Directors' Report on the Operations of the Raiffeisen Bank Polska S.A Capital Group in 2017 including the Directors' Report on the Operations of Raiffeisen Bank Polska S.A.

The Bank's Management Board presents
the Directors' Report on the Operations of the
Raiffeisen Bank Polska S.A. Capital Group in 2017
including the Directors' Report on the Operations of
Raiffeisen Bank Polska S.A.

Piotr Czarnecki	President of the Management Board	....
first name and surname	*position*	*signature*
Maciej Bardan	First Vice President of the Management Board	....
first name and surname	*position*	*signature*
Jan Czeremcha	Vice President of the Management Board	....
first name and surname	*position*	*signature*
Witold Broniszewski	Member of the Management Board	....
first name and surname	*position*	*signature*
Michael Höllerer	Member of the Management Board	....
first name and surname	*position*	*signature*
Piotr Konieczny	Member of the Management Board	....
first name and surname	*position*	*signature*
Werner Georg Mayer	Member of the Management Board	....
first name and surname	*position*	*signature*

Warsaw, 6 March 2018

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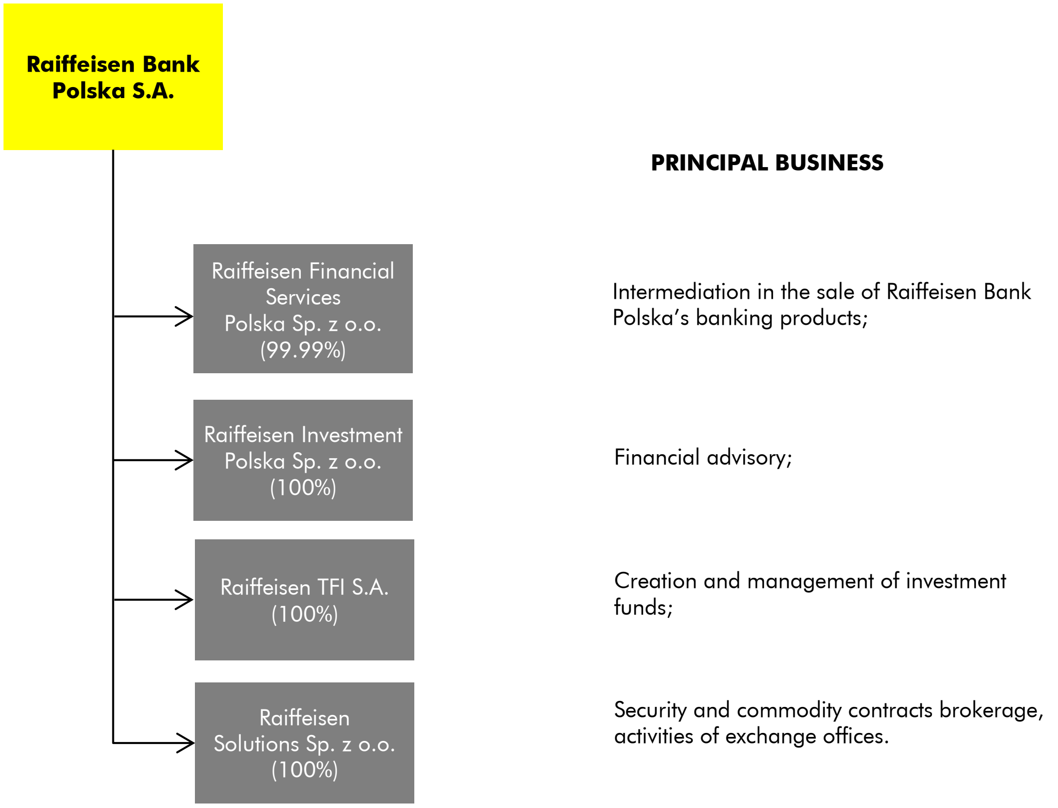
1. Overview

The Raiffeisen Bank Polska Group (the "Group"), comprises Raiffeisen Bank Polska S.A. (the "Bank", "Raiffeisen Polbank", "Raiffeisen Bank Polska") as the Parent, and its subsidiaries. Composition of the Raiffeisen Bank Polska Group as at 31 December 2017:



In the period covered by this Directors' Report, there was one change in the Group's structure – on 1 October 2017, Leasing Poland Sp. z o.o. was placed in liquidation by a resolution of its Extraordinary General Meeting. The liquidation of Leasing Poland Sp. z o.o. was completed on 31 December 2017.

On 15 January 2018, the Extraordinary General Meeting of Raiffeisen Investment Polska Sp. z o.o. passed a resolution to place this company in liquidation. On 22 January 2018, the company applied to the National Court Registry to register the commencement of the liquidation proceedings. As at the date of this Directors' Report, the registration applied for has not yet been made by the National Court Registry.

1.1. Economic growth

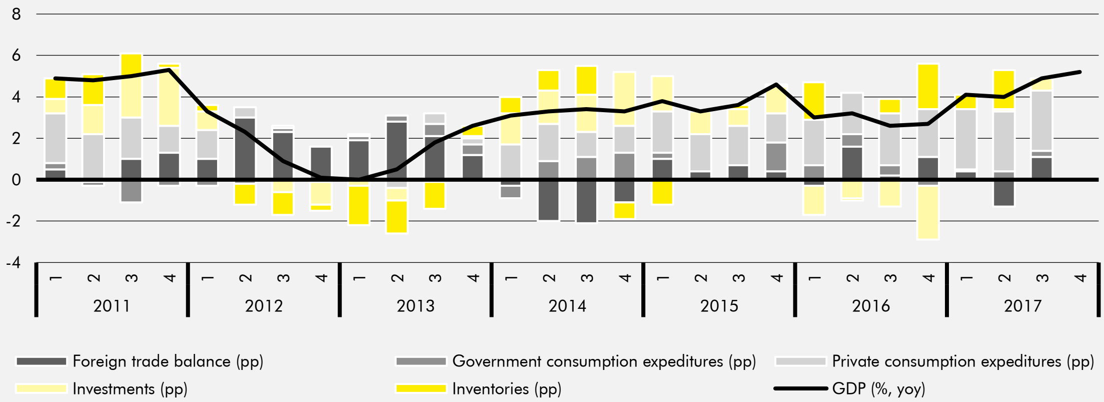
2017 witnessed a strong improvement in Poland's economy. In the first three quarters of 2017, the average GDP growth rate was 4.3 per cent year on year, and the full-year figure was close to 4.6 per cent, relative to 3.1 per cent year on year suggested by the median GDP growth rate forecast at the end of 2016. According to the preliminary estimate of the Central Statistical Office (GUS), Poland's economic growth rate in the last quarter of 2017 amounted to 5.1 per cent year on year, compared with 4.9 per cent year on year recorded in the third quarter 2017 and 2.7 per cent in the fourth quarter 2016.

Internal demand continued as the key driver of Poland's economic growth, with private consumption playing a major role. During the first three quarters, it contributed an average of 2.9 percentage points to GDP, against 2.3 percentage points for the entire previous year, with full-year consumption up 3.8 per cent year on year. Rising demand from households was driven by improving labor market readings and continuing beneficial effects of social transfers under the government's family support policy.

Despite the rapid growth of the entire economy, investment spending was still disappointing, having gone up by an average of 1.2 per cent year on year in the first three quarters. As in 2016, the key factor behind its restricted growth was a limited inflow of EU funds related to the disbursement gap between the previous and new EU financial frameworks. However, the last quarter of 2017 saw a distinct recovery in investment, up by 5.4 per cent year on year in 2017, which means a double-digit growth in the fourth quarter.

On the other hand, a moderate rise in investment demand supported foreign trade figures. Despite the economic upswing, in the first three quarters of 2017 imports grew 7.1 per cent year on year, 0.8 percentage point less than in the entire previous year. A slower rise in demand for foreign goods and services helped mitigate the negative impact on GDP from lower exports growth, which declined in the reporting period from 8.8 per cent to 6.8 per cent year on year. Given the signs of improved economic conditions in countries which are Poland's main trading partners, the slowdown in exports may be associated with the strengthening of the złoty throughout 2017.

Dynamics and structure of economic growth in Poland



Source: Central Statistical Office (GUS).

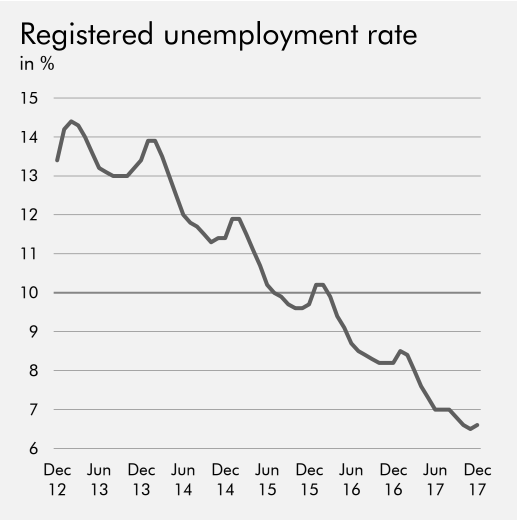
1.2. Labor market

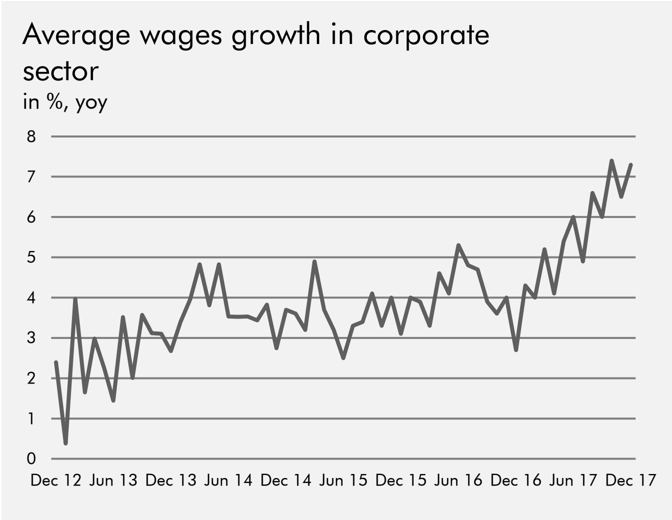
The registered unemployment rate fell again in 2017, having averaged 7.3 per cent, down 1.6 percentage points relative to 2016. This can be partly explained by statistical effects related to the pension system reform, as a result of which many persons registered as unemployed left the labor market.

However, the drop in the jobless rate was chiefly attributable to significant demand for labor led by the strong GDP growth. In 2017, employment in the enterprise sector increased on average by 4.5 per cent year on year, compared with 2.9 per cent year on year in 2016.

The Central Statistical Office's employment data for the first three quarters of 2017 indicates that in the industry sector the highest growth was in manufacturing (up 3.9 per cent year on year) and the steepest decline in mining (down 3.2 per cent year on year). In the services sector, the strongest growth in employment (up 9.9 per cent year on year) was recorded in administrative and support service activities. A decline in employment, on the other hand, was seen in financial and insurance services, down 0.7 per cent year on year.

However, the strong demand for labor coupled with the significant drop in unemployment had little impact on the dynamics of wages in 2017. In the enterprise sector, wages grew by an average of 5.6 per cent year on year, relative to 4.1 per cent year on year in 2016. In terms of purchasing power, the real wages growth last year slumped to 3.6 per cent year on year, against 4.7 per cent in 2016.





Source: GUS.

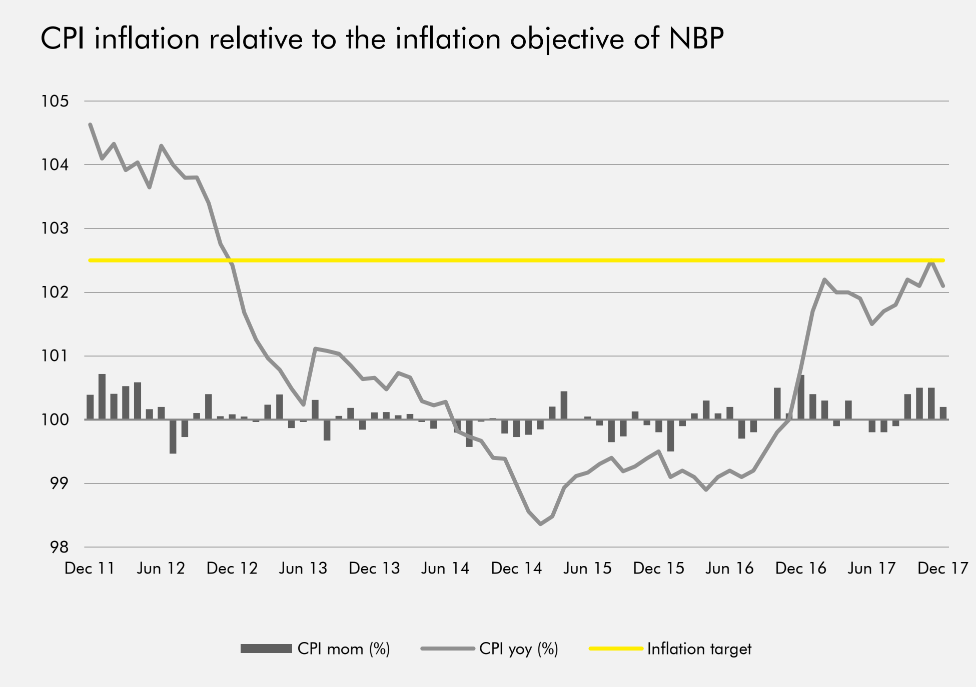
1.3. Inflation

The main factor negatively impacting the purchasing power last year was inflation growth, which in the first months of 2017 accelerated to over 2 per cent year on year, hovering around that figure afterwards. In the entire year, CPI peaked at 2.5 per cent year on year in November, and fell to its lowest level of 1.5 per cent year on year in June.

Last year, consumer price fluctuations were mainly driven by fuel and food prices, which remain beyond the national monetary policy's control. Considering that, globally, most commodities are traded in the US dollar, prices in Poland were also affected by a significant drop in the USD/PLN exchange rate recorded over the year.

With inflation driven up markedly by food and fuel, the core inflation index, with food and energy prices factored out, remained compressed throughout the year, at close to 0.7 per cent year on year. The index peaked at 1 per cent year on year in September, and reached its lowest level of 0.2 per cent year on year in January 2017.

Growing oil prices in 2017 were also reflected in a faster pace of growth of industrial production prices. Last year, the PPI inflation rose by an average of 2.9 per cent year on year, in contrast to the year before, when it went down 0.1 per cent year on year. However, there are no significant inflationary pressures on production prices. Already in late 2017, the high base effect pushed the annual inflation rate close to zero again, to the level of only 0.3 per cent in December.



Source: GUS and National Bank of Poland („NBP").

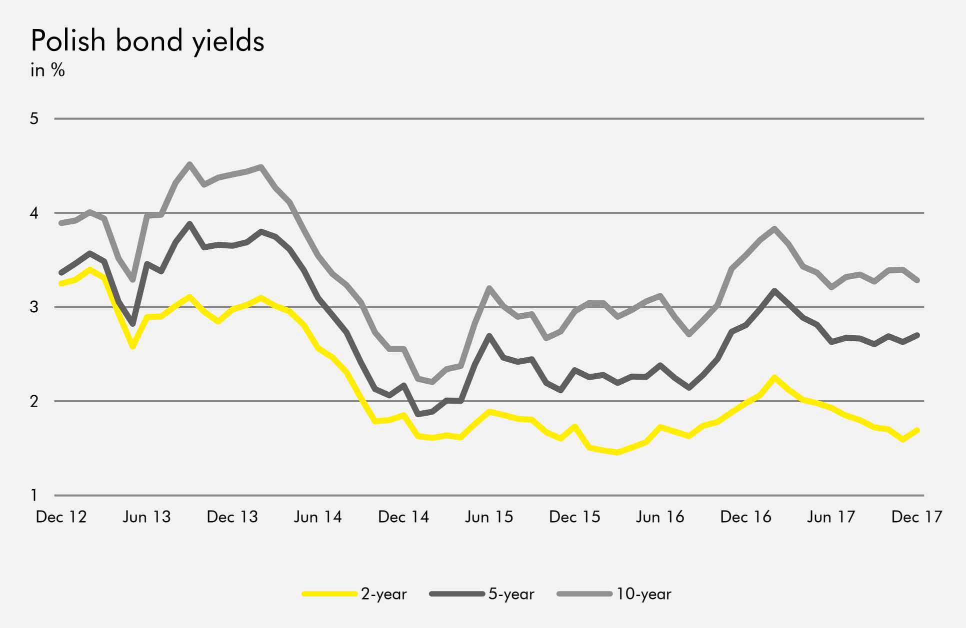
1.4. Public finances and debt securities market

In 2017, the condition of Poland's public finances remained healthy, with a budget surplus run for the better part of the year, mainly on the back of high budget receipts, supported by the government's tax sealing measures, as well as the robust GDP growth. From January to December, the state budget received PLN 350.5 billion in revenue, with expenditure at PLN 375.9 billion, up 7.7 per cent, and down 2.3 per cent, respectively, against the budget schedule for 2017, prepared in December 2016.

With the low risk of a budget deficit widening to dangerous levels, Poland's credit ratings remained intact. At the end of 2017, S&P, Moody's, and Fitch maintained their stable outlook for Poland, at BBB+, A2, and A-, respectively. As a key factor that could negatively impact Poland's credit ratingin the future, they pointed to a possible deterioration of the investment climate, which could slow down economic growth and hurt future tax revenues.

The low deficit and appreciation of the złoty helped reduce the State Treasury's debt. Based on preliminary data, debt at the end of December 2017 stood at PLN 927.9 billion, down 0.1 per cent relative to the end of December 2016, with złoty-denominated instruments accounting for its major part (69.4 per cent). In addition to the declining debt, another factor benefiting public finances in 2017 was lower cost of new debt issues.

Yields on 2Y and 10Y Treasuries fell over the past year by approximately 30 basis points, to 1.7 per cent and 3.3 per cent, respectively. A decline in the yield on 5Y Treasury bonds was slightly lower, of almost 20 basis points, to 2.7 per cent. The significant lowering of the yield curve reflected the dovish approach adopted by the majority of the Monetary Policy Council members, the moderate inflation rate and low risk of rating downgrade thanks to solid budget performance. In addition, the exemption of Treasury bonds from the "bank tax" boosted demand from Polish banks.



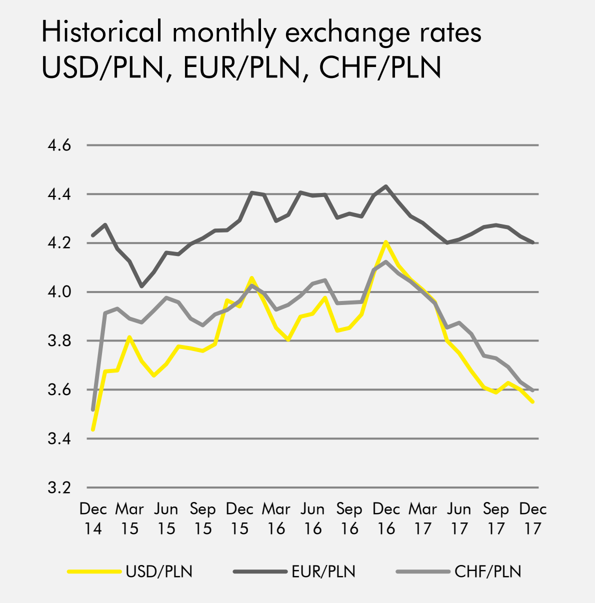
Source: Bloomberg.

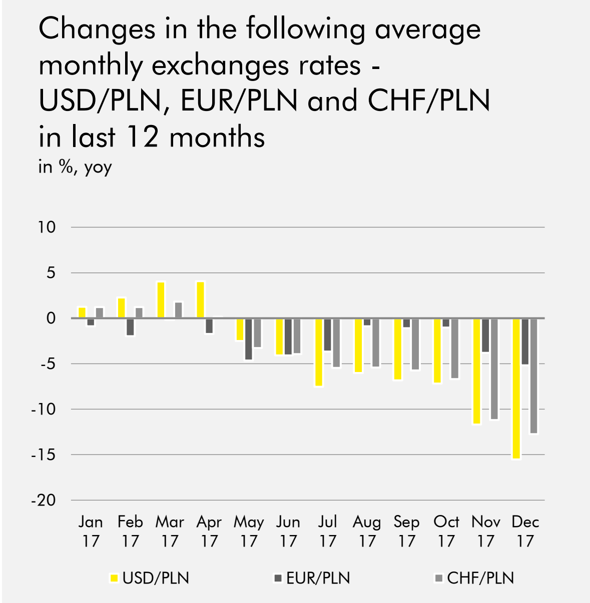
1.5. Exchange rates

The stable fiscal position and strong economic growth supported an appreciation of the złoty against the main foreign currencies. In the period from December 2016 to December 2017, the Polish złoty strengthened against the US dollar and Swiss franc by, respectively, 15.5 per cent and 12.8 per cent (based on NBP's monthly average rates). Its appreciation against the euro was less pronounced in the period under review, at 5.2 per cent, mainly as a result of the euro's strength on global markets, supported by an economic upturn in the eurozone and growing expectations that the ECB would normalize its monetary policy.

The entire year saw a steady appreciation of the Polish currency, except for its fluctuations against the euro. The rise in the EUR/PLN exchange rate was especially notable between June and September, when the markets awaited the European Central Bank's decision to taper the QE (quantitative easing) program, which strengthened the euro against a number of currencies, including the złoty. In Poland, the inflation rate also dropped at that time, virtually putting an end to discussions on possible interest rate rises. At the beginning of October though, the euro started to rapidly depreciate against the złoty, as had been the case earlier between January and May.

At the same time, the złoty's strengthening against the US dollar and Swiss franc was supported by significantly lower risk on global markets, which increased international investors' appetite for riskier assets. In case of the US dollar, demand was further dampened by market concerns over the size of interest rate rises in the US.





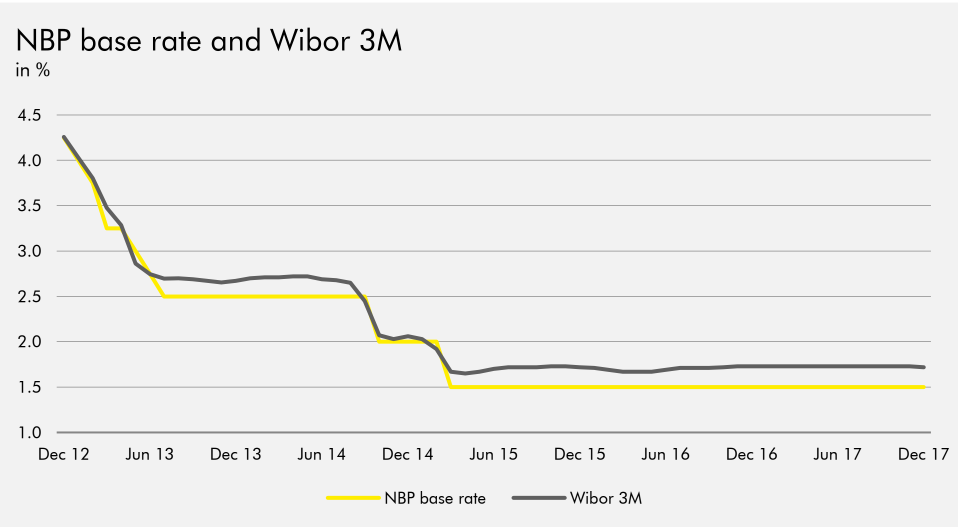
Source: NBP.

1.6. Monetary policy

The exceptionally strong złoty offset, to a large extent, the rise in oil prices last year, helped curb inflation and allowed the Monetary Policy Council to continue its expansionary monetary policy. No rate changes were made by the Council during the year, with the main rate left at 1.5 per cent.

