.	Elżbieta Mącznyńska-Ziemacka	Member of the Supervisory Board	appointed for the Supervisory Board on June 26, 2014 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-3969/2014, Resolution No. 37/2014)
9.	Janusz Ostaszewski	Member of the Supervisory Board	appointed for the Supervisory Board on February 25, 2016 for the term of Office of the Supervisory Board, which began on the day of the Annual General Meeting held on 26 June 2014. (Notarial Deed / Repertory A-1583/2016, Resolution No. 13/2016)

Changes in the composition of the Supervisory Board in 2016:

On February 25, 2016, the Bank's Extraordinary General Meeting dismissed from the composition of the Bank's Supervisory Board: Jerzy Góra, Mirosław Czekaj, Piotr Marczak, Marek Mroczkowski, Krzysztof Kilian and Zofia Dzik.

In addition, the Bank's Extraordinary General Meeting on 25 February 2016 appointed for the Supervisory Board of the Bank: Mirosław Barszcz, Adam Budnikowski, Wojciech Jasiński, Andrzej Kisielewicz, Janusz Ostaszewski, Piotr Sadownik and Agnieszka Winnik-Kalemba.

The Polish State Treasury, as the Entitled Shareholder, appointed Piotr Sadownik as Chairman of the Bank's Supervisory Board and Agnieszka Winnik-Kalemba as Vice-Chairman of the Bank's Supervisory Board.

On June 30, 2016, the Bank's Annual General Meeting dismissed from the composition of the Bank's Supervisory Board: Małgorzata Dec-Kruczkowska and Agnieszka Winnik-Kalemba.

In addition, the Bank's Annual General Meeting on 30 June 2016 appointed the following members for the Supervisory Board of the Bank:

Grażyna Ciurzyńska and Zbigniew Hajłasz.

The State Treasury as the Entitled Shareholder appointed Grażyna Ciurzyńska as the Vice-Chairwoman of the Supervisory Board.

On July 14, 2016, the Supervisory Board appointed Mr. Zbigniew Hajłasz as the Secretary of the Supervisory Board.

2. Information on the number and frequency of past meetings of the Supervisory Board and the number of resolutions adopted.

In 2016, the Supervisory Board held the total of 12 minuted meetings on the following dates: January 27, March 3, March 10, March 22, May 4, June 2, June 30, July 14, August 25, September 22, November 3 and December 15.

In 2016, the Supervisory Board adopted 110 resolutions.

3. Information on the attendance of members of the Supervisory Board at the meetings.

All absences of members of the Supervisory Board at the meetings in 2016 were justified by resolutions of the Board No.: 12/2016, 38/2016, 62/2016, 63/2016, 64/2016, 70/2016, 71/2016, 82/2016 and 87/2016; They concerned the absence of 6 members of the Board during 6 meetings of the Board.

4. Important issues dealt with by the Supervisory Board.

In 2016, the Supervisory Board – apart from matters concerning the adoption of documents for the Ordinary General Meeting resulting from the generally applicable provisions of the law and the Bank's Articles of Association – dealt with:

1. approval of the Strategy of PKO Bank Polski S.A. for 2016-2020,
2. the strategic plan of PKO Bank Polski S.A. for 2016-2020,
3. cost and operational effectiveness -- an element of the PKO Bank Polski 2016-2020 Strategy,

4. analysis and adoption of the financial plan of PKO Bank Polski S.A. for 2016, including the capital plan of PKO Bank Polski S.A. for 2016 and the analysis of the main assumptions of the financial plan of PKO Bank Polski S.A. for 2017, including the capital plan of PKO Bank Polski S.A. for 2017.
5. macro-economic and market forecasts for 2017-2020, and also review of the situation in the economy and in financial markets,
6. capital position of PKO Bank Polski S.A. in comparison to selected European banks,
7. rules for choosing an audit company given the need to adjust the existing rules in this respect to the Community provisions regarding the audit regulation, i.e. the Directive (EU) 2014/56/EC of the European Parliament and the Council and Regulation (EU) No. 537/2014 of the European Parliament and the Council.
8. renewal of the offer for an audit and review of the financial statements of the Bank and the Group of the Bank with the existing audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa [Polish limited liability company, limited partnership] for the period of audit and review of the financial statements for 2017-2019, provided that the Bank obtains a satisfying offer by the end of the contract with the audit firm KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa for audit and review of the financial statements for 2015-2016,
9. approval of the rules of capital adequacy and equity management in PKO Bank Polski S.A. and the Group of PKO Bank Polski S.A.,
10. approval and amendment of the risk management strategy in PKO Bank Polski S.A.,
11. results of the audit and the supervisory assessment as at 31.12.2015 and information on the update of the BION [supervisory review and assessment] rating at the end of the first quarter of 2016,
12. issuance of mortgage bonds of PKO Bank Hipoteczny,
13. changes in the composition of the Audit Committee of the Supervisory Board,
14. supplementation of the composition of the Risk Committee,
15. supplementation of the composition of the Remuneration Committee,
16. establishment of the Strategy Committee and the Chairperson and Members of that Committee, and also the adoption of its Rules of Procedure,
17. adoption of the Regulations of the Supervisory Board of PKO Bank Polski S.A.,
18. approval of the Regulations of the Management Board of PKO Bank Polski S.A.,
19. approval of the Organizational Regulations of PKO Bank Polski S.A. and approval of amendments to these Regulations,
20. changes in the composition of the Management Board and determination of the remuneration for newly appointed members of the Bank's Management Board,
21. assessment of the functioning of the remuneration policy at PKO Bank Polski S.A.,
22. assessment of the application by PKO Bank Polski S.A. of corporate governance rules for supervised institutions,
23. assessment of the rationality of the policy of PKO Bank Polski S.A. within the scope of the sponsoring and charity activity

24. assessment of the manner in which PKO Bank Polski S.A. fulfils the information obligations concerning the application of corporate governance principles specified in the Exchange Rules and regulations concerning current and periodic information provided by issuers of securities,
25. change of the "Rules of the variable remuneration of persons on managerial positions" and the Regulations of variable remuneration components for members of the Management Board,
26. approval of the settlement of the MBO objectives for 2015 for members of the Bank's Management Board,
27. adoption of MBO objectives and their values and weights for the members of the Board for 2016,
28. presentation of the new act on the rules of remuneration of managers of certain companies.

In addition, the Board, in the course of meetings held, discussed among other things the topics of:

1. cooperation between the banking sector (including PKO Bank Polski S.A.) and eAdministration (the eID program, State Aid for Family (Rodzina 500+) and Cybersecurity),
2. the restructuring of the coal sector in Poland,
3. the issue of foreign currency loans,
4. the cooperation of PKO Bank Polski S.A. with the public sector,
5. the impact of tax on bank assets on PKO Bank Polski S.A. and on the financial sector and the economy,
6. the effects of Brexit.

