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Report on the operations of RAIFFEISEN BANK POLSKA S.A. CAPITAL GROUP in 2016 including Management Board report on the operations of Raiffeisen Bank Polska S.A.

The Management Board of the Bank presents the report on the operations of Raiffeisen Bank Polska S.A. Capital Group in 2016 including Management Board report on the operations of Raiffeisen Bank Polska S.A.

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Warsaw, 6 March 2017

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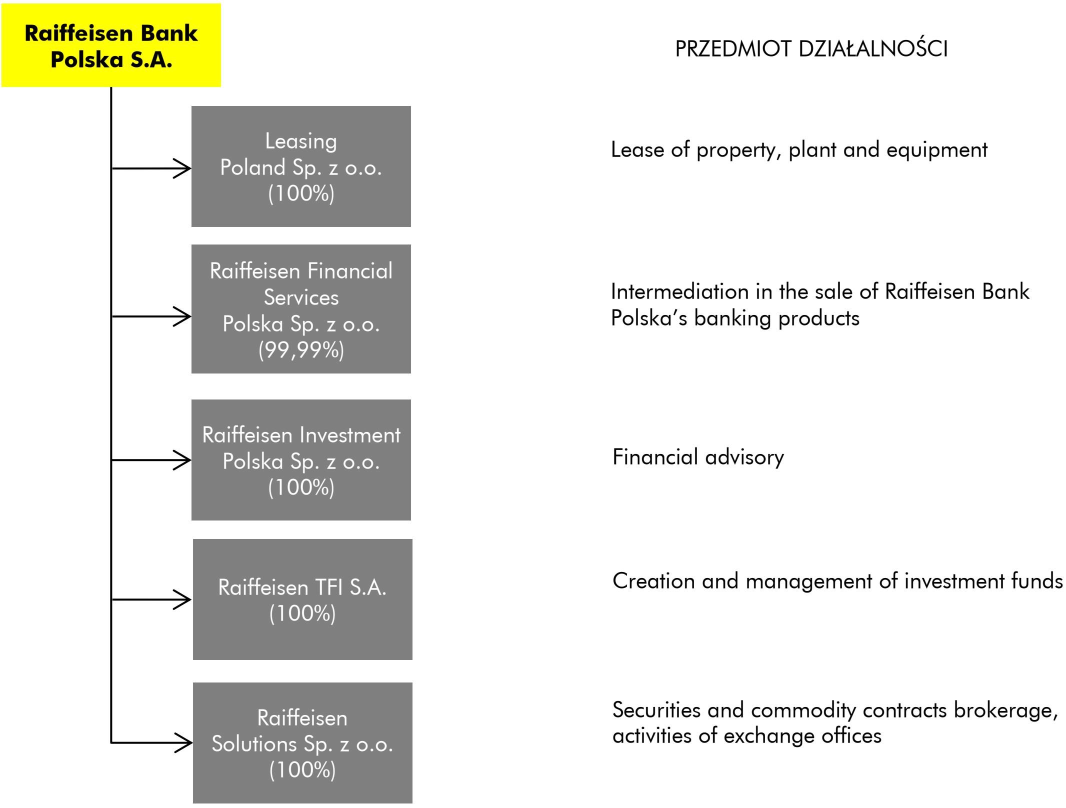
1. Overview

The Raiffeisen Bank Polska Group (the "Group", the "Capital Group") comprises Raiffeisen Bank Polska S.A. (the "Bank", "Raiffeisen Polbank", "Raiffeisen Bank Polska"), as the Parent, and its subsidiaries. In 2016, the Group was operating in Poland. The composition of the Raiffeisen Bank Polska Group as at 31 December 2016 is presented on the below scheme:



In the period covered by this Report on the operations of Raiffeisen Bank Polska S.A. Capital Group in 2016, there was one change in the Group's structure: on 31 March 2016, the Bank sold 100 per cent of shares in Raiffeisen-Leasing Polska S.A. ("RLPL") to Raiffeisen Bank International AG ("RBI"). As a result, the Bank lost control over Raiffeisen-Leasing Polska S.A. and the following companies of the Raiffeisen-Leasing Polska S.A. Group: Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o., and ROOF Poland Leasing 2014 DAC, a special purpose vehicle.

The business disposed of in the transaction was an important separate part of the Group's operations. Therefore, it was classified under discontinued operations. Following separation of the discontinued operations, the Group restated the consolidated statement of profit or loss for 2015 so that the continuing and discontinued operations were reflected in the comparative data. In the case of operations classified as discontinued, the comparative amounts in the statement of profit or loss were restated as if the operations had been discontinued at the beginning of the comparative period. For detailed information on changes in the presentation of financial statements and details of the separation of discontinued operations, see Note 3 and Note 13, respectively, to the interim condensed consolidated financial statements for the period 1 January—31 December 2016. The Group's financial data and financial analysis comments presented in particular in the chapters 3 and 4 of this Report on the operations of the Group are related to the continued activity of the Group unless otherwise stated.

2. Macroeconomic environment in 2016

2.1. Economic growth

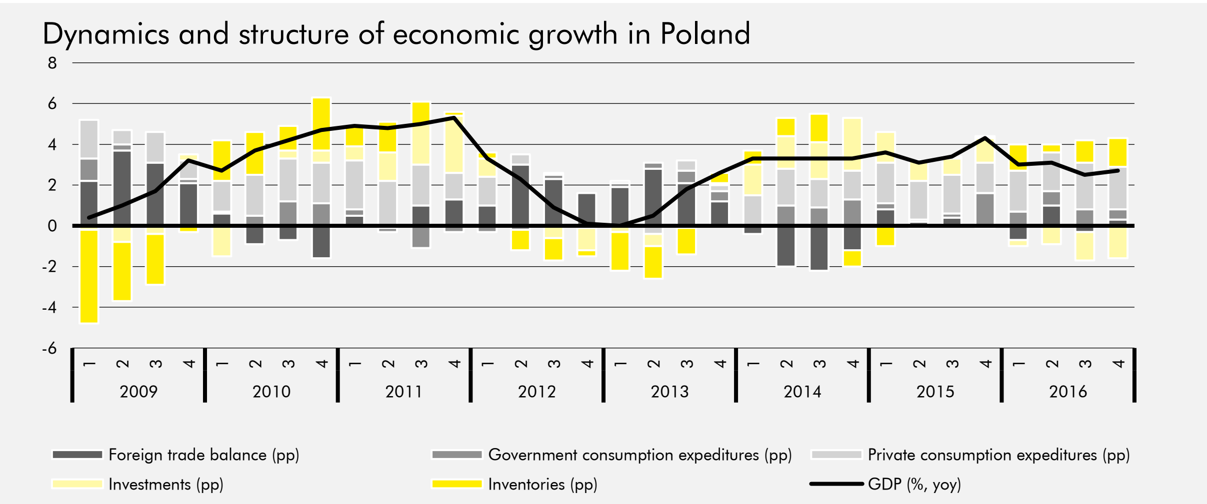
Economic conditions in Poland deteriorated throughout 2016. The statistics on the country's economic growth in January–September 2016 and available monthly macroeconomic data for the fourth quarter of the year suggested that the rate of Poland's economic growth in 2016 fell below 3.0 per cent year on year. The final data according to the Central Statistical Office ("GUS") showed 2.8 per cent year-on-year growth compared with 3.9 per cent year on year in 2015, and as much as 4.6 per cent year on year in the fourth quarter of 2015. It is worth mentioning in this context that in late 2015 the median 2016 Gross Domestic Product ("GDP") growth forecast was still just under 3.5 per cent.

The key reason behind the very disappointing GDP reading was a deeper-than-expected decline in investments during the year: they shrank by 5.5 per cent, against slight growth expected at the end of 2015. A severe blow to the investment volume came from the slower inflow of EU funding, which mostly hit public investment. To note, the average monthly capital account balance in the first ten months of 2016, including EU funds, was scarcely EUR 247 million compared with EUR 974 million reported for the same period of 2015. The last two months of 2016 just brought increase of this category to the levels of the recent years.

Another challenge faced by the national economy was a decline in export contribution, which occurred despite favorable foreign exchange rate movements. The data of GUS indicate that the contribution of foreign trade to economic growth decreased in 2016 to the level close to null, compared with 0.63 percentage point in 2015. The key reasons behind the weak foreign trade data were a slight economic downturn in the eurozone (Poland's main trading partner) and a steady rise in oil prices. The relative strength of imports versus exports may have partly resulted from the active social policy pursued by the government, as a portion of the new components of household incomes was spent on imported goods.

Against this backdrop, the key economic growth driver was private consumption, which have risen by 3.6 per cent over 2016, compared with 3.2 per cent the year before. An important contributor to this growth has been the government-sponsored *Rodzina 500+* (Family 500+) child benefit scheme, which provides an additional source of disposable income to households. Importantly, the scheme mainly benefits less affluent families, where marginal propensity to consume is higher on average than in high-income households.

By far the most important consumption growth driver was improved consumer confidence, with the average current consumer confidence index published by GUS rising from minus 10.91 in 2015 to minus 5.17 points in 2016. The strong improvement in consumption readings could not have been led solely by the government's family policy, but rather it was driven by the overall strengthening of the labor market, with real wages up and unemployment down.



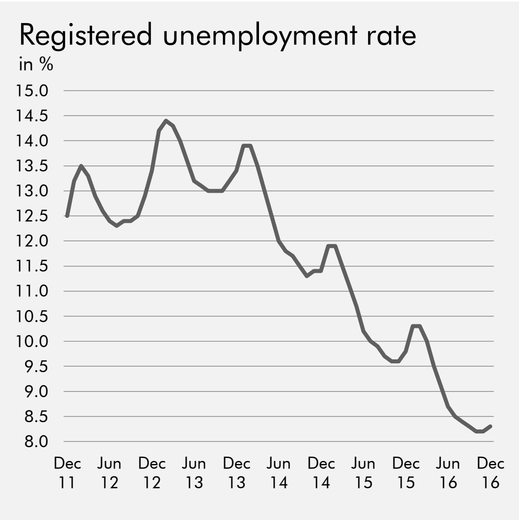
Source: GUS.

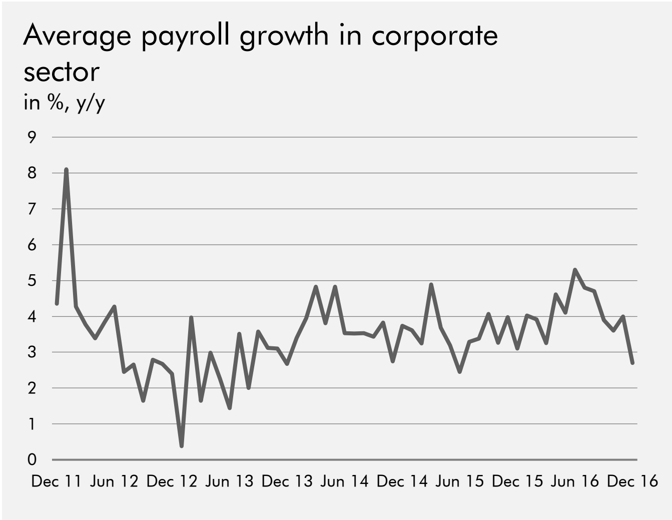
2.2. Labor market

The registered unemployment rate dropped by a notable 1.4 percentage points in 2016, to 8.3 per cent, a level close to record lows. The drop was almost 0.4 percentage point faster than predicted at the end of 2015.

The GUS employment data for the first three quarters of 2016 shows that labor demand grew the fastest in manufacturing (up 3.9 per cent year on year) and fell the fastest in mining (down 6.0 per cent year on year). In the services sector, the strongest growth in employment (up 7.0 per cent year on year) was seen in the IT and communications industry. Overall, the economy added almost 230 thousand new jobs during the reporting period, representing a 2.7 per cent rise year on year.

While the growing total demand for labor in the domestic economy contributed to the fall of unemployment, it did not result in materially higher payroll pressures or stronger payroll growth. The average monthly wage in the business sector at the end of December 2016 was PLN 4.6 thousand, up 2.7 per cent year on year. The low wage growth rate was largely a result of deflation, which has reduced wage expectations so far. In addition, businesses sought to cut costs, including wages, in a reaction to the deteriorating market environment.





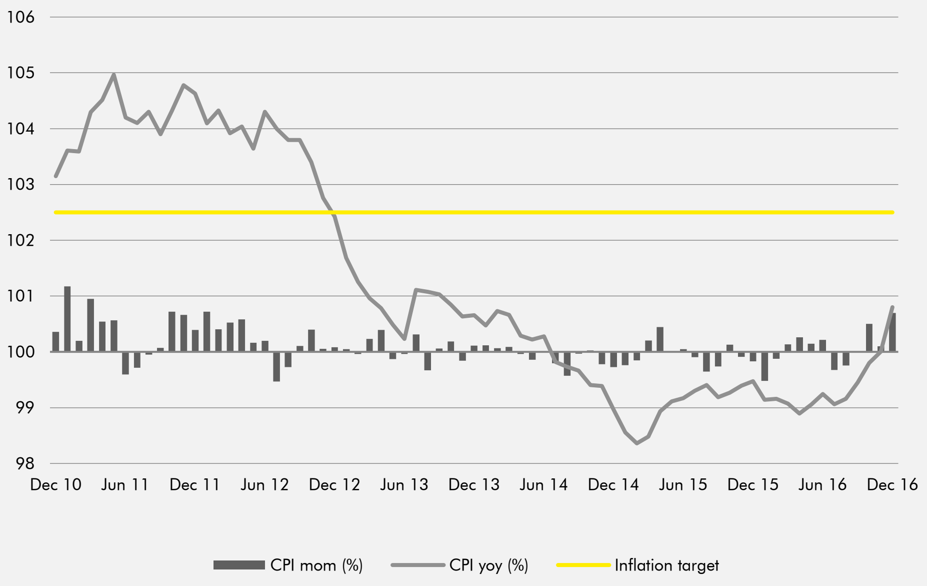
Source: GUS.

2.3. Inflation

About of deflation that began in the second half of 2014 continued for most of 2016, with the steepest year-on-year fall in prices, of 1.1 per cent, reported in April. The deflationary pressures started to ease in the second half of the year – the share of goods and services with a negative rate of inflation in the inflation basket fell from almost 50 per cent in August to less than 40 per cent in November, with the CPI (Consumer Price Index) down to 0.0 per cent. At the end of 2016, inflation returned to positive territory for the first time in 28 months, rising to 0.8 per cent year on year. As inflation is now chiefly driven by food and fuel prices, it is expected to gain pace in 2017. Easing consumer price deflation also translated, albeit to a lesser extent, into stronger core inflation. Net of food and energy prices, inflation rose from minus 0.4 per cent year on year in July to 0.0 per cent year on year in December.

Industrial output prices also turned positive towards the end of the second half of the year (with a key contribution from the manufacturing and mining sectors), driven mainly by stronger commodity prices.

CPI inflation relative to the inflation objective of NBP[1]



[1] Narodowy Bank Polski - the central bank of the Republic of Poland.
Source: GUS and NBP.

2.4. Public finance and government securities market

In January 2016, Standard&Poor's downgraded both Poland's rating (from A- to BBB+) and outlook (from 'stable' to 'negative'). While the agency kept its BBB+ rating at the beginning of December 2016, it raised the outlook to 'stable', explaining its decision by pointing to reduced concerns over independence of the country's key institutions, including the central bank, and strong public finances. Despite the outlook upgrade, Poland's credit rating by S&P remained the lowest among the three leading rating agencies.

In May 2016, Moody's updated its credit rating for Poland and maintained the A2 grade but cut its credit outlook to 'negative', citing concerns about the risk of deterioration of Poland's fiscal position as a result of growing public spending, planned lowering of the retirement age, and the worsening investment climate. The agency affirmed the rating in September 2016 and January 2017 despite changes to the pension system passed by the parliament. Fitch also maintained its credit rating for Poland with a 'stable' outlook unchanged throughout 2016 and at the beginning of 2017.

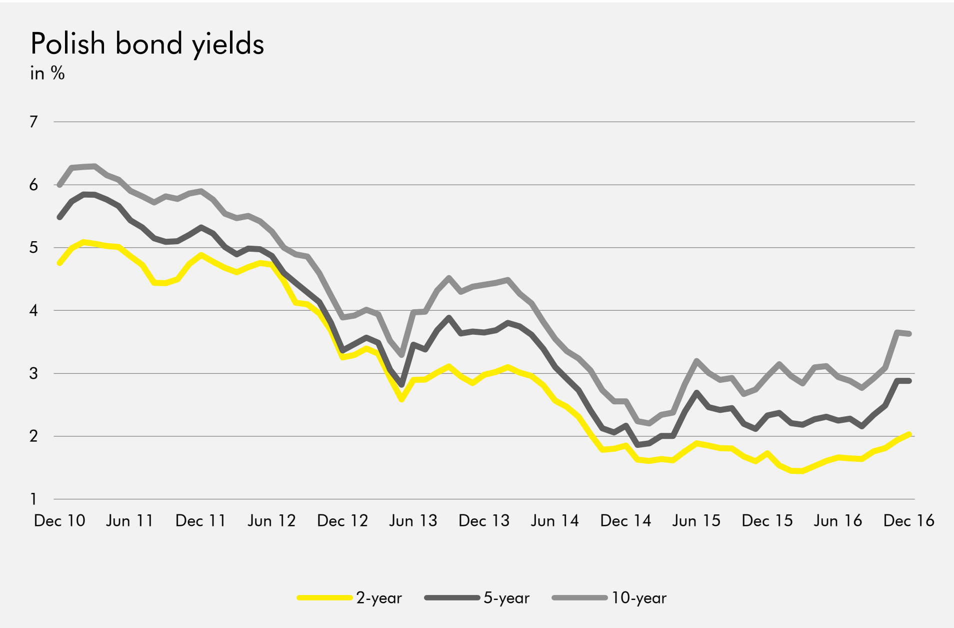
The key reason for keeping Poland's credit ratings intact in recent months was the stability of public finances. In the year to November 2016 the government received PLN 294.5 billion in revenues, representing 93.8 per cent of the full-year target. Receipts were 11.6 per cent higher than in the same period of 2015 and 2.2 per cent higher than assumed in the 2016 plan. Together with reports on a strong financial position of local governments, this should lead to the budget deficit falling below the 2.8 per cent of GDP assumed in the national budget.

New tax revenues remain a concern. According to preliminary estimates, revenues of PLN 5.5 billion were expected from tax on bank assets charged at a monthly rate of 0.0366 per cent, introduced under the Act on Tax from Certain Financial Institutions effective as of 1 February 2016. The actual amount at the end of November 2016 was a mere PLN 3.2 billion. The government also failed in its attempt to impose a tax on large-area retail stores, which was to generate PLN 2.0 billion in revenues. Given the high cost of some of the reforms implemented by the government, this increases the risk to public finances in the years ahead.

April 2016 saw first cash transfers under the *Rodzina 500+* (Family 500+) scheme of tax-free benefits of PLN 500 a month for every second and subsequent child. By November 2017, 3.8 million children were covered by the program. Its cost totaled PLN 15.1 billion at the end of November, with the figure expected to rise to roughly PLN 22 billion in 2017.

In November 2016, the lower chamber of the Polish Parliament passed a presidential bill lowering the state pension age to 60 for women and to 65 for men. The law will come into force in October 2017, so its impact on the budget in its first year will be limited. According to the statement of reasons for the bill, the estimated cost of the policy in the first four years is PLN 40 billion.

The beginning of 2016 saw strong rises along the treasury yield curve, led by S&P's rating downgrade and other factors. In the following months adverse factors at home (speculations over further rating downgrades and plans to lower the state pension age) were offset by the strengthening of bonds on developed markets, which caused the Polish bond market to remain in a sideways trend. However, yields on Polish treasury bonds rose significantly in the second half of the year, reflecting reduced deflationary pressures and similar movements taking place on core markets. Domestic bond yields reached two-year highs in the wake of the US presidential election (two-year bonds: 1.94 per cent, 5-year bonds: 2.88 per cent, 10-year bonds: 3.65 per cent).



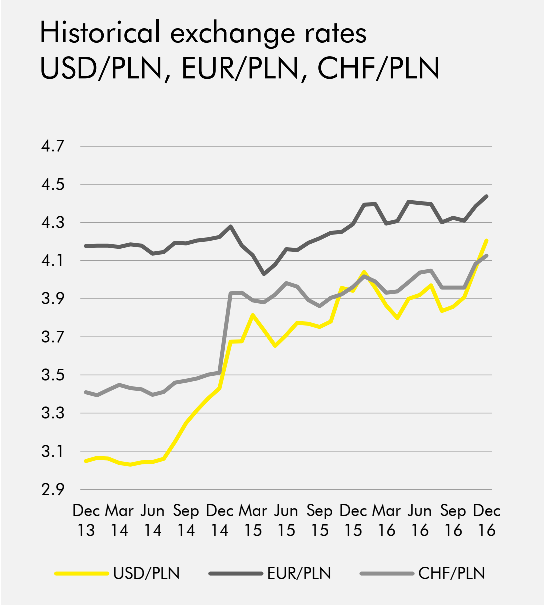
Source: Reuters.

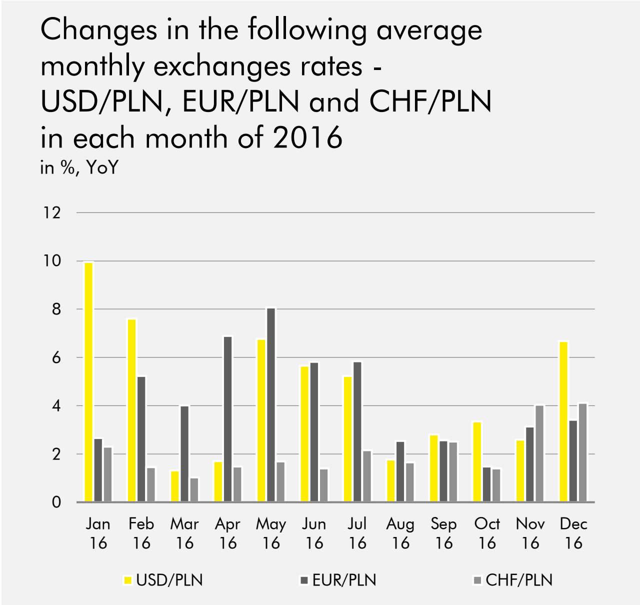
2.5. Exchange rates

2016 saw increased volatility of the Polish currency. The EUR/PLN and USD/PLN exchange rates hovered around 4.35 and 3.93, respectively, during the year. The Polish zloty weakened significantly against both currencies at the start of the year on S&P's downgrade and in recent weeks following Donald Trump's victory in the presidential election, but managed to recoup some of its lost ground against the euro in December, ending the year at 4.40.

The local factors affecting the Polish currency included fears of further credit rating downgrades and an economic downturn related to the slower inflow of EU funding. Global factors included expectations of a rates' rise in the US, continuing for most of the year. The rates were ultimately raised in December 2016, prompting investors to move money from EM currencies and to invest in the US dollar.

Favorable to the Polish zloty was the soft fiscal policy pursued in the eurozone, coupled with interest rates in Poland stabilizing at a relatively high level of 1.5 per cent. Furthermore, the deflation prevailing for most of 2016 increased expectations of higher real returns on Polish zloty-denominated assets. The domestic currency was also supported by regular reports pointing to the stability of public finances which helped mitigate the risks of widening budget deficit and potential further credit rating downgrades. Overall, during the year the Polish zloty depreciated against the euro, the US dollar, and the Swiss franc by 3.4 per cent, 6.7 per cent and 4.1 per cent, respectively.

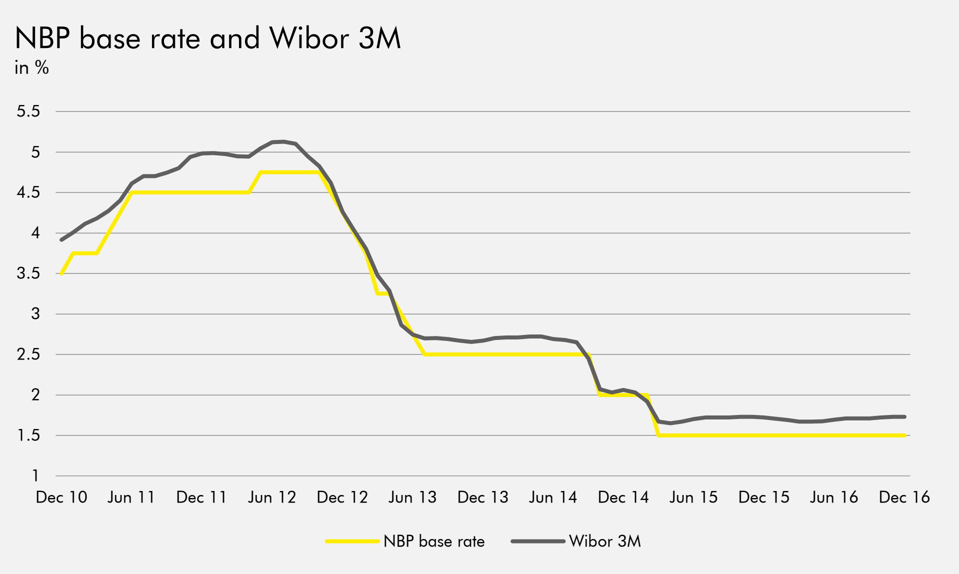




Source: NBP.

2.6. Monetary policy

Early 2016 saw the expiry of the terms of office for eight out of ten of the Polish Monetary Policy Council ("RPP" – *Rada Polityki Pieniężnej*, "Council") members. In June, upon expiry of his term of office, Marek Belka, the Governor of the National Bank of Poland, was superseded by Adam Glapiński. As a result, Jerzy Osiatyński is the only member to continue his term of office in the Monetary Policy Council. In October 2016, Marek Chrzanowski tendered his resignation as member of the Monetary Policy Council and was appointed chairman of the Polish Financial Supervision Authority ("PFSA"). On 16 November 2016, Rafał Sura was appointed by the Senate in his stead as member of the RPP. Throughout 2016, despite concerns that the new Council may be excessively inclined towards monetary policy easing, interest rates stayed flat (with the reference rate at 1.50 per cent). Two inflation rate projections issued in the second half of the year by the Economic Institute were largely similar. The only significant differences were related to a minor downward correction of the projected GDP growth for 2016. The RPP commented that deflation had been by and large imported and had no negative bearing on the businesses and consumer decisions. Against that background, members of the Monetary Policy Council favored the "wait and see" strategy. At a press briefing held in January 2017, the Governor of the National Bank of Poland also emphasized that both the reported data and projections for the coming quarters leave no room for any increase in interest rates, suggesting that 2017 will bring no major changes in the monetary policy. As at the end of December 2016, the median of projected interest rates according to Reuters indicated that the reference rate of the National Bank of Poland will remain unchanged until the end of 2017.



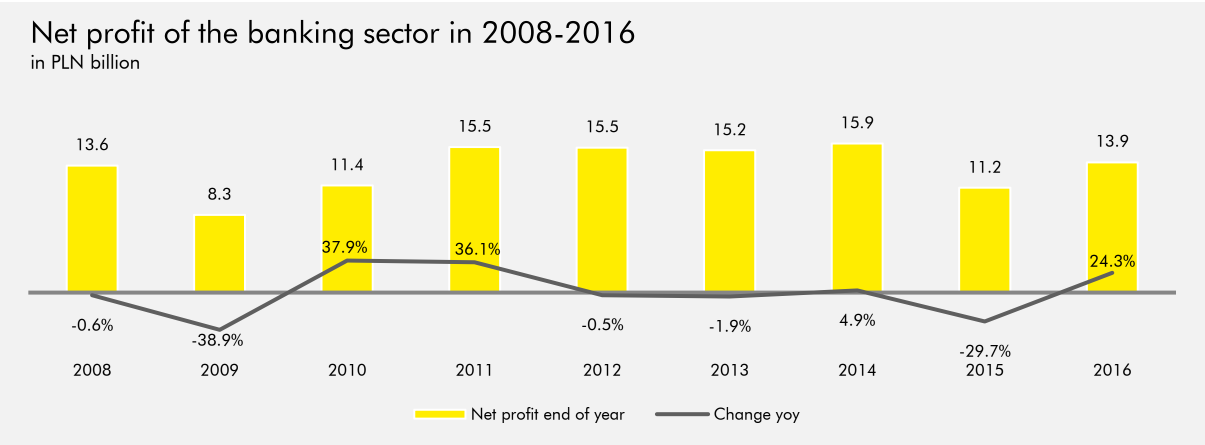
Source: NBP and Bloomberg.