Official communications by the monetary authorities focused on the low level of core inflation and no signs of inflationary pressure from nominal wages growth. The Council also pointed out the absence of adverse economic effects of the low real interest rates, such as an excessive increase in lending or fast decline in bank deposit volumes.

Therefore, the main monetary policy changes last year included a reduction of the required reserve rate to 0 per cent for cash on deposit in banks for more than two years, and a reduction of interest rate on required reserve funds to 0.5 per cent. These measures should encourage the Polish banking sector to increase lending and acquire long-term deposits.



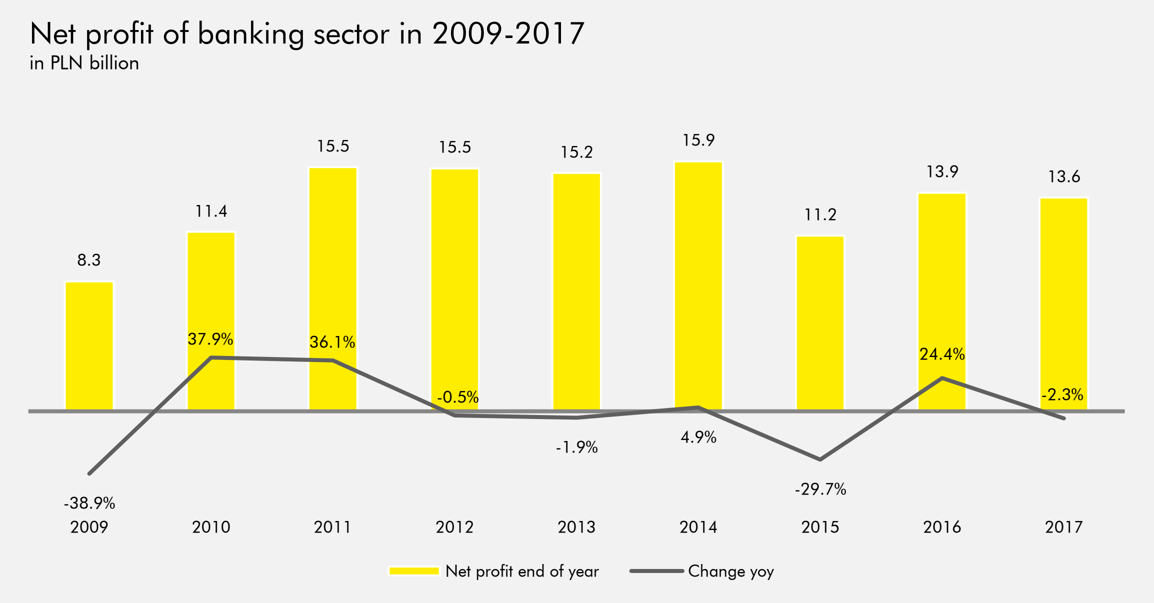
Source: NBP and Bloomberg.

1.7. Banking sector

In 2017, situation in the banking sector remained stable, despite the low interest rates and continuing payments of financial institutions, effective from February 2016 (according to the estimates of the Ministry of Finance, by November 2017 the state budget had received an additional PLN 4.0 billion in revenue on account of this tax, but the levy adversely affected banks' performance: in 2017, their general administrative expenses including depreciation and amortization grew by 4.0 per cent year on year). On the other hand, the banking sector's performance was positively affected by the accelerated economic growth, strong labor market, higher consumption, and improved financial condition of the corporate sector.

According to the Polish Financial Supervision Authority, in 2017 the aggregate net profit of the banking sector was PLN 13.6 billion, down 2.3 per cent year on year. The following items contributed to the sector's earnings in the period:

- Net interest income of PLN 42.6 billion, up 12.1 per cent versus 2016;
- Operating income of PLN 61.8 billion, up 4.1 per cent year on year;
- General administrative expenses (including amortization and depreciation) reaching PLN 36.0 billion after a year-on-year increase of 4.0 per cent, partly driven by the bank tax (to be paid for twelve months in 2017) and increased personnel costs;
- Recognized impairment losses of PLN 8.2 billion, down 6.9 per cent year on year.

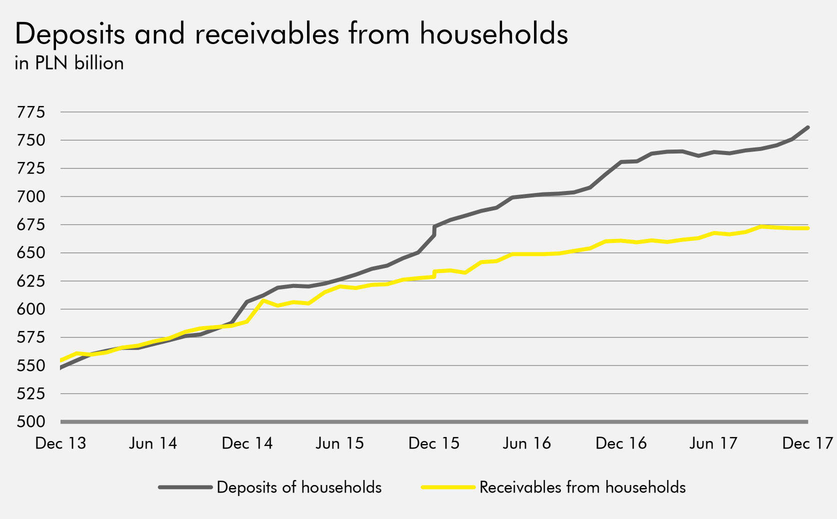


Source: the Polish Financial Supervision Authority ("PFSA").

At the end of 2017, the key items of the banking sector's balance sheet were as follows:

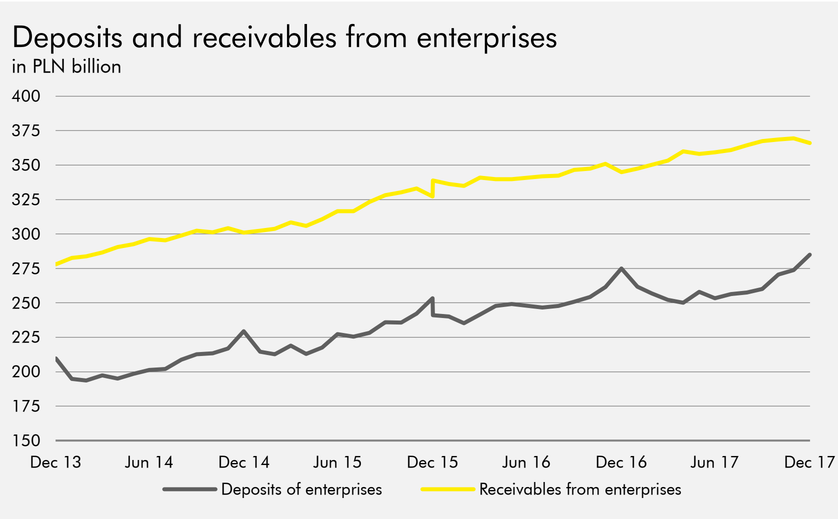
- Household deposits stood at PLN 761.3 billion and were higher by 4.2 per cent (up PLN 30.6 billion) than at the end of 2016. Thus, despite the continuing improvement on the labor market and rising wages, the growth rate in deposit volumes was on a decline – at the end of 2016 deposit volumes grew by 9.8 per cent relative to the end of 2015, supported by the "Family 500+" government program (in force since April 2016). Moreover, the current slower growth is attributable to a number of factors, including low interest rates on bank deposits as well as high consumption, supported by the rising – albeit still low – inflation and low interest rates;
- Amounts due from households reached PLN 672.0 billion, having grown 1.7 per cent year on year (up PLN 11.3 billion). Housing loans, accounting for 58.7 per cent of the total amounts due from households, fell by 1.5 per cent relative to the end of 2016, to PLN 394.3 billion at the end of 2017. The value of housing loans in the złoty rose by 10.5 per cent, to PLN 259.0 billion, while the volume of foreign currency loans fell by 18.5 per cent, to PLN 135.2 billion. The decrease was caused by successive repayments and barely any sales of foreign currency loans, as well as złoty's appreciation against main currencies (at the end of 2017, the CHF/PLN rate went down by 13.4 per cent year on year, EUR/PLN rate by 5.7 per cent year on year, and

USD/PLN rate by 16.7 per cent year on year, according to the NBP). As a result, the share of foreign currency-denominated loans in the total value of housing loans was down 7.1 percentage points year on year, to 34.3 per cent, and the share of Swiss franc-denominated loans fell 1.7 percentage point, to 79.2 per cent of all foreign currency-denominated housing loans. The share of consumer loans in the total household loans reached 24.2 per cent, and their value at the end of 2017 was PLN 162.3 billion (up 8.0 per cent year on year);



Source: PFSA.

- Corporate deposits reached PLN 285.0 billion, up 3.6 per cent (PLN 10.0 billion) relative to the end of 2016. In comparison, in 2016 corporate deposits increased by 8.5 per cent (PLN 21.6 billion) year on year;
- Amounts due from corporates were PLN 366.0 billion, up 6.1 per cent (PLN 21.1 billion) relative to the end of 2016. Amounts due from small and medium-sized enterprises (SMEs) grew faster than amounts due from large enterprises – by 6.7 per cent year on year, to PLN 206.6 billion, compared with a 5.4 per cent year-on-year increase, to PLN 159.4 billion, in the large enterprises segment. The largest increase was seen in investment loans: 10.9 per cent in the SME segment and 10.2 per cent in the large enterprises segment.



Source: PFSA.

Following the introduction of PFSA's sectoral and individual recommendations for banks with regard to dividend policy and capital buffers, the capital base of Poland's banking sector further improved to PLN 204.3 billion at the end of 2017 (up 11.2 per cent from the end of 2016), while the capital adequacy ratio at the end of September 2017 rose to 18.6 per cent, i.e. by 0.9 percentage point relative to the end of 2016 (based on PFSA data).

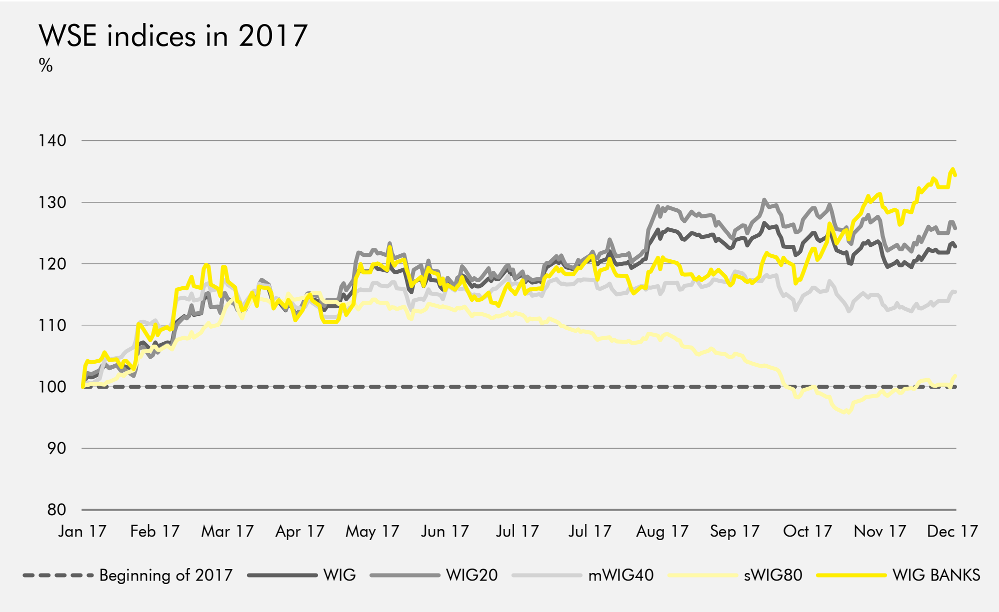
1.8. Capital market

Throughout 2017, the performance of the Warsaw Stock Exchange (WSE) market indices was volatile. The main WIG index fluctuated from 0 per cent to plus 27 per cent relative to the beginning of 2017. Ultimately, WIG closed the year with a 23 per cent gain. The WSE's main index fared so well on the back of strong performance in 2017 of large-cap stocks making up the WIG20 index. By the end of the year, the blue-chip index gained nearly 26 per cent. Against the strong WIG and WIG20 indices, the mid-cap index (mWIG40) did not perform equally well, rising 15 per cent over the year. The small-cap index (sWIG80) generated a token rate of return of only 2 per cent. The strong performance of blue chips was attributable to a reversal in investor sentiment towards the commodity and banking sectors. WIG-Banks closed the year 34 per cent higher than at the beginning of January 2017.

The number of IPOs on the WSE was ten (down from 19 in 2016). Record low interest rates prompted companies to exit the WSE and seek debt financing. The value of bonds listed on the Catalyst market (the bond market operated on the WSE's and BondSpot's trading platforms) amounted to PLN 95.8 billion, having grown 17 per cent year on year. The growth was accompanied by an 11 per cent drop in the trading volume, to PLN 2.8 billion.

The market of index futures also saw a year-on-year decrease in the trading volume, of 4 per cent.

The segment of structured products continued to grow strongly, by 7 per cent year on year, with a turnover of PLN 950 million, in line with the trend which brought it up nearly 24 per cent in 2016.



Source: Bloomberg.

2. Key events and achievements at the Bank and Raiffeisen Bank Polska S.A. Capital Group in 2017

The Group is one the ten largest universal banking groups in Poland. It focuses on the middle market, comprising especially small and medium-sized enterprises, as well as relationship-based banking for retail clients, with a particular emphasis on partnership and rewards for loyalty. The Group maintains also strong relationships with large corporates and international clients.

In 2017, the Group focused on the execution of its current strategy while adapting its business model to changes in the environment and to market challenges. Following the recent developments in the banking environment, including growing regulatory costs, technological revolution driving the changes in the customer behavior and preferences, in April 2017, the Bank's Management Board took the decision to pursue the digital evolution of the Bank along with the rightsizing and optimization program for the years 2017-2019 (hereinafter referred to as "the rightsizing program"). The goal of this program is to improve the underlying profitability of the Bank targeting cost income ratio below 55% from 2019 onwards. To this end the Bank plans to achieve cost savings of minimum PLN 200 million by the end of 2019 versus 2016 cost base, by reducing the number of branches and optimizing the branch network (i.a. by converting own branches into franchise outlets) as well as by decreasing the employment (by approximately 850−950 FTEs between April 2017 and 2019). Measures will also be taken to transform certain operational processes, integrate IT systems and enhance their performance, and improve expense management. In 2017, the Group recognized PLN 45.5 million covering the costs of employment reduction and branch closures to be incurred as part of the program, of which PLN 32.1 million was recognized as a provision under general administrative expenses, and PLN 13.4 million was charged to other operating expenses. In addition, following the decision to launch the rightsizing program, the Management Board assessed the value of the 'Polbank' brand and recognized an impairment of PLN 114 million, which was charged to other operating expenses in 2017. In 2017, under the rightsizing program, the Group closed 62 own branches and converted 23 own branches into franchise outlets. On an FTE-basis, headcount at the Bank went down by 371 (8.7 per cent) relative to the end of 2016.

At the same time, in order to digitally transform the Bank and enhance customer experience, in 2017 the Group started to implement an investment program of approximately PLN 125 million which will continue into 2020 (the "digitalization program"). Originally, the Bank informed about the program worth approximately PLN 100 million but this amount increased due to the extension of the program by one year. Under the plan, the Group will take initiatives aimed at the automation and digitalization of sales and operations in all business segments and areas. Out of around 60 projects planned under the program, 37 kicked off in 2017 covering business and support function enhancements. In Retail Banking, the digital transformation efforts are focused on three areas: digitalization of sales and after-sales processes, multichannel and digital user experience and the development of digital capabilities around customer analytics, business processes and organization. In Corporate Banking and Capital Markets, the digital agenda includes in particular reinvented credit processes, new online and mobile banking, R-Dealer development, simple onboarding and aftersales processes, and CRM tools. In the area of support functions, the following projects are currently ongoing: operating processes automation and the expansion of the use of robots, Big Data and Enterprise Content Management enhancements. The digitalization transformation program is being realized by adopting the Agile/SCRUM methodologies.

In 2017, the Bank continued to execute its current strategy in Retail Banking, focusing in particular on acquiring new clients and strengthening client relationships based on an attractive offering of tailor-made products and services. In 2017, 125 thousand Dream Personal Accounts were sold, of which 111 thousand accounts were opened for new clients. As a result, at the end of the period the Bank maintained 445 thousand Dream Personal Accounts. The total number of personal accounts for mass and affluent clients rose 9 per cent year on year. At the end of 2017, the number of active Retail Banking clients grew 7 per cent year on year, to almost 800 thousand.

In retail lending, the Bank maintained high sales dynamics in consumer loans, primarily through the efficient use of all distribution channels, development of pre-approved offers for existing clients (fitted product offer with preliminary accepted credit limit), and launch of new small ticket offering (low financing amounts and quick lending process), significantly increasing the number of clients who borrow from the Bank. The Bank's activity in the cash loan segment met with recognition: the Bank was listed third in the cash loan category of the 'Golden Banker' competition organized by the editors of Bankier.pl and the *Puls Biznesu* daily. In addition, the Dany Kesz product topped the ranking of PLN 3 thousand cash loans compiled by the *Rzeczpospolita* daily, while the Convenient Visa (*Wygodna Visa*) credit card came third in the 'Best credit cards' ranking prepared by TotalMoney.

In private banking, Friedrich Wilhelm Raiffeisen ("FWR") received a number of prestigious awards and titles in 2017: for the fifth consecutive time, it received the highest, five-star rating in the *Forbes* 'Polish private banking ranking' table, and for the first time was named Poland's best private banking provider in 'Europe Banking Awards 2016', organized by EMEA Finance, and in the PWM/The Banker Global 'Private Banking Awards 2017'.

In 2017, the number of investment accounts and volume of assets held by Raiffeisen Brokers increased by, respectively, 13 per cent and 15 per cent year on year.

In 2017, the Bank strengthened its position also in Corporate Banking. The segment's customer base increased 3.6 per cent year on year at the end of 2017, to 15.2 thousand, on the back of intensive client acquisition efforts and development of relations with existing clients to limit attrition. The highest growth in customer numbers was recorded in the medium-sized enterprises sub-segment, up by 8.7 per cent year on year. The volume of net loans granted to the small and medium-sized enterprises subsegments increased by 10 per cent year on year, which reflects the strategic direction for the segment to focus on growth in the SME sector.

In 2017, the Bank was the preferred provider of factoring solutions, serving almost 21 per cent of factoring clients in Poland. In the small and medium-sized enterprises subsegments alone, the Bank attracted 40% more customers than the year before. According to the Polish Factors Association, the Bank's turnover went up by 2.7 per cent relative to 2016, which represented a 10 per cent share in the factoring market. In 2017, factoring services offered by the Bank were supported by the launch of the first factoring application for mobile devices on the Polish market.

In 2017, the Bank's subsidiary Raiffeisen TFI S.A., an investment fund management company, received the PFSA's license to carry out its business and took over the management of the Raiffeisen SFIO Parasolowy and FWR Selektywny FIZ funds from ALTUS TFI.

In 2017, in connection with a commitment binding on the Bank's shareholder, Raiffeisen Bank International AG ("RBI"), to float the Bank shares on the Warsaw Stock Exchange, the Bank prepared for an initial public offering ("IPO", "offer"). On 19 June 2017, it announced the shareholder's intention to conduct the IPO and seek the admission and introduction of the Bank shares to trading on the WSE. On 28 June 2017, the Polish Financial Supervision Authority approved the prospectus prepared for the IPO, which was to involve the sale of 33,850,251 ordinary registered shares in the Bank, with a par value of PLN 10 per share. Only institutional investors were eligible to participate in the IPO. RBI decided to suspend the IPO due to an insufficient level of interest in the offer on terms that meet the parameters of the above mentioned RBI's commitment to the PFSA. In its announcement of 1 August 2017, the PFSA stated that RBI should float the Bank shares on the WSE ensuring the free float's actual liquidity of at least 15 per cent, by 15 May 2018. RBI informed that it is currently considering a scenario in which it would comply with its obligation towards the PFSA by selling the core banking business of the Bank (excluding foreign currency-denominated loans portfolio) to another bank listed on the WSE.

The Group's financial performance in 2017

In 2017, the Group generated PLN 75.6 million in net profit, up PLN 60.9 million from PLN 14.8 million in net profit generated the year before, of which PLN 3.0 million was attributable to continuing operations and PLN 11.7 million represented net profit from discontinued operations (after the sale of the subsidiary Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG in the first quarter of 2016). In the period ended 31 December 2017, the Group did not report any profit/loss from discontinued operations. The Group's profit before tax amounted to PLN 168.9 million in 2017, up by PLN 77.2 million, or 84.1 per cent, relative to the previous year.

The main contributors to the Group's net profit in 2017 included:

- Operating income (net of other operating income/expenses) of PLN 1,746.1 million, 2 per cent higher than in the corresponding period of the previous year, when the Bank recorded a one-off income of PLN 80.6 million on accounting for Visa Inc.'s acquisition of Visa Europe Limited.

Excluding income from the Visa transaction, operating income in 2017 went up PLN 109.3 million, or 7 per cent year on year, driven by an 8 per cent year-on-year increase in net interest income;

- 7 per cent year-on-year decrease in general administrative expenses following the implementation of cost-saving measures in previous years, and launch of the rightsizing program in 2017;
- Impairment losses on financial assets and provisions for off-balance-sheet items of PLN 301.8 million, up PLN 125.6 million, or 71.3 per cent year on year, with the increase owing mainly to higher impairment losses in Retail Banking and in Corporate Banking as a result of an increase in impairment losses on investment projects related to Renewable Energy Sources (RES);
- Increase in net other operating result (PLN -102.6 million in 2017 against PLN -177.8 million in 2016), attributable mainly to higher income from unused accruals, lower costs of recognizing other provisions and impairment losses on other assets, and other operating expenses;
- Tax on assets of selected financial institutions of PLN 132.5 million, down PLN 16.3 million, or 10.9 per cent, relative to 2016.

The Group's total assets as at the end of 2017 amounted to PLN 48,975 million, down 8.0 per cent year on year. The decrease in assets was primarily caused by a lower balance of financial assets held for trading as a result of measures taken to manage the Bank's excess liquidity, and a lower value of loans and advances, mainly the Retail Banking segment's foreign currency mortgage loans, as a result of the złoty's appreciation against the euro and Swiss franc. This was partially offset by a higher balance of cash loans and balance of loans related to investment project financing in the Corporate Banking segment.