Topics discussed on a recurring basis by the Supervisory Board include:

1. report on the implementation of the strategy of PKO Bank Polski S.A.,
2. information on the financial result of the Group of PKO Bank Polski S.A. and the results of PKO Bank Polski S.A. in comparison to competing banks,
3. information of the Internal Audit Department on the effectiveness of the internal control system,
4. Report: *Models risk at PKO Bank Polski*,
5. Report: *Credit risk at PKO Bank Polski*,
6. Report: *Financial risk at PKO Bank Polski*,
7. Report: *Capital adequacy at PKO Bank Polski*,
8. Report: *Operational risk at PKO Bank Polski*,
9. Report: *Business risk at PKO Bank Polski*,
10. Report: *Non-compliance risk at PKO Bank Polski*,
11. Report: *Reputational risk at PKO Bank Polski*,
12. Report: *Capital adequacy and other information subject to disclosure*,
13. Report: *Quality of insurance at PKO Bank Polski*,
14. information on the Bank's security,
15. information on the state of the Bank's Information System (SIB),
16. information on the scope of application of bancassurance accounting principles,
17. synthetic information on the assessment of internal banking systems of PKO Bank Polski S.A.,
18. information on the situation of KREDOBANK S.A.

5. Audits carried out

In 2016, in justified cases, the Supervisory Board acquired additional information/expertise, with the participation of an external advisor and organizational units of the Bank's Head Office, within the scope of the Bank's projects and audits.

6. information on changes made by the Supervisory Board to the composition of the Management Board, suspension of the members of the Management Board in the performance of their duties and the delegation of members of the Supervisory Board to perform the function of a member of the Management Board.

Changes in the composition of the Management Board in 2016.

- On 21 March 2016, Mr Jacek Obłękowski submitted his resignation from the position of Vice President of the Bank's Management Board as of 21 March 2016.
- On 22 March, 2016, Mr Jarosław Myjak submitted his resignation from the position of Vice President of the Bank's Management Board as of 22 March, 2016.
- On 2 June, 2016, the Supervisory Board appointed Mr. Mieczysław Król as the Vice President of the Management Board of PKO Bank Polski S.A. for the current joint term of office of the Management Board as of 6 June, 2016.
- On 30 June, 2016, the Supervisory Board appointed Mr. Maks Kraczkowski as the Vice President of the Management Board of PKO Bank Polski S.A. for the current joint term of office of the Management Board as of 4 July, 2016.
- On 14 July, 2016, the Supervisory Board appointed Mr. Jan Emeryk Rościszewski as the Vice President of the Management Board of PKO Bank Polski S.A. for the current joint term of office of the Management Board as of 18 July, 2016.
- On 5 October, 2016, Piotr Alicki, Vice-President of the Management Board of PKO Bank Polski, resigned from the membership in the Management Board at the end of 30 October 2016. The reason for the resignation of Mr. Piotr Alicki was the appointment as the President of the Management Board of the National Clearing House S.A..
- On 3 November, 2016, the Supervisory Board appointed Mr. Janusz Derda as the Vice President of the Management Board of PKO Bank Polski S.A. for the current joint term of office of the Management Board as of 1 December, 2016.

In 2016, the Supervisory Board did not take a decision to suspend any members of the Management Board in the performance of their duties, nor delegated the members of the Supervisory Board to perform the function of a member of the Management Board.

7. Information on the implementation of resolutions of the Assembly which relate to the activities of the Supervisory Board.

Under Resolution No. 16/2016 of the Extraordinary General Meeting of 25 February, 2016, the Supervisory Board was authorized to prepare a consolidated text of the Articles of Association of PKO Bank Polski S.A., taking into account the changes referred to in § 1 of the above resolution.

In connection with the above, the Supervisory Board adopted on 22 March, 2016 the resolution No. 37/2016, which established the consolidated text of the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

Under Resolution No. 26/2016 of the Annual General Meeting of 30 June, 2016, the Supervisory Board was authorized to prepare a consolidated text of the Articles of Association of PKO Bank Polski S.A., taking into account the changes referred to in § 1 of the above resolution.

In connection with the above, the Supervisory Board adopted on 22 September, 2016 Resolution no. 85/2016, which established the consolidated text of the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

8. Information about the fulfillment of independence criteria by the members of the Supervisory Board.

According to point II.Z.6 of the Code of Good Practice for WSE Listed Companies 2016, the Supervisory Board of a public company assesses whether there are relationships or circumstances that may affect the fulfilment of independence criteria by a given member of the Board. In connection with the above, the Supervisory Board took note of the declarations of independence submitted by individual members of the Supervisory Board and the adopted on 15 December, 2016 resolutions:

- by which it acknowledged the declarations of Mr. Piotr Sadownik, Mr. Zbigniew Hajłasz, Mr. Mirosław Barszcz, Mr. Adam Budnikowski, Mr. Andrzej Kisielewicz, Mrs. Elżbieta Mączyńska-Ziemacka and Mr. Janusz Ostaszewski, on the fulfilment of the independence criteria referred to in point II.Z.4. of the Code of Good Practice for WSE Listed Companies 2016. The Supervisory Board was not aware of any circumstances that could have a negative impact on the performance by the above persons of the independence criteria referred to above,
- by which it acknowledged the declarations of Mrs. Grażyna Ciurzyńska and Mr. Wojciech Jasiński on the failure to fulfil the independence criteria referred to in point II.Z.4 of the Code of Good Practice for WSE Listed Companies 2016.

9. Self-evaluation of the work of the Supervisory Board.

At the meeting held on 26 January 2017, the Supervisory Board of PKO Bank Polski S.A. self-assessed the work of the Board in 2016.

The Supervisory Board of PKO Bank Polski S.A. assessed that it fulfils its duties in a careful and efficient manner, exercising constant supervision over the Company's activity and development in all areas of its activity. According to the Board, professional experience and diverse competences of the members of the Board allow for comprehensive examination and opinions on the topics presented and a broad representation of views on the assessment of the work of the Management Board and the functioning of PKO Bank Polski S.A..

When evaluating cooperation of the Supervisory Board with the Bank's Management Board, the Supervisory Board positively assessed the course of this cooperation, emphasizing reliability and correctness of information provided by the Management Board. At the same time, the Supervisory Board appreciated the reactions of the Management Board to individual inquiries of the members of the Supervisory Board, made also outside the meetings of the

Supervisory Board, and the active participation of the Management Board in the meetings of the Supervisory Board (reporting of requests addressed to the Supervisory Board and providing appropriate explanations).