2.7. Banking sector

In 2016, banks operated in a challenging market environment, with the continuing low interest rates, slower economic growth, declining investments, and regulatory changes as the main issues. In February 2016, a tax on assets of certain financial institutions was imposed on the banking sector. According to the estimates of the Ministry of Finance, by November 2016 the state budget had received PLN 3.1 billion in revenue on account of this new tax (vs. PLN 5.5 billion initially assumed in the state budget). The new levies had adversely affected banks' performance in the period under review: according to the data presented by the Polish Financial Supervision Authority as at the end of 2016, banks' operating costs grew by nearly 2.9 per cent year on year. On the other hand, the sector's results were supported in 2016 by the sale of shares in Visa Europe to Visa Inc., with the estimated revenue for the banks of approximately PLN 2.5 billion.

According to the PFSA data, as at the end of 2016 the aggregate net profit of the banking sector was PLN 13.9 billion, up 24.3 per cent year on year, with the following key contributors:

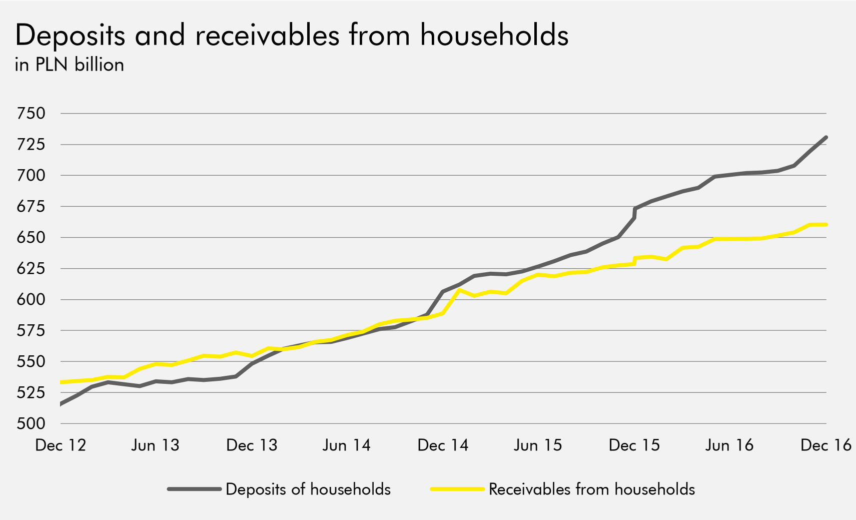
- net interest income of PLN 38.1 billion, up 7.6 per cent vs. 2015;
- operating income of PLN 59.3 billion, up 6.1 per cent year on year;
- operating expenses of PLN 31.5 billion, up 2.9 per cent year on year (with the increase partly driven by the new bank tax);
- recognized impairment losses of PLN 7.3 billion, down 14.1 per cent relative to the previous year.



Source: PFSA

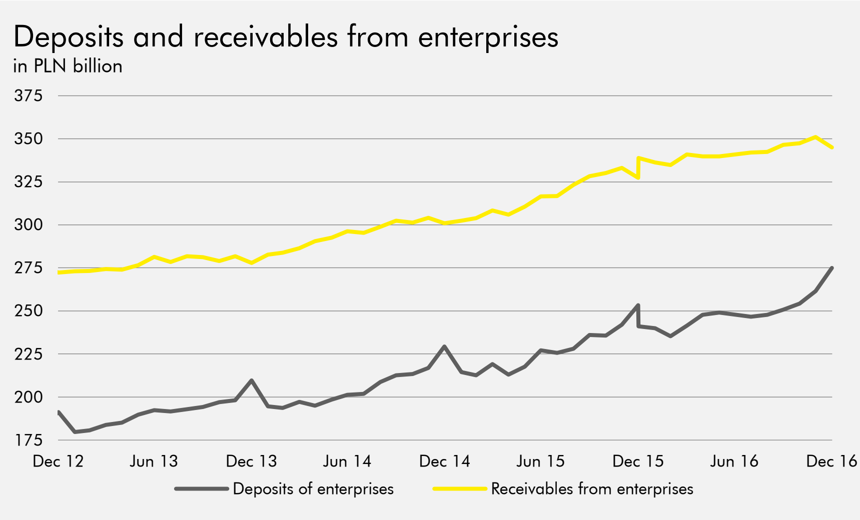
At the end of 2016, the key items of the banking sector's balance sheet were as follows:

- Household deposits were PLN 730.8 billion, up by 9.8 per cent (or PLN 65.0 billion) relative to the end of 2015. Clearly, the population's willingness to deposit funds with banks was not adversely affected by the low interest rate environment, and indeed was supported by the continuing improvements on the labor market, growing payrolls, low inflation, and the *Rodzina 500+* (Family 500+) government scheme;
- Amounts due from households were PLN 660.4 billion, having grown by 5.1 per cent year on year (up PLN 31.9 billion). Housing loans, which accounted for 60.6 per cent of the total household loans, expanded by 5.0 per cent year on year, to PLN 400.3 billion at the end of 2016. Over the same period, the value of Polish zloty-denominated housing loans rose by 10.6 per cent year on year, to PLN 234.4 billion, while the volume of foreign currency loans was down 2.0 per cent year on year, to PLN 165.9 billion. This volume decrease was largely attributable to gradual repayments and the Recommendation S of the Polish Financial Supervision Authority, which restricted the sale of foreign currency-denominated loans. As a result, the share of currency-denominated loans in the total value of housing loans was down 3.0 percentage points year on year, to 41.4 per cent, and the share of Swiss franc-denominated loans fell 0.4 percentage point, to 80.9 per cent of all currency-denominated housing loans. The share of consumer loans in total household loans was 22.7 per cent, and their value at the end of 2016 was PLN 150.0 billion (up 6.9 per cent year on year).



Source: PFSA.

- Amounts due to businesses were PLN 275.0 billion, having grown by 8.5 per cent year on year (up PLN 21.7 billion). The 2016 growth was slower than in 2015, when amounts due to enterprises increased by 10.4 per cent year on year (up PLN 24.0 billion);
- Amounts due from businesses were PLN 344.9 billion, up 5.4 per cent year on year. Amounts due from large enterprises grew stronger than amounts due from small and medium-sized enterprises ("SMEs") – by 6.9 per cent year on year, to PLN 151.3 billion, compared with a 4.2 per cent year-on-year increase, to PLN 193.6 billion in the SME segment. In the large enterprises segment, the strongest growth was seen in property loans (up 23.2 per cent year on year), whereas in the SME segment it was the investment loans category that grew the fastest (up 7.6 per cent year on year), excluding amounts due classified as 'other' (up 26.8 per cent year on year).



Source: PFSA.

The capital base of the Polish banking sector improved to PLN 183.8 billion (up 5.7 per cent year on year) at the end of 2016, while the capital adequacy ratio at the end of September 2016 rose to 17.6 per cent (based on the latest available data of PFSA), or by 1.3 percentage points relative to 2015. This was caused, among other things, by:

- minimum capital requirements recommended by the regulator for banks as of 2016 (including 1.25 per cent of the capital conservation buffer pursuant to the CRD IV requirements): 10.25 per cent for Tier 1 and 13.25 per cent for Total Capital Ratio,
- identification of twelve banks as other systemically important institutions in October 2016, and imposition of other systemically important institution buffers on them,
- verification of the capital buffers imposed in October 2015 and issuance of new individual recommendations to banks regarding own funds for covering additional capital requirements in respect of the risk exposure under foreign currency-denominated mortgage loans for households.

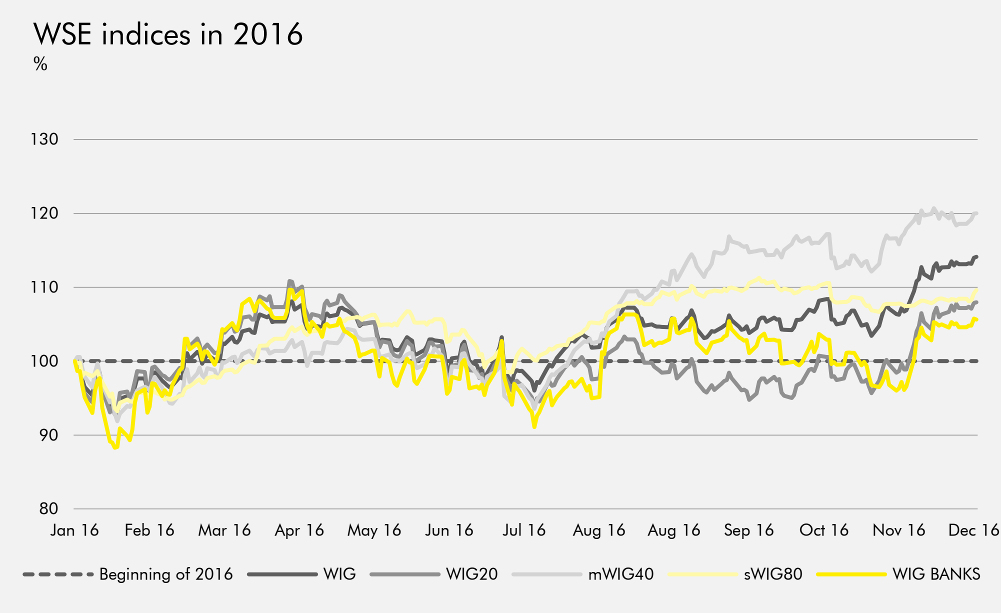
2.8. Capital market

In 2016, the Warsaw Stock Exchange ("WSE") market indices were highly volatile. The main index, WIG, moved within the range from minus 7 per cent to plus 14 per cent relative to its 2016 open. In the end, WIG closed the year up by 14 per cent. The WSE's main index fared well supported by the strong performance of mid-cap stocks making up the WIG40 index in the second half of 2016, and improved investor sentiment towards WIG20 at the end of 2016. The WIG20 blue-chip index closed the year up by nearly 11 per cent. Against the backdrop of strong WIG and WIG20 indices, the mid-cap index (mWIG40) also performed well, gaining 20 per cent over the year. The small-cap index (sWIG80) generated a moderate rate of return of 10 per cent. The strong performance of the large-cap index was due to a shift in investor sentiment towards upstream companies, banks, and PZU. WIG-Banks performed similarly to WIG20 and ended the year 10 per cent above the January 2016 open.

The number of IPOs on the WSE was 19 (30 in 2015), as record low interest rates clearly encouraged businesses to exit the WSE and seek debt financing. The value of bonds listed on the Catalyst market (bond market which operates on transaction platforms of the WSE and BondSpot) was PLN 81.8 billion, having grown 18 per cent year on year. This growth in value was accompanied by a 24 per cent increase in the trading volume, up to PLN 3.1 billion.

The market of index futures also saw a year-on-year increase in trading volumes, by 5 per cent.

The segment of structured products continued to grow rapidly, by 24 per cent year on year, with a turnover of PLN 892 million, largely in line with the trend which saw it grow nearly 29 per cent in 2015.



Source: NBP and Bloomberg.

3. Key events and achievements at Raiffeisen Bank Polska S.A. and Raiffeisen Bank Polska S.A. Capital Group in 2016

2016 saw rising volatility and uncertainty across the financial markets, combined with slower economic growth, the lowest in three years (albeit still higher than expected for 2016), as well as continuing regulatory and fiscal pressures on the banking sector (including increased minimum capital requirements recommended by the regulator as of the beginning of 2016, and a new tax on assets of certain financial institutions levied as of February 2016). Against this background, Raiffeisen Bank Polska S.A. Capital Group remained committed to its strategy for 2015–2017, entrenching its position in Corporate Banking, while dynamically expanding its market share on the retail market. Looking to further strengthen its capital position, the Bank sold its entire shareholding in Raiffeisen-Leasing Polska S.A. The transaction, closed on 31 March 2016, helped the Bank to improve its Total Capital Ratio ("TCR") and Common Equity Tier 1 capital ratio ("CET1"). As a result of the sale transaction, Bank has no more shares in the subsidiaries within the prudential scope of consolidation. Bank therefore has calculated and reported capital ratio just on a stand-alone basis since the transaction was closed (i.e. since 31 March 2016). As at 31 December 2016, TCR and CET1 ratio stood at 16.70 per cent and 16.05 per cent, respectively, being both above the minimum regulatory requirements and the levels recommended by the PFSA.

In 2016, Raiffeisen Bank Polska S.A. Capital Group earned PLN 14.8 million in net profit, 92.1 per cent less than PLN 186.2 million posted for 2015. The part of the business activity, which was disposed in result of the abovementioned transaction of shares sale in RLPL, was a separate, important operation line of the Group and as a consequence was qualified as discontinued operations. Net profit from discontinued operations amounted to PLN 11.7 million (down PLN 59.6 million, or 83.6 per cent year-on-year) and net profit from continuing operations amounted to PLN 3.0 million (down PLN 111.8 million, or 97.4 per cent year-one-year). The main contributors to the Group's net profit from the continuing operations in the period included:

- 10.8 per cent year-on-year, or PLN 167.4 million, increase in operating income to PLN 1.7 billion in 2016, mainly driven by settlement of the acquisition of Visa Europe Limited by Visa Inc., which generated revenue of PLN 80.6 million, as well as the increase of net interest income by PLN 82.8 million, or 8.8 per cent;
- Net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items of PLN 176.2 million, up 12.7 per cent on 2015;
- 9.9 per cent reduction in general administrative expenses, achieved due to the continued cost-saving measures and lower additional contributions to the Bank Guarantee Fund ("BFG");

- New tax imposed on financial institutions of PLN 148.8 million for eleven months of 2016;
- PLN 75.9 million of the disputed receivables regarding the corporate income tax settlements charged to the Bank's result for the year 2016 as a result of the Supreme Administrative Court' ruling made in December 2016;
- Impairment of goodwill of PLN 33.0 million and Polbank's brand of PLN 86.0 million, negatively impacting both Bank's and Group's net result by PLN 102.6 million.

In 2016, Raiffeisen Bank Polska S.A. earned PLN 162.8 million in net profit, up 1.7 per cent from PLN 160.1 million posted for 2015. The main contributor to the Bank's net profit in the period, besides the already mentioned factors related to Group's net profit, was the divestment of Raiffeisen-Leasing Polska S.A., which delivered profit before tax of PLN 202.3 million.

Throughout 2016, the Bank continued its strategy to dynamically expand in the Retail Banking segment, focusing on sales of Dream products (*Wymarzone*). As a result, 137 thousand Dream Personal Accounts (*Wymarzone Konto Osobiste*) were acquired in 2016, of which 115 thousand accounts were opened for new clients. At the same time, measures were being taken to improve service quality. In recognition of its efforts to improve customer service, Raiffeisen Polbank was named the Golden Bank for service quality in a ranking compiled jointly by the *Puls Biznesu* newspaper and Bankier.pl. As at the end of 2016, the number of active Retail Banking clients increased by more than 11 per cent year on year, to 748 thousand.

In Private Banking, Raiffeisen Bank Polska reaffirmed its leading position, with the highest, five-star rating achieved at the beginning of 2016 for the third consecutive time in the *Forbes* ranking of Polish private banks. 2016 also saw continued growth in private banking assets of Friedrich Wilhelm Raiffeisen' clients invested with the Bank – up 7 per cent year on year.

Throughout 2016, the Bank further consolidated its position in the Corporate Banking segment, expanding its client base by over 5 per cent year on year, to 14.7 thousand accounts, which was reflected in the increased volume of net loans to small and medium-sized enterprises (up 12.3 per cent year on year).

At the end of 2016, the Bank continued as one of the leaders of Poland's factoring market, with the largest number of clients (26 per cent of all factoring clients in Poland) and the third highest turnover (among the members of the Polish Factors Association) of PLN 18.3 billion.

In 2016, Raiffeisen Solutions sp. z o.o. ("Raiffeisen Solutions") - a company wholly-owned by the Bank, holding one of the most advanced currency exchange and money transfer tools on the market, launched in November 2015 under the name RKantor.com – reported dynamic growth of customer base and FX trading levels. The company introduced new solutions, such as the Deferred Payment Exchange (*Wymiana z Odroczoną Wpłatą*) and extended the exchanged currencies range.

Summary of the Bank's and Group's performance in 2016:

	Bank	**Group**[1]
Net profit in 2016	Increase of 1.7 per cent year on year to PLN162.8 million in net profit	Decline in net profit by 92.1 per cent year on year to PLN 14.8 million Decrease in net profit from continuing operations to PLN 3.0 million

	Bank	Group[1]
	Tax on assets of financial institutions reducing the financial result by PLN 148.8 million	
Profit before tax in 2016	Year-on-year improvement in profit before tax of 38.6 per cent to PLN 287.0 million	43.1 per cent year-on-year decrease in profit before tax to PLN 91.8 million
Lower cost base and improved cost efficiency	9.9 per cent year-on-year decrease in general administrative expenses and year-on year improvement of cost income ratio to 64.6 per cent	9.9 per cent year-on-year decrease in general administrative expenses and year-on year improvement of cost income ratio to 72.9 per cent
Loan portfolio quality	Increase in net provisioning for impairment losses on financial assets by 11.9 per cent year on year	Increase in net provisioning for impairment losses on financial assets by 12.7 per cent year on year
	Decrease in net provisioning for impairment losses on financial assets, net of the effect of receivables sale transactions, by 1.8 per cent year on year, on improved risk parameters of the corporate portfolio	Decrease in net provisioning for impairment losses on financial assets, net of the effect of receivables sale transactions, by 1.3 per cent year on year, on improved risk parameters of the corporate portfolio
	Increase of the share of impaired loans in the overall loan portfolio by 0.2 per cent year on year to 7.9 per cent	The share of impaired loans in the overall loan portfolio, at stable level of 7.9 per cent
Increase of client base	Higher number of clients, up 11.3 per cent year on year, to 763.6 thousand	Increase of client base of rKantor.com by 346 per cent year on year to 8 thousand
Volume of loans	Increase in loans and advances to customers to PLN 33.9 billion, i.e., by 0.5 per cent year on year	Decrease in loans and advances to customers to PLN 33.9 billion, i.e., by 13.6 per cent year on year (the impact of sale of RLPL)
Volume of client deposits	Decrease in amounts due to customers to PLN 36.4 billion, i.e., by 6.2 per cent year on year	Decrease in amounts due to customers to PLN 36.3 billion, i.e., by 3.8 per cent year on year
Improved capital and liquidity ratios	Total Capital Ratio at 16.70 per cent Common Equity Tier 1 capital ratio at 16.05 per cent Loan-to-deposit ratio at 93.1 per cent for the Bank and 93.2 per cent for the Group	

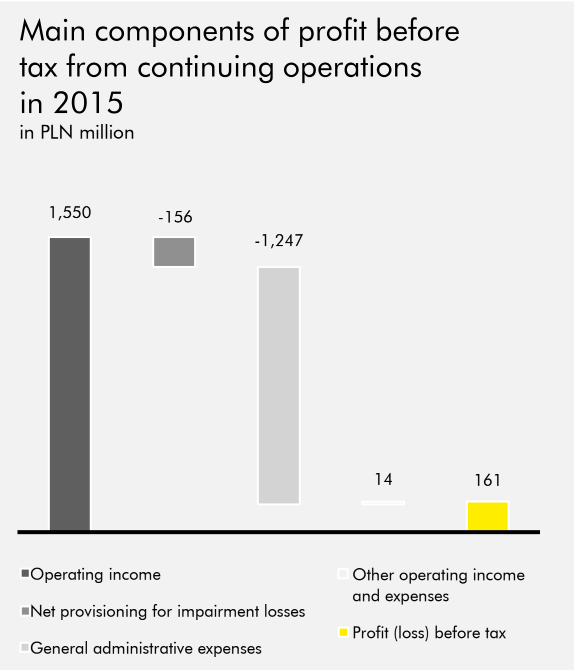
[1] Income statement data is related to the continuing operations.

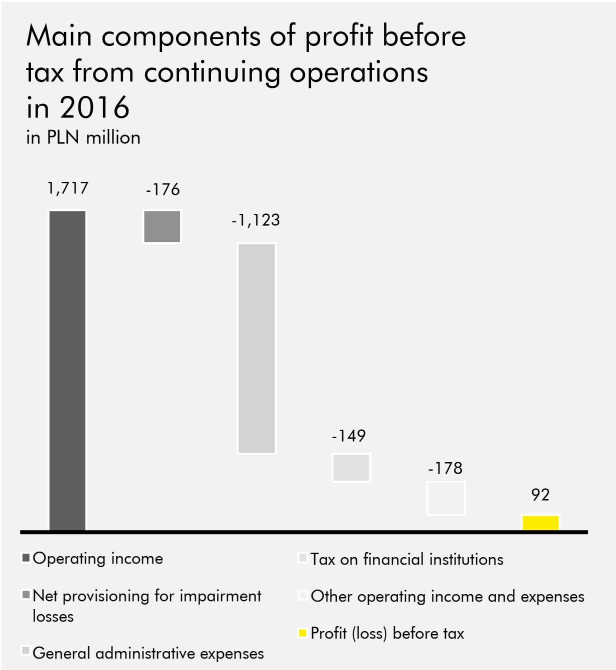
4. Financial standing of Raiffeisen Bank Polska S.A. Capital Group in 2016

4.1. Income statement

In 2016, the Group earned a net profit of PLN 14.8 million against PLN 186.2 million in 2015, down 92.1 per cent, year-on-year. Profit before tax was PLN 91.8 million in 2016, compared with PLN 161.4 million in 2015.

On 31 March 2016, the Bank completed the sale transaction of 100 per cent shares of RLPL further described on page 5 of this report. The part of the business activity, which was disposed, was a separate, important operation line of the Group and as a consequence was qualified as discontinued operations. Net profit from discontinued operations amounted to PLN 11.7 million. Net profit from continuing operations was PLN 3.0 million against PLN 114.9 million in 2015 (down PLN 111.8 million, or 97.4 per cent year on year).





The main contributors to the Group's net profit from continuing operations in 2016, which were not present in a previous year, included:

- Payment of tax on assets of selected financial institutions of PLN 148.8 million for eleven months of 2016;
- Settlement of the acquisition of Visa Europe Limited by Visa Inc. – due to the acquisition of Visa Europe Limited by Visa Inc. and the resulting disposal by the Bank of its equity interest in Visa Europe to Visa Inc., the Bank booked PLN 80.6 million under net income from financial instruments measured at fair value and net foreign exchange result. The amount of PLN 80.6 million comprised of: PLN 59.0 million of cash consideration for the shares sold by the Bank; PLN 16.5 million on account of preferred shares received and PLN 5.0 million of additional deferred cash consideration, to be paid three years after the transaction closing, i.e., in the second quarter of 2019;
- On 6 December 2016, the Supreme Administrative Court dismissed the Bank's cassation appeals against tax authorities' decisions made in relation to the Bank's corporate income tax settlements. Following the tax inspections carried out in 2009 and 2012, the tax authorities questioned the tax treatment of the result on investments made in 2004, 2006 and 2007. While maintaining its stance on the correctness of tax settlement, the Bank paid the tax liabilities identified by the tax

authorities, together with interest, and recognized a receivable from the Tax Office. The disputed amount of tax liabilities was PLN 75.9 million; this amount reduced the Group's net profit for 2016 as follows: the principal amount of the identified additional tax liability, of PLN 57.2 million, was recognized under income tax, while late payment interest of PLN 18.7 million was posted to other operating expenses;

- Polbank brand and goodwill impairment charge in the amount of PLN 86,000 thousand and PLN 32,966 thousand, respectively. As at 31 December 2016, the Bank performed an impairment test of the intangible assets recognized as a result of the acquisition of shares of Polbank EFG by the Bank in 2012. Following the changes on the Polish market in the recent years the Bank updated parameters used in the models for calculation of recoverable amount to the current observable market conditions. As a result, the impairment of goodwill and Polbank brand was recognized and the charge in the above mentioned amount was made. This decreased the Group's profit before tax by PLN 119.0 million (attributed to other operating expenses) and the Group's net profit by PLN 102.6 million.

Other contributors to the Group's results in 2016 included:

- 8.8 per cent year-on-year increase in net interest income, mostly on lower interest expense;
- 2.4 per cent year-on-year increase in net fee and commission income, particularly on higher fee and commission income on investment and insurance products;
- 12.7 per cent (or PLN 19.9 million) year-on-year increase in net provisioning for impairment losses, mainly attributable to lower proceeds from sale of a non-performing loans portfolio (PLN 12.8 million in 2016 against PLN 35.1 million in 2015). Excluding the effect of the sale of non-performing loans in 2015 and 2016, net provisioning for impairment losses fell 1.3 per cent year-on-year, mostly due to improved quality of the large enterprises' loan portfolio;
- 9.9 per cent, or PLN 123.9 million, reduction in general administrative expenses, achieved due to the continued cost-saving activities and lower additional contributions to the Bank Guarantee Fund. Net of the additional payments to the BFG, general administrative expenses were down 4.8 per cent, or PLN 56.9 million, year-on-year;
- Decrease of net other operating result (- PLN 117.8 million in 2016, compared with net other operating income of PLN 14.5 million in 2015) due to impairment of fixed assets (goodwill - PLN 33.0 million and Polbank's brand - PLN 86.0 million), late payment interest from RBPL's income tax settlements (PLN 18.7 million), reimbursement to RBI of loss related to tax proceedings against RLPL occured before the sale date of RLPL (PLN 12.9 million) and other cost related to process of optimizing the head office and branch network.