Summary of the Bank's and Group's performance in 2017:

		Bank		**Group**[1]
Net profit in 2017	▶	Net profit of PLN 79.0 million compared with PLN 162.8 million in the corresponding period of the previous year;	▶	Net profit of PLN 75.6 million compared with PLN 14.8 million in the corresponding period of the previous year;
Profit before tax in 2017	▶	One-off charge against the financial result – PLN 114.0 million written off in relation to an intangible asset, the "Polbank" brand;		
	▶	Decline by 40.9 per cent year on year;	▶	Increase by 84.1 per cent year on year;
Net interest income in 2017	▶	Net interest income increase by PLN 86.0 million, or 8.4 per cent year on year mainly due to decrease in interest expense (by 19.7 per cent year on year);	▶	Net interest income increase by PLN 85.3 million, or 8.4 per cent year on year mainly due to decrease in interest expense (by 19.7 per cent year on year);
Cost base reduction and improvement of the cost effectiveness	▶	7.7. per cent year-on-year decrease in general administrative expenses to PLN -1,028.5 million;	▶	7.4 per cent year-on-year decrease in general administrative expenses to PLN -1,040.3 million;
	▶	Cost to income ratio improvement by 1.6 percentage points year on year to 63.0 per cent;	▶	Cost to income ratio improvement by 9.6 percentage points year on year to 63.3 per cent;

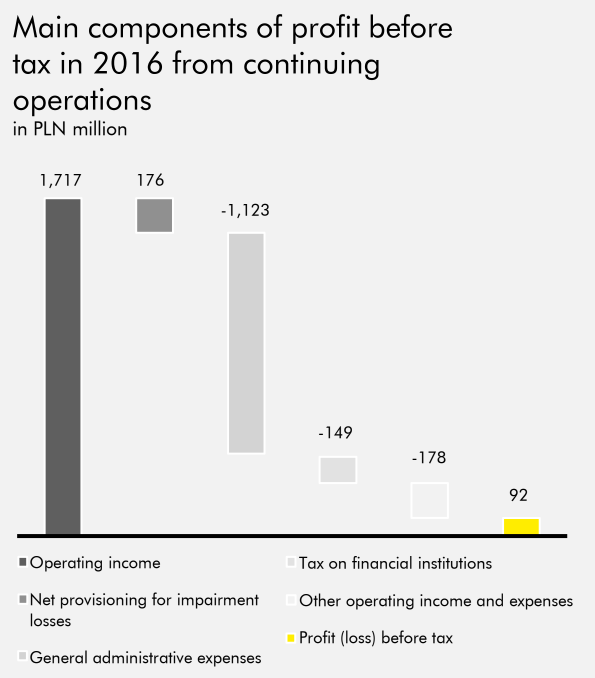
		Bank Group[1]
Quality of loan portfolio	▶	Share of impaired loans in the overall loan portfolio increased to 8.4 per cent from 7.9 per cent reported at the end of 2016, mainly due to decline of loan portfolio value as a result of Polish złoty's appreciation;
	▶	Increase of net provisioning for impairment losses on financial assets and provisions for off-balance sheet items by 71.3 per cent year on year, or PLN 125.6 million;
Growing customer base	▶	7.0 per cent year-on-year increase in the number of active Retail Banking clients, to almost 800 thousand;
	▶	3.6 per cent year-on-year increase in the number of active Corporate Banking clients, to 15.2 thousand;
Volume of loans	▶	The value of loans and advances to customers decreased by 4.3 per cent year on year, or PLN 1.5 billion, mainly driven by FX mortgages volume due to Polish złoty's appreciation against the euro and Swiss franc;
	▶	Growth of consumer loans granted to mass and affluent customers by 15 per cent year on year, or PLN 0.4 billion;
	▶	Growth of net loans granted to Corporate customers by 5.9 per cent year on year, or PLN 580 million;
Improvement of capital ratios	▶	Increase of total capital ratio from 16.70 per cent at the end of 2016 to 17.25 per cent and 17.24 per cent at the end of 2017 on the stand-alone and consolidated basis, respectively.

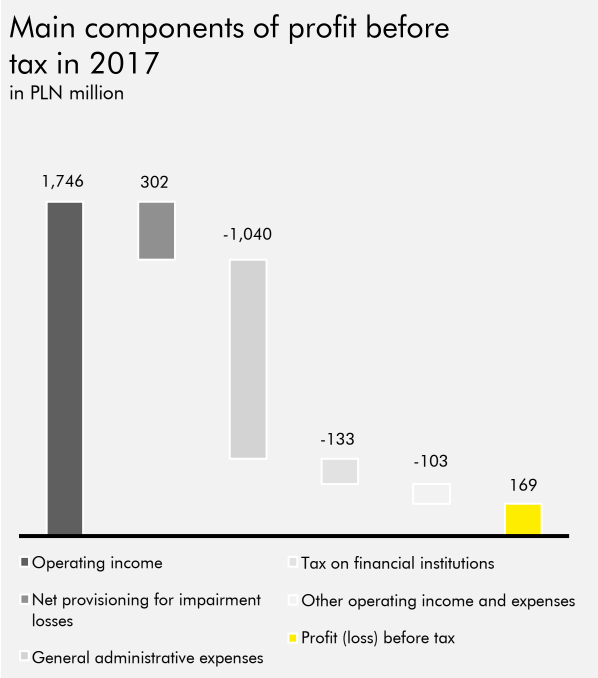
[1] The statement of profit or loss for 2016 includes data concerning continuing operations

3. Financial position of the Raiffeisen Bank Polska S.A. Capital Group in 2017

3.1. Statement of profit or loss

In 2017, the Raiffeisen Bank Polska Group generated PLN 75.6 million in net profit, up PLN 60.9 million from PLN 14.8 million in net profit generated the year before, of which PLN 3.0 million was attributable to continuing operations and PLN 11.7 million represented net profit from discontinued operations (after the sale of the subsidiary Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG in the first quarter of 2016). In the period ended 31 December 2017, the Group did not report any profit/loss from discontinued operations. The Group's profit before tax amounted to PLN 168.9 million in 2017, up by PLN 77.2 million, or 84.1 per cent, relative to the previous year.





The following factors contributed to the year-on-year change in the Group's performance:

- Settlement of the acquisition of Visa Europe Limited by Visa Inc. in the second quarter of 2016 and related income of PLN 80.6 million, recognized in net income from financial instruments measured at fair value and net foreign exchange result. Excluding income from the above transaction, the Group's net income from financial instruments measured at fair value and net foreign exchange result increased by PLN 25.1 million in 2017, or 84.8 per cent year on year, due to higher results on fx derivatives and on debt instruments;
- Disputed receivables relating to corporate income tax, reducing the Bank's net profit for 2016 by PLN 75.9 million, of which PLN 57.2 million was presented under income tax and PLN 18.7 million as other operating expenses;
- Increase in net interest income by PLN 85.3 million, or 8.4 per cent year on year, to PLN 1,104.5 million, mainly attributable to lower interest expense (down PLN 112.6 million, or 19.7 per cent) reflecting a change in the structure of customer deposits and improved margin on deposits. Interest income decreased slightly, by 1.7 per cent, due to a drop in the average volume of assets. The increase in net interest income translated into an increase in net interest margin to 2.2 per cent at the end of 2017, from 1.9 per cent in 2016;
- Slight year-on-year decrease in net fee and commission income by 0.2 per cent, or PLN 1.2 million, due to lower revenue from distribution of investment and insurance products and lower income from spread on clients' foreign exchange and derivative transactions, offset by an increase in net income from payment and credit cards as well as from brokerage and custody services;
- Increase in net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items by PLN 125.6 million, or 71.3 per cent, mainly in Retail Banking as a result of higher impairment losses on the mortgage portfolio and a maturing portfolio of unsecured loans; and in Corporate Banking as a result of higher impairment losses on investment projects related to Renewable Energy Sources (RES) and a growing portfolio of unimpaired loans with no indications of impairment (including an increase in loans related to investment project financing). On the other hand, the amount of impairment losses was positively affected by sale of loan receivables, described in more detail in Section 3.1.3 of this report;
- Decrease in general administrative expenses by 7.4 per cent, or PLN 82.6 million, which was the effect of a reduction in salaries and wages expense, costs of Maintenance and rental of buildings, depreciation and amortization, and lower contributions to the Bank Guarantee Fund, partially offset by an increase in costs of consulting services;

- Increase in net other operating result (net operating result of PLN -102.6 million in 2017 against net operating result of PLN -177.8 million in 2016), attributable mainly to higher income from unused accruals, lower costs of recognizing other provisions and impairment losses on other assets, and other expenses (these items were negatively affected in 2016 by the amount of PLN 18.7 million due to late payment interest recognized following the closing of proceedings related to the Bank's income tax liabilities; and covering of losses related to RLPL's tax arrears which had arisen in the period before the company was sold to RBI, in the amount of PLN 12.9 million);
- The Tax on assets of selected financial institutions in 2017 was lower by PLN 16.3 million, or 10.9 per cent, and amounted to PLN 132.5 million.

Selected items of the statement of profit or loss (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**	**For the period from 01.01.2016 to 31.12.2016**	**Change**	
			PLN thousand	**%**
Interest income	1,562,804	1,590,089	-27,285	-1.7
Interest expense	-458,278	-570,902	112,624	-19.7
Net interest income	1,104,526	1,019,187	85,339	8.4
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-301,806	-176,177	-125,629	71.3
Fee and commission income	655,130	668,987	-13,857	-2.1
Fee and commission expense	-68,451	-81,088	12,637	-15.6
Net fee and commission income	586,679	587,899	-1,220	-0.2
Net income from financial instruments measured at fair value and net foreign exchange result	54,683	110,210	-55,527	-50.4
General administrative expenses	-1,040,341	-1,122,912	82,571	-7.4
Dividend income	260	120	140	116.7
Other operating income and expenses	-102,552	-177,777	75,225	-42.3
Tax on financial institutions	-132,505	-148,776	16,271	-10.9
Profit (loss) before tax	**168,944**	**91,774**	**77,170**	**84.1**
Income tax expense	-93,326	-88,738	-4,588	5.2
Net profit (loss) from continuing operations	**75,618**	**3,036**	**72,582**	**2,390.7**
Net profit (loss) from discontinued operations	**0**	**11,720**	**-11,720**	**-100.0**
Net profit (loss)	**75,618**	**14,756**	**60,862**	**412.5**

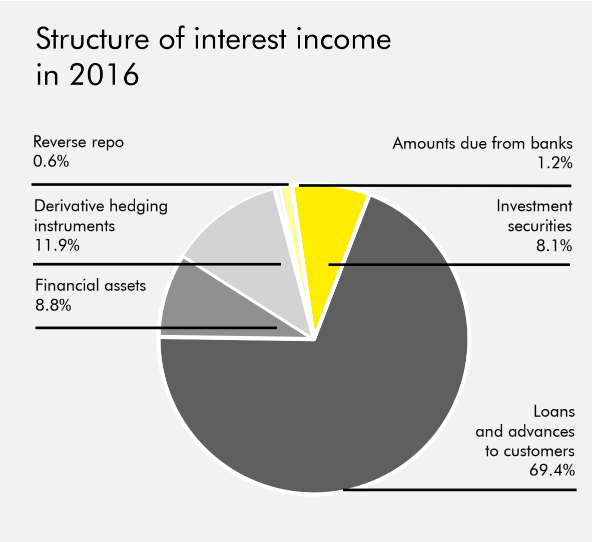
3.1.1. Net interest income

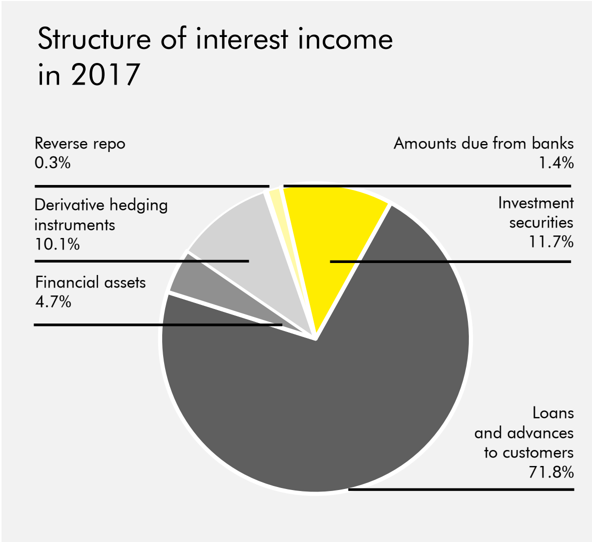
Net interest income in 2017 amounted to PLN 1,104.5 million, and was higher by PLN 85.3 million, or 8.4 per cent, compared with 2016. This increase reflected a significant reduction of interest expense, attributable mainly to a change in the structure and improved margin on customer deposits.

Interest income structure

The Group's interest income in 2017 amounted to PLN 1,562.8 million, down by PLN 27.3 million, or 1.7 per cent year on year. The structure of interest income changed noticeably compared with 2016. Interest income from loans and advances to customers remained the largest component of interest income, with a share of 71.8 per cent, up from 69.4 per cent in 2016. Income from loans and advances to customers grew 1.7 per cent year on year, mainly due to a shift in the structure of the Retail Banking loan portfolio and replacement of the maturing mortgage portfolio with unsecured loans.

Interest income from investment securities reached PLN 182.1 million at the end of 2017, having increased by PLN 53.5 million, or 41.6 per cent year on year, and its share in total interest income went up to 11.7 per cent at the end of 2017, from 8.1 per cent at the end of 2016. The increase in interest income from investment securities was attributable to a change in the Bank's investment and liquidity management policy, aimed at investing excess liquidity in higher yield securities. These activities contributed to a simultaneous decrease in interest income from financial assets held for trading (down PLN 66.4 million, or 47.5 per cent year on year). The share of interest income from hedging derivatives decreased to 10.1 per cent in 2017 (from 11.9 per cent in 2016), as a result of a decline in the hedging derivatives portfolio volume.

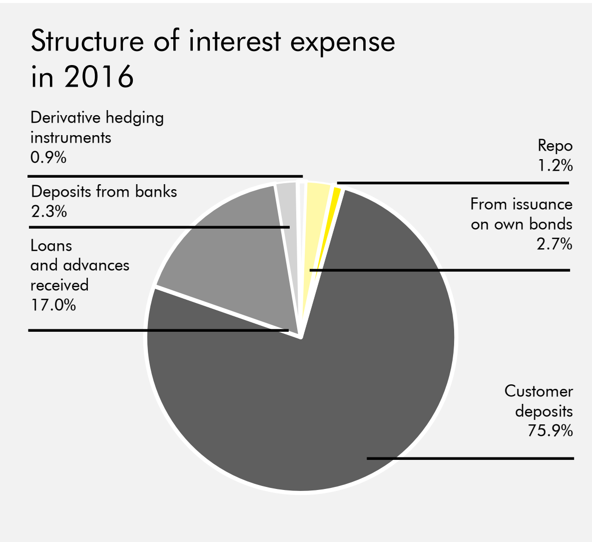


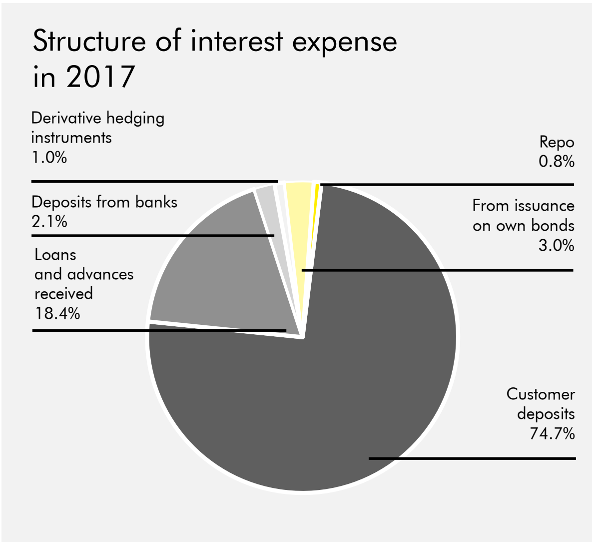


Interest expense structure

The Group's interest expense in 2017 amounted to PLN 458.3 million and was by 19.7 per cent, or PLN 112.6 million, lower than in 2016. The reduction of interest expense was achieved by optimizing the level and structure of the Bank's financing. Interest expense on customer deposits was the largest item of total interest expense, with a share of 74.7 per cent at the end of 2017, down 1.2 percentage points year on year. Nominal interest expense on customer deposits dropped by PLN 91.0 million, or 21.0 per cent year on year, to PLN 342.2 million, driven by a shift in the structure of newly acquired deposits in the Retail Banking segment (an increase in the balance of current accounts and declines in the average balance and interest rates on term deposits), as well as declines in the average balance and interest rates on term deposits in the Corporate Banking segment.

Interest expense on loans and advances received (including subordinated loans) dropped significantly, to PLN 84.2 million, down 13.5 per cent year on year. The drop was mainly attributable to a decrease in the average balance of loans and advances received. Their share in total interest expense went up from 17.0 per cent in 2016 to 18.4 per cent in 2017.





3.1.2. Non-interest income

The Group's non-interest income in 2017 amounted to PLN 641.6 million and was by PLN 56.6 million, or 8.1 per cent, lower than in 2016.

Net fee and commission income in 2017 reached PLN 586.7 million and was slightly lower (by 0.2 per cent) compared with 2016. The most significant decrease in fee and commission expense was recorded for costs related to payment card and ATM transactions, as well as costs related to cash and money transfer processing services, as a result of their outsourcing. The decrease in fee and commission expense did not offset the decline in income, which was mainly recorded for income from investment and insurance products, as well as income from spread on clients' foreign exchange and derivative transactions.

Net income from financial instruments measured at fair value and net foreign exchange result was PLN 54.7 million in 2017, down PLN 55.5 million, or 50.4 per cent, compering to the previous year. The decrease was mainly due to additional income of PLN 80.6 million income on accounting for the acquisition of Visa Europe Limited by Visa Inc. Excluding income from the above transaction, net income from financial instruments measured at fair value and net foreign exchange result increased by PLN 25.1 million in 2017, or 84.8 per cent year on year, due to higher results on fx derivatives and on debt instruments.

3.1.3. Impairment losses on financial assets and provisions for off-balance-sheet items

The increase in impairment losses by 71.3 per cent, or PLN 125.6 million, was recorded both in Retail Banking and Corporate Banking. In Retail Banking, the increase was mainly due to higher impairment losses on the mortgage portfolio and the maturing of the unsecured loan portfolio – whose share in retail loans has been rising since the second half of 2015. In Corporate Banking, the increase was linked to an increase in impairment losses on investment projects related to Renewable Energy Sources, which was partially offset by a significant sale of loan receivables in the first half of 2017. On 25 May 2017, the Bank entered into an agreement to transfer to HSBC Bank plc. receivables from Celsa Huta Ostrowiec Sp. z o.o. and other obligors of approximately PLN 76.0 million and approximately EUR 8.5 million, arising under a loan agreement of 18 October 2007, amended and restated by an agreement of 30 October 2015, subsequently included in a scheme of arrangement governed by English law. The debt had been classified as impaired, with impairment losses recognized for a significant portion of these assets. As a result of the transaction, the Bank received PLN 37.9 million for the receivables denominated in the złoty and EUR 4.6 million for the receivables denominated in the euro. Gross gain from the sale amounted to PLN 51.4 million.

The share of impaired loans was 8.4 per cent at the end of 2017, having increased 0.5 percentage point on the end of 2016. Impaired loans coverage ratio at the end of 2017 was 60.2 per cent, which represented an increase of 3.8 percentage points year on year.

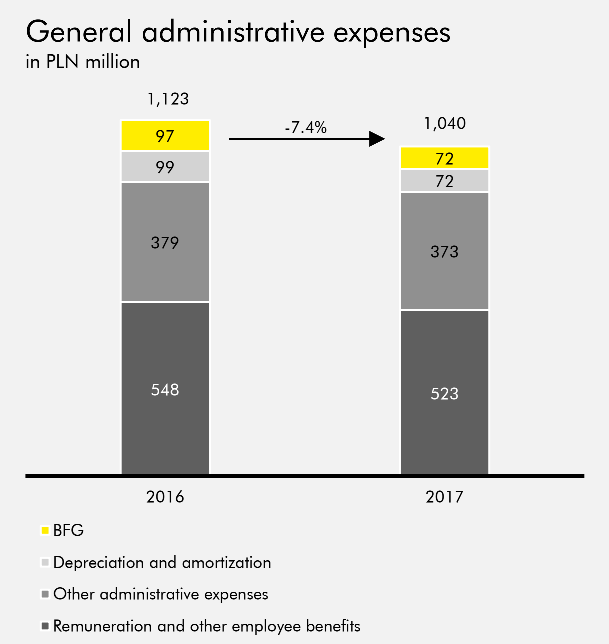
3.1.4. General administrative expenses

In 2017, the Group's general administrative expenses amounted to PLN 1,040.3 million, having fallen by PLN 82.6 million (7.4 per cent) year on year, as account of cost-saving measures implemented in previous years and the rightsizing program launched in 2017, designed to generate savings of at least PLN 200 million compared to the Bank's 2016 cost base by the end of 2019. In connection with the rightsizing program, in the first half of 2017 a restructuring provision of PLN 21.7 million was recognized under salaries, wages and other employee benefits expense, and PLN 10.4 million under Maintenance and rental of buildings (in other administrative expenses line). The year-on-year decrease in expenses in 2017 was recorded in all key items, with the largest reduction seen in:

- Maintenance and rental of buildings, down PLN 28.1 million, or 21.2 per cent, as a result of relocation of the Bank's head office in May 2016 (full effect of the savings realized in 2017), branch closures in 2016 (closure of 35 own branches and one franchise) and 2017 (closure of 62 own branches) and conversion of 23 Bank's branches into franchise branches;

- Depreciation and amortization, down PLN 26.6 million, or 26.9 per cent, mainly as a result of optimization of the IT architecture and of IT systems and infrastructure maintenance costs, including retirement and write-off of unused systems;
- Contribution and payments to the Bank Guarantee Fund, down PLN 24.9 million, or 25.7 per cent, in connection with an amendment to the Bank Guarantee Fund Act of 10 June 2016 and introduction of new fees to finance the deposit guarantee scheme and mandatory restructuring;
- Salaries and wages expense, down PLN 22.3 million, or 4.8 per cent year on year, as a result of headcount reduction (by 371 FTEs, or 8.7 per cent year on year), continue of transferring operations and sales support functions to Ruda Śląska and abovementioned branch network optimization covering own branches closures and conversion into franchise model.

Savings were also generated in the areas of procurement, administration, marketing and training. On the other hand, Bank recorded higher costs of consulting services (up by PLN 27.7 million, or 122.8 per cent).



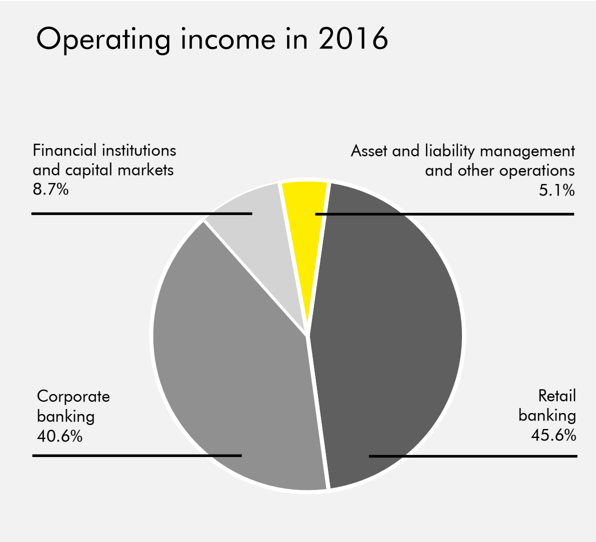
3.2. Segment results

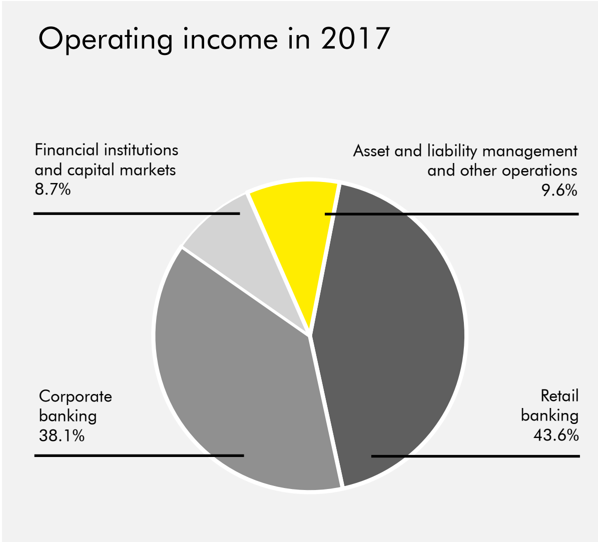
The Group manages its business through four operating segments: Corporate Banking, Retail Banking, Financial Institutions and Capital Markets, and Asset and Liability Management and Other Operations.