In 2016, all members of the Supervisory Board actively participated in the meetings of the Board and demonstrated their commitment to the correct performance of their duties, and the discussions included consideration of the current situation of the company, market changes as well as good practices and standards. In 2016, the Supervisory Board carried out the statutory tasks, while ensuring that it constantly improved its work in this regard. The discussions at the meetings of the Supervisory Board were characterized by high substantive level.

The number and duration of meetings, as well as access to resources were sufficient to enable the Supervisory Board to fully perform its duties and the documents for the Supervisory Board contained relevant information and were prepared for the meetings sufficiently in advance.

The quality of the materials submitted to the Supervisory Board meetings was deemed high.

10. Further information about the work of the Board.

In 2016 the following committees operated at the Bank: the Remuneration Committee, the Risk Committee, the Audit Committee of the Supervisory Board and the Strategy Committee. Annual activity reports of the above mentioned Committees are respectively included as Annexes 1, 2, 3 and 4 to this Report.

Warsaw, 18.05.2017

REPORT
ON THE ACTIVITIES OF THE REMUNERATION
COMMITTEE
IN 2016

1. Legal basis:

1. The Remuneration Committee was established by Resolution No 52/2011 of the Supervisory Board of 2 November 2011 (as amended) to assist the Supervisory Board in carrying out its duties under the Articles of Association and the tasks arising from the provisions of law, in particular with reference to the general rules of the policy of variable remuneration components for persons holding managerial positions at the Bank, the remunerating rules and the remuneration of members of the Management Board. The Committee operates under the Rules of Procedure of the Remuneration Committee, which define the objectives, organisation, mode of operation and tasks of the Committee.
2. The Report was prepared pursuant to § 3(3) of the Rules of Procedure of the Remuneration Committee, which form an appendix to Resolution No 40/2015 of the Supervisory Board of 16 December 2015.

2. The composition of the Committee in 2016:

The composition of the Remuneration Committee as at 31 December 2016

Full name	Function
Piotr Sadownik	Chair of the Committee
Grażyna Ciużyńska	appointed as Member of the Committee on 14 July 2016 and as Vice-Chair of the Committee on 3 November 2016
Wojciech Jasiński	Member of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Janusz Ostaszewski	Member of the Committee

Changes in the composition of the Remuneration Committee in 2016

(The composition of the Committee in the period from 1 January to 25 February 2016)

Full name	Function
Małgorzata Dec-Kruczkowska	Chair of the Committee
Jerzy Góra	Deputy Chair of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Marek Mroczkowski	Member of the Committee

(The composition of the Committee in the period from 3 March to 30 June 2016)

Full name	Function
Piotr Sadownik	Chair of the Committee
Małgorzata Dec-Kruczkowska	Member of the Committee
Wojciech Jasiński	Member of the Committee
Elżbieta Mączyńska-Ziemacka	Member of the Committee
Janusz Ostaszewski	Member of the Committee
Agnieszka Winnik-Kalemba	Member of the Committee

3. The number of meetings of the Committee in 2016:

In 2016, the Remuneration Committee held 5 meetings. The meetings were held on 4 May, 2 June, 30 June, 14 July and 3 November. The number of members of the Remuneration Committee attending the meetings of the Committee in 2016 was sufficient to ensure the proper course of all meetings.

4. The subject matter of the Committee's work

The Remuneration Committee, as a result of the conducted analysis:

- 1) submitted, to the Supervisory Board, its opinions concerning:
 - the approval of the fulfilment of 2015 MbO objectives by members of the Bank's Management Board, in accordance with the received proposals,
 - the approval of MbO objectives, their values and weights for members of the Management Board for 2016,
 - the adoption of amendments to the "Rules of variable remuneration components for persons holding managerial positions at the Bank" involving resignation from determining a fair rate based on the Bank's specific products and the introduction of a fixed and, at the same time, flexible form for setting the fair rate of the deferred variable remuneration,
- 2) as a result of an analysis during which it was established that no circumstances occurred which would justify a reduction in the deferred variable remuneration for the years 2012-2014, as awarded to members of the Management Board in 2016 in the form of a cash component and of a financial instrument, the Remuneration Committee recommended that the Supervisory Board should take a decision not to reduce the deferred variable remuneration for the years 2012-2014, as awarded to members of the Management Board in 2016,

At the same time:

- 1) after analysing the information on the amount of variable remuneration components paid in 2016 to persons holding managerial positions within the meaning of the Regulations on variable remuneration components for persons holding managerial positions, and to employees taken over from Nordea Bank Polska, with whom the employer entered into agreements on the deferment and retention of the variable remuneration for the years 2012-2014, which information has been submitted by the President of the Management Board, the Remuneration Committee did not make any objections to the planned payments,
- 2) after analysing the information submitted by the President of the Management Board and as a result of a review of the amount of the base remuneration, and taking into account the impact of the planned

payments of variable remuneration components on the Bank's risk profile and long-term development plans and the fact that there are no reasons justifying a decision to reduce the payment of variable remuneration, the Remuneration Committee did not make any objections to the planned payment of variable remuneration components for the years 2012-2015 to members of the Management Board in 2016 and in January 2017 or to the amount of the base remuneration of members of the Management Board, and recommended that the Supervisory Board should adopt appropriate resolutions on these matters.

Furthermore, the Remuneration Committee:

- as a result of the performed analysis, adopted a draft report "Assessment of the functioning of the remuneration policy at PKO Bank Polski" and recommended that the Supervisory Board should adopt the report in accordance with the draft, for its submission to the Annual General Meeting,
- reviewed a presentation describing the mode of implementing at PKO Bank Polski the rules contained in the Act of 9 June 2016 on the rules of setting remuneration of persons managing certain companies,
- recommended that the Supervisory Board should set the monthly gross base remuneration for Vice-Presidents of the Management Board appointed by the Supervisory Board in 2016,
- discussed the initial proposal of the MbO objectives catalogue for members of the Management Board for 2017,
- appointed Ms Grażyna Ciurzyńska as Vice-Chair of the Remuneration Committee.

5. Assessment of the effectiveness of the Remuneration Committee's work

During the meeting of the Supervisory Board of PKO Bank Polski SA on 26 January 2017, the Remuneration Committee self-assessed the effectiveness of its work in 2016.

The Remuneration Committee assessed that members of the Committee had appropriate qualifications and experience to effectively perform their functions as a member of the Remuneration Committee.

In 2016, the Remuneration Committee performed its tasks arising from the Rules of Procedure, while constantly improving its work in this area. All members of the Remuneration Committee actively participated in the meetings, and their discussions involved assessment of the Company's current position, market developments, best practice and standards, with a view to effectively assess and improve the remuneration policy. The number and duration of the meetings were sufficient to enable the Committee to fully carry out its duties.