Selected items of the statement of profit or loss (PLN thousand)	**For the financial year ended 31.12.2016**	**For the financial year ended 31.12.2015**	**Change**	
			PLN thousand	**%**
Continuing operations				
Interest income	1,590,089	1,635,521	-45,432	-2.8
Interest expense	-570,902	-699,179	128,277	-18.3
Net interest income	1,019,187	936,342	82,845	8.8
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-176,177	-156,302	-19,875	12.7
Fee and commission income	668,987	668,228	759	0.1
Fee and commission expense	-81,088	-94,265	13,177	-14.0
Net fee and commission income	587,899	573,963	13,936	2.4
Net income from financial instruments measured at fair value and net foreign exchange result	110,210	39,648	70,562	178.0
Dividend income	120	86	34	39.5
General administrative expenses	-1,122,912	-1,246,848	123,936	-9.9
Other operating income and expenses	-177,778	14,495	-192,273	-1,326.5
Tax on financial institutions	-148,776	0	-148,776	-

Selected items of the statement of profit or loss (PLN thousand)	For the financial year ended 31.12.2016	For the financial year ended 31.12.2015	Change	
			PLN thousand	%
Profit (loss) before tax	**91,773**	**161,384**	**-69,611**	**-43.1**
Income tax expense	-88,738	-46,513	-42,225	90.8
Net profit (loss) from continuing operations	**3,035**	**114,871**	**-111,836**	**-97.4**
Net profit (loss) from discontinued operations	**11,720**	**71,307**	**-59,587**	**-83.6**
Net profit (loss)	**14,755**	**186,178**	**-171,423**	**-92.1**

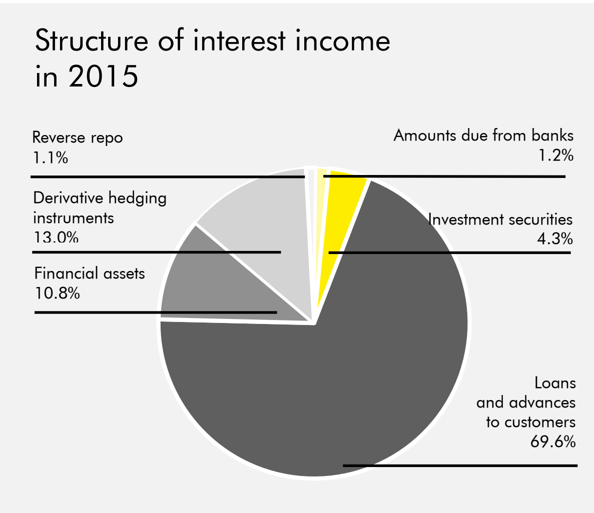
4.1.1. Net interest income

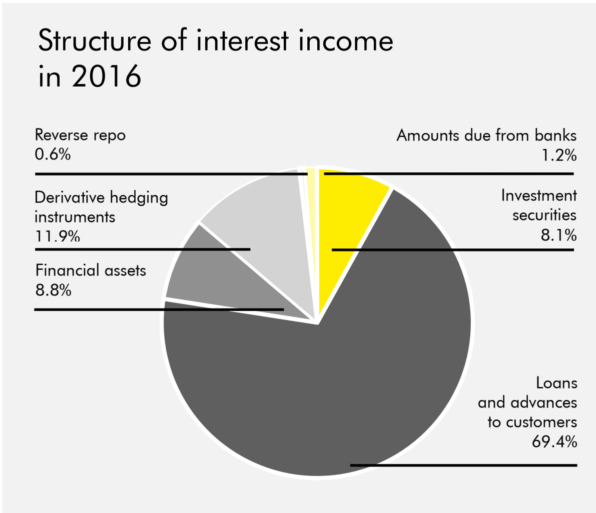
In 2016, the Group's net interest income was PLN 1,019.2 million, up PLN 82.8 million, or 8.8 per cent, vs. 2015. The improvement, carried out in the low interest rates environment, was caused by higher decrease in interest expense compared to decrease in interest income. The decrease of interest expense was caused mainly by a change in the structure of customer deposits and to their higher profitability.

Structure of interest income

In 2016, the Group's interest income was PLN 1,590.1 million, down 2.8 per cent year-on-year. The structure of interest income changed slightly in comparison with 2015: interest income from loans and advances to customers remained the largest contributor, though its share in total interest income fell slightly, to 69.4 per cent, from 69.6 per cent in a previous year. Year-on-year, interest income from loans and advances to customers declined by 3.0 per cent, mostly as a result of a 2.5 per cent year-on-year decrease in the average balance of the loans and advances.

A significant increase of 82 per cent, to PLN 128.6 million as at the end of 2016, was recorded in interest income from investment securities; its share in total interest income rose to 8.1 per cent as at the end of 2016, from 4.3 per cent a previous year. Interest income from financial assets held for trading decreased from 10.8 per cent in 2015 to 8.8 per cent in 2016. The share of interest income from hedge derivatives decreased to 11.9 per cent in 2016 (from 13.0 per cent in 2015).



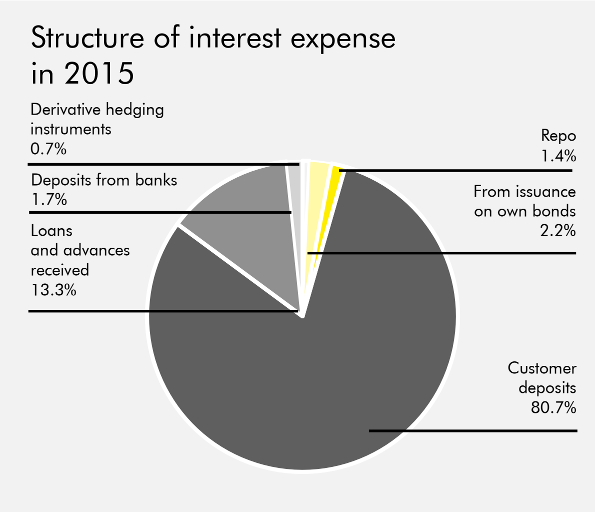


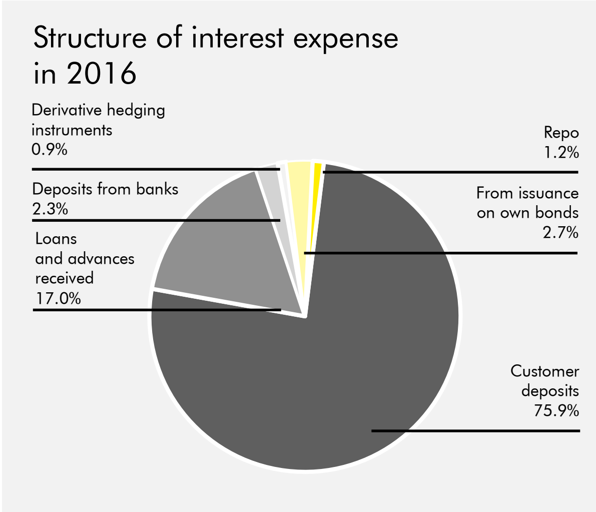
Structure of interest expense

In 2016, interest expense was PLN 570.9 million, down PLN 128.3 million, or 18.3 per cent, on the previous year.

Interest expense on customer deposits was the largest contributing item, accounting for 75.9 per cent of total interest expense as at the end of 2016 (down by 4.8 percentage points year on year). Nominal interest expense on customer deposits dropped significantly – by PLN 130.8 million, or 23.2 per cent year on year, to PLN 433.2 million, driven by a change in the pricing policy for new deposits and a decrease in the average balance of the deposits.

There was a slight increase in interest expense on loans and advances received, to PLN 97.3 million, up 5.0 per cent year-on-year, attributable to foreign exchange differences and a higher average balance of the loans and advances received. The share of interest expense on loans and advances received in total interest expense rose from 13.3 per cent in 2015 to 17.0 per cent in 2016.





4.1.2. Non-interest income

In 2016, the Group reported non-interest income of 698.1 million, up PLN 84.5 million, or 13.8 per cent, versus 2015.

The largest component of non-interest income was net fee and commission income, which amounted to PLN 587.9 million in 2016, up 2.4 per cent in 2015. Lower income from customer accounts' maintaining and payment card fees was offset by higher fee income from agency services regarding insurance sales and custody services, higher income from distribution of open-end investment fund units, lower costs related to retail customer current accounts, and lower payment cards' costs.

Net income from financial instruments measured at fair value and net foreign exchange result amounted to PLN 110.2 million in 2016, up 178.0 per cent year on year. The increase was attributable to the additional income of PLN 80.6 million, related to the settlement of acquisition of Visa Europe Limited by Visa Inc.

4.1.3. Net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items

In 2016, net provisioning for impairment losses and provisions for off-balance-sheet items rose from PLN 156.3 million in 2015 to PLN 176.2 million in 2016, i.e. by PLN 19.9 million, or 12.7 per cent year on year. It was mainly a result of a lower proceeds from sale of receivables amounting to PLN 12.8 million in 2016 compared with PLN 35.1 million in 2015. Excluding the effect of proceeds from the sale of receivables, in 2016 net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items fell by PLN 2.4 million, or 1.3 per cent. Improvement was seen mainly in the Corporate Banking segment, thanks to effective risk management.

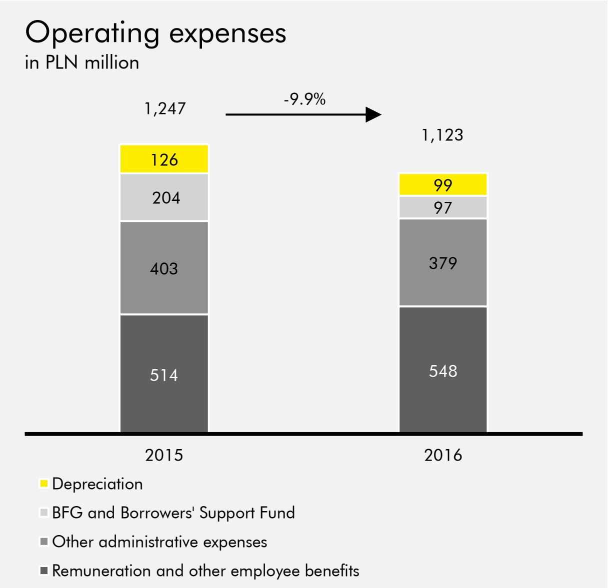
The impaired (or non-performing) loan ratio was 7.9 per cent and remained unchanged compared to 2015. At the end of 2016, impaired loans coverage ratio was 56.4 per cent, down by 0.5 percentage points versus previous year.

4.1.4. General administrative expenses

In 2016, the Group's general administrative expenses were PLN 1,122.9 million, down PLN 123.9 million (or 9.9 per cent) on 2015. The following one-off items had a significant effect on the Bank's cost base:

- In 2015:
  - Remuneration and other employee benefits – reversal of a PLN 21.6 million annual bonus provision (following the decision not to paid annual bonuses for 2014 at the Raiffeisen Bank International Group) and reversal of a PLN 34.7 million provision following the Management Board's decision to terminate the RAIF'fajne Lata employee program. In total, these one-off items reduced the cost base by PLN 56.3 million;
  - BFG and Borrowers' Support Fund – payment of a PLN 71.7 million contribution to the Bank Guarantee Fund following the bankruptcy of SK Bank Wołomin; and of a PLN 39.2 million contribution to the Borrowers' Support Fund. These one-off factors increased the cost base by an aggregate of PLN 110.9 million.
- In 2016:
  - Recognition of a restructuring provision for the closing down of 35 branches and workforce streamlining and office space optimization at the headquarters: PLN 17.3 million under Remuneration and other employee benefits; and PLN 10.2 million under Maintenance and rental of buildings (in other administrative expenses line);
  - Payment of a PLN 4.7 million contribution to the BFG in connection with the bankruptcy of Bank Spółdzielczy w Nadarzynie.

Furthermore, the Group continued its cost-saving program, as part of which 35 branches were closed down in the first quarter of 2016 and further steps were taken to restructure the Bank's head office. The relocation of the Operations Center from Warsaw to Ruda Śląska was successfully completed. Additional savings were generated as three buildings were vacated after the head office was moved to a new location at ul. Grzybowska in Warsaw. The Group has also been working on optimizing its costs of procurement and back-office support. In the area of IT, the architecture and maintenance costs of the IT systems and infrastructure were optimized, which included closing down and writing-off unused systems. Marketing expenditure on promotion and other campaigns was reduced, resulting in annual savings of PLN 8.2 million (25.1 per cent).



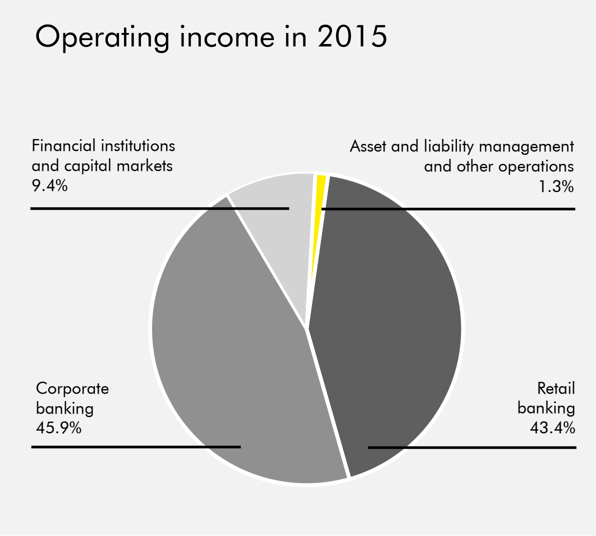
4.2. Segment results

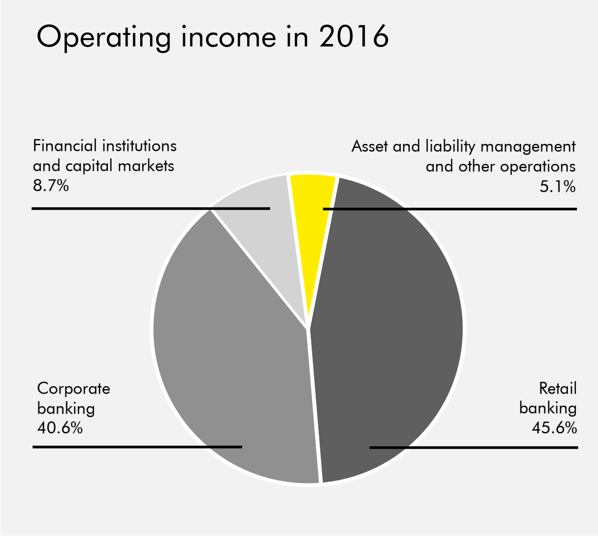
The Bank manages its business based on four operating segments: Corporate Banking, Retail Banking, Financial Institutions and Capital Markets, and Asset and Liability Management and Other Operations.

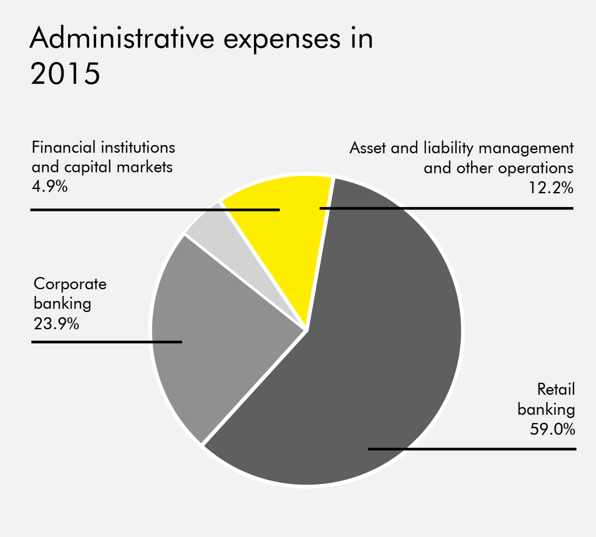
The analysis of segments' performance in terms of net interest income takes into account internal net interest income, including allocation of internal net interest income from capital refinancing and cost of subordinated loans.

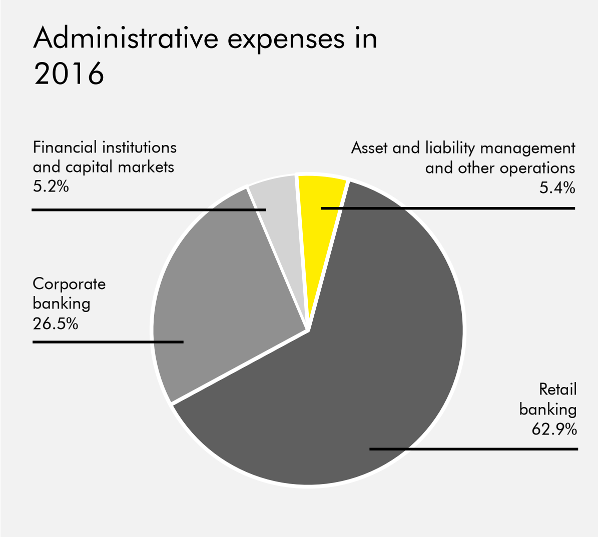
Segment data for 2016 reflects the Group's continuing operations only. Comparative data for 2015 in the statement of profit or loss was restated as if the discontinued operations had been discontinued at the beginning of the comparative period, while those in balance sheet position as if the operations had been discontinued at the end of the comparative period.

Profit (loss) before tax by segment (PLN thousand)	**For the financial year ended 31.12.2016**	**For the financial year ended 31.12.2015**	**Change**	
			PLN thousand	**%**
Corporate banking	300,683	326,654	-25,971	-8.0
Retail banking	-93,178	-125,415	32,237	-25.7
Financial institutions and capital markets	85,113	87,084	-1,971	-2.3
Asset and liability management and other operations	-200,845	-126,940	-73,905	-58.2
Group total	**91,773**	**161,384**	**69,611**	**-43.1**









Corporate Banking

In 2016, Corporate Banking generated profit before tax of PLN 300.7 million, down 8.0 per cent, or PLN 26.0 million, year on year; the change was caused mainly by the imposition of the new tax on assets of certain financial institutions. Other contributing factors included:

- 3.9 per cent decline in net interest income caused by lower interest income and lower internal net interest income allocated to the segment, which was not fully offset by lower interest expense. The fall in both interest income and interest expense was caused by lower average volumes of assets and liabilities, combined with a simultaneous increase in deposit and lending margins;
- Net non-interest income remaining unchanged year on year. Lower revenue from FX transactions was offset by additional income on settlement of the acquisition of Visa Europe Limited by Visa Inc.;
- A slight decrease in general administrative expenses – by 0.1 per cent, or PLN 0.4 million, compared with 2015;
- Tax on assets of selected financial institutions (introduced in 2016) allocated to the Corporate Banking segment in the amount of PLN 42.0 million, adversely affecting the segment's profit before tax;
- 35.6 per cent, or PLN 31.0 million, decrease in net provisioning for impairment losses on the due to effective risk management.

Corporate Banking (PLN thousand)	**For the financial year ended 31.12.2016**	**For the financial year ended 31.12.2015**	**Change**	
			PLN Thousand	**%**
Interest Income	477,541	508,428	-30,886	-6.1
Interest Expense	-115,096	-156,996	41,900	-26.7
Interest Income (external)	362,445	351,431	11,014	3.1
Interest Income (internal)	13,612	39,837	-26,224	-65.8
Net Interest Income	376,057	391,268	-15,211	-3.9
Non-interest revenue	320,831	320,928	-97	0.0
Operating Income	**696,888**	**712,196**	**-15,308**	**-2.1**
General administrative expenses	-298,070	-298,454	384	-0.1
there of: Depreciation	-18,932	-30,156	11,225	-37.2
Tax on financial institutions	-42,039	0	-42,039	-
Provisioning for impairment losses	-56,096	-87,087	30,991	-35.6
Profit (loss) before tax	**300,683**	**326,654**	**-25,971**	**-8.0**
	As at 31.12.2016	**As at 31.12.2015**		
Assets	**12,042,858**	**12,291,473**	**-248,616**	**-2.0**
Liabilities	**13,562,024**	**14,844,293**	**-1,282,270**	**-8.6**

Retail Banking

Retail Banking generated a loss of PLN 93.2 million in 2016, which represents an improvement of PLN 32.2 million compared with the previous year. The key contributing factors were:

- 4.9 per cent, or PLN 22.1 million, increase in net interest income caused mainly by a 15.5 per cent, or PLN 53.1 million, fall in interest expense year on year attributable to an improved margin on deposits despite a lower average balance of liabilities (down 6.8 per cent). Interest income rose slightly, by 0.3 per cent, or PLN 1.8 million, due to a higher balance of cash loans;

- 41.1 per cent, or PLN 89.4 million, rise in net non-interest income, driven mainly by additional income on settlement of the acquisition of Visa Europe Limited by Visa Inc. Excluding this one-off item, net non-interest income rose by PLN 18.5 million, or 8.5 per cent, on higher revenue from current accounts, payment cards and investment products;
- 3.9 per cent, or PLN 28.6 million, decrease in general administrative expenses in Retail Banking;
- The amount of tax on assets of financial institutions introduced in 2016, of which PLN 66.1 million was allocated to the Retail Banking segment in 2016, had a negative effect on the segment's profit before tax;
- 77.6 per cent, or PLN 52.2 million, increase in net provisioning for impairment losses, to PLN 119.5 million, due to PLN 11.8 million decrease in proceeds from sale of receivables and deterioration in the risk parameters of the microenterprise sub-segment.

Retail Banking (PLN thousand)	**For the financial year ended 31.12.2016**	**For the financial year ended 31.12.2015**	**Change**	
			PLN Thousand	**%**
Interest Income	646,361	644,549	1,812	0.3
Interest Expense	-289,734	-342,829	53,095	-15.5
Interest Income (external)	356,627	301,721	54,907	18.2
Interest Income (internal)	119,811	152,598	-32,787	-21.5
Net Interest Income	476,438	454,319	22,120	4.9
Non-interest revenue	307,119	217,683	89,435	41.1
Operating Income	**783,557**	**672,002**	**111,555**	**16.6**
General administrative expenses	-706,671	-735,302	28,631	-3.9
there of: Depreciation	-75,811	-85,160	9,349	-11.0
Tax on financial institutions	-66,073	0	-66,073	-
Provisioning for impairment losses	-119,515	-67,287	-52,228	77.6
Other operating result	15,524	5,172	10,352	200.1
Profit (loss) before tax	**-93,178**	**-125,415**	**32,237**	**-25.7**
	As at 31.12.2016	**As at 31.12.2015**		
Assets	**22,117,056**	**21,854,254**	**262,802**	**1.2**
Liabilities	**20,510,794**	**19,385,642**	**1,125,153**	**5.8**

Financial Institutions and Capital Markets

In 2016, the Financial Institutions and Capital Markets generated profit before tax of 85.1 million, that was 2.3 per cent, or PLN 2.0 million, less than in the previous year, mainly due to the new tax on assets of certain financial institutions allocated to the segment, which reduced the segment's profit before tax by PLN 9.0 million. Other contributing factors were:

- 15.1 per cent, or PLN 16.7 million, year-on-year increase in net non-interest income, driven by an improved result on FX transactions, higher income from custody services, and higher income from debt securities issues;
- 37.0 per cent, or PLN 12.8 million, decrease in net interest income due to lower interest income and internal net interest income, not fully offset by lower interest expense. The fall in interest income was caused by lower average volume combined with a simultaneous increase in margin earned. A significant decrease of interest expense due to lower average volumes of liabilities, despite of the decrease in negative margin;
- 4.8 per cent, or PLN 2.9 million, year-on-year decrease in general administrative expenses.

Financial Institutions & Capital Markets (PLN thousand)	For the financial year ended 31.12.2016	For the financial year ended 31.12.2015	Change	
			PLN Thousand	%
Interest Income	38,300	52,983	-14,683	-27.7
Interest Expense	-76,516	-106,669	30,153	-28.3
Interest Income (external)	-38,216	-53,686	15,470	-28.8
Interest Income (internal)	59,954	88,205	-28,251	-32.0
Net Interest Income	21,738	34,519	-12,781	-37.0
Non-interest revenue	127,573	110,827	16,746	15.1
Operating Income	**149,310**	**145,345**	**3,965**	**2.7**
General administrative expenses	-57,991	-60,884	2,893	-4.8
there of: Depreciation	-3,432	-6,169	2,737	-44.4
Tax on financial institutions	-9,029	0	-9,029	-
Provisioning for impairment losses	-106	463	-569	-122.9
Other operating result	2,929	2,160	768	35.6
Profit (loss) before tax	**85,113**	**87,084**	**-1,971**	**-2.3**
	As at 31.12.2016	**As at 31.12.2015**		
Assets	**1,930,827**	**3,256,651**	**-1,325,824**	**-40.7**
Liabilities	**2,666,098**	**4,994,107**	**-2,328,009**	**-46.6**

Asset and Liability Management and Other Operations

In 2016, the Asset and Liability Management and Other Operations segment reported loss before tax of PLN 200.8 million, a decrease of PLN 73.9 million from the loss of PLN 126.9 million reported in 2015.

The key factors contributing to the year-on-year change in the segment's profit before tax in 2016 included:

- PLN 67.2 million increase in operating income driven mainly by the net interest income growth of PLN 88.7 million, with interest income down by PLN 1.7 million and interest expense down by PLN 3.1 million, as a result of changes in the Bank's financing structure. Internal net interest income rose by PLN 87.3 million on Bank's improved liquidity position and lower pricing pressures on client funding, with the resulting decrease in the liquidity margin allocated to client segments;
- PLN 92.0 million decrease in general administrative expenses due to significantly lower additional contributions paid to the Bank Guarantee Fund;
- PLN 203.4 million decrease in net other operating result, mainly attributable to higher impairment of property, plant and equipment and intangible assets by 125.8 million (impairment charge of goodwill in the amount of PLN 33.0 million and brand of "Polbank" in the amount of PLN 86.0 million). Additionally negative impact on net operating income had lower income on disposal of property, plant and equipment and intangible assets and higher costs related to sale and disposal of property, plant and equipment and intangible assets in the process of optimizing the Bank's head office and branch network. The segment's 2016 result also includes PLN 18.7 million of late payment interest paid following the closing of proceedings related to the Bank's income tax liabilities and PLN 12.9 million of reimbursement to RBI of loss related to tax proceedings against RLPL occurred before the sale date of RLPL;
- A negative contributor to the gross result was the tax on assets of selected financial institutions introduced in 2016, allocated to the Asset and Liability Management and Other Operations segment in the amount of PLN 31.6 million.

4.3. Statement of financial position

4.3.1. Assets

The Group's assets as at the end of 2016 amounted to PLN 53,258 million and decreased by PLN 8.6 billion, or 14.0 per cent, year on year. This significant decrease was due mainly to the disposal of all shares in Raiffeisen-Leasing Polska S.A. Loans and advances to customers remained the largest item of the assets, accounting for 63.6 per cent of the Bank's total assets (up 0.3 percentage points year on year). The value of loans and advances to customers fell by PLN 5.3 billion in comparison to 2015. After elimination of loans and advances from the RLPL Group, which had been consolidated as part of the Bank's Group in 2015, loans and advances to customers increased by PLN 175.4 million, or 0.5 per cent, year on year, mainly due to higher lending in the Retail Banking segment. This increase, achieved on a higher balance of cash loans, offset a decline in the value of mortgage loans and lower lending volumes in Corporate Banking.

Assets (PLN million)	As at 31.12.2016	As at 31.12.2015	Change	
			PLN million	%
Cash and balances with the Central Bank	1,731,869	2,703,510	-971,641	-35.9
Amounts due from banks	334,563	1,326,350	-991,787	-74.8
Financial assets held for trading	8,047,342	12,570,410	-4,523,068	-36.0
Derivative financial instruments	466,709	562,046	-95,337	-17.0
Investments securities	7,962,554	3,841,655	4,120,899	107.3
Loans and advances to customers	33,864,497	39,206,125	-5,341,628	-13.6
Intangible assets	383,083	551,659	-168,576	-30.6
Fixed assets	118,228	276,229	-158,001	-57.2
Other assets[1]	349,128	866,959	-517,831	-59.7
Total assets	**53,257,973**	**61,904,943**	**-8,646,970**	**-14.0**

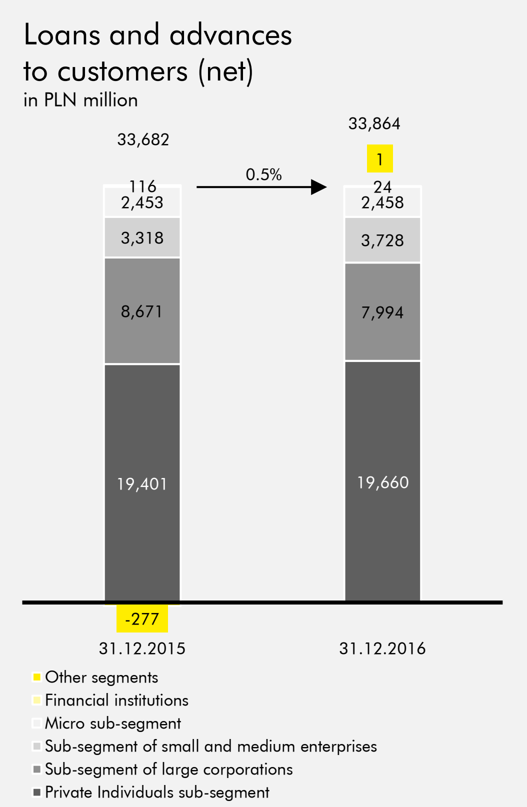
[1] Including deferred income tax assets, current income tax receivables and other assets.