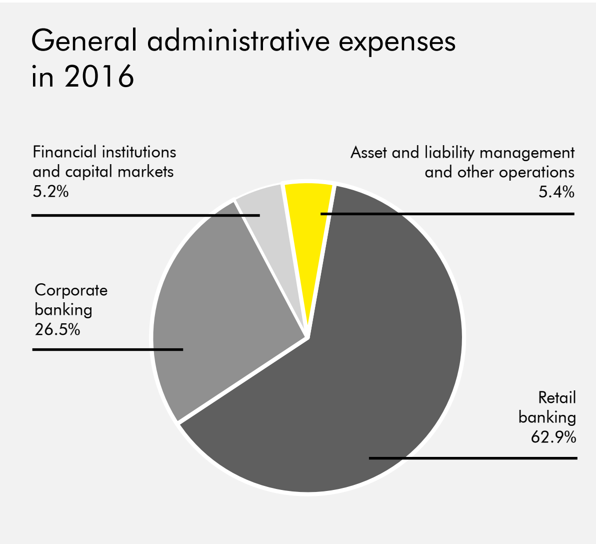
Analysis of the segments' performance in terms of net interest income takes into account internal net interest income, including allocation of internal net interest income from capital refinancing and cost of subordinated loans.

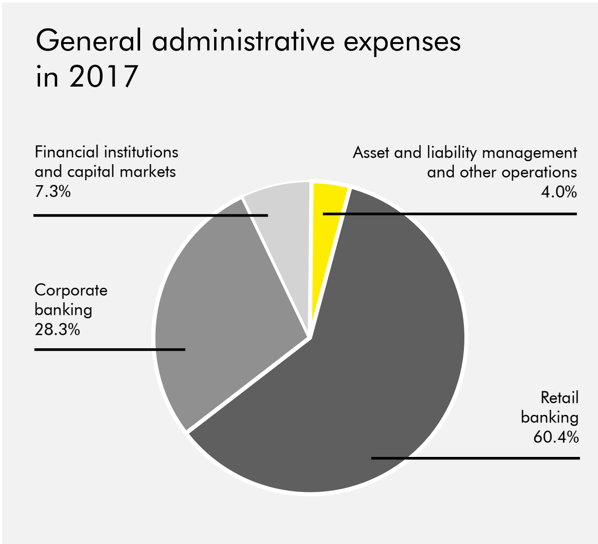
Segment data for 2016 reflects only the Group's continuing operations (the business divested through sale of the subsidiary Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG in the first quarter of 2016 was an important separate line of the Group's business, and therefore was classified as discontinued operations). In 2017, the Group did not report any profit/loss from discontinued operations.

Profit (loss) before tax by segment (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**	**For the period from 01.01.2016 to 31.12.2016**	**Change**	
			PLN thousand	**%**
Corporate banking	242,079	300,683	-58,604	-19.5
Retail banking	-127,046	-93,178	-33,868	36.3
Financial institutions and capital markets	73,968	85,113	-11,144	-13.1
Asset and liability management and other operations	-20,058	-200,844	180,786	-90.0
Group total	**168,944**	**91,774**	**77,170**	**84.1**









Corporate Banking

In 2017, Corporate Banking generated a profit before tax of PLN 242.1 million, down 19.5 per cent, or PLN 58.6 million, year on year. Key contributing factors included:

- 3.4 per cent year-on-year decline in net interest income caused mainly by a lower internal net interest income allocated to the segment, despite a significant reduction of interest expense (down 41.7 per cent). The fall in interest expense was caused by lower average volumes of liabilities and a shift in their structure, combined with the growth of realized margin;

- Net non-interest income down by 6.0 per cent year on year, reflecting mainly a positive effect for result of 2016 (PLN 9.7 million) of additional income on the accounting for Visa Inc.'s acquisition of Visa Europe Limited, and a lower foreign exchange result in 2017;
- Slight decrease in general administrative expenses – by 1.0 per cent, or PLN 3.1 million, compared with 2016;
- Increase by 58.7 per cent, or PLN 32.9 million, in impairment losses resulting from an increase in impairment losses on investment projects related to Renewable Energy Sources and a growing portfolio of unimpaired loans with no indications of impairment (including an increase in loans related to investment project financing), which was partly offset by sale of loan receivables (for details, see p. 21 of this report);
- Tax on assets of selected financial institutions, allocated to the Corporate Banking segment, of PLN 38.9 million, down by PLN 3.2 million, or 7.6 per cent, compared with the previous year.

Corporate Banking (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**	**For the period from 01.01.2016 to 31.12.2016**	**Change**	
			PLN thousand	**%**
Interest Income	471,454	477,541	-6,087	-1.3
Interest Expense	-67,132	-115,096	47,964	-41.7
Interest Income (external)	404,322	362,445	41,878	11.6
Interest Income (internal)	-40,892	13,612	-54,504	-400.4
Net Interest Income	363,430	376,057	-12,626	-3.4
Non-interest revenue	301,476	320,831	-19,355	-6.0
Operating Income	664,906	696,888	-31,981	-4.6
General administrative expenses	-294,948	-298,070	3,123	-1.0
there of: Depreciation	-17,874	-18,932	1,058	-5.6
Tax on financial institutions	-38,855	-42,039	3,183	-7.6
Provisioning for impairment losses	-89,024	-56,096	-32,928	58.7
Other operating result	0	0	0	-
Profit (loss) before tax	**242,079**	**300,683**	**-58,604**	**-19.5**
	As at 31.12.2017	**As at 31.12.2016**		
Assets	**12,640,767**	**12,042,858**	**597,910**	**5.0**
Liabilities	**11,712,325**	**13,562,024**	**-1,849,699**	**-13.6**

Retail Banking

Retail Banking generated a loss before tax of PLN 127.0 million for 2017, down by PLN 33.9 million relative to the previous year. Key factors contributing to the segment's performance included:

- 11.6 per cent, or PLN 55.4 million, increase in net interest income driven mainly by a 13.5 per cent, or PLN 39.2 million, year-on-year fall in interest expense, attributable to an improved margin on customer deposits and a shift in their structure (towards a higher share of current accounts). Interest income went up by 2.9 per cent, or PLN 18.8 million, as account of an improved interest margin despite a decline in assets (a decline in the balance and interest income on foreign currency mortgage loans due to the złoty's appreciation was mitigated by higher sales and interest income on cash loans);
- 25.5 per cent, or PLN 78.2 million, year-on-year drop in non-interest income in 2017, due mainly to a positive effect recorded in 2016 of additional income of PLN 70.9 million on accounting for Visa Inc.'s acquisition of Visa Europe Limited. Excluding that one-off item, net non-interest income in 2017 fell by PLN 7.3 million, or 3.1 per cent, due to lower income from investment and insurance products;

- 11.1 per cent, or PLN 78.5 million, decrease in general administrative expenses in Retail Banking;
- Impairment losses rising 78.1 per cent, or PLN 93.4 million, to PLN 212.9 million, due to higher impairment losses on the mortgage loan portfolio and the maturing of the unsecured loan portfolio (its share in retail loans has been rising since the second half of 2015);
- Tax on assets of selected financial institutions, allocated to the Retail Banking segment, was in 2017 lower by PLN 0.8 million, or 1.3 per cent, and amounted to PLN 65.2 million.

Retail Banking (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**	**For the period from 01.01.2016 to 31.12.2016**	**Change**	
			PLN thousand	**%**
Interest Income	665,190	646,361	18,828	2.9
Interest Expense	-250,519	-289,734	39,215	-13.5
Interest Income (external)	414,671	356,627	58,044	16.3
Interest Income (internal)	117,166	119,811	-2,645	-2.2
Net Interest Income	531,837	476,438	55,399	11.6
Non-interest revenue	228,913	307,119	-78,206	-25.5
Operating Income	760,750	783,557	-22,807	-2.9
General administrative expenses	-628,149	-706,671	78,521	-11.1
there of: Depreciation	-49,816	-75,811	25,995	-34.3
Tax on financial institutions	-65,230	-66,073	843	-1.3
Provisioning for impairment losses	-212,878	-119,515	-93,363	78.1
Other operating result	18,462	15,524	2,937	18.9
Profit (loss) before tax	**-127,046**	**-93,178**	**-33,868**	**36.3**
	As at 31.12.2017	**As at 31.12.2016**		
Assets	**19,913,801**	**22,117,056**	**-2,203,254**	**-10.0**
Liabilities	**19,815,899**	**20,510,794**	**-694,895**	**-3.4**

Financial Institutions and Capital Markets

In 2017, the Financial Institutions and Capital Markets segment's generated profit before tax of PLN 74.0 million, having gone down 13.1 per cent, or PLN 11.1 million, on the previous year. Key factors contributing to the segment's performance included:

- 17.9 per cent, or PLN 3.9 million, increase in net interest income due to significantly lower interest expense (down 23.2 per cent, or PLN 17.7 million), offset by lower internal net interest income (down PLN 10.2 million). The fall in interest expense was driven by a lower average balance of liabilities combined with an improved margin on liabilities;
- Slight decline in net non-interest income (down PLN 0.8 million, or 0.6 per cent year on year);
- PLN 17.7 million year-on-year increase in general administrative expenses, driven mainly by higher restructuring expenses incurred in the Financial Institutions and Capital Markets segment, a change in the rules of allocating contributions and payments to the Bank Guarantee Fund between segments to reflect changes in the structure of funds operated by the Bank Guarantee Fund, and an adjustment of the rules of allocating service costs to better reflect their economic nature;
- Tax on assets of selected financial institutions, allocated to the Financial Institutions and Capital Markets segment, amounted to PLN 8.5 million, down PLN 0.6 million, or 6.2 per cent year on year.

Financial Institutions & Capital Markets (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**	**For the period from 01.01.2016 to 31.12.2016**	**Change PLN thousand**	**Change %**
Interest Income	34,637	38,300	-3,663	-9.6
Interest Expense	-58,789	-76,516	17,727	-23.2
Interest Income (external)	-24,152	-38,216	14,064	-36.8
Interest Income (internal)	49,789	59,954	-10,165	-17.0
Net Interest Income	25,637	21,738	3,900	17.9
Non-interest revenue	126,769	127,573	-803	-0.6
Operating Income	152,406	149,311	3,096	2.1
General administrative expenses	-75,660	-57,991	-17,668	30.5
there of: Depreciation	-4,022	-3,432	-590	17.2
Tax on financial institutions	-8,470	-9,029	559	-6.2
Provisioning for impairment losses	-3	-106	103	-96.9
Other operating result	5,695	2,929	2,766	94.4
Profit (loss) before tax	**73,968**	**85,113**	**-11,144**	**-13.1**
	As at 31.12.2017	**As at 31.12.2016**		
Assets	**1,370,778**	**1,930,827**	**-560,049**	**-29.0**
Liabilities	**3,497,489**	**2,666,098**	**831,391**	**31.2**

Asset and Liability Management and Other Operations

In 2017, the Asset and Liability Management and Other Operations segment reported a loss before tax of PLN 20.1 million, an improvement of PLN 180.8 million versus the loss of PLN 200.8 million reported in 2016.

Key drivers of the year-on-year improvement in loss before tax in 2017 included:

- PLN 80.4 million increase in operating income driven by a net interest income growth of PLN 38.7 million. Net interest income went down by PLN 36.4 million and interest expense also decreased by PLN 7.7 million, as a result of changes in the Bank's financing structure. Internal net interest income rose by PLN 67.3 million due to improvement of Bank's liquidity position and lower pricing pressures on customer funding, with a resulting decrease in liquidity margin allocated to client segments;
- PLN 18.6 million reduction in general administrative expenses;
- PLN 69.5 million increase in net other operating result, attributable to a PLN 24.6 million rise in other operating income, due particularly to higher income on unused accruals (up PLN 19.7 million), and lower other operating expenses (down PLN 45.0 million, or 22.1 per cent year on year). The decline in other operating expenses resulted from lower costs (down by PLN 22.8 million) related to the recognition of other provisions and impairment losses on other assets, as well as a decline in impairment losses on non-current assets and costs of sale and liquidation of property, plant and equipment and intangible assets by a total of PLN 8.2 million year on year (the changes resulted from the Polbank brand write-off of PLN 114 million recognized in 2017 compared with the goodwill write-off and Polbank brand write-off of PLN 33.0 million and PLN 86.0 million, respectively, in 2016). In 2016, this item was negatively affected by the amount of PLN 18.7 million due to late payment interest recognized following the closing of proceedings related to the Bank's income tax liabilities; and covering of losses related to RLPL's tax arrears which had arisen in the period before the company was sold to RBI, in the amount of PLN 12.9 million;

- Tax on assets of selected financial institutions, allocated to the Asset and Liability Management and Other Operations segment, amounted to PLN 20.0 million in 2017, having dropped PLN 11.7 million, or 36.9 per cent, year on year.

3.3. Statement of financial position

3.3.1. Assets

The Group's total assets as at 31 December 2017 amounted to PLN 48,975 million, having fallen 8.0 per cent relative to the end of 2016. The decrease in assets was primarily caused by a lower balance of financial assets held for trading as a result of measures taken to manage the Bank's excess liquidity, and a lower value of loans and advances, mainly the Retail Banking segment's foreign currency mortgage loans, as a result of the złoty's appreciation against the euro and Swiss franc. This was partially offset by a higher balance of cash loans and balance of loans related to investment project financing in the Corporate Banking segment. The value of loans and advances to customers amounted to PLN 32.4 billion at the end of 2017. This was the largest item in the Group's assets, accounting for 66.2 per cent of total assets, an increase of 2.6 percentage points compared with the end of 2016.

Assets of the Group (PLN million)	**As at 31.12.2017**	**As at 31.12.2016**	**Change**	
			PLN thousand	**%**
Cash and balances with the Central Bank	1,316	1,732	-416	-24.0
Amounts due from banks	140	335	-195	-58.3
Financial assets held for trading	1,230	8,047	-6,817	-84.7
Derivative financial instruments	538	467	71	15.2
Investments securities	12,648	7,963	4,686	58.8
Loans and advances to customers	32,413	33,864	-1,451	-4.3
Intangible assets	265	383	-119	-30.9
Fixed assets	88	118	-30	-25.4
Other assets[1]	337	349	-12	-3.6
Total assets	**48,975**	**53,258**	**-4,283**	**-8.0**

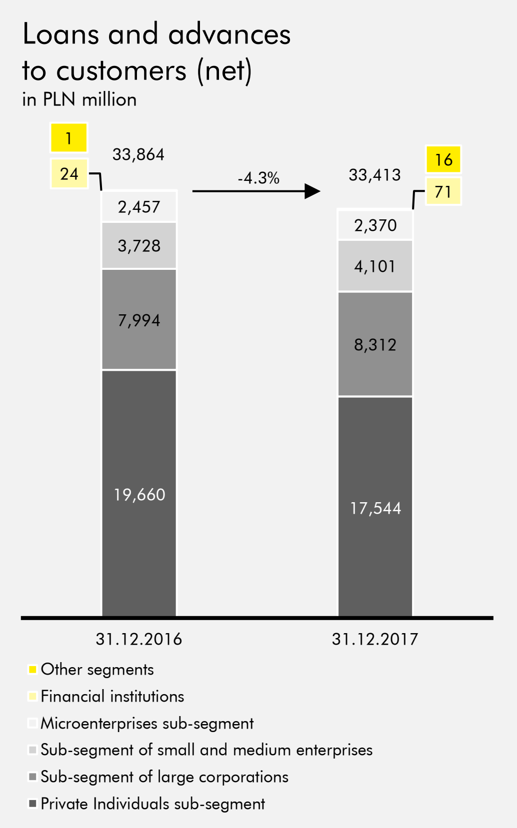
[1] Including deferred income tax assets, current income tax receivables and other assets.

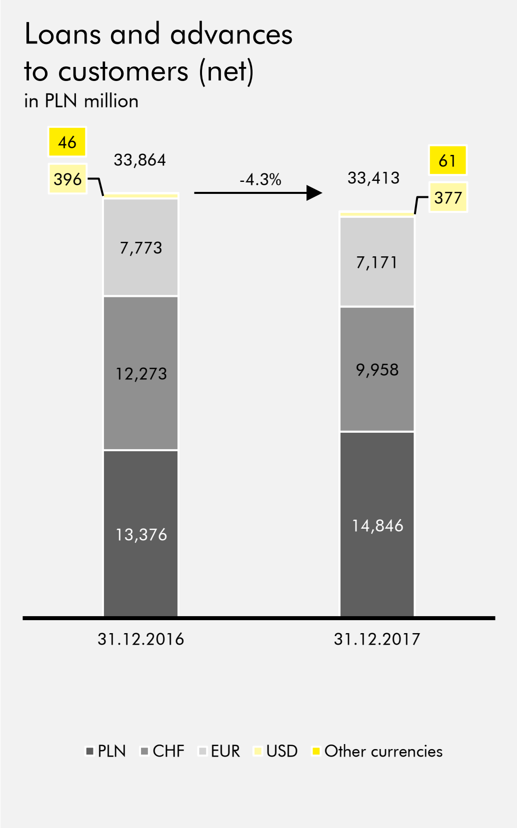
The changes in the balances of financial assets held for trading and investment securities resulted from a revision of the Group's investment and liquidity management policy. Financial assets held for trading fell by PLN 6,817 million, while investment securities grew by PLN 4,686 million. The total balance of these items at the end of 2017 was PLN 2,131 million lower than the year before.

The change in intangible assets was caused by the Polbank brand write-off.

The changes in cash and balances with the Central Bank and amounts due from banks were a result of ongoing management of the Bank's liquidity as at the end of the reporting period.

Loans and advances to customers:





3.3.2. Equity and liabilities

As at the end of 2017, the Group's liabilities amounted to PLN 42,494 million, down by PLN 4,401 million, or 9.4 per cent, year on year. Deposits from customers remained the main source of funding for the Group, representing 70.1 per cent of total equity and liabilities. Amounts due to customers were PLN 34,341 million, having fallen PLN 1,988 million, or 5.5 per cent, year on year. The decline was attributable to the ongoing liquidity management and adjustment of the financing structure to the value of assets.

Amounts due to banks and other monetary institutions reached PLN 5,780 million at the end of 2017, which represented a decrease of PLN 1,654 million, or 22.2 per cent, year on year. The reduction was an effect of the conversion of wholesale financing into subordinated financing (which increased by PLN 733 million.) The remaining part of the decrease can be attributed to measures aimed at optimizing the Group's financing structure to lower interest expense.

Liabilities from debt securities issued were affected by redemption of all outstanding Series A bonds with a total nominal value of PLN 500 million, as announced by the Bank in Current Report No. 5/2017 of 20 November 2017. The bonds were redeemed on the date specified in their terms and conditions.

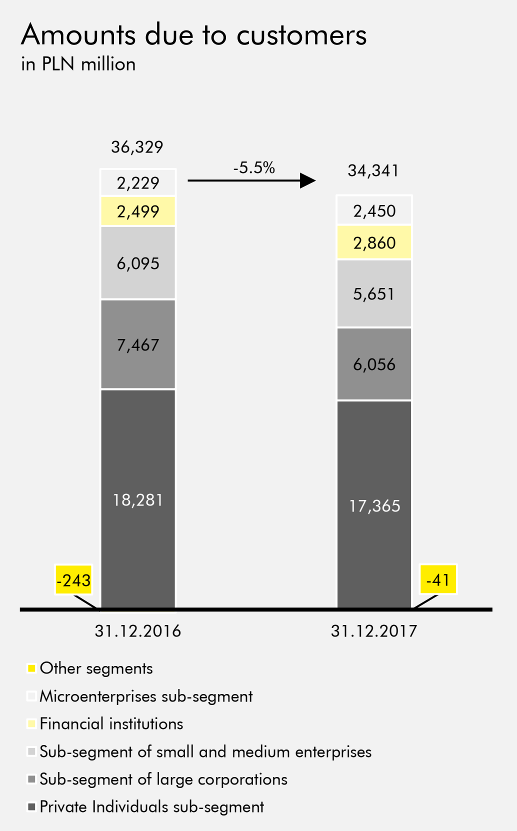
The Group's equity as at the end of 2017 increased slightly on the end of the previous year, by PLN 117.6 million (or 1.8 per cent).

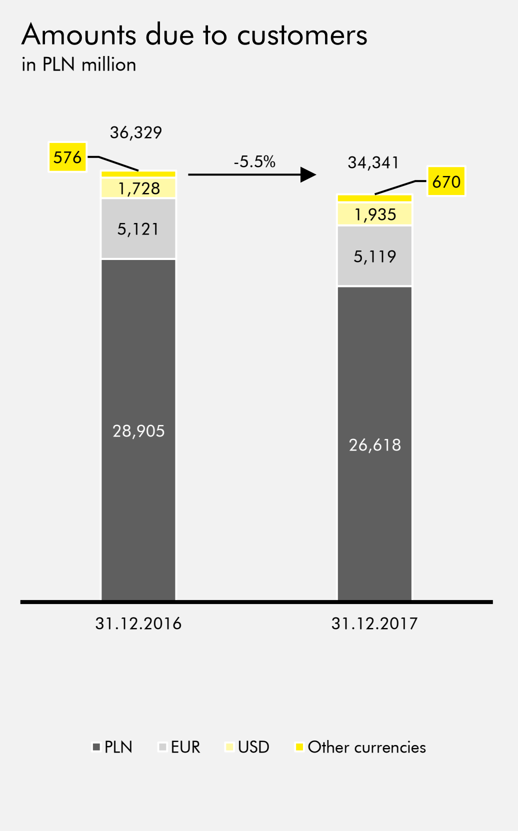
Liabilities and equity of the Group (PLN million)	**As at 31.12.2017**	**As at 31.12.2016**	**Change**	
			PLN thousand	**%**
Amounts due to banks and other monetary institutions	5,780	7,433	-1,654	-22.2
Derivative financial instruments	562	1,546	-985	-63.7

Liabilities and equity of the Group (PLN million)	As at 31.12.2017	As at 31.12.2016	Change	
			PLN thousand	%
Amounts due to customers	34,341	36,329	-1,988	-5.5
Subordinated liabilities	1,065	332	733	220.6
Liabilities from debt securities issued	0	502	-502	-100.0
Other liabilities[1]	747	752	-6	-0.8
Total liabilities	**42,494**	**46,895**	**-4,401**	**-9.4**
Total equity	**6,480**	**6,363**	**118**	**1.8**
Total liabilities and equity	**48,975**	**53,258**	**-4,283**	**-8.0**

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

Amounts due to customers:





3.4. Key financial ratios

The table below presents the Group's key financial ratios. In 2017, the Group generated ROE of 1.2 per cent, and ROA of 0.1 per cent. On account of higher operating income and reduced cost base, the cost/income ratio went down from 72.9 per cent in 2016 to 63.3 per cent at the end of 2017. Net interest margin increased to 2.2 per cent.

Selected financial ratios of the Group[1] (in %)	As at 31.12.2017	As at 31.12.2016
ROA net	0.1	0.0
ROE net	1.2	0.0
Net Interest Margin	2.2	1.9
Cost / Income Ratio	63.3	72.9

Selected financial ratios of the Group[1] (in %)	As at 31.12.2017	As at 31.12.2016
Net Loans / Deposits	94.4	93.2

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

Due to the sale of shares of Raiffeisen-Leasing Polska S.A, ROA net, ROE net and net interest margin for 2016 were 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.