The cooperation of the Remuneration Committee with the Management Board was smooth and efficient. The Committee responded constructively to the information received in order to ensure transparency and correctness of the communication process in the future.

Warsaw, 2 March 2017

REPORT ON THE ACTIVITIES OF THE RISK COMMITTEE OF THE SUPERVISORY BOARD IN 2016

1. Legal basis:

- The Risk Committee of the Supervisory Board ("Risk Committee") was established by resolution No 35/2015 of the Supervisory Board of 4 November 2015,
- The report on the activities of the Risk Committee was prepared pursuant to § 3(3) of the Committee's Rules of Procedure, which form an appendix to Resolution No 38/2015 of the Supervisory Board of 16 December 2015 on the Rules of Procedure of the Risk Committee.

2. The composition of the Risk Committee in 2016:

The composition of the Risk Committee as at 31 December 2016

Full name	Function
Andrzej Kisielewicz	Chair of the Risk Committee
Grażyna Ciurzyńska	Vice-Chairman of the Risk Committee
Adam Budnikowski	Member of the Risk Committee
Elżbieta Mączyńska-Ziemacka	Member of the Risk Committee

Changes in the composition of the Risk Committee in 2016

(The composition of the Risk Committee from 1 January 2016 to 25 February 2016)

Full name	Function
Jerzy Góra	Chair of the Risk Committee
Mirosław Czekaj	Member of the Risk Committee
Zofia Dzik	Member of the Risk Committee
Krzysztof Kilian	Member of the Risk Committee
Piotr Marczak	Member of the Risk Committee

(The composition of the Risk Committee from 3 March 2016 to 30 June 2016)

Full name	Function
Andrzej Kisielewicz	Chair of the Risk Committee
Adam Budnikowski	Member of the Risk Committee
Małgorzata Dec-Kruczkowska	Member of the Risk Committee
Elżbieta Mączyńska-Ziemacka	Member of the Risk Committee

(The composition of the Risk Committee from 30 June 2016 to 22 September 2016)

Full name	Function
Andrzej Kisielewicz	Chair of the Risk Committee
Adam Budnikowski	Member of the Risk Committee
Elżbieta Mączyńska-Ziemacka	Member of the Risk Committee

3. Information on the meetings of the Risk Committee in 2016:

In 2016, as part of its duties under the Rules of Procedure, the Risk Committee held 4 meetings (22 March, 30 June, 22 September and 15 December). The number of members of the Risk Committee attending the meetings of the Risk Committee in 2016 was sufficient to ensure the proper course of all meetings of the Risk Committee in 2016.

The following persons were invited to and attended the meetings of the Risk Committee: the President of the Management Board, the Vice-President of the Management Board supervising Finance and Accounting, the Vice-President of the Management Board supervising Risk Management, the Director of the Banking Risk Division, the Director of the Internal Audit Department and the Director of the Compliance Department.

4. The subject matter of the Risk Committee's work:

The key topics covered by the Risk Committee in its work in 2016 included matters related to:

4.1 The monitoring of risk management at PKO Bank Polski SA, including:

1. reviewing and expressing opinions on periodic risk management reports, including those concerning credit risk, financial risk, operational risk and business risk,
2. reviewing and expressing opinions on periodic reports on compliance risk at PKO Bank Polski SA and reputational risks at PKO Bank Polski SA,
3. expressing opinions on the risk management strategy,
4. monitoring the model risk level at PKO Bank Polski SA, including reviewing and issuing opinions on the annual model risk report, as well as information on the adaptation of PKO Bank Polski SA to Recommendation "W" concerning model risk management in banks,

4.2 Expressing opinions on the "Rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group", as well as reviewing and expressing opinions on the periodic reports on capital adequacy.

4.3 Assessing the Bank's activities aimed at risk mitigation via insuring the Bank's property and taking out third-party liability insurance for members of the Bank's corporate bodies and holders of the commercial power of attorney.

5. The description of the Risk Committee's work

5.1. The monitoring of risk management in PKO Bank Polski SA.

1. The ongoing monitoring of risk management.

The Risk Committee reviewed and expressed, on a quarterly basis, its opinions on the reports on credit, financial, operational and business risk, which were subsequently discussed at the meetings of the Supervisory Board.

The Risk Committee monitored the risk level on an ongoing basis, based on the information contained in monthly reports prepared for the Committee by the Banking Risk Division.

Furthermore, the Risk Committee reviewed, on a quarterly basis, reports on compliance risk, and reviewed, on a half-yearly basis, reports on reputational risk, which were subsequently discussed by the Supervisory Board.

As part of the ongoing monitoring of risk management, on 15 December 2016 the Risk Committee together with the Audit Committee, held a meeting with the Director of the Banking Risk Division, without members of the Management Board, during which it was briefed by the Director on:

- the current level of specific types of risks in the Bank, namely credit risk, interest rate risk, operational risk and capital adequacy risk,
- the main challenges for risk management, including the regulatory challenges both at the Polish and European levels, and cyber security-related challenges.

5.2 Expressing opinions on the risk management strategy.

Having reviewed the scope of changes being introduced, the Risk Committee informed the Supervisory Board of its positive opinion on the following documents:

- 1) on 22 March 2016 – on the Risk Management Strategy in PKO Bank Polski SA, forming an appendix to Resolution No 80/A/2016 of the Management Board of 23 February 2016 on this strategy; the document included changes involving an increase in the strategic tolerance limit for the total capital ratio and the Tier 1 ratio, in connection with the requirements of the recommendation of the Polish Financial Supervision Authority concerning the capital conservation buffer and the capital assessment for the risk of foreign currency mortgage loans, which was individually imposed on the Bank, and the introduction of a new strategic tolerance limit for capital adequacy measures, namely the leverage ratio, to take account of the requirements resulting from the CRR/CRD IV package,
- 2) on 30 June 2016 – on the changes in the Risk Management Strategy in PKO Bank Polski SA, as introduced by Resolution No 274/A/2016 of the Management Board of 21 June 2016 amending the resolution on the risk management strategy in PKO Bank Polski SA, which included a change concerning the setting, in the risk management strategy in PKO Bank Polski SA, of the maximum level of Dtl ratio of mortgage-secured credit exposures,
- 3) on 22 September 2016 – changes in the Risk Management Strategy in PKO Bank Polski SA, as introduced by Resolution No 437/A/2016 of the Management Board of 13 September 2016 amending the resolution on the risk management strategy in PKO Bank Polski SA, which included changes related to the implementation of PFSA recommendations relating to the distinction, within the credit risk, of the risk of adjustment to the valuation of derivatives on account of counterparty credit risk (CVA), and changes related to the distinction of conduct risk,
- 4) on 15 December 2016 – the Risk Management Strategy in PKO Bank Polski SA, forming an appendix to Resolution No 597/A/2016 of the Management Board of 7 December 2016 on this strategy, which included changes related to the Bank's adaptation to the provisions of Recommendation "C" on concentration risk management.