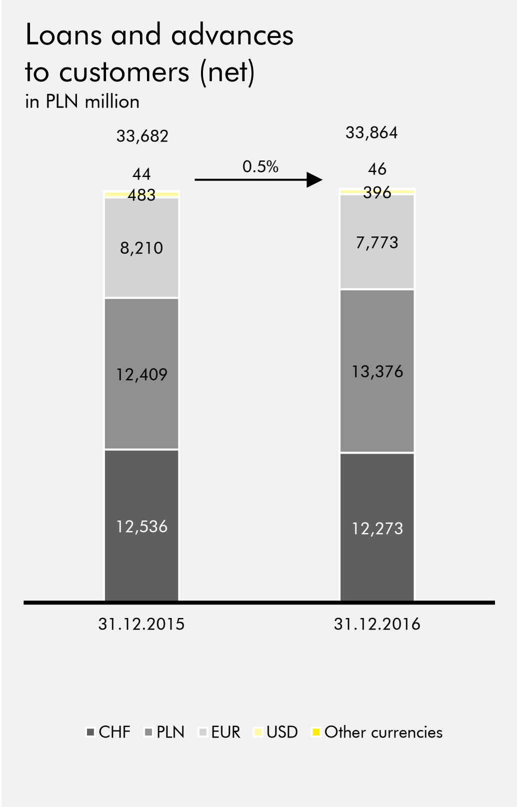
Changes in assets held for trading and investment securities followed from the change of the Bank's investment and liquidity management policies. The balance of financial assets held for trading fell by PLN 4.5 billion, while the balance of investment securities went up by PLN 4.1 billion. The total balance of these items as at the end of 2016 decreased by PLN 0.4 billion year on year.

Changes in cash and balances of the central bank and amounts due from banks were a result of ongoing liquidity management at the Bank as at the end of the reporting period.

Changes in intangible assets due to impairment of goodwill and brand of "Polbank".

Loans and advances to customers (the continuing operations):





4.3.2. Liabilities and equity

The Group's liabilities as at the end of 2016 dropped by PLN 8.6 billion, or 15.5 per cent, year on year, to PLN 46,895 million. This significant decrease was due mainly to the disposal of all shares in RLPL. Deposits from customers remained the main source of financing for the Group, although they fell by PLN 1.4 billion, or 3.8 per cent, year on year, to PLN 36.3 billion, due to improved efficiency of the Group's liquidity structure. The share of customer deposits in total equity and liabilities increased from 61.0 per cent in 2015 to 68.2 per cent. Customer deposits fell in the Corporate Banking and Financial Institutions segments, with a growth reported in Retail Banking.

Another major item were amounts due to banks and other monetary institutions, which at the end of 2016 accounted for 14.0 per cent of the Group's total equity and liabilities. The balance of amounts due to banks and other monetary institutions fell by PLN 5.7 billion, to PLN 7.4 billion as at the end of 2016, following the sale of RLPL shares.

As at the end of 2016, subordinated liabilities amounted to PLN 332.1 million, which represented a significant decline of 54.2 per cent relative to the end of 2015.

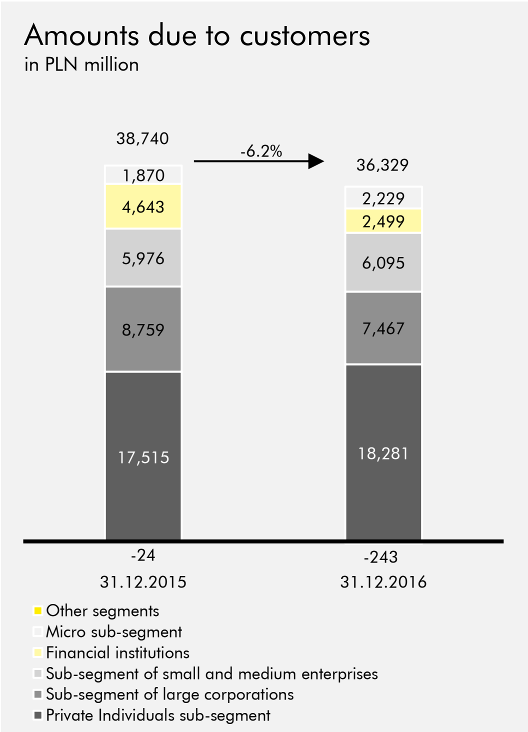
Equity as at the end of 2016 increased slightly in comparison to the end of the previous year, by PLN 26.6 million (or 0.4 per cent).

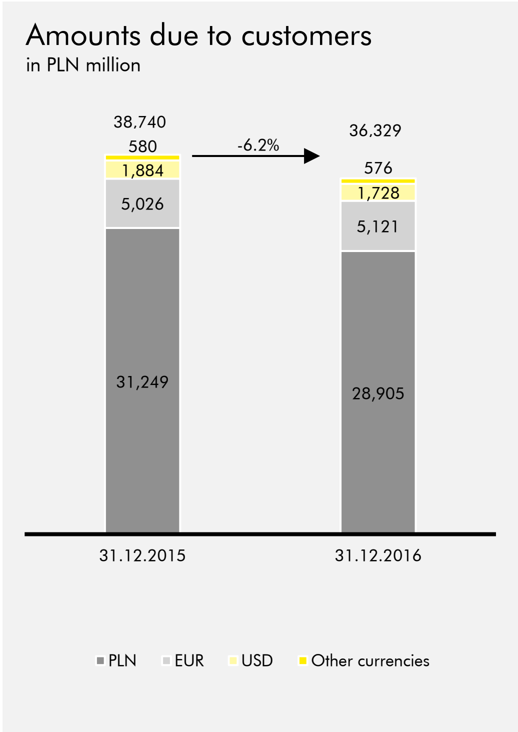
Liabilities and equity (PLN million)	**As at 31.12.2016**	**As at 31.12.2015**	**Change**	
			PLN million	**%**
Amounts due to banks and other monetary institutions	7,433,406	13,088,797	-5,655,391	-43.2
Derivative financial instruments	1,546,166	1,478,611	67,555	4.6
Amounts due to customers	36,329,411	37,762,146	-1,432,735	-3.8
Subordinated liabilities	332,096	724,789	-392,693	-54.2
Liabilities from debt securities issued	501,830	1,758,677	-1,256,847	-71.5

Liabilities and equity (PLN million)	As at 31.12.2016	As at 31.12.2015	Change	
			PLN million	%
Other liabilities[1]	752,381	702,608	49,773	7.1
Total liabilities	**46,895,291**	**55,515,628**	**-8,620,337**	**-15.5**
Total equity	**6,362,682**	**6,389,315**	**-26,633**	**-0.4**
Total liabilities and equity	**53,257,973**	**61,904,943**	**-8,646,970**	**-14.0**

[1] Including current income tax liabilities, provisions and other liabilities.

Amounts due to customers (the continuing operations):





4.4. Key financial ratios

The following table presents the Group's key financial ratios. In 2016, the Bank generated Return on Equity (ROE) of 0.05 per cent and Return on Assets (ROA) of 0.01 per cent. With higher operating income and lower cost base, the Group reduced its cost/income ratio from 75,5 per cent to 72.9 per cent. Net interest margin increased to 1.9 per cent.

Selected financial ratios of the Group[1] (%)	As at 31.12.2016	As at 31.12.2015
ROA net	0.0	0.3
ROE net	0.0	3.0
Net Interest Margin	1.9	1.8
Cost / Income Ratio	72.9	75.5
Net Loans / Deposits	93.2	103.8

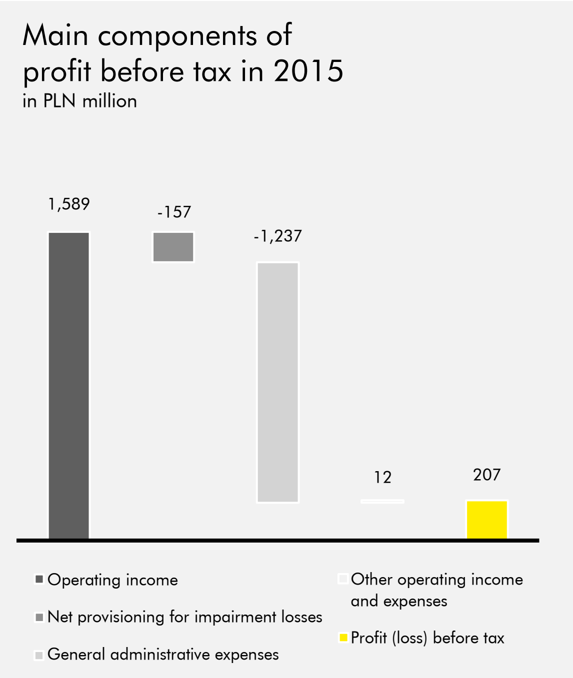
[1] Indicators are calculated according to the following formulas:
Net ROA – net profit /average assets;
Net ROE – net profit /average equity;
Net interest margin – net interest income/ average assets;
Cost to income – general administrative expenses, including depreciation (excl. tax on financial institutions) / operating income including other operating income and other operation expenses.

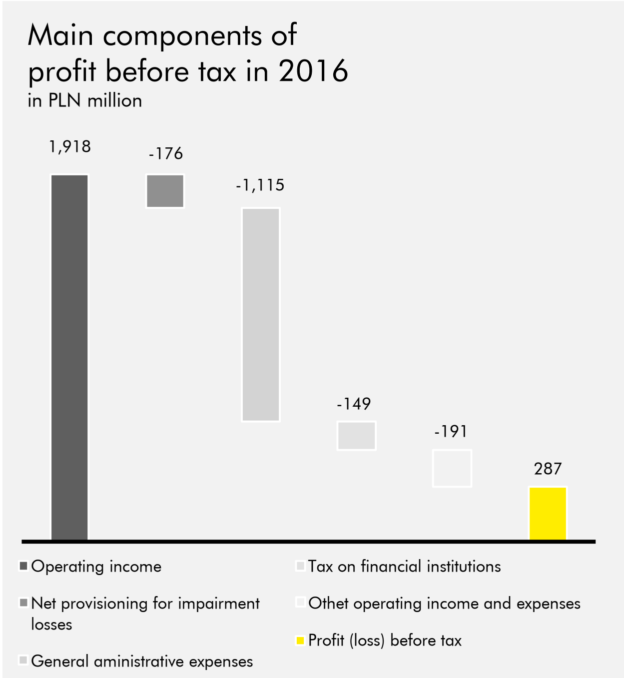
Due to the sale of RLPL shares, ROA net and ROE net ratios and net interest margin for 2016 are calculated as follows:
ROA net – net profit (loss) from continuing operations / assets at end of period;
ROE net - net profit (loss) from continuing operations / equity at end of period;
Net interest margin – net interest income (from continuing operations) / assets at end of period.
Cost / Income ratio – general administrative expenses, including depreciation (excl. tax on financial institutions) from continuing operations / operating income from continuing operations including other operating income and other operation expenses.

5. Financial standing of Raiffeisen Bank Polska S.A. in 2016

5.1. Profit and loss statement

In 2016, the Bank earned a net profit of PLN 162.8 million (against PLN 160.1 million in 2015), up PLN 2.7 million, or 1.7 per cent, year on year. Profit before tax was PLN 287.0 million in 2016, compared with PLN 207.0 million in 2015.





The main contributors to the Bank's net profit in 2016, which were not present a year earlier and were detailed described in Financial standing of the Group in chapter 4.1 of this Report:

- Payment of tax on assets of financial institutions of PLN 148.8 million for eleven months of 2016;
- Income of PLN 80.6 million from the settlement of the transaction acquisition of Visa Europe Limited by Visa Inc. resulting in the increase of net income from financial instruments measured at fair value and net foreign exchange result by 176.4 per cent year-on-year to PLN 109.5 million in 2016;
- PLN 75.9 million related to the disputed receivables regarding the corporate income tax settlements. This amount reduced the Bank's net profit for 2016 as follows: the principal amount of the identified additional tax liability, of PLN 57.2 million, was recognized under income tax, while late payment interest of PLN 18.7 million was posted to other operating expenses.
- Impairment charge of goodwill and Polbank's brand attributed to other operating expenses amounting to PLN 119.0 million.

Furthermore, a significant impact on the Bank's result had the transaction of disposal of the 100% shares in RLPL to RBI on 31 March 2016. Proceeds from sale of RLPL amounted to PLN 202.3 million (before tax) and were attributed to position Result on sale of shares in subsidiary. The consequence of transaction was lack of dividend from RLPL, that amounted to PLN 41.0 million in 2015.

Other contributors to the Bank's results in 2016 included:

- 8.9 per cent or PLN 83.3 million year-on-year increase in net interest income to PLN 1,018.2 million, mostly on lower interest expense (down by PLN 128.3 million, or 18.3 per cent) driven by a change in the structure of customer deposits and to their higher profitability;

- 2.5 per cent year-on-year increase in net fee and commission income to PLN 588.0 million, mainly due to increase in fee and commission income from investment and insurance products and lower fee and commission expenses from maintaining of retail accounts and from payment cards;
- 11.9 per cent (or PLN 18.7 million) year-on-year increase in net provisioning for impairment losses, mainly attributable to lower proceeds from sale of a non-performing loans portfolio in 2016 (PLN 12.8 million in 2016, compared with PLN 35.1 million in 2015). Excluding the effect of the sale of non-performing loans in 2015 and 2016, net provisioning for impairment losses fell by PLN 3.6 million or 1.8 per cent year on year, mostly on improved quality of the large enterprises' loan portfolio;
- 9.9 per cent, or PLN 122.2 million, reduction in general administrative expenses, achieved due to the continued cost-saving activities and lower additional contributions to the Bank Guarantee Fund and the Borrowers' Support Fund. Excluding the additional payments to the Bank Guarantee Fund, general administrative expenses were down 4.7 per cent, or PLN 55.1 million, year on year. The main factors impacting the cost base of the Bank were described in detail in the Financial situation of the Group in chapter 4.1.4 of this Report;
- Decrease of net other operating result (minus PLN 191.4 million in 2016, compared with net other operating income of PLN 12.1 million in 2015) due to impairment charges of fixed assets (goodwill in the amount of PLN 33.0 million and Polbank's brand in the amount of PLN 86.0 million), late payment interest from RBPL's income tax settlements (PLN 18.7 million), reimbursement to RBI of loss related to tax proceedings against RLPL started before the sale date of RLPL (PLN 12.9 million) and other cost related to process of optimizing the head office and branch network.

Selected items of the statement of profit or loss (in PLN thousand)	**For the financial year ended 31.12.2016**	**For the financial year ended 31.12.2015**	**Change**	
			PLN thousand	**%**
Interest income	1,589,348	1,634,379	-45,031	-2.8
Interest expense	-571,180	-699,488	128,308	-18.3
Net interest income	1,018,168	934,891	83,277	8.9
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-176,177	-157,428	-18,749	11.9
Fee and commission income	669,040	668,250	790	0.1
Fee and commission expense	-81,088	-94,420	13,332	-14.1
Net fee and commission income	587,952	573,830	14,122	2.5
Net income from financial instruments measured at fair value and net foreign exchange result	109,542	39,625	69,917	176.4
Dividend income	120	40,986	-40,866	-99.7
Result on sale of shares in subsidiary	202,313	0	202,313	-
General administrative expenses	-1,114,786	-1,236,937	122,151	-9.9
Other operating income and expenses	-191,387	12,067	-203 454	-
Tax on financial institutions	-148,776	0	-148, 776	-
Profit (loss) before tax	**286,969**	**207,033**	**79,936**	**38.6**
Income tax expense	-124,154	-46,959	-77,195	164.4
Net profit (loss)	**162,815**	**160,074**	**2,741**	**1.7**

5.2. Segments results

The Bank manages its business based on four operating segments: Corporate Banking, Retail Banking, Financial Institutions and Capital Markets, and Asset and Liability Management and Other Operations.

The main factors impacting the results of segments were detailed described in Financial situation of the Group in chapter 4.2 of hereby Report. In stand-alone presentation the main difference in comparison to consolidated data is placed in Asset and Liability Management and Other Operations. The stand-alone result of this segment increased by PLN 88.2 million and amounted to PLN 1.0 million in 2016 in comparison to a loss of PLN 87.2 million in 2015. The growth of pretax profit year-on-year was related to sale of 100 per cent of shares of RLPL and allocation of proceeds from this transaction to non-interest income of the segment. This positive impact was offset by negative impact of impairment of goodwill and Polbank's brand amounting to PLN 119.0 million that was attributed to other operating expenses in this segment.

Profit (loss) before tax and assets and liabilities by segment (PLN thousand)	**For the financial year ended 31.12.2016**				
	Corporate Banking	**Retail Banking**	**Financial Institutions and Capital Markets**	**Asset and Lliability Management and Other Operations**	**Total**
Interest Income	477,541	646,151	38,276	427,380	1,589,348
Interest Expense	-115,096	-289,734	-76,384	-89,965	-571,180
Interest Income (external)	362,445	356,417	-38,109	337,415	1,018,168
Interest Income (internal)	13,612	119,811	59,954	-193,377	0
Net Interest Income	376,057	476,228	21,845	144,037	1,018,168
Non-interest revenue	320,831	307,121	126,877	145,099	899,928
Operating Income	**696,888**	**783,350**	**148,722**	**289,136**	**1,918,096**
General administrative expenses	-298,070	-701,724	-50,335	-64,658	-1,114,786
there of: Depreciation	-18,932	-75,811	-3,432	-416	-98,591
Tax on financial institutions	-42,039	-66,073	-9,029	-31,636	-148,776
Provisioning for impairment losses	-56,096	-119,515	-106	-460	-176,177
Other operating result	0	0	0	-191,387	-191,387
Profit (loss) before tax	**300,683**	**-103,962**	**89,252**	**996**	**286,969**
	As at 31.12.2016				
Assets	**12,042,858**	**22,117,056**	**1,930,827**	**16,326,897**	**53,266,718**
Liabilites	**13,562,024**	**20,510,794**	**2,666,098**	**9,436,398**	**46,897,530**

Profit (loss) before tax and assets and liabilities by segment (PLN thousand)	**For the financial year ended 31.12.2015**				
	Corporate Banking	**Retail Banking**	**Financial Institutions and Capital Markets**	**Asset and Lliability Management and Other Operations**	**Total**
Interest Income	508,428	644,283	52,929	428,739	1,634,379
Interest Expense	-156,997	-342,823	-106,659	-93,010	-699,488
Interest Income (external)	351,431	301,460	-53,730	335,729	934,891
Interest Income (internal)	39,837	152,598	88,205	-280,639	0
Net Interest Income	391,268	454,059	34,475	55,090	934,891
Non-interest revenue	320,928	217,688	110,803	5,022	654,441
Operating Income	**712,196**	**671,747**	**145,278**	**60,112**	**1,589,332**
General administrative expenses	-298,454	-729,845	-52,737	-155,900	-1,236,937
there of: Depreciation	-30,156	-85,160	-6,169	-4,852	-126,337
Provisioning for impairment losses	-87,087	-67,287	463	-3,516	-157,428
Other operating result	0	0	0	12,067	12,067
Profit (loss) before tax	**326,654**	**-125,385**	**93,003**	**-87,238**	**207,033**
	As at 31.12.2015				
Assets	**12,291,473**	**21,854,254**	**3,256,651**	**17,681,958**	**56,168,703**
Liabilites	**14,844,293**	**19,385,642**	**4,994,107**	**10,171,358**	**49,920,942**

5.3. Statement of financial position

5.3.1. Assets

As at the end of 2016, the Bank's assets were PLN 53,267 million and decreased by PLN 2.9 billion, or 5.2 per cent, year on year. Loans and advances to customers remained the largest item, accounting for 63.6 per cent of the Bank's total assets (up by 3.6 percentage points year on year). Loans rose slightly (by PLN 0.2 billion, or 0.5 per cent) year on year driven by higher lending in Retail Banking. The increase, achieved on a higher balance of cash loans, compensated a decline in mortgage loans and lower lending volumes in Corporate Banking.

Assets (PLN million)	**As at 31.12.2016**	**As at 31.12.2015**	**Change**	
			PLN million	**%**
Cash and balances with the Central Bank	1,732	2,704	-972	-35.9
Amounts due from banks	315	1,204	-889	-73.8
Financial assets held for trading	8,047	12,570	-4,523	-36.0
Derivative financial instruments	467	562	-96	-17.0
Investments securities	7,948	3,827	4,121	107.7
Loans and advances to customers	33,868	33,689	179	0.5
Intangible assets	384	535	-151	-28.3
Fixed assets	118	125	-7	-5.5
Investments in subsidiaries	40	528	-487	-92.3
Other assets[1]	347	424	-77	-18.2
Total assets	**53,267**	**56,169**	**-2,902**	**-5.2**

[1] Including deferred income tax assets, current income tax receivables and other assets.

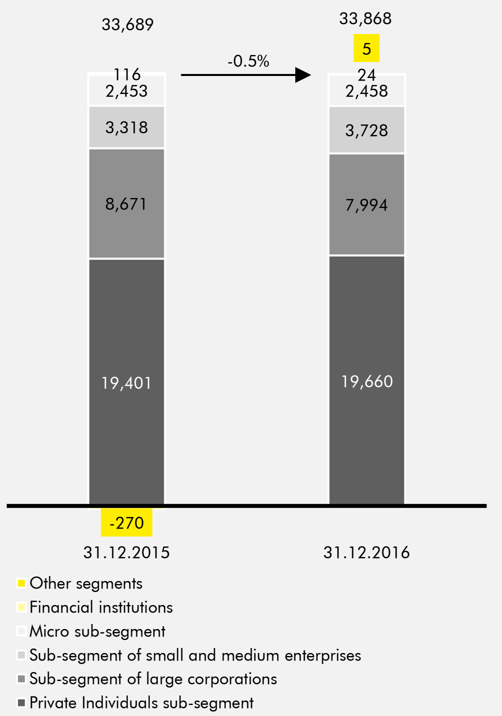
Changes in assets held for trading and investment securities followed the revision of the Bank's investment and liquidity management policies. The balance of financial assets held for trading fell by PLN 4.5 billion, while the balance of investment securities went up by PLN 4.1 billion. The total balance of these items as at the end of 2016 decreased by PLN 0.4 billion year on year.

Shares in subsidiaries decreased as a result of the disposal by the Bank of all shares in RLPL.

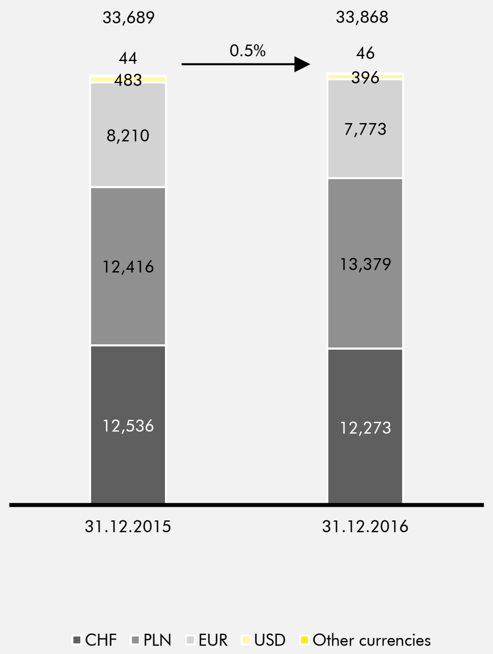
Changes in intangible assets were related to impairment of goodwill and brand of "Polbank".

Changes in cash and balances with the central bank and amounts due from banks were a result of ongoing liquidity management of the Bank as at the end of the reporting period.

Loans and advances to customers (net)
in PLN million



Loans and advances to customers (net)
in PLN million



5.3.2. Liabilities and equity

The Bank's liabilities as at the end of 2016 fell by PLN 3.0 billion, or 6.1 per cent, year on year, to PLN 46,898 million. Deposits from customers remained the main source of financing, although they decreased by PLN 2.4 billion, or 6.2 per cent, year on year, to PLN 36.4 billion. The share of customer deposits in total equity and liabilities shrank slightly – to 68.3 per cent, from 69.0 per cent in the previous year. Customer deposits fell in the Corporate Banking and Financial Institutions segments, with a rise in customer deposits reported in Retail Banking.

Amounts due to banks and other monetary institutions fell by PLN 503 million, or 6.3 per cent, vs. the end of 2015, to PLN 7,433 million. Their share in total equity and liabilities remained unchanged, at 14.0 per cent.

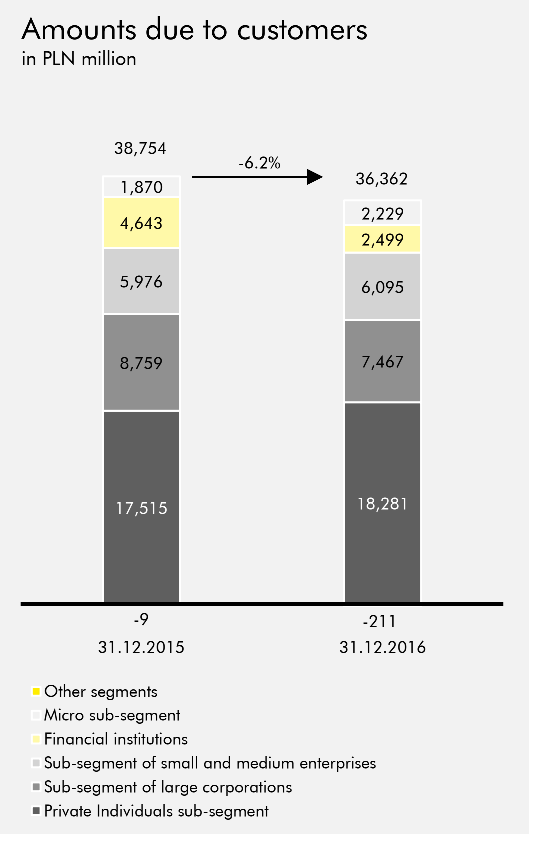
As at the end of 2016, subordinated liabilities were PLN 332 million, which represented a significant decline of 54.2 per cent relative to the end of 2015.

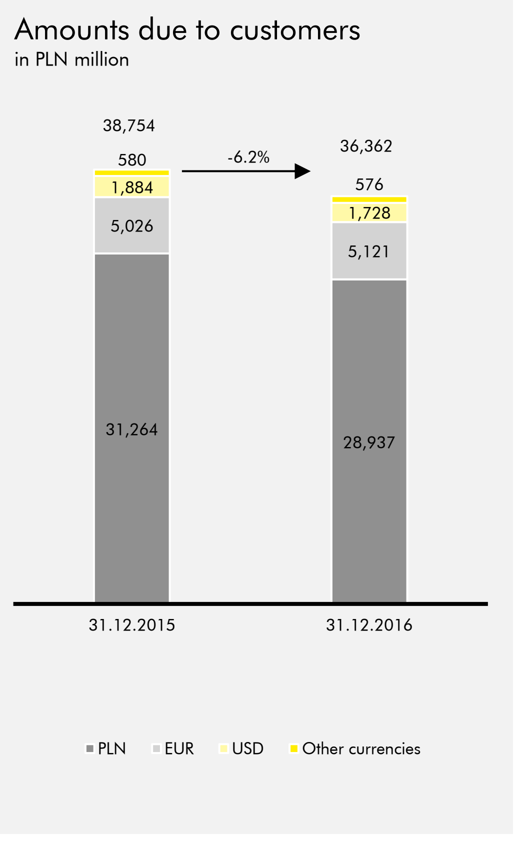
Equity as at the end of 2016 increased slightly in comparison to the end of the previous year, by PLN 121.4 million (or 1.9 per cent).

Liabilities and equity (PLN million)	As at 31.12.2016	As at 31.12.2015	Change	
			PLN million	%
Amounts due to banks and other monetary institutions	7,433	7,936	-503	-6.3
Derivative financial instruments	1,546	1,479	68	4.6
Amounts due to customers	36,362	38,754	-2,392	-6.2
Subordinated liabilities	332	725	-393	-54.2
Liabilities from debt securities issued	502	502	0	0.0
Other liabilities[1]	722	526	197	37.4

Liabilities and equity (PLN million)	As at 31.12.2016	As at 31.12.2015	Change	
			PLN million	%
Total liabilities	**46,898**	**49,921**	**-3,023**	**-6.1**
Total equity	**6,369**	**6,248**	**121**	**1.9**
Total liabilities and equity	**53,267**	**56,169**	**-2,902**	**-5.2**

[1] Including current income tax liabilities, provisions and other liabilities.