4. Financial situation of Raiffeisen Bank Polska S.A. in 2017

4.1. Statement of profit or loss

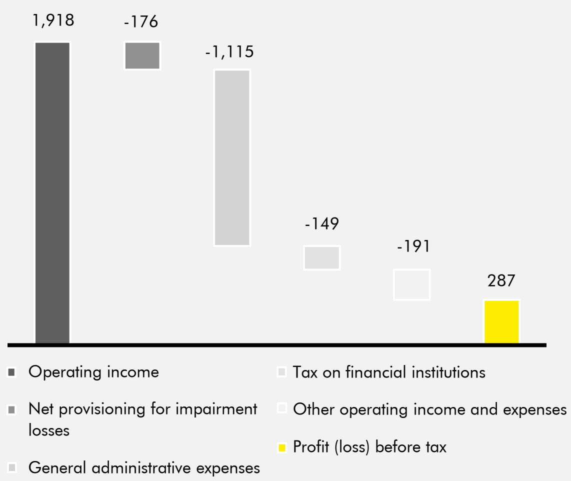
In 2017, the Bank generated a net profit of PLN 79.0 million, down PLN 83.8 million, or 51.5 per cent, year on year (2016: PLN 162.8 million). Profit before tax was PLN 169.6 million in 2017, whereas in 2016 it amounted to PLN 287.0 million.

The year-on-year deterioration in the Bank's performance in 2017 was an effect of the following one-off factors which occurred in 2016:

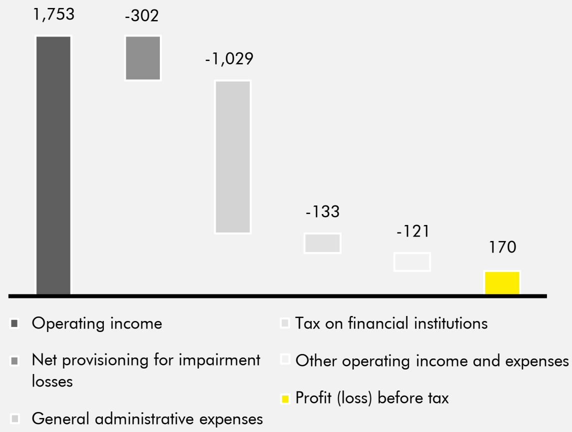
- Settlement of the acquisition of Visa Europe Limited by Visa Inc. in the second quarter of 2016 and related income of PLN 80.6 million, recognized in net income from financial instruments measured at fair value and net foreign exchange result. Excluding income from the above transaction, net income from financial instruments measured at fair value and net foreign exchange result increased by PLN 25.8 million in 2017, or 89.1 per cent year on year, due to higher results on fx derivatives and on debt instruments;
- Sale of all shares in Raiffeisen-Leasing Polska S.A. ("RLPL") to Raiffeisen Bank International AG on 31 March 2016. Gain from the sale of shares in RLPL amounted to PLN 202.3 million (before tax) and was presented in the Bank's statement of profit or loss as gain from disposal of shares in a subsidiary;
- Disputed receivables relating to corporate income tax, reducing the Bank's net profit for 2016 by PLN 75.9 million, of which PLN 57.2 million was presented under income tax and PLN 18.7 million as other operating expenses.

In addition, the Bank's financial performance in 2017 was negatively affected by the PLN 114.0 million write-off of the Polbank brand, recognized under other operating expenses. The write-offs of goodwill and the Polbank brand made in 2016 amounted to PLN 119.0 million (also recognized under other operating expenses).

Main components of profit before tax in 2016
in PLN million



Main components of profit before tax in 2017
in PLN million



Other factors bearing on the Bank's performance in 2017 included:

- Increase in net interest income by PLN 86.0 million, or 8.4 per cent year on year, to PLN 1,104.2 million, attributable mainly to lower interest expense (down PLN 112.6 million, or 19.7 per cent) driven by a shift in the structure of customer deposits and an improved margin on deposits;
- Slight year-on-year decrease in net fee and commission income by 0.5 per cent, or PLN 2.8 million, reflecting lower income from distribution of investment and insurance products and from spread on clients' foreign exchange and derivative transactions, offset by an increase in net income from payment and credit cards as well as from brokerage and custody services;
- Increase in impairment losses by 71.3 per cent, or PLN 125.6 million, driven by increases in both Retail Banking and Corporate Banking. In Retail Banking, the increase was mainly due to higher impairment losses on the mortgage portfolio and the maturing of the unsecured loan portfolio – whose share in retail loans has been rising since the second half of 2015. In Corporate Banking, the increase was linked to an increase in impairment losses on investment projects related to Renewable Energy Sources, which was partially offset by sale of loan receivables (for details, see Section 3.1.3 of this report);
- Decrease in general administrative expenses by 7.7 per cent, or PLN 86.2 million, which was the effect of a reduction in salaries and wages expense, costs of maintenance and rental of buildings, depreciation and amortization, and lower contributions to the Bank Guarantee Fund, partially offset by an increase in costs of consulting services (for details, see Section 3.1.4 of this report);
- Increase in net other operating income of PLN 70.8 million, or 37.0 per cent, which was mainly attributable to higher income from unused accruals, lower cost of recognizing other provisions and impairment losses on other assets, and other operating expenses;
- Decrease in tax on assets of selected financial institutions of PLN 16.3 million, or 10.9 per cent, to PLN 132.5 million in 2017.

Selected items of the statement of profit or loss (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**	**For the period from 01.01.2016 to 31.12.2016**	**Change**	
			PLN thousand	**%**
Interest income	1,562,773	1,589,348	-26,575	-1.7
Interest expense	-458,594	-571,180	112,586	-19.7
Net interest income	1,104,179	1,018,168	86,011	8.4

Selected items of the statement of profit or loss (PLN thousand)	For the period from 01.01.2017 to 31.12.2017	For the period from 01.01.2016 to 31.12.2016	Change	
			PLN thousand	%
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-301,806	-176,177	-125,629	71.3
Fee and commission income	653,590	669,040	-15,450	-2.3
Fee and commission expense	-68,419	-81,088	12669	-15.6
Net fee and commission income	585,171	587,952	-2,781	-0.5
Net income from financial instruments measured at fair value and net foreign exchange result	54,696	109,542	-54,846	-50.1
Dividend income	9,024	120	8,904	7420.0
Result on sale of shares in subsidiary	0	202,313	-202,313	-
General administrative expenses	-1,028,548	-1,114,786	86,238	-7.7
Other operating income and expenses	-120,618	-191,387	70,769	-37.0
Tax on financial institutions	-132,505	-148,776	16,271	-10.9
Profit (loss) before tax	**169,593**	**286,969**	**-117,376**	**-40.9**
Income tax expense	-90,574	-124,154	33,580	-27.0
Net profit (loss)	**79,019**	**162,815**	**-83,796**	**-51.5**

4.2. Segment results

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

For a detailed description of key factors affecting the segment results, see the discussion of the Group's financial condition in Section 3.2 of this report. On a stand-alone basis, there was a significant difference versus consolidated data in 2016 in the Asset and Liability Management and Other Operations segment, to which gain from the sale of RLPL shares, of PLN 202.3 million, was allocated in 2016.

Profit (loss) before tax and assets and liabilities by segment (PLN thousand)	For the period from 01.01.2017 to 31.12.2017				
	Corporate Banking	Retail Banking	Financial Institutions and Capital Markets	Asset and Lliability Management and Other Operations	Total
Interest Income	471,454	664,932	34,619	391,768	1,562,773
Interest Expense	-67,132	-250,518	-58,671	-82,273	-458,594
Interest Income (external)	404,322	414,413	-24,052	309,495	1,104,179
Interest Income (internal)	-40,892	117,166	49,789	-126,063	0
Net Interest Income	363,430	531,579	25,737	183,432	1,104,179
Non-interest revenue	301,476	228,913	126,782	-8,280	648,891
Operating Income	**664,906**	**760,492**	**152,519**	**175,152**	**1,753,070**
General administrative expenses	-294,948	-624,345	-65,305	-43,950	-1,028,548
Tax on financial institutions	-38,855	-65,230	-8,470	-19,950	-132,505
Provisioning for impairment losses	-89,024	-212,878	-3	100	-301,806
Other operating result	0	0	0	-120,618	-120,618

Profit (loss) before tax and assets and liabilities by segment (PLN thousand)	**For the period from 01.01.2017 to 31.12.2017**				
	Corporate Banking	**Retail Banking**	**Financial Institutions and Capital Markets**	**Asset and Lliability Management and Other Operations**	**Total**
Profit (loss) before tax	**242,079**	**-141,961**	**78,741**	**-9,267**	**169,593**
	As at 31.12.2017				
Assets	**12,640,767**	**19,913,801**	**1,370,778**	**15,049,074**	**48,974,420**
Liabilites	**11,712,325**	**19,815,899**	**3,497,489**	**7,458,545**	**42,484,258**

Profit (loss) before tax and assets and liabilities by segment (PLN thousand)	**For the period from 01.01.2016 to 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	38,810	426,845	1,589,348
Interest Expense	-115,096	-289,734	-76,959	-89,391	-571,180
Interest Income (external)	362,445	356,417	-38,148	337,454	1,018,168
Interest Income (internal)	13,612	119,811	59,954	-193,377	0
Net Interest Income	376,057	476,228	21,806	144,077	1,018,168
Non-interest revenue	320,831	307,121	126,917	145,059	899,927
Operating Income	**696,888**	**783,350**	**148,722**	**289,136**	**1,918,095**
General administrative expenses	-298,070	-701,724	-50,335	-64,657	-1,114,786
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**	**89,253**	**996**	**286,969**
	As at 31.12.2016				
Assets	**12,042,858**	**22,117,056**	**1,930,827**	**17,175,978**	**53,266,718**
Liabilites	**13,562,024**	**20,510,794**	**2,666,098**	**10,158,614**	**46,897,530**

4.3. Statement of financial position

4.3.1. Assets

The Bank's total assets as at 31 December 2017 amounted to PLN 48,974 million, having fallen 8.1 per cent year on year. The decrease in assets was primarily caused by a lower balance of financial assets held for trading as a result of measures taken to manage the Bank's excess liquidity, and a lower value of loans and advances, mainly the volume of foreign currency mortgage loans in Retail Banking segment, as a result of the złoty's appreciation against the euro and Swiss franc. This was partially offset by a higher balance of cash loans and balance of loans related to investment project financing in the Corporate Banking segment. The value of loans and advances to customers at the end of 2017 amounted to PLN 32,417 million. This was the largest item in the Bank's assets, accounting for 66.2 per cent of total assets, an increase of 2.6 percentage points compared with the end of 2016.

Assets (PLN million)	As at 31.12.2017	As at 31.12.2016	Change	
			PLN million	%
Cash and balances with the Central Bank	1,316	1,732	-416	-24.0
Amounts due from banks	103	315	-212	-67.3
Financial assets held for trading	1,230	8,047	-6,817	-84.7
Derivative financial instruments	538	467	71	15.2
Investments securities	12,648	7,948	4,700	59.1
Loans and advances to customers	32,417	33,868	-1,451	-4.3
Intangible assets	268	384	-116	-30.3
Fixed assets	88	118	-30	-25.5
Investments in subsidiaries	31	40	-10	-23.7
Other assets[1]	335	347	-12	-3.3
Total assets	**48,974**	**53,267**	**-4,292**	**-8.1**

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

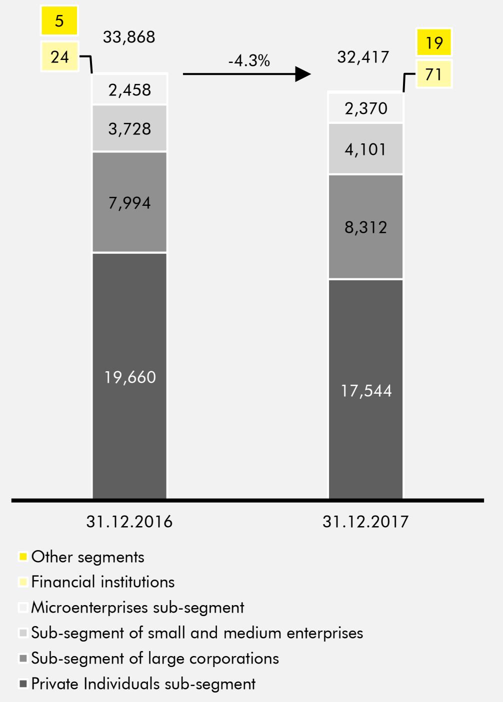
The changes in financial assets held for trading and investment securities resulted from a revision of the Bank's investment and liquidity management policy, aimed at investing excess liquidity in higher yield securities. The balance of financial assets held for trading fell by PLN 6,817 million year on year, while the balance of investment securities went up by PLN 4,700 million year on year. The total balance of these items as at the end of 2017 decreased by PLN 2,046 million year on year, following reduction of the Bank's excess liquidity.

The value of shares in subsidiaries decreased as a result of the liquidation of Leasing Poland Sp. z o.o.

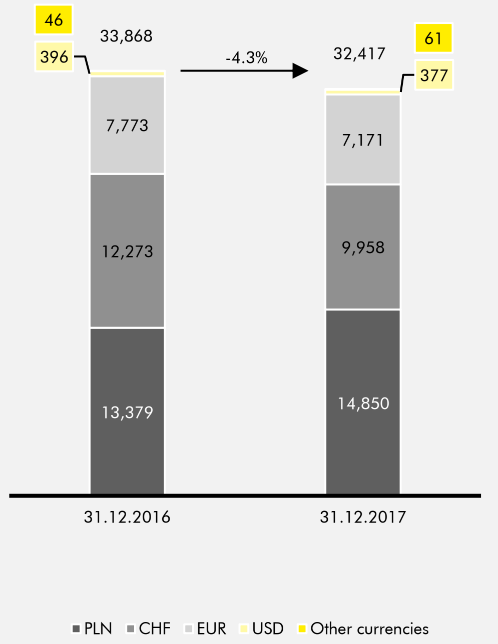
The change in intangible assets was due to the PLN 114.0 million write-off of the Polbank brand.

The changes in cash and balances with the Central Bank and amounts due from banks were a result of ongoing management of the Bank's liquidity 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



4.3.2. Equity and liabilities

The Bank's liabilities as at the end of 2017 dropped by PLN 4,413 million, or 9.4 per cent, year on year, to PLN 42,484 million. Customer deposits remained the main source of funding for the Bank, although they fell by PLN 1,970 million, or 5.4 per cent, year on year, to PLN 34,392 million. The share of amounts due to customers in total equity and liabilities went up to 70.2 per cent, from 68.3 per cent in the previous year. Amounts due to customers decreased as customer deposits fell in the Corporate Banking and Retail Banking segments, with a rise reported in Financial Institutions. The decrease was attributable to optimizing the level and structure of the Bank's financing.

Amounts due to banks and other monetary institutions fell by PLN 1,654 million, or 22.2 per cent year on year, to PLN 5,780 million at the end of 2017, of which a decrease by PLN 856 million was related to the conversion of wholesale financing to subordinate financing, while the rest was due to optimizing the level of the Bank's financing.

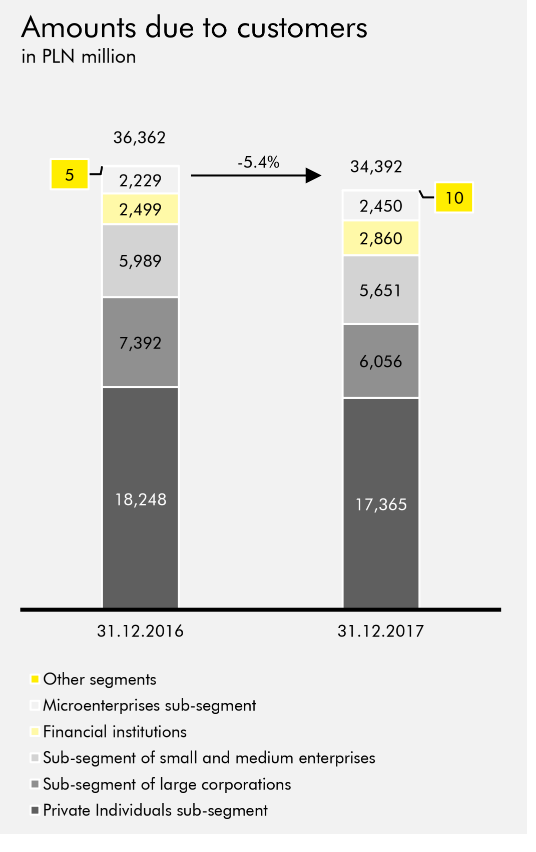
The drop in liabilities from debt securities issued was related to redemption of all outstanding Series A bonds with a total nominal value of PLN 500 million. The bonds were redeemed on the date specified in their terms and conditions.

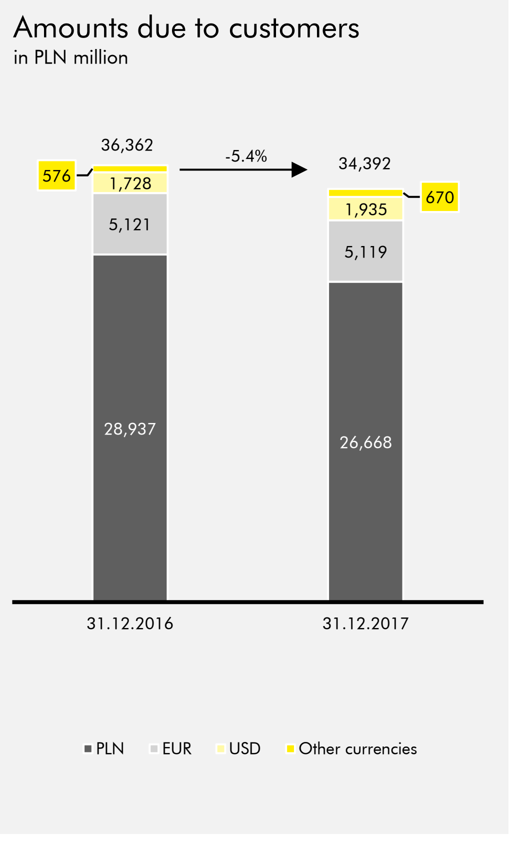
The Bank's equity as at the end of 2017 increased slightly on the end of the previous year, by PLN 121.0 million (or 1.9 per cent).

Liabilities and equity (PLN million)	**As at 31.12.2017**	**As at 31.12.2016**	**Change**	
			PLN million	**%**
Amounts due to banks and other monetary institutions	5,780	7,433	-1,654	-22.2
Derivative financial instruments	562	1,546	-985	-63.7
Amounts due to customers	34,392	36,362	-1,970	-5.4
Subordinated liabilities	1,065	332	733	220.6

Liabilities and equity (PLN million)	As at 31.12.2017	As at 31.12.2016	Change	
			PLN million	%
Liabilities from debt securities issued	0	502	-502	-100.0
Other liabilities[1]	686	722	-36	-5.1
Total liabilities	**42,484**	**46,898**	**-4,413**	**-9.4**
Total equity	**6,490**	**6,369**	**121**	**1.9**
Total liabilities and equity	**48,974**	**53,267**	**-4,292**	**-8.1**

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





4.4. Key financial ratios

The following table presents the Bank's key financial ratios. In 2017, the Bank generated ROE of 1.2 per cent, and ROA of 0.2 per cent. On account of higher operating income and reduced cost base, the Bank's cost/income ratio went down to 63.0 per cent. Net interest margin increased to 2.2 per cent.

Selected financial ratios of the Bank[1] (in %)	As at 31.12.2017	As at 31.12.2016
ROA net	0.2	0.3
ROE net	1.2	2.6
Net Interest Margin	2.2	1.9
Cost / Income Ratio	63.0	64.6
Net Loans / Deposits	94.3	93.1

[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 / Income Ratio – general administrative expenses, including depreciation (excl. tax on financial institutions) / operating income including other operating income and other operation expenses.

5. Operations of Raiffeisen Bank Polska S.A. in 2017

5.1. Retail Banking

Retail Banking products and services are marketed to individuals and microenterprises. The segment comprises the following subsegments: mass clients, affluent clients, private banking and microenterprises.

In 2017, the Bank continued to execute its current strategy, focusing in particular on acquiring new customers by further enhancing its offering of products and services for Retail Banking clients and on strengthening customer relationships, particularly by increasing sales of customized products. In the period, the Bank worked to further improve the profitability of its deposit product portfolio, significantly enhancing the structure of deposit products and margins achieved. At the same time, it maintained high volumes of conversion of deposits into medium- and long-term investment products, featuring higher yields. In lending, the Bank maintained high sales volumes, primarily through the efficient use of all distribution channels, development of pre-approved offers for existing clients (fitted product offer with preliminary accepted credit limit), and launch of new small ticket offering (low financing amounts and quick lending process), significantly increasing the number of clients who borrow from the Bank. In 2017, the Bank increased volumes and revenues across virtually all product groups, which translated into a sustained growth of the Retail Banking segment.

Additionally, in 2017 the Bank launched the digitalization program, designed to significantly enhance customer experience and tailor services to meet their expectations. Under the program, the Bank focuses on development of online and mobile banking, customer onboarding processes, and sales of loans via online channels.

In 2017, the Bank consistently provided high quality of client service, as reflected by top positions in external rankings: Golden Banker – fourth place (April 2017), *Newsweek*'s Friendly Bank – sixth place (September 2017), Institution of the Year (best customer service in outlets) – first place (third quarter of 2017). Raiffeisen Polbank was also recognized by its clients in the Monitoring of Bank Customers' Satisfaction 2017 syndicated survey, where it ranked second, with the Call Center, service quality in branches as well as mobile and online banking as the most appreciated elements. In 2017, the Bank's commitment to excellence in customer service was confirmed by a good score in the regular NPS metric, which at the end of the year was 23, up by 12 compared with the 2016 metric.

At the end of 2017, the Bank had almost 800 thousand active Retail Banking clients, up 7 per cent, or over 50 thousand, year on year.

In the second quarter of 2017, 62 of the Bank's outlets were closed down as part of its rightsizing program. From the third quarter until the end of 2017, 23 own branches were converted into franchise outlets. In addition, one franchise branch was closed down. At the end of 2017, the retail network consisted of 181 own branches, 46 franchise branches, and 7 Private Banking Centers operating outside the retail branch.

5.1.1. Deposit products

Current accounts 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 in 2017 it was still the main product aimed at acquiring new clients. In March 2017, the Bank revamped the Dream Personal Account, by bringing the interest rate in line with market conditions (the new offer applied to accounts opened after 20 March 2017, but it is also available to existing clients who may switch to the new product at any time), adding the Dream Visa (*Wymarzona Visa*) debit card to the package, and offering Cyber

Assistance (*Cyber Pomoc*), a unique insurance product for holders of debit Mastercards. Sales of the Package were supported by nationwide marketing campaigns run from March to July 2017.

As a result, 125 thousand Dream Personal Accounts were sold in 2017, of which 111 thousand accounts were opened for new clients. The main sales channel for the Dream Account was the branch network (67 per cent, including franchise outlets), but clients also opened accounts using the automatic online service and through the Call Center. Sales of personal accounts to mass and affluent clients through remote channels accounted for 33 per cent of all opened accounts (having risen from approximately 25 per cent in 2016). In terms of cost effectiveness, these channels represented an attractive alternative to the traditional branch distribution network.

At the end of 2017, the number of Dream Personal Accounts operated by the Bank reached 445 thousand. At the end of 2017, the Bank maintained a total of 826 thousand personal accounts for mass and affluent clients, having achieved an 8.8 per cent increase in the number of PLN-denominated personal accounts, and an 8.3 per cent increase in the number of on-demand EUR-, USD-, CHF- and GBP- denominated accounts compared with 2016. Złoty-denominated deposits held in personal accounts of mass and affluent clients totaled approximately PLN 2.7 billion at the end of 2017 (an increase of approximately PLN 130 million relative to the end of 2016), of which as much as 76 per cent were core deposits in Dream Personal Accounts.

Holders of Dream Personal Accounts opened in 2017 are frequent users of electronic service channels – 65 per cent of them have activated the online banking system, and as many as 73 per cent receive electronic account statements.