5.3 Monitoring the level of model risk in PKO Bank Polski SA

The Risk Committee reviewed and expressed its opinion on the annual report on model risk in PKO Bank Polski SA as at the end of 2015, which was subsequently discussed during a meeting of the Supervisory Board.

Furthermore, the Risk Committee acknowledged information on the adaptation of PKO Bank Polski SA to Recommendation "W" on model risk management in banks, after obtaining confirmation that all adaptation

activities established at the stage of gap analysis have been implemented and after reviewing this Information and obtaining explanations about the value of the strategic tolerance limit for model risk.

5.4 Expressing opinions on the “Rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group”, as well as reviewing and expressing opinions on the periodic reports on capital adequacy.

Having reviewed the following documents, the Risk Committee informed the Supervisory Board of its positive opinion on:

- 1) on 22 March 2016 – on the “Rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group”, which form an appendix to resolution No 128/A/2016 of the Management Board of 22 March 2016 on the rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski Group, which Rules included changes in thresholds for capital adequacy measures, which were set above the updated strategic limits to reflect the PFSA position of December 2015 on the dividend policy for 2015.
- 2) on 15 December 2016 – on the “Rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group”, which form an appendix to resolution No 598/A/2016 of the Management Board of 7 December 2016 on the rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski Group, which Rules included changes related to the Bank’s adaptation to the provisions of Recommendation “C” on concentration risk management.

The Risk Committee reviewed and expressed, on a quarterly basis, its opinions on the report on capital adequacy, which was subsequently discussed by the Supervisory Board.

5.5 The assessment of the Bank’s activities aimed at risk mitigation via insuring the Bank’s property and taking out third-party liability insurance for members of the Bank’s corporate bodies and holders of the commercial power of attorney.

As part of its activities related to expressing opinions on operational risk mitigation solutions with the use of property insurance for the Bank and third party liability insurance for members of the Bank’s corporate bodies and holders of a commercial power of attorney, the Risk Committee reviewed materials on the Assessment of the Bank’s activities aimed at risk mitigation via insuring the Bank’s property and taking out third-party liability insurance for members of the Bank’s corporate bodies and holders of the commercial power of attorney, including the most important tasks implemented during the last 12 months and the most important tasks planned for 2017.

5.6 The work plan for the Risk Committee for 2017

At the meeting held on 15 December 2016, the Risk Committee approved the Framework Work Plan of the Risk Committee for 2017.

6 Assessment of the effectiveness of the Risk Committee’s work in 2016.

During the meeting of the Supervisory Board of PKO Bank Polski SA on 26 January 2017, the Risk Committee self-assessed the effectiveness of its work in 2016.

The Risk Committee assessed that members of the Risk Committee had appropriate qualifications and experience to effectively perform their functions as member of the Risk Committee.

In 2016, all members of the Risk Committee actively participated in the meetings of the Risk Committee and demonstrated high involvement in the proper performance of their duties.

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

In 2016, the Risk Committee performed its tasks arising from the Rules of Procedure, while constantly improving its work in this area. The discussions held at the meetings of the Risk Committee were characterised by a high level of competence.

The cooperation of the Risk Committee with the Management Board and other key persons in the Bank was smooth and efficient; The Risk Committee responded constructively to the information received in order to ensure transparency and correctness of the communication process in the future.

In 2016, all members of the Supervisory Board of PKO Bank Polski SA, including members of the Risk Committee, made statements on meeting the independence criteria referred to in Section II.Z.4 of the "Best Practice for GPW Listed Companies 2016", in the version annexed as an appendix to Resolution No 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A.

Warsaw, 2 March 2017

REPORT ON THE ACTIVITIES OF THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD FOR 2016

1. Legal basis:

- The Audit Committee of the Supervisory Board, hereinafter the “Audit Committee”, was established by Resolution No 44/2006 of the Supervisory Board of 30 November 2006 (as amended),
- The report on the activities of the Audit Committee was prepared pursuant to § 3(3) of the Committee's Rules of Procedure, forming an appendix to Resolution No 39/2015 of the Supervisory Board of 16 December 2015 on the Rules of Procedure of the Audit Committee.

2. The composition of the Audit Committee in 2016

The composition of the Audit Committee as at 31 December 2016

Full name	Function
Zbigniew Hajłasz	Chair of the Audit Committee
Grażyna Ciurzyńska	Vice-Chair of the Audit Committee
Andrzej Kisielewicz	Member of the Audit Committee
Janusz Ostaszewski	Member of the Audit Committee
Piotr Sadownik	Member of the Audit Committee

Changes in the composition of the Audit Committee in 2016

(The composition of the Audit Committee from 1 January 2016 to 25 February 2016)

Full name	Function
Mirosław Czekaj	Chair of the Audit Committee
Zofia Dzik	Vice-Chair of the Audit Committee
Krzysztof Kilian	Member of the Audit Committee
Piotr Marczak	Member of the Audit Committee

(The composition of the Audit Committee from 3 March 2016 to 30 June 2016)

Full name	Function
Mirosław Barszcz	Chair of the Audit Committee
Małgorzata Dec-Kruczkowska	Vice-Chair of the Audit Committee
Andrzej Kisielewicz	Member of the Audit Committee
Janusz Ostaszewski	Member of the Audit Committee
Piotr Sadownik	Member of the Audit Committee
Agnieszka Winnik-Kalemba	Member of the Audit Committee

(The composition of the Audit Committee from 30 June 2016 to 25 August 2016)

Full name	Function
Mirosław Barszcz	Chair of the Audit Committee
Andrzej Kisielewicz	Member of the Audit Committee
Janusz Ostaszewski	Member of the Audit Committee
Piotr Sadownik	Member of the Audit Committee

(The composition of the Audit Committee from 25 August 2016 to 3 November 2016)

Full name	Function
Mirosław Barszcz	Chair of the Audit Committee
Grażyna Ciurzyńska	Member of the Audit Committee
Andrzej Kisielewicz	Member of the Audit Committee
Janusz Ostaszewski	Member of the Audit Committee
Piotr Sadownik	Member of the Audit Committee

(The composition of the Audit Committee from 3 November 2016 to 14 December 2016)

Full name	Function
Mirosław Barszcz	Chair of the Audit Committee
Grażyna Ciurzyńska	Vice-Chair of the Audit Committee
Andrzej Kisielewicz	Member of the Audit Committee
Janusz Ostaszewski	Member of the Audit Committee
Piotr Sadownik	Member of the Audit Committee

On 14 December 2016, the Chair of the Audit Committee Mirosław Barszcz resigned from his function as the Chair of the Audit Committee and Member of the Audit Committee.