5.4. Key financial ratios

The following table presents the Bank's key financial ratios. In 2016, the Bank generated ROE of 2.6 per cent and ROA of 0.3 per cent. With higher operating income and lower overall costs, the Bank reduced its cost/income ratio to 64.6 per cent. Net interest margin increased to 1.9 per cent.

Selected financial ratios of the Bank[1] (%)	As at 31.12.2016	As at 31.12.2015
ROA net	0.3	0.3
ROE net	2.6	2.6
Net Interest Margin	1.9	1.7
Cost / Income Ratio	64.6	77.2
Net Loans / Deposits	93.2	86.9

[1] Indicators are calculated according to the following formulas:
Net ROA – net profit /average assets;
Net ROE – net profit /average equity;
Net interest margin – net interest income/ average assets;
Cost to income – general administrative expenses, including depreciation (excl. tax on financial institutions) / operating income including other operating income and other operation expenses.

6. Operations of Raiffeisen Bank Polska S.A. in 2016

6.1. Retail Banking

Retail Banking offers products and services for individual clients and microenterprises. The segment is divided into the following sub-segments: mass clients, affluent clients, private banking, and microenterprises.

In 2016, Raiffeisen Bank Polska continued to improve its financial advisory models and client service standards by focusing on affluent clients and private banking accounts. Measures were also taken to develop electronic banking channels and solutions enabling clients to use the Bank's products without visiting a branch. The third quarter of 2016 saw the deployment of a new e-banking system, also available on mobile devices. Client migration to the new system was completed in November 2016. Additionally, the Bank's distribution network was enhanced through partnership with several financial intermediaries with nationwide coverage.

The efforts undertaken to improve client service standards at branches and in remote channels (process streamlining, use of tablets to gauge clients' actual needs, etc.) gave the Bank high ratings in external service quality surveys. The Bank was ranked third in the main category – the Golden Bank – for service quality in the Golden Banker ranking table compiled jointly by Bankier.pl and the *Puls Biznesu* newspaper; seventh in "*Newsweek*'s Friendly Bank ranking"; and first in the "Client service quality at the outlets" in the third and fourth "Institution of the Year 2016" surveys carried out by the MojeBankowanie.pl website. In the latter survey, the Bank also climbed from the 18th to the 14th place in the "Remote Channels" ranking table.

At the end of 2016, the number of active Retail Banking clients was 748 thousand, having increased by almost 77 thousand (11.4 per cent) on the end of 2015.

6.1.1. Deposit products

Current and savings accounts

In March 2015, the Dream Personal Account (*Wymarzone Konto Osobiste*) was added to the offering as one of the Dream Package (*Pakiet Wymarzony*) products and was the main product aimed at acquiring new retail clients in 2016. Sales of the Dream Package were supported with nationwide marketing campaigns run from February to December 2016. The slogan of the Bank's autumn advertising campaign "What you need to actually have is style and things are just for using"(*Mieć trzeba styl, a z rzeczy korzystać*) is a direct reference to the philosophy of millennials, the target group of this marketing campaign.

As a result, 137.1 thousand Dream Personal Accounts were sold in 2016, of which 114.6 thousand accounts were opened for new clients. At the end of December 2016, the number of Dream Personal Accounts operated by the Bank was 365.5 thousand.

At the end of December 2016, the Bank maintained 759.4 thousand personal accounts for mass and affluent clients, having achieved a 9 per cent increase in the number of PLN-denominated personal accounts, and a 13 per cent increase in the number of on-demand EUR-, USD-, CHF-, and GBP-denominated accounts compared with the end of the previous year. Polish zloty-denominated deposits held in personal accounts of mass and affluent clients were PLN 2.6 billion at the end of 2016 (increase of almost PLN 800 million on the end of 2015), of which over 70 per cent were core deposits in Dream Personal Accounts.

Since the launch of this product, the clients who opened Dream Personal Accounts have been frequent users of electronic banking services – as at the end of December 2016, 95 per cent of them had access to the R-Online banking system, 71 per cent had active access to the Mobile Bank service, and as many as 96 per cent clients received bank statements in electronic form.

The main sales channel for the Dream Account in 2016 was the retail branch network (74 per cent), but clients also opened accounts using the automated online service, through the call center, at partner branches, and through financial intermediaries. Sales of personal accounts to mass and affluent clients through remote channels accounted for approximately 25 per cent of all new accounts opened in 2016. In terms of cost effectiveness, these channels represent an attractive alternative to the traditional branch distribution network.

Client acquisition efforts related to another 'Dream' line product – the Dream Goal Account (*Konto Wymarzony Cel*), with the interest structure designed to encourage clients to make regular savings – resulted in the Bank opening 65.0 thousand such accounts by the end of 2016, with the deposited funds totaling PLN 983.3 million.

2016 was also a period of aligning the Bank's procedures and documents, in particular regulations concerning banking accounts and product agreements, with amendments to applicable laws, including:

- ensuring the Bank's compliance, as of 1 July 2016, with amendments to the Banking Law pertaining to procedures to be followed with respect to dormant accounts, i.e. accounts whose holders died and inactive accounts;
- offering SEPA transfers, as required by Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012;
- implementing encryption of bank statements delivered to clients by email to comply with the PFSE recommendation on security of online payment transactions made by banks, national payment institutions, national electronic money institutions, and savings and loan cooperatives;
- taking measures required by the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Mandatory Restructuring, which included providing the Bank's clients with information sheets for depositors;
- adjusting the Bank's sales processes and related formal and legal internal regulations to the PFSA recommendations concerning rules for secure opening of bank accounts via account transfers from another bank.

Term deposits

The Bank's deposit management policy was aimed at increasing the volume of deposits (current accounts, savings accounts, and term deposits) and improving product margins. Total deposit product volumes rose 7 per cent year on year, with a significant change in the structure of deposits: the share of personal account deposits (whose balance grew 39 per cent) in total deposit products went up 7 percentage points, while the share of term deposits and savings accounts fell to 73 per cent at the end of 2016. To improve margins on term deposits, the Bank undertook extensive efforts and CRM (Customer Relationship Management) campaigns to optimize the management of maturing balances. The efforts included tailoring of the term deposit offering to clients' individual needs based on prior analyses and client segmentation.

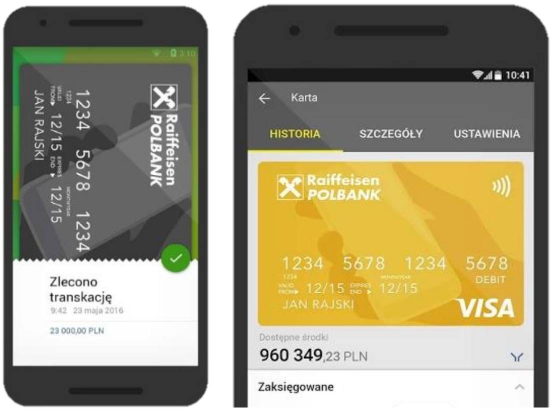
This policy proved effective in boosting the margin on deposit products in 2016, with savings accounts and term deposits contributing the most to the increase.

In the case of term deposits, clients showed the greatest interest in the R-Lokata deposit account for new Polish zloty funds and the Loyal Bank deposit account (*Lokata Lojalny Bank*) available as part of the Loyal Bank program for clients to whom Raiffeisen Polbank is their bank of choice and who elected to have their monthly remuneration transferred to accounts held with Raiffeisen Polbank. Mobile

Deposit (*Lokata Mobilna*) continued as one of the products with highest interest rates, and it was used as a tool for promoting mobile banking among users of electronic banking channels.

6.1.2. Debit and credit cards

In 2016, the Bank's activities in the area of payment cards focused on optimizing and adjusting the current model of its card business to the changing market conditions. The key element of the program was migration of the card handling services to First Data Polska and termination of payment card handling by the Bank. Debit cards were migrated in February 2016, and credit cards – in June 2016. The migration helped the Bank to substantially reduce operating costs by switching off internal card handling systems. The migration of the card processes to a single platform also enabled the Bank to expand its product offering: in 2016 the Bank implemented NFC (*Near Field Communication*) HCE (*Host Card Emulation*) mobile payments based on the new Mobile Wallet (*Mobilny Portfel*) application. By the end of 2016, the Bank had issued 2.1 thousand HCE cards.



The Bank also actively engaged in initiatives to issue new cards via new distribution channels, such as the call center, and to develop the card business in the existing channels, i.e., branches, telemarketing and the Internet. These initiatives included promotion of the Bank cards' usability and transactability. The Bank achieved a 17 per cent year-on-year growth in the total value of payment card transactions at points of sale (retail debit and credit cards). The Bank also focused on promoting online transactability – in particular based on the MasterPass digital wallet implemented jointly with MasterCard and through promotional offers designed to drive e-commerce payments; these efforts led to an almost 23 per cent year-on-year growth in the value of online payment transactions.

There was also an increase in the number of payment (debit and credit) cards issued. At the end of 2016, the Bank had 634.5 thousand cards, 9 per cent more compared with the previous year. This improvement was mainly a result of the effective strategy of selling new products, especially the Dream Account and the associated debit card.

6.1.3. Lending products

Mortgage loans

Mortgage lending represents a material share of the Bank's balance sheet. As at the end of 2016, the net on-balance-sheet exposure to individual clients was PLN 16.8 billion, accounting for more than 85 per cent of net loans advanced to this client group.

In 2016, the Bank continued its selective policy in new mortgage lending and focused on implementing those policy provisions which applied to the portfolio as a whole and were aimed at supporting mortgage borrowers in financial distress. In this area, the Bank also continued activities targeted at borrowers with loans indexed to and denominated in the Swiss franc as part of the 'six-pack' developed together with the Polish Bank Association ("ZBP" – *Związek Banków Polskich*) and other banks.

Consumer loans

In 2016, the Bank recorded a substantial growth in sales of consumer loans. The main focus was on the distribution of Custom-Made Loans (*Kredyt na Miarę* cash loan), with the sales of this product going up by 24 per cent year on year. This strong sales performance was achieved through:

- credit tests and modification of the lending policy;

- further automation of the lending process, which reduced the average time to decision and disbursement of funds, and increased the number of automated credit decisions;
- continued availability of preferential credit terms for clients opening the Dream Personal Account;
- launch of new sales campaigns, such as *Dany Kesz*,
- intensification of CRM campaigns targeted at the Bank's clients;
- expanded cooperation with such distribution channels as local and national intermediaries, franchising;
- modification of the pricing policy and strategy for the marketed products; and
- changes in the incentive systems for particular distribution channels.

As at the end of 2016, the portfolio of consumer loans (i.e., Custom-Made Loan, personal account overdraft limit, and Safe Loan (*Kredyt bezpieczny*)) to mass and affluent clients was PLN 2.5 billion, up 21 per cent year on year.

6.1.4. Insurance products

In 2016, the Bank began to offer insurance products that represent unique solutions on the Polish market, addressed to mass and affluent clients as well as to microenterprises. The following insurance products were added to the offering:

- the One Million Protection (*Ochrona na Milion*) life insurance with the sum insured of PLN 1 million, which is above market standard;
- the Health Protection (*Zdrowie pod Ochroną*) health insurance, providing clients with access to private medical care services at more than one thousand modern medical centers across Poland;
- the No Loss Business (*Firma bez Strat*) insurance against loss of profit due to unforeseen circumstances, designed for microenterprises.

Moreover, thanks to the implementation of an innovative Payment Protection Insurance (PPI) solution for cash loans (where the cost of insurance premium is separated from the gross cost of the loan, and therefore the client's creditworthiness is not affected), as much as 40 per cent of new retail loans were covered with PPI policies.

6.1.5. Investment products

In 2016, the Bank continued to sell funds marketed under the Raiffeisen brand but managed by a third-party manager (white label funds). The Raiffeisen Specjalistyczny Fundusz Inwestycyjny Otwarty ("SFIO") Umbrella Fund consisted of four sub-funds with different investment strategies and risk levels. The Raiffeisen SFIO sub-funds are managed by ALTUS Towarzystwo Funduszy Inwestycyjnych.

At the end of 2016, the assets' value of Raiffeisen SFIO Parasolowy umbrella fund together with the offered FWR Selektywny closed-end fund was PLN 1.1 billion, which represented an almost 100 per cent increase year-on-year. The structure of assets by sub-funds is presented below:

Structure of investment fund assets distributed by the Bank (PLN million) **Fund**	**Asset manager**	**Assets as of 31.12.2016**	**Assets as of 31.12.2015**
Raiffeisen SFIO Parasolowy			
Raiffeisen Aktywnego Oszczędzania	Altus TFI S.A.	123	113.9
Raiffeisen Aktywnych Strategii Dłużnych	Altus TFI S.A.	95.2	43.4
Raiffeisen Globalnych Możliwości	Altus TFI S.A.	70.3	15.1
Raiffeisen Aktywnego Inwestowania	Altus TFI S.A.	858.9	386.5
FWR Selektywny FIZ	Altus TFI S.A.	12	26.3
Funds total		**1,147.7**	**585.2**

The Bank continued to offer, on a subscription basis, investment deposits and structured insurance products, as well as structured certificates issued on the primary market by Raiffeisen Centrobank AG ("RCB"). In 2016, seven subscriptions for structured insurance products were launched jointly with TU Warta S.A., for a total of PLN 66.1 million; 38 subscriptions for investment deposits totaling PLN 1.1 billion; and 30 subscriptions for structured certificates totaling PLN 295.6 million.

Retail Banking clients are also offered life insurance products. In the second half of 2016, the Bank joined forces with UNIQA TU to launch a new unit-linked life insurance product marketed as Unique Strategies (*Uniqatowe Strategie*), which enjoys significant interest among the Bank's clients. In 2016, sales of insurance and investment products reached PLN 897.6 million, up 170 per cent on the previous year.

The Retail Banking segment reported a rise in investment assets (funds invested in the Bank's and its partners' investment products) by 23 per cent year on year, that is by PLN 895.4 million net, to PLN 4.9 billion at the end of 2016.

6.1.6. Brokerage activities

In 2016, Raiffeisen Brokers continued to offer structured products of RCB, a leading issuer of certificates traded on the Warsaw Stock Exchange. The value of structured certificates sold in public offerings during the reporting period was PLN 295.6 million.

The number of investment accounts maintained by Raiffeisen Brokers rose by more than 30 per cent year on year, to over 15 thousand at the end of 2016.

6.1.7. Friedrich Wilhelm Raiffeisen Private Banking

Friedrich Wilhelm Raiffeisen Private Banking ("FWR") is offered to clients with assets in excess of PLN 1 million. 2016 saw a generous rise in FWR clients' assets (funds invested in deposit and/or investment products), resulting from transfers of funds by both the existing and new clients. As at the end of 2016, client assets were PLN 7.8 billion, up 7 per cent year-on-year. At the same time, client assets placed in investment products rose by 27 per cent (PLN 497.2 million net).

In 2016, cooperation was established with further investment fund companies, i.e., Opoka TFI and Capital Partners (as an alternative to private equity), and a new version of the FWR Optimal Portfolio 2 (FWR Optymalny Portfel 2), developed jointly with TU Europa, was launched. FWR continued as an active distributor of structured certificates issued by Raiffeisen Centrobank AG, including USD-denominated instruments.

For the fourth consecutive time, FWR Private Banking received the highest, five-star rating in the *Forbes*' Polish private banking league table. This top rating was awarded for professional investment advisory services and consistent offering of innovative investment and wealth succession solutions, as well as for an innovative approach to individual investment strategies, combined with the FWR tradition and standards.

6.1.8. Microenterprises

In 2016, the Bank acquired 17.6 thousand microenterprises as new clients. This result was supported by the addition of new and unique functionalities and client benefits to the Dream Business Account (*Wymarzone Konto dla Biznesu*), which is the key product used as a tool to acquire clients in this sub-segment. The Bank also launched a wide campaign to promote the Dream Business Account among house-owner associations and housing cooperatives through such initiatives as participation in a number of conferences for property managers. The Bank's offering for this client group was supplemented by attractive home insurance plans for members of house-owner associations and housing cooperatives, offered by UNIQA Towarzystwo Ubezpieczeń S.A. As a result, 17.7 thousand Dream Business Accounts were sold in 2016, of which 17 thousand were opened for new clients. At the end of December 2016, the Bank had 47.8 thousand Dream Business Accounts.

The business development efforts undertaken in 2016 helped the Bank to increase the volume of deposits from PLN 1.9 billion to PLN 2.2 billion (19 per cent year on year). The increase was largely driven by current accounts, whose balance rose by 21 per cent year on year (from PLN 1.1 billion to PLN 1.4 billion). The volume funds in clearing and investment accounts rose by 22 per cent year on year, to PLN 534.8 million, while term deposit grew by 7 per cent year on year (to PLN 336.0 million at the end of 2016). There was also an improvement in margins on clearing and investment accounts and term deposits.

There was an increase in the number of non-cash card transactions in the microenterprise sub-segment, which generated higher interchange income.

In 2016, in partnership with Raiffeisen-Leasing Polska S.A., the Bank prepared a product offer for clients entering into new financing agreements with RLPL: they were offered a business account with a PLN 600 bonus, and an overdraft facility or Business Credit Card (*Karta Kredytowa dla Biznesu*) without any proof of income. During the year, the product attracted 2.7 thousand new clients for the Bank. In the second half of 2016, also in cooperation with RLPL, the Bank launched Dream Car (*Wymarzone Auto*), a pilot product for businesses and individual clients whereby new cars could be leased on attractive price terms for 12 to 36 months. The product is unique on the Polish market and has enjoyed growing interest, with over 100 lease agreements already signed (also with Bank employees). The Dream Car program will be continued in 2017 as a permanent feature of the 'Dream' product line. Following Raiffeisen Bank International AG's decision to sell Raiffeisen-Leasing Polska S.A., the Bank has decided to initiate cooperation with new business partners.

In 2016, the strongest growth in microenterprise lending was seen in working capital facilities backed with *de minimis* guarantees from Bank Gospodarstwa Krajowego (up 88 per cent year on year), unsecured working capital facilities (up 81 per cent year on year), and unsecured credit line facilities (up 34 per cent year on year). The growth was achieved in parallel with improvements in the lending process, with the average time to cash disbursement shortened to 10 days for unsecured loans and to 15 days for secured loans. The key contributing factors included:

- development of the Bank's offering, including changes in the small ticket products' range and launch of financing for house-owner associations;
- changes in the lending policy which added to the attractiveness of the Bank's offering;
- closer cooperation with local and nationwide financial intermediaries and the franchise network;
- modification of the incentive system for the distribution channels; and
- intensification of marketing efforts targeted at the Bank's existing clients.

With the EVO Group (operating in Poland under the Revo brand) as its strategic partner, the Bank worked on expanding its terminal and card acceptance business by offering clients (microenterprises and Corporate Banking clients) state-of-the-art payment solutions available on the global payment systems market. Since the beginning of 2016, Revo terminals have been available at the Bank's branch network. Throughout 2016, the Bank signed almost 1.6 thousand terminal agreements in the microenterprise segment, which represented a 200 per cent increase on the previous year.

6.2. Corporate Banking

Corporate Banking products and services are marketed to enterprises and other entities, including companies and co-operatives, non-commercial institutions, public sector entities and sole traders who do not meet the classification criteria for the microenterprises category. The segment is divided into sub-segments of Large, Medium-Sized and Small Enterprises.

To further improve the quality of services offered to Corporate Banking clients, including in particular small and medium-sized enterprises – always a priority area in the Bank's growth strategy, as of 1 March 2016 the Bank changed the organizational structure and management of the Corporate Banking sub-segments. The client classification criteria for the Medium-Sized and Large Enterprises sub-segments were also changed. The changes involved:

- Separation of the Small Enterprises sub-segment from the former seven Corporate Centers and creation of three Small Enterprises Banking Macro-Regions;
- Consolidation of management structures for Medium-Sized and Large Enterprises at the former seven Corporate Centers and transforming them into six Corporate Banking Macro-Regions – the Eastern Corporate Center (Lublin) was incorporated into the Central Corporate Banking Macro-Region (Warsaw);
- Change of a classification criterion – the annual revenue threshold based on which clients were classified as Large Enterprises or Medium-Sized Enterprises was raised from PLN 100 million to PLN 200 million, for new clients only. The aim was to increase focus and intensify efforts designed to improve service quality and extend cooperation with companies with revenues ranging from PLN 100 million to PLN 200 million, as the Bank considers this client group as the one offering considerable potential for growth of the banking business.

In the sub-segment of Small Enterprises, i.e., companies with annual revenues from PLN 4 million to PLN 25 million, the Bank continued its business development strategy started in 2015 and sought to ensure high quality of business with and services for the existing clients while engaging in intensive client acquisition efforts to expand its customer base and volumes of assets and liabilities. As part of these initiatives, the Bank launched preferential factoring limits' sale to the existing lending clients, with simplified approval criteria, and started a pilot project whereby small overdraft limits were offered to selected Bank's clients. To make its offering more attractive to new clients, the Bank prepared a special trade finance solution for exporters and importers.

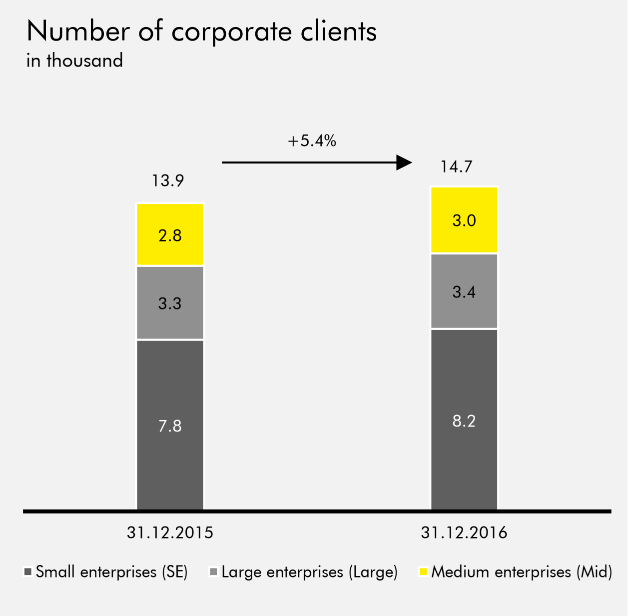
The Bank also continued to market PLUS non-recourse factoring which, being an innovative factoring solution allowing clients to increase sales and eliminate counterparty risk, has enjoyed significant interest and represents an attractive part of the Bank's offering.

Throughout 2016, the Bank was also focused on improving the quality and appeal of its offering addressed to the Small Enterprises sub-segment. In October 2016, the Bank launched the Business Plus Package (*Pakiet Biznes Plus*), which combines the features of a business account with a revolving credit facility of PLN 50, 100 or 200 thousand and a comprehensive suite of transaction services facilitating day-to-day operations. The package is offered for a single, attractive monthly fee (without any commission or interest charged on the credit facility). The product's stand-out features include very limited formal requirements, no required security, expedited scoring-based credit decision and disbursement (up to 3 days since submission of the application), possibility to renew the credit for subsequent 12-month-periods.

6.2.1. Client base growth

In 2016, in line with its strategy, the Bank focused on expanding its client base as a platform for further development of the banking business and increasing the product-per-client ratio. To that end, the Bank intensified acquisition efforts to increase the number of new clients, and took steps to improve quality of business with the existing clients to reduce attrition. These initiatives produced the desired results, with the Bank increasing its client base in each month of 2016. As at the end of 2016, the Bank had 14.7 thousand corporate clients, up 5.4 per cent, or nearly 800 customers, year on year.

By business sub-segments, the corporate client base comprised 3.4 thousand large companies, 3.0 thousand medium-sized companies, and 8.2 thousand small businesses. Last year, medium-sized enterprises were the fastest growing sub-segment, with over 200 new accounts added to the client base (up 6.8 per cent).

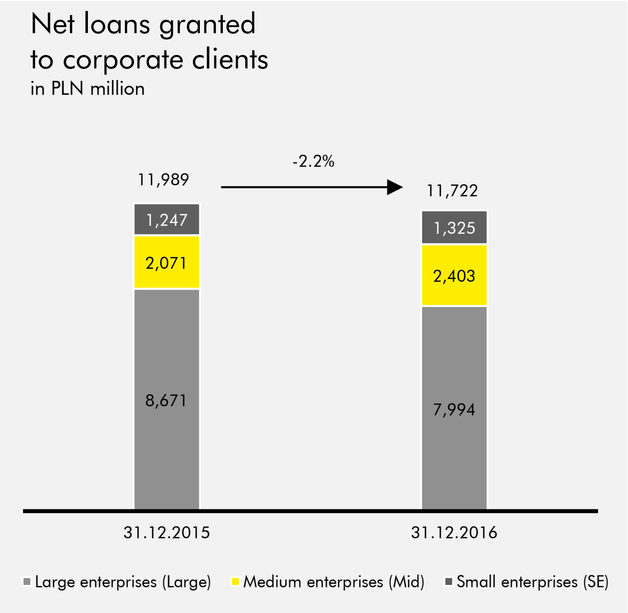


Clients by segment:
SE – clients with annual turnover from PLN 4 million to PLN 25 million
Mid – clients with annual turnover from PLN 25 million to PLN 100/200 million
Large – clients with annual turnover over PLN 100/200 million

The growth of Raiffeisen Polbank's corporate client base was an effect of the Bank focusing on client satisfaction and improving internal processes and product mix based on received feedback. Every six months, the Bank gauges corporate clients' satisfaction based on the Net Promoter Score (NPS) methodology, using telephone surveys carried out by a third party. In the most recent survey conducted in June 2016, NPS among corporate clients stood at 32 points, with the Business Service Zone receiving the highest score of 86 points.

6.2.2. Lending activity

In 2016, the Bank's lending activity was driven by the trends which started in 2015, i.e., decline in new lending to large enterprises, and strong growth in loans to small and medium-sized enterprises. As at the end of 2016, the volume of net corporate loans fell by PLN 267.5 million, or 2.2 per cent, to PLN 11.7.



In the Large Enterprises sub-segment, the volume of net loans declined by PLN 677 million, or 7.8 per cent, compared with December 2015, which was mostly attributable to: early repayment of large credit exposures related to investment project financing, particularly in the first half of 2016; slower growth in new loans in the second half of 2016; and lower drawdowns under working capital facilities in the last days of 2016.

In the SME segments, in 2016 net loans granted to clients grew rapidly, to PLN 3.7 billion at the end of December, up 12.3 per cent (PLN 409.7 million) year on year. Of that amount, new lending to medium-sized enterprises represented PLN 331.9 million (up 16 per cent on December 2015), and the balance of PLN 77.8 million was attributable to growth in loans to small enterprises (up 6.2 per cent on December 2015).

Such significant growth in lending to small and medium-sized businesses was driven, on the one hand, by the Bank's successful implementation of its strategy of gradual expansion in the SME segment. On the other hand, the lending growth was also supported by the Bank's continuous efforts in the following areas: sales, product development, and internal processes where efforts were focused on ensuring a more specialized approach, reducing delivery times, and offering solutions more closely tailored to the clients' needs, especially in the SME sub-segment.

The net loans to deposit ratio in Corporate Banking was 86.4 per cent as at the end of December 2016, up 5.0 percentage points year on year.