Sales efforts related to another 'Dream' line product – the Dream Goal Account (*Konto Wymarzony Cel*), developed to encourage regular savings – led to the Bank's opening of 43 thousand such accounts in 2017, with the deposited funds totaling approximately PLN 1.7 billion.

In 2017, the Bank was actively engaged to bring its business in line with a number of legislative changes, e.g. amendments to Regulation 2016/679 of the European Parliament and of the Council on the protection of personal data, amendments to the Payment Services Act with respect to comparability of fees for payment accounts, transferring of bank accounts, and access to basic payment accounts, implementation of the PSD2 Directive into Polish law, the Act on Succession Management of a Natural Person's Enterprise, the VAT sealing legislation, that is the Act Amending the Act on Value Added Tax (split payment), introducing VAT accounts and split payment, the Act amending certain acts to prevent the use of the financial sector for tax fraud (the Act on the Clearing House ITC System, or the STIR Act), and the Constitution for Business regulations (a package of five acts). The above legislation will be implemented in 2018.

Term deposits

In 2017, the Bank pursued its pricing policy aimed at slightly reducing the savings products volumes among mass and affluent clients, while converting low-margin term deposit balances into investment products and into current accounts. As a result, the volume of term deposits shrank by approximately PLN 1.5 billion compared with the end of 2016, to PLN 2.1 billion at the end of 2017. On the other hand, the personal and savings accounts balances were on the rise (a year-on-year increase of PLN 1.3 billion at the end of 2017).

In 2017, clients showed the greatest interest in term deposits opened via electronic channels (online and mobile banking, as well as the video channel).

At the end of 2017, term deposits (including investment deposits) in Retail Banking accounted for 29 per cent of the Bank's financial liabilities to Retail Banking clients, a decrease from 39 per cent a year earlier, mainly in favour of current accounts. Coupled with the new Dream Personal Account offer, that shift in the product structure helped markedly improve margins on deposit products.

5.1.2. Debit and credit cards

In 2017, the Bank continued to roll out new services and functionalities for holders of payment cards. Retail Banking clients were offered the 3D Secure service to enhance the security of their online transactions. Furthermore, in March 2017 the Bank started to issue Dream Visa debit cards to holders of Dream Personal Accounts. The new card was designed for clients who rate banking products mainly by comparing fee levels and who expect to use the most popular banking services free of charge. The Bank waives the monthly fee for users who make at least one non-cash transaction with their Dream Visa debit card. On the other hand, clients who give the highest priority to convenience and comprehensive banking service, even if this requires payment of a small fee, are offered a new debit Mastercard with the Dream Personal Account. The card comes with the CYBER Assistance service, i.e. insurance for individuals against the risk of cybercrime. This innovative solution, unique on the Polish market, guarantees compensation for money lost as a result of fraud (e.g. a change of the target account number to divert online payments), situations when products received from an online shop are not the ones ordered or are not delivered at all, loss of computer data, online identity theft leading to loss of property, cyberbullying, or the need to remove false, harmful or embarrassing information about a client.

At the end of 2017, debit Mastercard holders were offered the Cashback service, which enables cash withdrawal at the till when making card payments at selected retail outlets.

The Bank achieved an almost 15 per cent year-on-year growth in the total value of payment card transactions (retail debit and credit cards) in 2017. A very important element of the efforts to increase the frequency of payment card use was continued promotion of online transactions. In the area of online payments, the value of transactions made with cards issued by the Bank grew by 23 per cent year on year in 2017.

At the end of 2017, the number of payment cards reached almost 650 thousand. This was an effect of the Bank's consistent client acquisition strategy, mainly in sales of the Dream Personal Accounts and the accompanying debit cards.

5.1.3. Lending products

Mortgage loans

Mortgage lending accounts for a material share of the Bank's balance sheet. As at 31 December 2017, the net on-balance-sheet mortgage exposure to individuals was PLN 14.6 billion, representing 83 per cent of net loans advanced to this client group.

In 2017, the Bank continued its selective mortgage lending policy and focused on implementing the requirements imposed by the Act of 23 March 2017 on Mortgage Loans and Supervision over Mortgage Brokers and Agents. The Bank also continued to support borrowers with loans indexed to and denominated in the Swiss franc as part of the 'six-pack' developed together with the Polish Bank Association and other banks.

Consumer loans

In consumer lending, the Bank pursued its objectives and sustained sales. The main focus was on the distribution of Custom-Made Loans (*Kredyt na Miarę*); the number of these cash loans sold increased by 35 per cent compared with 2016. The consistently solid sales performance was mainly an effect of new sales campaigns, e.g. the First Loan at 2.99% (*Pierwsza Pożyczka 2,99%*), as well as execution of the following measures:

- Further automation of the lending process and lending policy adjustment, which increased the number of automatic credit decisions and reduced an average time to decision;
- Upscaling the CRM campaigns targeted at the Bank's clients – to increase the x-sell potential with respect to existing clients;

- Development of cash loan sales via alternative channels (franchise network, telemarketing) and improvement of the efficiency of branches and brokers.

As at the end of 2017, the portfolio of consumer loans to mass and affluent clients totaled almost PLN 3.0 billion, up PLN 0.4 billion relative to the end of 2016.

5.1.4. Insurance products

In 2017, the Bank continued to pursue its strategy of expanding the insurance range with new add-on and stand-alone products. The new offering included products addressing the basic living needs of clients (Family Protection (*Ochrona Rodziny*) and Convenient Protection (*Wygodna Ochrona*)), as well as products matching new Internet trends (Cyber Assistance (*Cyber Pomoc)* and Dream eShopping (*Wymarzone eZakupy*)), that is insurance coverage of risks in the digital world.

As a result of the development work, the following products were added to the insurance range for individual clients:

- Family Protection – a unique life insurance with high sums insured (up to PLN 0.5 million), including coverage for death of natural causes for the Bank's clients up to 75 years of age, with a simplified contract execution procedure. The insurance also covers incapacity to work or lead an independent life (for any reason) and medical benefits;
- Cyber Assistance – an innovative insurance covering online risks (protection of identity, online shopping, unauthorized use of a payment card for online transactions), the first such insurance in Poland available to private individuals – the Bank's individual clients holding debit Mastercards;
- Convenient Protection – a unique insurance product based on a reversed 'all risk' formula with a wide scope of coverage that combines insurance of home contents, legal protection, civil liability, school insurance and travel insurance. It is available to clients holding an account with the Bank;
- Dream eShopping – 'digital' insurance developed as part of the 'Dream' product line, which provides coverage for buyers purchasing through online platforms. The insurance protects buyers in situations when products received are not the ones ordered online or are not delivered at all. A single low monthly fee (of PLN 2 per month) provides an annual sum insured of PLN 10,000 regardless of the number of transactions carried out.

5.1.5. Investment products

Until the end of November 2017, the Bank had continued to sell funds marketed under the Raiffeisen brand but managed by a third-party manager (white label funds). On 1 December 2017, Raiffeisen TFI S.A. (in which the Bank holds an equity interest) took over the management of the Raiffeisen Specjalistyczny Fundusz Inwestycyjny Otwarty ("SFIO") Umbrella Fund from Altus TFI S.A. The Raiffeisen SFIO Umbrella Fund consists of four sub-funds with different investment strategies and risk levels.

As at the end of 2017, assets in the Raiffeisen SFIO Umbrella Fund and the closed-end fund FWR Selektywny (marketed exclusively to Friedrich Wilhelm Raiffeisen private banking clients) totaled PLN 837 million, down 27.8 per cent year on year. The structure of assets in each sub-fund was as follows:

Structure of investment fund assets distributed by the Bank (PLN million)			
Fund	**Asset manager**	**Assets as at 31.12.2017**	**Assets as at 31.12.2016**
Raiffeisen SFIO Parasolowy			
Raiffeisen Aktywnego Oszczędzania	Raiffeisen TFI S.A.	84.9	123.0
Raiffeisen Aktywnych Strategii Dłużnych	Raiffeisen TFI S.A.	149.9	95.2

Structure of investment fund assets distributed by the Bank (PLN million) Fund	Asset manager	Assets as at 31.12.2017	Assets as at 31.12.2016
Raiffeisen Globalnych Możliwości	Raiffeisen TFI S.A.	149.7	70.3
Raiffeisen Aktywnego Inwestowania	Raiffeisen TFI S.A.	421.7	858.9
FWR Selektywny FIZ	Raiffeisen TFI S.A.	31.2	12.0
Funds total		**837.4**	**1,159.4**

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 2017, 32 subscriptions were launched for investment deposits, totaling PLN 590 million, and 22 subscriptions for RCB's structured certificates, totaling PLN 289 million.

Clients of the Retail Banking segment were also offered unit-linked life insurance products. The unit-linked life insurance was still very popular among the Bank's clients. In 2017, sales of these products amounted to PLN 1.1 billion, an increase of 32 per cent compared with the previous year.

On the other hand, sales volumes of investment deposits fell on worsened conditions and a less attractive offering in the second quarter of 2017, as a result of which the Retail Banking segment reported a drop in client assets invested in (the Bank's or its partners') investment products: they went down 4.9 per cent relative to the end of 2016, that is by PLN 251 million net, to PLN 4.9 billion at the end of December 2017.

5.1.6. Brokerage activities

In 2017, Raiffeisen Brokers continued its activities in the area of public offerings of structured products of RCB, a leading issuer of certificates traded on the Warsaw Stock Exchange. The value of structured certificates sold in that period amounted to PLN 343 million. Additionally, the brokerage house acted as the offering agent in the issue of Raiffeisen Bank International AG corporate bonds.

Raiffeisen Brokers was also a member of consortia managing public issues of financial instruments for the following issuers: GetBack, Play Communications, Quercus and IPOPEMA.

The number of investment accounts operated by the brokerage house rose almost 13 per cent relative to December 2016, to 17 thousand at the end of December 2017. Its assets grew 15 per cent in the period, to PLN 1 billion.

5.1.7. Friedrich Wilhelm Raiffeisen Private Banking

The private banking services of Friedrich Wilhelm Raiffeisen ("FWR") are offered to clients with assets in excess of PLN 1 million. At the end of 2017, FWR clients' assets (in deposit and/or investment products) totaled PLN 7.6 billion, down 3.3 per cent compared with the end of 2016, due to changes in the deposit offering. At the same time, client assets managed by the Bank and invested in investment products rose 3 per cent (PLN 65 million net) relative to the end of 2016.

FWR private banking was again recognized in prestigious rankings – for the fifth consecutive time, it received the highest, five-star rating in the Forbes' Polish private banking ranking table, and in the first quarter of 2017 was for the first time named Poland's best private banking provider by EMEA Finance in 'Europe Banking Awards 2016' and in 'Global Private Banking Awards 2017' (by PWM and The Banker – of the Financial Times Group).

5.1.8. Microenterprises

In 2017, the Bank acquired 12.4 thousand new microenterprise accounts. At the same time, the Bank recorded a 16 per cent increase in funds credited to accounts held by this segment's clients (PLN 3.4 billion in 2017 against PLN 2.9 billion in 2016). The increase in core deposits was influenced by an attractive offering of account for microenterprises (Dream Business Account – *Wymarzone Konto dla Biznesu*), and particularly a mechanism of automatic change of benefits for clients, including a higher number of cost-free transfers or lower debit card fee, depending on the amount credited monthly to the account.

The balance of deposit products totaled PLN 2.4 billion at the end of 2017, having increased 9.8 per cent year on year. At the same time, the margin improved significantly, largely supported by changes in the interest rates for time deposits and current accounts, and by large sales of the Dream Non-Profit Business Account package (*Wymarzone Konto dla Biznesu Non-Profit*) offered to such clients as foundations, associations, house-owner associations and housing cooperatives.

Sales generated by the Bank in 2017 on lending to microenterprises rose 8 per cent compared with the previous year. The largest increase was reported in sales of credit cards (up by 50 per cent year on year), while mortgage loans and other loans grew by 5.5 per cent and 6 per cent, respectively, year on year. At the same time, the Bank was streamlining the lending process. The increases were supported by such measures as:

- Development of the Bank's offering, including changes in small ticket offer (i.e. extended lending term and increased maximum loan amount);
- Support of sales by experts in funding for house-owner associations;
- Further changes in the lending policy, which translated into more competitive offering, particularly of unsecured loans;
- Closer cooperation with local and nationwide financial intermediaries and the franchise network, as well as modifications of the incentive system for franchises.

The Bank also recorded a 3 per cent increase in the number of clients using the currency products for microenterprises.

In 2017, as part of one project of the digitization program, designated as Micro VAS Platform (VAS standing for Value Added Services), the Bank began introducing changes to its offering for microenterprises – having defined services and products which should enhance the range offered to this segment. The first implementation within Micro VAS Platform took place in December 2017. Through a dedicated website (*wymarzonastrona.pl)*, the Bank made available WingsBridge's products, supporting the Bank's clients in image building and promotion on the Internet. The offering includes professional development of modern websites, their comprehensive support and promotion in the Google search engine (AdWords advertising). In the following years, the Bank plans to extend its offering within Micro VAS Platform.

5.2. Corporate Banking

Corporate Banking products and services are marketed to enterprises and other entities, such as companies and cooperatives, non-commercial institutions, public sector entities and sole traders who do not meet the criteria for being classified into the microenterprises sub-segment. The segment is further divided into sub-segments of large, medium-sized and small enterprises.

In the second half of 2017, the Bank began to deploy the digitalization program in Corporate Banking, as part of a broader campaign run across the Bank.

Digitalization of the Corporate Banking area is focused on the four main pillars:

- Lending processes;
- New Mobile and Online Banking;
- Automation of the Account Opening and After-sales Support Processes;
- Sales Tools and CRM.

The Bank's goal is to digitalize and digitally optimize processes to be able to provide customers of the Corporate Banking segment with key services in the aforementioned areas in digital form, including in particular:

- To enable customers to apply for new products (including loan products), place instructions and, insofar as possible, receive after-sales support via new remote channels;
- To enable transition from paper-based to digital documentation in the process of establishing client relationships through the use of tablets, biometrics and qualified signatures;
- To automate and standardize lending processes to speed up loan decisions and shorten times to disbursement;
- To implement new online and mobile banking systems based on the latest technologies, with particular emphasis on achieving the best possible user experience (UX), reducing system maintenance costs and enhancing reliability;
- To achieve comprehensive automation of the Bank's most work intensive internal processes (e.g. opening of customer files, opening of accounts);
- To integrate the Bank's internal systems (through API interfaces) with external databases and customer information bases for operational and sales-related purposes;
- To provide the Bank's sales staff with mobile tools and applications to improve the convenience and efficiency of their work.

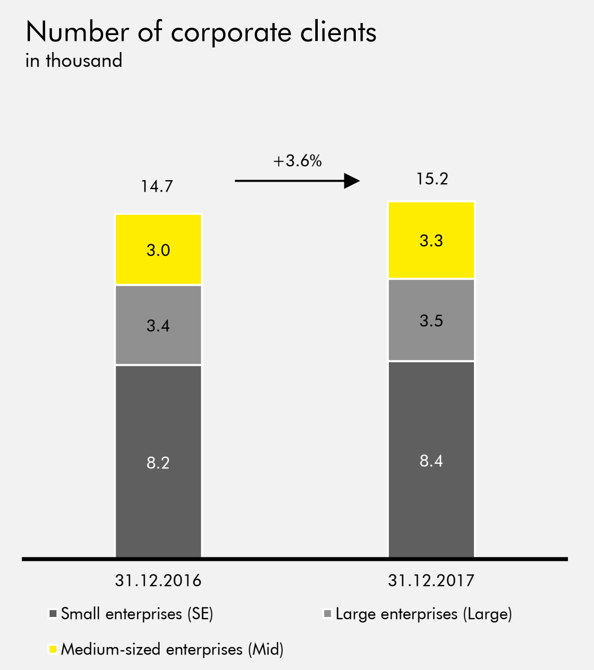
The first digital improvements were delivered in the first half of 2017 and related to automation of the bank account opening process. They involved the roll-out of a new IT solution that considerably accelerated the process of opening a bank account. The opening of a corporate customer account with full functionality can be now completed in one day, improving customer experience and increasing the level of customer satisfaction. In addition, in order to boost efficiency in the Corporate Banking segment, the Bank centralized its lending operations by transferring the credit documentation teams from the Corporate Banking Macro-Regions to the Operations Center in Ruda Śląska.

In the second half of 2017, the focus of the Bank's work on the digitalization program was on assessing and defining the scope of initiatives and projects making up the program so as to achieve an optimum effect in terms of the program objectives, such as revenue growth and cost reduction. In the case of some initiatives, implementation work has already started. Based on the adopted schedule, they should deliver the first effects already in the first half of 2018.

5.2.1. Client base growth

In 2017, working in line with its strategy, the Bank continued to focus on expanding its client base, which is to serve as a platform for further development of client relationships and increasing the product-per-client ratio. To that end, the Bank intensified its client acquisition activities and made efforts to improve its existing relationships to reduce client attrition. The result was a further growth of the base of active clients. At the end of 2017, the number of Corporate Banking clients amounted to 15.2 thousand, having grown by more than 500, or 3.6 per cent, compared with the end of 2016.

By business sub-segments, the corporate client base comprised 8.4 thousand small enterprises, 3.3 thousand medium-sized companies and 3.5 thousand large companies. Over the last year, medium-sized enterprises has been the fastest growing sub-segment, with more than 260 new accounts added (up 8.7 per cent).



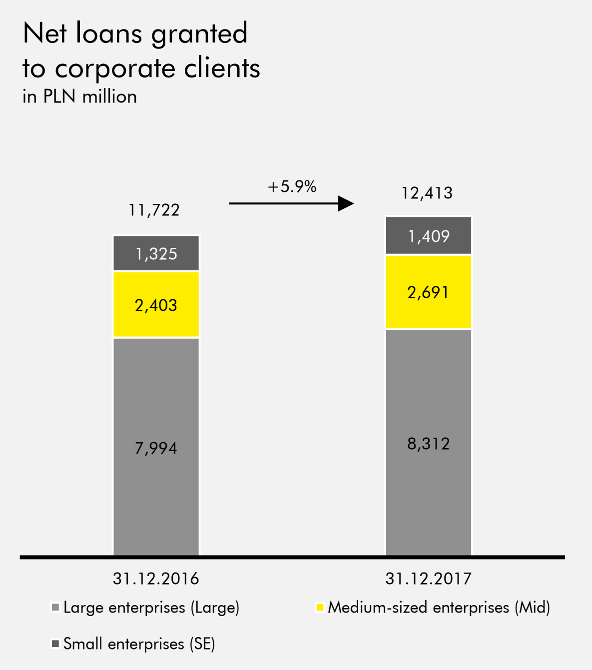
Clients by segment:
SE – clients with annual turnover from PLN 4 million to PLN 25 million
Mid – clients with annual turnover from PLN 25 million to PLN 100/200[1] *million*
Large – clients with annual turnover over PLN 100/200[1] *million*

Apart from the client acquisition efforts, the growth of the Corporate Banking client base came also on the back of the Bank's continuous focus on enhancing client satisfaction by streamlining internal processes and developing the product range based on client feedback. At least once a year, the Bank measures the level of customer satisfaction for all key points of contact with the Bank in the Corporate Banking segment using the Net Promoter Score (NPS) methodology, by way of telephone surveys carried out among the Bank's clients by an external entity. In the most recent survey conducted in the first half of 2017, NPS for Corporate Banking stood at 38 points, an improvement of 6 points over the first half of 2016.

5.2.2. Lending activities

2017 witnessed a growth in loans granted by the Bank across all sub-segments of Corporate Banking. During the year, the net volume of loans to corporate clients increased by PLN 580 million, or 5.9 per cent, to PLN 12.3 billion at the end of December 2017.

[1] From 1 March 2016, the annual sales threshold, serving as a criterion based on which clients were classified as large enterprises or medium-sized enterprises, was raised from PLN 100 million to PLN 200 million; this higher threshold applies to new clients.



In accordance with the strategic focus on small and medium-sized enterprises, a strong growth was recorded in the net volume of loans granted to clients from these two sub-segments. At the end of December 2017, the net volume of loans to small and medium-sized enterprises reached PLN 4.1 billion, up by PLN 373 million, or 10 per cent, relative to the end of 2016. In 2017, the Bank succeeded in reversing the trend of declining loan volumes in the large enterprises sub-segment that had prevailed since 2005, as a result of which the net volume of loans granted to such clients also grew – by PLN 318 million, or 4.0 per cent, to reach PLN 8.3 billion at the end of December 2017.

The faster lending growth rate in the small and medium-sized enterprises sub-segments relative to large enterprises brought up the share of SME loans in the entire Corporate Banking loan portfolio to 33.0 per cent at the end of December 2017, up 1.2 percentage points relative to December 2016.

The net loan-to-deposit ratio in Corporate Banking was 106 per cent at the end of December 2017, having gone up 18.4 percentage points from the end of 2016 as result of a decrease in corporate client deposits with a concurrent increase in net loans to customers.

In 2017, the Bank continued to grant loans secured with *de minimis* guarantees available under the government liquidity-support scheme for micro-, small- and medium-sized enterprises. In May 2017, the Bank entered into an additional cooperation agreement under the portfolio guarantee line provided by the Guarantee Fund of the Smart Growth Operational Program 2014–2020 (FG POIR), and on 15 November 2017 it implemented procedures to enable the offering of investment loans to innovative SMEs secured with free-of-charge repayment guarantees from FG POIR.

Cumulatively, in the period from March 2013 to the end of December 2017, the Bank granted loans secured with *de minimis* guarantees in over 6.5 thousand cases, with an aggregate value of PLN 1.4 billion. In terms of the de minimis guarantee limit used, Raiffeisen Polbank ranked 11th among the 20 lending banks that had signed cooperation agreements with BGK. As at the end of December 2017, the Bank had over 2.9 thousand loans, totaling PLN 828 million, secured with *de minimis* guarantees worth nearly PLN 501 million. 484 of these loans, totaling PLN 380 million and secured with *de minimis* guarantees worth PLN 230 million, were granted to Corporate Banking clients. The remaining 2.4 thousand loans, for a total of PLN 447 million, were granted to microenterprises (in the Retail Banking segment) and were secured with *de minimis* guarantees worth PLN 271 million.

5.2.3. Trade finance services

As part of trade finance services to corporate clients, in 2017 the Bank issued 6.1 thousand guarantees, with a total balance of commitments under the guarantees of PLN 1.9 billion as at the end of the year. According to figures for the first three quarters of 2017, in a ranking of the largest guarantee providers compiled by the Polish Bank Association ("PBA"), Raiffeisen Polbank ranked seventh in terms of the number of new guarantees, with a market share of 10.5 per cent, and sixth in terms of the value of the new guarantees, with a market share of 7.9 per cent.

As in previous years, the Bank commissioned a client satisfaction survey concerning its guarantees. In December 2017, the GFK Polonia research institute measured client satisfaction with the Bank's guarantee service and the related Net Promoter Scores. The NPS results of 44 for the guarantee service and 59-81 for the guarantee team confirmed the high quality of client service provided by the Bank's specialist staff. The highest scores were given for the support received from the Bank's staff, their commitment, expert knowledge and competence, as well as for the clarity of information and ease of contact.

In 2017, the Bank issued and advised 2.1 thousand letters of credit with a total value of PLN 1.1 billion. After the first three quarters of 2017, the Bank ranked third among the ten banks reporting to the PBA in terms of the number and value of export letters of credit advised, and fifth in terms of the number of import letters of credit issued. Letters of credit issued and advised by the Bank in the first three quarters of 2017 accounted for 8.2 per cent of the value and 10.9 per cent of the number of all issued and advised letters of credit taken into account in the PBA ranking.