On 15 December 2016, the Supervisory Board appointed the Secretary of the Supervisory Board Zbigniew Hajłasz to act as Member of the Audit Committee, and subsequently as Chair of the Audit Committee.

3. Information on the meetings of the Audit Committee in 2016:

In 2016, as part of its duties under the Rules of Procedure, the Audit Committee held 8 meetings (27 January, 3 March, 22 March, 4 May, 2 June, 25 August, 3 November and 15 December). The number of members of the Audit Committee attending the respective meetings of the Audit Committee in 2016 was sufficient to ensure the proper course of all meetings of the Audit Committee in 2016.

The following persons were invited to and attended the meetings of the Audit Committee: the President of the Management Board, the Vice-President of the Management Board supervising Finance and Accounting, the Vice-President of the Management Board supervising Risk Management, the Director of the Internal Audit Department and the Director of the Compliance Department.

In 2016, the Audit Committee held meetings, without the participation of members of the Management Board, with the Director of the Banking Risk Division, the Director of the Internal Audit Department, the Director of the Legal Department and the Director of the Compliance Department, and with the external auditor.

The Committee's activities were based on the Work Plan of the Audit Committee for 2016.

4. The subject matter of the Audit Committee's work:

The key topics covered by the Audit Committee in its work in 2016 included matters related to:

4.1 Accounting and reporting, including:

1. a review of the interim and annual financial statements of PKO Bank Polski and of the PKO Bank Polski Group (separate and consolidated), namely for 2015, the first quarter of 2016, the first half of 2016 and the first three quarters of 2016,
2. a review of the degree of implementation of the auditor's recommendations for the Management Board from the audit of the financial statements, and of the outstanding recommendations from previous years,
3. the acknowledgement of the external auditor's recommendations for the Management Board from the audit of the financial statements for the year ended 31 December 2015 and the manner of their implementation,
4. a review of new external regulations affecting the Bank's accounting and financial reporting activities.

4.2 The internal audit operations of the Bank, including:

1. monitoring the effectiveness of the internal control system of the Bank in 2015,
2. the implementation of the Bank's "Internal Audit Plan" for 2015 and 2016 and the results of audits carried out by the Internal Audit Department,
3. the draft internal audit plan for 2017 and the draft three-year internal audit plan for the years 2017-2019,
4. a review of the activities of the Internal Audit Department in view of available resources,
5. monitoring the level of remuneration of the director and employees of the Internal Audit Department,

4.3 Current monitoring of the risk management system, including:

1. analysis of the current level of specific types of risks in the Bank,
2. the challenges related to risk management.

4.4 Monitoring the effectiveness of the compliance risk management system and the activities of the Compliance Department, including:

1. reviewing the effectiveness of the compliance monitoring system and the compliance of the Bank's and employees' activities with regulations,
2. monitoring the level of remuneration of the director and employees of the Compliance Department,

4.5 Cooperating with the external auditor, including:

1. monitoring the independence and objectivity of the statutory auditor and of the entity authorised to audit the financial statements of the Bank and the PKO Bank Polski SA Group (turnover of the key team members and fees),
2. the representation on the independence of the external auditor and the information on the auditor's fee for audit and non-audit tasks,
3. an amendment to the agreement on the audit of the financial statements and review of the condensed financial statements,
4. a recommendation on the audit firm selection rules,
5. a recommendation on the renewal of assignment to audit and review the financial statements of the Bank and of the Bank's Group,
6. the acknowledgement of the external auditors' recommendations for the Management Board from the audit of the financial statements for the year ended 31 December 2015 and the manner of their implementation,

4.6 Implementation of the recommendations issued by the Polish Financial Supervision Authority

4.7 The distribution of the profit earned by PKO Bank Polski SA in 2015 and retained earnings of previous years, and the Dividend Policy of PKO Bank Polski SA

4.8 Legal issues of significant importance to the Bank.

5. The description of the Audit Committee's work

5.1 Accounting and Reporting

1. The review of the interim and annual financial statements of PKO Bank Polski SA and of the PKO Bank Polski SA Group (separate and consolidated)

As part of the review of the Bank's interim and annual financial statements (both separate and consolidated), the Audit Committee focused on:

- 1) the review of the financial performance of PKO Bank Polski SA and of the PKO Bank Polski Group in respective periods, taking into account, in particular, the most important events affecting the functioning and the financial performance of the Bank Group,
- 2) the outcomes of the audit, by the statutory auditor, of the financial statements of PKO Bank Polski SA and of the PKO Bank Polski SA Group for 2015, the first quarter of 2016, the first half of 2016 and for the first three quarters of 2016 and obtaining confirmation of the Bank's compliance with formal and legal requirements applicable to the said financial statements, i.e. their compliance with International Financial Reporting Standards, International Accounting Standards and, to the extent not covered by the foregoing Standards, compliance with the provisions of the Accounting Act while using the best market practice.

Having reviewed the financial statements of PKO Bank Polski SA for the year ended 31 December 2015 and the consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2015, the results of the review thereof by the auditor, having discussed said results and having regard to the unqualified opinion issued by the auditor, the Audit Committee recommended that the Supervisory Board should express a positive opinion on the financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for the

year ended 31 December 2015 and the consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group for the year ended 31 December 2015.

The Audit Committee, having:

- reviewed the interim financial statements of PKO Bank Polski SA and of the PKO Bank Polski SA Group for the first half of 2016, the results of the review thereof by the auditor and having discussed them, acknowledged the above-mentioned financial statements,
 - made a review, acknowledged the Report of the PKO Bank Polski SA Group for the first quarter of 2016 and of the PKO Bank Polski SA Group for the third quarter of 2016.
2. The review of the progress in implementing auditor's recommendations (outstanding recommendations from previous years, namely 2009-2012) for the Management Board from the audit of the financial statements of PKO Bank Polski SA.

While reviewing the progress in implementing the above-mentioned recommendations for the Management Board from the audit of the financial statements of PKO Bank Polski SA, the Audit Committee concentrated on monitoring the outstanding recommendations in progress.

3. The acknowledgement of the external auditor's recommendations for the Management Board from the audit of the financial statements for the year ended 31 December 2015 and the manner of their implementation,
- As part the review of the external auditor's recommendations for the Management Board from the audit of the financial statements for the year ended 31 December 2015 and the manner of implementing the recommendations, the Audit Committee obtained information on the number of recommendations formulated by the auditor, their substantive scope and the progress in their implementation, including the outstanding recommendations with the highest materiality. The Audit Committee acknowledgement the external auditors' recommendations for the Management Board from the audit of the financial statements for the year ended 31 December 2015 and the manner of their implementation.