In 2016, the Bank continued as an active provider of loans secured with the *de minimis* guarantees available under the government liquidity-support scheme for micro-, small- and medium-sized enterprises. From March 2013 to the end of 2016, the Bank used nearly 5.4 thousand guarantees, worth PLN 1.1 billion, to secure loans granted to its clients. In terms of the amount of limit used under the *de minimis* guarantee, Raiffeisen Polbank ranked 11th among the 20 lending banks that had signed cooperation agreements with Bank Gospodarstwa Krajowego. As at the end of 2016, the Bank had over 3.3 thousand loans, totaling PLN 528.8 million (with the initial principal amount of PLN 836.9 million), secured with *de minimis* guarantees worth nearly PLN 316.3 million (initially, PLN 504.2 million). Five hundred of these loans, with the initial principal amount of PLN 350.3 million and secured with *de minimis* guarantees worth PLN 209.3 million, were granted to Corporate Banking clients. The remaining 2.8 thousand loans, with the initial principal of PLN 486.6 million, were granted to microenterprises (in the Retail Banking segment) and were secured with *de minimis* guarantees worth PLN 294.9 million.

In February 2016, the Bank began to offer a free-of-charge repayment guarantee for loans granted to innovative businesses as part of the Innovative Economy Operational Programme Guarantee Fund ("IEOP GF"). By the end of 2016, Raiffeisen Polbank granted nine loans, totaling PLN 8.9 million, secured with IEOP GF guarantees worth PLN 5.3 million, which represented 53 per cent of the limit the Bank had received for IEOP GF guarantees.

6.2.3. Trade finance services

As part of its trade finance services for corporate clients, in 2016 the Bank issued 5.8 thousand guarantees totaling PLN 1.9 billion. As at the end of 2016, its exposure under such guarantees was slightly higher year on year. Based on data for 2016, Raiffeisen Polbank came fourth in the Polish Bank Association's ranking of largest guarantee providers in Poland, with a market share (measured by the number of guarantees) of 11.3 per cent.

In July 2016, the Bank engaged GFK Polonia to conduct *Voice of the Customer* survey to evaluate clients' satisfaction with trade finance guarantees. The survey showed that 91 per cent of the companies were either satisfied or very satisfied with the service, which attests to Raiffeisen Polbank's strong position on the bank guarantee market.

In 2016, the Bank issued and advised nearly 2.3 thousand letters of credit for a total amount of PLN 1.9 billion. In 2016, the Bank ranked second among the ten banks reporting to the Polish Bank Association as regards the value of import letters of credit issued, and second as regards the number of advised export letters of credit. Letters of credit issued and advised by the Bank in 2016 accounted for 16.8 per cent of the value and 15 per cent of the number of all issued and advised letters of credit covered in the ZBP ranking.

The Bank also surveyed customers' satisfaction with its letter of credit services. In August 2016, Ipsos, a market research company, measured customer satisfaction with the service and Net Promoter Score for letters of credit on behalf of the Bank. NPS results of 72 for the service as a whole and 87 for one of the officers from the letter of credit team prove the high service quality and the Bank's specialized approach to documentary letters of credit.

6.2.4. Factoring

In 2016, the Bank was the preferred provider of factoring solutions to Polish businesses – at the end of December 2016, 26 per cent of factoring clients in Poland used the Bank's services. In the whole of 2016, total factoring turnover was PLN 18.3 billion (2 per cent increase year on year), placing the Bank third among members of the Polish Factors Association.

The Bank continues to improve the quality of its factoring offering. In the second quarter of 2016, the Bank launched an innovative reverse factoring solution marketed as Dynamic Limits. It features the advantages of reverse factoring with trade receivables used as security, which enables clients to obtain higher limits of reverse factoring without having to provide additional security. All processes relating to the solution are handled electronically.

In 2016, the Bank focused on acquiring clients in the Small Enterprises sub-segment. These efforts led to a 12 per cent year-on-year increase in operating income from factoring services in this client group.

6.2.5. Transaction banking

In the transaction banking business, in 2016 the Bank was concentrated on the Small and Medium-Sized Enterprises sub-segments. Thanks to the improvements implemented in 2015 and the launch of a new product suite, marketed as Capital Package (*Pakiet Kapitalny*)and targeted at companies with annual revenues ranging from PLN 4 million to PLN 10 million, the Bank attracted a record-high number of new clients. In the first six months of the year, close to 240 new clients used the Capital Package.

In the second half of 2016, the Bank launched the Business Plus Package (*Pakiet Biznes Plus*), the only solution on the Polish market addressed to small companies to combine a package of transaction services with an interest-free overdraft facility. The launch was supported with a marketing campaign.

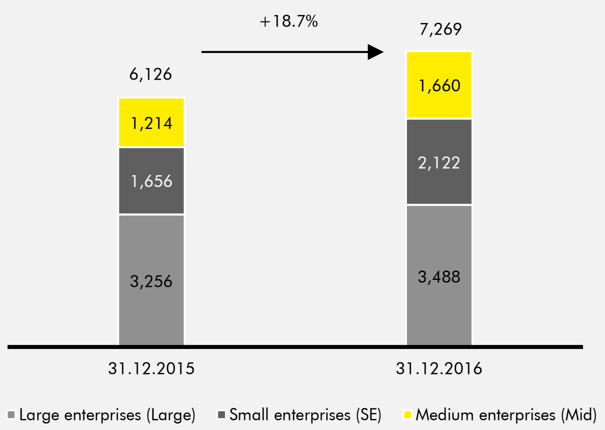
The Bank also started to offer accounts denominated in exotic currencies, including the United Arab Emirates dirham (AED), the Saudi riyal (SAR), and the Serbian dinar (RSD).

In the face of the changing legal environment, clients' growing needs, and the rapidly expanding payments settlement business, the Bank made major changes in how it processes transfers. In the first quarter of 2016, as a direct participant of TARGET2 it began to settle euro-denominated transactions in real time. In the third quarter of 2016, it joined the group of institutions processing euro-denominated payments (SEPA) via the EuroElixir system. However, the most significant improvement for corporate clients was the launch of SEPA transfers based on the new XML ISO20022 format. At the same time, the Bank made significant strides in developing its electronic banking systems: R-Online Biznes, R-Connect and Multicash, which now support not only SEPA transfers fully compliant with the new requirements, but also standing orders. As a result, clients can now manage their standing orders by themselves, and the flexibility and non-standard functionalities offered by the product enable them to use standing orders in settlements in a variety of ways, e.g. with delegation cards.

In the domestic payments area, the Bank made changes that led to efficiency improvements and introduction of new mass payment solutions in transaction banking systems for corporate clients.

All these developments in the transaction banking area contributed to a strong growth in the volume of transactions made by the Bank's clients and in the clients' account balances.

Current account deposits of corporate clients
in PLN million



As at the end of 2016, the volume of funds in corporate client accounts was PLN 7.3 billion, having increased 1.7 per cent year on year. The highest year-on-year growth was recorded in volumes held in the accounts of Medium-Sized and Small Enterprises, up 36.7 per cent and 28.1 per cent year on year, respectively. In the Large Enterprises sub-segment, the volumes grew by 7.1 per cent year on year.

During the year, the average aggregate balance of funds in clients' accounts was PLN 6 billion, up 19.5 per cent on 2015. The most pronounced growth of 42 per cent year on year was seen in the Medium-Sized Enterprises sub-segment.

6.2.6. Treasury banking and deposits

In 2016, the Bank offered FX spot, FX forward, FX option, and IRS products to corporate clients. The number of clients actively using the treasury products increased by 1.4 per cent year on year.

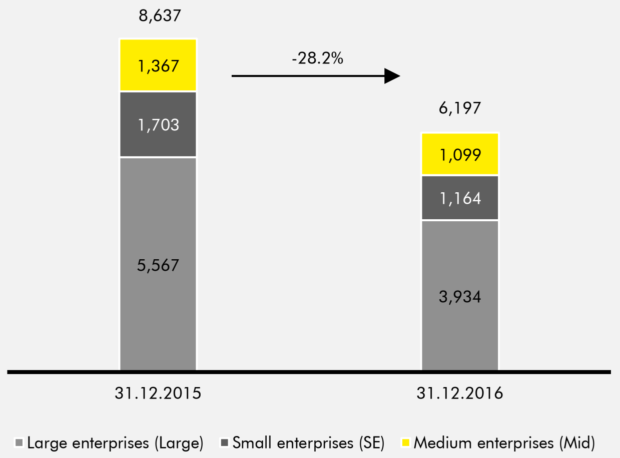
The total volume of FX transactions in 2016 was on a par with 2015. However, due to strong competition from other banks and a growing number of online currency exchange services, the Bank's revenues from FX transactions declined by 9 per cent year on year.

One of the delivery channels used for FX spot transactions is the R-Dealer transaction platform. For SMEs, it was the main channel for entering into FX spot contracts. In 2016, 85 per cent of all such transactions were handled using this tool.

The Bank's currency dealers and derivative transaction experts supported the clients in hedging their currency positions with the use of derivative instruments offered by the Bank. In 2016, the Bank's result from FX risk hedges was 18 per cent higher relative to 2015, and the number of clients actively using the derivative transactions went up by 9 per cent year on year. FX forwards was the most popular product, with the Bank's result from these transactions rising 11 per cent year on year. Clients also used currency options, which in 2016 delivered a result 28 per cent higher than in 2015.

In 2016, the Bank offered structured deposits — a Dual Currency Deposit (*Lokata Dwuwalutowa*) and Investment Deposit (*Lokata Inwestycyjna*). As at the end of 2016, the total corporate term deposits' value was PLN 6.2 billion, 28.2 per cent less compared with the end of 2015.

Term deposits
of corporate clients
in PLN million



6.2.7. Investment banking

In 2016, the Bank continued to develop its investment banking business. Clients were offered M&A, debt, and equity finance advisory services.

In 2016, the Bank was involved in several debt issues (notes, bonds and commercial paper), including for:

- Polsteam Shipping Company Ltd. – USD 100 million bond issue (Arranger, Paying Agent, Depositary and Dealer);
- INTEGER.PL S.A. – PLN 20 million bond issue (Arranger and Dealer);
- BBI Development S.A. – PLN 22 million bond issue (Arranger and Dealer);
- Magellan S.A. – PLN 37 million note issue (Arranger, Paying Agent, Depositary and Dealer);
- PGO S.A. – PLN 42.2 million bond issue (Arranger and Dealer);
- ATAL S.A. – PLN 140 million bond issue (Arranger and Dealer);
- Raiffeisen-Leasing Polska S.A. – PLN 300 million bond issue (Arranger and Dealer);
- MCI Capital S.A. – PLN 75.2 million bond issue (Arranger and Dealer).

The total value of debt instrument transactions handled by the Bank in 2016 was nearly PLN 1.5 billion. As at the end of 2016, the total nominal value of outstanding debt securities of corporate issuers, banks and local government units, issued with the Bank's assistance, was close to PLN 3 billion, including approximately PLN 610 million in short-term securities.

6.3. Financial Institutions and Capital Markets

In line with its strategy, the Bank was an active player on the domestic financial market, acting as an intermediary in FX, derivative and bond trading. The Bank is a market maker on the electronic bond trading platform BondSpot, and is aspiring to be the Treasury Securities Dealer. As a system bank, Raiffeisen Bank Polska is a money market dealer and a WIBOR contributor.

In 2016, in the performance of the recommendation issued by the Polish Financial Supervision Authority with respect to EMIR (European Market Infrastructure Regulation), the Bank implemented a solution for settlement of FX interest rate derivative transactions (IRS, FRA, OIS). To this end, it partnered with Commerzbank Frankfurt, which is to act as a clearing broker for the Bank in the settlement of derivative transactions with the London Clearing House. These arrangements will help the Bank perform its obligations under EMIR, improve risk parameters of its transactions, and gain wider access to international financial markets.

Moreover, the Bank is an active market maker for local FX swaps and other interest-rate derivatives. In an analysis of the activity of 15 candidates to act as money market dealers, covering the period from 1 November 2015 to 30 September 2016, the Bank's ranking positions were as follows:

- PLN FX swaps – 3rd position;
- FRA and IRS transactions – 8th position;
- OIS transactions – 5th position.

In its services to financial institutions, the Bank focuses on two client segments: banks and non-bank financial institutions. To develop its cash trading business, in early 2016 the Bank also started to actively offer its services to traditional currency exchange offices.

As a provider of custodian services, the Bank remained the market leader, both as regards the number of investment funds using its services and the value of assets held for closed-end investment funds. At the same time, the Bank continued to expand its services for open-end investment funds. The number of clients using its account and investment fund valuation services grew from 289 in 2015, to 341 in 2016.

The Bank also worked to further develop its paying agent services for foreign open-end investment funds, and – with a market share of 53 per cent (PFSA data as at the end of 2016) – was the market leader.

6.4. Awards

In 2016, the Bank received the following prestigious titles and awards:

- Golden Bank, in recognition of top service quality , in the Golden Banker competition (3rd place in the main category);
- Client's Laurel 2016 in the 12th edition of a nationwide poll on product and service popularity, conducted by the *Gazeta Wyborcza* daily (category: factoring services);
- Golden Bank – 2nd place in the cash loan category;
- Golden Bank – 3rd place in the credit card category;
- Golden Columns – awarded to *Connect* as the best electronic magazine for employees in the 'Columns of the Year' competition;
- Top Employers Poland 2016 title (received for the third time);
- 10th place in monthly *Forbes* "Best Bank for Business 2016 ranking";
- "Newsweek's Friendly Bank" - 7th place in the Bank for the Average Joe category.

7. Operations of Raiffeisen Solutions Sp. z o. o. in 2016

Raiffeisen Solutions sp. z o.o., a company wholly-owned by the Bank, holds one of the most advanced currency exchange and money transfer tools on the market, launched in November 2015 under the name RKantor.com.

In 2016, Raiffeisen Solutions focused on expanding its client base and developing the product offering available through RKantor.com. Dynamic growth of the number of clients (up 346 per cent year on year, to 8 thousand as at the end of 2016) was reflected in increased FX trading levels, reaching up to EUR 2 million daily. The company introduced new solutions, such as the Deferred Payment Exchange (*Wymiana z Odroczoną Wpłatą*) product offering the possibility of settling a currency exchange transaction within two business days of its execution, and extended the exchanged currencies range.

RKantor.com seeks to secure the leading position in online currency exchange in Poland by building a stable client base and offering unique currency exchange and money transfer solutions.

8. Operations of Raiffeisen TFI S.A. in 2016 r.

Raiffeisen TFI S.A., a fund management company focusing on the management and distribution of investment funds, was registered in the fourth quarter of 2015. In December 2015, an application was filed for the Polish Financial Supervision Authority's authorisation for Raiffeisen TFI S.A.'s operations. In mid-2016, in connection with amendments to regulations on investment funds, the scope of the application was extended to cover an authorisation for the management of alternative investment funds.

9. Development of organization and infrastructure of Raiffeisen Bank Polska S.A. Capital Group in 2016

9.1. IT and operations of the Bank

One of major IT-related challenges in 2016 was to ensure that the changes in the Bank's organizational structure, effective as of 1 December 2015, were properly reflected in its operating model. As part of these efforts, a number of training sessions were conducted for IT and Business staff, new work procedures were implemented at the development and maintenance teams, and key processes and tools was reviewed. The adjustment process continues and it is currently focused on implementing changes in processes and tools, and on further reorganization of the development and maintenance teams' work.

In 2016, 32 project management and software development initiatives were completed, and IT efforts focused on the following aspects of the reorganization process:

- implementation of a new e-banking platform for retail clients, including advanced mobile payments platform;
- improvements to risk management support systems;
- optimization and streamlining of the card system architecture;
- cutting costs of the Bank's operating processes by migrating them to the Operating Center in Ruda Śląska;
- adaptation of cross-border transfer systems for euro-denominated payments to the EU requirements (SEPA);
- relocation of the Bank's head office (new headquarters in Warsaw);
- changes in the e-banking systems for corporate clients;
- implementation of new products and efficiency improvements in services for corporate clients.

Currently, the Bank's IT activities are focused on the following strategic projects:

- adapting the Bank's systems to ensure compliance with MIFID II;
- adapting the Bank's systems to ensure compliance with IFRS 9;
- improving sales and support processes for accounts of individual clients and microenterprises;
- implementing a new FX platform.

In the area of IT infrastructure management, the key developments were preparation of the Bank's new head office and transfer of employees from three locations to the new site. As part of the relocation, efforts were made to consolidate and simplify the wide-area network infrastructure. In the second and third quarters of 2016, the Bank's main servers were upgraded and process applications were migrated to more modern and efficient hardware.

In cost management, the Bank continued a three-year program launched in 2015 to optimize IT operating costs by streamlining the application architecture, adjusting the volume and supply of IT services, adjusting system development and maintenance models, streamlining IT processes and functions, and optimizing the IT infrastructure.

In 2016, the Bank continued the Operations Transformation Project to centralize (nearshore) functions in the Operating Center in Ruda Śląska. As part of the project's second phase, administrative processes, debt collection support, administration of mortgage loan agreements and disbursements, further call center processes, cash-in-transit management, money laundering prevention processes, selected card support processes, and drafting of transaction product agreements were migrated to the Center. Further migrations are under way. All processes transferred to the Center are now handled in a more efficient manner, with the high quality of internal and external customer service maintained. As the Center assumes new functions, the migrated processes are optimized and streamlined.

In 2016, ATM support processes were migrated to the Euronet network and card systems were optimized (by discontinuing the use of in-house systems and fully outsourcing the services).

9.2. Development of digital channels in Bank

R-Online

The R-Online banking system has been designed to support service provision processes in the sub-segments of retail clients and microenterprises.

In 2016, the Bank implemented a new electronic banking system using a responsive technology, which automatically adjusts the user interface to the display size. In July 2016, the new system, which enables access to innovative and personalized solutions, was put in service.

As at 31 December 2016, the number of the clients with access to the internet banking system was 624 thousand, up 38 per cent year on year.

Mobile Wallet

In early November 2016, Raiffeisen Polbank introduced Mobile Wallet (*Mobilny Portfel*), an application supporting convenient contactless payments with the use of smartphones. The application is available for users of NFC-enabled smartphones with the Android operating system (min. version 4.4.).

Mobile Wallet features a number of functionalities that facilitate convenient and quick NFC cards management, such as assignment and change of a card PIN code, temporary card blocking, and change of daily transaction limits.

At the end of 2016, Mobile Wallet was installed on 2,300 active devices (active in the last 30 days), and the clients had a total of 2,100 cards (1,600 debit cards and 500 credit cards) installed in the application.

In 2017, the Bank plans to add further functionalities to Mobile Wallet and to launch the application on iOS-powered platforms (Apple).

Mobile Bank

As at 31 December 2016, Mobile Bank (*Mobilny Bank*) was available to more than 134 thousand users, that is 43 per cent more than at the end of 2015.

R-Online Biznes

The R-Online Biznes banking system is designed for all Corporate Banking clients and some of the clients in the microenterprises sub-segment.

In 2016, as part of system development efforts, the Bank implemented the following projects: Standing Orders, e-Guarantees, SEPA Payments, and factoring payment messages. The Standing Orders module enables placing standing orders in the system (previously, standing order instructions required a written form). The module is designed to meet the needs of corporate customers, i.e., apart from setting the order, a client can also define certain order parameters, such as percentage of the account balance to be transferred or procedure to be followed in case the account balance is insufficient to execute the order. The purpose of the e-Guarantee project was to enhance the existing functionality by fine-tuning and adjusting the product definition parameters. Now some of the clients' guarantees are automatically processed in the Bank's systems. Clients are also offered an option to send guarantees by electronic mail and to verify electronic signatures via a dedicated website. By implementing the SEPA payments functionality, the Bank brought its system in line with the technical and commercial requirements relating to euro-denominated payments and transfer orders. An option of importing payment files in the XML format was also added. Finally, the system functionality was extended to include text and/or email notifications for factoring payments.

As at 31 December 2016, there were 30 thousand clients with access to the R-Online Biznes banking system.

Number of clients with access to the Bank's internet and mobile banking (thousand)	As at 31.12.2016	As at 31.12.2015
Mobilny Bank	134	94
R-Online	624	451
R-Online Biznes	30	27

9.3. Branch network of the Bank

As at 31 December 2016, the Bank operated 298 branches, including:

- a network of 266 retail branches,
- a network of 24 partner branches,
- a Corporate Banking Center operating outside the retail network,
- seven Private Banking Centers operating outside the retail network.

Every retail branch offers cash transactions and basic banking support to corporate and private banking clients.

In the first quarter of 2016, 35 branches were closed as a result of network optimization and restructuring measures. Moreover, a uniform business model of partner branches was introduced.

The Bank also uses other distribution channels, such as Telemarketing Team and Mobile Advisors Team to reach the clients directly, and cooperates with 21 brokers and 2.9 thousand local intermediaries.

9.4. Human resources management

9.4.1. Headcount

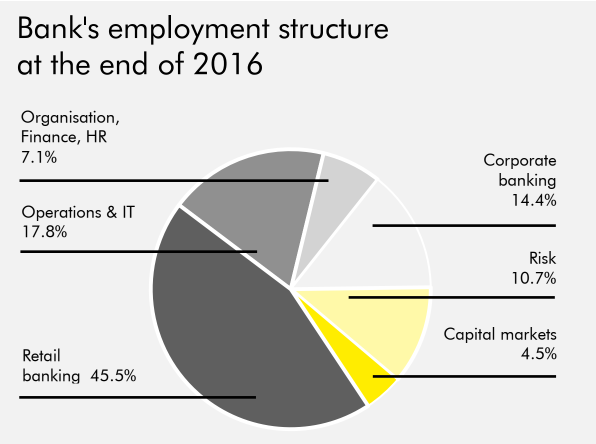
As at the end of 2016, the Bank employed 4,453 active staff[1], including Management Board members, compared with 4,852 staff at the end of 2015.

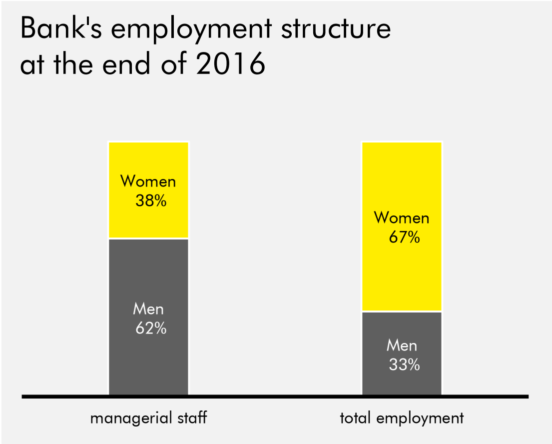
On an active FTE-basis[1], as at the end of 2016 the Bank's headcount was 4,249, down by 409 (9 per cent) on the end of 2015, while in Group it was 4,338, down by 432 (9 per cent) The change was a result of the continued workforce restructuring process initiated in 2013.

The employment of Bank and Group in active FTEs	As at 31.12.2016	As at 31.12.2015
Retail banking	1,934	2,127
Corporate banking	610	660
Capital markets	190	168
Operations & IT	758	841
Risk	455	544
Organization, Finance, HR	302	318
Bank total	**4,249**	**4,658**
Raiffeisen Investment Polska Sp. z o. o.	1	7
Raiffeisen Financial Services Polska Sp. z o. o.	49	70

[1] Active employees/ active FTEs are net of employees on parental leave and long-term absence, as at the end of the reporting period.

The employment of Bank and Group in active FTEs	As at 31.12.2016	As at 31.12.2015
Raiffeisen Solutions Sp. z o.o.	39	35
Group total	**4,338**	**4,770**





Women represent the majority of the workforce (67 per cent). Over 62 per cent of managerial positions at the Bank are held by men.

9.4.2. Remuneration and benefit policy in the Bank

In 2016, like in previous years, the Bank's remuneration policy was primarily designed to ensure that:

- employees are incentivized in the best possible way to achieve the Bank's strategic objectives;
- most competent and best-performing employees are retained;
- best candidates are hired, with the payroll budget used in the most optimal way.

Under the Bank's remuneration policy, the employees receive – in addition to their base salary and monthly position allowance (benefits depending on the position they hold) – variable remuneration as part of periodic incentive programs/systems and an annual bonus system, which depends on actual performance of individual employees, teams, and business units.

An important part of the total employment package offered by the Bank is the Grades&Benefits system. Under the system, each position in the organization is assigned a Job Grade which carries certain non-pay benefits, such as:

- private medical care with family option;
- group life insurance for employees;
- work-related equipment (for instance, company cars, cell phones).

As part of the *Multikafeteria* solution, each employee can select – from a list of available benefits – the options that best address their needs. In addition, the Bank promotes and supports sports among its employees by co-financing a range of sports classes and activities (sports teams, clubs, etc.). In 2016, the employees were entitled to receive benefits from the Company Social Benefits Fund, such as holiday allowances or seasonal gifts.

As part of its social activities, the Bank supports employees in financial distress. They may receive aid and can apply for holiday allowances.

As a family-friendly employer, Raiffeisen Polbank has a long-standing tradition of supporting families, expectant mothers, and parents during the first year of their child's life through the We Care for the Family (*Dbamy o R-odzinę*) program. As part of the program, employees are entitled to:

- additional days off;

- additional medical care package paid for by the Bank;
- life insurance;
- at-work facilities, e.g., specifically designed rooms for pregnant women at the head-office building.

9.4.3. Training and development

The Bank's training and development policy is closely connected with its mission and strategy. Development-oriented activities follow directly from the business objectives and plans of individual organizational units and various employee groups. Special focus is placed on employees with above-average performance record and significant development potential. The Bank supports the employees in their efforts to improve qualifications and knowledge and in acquiring new skills by offering a wide range of individual and group training options, co-financing postgraduate studies, and providing assistance to those seeking to acquire valuable qualifications and certificates or learn foreign languages.

In pursuance of development priorities defined in 2016, the Bank completed a number of training and development initiatives designed to build specialist competencies in such areas as advanced sales techniques and advanced financial reporting; also advanced training sessions were organized which covered psychology, sales, negotiation, and decision-making processes. Particularly worth mentioning are those development-oriented activities that result in the award of certificates recognized on the market. The private banking segment saw an increase in the number of employees certified as financial advisors after completing the EFA (European Financial Advisor) course, as well as those holding the prestigious Certified Financial Planner title granted upon completion of the Executive Financial Planning course (European Financial Planner). Both certificates are guarantees of advisors' top competence and are valued on the market. Additionally, in 2016, employees were offered training in interpersonal skills and individual professional advancement options.

In 2016, over 430 skills development projects were completed (including specialist, interpersonal, and language training). As part of internal training, 297 sessions were held for 2,900 attendees. In 2016, 98 per cent of employees took part in at least one training course, of whom 67 per cent participated in at least one on-site training session.

The Bank promotes knowledge sharing within the organization by involving its experts in creating and administering internal training courses and in developing e-learning materials. In 2016, more than 248 employees underwent training under the SOW@ program, with in-house experts as trainers. Training is provided through different forms of learning, including those based on state-of-the-art technologies and traditional solutions. In 2016, e-learning programs were used by more than 4,100 employees. As part of support initiatives, 15 educational videos were produced using internal resources and 14 video-based training courses were provided to 245 employees.

In 2016, the Bank operated the Personal Development Workshop – an in-house development scheme designed to enhance employees' soft skill competencies. It was carried out by personal development coaches who are employed at the Bank's HR department. In 2016, a total of 1,200 employees participated in 125 training courses during two editions of the program.

2016 saw the launch of an initiative dedicated to the Bank's managers: Leader Center Club ("LCC"). The program's objective is to support the managers in the discharge of their duties and in their personal development. It is operated via a social media platform accessible on a 24/7 basis through a website as well as mobile phones and tablets. The platform enables sharing knowledge and experience, and allows the users to select content and activities they are interested in. The catalogue of available activity forms and information areas is tailored to meet current management development needs in the context of the Bank's strategy. Employees join the program voluntarily. Managers themselves decide what content they want to use and when they want to do it, and are responsible for their own development based on the options made available to them. This diversified program is an opportunity for managers to participate in numerous trainings and workshops; to assess their own individual characteristics and competences which are vital to professional success; to participate in inspiring events; to read and share interesting content devoted to management in general; to gain access to literature, etc. Additionally, an internal mentoring program is operated as part of the LCC. The program's key assumption is to provide managers with a flexible offer adapted to their current development needs.