In relation to its letters of credit, the Bank also commissioned a customer satisfaction survey. In October 2017, the GFK Polonia research institute measured client satisfaction with the Bank's letter of credit service and the related Net Promoter Scores. The NPS results of 68 for the letter of credit service and 84 for the letter of credit team are proof of the high quality of the Bank's service and specialized approach to documentary letters of credit.

5.2.4. Factoring

In 2017, the Bank was the preferred provider of factoring solutions to Polish enterprises: at the end of December 2017, more than 1.8 thousand companies, i.e. 20.9 per cent of factoring clients in Poland, used the Bank's services. Factoring turnover in 2017 amounted to PLN 18.3 billion, 2.7 per cent more than in 2016. Based on factoring turnover, the Bank ranked fourth on the factoring market, with a 10 per cent market share at the end of 2017, according to the Polish Factors Association.

In 2017, the Bank's efforts to enhance sales of factoring services in the small and medium-sized enterprises sub-segments translated into a 40 per cent year-on-year increase in the number of new clients. In the second quarter of 2017, Raiffeisen Polbank launched its Smart FaktoR, the first mobile factoring application on the Polish market enabling the entire process of invoice purchase to be carried out on a mobile device.

5.2.5. Transaction banking

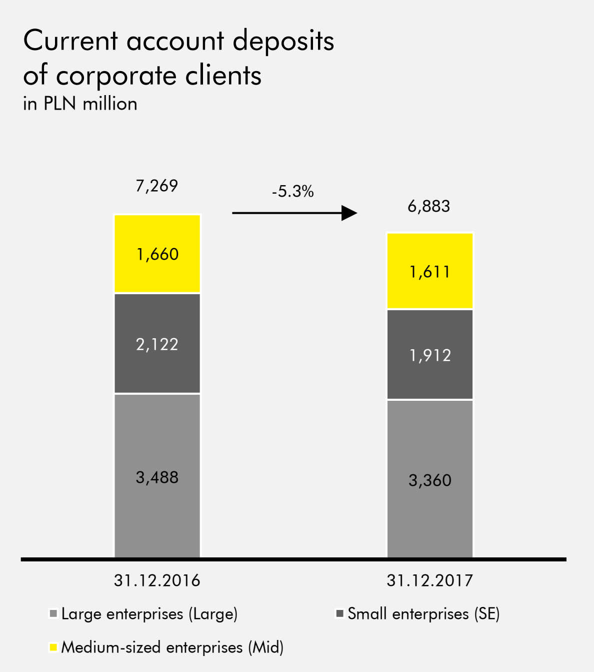
In 2017, the Bank's activities in the transaction banking area focused on the sub-segments of small and medium-sized enterprises.

Key changes in the product range included the introduction of a new transaction package for medium-sized corporate clients (Sure Business Package – *Pakiet Pewny Biznes*) and changes in payment cards. All holders of Visa Business debit cards are now able to deposit cash using the Euronet network of deposit ATMs in Poland, and a strong authentication service for online card transactions (3D-Secure) was implemented to maintain the security of clients' funds.

For selling transaction banking products, the Bank continued to rely on a model based on a network of qualified transaction banking sales specialists based in Corporate Banking Centers.

These activities in the transaction banking area contributed to a growth in the volume of funds held in client accounts by PLN 268 million, or 4.5 per cent (on an annualized average basis) in 2017, compared with 2016. Particularly strong growth was recorded in the sub-segment of medium-sized enterprises, where the average client account balance in 2017 was up 19.6 per cent compared with a year earlier.

In terms of the 2017 year-end account balances versus the 2016 figure, a significant decrease of PLN 387 million, or 5.3 per cent, was attributable to the unusually high balances accumulated in client accounts at the end of 2016, especially in the sub-segments of large and medium-sized enterprises.



5.2.6. Treasury banking and deposits

In 2017, the Bank's transactions with corporate clients included FX spot, FX forward, FX option and interest rate swap (IRS) contracts. In 2017, the number of clients actively using the Bank's treasury products rose by 3.1 per cent year on year.

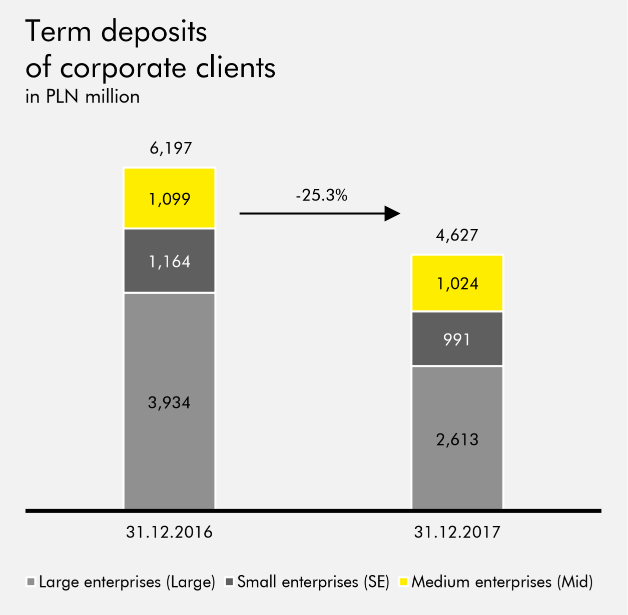
The total volume of FX transactions in 2017 was up by 3 per cent compared with a year earlier. However, due to strong competition from other banks and a growing number of online currency exchange services, the Bank's revenues from FX transactions declined by 4 per cent compared with 2016.

One of the channels used by clients to make FX spot transactions is the R-Dealer trading platform. In case of clients from the sub-segments of small and medium-sized enterprises, R-Dealer was the main channel used for entering into FX spot contracts: in 2017, 86 per cent of all such transactions were made via the platform. R-Dealer's further development is a main element of the ongoing digitalization program in the Corporate Banking and Financial Institutions and Capital Markets segments.

The Bank's FX dealers and derivatives specialists assisted clients in hedging their currency positions using a range of available derivative products. In 2017, the result on currency and interest rate risk hedging transactions was 7.7 per cent lower than in 2016, though the number of clients actively using derivative transactions went up 6.3 per cent during the period. FX forwards were the most popular product, but many clients also used FX options. In 2017, the result on these transactions was 32 per cent higher than in 2016.

In 2017, the Bank offered also structured deposits: Dual Currency Deposit (*Lokata Dwuwalutowa*) and Investment Deposit (*Lokata Inwestycyjna*).

As at the end of 2017, the total value of corporate term deposits was PLN 4.6 billion, 25 per cent down year on year. The lower volume of deposits was related to the Bank's policy of reducing excess liquidity.



5.2.7. Investment banking

In 2017, the Bank continued to develop its investment banking business. During the year, it was involved in a number of debt issues (notes, bonds and commercial papers), e.g. for:

- Polsteam Shipping Company Ltd – USD 351 million bond issues (with the Bank acting as Arranger, Paying Agent, Depositary and Dealer);
- Polska Żegluga Morska – USD 82.1 million bond issue (with the Bank acting as Arranger, Paying Agent, Depositary and Dealer);
- ATAL S.A. – PLN 40 million and PLN 80 million bond issues (with the Bank acting as Arranger and Dealer);
- BBI Development S.A. – PLN 53 million bond issue (with the Bank acting as Arranger and Dealer);
- MCI Capital S.A. – PLN 20 million bond issue (with the Bank acting as Arranger and Dealer);
- JW. Construction – PLN 70 million bond issue (with the Bank acting as Arranger and Dealer).

In addition, the Bank participated in two European Investment Bank bond issues (with a value of PLN 900 million and PLN 1.5 billion).

Overall, in 2017 the Bank assisted in bond, note and commercial paper issues with a total value of PLN 4.25 billion, an almost threefold increase over 2016, including issues of short-term commercial papers and notes (with maturities of up to one year) worth PLN 1.7 billion, nearly three times the previous year's figure.

On the equity market, in 2017 the Bank handled a private placement of Qumak shares with a total par value of PLN 30 million.

5.3. 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 a Treasury Securities Dealer. As a system bank, Raiffeisen Bank Polska is a money market dealer and a WIBOR contributor bank.

In the Capital Markets area, in 2017 the Bank was running a project to implement the requirements of MIFID II by adapting its financial market products and their sales processes to the standards required by that Directive.

Moreover, the Bank was an active market maker for local FX swaps and other interest-rate derivatives. In an analysis of activity of 14 candidates to act as money market dealers, covering the period from 1 October 2016 to 30 September 2017, in selected segments of the financial market the Bank ranked as follows:

- PLN FX swaps – fourth position;
- FRA and IRS transactions – eighth position;
- OIS transactions – fifth position.

In its services to financial institutions, the Bank focuses on two client segments: banks and non-bank financial institutions. In addition, to develop its foreign-currency cash trading business, the Bank actively offers its services to traditional currency exchange offices.

As a provider of custodian services, the Bank remained the market leader, both in terms of the number of investment funds served and the value of assets held for closed-end investment funds. At the same time, the Bank continued to develop its services dedicated to open-end investment funds. As at 31 December 2017, it provided services to a total of 351 funds, and the value of fund assets in its custody rose by 6.6 per cent year on year.

In the area of custodian bank services, in 2017 the Bank's focus was on meeting the new regulatory requirements imposed by the Amendment to the Act on Investment Funds and Managers of Alternative Investment Funds of 4 June 2016, and on consolidation of the market practice adopted in response to these amendments and the extended list of a custodian bank's obligations.

As a consequence of the PFSA's decision of 21 November 2017 to withdraw FinCrea TFI SA (FinCrea) the permission for managing funds, the Bank, acting as a custodian of 19 funds managed by FinCrea, by the power of law took over their representation. In accordance with applicable laws, within three months from the PFSA's decision, the Bank took over the relevant documentation and actively searched for investment fund management companies that would agree to take over the management of these funds. As a result of the efforts, the Bank delegated the management of 13 funds to new investment fund management companies. One fund was in liquidation on the day of delivery of the PFSA's decision. Two further funds were dissolved by resolutions of General Meetings of Investors during the period of representation. Due to the inability to choose a company that would take over the management of the three remaining funds, in accordance with applicable laws they were placed in liquidation on 23 February 2018. As a consequence, the Bank acted as a liquidator of 6 of the funds managed previously by FinCrea.

5.4. Awards

In 2017, the Bank received the following prestigious titles and awards:

- Best Private Banking in Poland – in the 'Europe Banking Awards 2016' ranking by EMEA Finance;
- First place in the best service quality at a bank branch category for 2016 – in a competition organized by the mojebankowanie.pl portal;
- Third place in the cash loan category – in the Golden Banker ranking organized by editorial boards of Bankier.pl and the *Puls Biznesu* daily;
- Quality Mark in the 'best account for free' category for the Dream Personal Account – awarded by the Polish Institute of Quality Research as part of the Polish-Swiss bank account test;

- Client's Laurel 2017 and Client's Laurel 2017 Grand Prix in the factoring services category – in the 13th edition of a nationwide poll on product and service popularity, conducted by the *Gazeta Wyborcza* daily;
- Third place for the 'Wygodna Visa' credit card – in the 'Best credit cards' ranking by TotalMoney;
- 'Bank appreciated by customers' title and second place – in the Retail Bank Customer Satisfaction Ranking compiled by the ARC Rynek i Opinia research institute as part of their Retail Bank Client Satisfaction Survey 2017;
- Second place for the Dream Personal Account – in 'The best personal accounts – September 2017' ranking by Bankier.pl;
- First place for the '*Dany Kesz*' cash loan – in a ranking of PLN 3 thousand cash loans by the *Rzeczpospolita* daily;
- 'Silver' for the Dream Personal Account – in the zero-cost accounts ranking by the *Gazeta Wyborcza* daily;
- Highest distinction (five stars) for Friedrich Wilhelm Raiffeisen – in a ranking of private banking providers in Poland 2017, compiled by the *Forbes* monthly;
- Best Private Banking in Poland – in the Global Private Banking Awards 2017 organized by *The Banker* monthly and the *PWM* magazine;
- Sixth place – in the 'Bank for Kowalski' category of the 'Newsweek's Friendly Bank 2017' ranking;
- Distinction for commercial banking – in the Private Banking and Asset Management 2018 survey by the *Euromoney* magazine;
- Second place and the 'Pearls of the Polish Economy' certificate in the 'Financial Pearls' category – from the Polish Market monthly.

6. Operations of Raiffeisen Solutions Sp. z o. o. in 2017

Raiffeisen Solutions Sp. z o.o. ("Raiffeisen Solutions", "Company"), a company wholly-owned by the Bank, is the owner of one of the most advanced currency exchange and money transfer tools on the market, launched in November 2015 under the name RKantor.com.

2017 saw consistent expansion of the Company's client base and range of products offered via RKantor.com. In pursuance of Raiffeisen Solutions' key objectives to improve brand recognition, strengthen relationships with strategic clients and increase revenues, a new marketing campaign was launched and a partnership was forged with Poczta Polska S.A., the state postal service operator. The Company provided a 'white label' solution – an FX platform – allowing Poczta Polska customers to exchange currencies online. All these efforts were reflected in a year-on-year improvement of the Company's performance in 2017: a 40 per cent rise in the number of newly registered customers, a 100 per cent increase in turnover, and a 38 per cent growth in revenues.

7. Operations of Raiffeisen TFI S.A. in 2017

Raiffeisen TFI S.A. ("Company", "Raiffeisen TFI") is a fund management company focusing on the management and distribution of investment funds.

In the second quarter of 2017, the Company received the PFSA's license to carry out its business, as specified in Art. 45.1 and Art. 45.1a of the Act on Investment Funds and Management of Alternative Investment Funds of 27 May 2004, and signed an agreement with Altus TFI S.A. whereby it took over the management of the Raiffeisen SFIO Parasolowy (from the beginning of December 2017, becoming its governing body) and FWR Selektywny FIZ funds (on 1 September 2017).

8. Development of the Raiffeisen Bank Polska S.A. Capital Group's organization and infrastructure in 2017

8.1. IT and operations

In 2017, in the area of project management and IT solutions delivery, 19 projects were implemented, with the efforts focused on:

- Development of a new online banking platform for individual clients together with modern mobile payment services;
- Development of a system to improve the sales and support processes relating to accounts and loans for individual clients;
- Implementation of a new product package for individual clients;
- Adaptation of the Bank's systems to the MIFID II requirements and IFRS 9 reporting standard;
- Implementation of a new FX platform;
- Optimization of the integration bus and customer service systems;
- Changes in the online banking systems for corporate clients (including architecture optimization);
- Measures to facilitate opening of corporate clients' accounts/customer information files;
- Improvements to systems supporting risk management;
- Adaptation of the Bank's systems to CRS regulations;
- Robotic process automation.

At present, IT projects activity focuses primarily on:

- The Bank's digitalization strategic program;
- Mandatory regulatory projects, e.g. to ensure compliance with the GDPR, PSD2 and Split Payment regulations.

In the area of IT infrastructure management, a major task involved replacement of the Bank's disk arrays with more efficient modern devices, featuring additional functionalities. Upgrade work was performed on the Bank's network infrastructure to ensure security. The videoconference infrastructure was also replaced and integrated with the mail system and other communication systems.

In expense management, work was continued on optimizing IT operating costs by streamlining the application architecture, adjusting the demand and supply of IT services, changing system development and maintenance models, streamlining IT processes and functions, and optimizing the IT infrastructure. As a result, IT operating expenses were brought down by over 7 per cent year on year.

In 2017, the Bank pursued the 'AGILE Transformation' program, aimed at preparing and implementing agile working methods. In particular, the necessary organizational changes were made, with internal processes and procedures adjusted at the IT and Bank-wide levels.

In 2017, the Bank carried on with another phase of the Operations Transformation Project to centralize (nearshore) functions in the Operations Center in Ruda Śląska. In the third phase of the project, processes related to physical security, corporate loans administration and documentation, services for financial institutions, corporate complaints servicing, cards operations, financial markets operations (Middle Office and Back Office), accounts reconciliation, selected business services and AML and FISA processes were migrated to the Operations Center. On completion of that phase, all operational functions were centralized within the single organizational unit. All processes transferred to the Center are carried out with improved efficiency, with the high quality of internal and external customer service maintained. As the Center assumes new functions, the already migrated processes are constantly optimized and streamlined.

In 2017, projects under the Bank's digitalization program were also carried out in the operations area, with key ones including process automation at the Operations Center and robotic process automation. Work on these projects is being continued in 2018.

8.2. Development of electronic service channels

R-Online

The R-Online e-banking system is dedicated to Retail Banking clients.

Following the launch of its new version in 2016, the Bank's focus in the first half of 2017 was on stabilization and fine-tuning of the new service. In the second half of 2017, the Bank introduced new functionalities, including additional widgets visible on the desktop, redesigned the investment fund management module and started work on adding more functionalities.

As at 31 December 2017, the number of R-Online users was 613 thousand, down 1.7 per cent on the end of 2016.

<u>Mobile Wallet</u>

The Mobile Wallet (*Mobilny Portfel*) application, enabling, among other things, convenient contactless payments with the use of smartphones, is available to users of smartphones featuring the NFC function and powered with Android (min. 4.4. version). The application has a number of functionalities that facilitate convenient and quick management of NFC cards, such as assignment and change of a card's PIN code, temporary card blocking, and change of daily transaction limits.

In July 2017, the Bank launched the application for iOS-powered platform and added access to the following systems: R-Online (e-banking for retail clients), R-Dealer (FX platform) and the *#korzystaj* shopping program. In November 2017, a fingerprint login functionality was added, both for Android- and iOS-powered devices.

As at the end of 2017, the Mobile Wallet was installed on 6.3 thousand active devices (active in the last 30 days), and the clients installed a total of 5.5 thousand cards (4.4 thousand debit cards and 1.1 thousand credit cards) in the application, which means a 163 per cent increase in the number of NFC cards compared with the end of 2016.

In the coming quarters, the Bank plans to further expand Mobile Wallet by adding further functionalities, giving it a facelift, and fine-tuning its operation.

<u>Mobile Bank</u>

The Mobile Bank (*Mobilny Bank*) application allows the Bank's clients to manage their accounts from mobile devices. As at the end of 2017, Mobile Bank was available to 135.1 thousand Retail Banking clients.

<u>R-Online Biznes</u>

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

In 2017, in keeping up with regulatory changes, the Bank introduced a new method of making contributions to the Social Security Institution (ZUS). Additionally, the Bank implemented changes to enhance the system's functionality and usability. The key changes included: access to the payment history for incoming mass payments (MassCollect), presentation of the Relationship Manager's data, addition of post-transaction balances and more detailed reports and account statements, modifications to the batch import mechanism, and automated termination of client relationships. Work also continued on the system security. One of the implemented solutions is a signature component based on USB tokens with a button on computers running on the Mac operating systems. Additionally, the server layer was replaced, which will reduce the cost of system maintenance. The Bank also carried out work to deploy new online and mobile banking systems, with the first modules scheduled for launching in the second half of 2018.

As at 31 December 2017, the number of users with access to the R-Online Biznes e-banking system for corporate clients was 31 thousand.

Number of clients with access to the Bank's internet and mobile banking (thousand)	**As at 31.12.2017**	**As at 31.12.2016**
Mobilny Bank (Retail Banking customers)	135	134
R-Online	613	624
R-Online Biznes	31	30

8.3. Branch network

As at 31 December 2017, the Bank operated 235 branches, including:

- Network of 181 own retail branches,
- Network of 46 franchise branches,
- Corporate Banking Center (CBK) operating outside the retail network,
- Seven Private Banking Centers operating outside the retail network.

All retail branches provide corporate clients and private banking clients with services related to cash transactions and basic instructions.

In 2017, as part of the rightsizing program, the Bank closed 62 own branches and converted 23 own branches into franchise outlets. Additionally, one franchise branch was closed.

The Bank also employs other distribution channels, such as the Telemarketing Team and Mobile Advisors Team, to reach clients directly, and works on an ongoing basis with 26 nationwide brokers and approximately 1,900 local intermediaries.

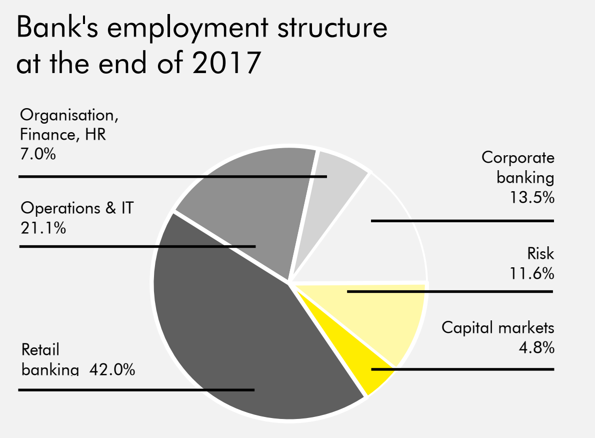
8.4. Human Resources Management

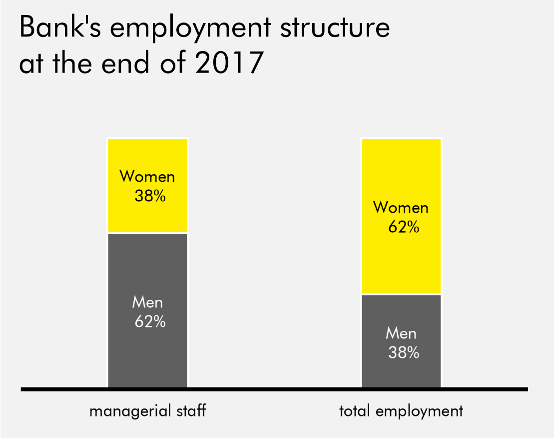
8.4.1. Headcount

As at the end of 2017, the Bank employed 4,145 active staff[2], including Management Board members, compared with 4,453 staff at the end of 2016. On an active FTE-basis[2], the Bank's headcount at the end of 2017 was 3,878, down by 371 (8.7 per cent) relative to the end of 2016. On an FTE-basis, the Group's headcount was 3,978, down by 360 (8.3 per cent) year on year, as a result of employment rightsizing.

The employment at the Bank and Group in active FTEs[2]	**As at 31.12.2017**	**As at 31.12.2016**
Retail banking	1,630	1,934
Corporate banking	522	610
Capital markets	186	190
Operations & IT	818	758
Risk	449	455
Organization, Finance, HR	273	302
Bank total	**3,878**	**4,249**
Raiffeisen Investment Polska Sp. z o. o.	1	1
Raiffeisen Financial Services Polska Sp. z o. o.	46	49
Raiffeisen Solutions Sp. z o.o.	43	39
Raiffeisen Towarzystwo Funduszy Inwestycyjnych S.A.	10	0
Group total	**3,978**	**4,338**

[2] Active employees/active FTEs, i.e. excluding employees on parental leave and long-term sickness absence, at the end of the reporting period; including remunerated Management Board members and excluding appointed Management Board members.





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

8.4.2. Remuneration and benefits policy

In 2017, as in previous years, the Bank's remuneration policy was primarily designed to ensure that:

- Employees are best motivated to achieve the Bank's strategic objectives;
- Employees with the highest competences and best-performing employees are retained;
- Best candidates are attracted, while the payroll budget is used in the optimal way.

Under the Bank's remuneration policy, employees receive – in addition to their base salary and monthly position allowance (benefits depending on the position held) – variable remuneration under periodic incentive programs/schemes and an annual bonus scheme, depending on the individual employees', teams', and business units' performance.

An important component of the Bank's total employment package is the Grades&Benefits system, under which each position at the Bank is assigned a Job Grade carrying certain non-pay benefits, such as:

- Private medical care with family option;
- Group life insurance for employees;
- Work-related equipment (e.g., company cars, cell phones).

As part of the Multikafeteria solution, each employee can select from a list of available benefits those that best address their needs. In addition, the Bank promotes and supports sports among its employees by co-financing a range of sports activities (sports teams, clubs, etc.). In 2017, employees were entitled to benefits under the Company Social Benefits Fund, such as holiday allowances or seasonal gifts.