4. The review of new external regulations affecting the Bank's accounting and financial reporting activities

The Audit Committee reviewed, as part of the above-mentioned review, the following information:

- IFRIC 21 "Levies", which constitutes the interpretation of Standard 37 "Provisions, Contingent Liabilities and Contingent Assets", effective for annual periods beginning on 1 January 2015, in terms of recognising, in the income statement, costs incurred by the Bank for the Bank Guarantee Fund,
- Amendments to IAS 27 "Separate Financial Statements", amendments to IAS/IFRS relating to so-called improvements relating to the years 2010-2012 (IFRS 3, IFRS 8, IAS 24) and 2012-2014 (IFRS 5, IFRS 7, IAS 34) and amendments to IFRS that are not yet effective and have not been endorsed by the European Union, namely IFRS 9, IFRS 15 and IFRS 16.

The Audit Committee acknowledged the Information on:

- 1) the activities taken by the Bank in connection with the ESMA opinion on the application of IFRS requirements in relation to the recognition of cash contributions to the deposit guarantee scheme,
- 2) the possibility of application, in the Bank's separate financial statements, of the equity method for measuring investments in subsidiaries in connection with the amendment to IAS 27 "Separate Financial Statements",

- 3) on the application of accounting principles relating to bancassurance for the fourth quarter of 2015 and for the first and second quarter of 2016.

and reviewed the Information on the method of recognition of the annual levy and the prudential levy for the Bank Guarantee Fund in connection with IFRIC 21 "Levies".

5.2 Activities of the Bank's internal audit

1. Effectiveness of the internal control system in 2015

In 2016, the Audit Committee reviewed the information prepared by the Internal Audit Department (IAD) on the effectiveness of the internal control system for 2015, including the Department's opinion that no significant weaknesses that could jeopardize the attainment of the Bank's strategic objectives were found in the corporate governance, risk management and internal control systems; the opinion was expressed on the basis of the outcomes of audits and inspections conducted by the Internal Audit Department throughout 2015.

2. The implementation of the Bank's Internal Audit Plan for 2016 and the outcomes of the audits conducted by the Internal Audit Department. The draft internal audit plan in PKO Bank Polski SA for 2017 and the three-year internal audit plan in PKO Bank Polski SA for the years 2017-2019.

The Audit Committee discussed, on a quarterly basis, the progress in the implementation of the Internal Audit Plan in the Bank for 2016 and the outcomes of audits conducted by the Internal Audit Department.

The Audit Committee, after reviewing the draft internal audit plan in PKO Bank Polski SA for 2017 and the three-year internal audit plan in PKO Bank Polski SA for the years 2017-2019, expressed its positive opinion on the above-mentioned draft plans.

3. The review of the activities of the Internal Audit Department in view of available resources.

While examining the materials on the Review of the activities of the Internal Audit Department in view of available resources, the Audit Committee was briefed by the Director of the Department that no circumstances had been found that could have threatened the independent exercise of the internal audit responsibilities, and that the Bank had implemented all the mechanisms, as required by the regulator, to ensure the independence of the internal audit function.

4. Monitoring the level of remuneration of the director and employees of the Internal Audit Department.

After obtaining confirmation from the Director of the Internal Audit Department about no objections to the remuneration system functioning in the Bank in relation to the employees of the Department, the Audit Committee acknowledged the Report on remunerating the employees of the Internal Audit Department. The review relates to 2015.

5. The Audit Committee held a meeting with the Director of the Internal Audit Department, without the participation of members of the Management Board, during which it obtained confirmation from the Director of the Department that the available personnel resources and means were adequate to carry out the tasks assigned to the Internal Audit Department, that no difficulties or constraints had been identified in the implementation of the tasks assigned to the Department, that cooperation with the Bank's Management Board was smooth and efficient in this area and that the internal audit function's independence had been maintained.

In 2016, the Audit Committee received materials concerning the internal audit function in PKO Bank Polski SA as well as materials presenting changes that had been introduced since 2010 in the activities of the Internal Audit Department and in the methodology of internal audits.

5.3 Monitoring the effectiveness of the Bank's risk management system

As part of the ongoing monitoring of the risk management system, the Audit Committee held a meeting with the Director of the Banking Risk Division, without the participation of members of the Management Board, during which it was briefed by the Director on the following matters:

- the current level of specific types of risks in the Bank, namely credit risk, interest rate risk, operational risk and capital adequacy risk,
- the main challenges for risk management, including the regulatory challenges both at the Polish and European levels, and cyber security-related challenges.

5.4 Review of the effectiveness of the compliance risk management system

As part of the above-mentioned activities, the Audit Committee:

1. Reviewed the effectiveness of the compliance monitoring system and the compliance of the Bank's and employees' activities with regulations, and it was briefed by the Director of the Compliance Department (DZG) on:
 - DZG meeting the most important standards on the functioning of compliance units, as set by law and market standards,
 - the tasks performed by DZG, the human resources of DZG, the qualifications and experience of the Department employees as well as the assessment of DZG's activities by internal audit and supervisory authorities,
2. The Audit Committee reviewed and acknowledged the *Report on remunerating the employees of DZG. The review relates to 2015.*
3. As part of this task, the Audit Committee focused, during the meeting with the Director of DZG, without the participation of members of the Management Board, on discussing the issue related to the need to increase the staff of DZG in 2016, due to an increase in the number of tasks carried out by the Department, and the possible use of an alternative solution consisting in the development of the process compliance management, where DZG would act as a coordinator, and the resources, knowledge and expertise available in the Bank's other departments and organizational units would be used to carry out the tasks in question.

5.5 Implementation of the recommendations issued by the Polish Financial Supervision Authority

The Audit Committee assessed, on a quarterly basis, the progress in the implementation of the recommendations issued by the Polish Financial Supervision Authority.

5.6 Cooperation with the external auditor

On 25 August 2016, the Audit Committee held a meeting with the external auditor (without the participation of members of the Management Board). As part of the above-mentioned meeting, the following matters were discussed:

- the auditor's cooperation with the Bank and the occurrence, if any, of difficulties and limitations in the performance of tasks related to the review or audit of the financial statements,

- the auditor's cooperation with the Internal Audit Department and the verification and evaluation, as part of the review, of the Department's effectiveness and independence in the performance of the tasks arising from the Rules of Procedure.

The auditor confirmed that the scope of the planned and performed audit activities had not been limited in any way by the Bank. It was assessed that the Bank cooperated with the auditor in a good and competent manner. The auditor did not see any threats as to the Internal Audit Department's capability to perform its functions in an independent manner.