The Bank's employees and managers also participate in development programs carried out in the RBI Group, including youth talent exchange programs, traineeships at the Group's banks operating in other countries, high-profile leadership development programs, and specialist training sessions in selected areas of expertise.

The Bank promotes knowledge among university students by organizing Academies for students at partner universities, giving expert lectures, and holding yearly Summe-R traineeships.

9.4.4. HR policy

In 2016, Raiffeisen Polbank continued its HR policy under the name 'Raiffeisen Polbank Is Our Place!' (*Raiffeisen Polbank to nasze miejsce!*). It is based on the Bank's universal core values and implemented with a particular focus on employee engagement. Annual employee engagement and satisfaction surveys allow the Bank to monitor the climate and sentiment among the employees in times of serious challenges on the market or within the organization, and take measures to build an engaging work environment. Considerable importance is attached to the atmosphere at work and mutual respect, as well as the pursuit of business objectives. The performance management system in place at the Bank supports the implementation of business objectives, which cascade from the Management Board to managers, and to individual employees.

10. Corporate Social Responsibility (CSR) at Raiffeisen Bank Polska S.A. Capital Group

Although its primary focus is on attaining business objectives, Raiffeisen Bank Polska S.A. Capital Group is a socially responsible organization and takes stakeholder expectations into account. It seeks to build and strengthen transparent and ethical relations with clients, investors, trading partners, and employees. The Bank's business activities are carried out with due regard to public interest, including in particular the needs of local communities, and with care for the natural environment.

The Group's strategy is client-centered so ensuring the highest service quality and building long-lasting relations based on loyalty and trust are its highest priorities. To be able to maintain appropriate service standards and meet the clients' changing financial needs the Bank must remain in continuous contact with its customers and maintain bilateral communication. To that end, in 2016 the Group conducted another round of satisfaction surveys across all client segments, covering virtually all aspects of its business, including service quality, delivery channels, products and services, complaints handling, and the Bank's image. It also carried out research into likelihood of business referral based on the NPS method.

Recognizing the importance of sustainable development, in 2015 the Bank started to implement the Environmental and Social Management System. The purpose of the system is to help the Bank and its clients to understand, assess, systematically monitor, and mitigate environmental and social risks; to maximize opportunities for social and environmental benefits; and to ensure compliance with national laws, the EU law and international agreements. The system ensures that transactions funded by the Bank meet environmental and social standards required in Poland and the European Union, and helps the Bank to avoid and manage exposures with a potentially irreversible environmental and social impacts.

Social responsibility is one of the most crucial instruments in building social solidarity. Guided by that principle, the Group embarked on long-term projects in such areas as economic and business education, which bring measurable benefits to the participating individual clients and businesses as well as other stakeholders.

The Group undertakes activities fostering education of entrepreneurs, including campaigns organized in partnership with the national media and local meetings with representatives of the business community. It supports cultural, charity and social initiatives by engaging in projects promoting public interest, health, as well as initiatives for local communities served by the Bank branches.

In 2016, the Bank lent assistance to local educational, cultural and public benefit organizations. As part of its social initiatives, once again it supported My Future (*Moja przyszłość*), a year-round grant program organized in partnership with Towarzystwo Nasz Dom to cover the costs of re-education and tuition for residents of children's homes who want to enter the next stage of education (high school, university) or pursue occupational training.

2016 marked another year of the Bank's involvement in the "*Bankers for Financial Education of Youth BAKCYL*" ("*BAKCYL*") initiative, where banks' employees volunteer to teach finance management basics to junior high school students. *BAKCYL* was conceived and organized by the Warsaw Banking Institute, and it is partnered by the Polish Bank Association. The honorary patronage over the project was taken by the National Bank of Poland, the Minister of Education, and local education authorities from the regions where the classes were held this year. The project is aimed at getting young people acquainted with practical banking principles they may find useful when entering the adult world and when making conscious decisions about their finances.

Each year, the Bank's employees volunteer in charitable initiatives, which in 2016 included collection of school supplies before the start of the school year, Christmas gifts and other necessary supplies for children under the care of the Children's Fantasy Foundation and the Orphanage for the Blind. As a partner of the DKMS Foundation, the Bank continued a project to encourage its staff to register as potential stem cell donors.

11. Managing key risks

11.1. Credit risk management

Credit risk refers to potential failure of a debtor to timely settle contractual liabilities (granted credit). The Group's credit risk exposure results mainly from its lending activities and, to a lesser extent, from sale and other transactions within its trading portfolio, derivatives, and participation in payment and securities clearing transactions for the Group's own or its clients' account.

The credit risk management process at the Group is based on a set of rules, including in particular:

- performing a comprehensive credit risk assessment based on scoring and rating models appropriate for individual segments or product types;
- ensuring independence of the creditworthiness assessment process, including through the existence of a separate organizational unit that assigns ratings to corporate clients;
- existence of specialized departments responsible for credit risk management with respect to individual client segments;
- regular monitoring of the credit portfolio, both with regard to individual transactions in the case of material exposures, and with regard to individual credit portfolio segments;
- using a system of limits to avoid and monitor concentration risk in the Group's portfolio.

The Group applies its own internal procedures to measure credit risk involved in granting credit to a given client or other services carrying credit risk, as well as acceptability of such risk. The related procedures implemented and modified by the Bank are designed to ensure efficient and effective identification of threats and determine actions to be undertaken if the risk level changes.

The purpose of credit risk management is to improve the security of the Group's lending activity by ensuring the highest quality of credit risk assessment processes; effectiveness of the credit decision-making procedures; and an effective process for monitoring credit exposures to individual clients and across the entire credit portfolio.

The credit risk monitoring at the portfolio level includes regular analyses of the credit portfolio to identify adverse trends and concentrations and to perform ad-hoc reviews of the portfolio, in particular when changes occur in the external environment.

In order to control credit portfolio risk in terms of expected and unexpected losses (loss of capital and impairment losses), the Group defines credit risk concentration limits for internal control purposes and manages its risk exposure within those limits through a regular monitoring system.

For detailed information on the Group's credit risk exposure and credit risk management methods, see the Bank's financial statements for 2016 (note on credit risk management). There were no significant changes in credit risk management as compared with the previous period. In 2016, the Group did not exceed any of the applicable concentration limits.

11.1.1. Loan portfolio quality

In 2016, the Group was sustaining its portfolio quality on a stable level, however, a structure of Group's portfolio has been changed in regard to sale transaction of RLPL's shares. At the end of 2016, the share of impaired loans in the portfolio was 7.9 per cent and remained unchanged compared with the value in 2015. The coverage ratio, defined as the proportion of impairment losses on impaired loans to the amount of such loans, went down slightly over the year – from 56.9 per cent to 56.4 per cent in 2016.

The table below presents the share of impaired loans and the ratio of coverage of such loans with impairment losses, by the Group's loan portfolios.

Consolidated quality measures of credit risk portfolio (in %)	Impaired loans ratio		Coverage ratio	
	As at 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
Private individuals	5.1	4.7	61.6	59.2
Microenterprises	26.1	14.4	47.5	51.1
Large enterprises	8.9	10.4	56.4	57.4
Small and medium enterprises	4.1	4.5	77.2	78.4
Total	**7.9**	**7.9**	**56.4**	**56.9**

In 2016 the share of impaired loans in the Bank's portfolio rose from 7.7 per cent to 7.9 per cent, and the coverage ratio went down slightly – from 58.7 per cent to 56.4 per cent in 2016. The change in the impaired loans' share was largely driven by increased share of impaired loans in the retail portfolio. On the other hand, the decline in the coverage ratio was attributable to the corporate portfolio.

The table below presents the share of impaired loans and the ratio of coverage of such loans with impairment losses, by the Banks's loan portfolios.

Stand-alone quality measures of credit risk portfolio (in %)	Impaired loans ratio		Coverage ratio	
	As at 31.12.2016	As at 31.12.2015	As at 31.12.2016	As at 31.12.2015
Private individuals	5.1	4.7	61.6	59.0
Microenterprises	26.1	21.1	47.5	45.1
Large enterprises	8.9	9.2	56.4	65.8
Small and medium enterprises	4.1	3.9	77.2	85.3
Total	**7.9**	**7.7**	**56.4**	**58.7**

11.1.2. Portfolio of mortgage-backed loans denominated in the Swiss franc

Mortgage loans denominated in the Swiss franc are an essential element of the Bank's credit risk management processes given their value and share in the total loan portfolio. As at the end of 2016, such loans accounted for 35.2 per cent of all the Group's loans, of which 33.2 per cent were attributable to individual clients, and 1.4 per cent – to microenterprises. The table below presents the value of the portfolio of mortgage loans by currency and the respective values for the individual client and microenterprise segments as at 31 December 2015 and 31 December 2016.

Mortgage loans granted to private individuals and microenterprises by currency (PLN million)	As at 31.12.2016, CHF/PLN fx=4.1		As at 31.12.2015, CHF/PLN fx=3.9	
	Value of balance sheet exposure, gross	Share in the mortgage portfolio	Value of balance sheet exposure, gross	Share in the mortgage portfolio
Private individuals				
PLN	1,954.9	10.6%	1,708.5	9.3%
EUR	3,657.4	19.8%	3,754.0	20.3%
CHF	11,538.5	62.4%	11,629.2	63.1%
USD	5.7	0.0%	5.6	0.0%
Total	**17,156.5**	**92.8%**	**17,097.3**	**92.7%**
Microenterprises				
PLN	832.8	4.5%	787.8	4.3%
EUR	84.5	0.5%	95.0	0.5%
CHF	407.5	2.2%	454.0	2.5%
USD	0.0	0.0%	0.0	0.0%
Total	**1,324.8**	**7.2%**	**1,336.8**	**7.3%**
Private individuals & Microenterprises				
PLN	2,787.7	15.1%	2,496.2	13.5%
EUR	3,741.8	20.2%	3,849.0	20.9%
CHF	11,946.1	64.6%	12,083.3	65.6%
USD	5.7	0.0%	5.6	0.0%
Total	**18,481.3**	**100%**	**18,434.1**	**100.0%**

The Group does not sell mortgage loans denominated in the Swiss franc. The change in the value of this portfolio resulted from exchange rate movements, loan repayments, and conversion of the loan currency into the Polish zloty.

Proposals of systemic solutions put forward by various governmental and supervisory authorities to address currency risk in loan portfolios denominated in the Swiss franc, especially recommendations of the Financial Stability Committee, draft Regulation of the Minister of Development and Finance on higher risk weights for mortgage-backed exposures, or the bill on rules for returning certain amounts due under credit facility and loan agreements, which was submitted to the Public Finance Committee, may have an adverse effect on the Bank's and Group's financial performance and equity. However, it is not possible to analyse the impact of the planned changes on the Bank's and Group's situation as at the date of approval of these financial statements due to significant discrepancies between the proposals contained in the draft regulations to be worked on by the Sejm (lower house of the Polish Parliament) and those drafted by supervisory authorities.

11.2. Capital adequacy

The key objective of the capital management process is to consistently maintain the Group's long-term capital adequacy by ensuring that the Bank has in place a proper process for capital risk identification, measurement, monitoring, mitigation, and reporting. The Group regularly strengthens its capital base, with a particular focus on maintaining a large share of the highest quality capital (Tier 1/CET1). The share of Tier 1 capital as at the end of 2016 remained very high, at 96 per cent.

In 2016, the Group strengthened its capital base by taking the following measures:

- In the first quarter of 2016, the Bank's entire profit for 2015, of PLN 160 million, was transferred to Tier 1 capital.
- On 31 March 2016, the Bank sold its holding in RLPL to Raiffeisen Bank International AG in a transaction designed to improve the Group's capital adequacy ratios. Following the transaction, the Bank does not hold equity interests in any subsidiaries subject to mandatory prudential consolidation. Therefore, since 31 March 2016, it has computed and reported the capital adequacy ratio on a stand-alone basis only. Therefore, regulatory and supervisory capital requirements described below are related to Bank.
- Pursuant to the decision of the Polish Financial Supervision Authority of 21 September 2016, as at 30 September 2016 the Bank included net profit of PLN 100 million in its own funds.

In accordance with Regulation (EU) No. 575/2015 of 26 June 2013 on prudential requirements for credit institutions and investment companies, the Group is required to maintain:

- Common Equity Tier 1 capital ratio of at least 4.5 per cent;
- Tier 1 capital ratio of at least 6.0 per cent;
- Total Capital Ratio of at least 8.0 per cent.

The minimum regulatory requirements may be increased by an additional capital requirement under Pillar 2. Pursuant to Art.138.1.2a) of the Banking Law, by way of a decision of 12 October 2016, the Polish Financial Supervision Authority notified the Bank that it was required to maintain own funds to cover additional capital requirement of 2.56 percentage points above the total capital ratio in respect of exposure under foreign currency-denominated mortgage loans to households, of which at least 75 per cent should consist of Tier 1 capital (which corresponds to 1.92 percentage points), and at least 56 per cent should consist of Common Equity Tier 1 (which corresponds to 1.43 percentage points).

The calculation of the capital ratios should also take into account the value of the buffers imposed pursuant to the Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015, i.e.

1. The conservation buffer of 1.25 per cent (effective since 1 January 2016) of the total risk exposure calculated according to Art.92(3) of the Regulation (EU) No. 575/2015;
2. The other systemically important institution buffer of 0.25 per cent of the total risk exposure calculated as at 31 December 2015 according to Art.92(3) of the Regulation (EU) No. 575/2015 (on 4 October 2016, the Polish Financial Supervision Authority passed a resolution whereby it identified the Bank as other systemically important institution and imposed on it, on a stand-alone and consolidated basis, other systemically important institution buffer).

Taking into account the minimum regulatory requirements and buffers under the Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015, the minimum capital adequacy ratios for the Bank and the Group should be as follows:

- Common Equity Tier 1 capital ratio at 7.43 per cent;
- Tier 1 capital ratio at 9.42 per cent;
- Total Capital Ratio at 12.06 per cent.

Simultaneously, by letter on 7 December 2016, the Polish Financial Supervision Authority notified the Bank of the recommended minimum capital adequacy ratios on a stand-alone basis, i.e., 12.42 per cent for Tier 1 capital ratio, and 16.06 per cent for the Total Capital Ratio.

As at the end of 2016, the Bank's Tier 1 capital ratio was 16.05 per cent, while the Total Capital Ratio (TCR) was 16.70 per cent. Therefore, the Group met both the minimum regulatory capital adequacy ratio and the capital adequacy ratio recommended by the PFSA.

The amounts of regulatory capital and capital requirement determined for the purposes of calculating the capital adequacy ratio (PLN thousand)	Method of calculating the requirement	As at 31.12.2016 stand-alone[1]	As at 31.12.2015	
			stand-alone	consolidated
Credit and counterparty risk	Standard	2,613,173	2,733,462	3,068,983
Market risk	Standard	44,066	40,291	40,291
Operational risk	Standard	271,001	289,818	315,915
Total capital requirements		**2,928,240**	**3,063,571**	**3,425,189**
Own funds		**6,111,419**	**5,724,042**	**5,827,115**
Risk weighted assets		**36,603,003**	**38,294,640**	**42,814,856**
Common equity Tier 1 ratio		**16.05%**	**14.30%**	**13.03%**
Total capital ratio		**16.70%**	**14.95%**	**13.61%**

[1] As at 31 December 2016, the Bank does not hold interests in any subsidiaries which would be subject to mandatory prudential consolidation, therefore, since 31 March 2016, the Bank has been computing and reporting the capital adequacy ratio on a stand-alone basis only.

11.3. Liquidity risk

The Group's liquidity risk results from mismatch between maturities of assets and liabilities, i.e., it chiefly originates from the need to finance long-term loans with deposits with shorter maturities. The risk can materialize as an inability to pay current liabilities or as losses resulting from increased cost of financing which is not caused by market interest rate movements.

The basic objective of the liquidity risk management system is to control the Group's balance sheet structure so that the Group can achieve income targets defined in the financial plan while maintaining its ability to pay liabilities when due and meeting the internal as well as external (regulatory) liquidity risk limits.

Liquidity risk management at the Group is centralized, and the process itself is owned by units which are clearly defined in formal internal procedures and which are assigned respective competences, subject to a general rule of separation of units engaging in risk management from units measuring the risk.

As part of the liquidity risk management process:

- the Bank's Management Board defines its liquidity risk appetite;
- the Assets and Liabilities Committee (ALCO) at the Bank transposes the risk appetite established by the Management Board onto the system of internal limits and supervises the entire risk management process;
- the Risk Management Department at the Bank monitors risk exposures on a daily basis and reports them to appropriate authorities;
- the Assets and Liabilities Management Department at the Bank manages the liquidity risk on an on-going basis to comply with the established limits and to optimize the structure of income and expenses.

To following tools are used, among other things, to measure the Bank's liquidity risk exposure:

- marked-to market liquidity gap methodology, including modeling renewals of term deposits, current account balances, probability of off-balance sheet liabilities, adjusting amounts due to the Bank for any identified impairments, level of liquid assets, results of concentration analyses for financing sources, etc.;
- set of emergency scenarios, including an internal crisis emergency scenario, financial market crisis scenario, and a combination of the two;
- set of supervisory liquidity measures.

In 2016, as part of the liquidity risk management process the Bank actively managed the balance and cost of deposit products by using its internal system of transfer prices, which reflects both the cost of interest rate risk and the cost of liquidity, to control the balance sheet. The Bank hedged its balance-sheet items and their liquidity cost using derivatives (FX swaps, cross-currency interest rate swaps), a large volume of which was subject to hedge accounting.

11.4. Market risk

Market risk stems from the fact that changes in foreign exchange rates and market interest rates may affect the fair value of financial instruments held by the Group, and thus its financial result.

The main objectives of market risk management are to identify areas where the Group is exposed to the interest rate and foreign exchange risks, and to control the balance sheet structure so as to maximize financial performance while maintaining the risk appetite at the assumed level.

In order to manage market risk the Group operates a system of limits. The risk management process provides for a division of responsibilities where:

- the Management Board defines the Bank's market risk appetite;
- the Assets and Liabilities Committee (ALCO) at the Bank transposes the risk appetite established by the Management Board onto the system of internal limits and supervises the entire risk management process;
- the Risk Management Department at the Bank monitors risk exposures on a daily basis and reports them to appropriate authorities;
- the Assets and Liabilities Management Department as well as the Financial Markets Department at the Bank manage the Group's market risk on an ongoing basis, to ensure compliance with the established limits and optimize the financial result.

To following tools are used, among other things, to measure the Group's market risk exposure:

- limits of the maximum open interest rate position measured as the value by which the fair value changes when market interest rates increase by 1 basis point. The limits are diversified in terms of exposure sources (banking book and trading book), exposure currency and time interval, in accordance with the Bank's re-measurement schedule;
- limits of the maximum open FX position per currency and in aggregate for all currencies;
- limits of the Value at Risk for the foreign exchange and interest rate risks, with 1-day holding period and 99 per cent confidence level. The Value at Risk is determined using variance-covariance method;
- monthly, quarterly and annual limits of maximum loss;
- Earnings-at-Risk measure, which presents sensitivity of net interest income in a one-year horizon assuming an immediate and identical change of the market interest rates for all currencies by 100 basis points, continuing for the entire modeling period. Measurements as at the end of 2016 showed the effect on the Bank's net interest income at PLN 150,975 thousand (or 2.3 per cent of own funds used in the calculation of the capital adequacy ratio), against PLN 169,059 thousand (or 3 per cent of the Bank's own funds) as at the end of 2015.

The table below presents statistics of the Value-at-Risk at the Bank as a synthetic measure of risk exposure levels as at the reporting date and for the same period of the preceding year.

Value-at-risk (PLN thousand)		Min.	Max.	Average	As at 31.12.2016	As at 31.12.2015
Interest rate risk	Banking book	1,159.8	7,500.0	6,157.6	6,237.8	4,849.5
	Trading book	176.9	1,387.8	540.8	474.0	292.8[1]
Foreign exchange risk		11.4	663.4	79.7	84.3	221.3

[1] The change in value-at-risk as at 31 December 2015 versus the value presented in the Report on the operations of Raiffeisen Bank Polska S.A. Capital Group for 2015 is a result of the change in allocation and aggregation of VaR regarding the particular risks in order to keep the data comparable going forward.

11.5. Operational risk

Operational risk is defined at the Group as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk, but excludes reputational and strategic risks.

The purpose of operational risk management is to increase security of the Bank's business by implementing efficient mechanisms for the identification, assessment, quantification, mitigation, monitoring and reporting of operational risk.

In 2016, having in mind the security of the clients' funds and mitigation of the risk of operating losses, the Group took efforts aimed at limiting operational risk in individual areas of its operations and at improving the operational risk management quality.

The most important activities in that respect included:

- periodic assessments and reviews of the Bank's target operational risk profile based on an analysis of the values of the Bank's current risk parameters, changes and risks prevailing in the Bank's environment, implementation of the business strategy as well as evaluation of the adequacy of its organizational structure and effectiveness of the risk management system in place at the Bank,
- on-going monitoring of the operational risk limits defined as part of operational risk appetite approved by the Bank's Management Board;
- implementing a number of measures mitigating the operational risk in the Bank's operating processes and systems, including in particular in relation to the risk of fraud and IT systems security, which makes it possible to effectively prevent criminal threats and to ensure the security of transactions carried out by the clients;
- awareness-building initiatives addressed to the Bank's employees.

11.6. Compliance risk management

The Group defines compliance risk as possible effects of non-compliance of the Group's operations with applicable laws, internal regulations and standards of conduct adopted by the Group. The consequences of such risk may include loss of clients, complaints, impairment of the Bank's reputation, or exposure of the Group to losses resulting from legal claims, fines or any other sanctions, imposed by regulatory or control authorities. The Group's principal objectives in the area of compliance risk management are to secure the clients' and stakeholders' trust and protect the Group's reputation.

The compliance function's activities in 2016 included work on harmonizing the applicable procedures with the provisions of the MAD II/MAR regulatory package taking effect on 3 July 2016. The Bank also implemented the 'Guidelines for providing brokerage services on the OTC derivatives market'.

In 2016, work continued on implementing:

- the Common Reporting Standard requirements related to the implementation of the tax information exchange standard;
- the MiFID II / MIFIR package, taking effect on 3 January 2018, to ensure compliance of the Group's activities with the new legal requirements related to offering investment products, with a view to increasing customer protection and ensuring transaction transparency;

- the Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs), effective as of 1 January 2018. These new regulations will come into force almost at the same time as the MiFID II/MIFIR package. They are aimed at improving investor protection by introducing a requirement to provide a key information document (KID) in a uniform format for each product, to enable investors to compare products offered by different entities in all EU Member States.

To further enhance the Bank's standards, a new methodology was implemented for the assessment of clients' expertise in investing in financial instruments, in accordance with Art. 15 and Art. 16 of the Regulation of the Minister of Finance on the procedures to be followed and conditions to be met by investment companies, banks referred to in Art. 70.2 of the Act on Trading in Financial Instruments, and custodian banks.

12. Subsequent events

For information on events subsequent to the reporting date, see Note 41 ("Events subsequent to reporting date") to the consolidated financial statements of Raiffeisen Bank Polska S.A. Capital Group for the financial year ended 31 December 2016.

13. Prospects of development of Raiffeisen Bank Polska S.A. Capital Group

13.1. Macroeconomic factors which may affect the Group's performance

The Group expects Poland's economic growth to accelerate in 2017, with the average growth rate projected at 3.3 per cent year on year. The Group believes that, similar to the year before, the economic growth will be largely driven by domestic demand. On the other hand, contribution from foreign trade may remain negative throughout the year.

As regards internal demand, the Group expects private consumption dynamics to continue at high levels on the back of further strengthening of the labor market and increased social spending under the *Rodzina 500+* (Family 500+) government scheme in the first months of the year.

An improvement is also expected in investments, fueled, especially in the case of public projects, by faster absorption of EU funds under the new 2014–2020 financial framework. Factors conducive to investment activity may also include low interest rates and higher inflation, which will reduce the cost of credit in real terms.

In 2017, the Polish banking sector may have to face the following challenges posed locally:

- Continued uncertainty around the fiscal and economic policies, particularly the still open question of forced conversion of foreign currency-denominated loans in bank portfolios and refund of FX spreads;
- Risk of deterioration in public finances and potential downgrade of Poland's credit rating;
- Possible changes to the tax regime, including adjustments to banking and retail taxes;
- Worse-than-expected performance of the Polish economy, which might adversely affect the quality of bank loan portfolios.

In 2017, the Polish banking sector may have to face the following global challenges:

- Increased volatility in financial markets and uncertainty resulting from political risks, e.g., potential shift in the US policy course, Brexit, and upcoming elections in France. These factors could result in depreciation of the Polish zloty against the US dollar and the Swiss franc;
- Possible strong capital flows in response to further interest rate hikes in the US, which may encourage some investors to exit the Polish market in search for higher yields in the US. This could result in a weaker zloty and provoke a stronger sell-off on the domestic treasury securities market. Banks have recently increased their exposure to such instruments;

- Possible deterioration in the global economy, notably the eurozone (e.g., in the aftermath of sovereign insolvency of an energy exporting country or bankruptcy of a major financial institution), which could deepen uncertainty in global financial markets, leading to higher yields on Polish treasury bonds, devaluation of the Polish currency, and falling foreign demand for Polish goods and services.

All these factors may affect the Group's financial results in the future.

13.2. Prospects of development of the Group

In 2017, the Group will continue to pursue its current strategy, aligning its decisions with the fast-changing market and regulatory environment. The key focus of the Bank's strategy is to constantly strengthen its position as a midmarket leader specializing in corporate banking and providing services to the segment of SMEs and Polish middle class. In order to successfully deliver its stated objectives, maximize earnings and maintain its reputation for financial security among clients and the entire banking sector, the Group takes action in three areas forming its strategic cornerstones.

2015–2017 STRATEGY OF THE GROUP		
DELIVERING LONG-TERM SUSTAINABLE RETURNS ACROSS ALL BUSINESS LINES	ADAPTING THE STRUCTURE AND LEVEL OF COSTS TO THE SCALE OF THE BANK'S BUSINESS	ADEQUATE AND BUSINESS-ORIENTED RISK MANAGEMENT

A crucial objective of the Group's strategy is to maintain cost discipline. In 2017, the Group will continue to implement cost efficiency improvements and move forward on its cost-saving programs and initiatives. As fixed costs of running the banking business are rising due to regulatory changes, new measures need to be initiated to lower the Group's operating costs.

The Group's focus is on adequate and business-oriented risk management. The Group will seek to secure stable sources of funding and capital base while maintaining sufficient liquidity. In credit risk management, the Bank will aim to improve the quality of its loan portfolio.

13.2.1. Prospects of development of the Retail Banking

In line with the underlying assumptions of the strategy for the Retail Banking segment, the Bank will try to further expand the client base by offering customized advisory products and services. Given changes in the market, client behaviors and needs, regulatory regime and macroeconomic landscape, the Bank will seek to strengthen its market position in savings and investment products. High service quality that helps to retain client loyalty and satisfaction remains a priority. To this end, the Bank will concentrate on delivering high standards of client service and further advancement in technologies with a view to providing clients with convenient access to products and services via remote channels. In 2017, the Bank will also continue its efforts to optimize costs.

13.2.2. Prospects of development of the Corporate Banking

A faster pace of economic growth and investment activity, fueled by infrastructure projects, projects run by local governments and projects co-financed with EU funds should support the corporate sector's sound financial standing.

In 2017, Raiffeisen Polbank intends to continue to solidify its position in Corporate Banking by leveraging its competitive advantages, including:

- good understanding of clients and their needs, allowing it to offer tailor-made products and solutions, finally leading to positive client experience;

- long-term client relationships built around suites of products;
- ability to provide clients with the full range of banking products and services, standing out for their quality and accessibility.

The Bank will seek to further reinforce these competitive advantages by enhancing its product mix and internal processes.

13.2.3. Prospects of development of the Financial Institutions and Capital Markets

The strategic objective of this area is to be recognized as a leading provider of capital market products and investment banking services.

Development of the financial institutions segment largely depends on market conditions. Low interest rates encourage investors to seek alternative investment solutions, which should support the development of the financial market in the collective investment undertakings area, as companies and individuals convert their deposits into alternative forms of saving. Consequently, income from fees and commissions on transactions and custodial services should increase, along with retail clients' interest in investment products. However, if plans to tax banks and investment fund management companies are implemented, potential investors may look for opportunities abroad, which would have an adverse effect on financial institutions in Poland and the Bank's revenue from this client group.

In the near future, the growth prospects for financial institutions will also be affected by changes in the regulatory environment, including in particular the MIFID2/MIFIR package incorporated into the European legal system and effective as of 2018. The new regulations will materially change the relations between banks and entities which rely on banks as distributors of their investment products, affecting investment product distribution models as well as banks' income from such operations.

Considering the foregoing, the Bank will focus on implementing procedural and systemic solutions designed to adjust its operations to the new market and regulatory requirements. The Bank will monitor the effects of the changing legal and market environment on its business, and will look for opportunities to use the changes to launch new services and attract new clients.

13.3. Involvement of the Bank's shareholder

On 9 February 2015, Raiffeisen Bank International AG ("RBI"), the sole shareholder in the Bank, announced an intention to take measures to increase its capital buffers and thus improve the CET1 ratio to 12 per cent by the end of 2017. Among such intended measures, RBI mentioned selling the Bank's shares.

In 2016, a process to sell the Bank was under way at RBI. In September, RBI entered into exclusive negotiations with Alior Bank S.A. to demerge and sell the Bank's core banking business. On 7 December 2016, the Bank was notified by Raiffeisen Bank International AG that RBI and Alior Bank S.A. had ended their negotiations without reaching an agreement on the sale of the Bank's demerged core banking business.

RBI undertook towards the PFSA to conduct an initial public offering of the shares in the Bank and to sell in such offering 15% of the shares in the Bank by 30 June 2017.

14. Corporate governance at Raiffeisen Bank Polska S.A.

14.1. Compliance with corporate governance principles

Since 2015, the Bank, as a financial institution, has been required to comply with the 'Principles of Corporate Governance for Supervised Institutions' ("Principles"), issued by the Polish Financial Supervision Authority, available on the Bank's website and the PFSA's website at www.knf.gov.pl.

On 10 March 2016, the Supervisory Board adopted the results of an assessment of the Bank's compliance with the Principles in 2015. In the Supervisory Board's opinion, in 2015 the Bank was substantially in compliance with the Principles, save for the following exceptions:

1. Principle set out in Section 8.4 to facilitate the participation of all shareholders in the general meeting of the supervised institution.

   The Bank did not apply the principle given that all its shares were owned by the sole shareholder. Application of the principle is justified in the case of public companies with fragmented shareholder structures;

2. Principle set out in Section 24.1, according to which meetings of the supervisory body should be held in Polish.

   The Bank did not apply the principle given that all members of its supervisory body were fluent in English and only one member could speak Polish. Accordingly, there was no rationale for holding meetings of the supervisory body in Polish;

3. Principles set out in Chapter 9 related to the exercise of rights resulting from assets acquired at client's risk.

   The Bank did not apply the principles laid down in Chapter 9, because it was not engaged in the management of assets at clients' risk.

In addition, the Supervisory Board indicated two principles the application of which could be challenged by the Regulator:

4. Principle set out in Section 14.3, according to which the management body should be the only one entitled to and responsible for management of the operations of the supervised institution.

   The requirement to seek the Supervisory Board's consent to certain steps in the lending process may be seen as encroachment upon the Management Board's powers. The Bank is working on such changes in the lending process that would ensure its effective supervision by the Supervisory Board without exposing the Bank to charges of restricting the Management Board's authority;

5. Principle set out in Section 11.2, according to which material transactions with related parties require obtaining an opinion from the supervisory body.

   The principle was adhered to in practice, although no formal requirement was included in the Bank's Articles of Association to obtain the Supervisory Board's opinion prior to executing such transaction. A relevant amendment to the Articles of Association will be introduced shortly.

In the Supervisory Board's opinion, the Bank's non-compliance with the principles listed above was connected with specific realities of the Bank's operations, and did not affect the achievement of objectives promoted by the principles.

The Annual General Meeting of the Bank and the Management Board of Raiffeisen Bank Polska S.A., by virtue of their respective resolutions of 11 March 2016 and 16 March 2016, acknowledged the results of the Supervisory Board's assessment of the Bank's compliance with the 'Principles of Corporate Governance for Supervised Institutions' adopted by the Polish Financial Supervision Authority on 22 July 2014.

In January 2017, the Supervisory Board commenced a review of the Bank's compliance with the 'Principles of Corporate Governance for Supervised Institutions' in 2016. Findings of the review will be reported to relevant bodies by the end of the first quarter of 2017.

14.2. Artides of Association of the Bank

The Extraordinary General Meeting convened for 29 September 2016 passed resolutions to amend the Bank's Articles of Association.

The following amendments were made to the Articles of Association:

- amendment to Art. 7, by changing the number and par value of the Bank shares – split of the existing shares without changing the share capital amount so that the share capital shall be divided into 225,668,340 shares with a par value of PLN 10 and all existing shares shall become new Series AA shares;
- amendment to Art. 6 and addition of new Art. 6a, by aligning those provisions of the Articles of Association which relate to the Bank's business profile with applicable regulations and the Polish Financial Supervision Authority's approval of the relevant amendment to the Articles of Association;
- with respect to General Meetings:
  - amendment to Art. 18, by giving shareholders the possibility of participating in General Meetings via electronic communication means,
  - amendment to Art. 19, in particular by replacing the simple majority requirement for General Meeting resolutions with, in most cases, the absolute majority rule,
  - amendment to Art. 20, by removing the requirement to seek the General Meeting's approval for transactions involving purchase or sale of real estate, perpetual usufruct rights or interests in real estate;
- amendment to Art. 23–27 pertaining to the operation of the Supervisory Board, in particular by expanding the scope of the Supervisory Board's powers (including with respect to matters requiring prior approval by the Supervisory Board) and aligning them with applicable legal regulations, deleting provisions entitling specific shareholders to nominate Supervisory Board members, and amending the quorum requirements for Supervisory Board meetings;
- amendment to Art. 33–35, by aligning those provisions of the Articles of Association which relate to the Bank's management and internal control systems with applicable legal regulations;
- amendment to Art. 36, by clarifying those provisions of the Articles of Association which relate to issuance of the Bank's internal regulations;
- addition of new Art. 36a specifying the rules and scope of cooperation with the Bank's related entities and parent entities;
- amendments to Section VI of the Articles of Association "Accounting and own funds" by aligning it with the currently applicable laws and deleting some of its provisions which duplicate the relevant legal regulations.

An application for registration of the amendments was filed with the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register, on 7 November 2016. On 14 February 2017, the amendments to the Articles of Association Bank were registered by the Court.

14.3. Shareholding structure and the General Meeting

As at 31 December 2016, the Bank's share capital consisted of 248,260 shares with a par value of PLN 9,090 per share.

As at 31 December 2016, the sole shareholder in Raiffeisen Bank Polska S.A. was Raiffeisen Bank International AG.

The General Meeting is the supreme governing body of the Bank, through which the shareholder exercises its rights and adopts key decisions as to the Bank's business. The General Meeting operates in accordance with generally applicable laws, including the Polish Commercial Companies Code and the Banking Law.

As at 31 December 2016:

- In line with the accepted practice, General Meetings are held at the Bank's registered office in Warsaw. The Annual General Meeting is convened by the Bank's Management Board for a date falling within six months from the end of each financial year. If the Bank's Management Board fails to convene the General Meeting within the period specified in the Articles of Association, the right to convene the Meeting is vested in the Supervisory Board.
- Extraordinary General Meetings are convened in the cases set out in generally applicable laws and the Articles of Association of Raiffeisen Bank Polska S.A., and whenever persons or bodies authorized to convene a General Meetings deem it fit.
- Members of the Management Board and the Supervisory Board have the right to attend the General Meeting. The auditor of the Bank's financial statements should be invited to attend the General Meeting if their presence is justified or necessary given the matters on the agenda. However, the absence of Management or Supervisory Board members or the auditor does not affect the validity of the General Meeting.
- Apart from the matters listed in the Commercial Companies Code, a General Meeting resolution is also required for: determining remuneration policy for Supervisory Board members, creating and releasing special accounts other than accounts required by law, appointing Bank liquidators in the event of liquidation due to reasons other than stipulated in Chapter 12 of the Banking Law, and deciding on other matters provided for in generally applicable laws or the Bank's Articles of Association, or put forward by the Supervisory Board, the Management Board or shareholders representing at least one-twentieth of the share capital.

14.4. Supervisory Board

The Supervisory Board exercises on-going supervision of the Bank's business. The scope of its activities is regulated by the Banking Law, the Commercial Companies Code, the Bank's Articles of Association and its Rules of Procedure.

Pursuant to the Bank's Articles of Association effective as at 31 December 2016 the Supervisory Board's powers and responsibilities included in particular: supervising the Bank's operations, approving the Bank's economic and financial plans, adopting Rules of Procedure for the Supervisory Board and Rules of Procedure for the Management Board, assessing the Directors' Report on the operations of the Bank and audited financial statements, approving the risk management policy and essential amendments to such policy, defining terms and conditions for the Bank establishing companies in Poland and abroad, representing the Bank in disputes with members of the Management Board, appointing, suspending in duties and removing members of the Management Board, defining remuneration for members of the Management Board, and appointing the auditor of the Bank's financial statements.

Pursuant to Art. 27.1 of the Bank's Articles of Association, the Supervisory Board is also empowered to grant its consent in the form of resolution to the following:

- acquiring or assuming an obligation to acquire assets or businesses where the estimated value of a given transaction or a series of related transactions exceeds in aggregate EUR 20 million and the transaction is not provided for in the economic and financial plan;
- selling, leasing, transferring, assigning or otherwise disposing of all or a part of any property or assets where the estimated value of a given transaction or a series of related transactions exceeds in aggregate EUR 20 million and the transaction is not provided for in the economic and financial plan;
- acceding to any joint venture or profit sharing agreement if the annual value of the agreement exceeds EUR 20 million;
- establishing new branches or making any capital expenditures other than as provided for in the economic and financial plan, where the annual value of such branches or expenditures exceeds EUR 5 million;
- entering into transactions or agreements with a shareholder or a shareholder's related entity other than on an arms' length basis;
- amending the accounting policy or accounting principles, or rules for preparing financial statements subject to an audit;

- issuing any guarantees, creating or granting consent to the creation of any mortgages, encumbrances or any other type of security over an asset, other than within the scope of the Bank's business;
- entering into or terminating consortium agreements and other agreements with the Bank's non-related entities, for option contracts and other similar contracts, which may affect the value of the Bank's shares in related entities or subsidiaries or which may restrict trading in such shares;
- decisions on exercising voting rights in a vote on distribution of profits held at a general meeting of a subsidiary or related entity, where such subsidiary or related entity is a bank or credit institution within the meaning of relevant directives of the European Union;
- issuing bonds, except convertible bonds and bonds with pre-emptive rights, contracting subordinated loans and other liabilities, where contracting such liabilities may affect the control over the Bank's management or profit distribution to the Bank's shareholders;
- acquiring and selling tangible assets where the transaction value exceeds the limits specified by the Supervisory Board;
- acquiring and selling real estate and encumbering real estate owned by the Bank as well as entering into any agreements related to real estate owned by the Bank, other than acquiring real estate under recovery proceedings and selling or encumbering real estate acquired under such proceedings;
- entering into an agreement for lease or rental of real estate to the Bank and any other agreements related to such lease or rental agreements where their value exceeds the limits specified by the Supervisory Board;
- defining limits for country risk, FX risk, and interest rate risk;
- entering into employment contracts and other agreements concerning employment which provide for the acquisition of additional entitlements upon termination of employment with the Bank, such as compensations, bonuses, remuneration, commission, stock options, pension rights or any other form of consideration or rights;
- defining general conditions for granting bonuses to employees;
- approving candidates for supervisory boards and management boards of the Bank's subsidiaries and related entities.

The composition of the Supervisory Board of Raiffeisen Bank Polska as at 31 December 2016 was as follows:

- Karl Sevelda – Chairman of the Supervisory Board;
- Martin Grüll – Vice Chairman of the Supervisory Board;
- Johann Strobl;
- Klemens Breuer;
- Peter Lennkh;
- Andreas Gschwenter;
- Herbert Stepic;
- Władysław Gołębiewski;
- Selcuk Sari.

The following committees operate within the Supervisory Board: Executive Committee, Audit Committee, Remuneration Committee, and Risk Committee.

The composition of the Supervisory Board committees as at 31 December 2016 was as follows:

Members of the Supervisory Board	Executive Committee	Audit Committee	Remuneration Committee	Risk Committee
Dr Karl Sevelda	-	-	Chairman	Chairman
Martin Grüll	Chairman	Chairman	Member	Member
Dr Johann Strobl	Member	Member	Member	Member
Peter Lennkh	Member	-	-	-
Władysław Gołębiewski	-	Member	-	-

Executive Committee

Pursuant to the provisions of the Bank's Articles of Association, the Executive Committee makes decisions on the following:

- approving loans to be granted, including credit facilities and contingent liabilities towards a single borrower;
- approving restructuring limits and credit opinions;
- approving write-offs for non-performing exposures to a single borrower;
- reporting and submitting reports on its operations to the Supervisory Board.

The Executive Committee consists of three persons appointed by the Supervisory Board from among its members for a term of five years, however no longer than the term of their respective mandates on the Supervisory Board. The Executive Committee is headed by a Chairperson nominated by the Supervisory Board. Meetings of the Executive Committee are convened by the Chairman as needed and depending on the Bank's current situation.

Before making a decision related to the Bank's lending activities the Supervisory Board is required to obtain prior consent from the Executive Committee.

Audit Committee

According to the Rules of Procedure approved by the Supervisory Board, responsibilities of the Audit Committee include:

- monitoring the financial reporting process;
- monitoring the effectiveness of internal control, internal audit and risk management systems;
- monitoring audit activities;
- monitoring the independence of the auditor and of the auditing firm (entity qualified to audit financial statements), including in the case of non-audit services.

The Audit Committee consists of persons appointed by the Supervisory Board from among its members for a period corresponding to the Supervisory Board's term of office. At least one member of the Audit Committee should be an independent member and should have knowledge and experience in accounting, bookkeeping and financial reporting. The Audit Committee is chaired by the Chairman of the Supervisory Board, if appointed to the Committee. The foregoing applies to the Vice-Chairman of the Supervisory Board if the Chairman of the Supervisory Board is not appointed to the Committee.

Meetings of the Audit Committee should be convened whenever the Chairman of the Committee or, in his or her absence, the Vice-Chairman considers it necessary in view of current developments, but in any case at least four times a year.

Remuneration Committee

Pursuant to its Rules of Procedure, key responsibilities and objectives of the Remuneration Committee include:

- issuing opinions on variable remuneration policies and determining the amounts of variable remuneration components;
- making decisions on any matters related to terms of remuneration for executive managers (in particular salary limits, amounts of bonuses and other allowances);
- considering and recommending to the Supervisory Board modifications to the terms of contracts for executive managers in the Bank.

The Remuneration Committee consists of three to five persons appointed by the Supervisory Board from among its members for a term of five years, however no longer than the term of their mandate on the Supervisory Board.

The Remuneration Committee includes the Chairman, the Vice-Chairman and other members. Meetings of the Remuneration Committee are held as needed, but in any case at least four times a year.

Risk Committee

Pursuant to its Rules of Procedure, key responsibilities and objectives of the Risk Committee include:

- providing opinions on the Bank's overall current and future risk appetite;
- providing opinions on the risk management strategy developed by the Management Board and on strategy implementation reports received from the Management Board;
- assisting the Supervisory Board in supervising the implementation of the risk management strategy by the senior management;
- checking whether the prices of assets and liabilities offered to clients fully reflect the Bank's business model and risk strategy, and where the prices fail to adequately reflect the risks in line with the model and the strategy, presenting the Management Board with relevant proposals to ensure the prices of assets and liabilities adequately reflect those risks;
- providing opinions on draft rules for sound and prudent management of the Bank;
- assessing and presenting to the Supervisory Board recommendations on the methods and quality of compliance risk management.

The Risk Committee consists of three to five members, appointed by the Supervisory Board from among its members for a period corresponding to the Supervisory Board's term of office. The Risk Committee is chaired by the Chairman of the Supervisory Board, if appointed to the Committee. The foregoing applies to the Vice-Chairman of the Supervisory Board if the Chairman of the Supervisory Board is not appointed to the Committee. All Risk Committee members should have knowledge and experience in the field of risk management, enabling them to fully understand and monitor the Bank's risk strategy and risk appetite.

Meetings of the Risk Committee should be convened whenever the Chairman of the Committee or, in his or her absence, the Vice-Chairman considers it necessary in view of current developments, but in any case at least four times a year.

14.5. Management Board

The Management Board operates pursuant to the Rules of Procedure adopted by the Supervisory Board, the provisions of the Bank's Articles of Association, and applicable laws.

The Management Board consists of at least three members appointed by the Supervisory Board for a joint five-year term. The Management Board includes the President of the Management Board, Vice-President or Vice-Presidents of the Management Board, and other members. The Vice-President of the Management Board or one of the Vice-Presidents of the Management Board may be appointed by the Supervisory Board to the position of First Vice-President who supervises in particular the Bank's retail banking operations.

The composition of the Management Board as at 31 December 2016 was as follows:

- Piotr Czarnecki – President of the Management Board, CEO;
- Maciej Bardan – First Vice President of the Management Board;
- Jan Czeremcha – Vice President of the Management Board;
- Ryszard Drużyński – Vice President of the Management Board, COO;
- Łukasz Januszewski – Member of the Management Board;
- Piotr Konieczny – Member of the Management Board, CFO.

On 18 October 2016, Mr. Marek Patuła resigned as the Management Board member in charge of risk management. On 7 November 2016, the Bank's Supervisory Board conditionally appointed Mr. Witold Broniszewski to take the position. The appointment will take effect on the date the Bank receives approval from the Polish Financial Supervisory Authority to appoint Mr. Witold Broniszewski as the

Management Board member responsible for the management of risks material to the Bank's operations. As at 31 December 2016, the PFSA decision was pending and oversight of the management of risks material to the Bank's operations was temporarily entrusted to the President of the Management Board. On 14 July 2017, the PFSA expressed its consent in question and Mr. Witold Broniszewski was appointed the Management Board member responsible for the management of risks material to the Bank's operations.

On 22 December 2016, Mr. Ryszard Drużyński resigned as Vice President of the Management Board responsible for operations and IT management, with effect from 31 January 2017.

The Management Board is the Bank's executive body and its members are jointly responsible for all of the Bank's operations. Members of the Management Board work collectively and report to one another on the most important matters concerning the Bank that fall within their respective scopes of competence.

Management Board decisions are made in the form of resolutions passed with an absolute majority of votes. Resolutions of the Management Board may be adopted using means of remote communication. Resolutions adopted is this way are valid only if all members of the Management Board have been notified of the content of the draft resolution and give their consent to this voting procedure.

After obtaining the Supervisory Board's opinion, the Management Board may decide on the establishment or liquidation of organizational units at the Head Office or local organizational units, and on the Bank's internal organization as defined in the Bank's Organizational Rules.

The Management Board in particular makes decisions, in the form of Management Board's orders, on general terms and conditions of agreements and rules pertaining to the Bank's business as well as interest rates applicable to deposits in bank accounts, loans and advances, fee and commissions rates, and interest capitalization periods.

Members of the Management Board in particular make decisions, in the form of Management Board Member's orders, on operating instructions and general product handling instructions, rules for implementing tasks of the organizational units reporting to respective Members of the Management Board, organizational rules of their subordinate units, as well as rules and procedures for controls at their subordinate organizational units.

14.6. Principles of sound and prudent management of the Bank as part of the risk management system

The Bank's Management Board makes every effort to ensure that the organization of the risk function facilitates implementation of the risk strategy and helps the Bank to maintain the risk appetite within the limits approved by the Supervisory Board. For that purpose, specialized committees have been established at the Bank to support implementation of the respective objectives.

As part of the risk management system, the Bank applies:

- formal rules for measuring the Bank's risk exposure and risk management principles;
- formal procedures for identifying, measuring or estimating, and monitoring risks inherent in the Bank's operations, taking into account the expected level of future risk, which is analyzed using various tools, including stress tests;
- formalized limits to mitigate the risks, and rules to be followed if the limits are exceeded;
- a management accounting system, adopted by the Management Board, which makes it possible to monitor risk levels;
- a set of measures defined in a recovery plan to be applied in the event of a significant deterioration of the Bank's financial standing, threat to the Bank's financial stability, challenging macroeconomic conditions or other circumstances having an adverse effect on the financial market or the Bank.

14.7. Principles of sound and prudent management of the Bank as part of the internal control system

The Bank has in place an internal control system which consists of control processes supporting management. Its objective is to support the decision-making processes and thus contribute to ensuring implementation of the Bank's strategic objectives, operating effectiveness and efficiency, reliability of financial reporting, keeping the risk at acceptable levels, safety and security of assets, as well as compliance with applicable laws, internal regulations, and good banking practices.

The Supervisory Board and the Management Board of the Bank put special emphasis on the implementation and maintenance of an adequate, effective and comprehensive system of internal controls in all areas of the Bank's operations, to provide solutions enabling successful delivery of the Bank's objectives and guarantee its security.

The internal control system has been designed to match the Bank's organizational structure, and it is appropriate for the Bank's business, size and defined risk profiles.

The system is built on the following pillars (lines of defense):

1. functional internal control function built into the Bank's processes – the processes defined in internal regulations include properly designed functional internal controls, which operate to bring risks associated with the processes to an acceptable level;
2. built-on internal control function, based on controls outside the processes defined in the Bank's internal regulations and covering all organizational units of the Bank, which serves to control these processes in line with the Internal Control Plans adopted annually;
3. independent internal audit unit whose task is to independently and objectively examine and assess the compliance of the Bank's activities with the Articles of Association; decisions, orders, and resolutions of the Bank's governing bodies; and statutory requirements, in order to ensure that the Bank operates in a safe manner in compliance with the law and that the risk management and internal control systems are adequate and work effectively. Internal audit independence mechanisms, its mission and operating methods are governed by relevant internal documents: the Strategy, the Audit Card, Regulations of the Internal Audit Department, and Regulations of the Audit Committee.

Monitoring of the risk of non-delivery of the stated internal control objectives is governed by the Strategy and the Functional Internal Control Policy.

In 2016, there was no need to assess the risk of non-delivery of internal control objectives, to adjust processes to reflect the risk, or to document this process. The risk was identified, but it was found to be immaterial in the course of risk materiality assessment. This means that the internal control process in place is effective enough to ensure that the risk of non-delivery of internal control objectives does not materialize.

14.8. Principles of sound and prudent management of the Bank as part of the compliance system

The Bank's Management Board is responsible for ensuring compliance of the Bank's operations with the applicable laws, taking into account the Bank's relations with other entities which could adversely affect sound and prudent management of the Bank, including entities performing certain services to the Bank on an outsourcing basis. The compliance process management is based on regulations approved by the Bank's governing bodies.

The Bank's Management Board is responsible for the effectiveness of the compliance system, which includes:

- maintaining and coordinating an appropriate and effective system of internal processes and controls aimed at mitigating the compliance risk;

- preparing and implementing internal rules and procedures in accordance with applicable laws and regulations;
- identifying, assessing, mitigating and monitoring the compliance risk, particularly in such areas as counteracting money laundering and financing of terrorism, MIFID Directive, and internal codes of conduct;
- mechanisms that guarantee operational independence to the Security and Compliance Department.

The Bank's Management Board also seeks to ensure compliance with the highest professional and ethical standards at the Bank. To this end, the Bank implemented relevant procedures, including the Code of Conduct for Employees, whistleblowing procedures, rules for the management of conflicts of interest, as well as anti-corruption policies, including policies for accepting and giving gifts and invitations.

14.9. Principles of sound and prudent management of the Bank as part of the capital management system

Capital management is an element of the sound and prudent management of the Bank. The Bank's Management Board implements the Capital Management Policy approved by the Supervisory Board, setting out general guidance and objectives for capital management. Some elements of the process include:

- capital planning;
- monitoring of and reporting on performance against capital plans;
- system of limits for regulatory and economic capital;
- monitoring of capital limits, escalation procedures and management measures in case a limit is exceeded;
- capital contingency and recovery plans;
- scenario sensitivity analysis of capital adequacy;
- internal capital adequacy assessment process (ICAAP);
- monitoring of the leverage ratio and managing the excessive leverage risk.

Capital risk is identified at two levels – as part of the planning process and of the capital adequacy monitoring process.

The capital planning process plays an important role in capital management. It sets capital targets and ensures an adequate structure of own funds to enable delivery of the business objectives defined in the financial plan. When planning capital requirements and how the capital will be used, the Bank takes into account the requirements of its owners, regulatory requirements and recommendations, and the planned risk profile.

14.10. Auditor

The auditor of the Bank's and Group's annual financial statements was appointed in compliance with applicable laws. The auditing firm and the auditors that performed the audit satisfy conditions required to issue an impartial and independent opinion on the annual financial statements in compliance with the applicable Polish laws.

In 2016, the Bank's Supervisory Board appointed Ernst & Young Audyt Polska sp. z o.o. sp.k. as the auditor of the Bank's financial statements and the Group's consolidated financial statements for 2016. The Bank's previous auditor was KPMG Audyt sp. z o.o. sp. k.

The auditor's remuneration for its services to the Raiffeisen Bank Polska S.A. Capital Group was as follows:

Auditor's remuneration (in PLN thousand net)	**Concerning the year**	
	2016	**2015[1]**
Remuneration for the audit of the annual financial statements	360	639
Remuneration for other attestation services	0	758
Other	0	496
Total	**360**	**1,893**

[1] In favour of KPMG Audyt Sp. z o.o. Sp. k.

15. Statement of the Management Board of Raiffeisen Bank Polska

15.1. Reliability and accuracy of the presented financial statements

The Management Board of Raiffeisen Bank Polska, comprising: Piotr Czarnecki – President of the Management Board, Maciej Bardan – First Vice President of the Management Board, Jan Czeremcha – Vice President of the Management Board, Witold Broniszewski - Member of the Management Board, Łukasz Januszewski – Member of the Management Board, and Piotr Konieczny – Member of the Management Board, represent that to the best of their knowledge:

- the stand-alone annual financial statements for the financial year ended 31 December 2016 and comparative data were prepared in compliance with applicable accounting standards and give a true, fair and clear view of the assets and financial position of Raiffeisen Bank Polska S.A. and its financial result;
- the consolidated annual financial statements for the financial year ended 31 December 2016 and comparative data were prepared in compliance with applicable accounting standards and give a true, fair and clear view of the assets and financial position of Raiffeisen Bank Polska S.A. Capital Group and its financial result;
- the report on the operations of Raiffeisen Bank Polska S.A. Capital Group in 2016 including Management Board report on the operations of Raiffeisen Bank Polska S.A. in 2016 gives a true view of the development, achievements and situation of Raiffeisen Bank Polska S.A. and Raiffeisen Bank Polska S.A. Capital Group, including the description of principal risks and threats.

15.2. Appointment of the auditor

The Management Board of Raiffeisen Bank Polska represents that the entity qualified to audit financial statements for 2016, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., auditing the annual financial statements of Raiffeisen Bank Polska S.A. and Raiffeisen Bank Polska S.A. Capital Group for 2016, was appointed in compliance with the applicable laws. The auditing firm and the auditors acting on its behalf satisfied conditions required to issue an impartial and independent auditor's opinion in compliance with the applicable laws and professional standards.