The Audit Committee reviewed the document prepared by the auditor under the title "Statement by KPMG", in which the auditor:

1. stated that it met the impartiality and independence requirements, in accordance with the principles laid down in Article 56(3) and (4) of the Act on auditors and their self-government, entities authorized to audit financial statements and public supervision and in Chapter 290 of the Code of Ethics for Professional Accountants of the International Federation of Accountants (IFAC),
2. stated that there were no connections between KPMG, member firms of the KPMG network and the Company, which according to the auditor's professional judgment could be regarded as affecting the independence,
3. listed the services rendered to the Bank.

The Audit Committee also reviewed the information on the auditor's fee for audit and non-audit assignments.

The Audit Committee:

- 1 on 21 January 2016 and on 21 October 2016, adopted resolutions by which it approved amendments No 1 and No 2, respectively, to the Agreement of 10 April 2015 on the audit of the financial statements and the review of the interim financial statements, as concluded between PKO Bank Polski SA and KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa,
- 2 on 15 December 2016, adopted a resolution on recommending a resolution to be adopted by the Supervisory Board on the audit firm selection rules,
- 3 on 15 December 2016, adopted a resolution on recommending a resolution to be adopted by the Supervisory Board on the renewal of assignment to audit and review the financial statements of the Bank and of the Bank's Group.

As part of *monitoring the independence and objectivity of the external auditor*, the Audit Committee reviewed the auditor's presentation on the rules and procedures in force at KPMG relating to the monitoring of KPMG's independence both before and after establishing business relationship with an entity and monitoring the independence and turnover of audit team members.

5.7 The distribution of the profit earned by PKO Bank Polski SA in 2015 and retained earnings of previous years, and the Dividend Policy of PKO Bank Polski SA.

On 22 March 2016, the Audit Committee, following the review of a draft resolution and a discussion,, expressed its positive opinion on the Dividend Policy of PKO Bank Polski SA, which formed a part of the "Rules of the capital adequacy and equity management in PKO Bank Polski SA and in the PKO Bank Polski SA Group", and recommended that the Supervisory Board should approve the above-mentioned Dividend Policy.

On 2 June 2016, the Audit Committee adopted, after discussing the legal aspect of a conditional resolution's structure, as presented by the Management Board, and the compliance of this proposal with the generally applicable laws in this area, a resolution recommending that the Supervisory Board should express a positive opinion on the

Management Board's proposal on the distribution of the profit of PKO Bank Polski SA earned in 2015 and the coverage of retained earnings of previous years.

5.8 Legal issues of significant importance to the Bank.

The Audit Committee, during its meeting with the Director of the Legal Department, without the participation of members of the Management Board, was briefed by the Director on:

- the adequacy of personnel resources and means to perform the tasks assigned to the Legal Department,
- the summary of lawsuits with the Bank's participation, including the number of pending lawsuits handled by the Legal Department; type of lawsuits and amount in dispute for all lawsuits.

5.9 The Work Plan for the Audit Committee for 2017

At the meeting held on 15 December 2016, the Audit Committee approved the Framework Work Plan of the Audit Committee for 2017.

6. Assessment of the effectiveness of the Audit Committee's work in 2016

During the meeting of the Supervisory Board of PKO Bank Polski SA on 26 January 2017, the Audit Committee self-assessed the effectiveness of its work in 2016.

The Audit Committee assessed that members of the Audit Committee had appropriate qualifications and experience to effectively perform their functions as a member of the Audit Committee.

In 2016, all members of the Audit Committee actively participated in the meetings of the Audit Committee and demonstrated high involvement in the proper performance of their duties.

The number and duration of the meetings as well as access to resources were sufficient to enable the Audit Committee to fully perform its tasks, and the documents prepared for the Audit Committee contained the relevant information and were prepared sufficiently in advance.

In 2016, the Audit Committee performed its tasks arising from the Rules of Procedure, while constantly improving its work in this area. The discussions held at the meetings of the Audit Committee were characterised by a high level of competence.

The cooperation of the Audit Committee with the internal auditor and other key persons in the Bank and with the external auditor was smooth and efficient; The Audit Committee responded constructively to the information received in order to ensure transparency and correctness of the communication process in the future. The Audit Committee deemed independence of the audit process satisfactory, based on the monitoring of that process and an analysis of the information and materials received from the internal and external auditors.

In 2016, all members of the Supervisory Board of PKO Bank Polski SA, including members of the Audit Committee, made statements on meeting the independence criteria referred to in Section II.Z.4 of the "Best Practice for GPW Listed Companies 2016", in the version annexed as an appendix to Resolution No 26/1413/2015 of the Supervisory Board of Giełda Papierów Wartościowych w Warszawie S.A.

7. Summary:

On the basis of the periodic reports received and evaluations of external advisors, the Audit Committee monitored regularly the process of financial reporting and information subject to disclosure, the efficiency of internal control, internal audit and risk management systems within the Bank, compliance as well as auditing activities and the independence of the statutory auditor.

Warsaw, 2 March 2017

Attachment No 4

REPORT ON THE ACTIVITIES OF THE STRATEGY COMMITTEE IN 2016

1. Legal basis:

- 1) The Strategy Committee was established by resolution No 73/2016 of the Supervisory Board of 25 August 2016.
- 2) The Report was prepared pursuant to § 3(3) of the Rules of Procedure of the Strategy Committee, which form an appendix to resolution No 73/2016 of the Supervisory Board of 25 August 2016 on establishing the Strategy Committee.

2. The composition of the Strategy Committee as at 31 December 2016

Full name	Function
Grażyna Ciurzyńska	Chair of the Strategy Committee
Zbigniew Hajłasz	Vice-Chair of the Strategy Committee (appointed as member of the Committee on 25 August 2016 and as Vice-Chair of the Committee on 3 November 2016)
Mirosław Barszcz	Member of the Strategy Committee
Adam Budnikowski	Member of the Strategy Committee
Elżbieta Mączyńska-Ziemacka	Member of the Strategy Committee
Janusz Ostaszewski	Member of the Strategy Committee
Piotr Sadownik	Member of the Strategy Committee

3. The number of meetings of the Committee in 2016:

In 2016, the Strategy Committee held 1 meeting on 3 November 2016.

4. The subject matter of the Committee's work:

On 3 November 2016, a meeting of the Strategy Committee was held, whose subject matter was to express an opinion on the Strategy of PKO Bank Polski for the years 2016-2020 and to acknowledge information on the material communicating the Strategy for the years 2016-2020.

On 3 November 2016, the Strategy Committee unanimously adopted a resolution in which it expressed a positive opinion on the Strategy of PKO Bank Polski S.A. for the years 2016-2020, as adopted by Resolution No 519/C/2016 of the Management Board of 27 October 2016 on the adoption of the Strategy of PKO Bank Polski SA for the years 2016-2020.

Warsaw, 13 April 2017