As part of its CSR policy, the Bank supports employees who are facing financial problems. They are entitled to 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 Rodzinę*) program, under which employees are entitled to:

- Additional days off;
- Additional medical care package paid for by the Bank;
- Life insurance;
- At-work facilities, e.g., designated rooms at the head-office building for pregnant women, specifically fitted for the purpose.

8.4.3. Employee training and development

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

In pursuance of employee development priorities set for 2017, the Bank completed a number of training and development projects designed to build specialist competencies in such areas as advanced sales techniques or advanced financial reporting; also, advanced training sessions were organized covering psychology, negotiation skills, decision-making, law, and project management practices. Particularly noteworthy are initiatives which lead to employees being awarded industry-recognized professional certificates. A number of private banking and retail banking employees have become certified as financial advisors or financial planners on completion of the EFA (European Financial Advisor) course or the prestigious EFP (European Financial Planner) educational program, respectively. Both certificates are reliable guarantees of their holders' highest professional competence.

In 2017, 376 individual development projects were completed (including specialist, interpersonal, and language training). As part of internal training, 398 sessions were held for 5.3 thousand attendees. In 2017, 97 per cent of employees took part in at least one training course, of whom 83 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 delivering internal training courses and in developing e-learning materials. In 2017, more than 550 employees were provided training during 46 sessions held under the SOW@ (Professionals Delivering Knowledge) program, with in-house experts as trainers. Training is provided with the use of different forms of learning, including those based on state-of-the-art technologies and traditional solutions. In 2017, e-learning courses were taken by more than 4.5 thousand employees. As part of support initiatives, four educational videos were produced and 14 video-based training courses were provided to 420 employees.

In 2017, the Bank operated the Personal Development Workshop, a project designed to enhance employees' soft skills competencies. It was carried out by personal development coaches who are employees of the Bank's HR Department. In 2017, a total of 922 employees attended 92 training sessions during two editions of the workshop.

All of the Bank's managers can take advantage of the Leader Center Club ("LCC"), a dedicated managerial development scheme designed to support managers in the discharge of their duties and in personal development. It is operated via a social media platform accessible on a 24/7 basis through a web browser, as well as a mobile application. Enabling knowledge and experience sharing, the platform allows its users to select content and activities they are interested in. The catalogue of available activity forms and information areas is tailored to meet the current managerial development needs in the context of the Bank's strategy. The program, joined voluntarily by employees, is diversified and provides an opportunity to participate in numerous training sessions and workshops, to assess their individual characteristics and competencies which are vital to professional success, to take part in inspiring events, to read and share interesting content devoted generally to management, to gain access to literature, etc. Additionally, an internal mentoring program is operated as part of the LCC. The senior management are also offered a personal coaching program. The program's key objective is to provide managers with a flexible educational experience aligned with their current development needs. Various LCC group and personal development initiatives attracted a total of 855 participants, who attended 106 different training sessions and courses.

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

8.4.4. HR policy

In 2017, the Bank continued to implement 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. An employee engagement and satisfaction survey, conducted annually, allows the Bank to monitor the climate and sentiment at times of market and organizational challenges, and then undertake steps to build an engaging workplace. Much weight is attached to the atmosphere at work and mutual respect, which are regarded as equally important as the pursuit of business objectives. The achievement of business goals, which are cascaded from the Management Board, through managers to individual employees, is supported by the management by objectives system (the performance management system).

9. Corporate Social Responsibility at the Raiffeisen Bank Polska S.A. Capital Group

Raiffeisen Polbank, drawing on the Raiffeisen Group founder's vision, has always been attached to such values as: client orientation, professionalism, quality, mutual respect, honesty and integrity, as well as long-lasting relationships based on loyalty and trust. Pursuing these values is key to the organization's sound long-term performance and success.

As a key step taken to ensure adherence to these principles, the Bank regularly seeks client feedback, for example through client satisfaction surveys in virtually all areas of its operations, such as: service quality, products and services or complaint analysis. A reliable indicator of customer satisfaction is the Net Promoter Score (NPS).

While seeking to attain its business objectives, Raiffeisen Polbank, as a socially responsible entity, also takes into account the needs of its stakeholders, strengthening transparent and ethical relationships with its clients, investors, trade partners and employees. In carrying out its business, the Bank does not forget about society, especially the needs of local communities, and about protection of the environment.

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

Social responsibility is a vital tool for 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 retail clients and entrepreneurs, as well as other stakeholders. The Bank is involved in entrepreneur education initiatives, including campaigns organized in partnership with national media and local meetings with representatives of the business community. It supports initiatives in culture, charity and social outreach, engaging in projects aimed to promote public good and health, as well as initiatives for local communities served by the Bank branches.

In 2017, the Bank lent active assistance to educational and cultural institutions, as well as non-profit organizations, supporting their public benefit projects. The supported organizations included: the Austrian Cultural Forum, the Austrian Embassy, the Warsaw Uprising Museum, the *Dziecięca Fantazja* Foundation, the *Fundacja Pomocy Dzieciom Kolorowy Świat* Foundation, the *Góry Przenosić Tytus Chałubiński* Foundation, and the *Dbam o Zdrowie* Foundation, and through purchase of Christmas cards also the charitable activities of the *Fundacja Dzieciom 'Zdążyć z pomocą'* Foundation for children.

The Bank also continued its long-standing partnership with the *Towarzystwo Nasz Dom* association and was once again a sponsor of the My Future (*Moja Przyszłość*) grant program, to cover the costs of re-education and tuition for residents of children's homes across Poland and to support those who want to pursue further education (high school, university) or occupational training.

As part of the Children's Day and Santa Claus events, the Bank, in partnership with the Cinema City network, organized film screenings in several cities with refreshments and gifts for residents of local children's homes, as well as needy and sick children under the care of charity foundations and local institutions.

Every year, the Bank's employees are actively involved in a variety of volunteering initiatives. For another consecutive year, they took part in the Bankers for Financial Education of Youth BAKCYL project, where banks' employees volunteer to teach the basics of finance management to junior high school students. Conceived and organized by the Warsaw Banking Institute, and partnered by the Polish Bank Association, BAKCYL aims to acquaint young people with the principles of practical banking they may find useful when entering adulthood and making conscious decisions about their finances.

On their own initiative, the Bank's employees also run nationwide collections of school supplies at the beginning of every school year, as well as collections of Christmas gifts, food and household goods for the most needy families and children under the care of the *Dziecięca Fantazja* Foundation, children's home for the blind, children's homes associated under *Towarzystwo Nasz Dom,* single mother shelters and hospices. Employees also pursued local charitable initiatives, engaging in public benefit projects at regional levels.

They were actively involved in *Towarzystwo Nasz Dom*'s 'Penny Mountain' (*Góra grosza*) campaign. In association with the DKMS Foundation, a campaign was also run to encourage the Bank's employees to register as potential stem cell donors.

10. Management of the key risks

10.1. Credit risk management

Credit risk refers to potential failure of the Group's 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.

Credit risk management process at the Group is based on a set of rules, which involve in particular:

- Performing a comprehensive credit risk assessment based on scoring and rating models appropriate for individual segments or product types;
- Ensuring an independent creditworthiness assessment, 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 monitor risk and avoid risk concentration within 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 Group are aimed at increasing the efficiency and effectiveness of risk identification and defining actions to be taken in the event of changes in risk levels.

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

The credit risk monitoring at the portfolio level includes regular analyses of the credit portfolio to identify any adverse trends and concentrations and *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 such limits through a regular monitoring system.

For information about the Group's credit risk exposure and credit risk management methods, see the Raiffeisen Bank Polska S.A. Group's consolidated financial statements for the financial year ended 31 December 2017 (the "2017 consolidated financial statements") (the note on credit risk management). Relative to the previous period, the following significant changes occurred in credit risk management: (i) the retail portfolio was materially affected by the stronger złoty, which brought about a decrease in foreign currency exposures; an increase in impairment losses recognized in the segment was due to higher impairment losses on mortgage-backed loans and the maturing of the unsecured loan portfolio, whose share in the retail portfolio has been rising since the second half of 2015 (ii) in the corporate client portfolio, the entire portfolio of exposures to the renewable energy sector was transferred to the Enterprise Restructuring and Debt Collection Department following certain changes in the regulatory and business environment, described in Note 43 ("Credit risk") to the 2017 consolidated financial statements. At the end of 2017, loans and advances to customers from the renewable energy sector amounted to PLN 396 million, while impairment losses recognized on a stand-alone and consolidated basis were, respectively, PLN 109 million and PLN 12 million. In 2017, the Group did not exceed any of the applicable concentration limits.

As at the end of each reporting period, the Group assesses whether there are any objective indications of impairment resulting from one or more events which have occurred after the initial recognition of a credit exposure. An impairment of an asset or group of assets is recognized only if an event or events leading to impairment has an adverse effect on the estimated future cash flows related to the credit exposure or group of credit exposures, which can be reliably estimated.

All financial asset categories presented in the consolidated statement of financial position are tested for impairment (on an individual or group level). For disclosure purposes, such assets are classified in one of the following three categories: not past due and not impaired; past due but not impaired, and impaired. For information on impairment analysis of receivables by category and client segment, see the 2017 consolidated financial statements (Note 43 on credit risk).

10.1.1. Loan portfolio quality

As at the end of 2017, the share of impaired loans in the Group's portfolio increased from 7.9 per cent to 8.4 per cent year on year. The change in the share of impaired loans was largely driven by a decrease in assets in the loan portfolio reflecting the Polish currency's appreciation.

The coverage ratio, defined as the proportion of impairment losses on impaired loans to the amount of such loans, showed an improvement – from 56.4 per cent as at the end of 2016 to 60.2 per cent as at 31 December 2017, chiefly on higher estimated impairment of mortgage-backed loans.

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

Quality measures of credit risk portfolio (in %)	Impaired loans ratio		Coverage ratio	
	As at 31.12.2017	As at 31.12.2016	As at 31.12.2017	As at 31.12.2016
Private individuals	5.8	5.1	65.7	61.6
Microenterprises	27.8	26.1	54.1	47.5
Large enterprises	8.1	8.8	57.9	56.4
Small and medium enterprises	4.4	4.1	76.8	77.2
Total	**8.4**	**7.9**	**60.2**	**56.4**

10.1.2. Portfolio of mortgage loans denominated in Swiss franc

Mortgage loans denominated in the Swiss franc are an essential element of the Bank's credit risk management given their value and share in the Bank's total loan portfolio. As at the end of 2017, they accounted for 28 per cent of all of the Bank's loans. The table below presents the value of the portfolio of mortgage loans by currency and sub-portfolio.

Mortgage loans granted to private individuals and microenterprises by currency (PLN million)	As at 31.12.2017, CHF/PLN fx = 3.6		As at 31.12.2016, CHF/PLN fx = 4.1	
	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	2,229.4	13.8%	1,954.9	10.6%
EUR	3,198.2	19.8%	3,657.4	19.8%
CHF	9,434.8	58.5%	11,538.5	62.4%
USD	5.5	0.0%	5.7	0.0%
Total	**14,867.8**	**92.2%**	**17,156.5**	**92.8%**
Microenterprises				
PLN	876.2	5.4%	832.8	4.5%
EUR	69.2	0.4%	84.5	0.5%
CHF	306.7	1.9%	407.5	2.2%
USD	0.0	0.0%	0.0	0.0%
Total	**1,252.1**	**7.8%**	**1,324.8**	**7.2%**
Private individuals & Microenterprises				
PLN	3,105.6	19.3%	2,787.7	15.1%
EUR	3,267.3	20.3%	3,741.8	20.2%
CHF	9,741.4	60.4%	11,946.1	64.6%
USD	5.5	0.0%	5.7	0.0%
Total	**16,119.9**	**100.0%**	**18,481.3**	**100.0%**

The table presents exclusively retail loans (i.e. loans to individual clients and microenterprises) and mortgage products (loans resulting from restructuring or consolidation of other debt, including mortgage loans, are not presented in the table).

The average LTV ratio, weighted by the value of exposure, for the portfolio of mortgage loans denominated in foreign currencies was 105.7 per cent as at 31 December 2017 (compared with 126.1 per cent as at 31 December 2016).

Proposals of systemic solutions put forward by various governmental or supervisory authorities to address the currency risk of loan portfolios denominated in the Swiss franc may have an adverse effect on the Group's financial performance and equity.

10.2. Capital adequacy

The key objective of the capital management process is to consistently maintain the Bank'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.

In accordance with Regulation No. 575/2015 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, the Bank is required to maintain at least:

- 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 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 its decision of 20 November 2017, the Polish Financial Supervision Authority notified the Bank that it was required to maintain own funds for covering additional capital requirement of 2.30 percentage points above the Total Capital Ratio in respect of exposure under foreign currency mortgage loans to households, of which at least 75 per cent should consist of Tier 1 capital (which corresponds to 1.725 percentage points), and at least 56 per cent should consist of Common Equity Tier 1 (which corresponds to 1.288 percentage points).

When calculating the levels of capital adequacy ratios, relevant buffers under the Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015 should also be taken into account. In the case of RBPL, a buffer of 1.25 per cent of the total risk exposure calculated in accordance with Art. 92.3 of Regulation (EU) No. 575/2013 applies.

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 levels of the Bank's and the Group's capital adequacy ratios should be as follows:

- Common Equity Tier 1 capital ratio at 7.04 per cent;
- Tier 1 capital ratio at 8.98 per cent;
- Total Capital Ratio at 11.55 per cent.

The Polish Financial Supervision Authority recommends that capital adequacy ratios be maintained above the minimum regulatory requirements and buffers. The levels of capital adequacy ratios recommended by the PFSA are 11.98 per cent for Tier 1 capital ratio and 15.55 per cent for the Total Capital Ratio.

The table below presents the minimum Total Capital Ratio applicable to the Group as at 31 December 2017.

Minimum level of total capital ratio	Regulatory requirements [1]	Supervision recommendations
Minimum total capital ratio	8.00%	12.00%
Buffer to cover risk resulting from the portfolio of currency mortgage loans	2.30%	2.30%
Safety buffer	1.25%	1.25%
Total capital ratio	**11.55%**	**15.55%**

[1] Required under Regulation No. 575/2015 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and the Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System of 5 August 2015.

As at the end of 2017, on a stand-alone basis, Tier 1 capital ratio was 14.70 per cent, while the Total Capital Ratio (TCR) stood at 17.25 per cent. Therefore, the Bank met both the minimum regulatory requirements and the capital adequacy ratios recommended by the PFSA. The share of the highest quality (Tier 1) capital as at the end of 2017 remained very high, at 85 per cent.

Main developments in 2017 which contributed to the change in the Bank's capital position included:

- Inclusion in the first quarter of 2017 of the Bank's entire net profit for 2016 of PLN 132.8 million in Tier 1 capital;
- Write-off of the 'Polbank' brand, reducing intangible assets by PLN 115.6 million;

Entry into force, as from 1 December 2017, of the Regulation of the Minister of Development and Finance on higher risk weights for mortgage-backed exposures, and assignment of a 150% risk weight to exposures secured by mortgage over residential property in the case of which the amount of a principal repayment or interest payment depends on movements in the exchange rates of a currency or currencies other than the currency of the debtor's income.

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 31.12.2017 consolidated	As at 31.12.2017 stand-alone	As at 31.12.2016 stand-alone[1]
Credit and counterparty risk	Standard	3,043,715	2,585,359	2,613,173
Market risk	Standard	29,495	28,471	44,066
Operational risk	Standard	259,066	258,855	271,001
Total capital requirements		**3,332,276**	**2,872,685**	**2,928,240**
Own funds		**7,179,254**	**6,328,775**	**6,111,419**
Risk exposure (RWA)		**41,653,452**	**35,908,557**	**36,603,003**
Common equity Tier 1 ratio		**14.68%**	**17.03%**	**16.05%**
Total capital ratio		**17.24%**	**17.62%**	**16.70%**

[1] As at 31 December 2016, the Bank did not hold interests in any subsidiaries which would be subject to mandatory prudential consolidation, therefore, capital ratios are computed and reported on a stand-alone basis only.

10.3. Liquidity risk

The Group's liquidity risk results from a mismatch between the 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 Bank units which are clearly defined in formal internal procedures and which are assigned respective remits, 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 the liquidity risk appetite;
- The Bank's Assets and Liabilities Committee (ALCO) transposes the risk appetite established by the Management Board onto the system of internal limits and supervises the entire risk management process;
- The Bank's Risk Management Department monitors risk exposure on a daily basis and reports it to competent authorities;
- The Bank's Assets and Liabilities Management Department manages the Bank's liquidity risk on an ongoing basis to comply with the established limits and to optimize the structure of income and expenses.

The following tools are used, among others, 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 impairment, 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 2017, as part of its liquidity risk management, 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.

For information on the liquidity gap, i.e. the difference between assets and liabilities maturing in specified periods, based on the achieved liquidity ratios, see the note on liquidity risk in the 2017 consolidated financial statements.

10.4. 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 results.

The main objectives of market risk management are to identify areas where the Group is exposed to 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 Bank's Management Board defines the market risk appetite;
- The Bank's Assets and Liabilities Committee (ALCO) transposes the risk appetite established by the Management Board onto the system of internal limits and supervises the entire risk management process;
- The Bank's Risk Management Department monitors risk exposure on a daily basis and reports it to competent authorities;
- The Bank's Assets and Liabilities Management Department and Financial Markets Department 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 others, 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 Group'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 one-day holding period and 99 per cent confidence level. The Value at Risk is determined using the 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 2017 showed the effect on the Bank's net interest income at PLN 108,244 thousand (or 1.5 per cent of own funds used in the calculation of the capital adequacy ratio), against PLN 150,975 thousand (or 2.5 per cent of those funds) as at the end of 2016.

The table below presents statistics of the Bank's Value-at-Risk 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 31.12.2017	As at 31.12.2016
Interest rate risk	Banking book	5,067.4	13,426.5	10,194.9	7,991.2	6,237.8
	Trading book	225.6	1,770.4	686.9	606.1	474.0
Foreign exchange risk		8.1	327.8	63.9	96.4	84.3

10.5. Operational risk

Operational risk is defined 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 the security of the Bank's business by implementing efficient mechanisms for the identification, assessment, quantification, mitigation, monitoring and reporting of operational risk.

The Bank's operational risk management policy is designed to address its operational risk profile and ensure that appropriate measures are in place to:

- Contain the risk to an acceptable level, adequate to the scale and nature of the Bank's business,
- Minimize operational losses by ensuring that appropriate steps are taken to eliminate the root causes and negative consequences of operational incidents, while reducing future exposure to such risks,
- Build operational risk awareness.

For managing its operational risk, the Bank uses the following methods and tools:

- Collecting information on operational incidents,
- Monitoring early warning signals,
- Scenario analysis with respect to incidents characterized by low frequency and high severity,
- Assessment of operational risks in key operational risk areas,
- Reporting of operational risks to ensure a regular and timely flow of information to relevant decision-making bodies.

In 2017, having in mind the security of client funds and mitigation of the risk of operating losses, the Bank engaged in activities aimed at mitigating operational risk in individual areas of its activity and at improving the quality of operational risk management.

The most important activities in that respect included:

- Periodic assessment and review of the Bank's current operational risk profile based on an analysis of the Bank's risk parameters, including both risks related to internal processes and changes and risks in the Bank's environment;
- Ongoing monitoring of the operational risk limits defined in line with operational risk appetite;
- Implementing a number of measures to mitigate operational risk in the operating processes and systems, particularly in relation to the risk of fraud and increasing the security of electronic access channels, which makes it possible to effectively prevent criminal threats and to ensure the security of transactions carried out by clients.

10.6. Compliance risk management

Compliance risk is understood as the risk of potential consequences of non-compliance with applicable laws, internal regulations or market standards, including any prudential guidance and recommendations issued by market regulators, or any standards of conduct adopted by the Group. Any materialization of such risk might result in loss of clients, complaints, deterioration of the Group's reputation, or exposure of the Group to losses resulting from legal claims, fines or other sanctions, imposed by regulatory or control authorities. The Group's principal objectives in compliance risk management are to ensure compliance of the Bank's operations with the law and market standards, as well as to secure the clients' and stakeholders' trust and protect the Group's reputation.

The compliance function's key activities in 2017 included work on ensuring conformity of the Bank's operations with:

- Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy, and detailed rules for internal capital adequacy assessment at banks, dated 6 March 2017 (Journal of Laws of 2017, item 637);
- Recommendation H regarding the internal control system at banks, issued by virtue of Resolution of the Polish Financial Supervision Authority No. 141/2017 (Official Journal of the PFSA of 2017, item 7);
- MiFID II / MIFIR package, taking effect on 3 January 2018, to ensure compliance of the Group's operations with the new legal requirements related to offering investment products, with a view to increasing customer protection and ensuring transaction transparency;
- Regulation on key information documents for packaged retail and insurance-based investment products (PRIIPs), effective as of 1 January 2018. These new regulations will enter into force almost at the same time as the MiFID II/MIFIR package, and 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;
- Requirements of the Act on Automatic Exchange of Information (CRS) (performance of specific obligations).

Work also continued on ensuring compliance of the Bank's operations with the provisions of Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution, which was implemented into Polish law by virtue of the Act on Insurance Distribution, dated 15 December 2017. Furthermore, a gap analysis was commenced with a view to bringing the Bank's operations in conformity with the provisions of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (OJ L 141 of 05.06.2015, p. 73).

10.7. Application of IFRS 9

The new standard has replaced the guidance contained in IAS 39 *Financial Instruments: Recognition and Measurement* regarding classification and measurement of financial assets, including their impairment. IFRS 9 has also eliminated the categories of financial assets applicable under IAS 39, namely 'held to maturity', 'available for sale' and 'loans and receivables.'

The Bank has applied IFRS 9, issued in July 2014, starting from 1 January 2018. Based on data available as at the issue date of this report, the total estimated effect of IFRS 9 application on the opening balance of the Bank's equity as at 1 January 2018 will be approximately PLN 528,517 thousand, and will include:

- Decrease of PLN 518,029 thousand due to calculation of impairment losses;
- Decrease of PLN 10,488 thousand due to classifications and measurements unrelated to impairment.

Including the tax effect the total estimated impact of IFRS 9 application on the opening balance of the Bank's equity as at 1 January 2018 will be approximately PLN 426,614 thousand.

These estimates are provisional and subject to change, because not all of the required transitional procedures have yet been completed:

- The new standard requires a review and revision of the accounting and internal control processes: not all the changes have yet been fully implemented;
- The Bank has not completed the tests and assessments of control over the new IT systems. Therefore, the effect of IFRS 9 application indicated above may change when these changes are fully implemented;
- The systems and related controls that have been implemented to meet the new requirements were not operational throughout the entire reporting period;
- The new accounting policies, assumptions and estimates may be subject to further changes until the Bank prepares the final version of its first financial statements in which IFRS 9 is initially applied.

For a more detailed description of the solutions adopted by the Bank as part of IFRS 9 application, see Note 2.25. 'New standards, interpretations and amendments to the existing standards' to the 2017 consolidated financial statements.

11. Events subsequent to the reporting date

Events subsequent to the reporting date are discussed in Note 41 'Events subsequent to the reporting date' to the 2017 consolidated financial statements.

12. Prospects of development for the Raiffeisen Bank Polska S.A. Capital Group

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

The Group expects the rate of economic growth to remain robust in 2018, albeit lower than in 2017 on an annual average basis. Private consumption should continue as the main driver of growth, but its role may diminish as investment picks up. This process is favorable to the economy's growth potential, but there are still risks that can hamper growth, both in the short and medium term.

Consumption growth is forecasted to remain strong, supported by a lack of clearly negative effects of the pension reform on the labor supply and a continuing influx of workforce from abroad. This should give impetus to employment growth, which, coupled with the already strongly rising wages, may further boost consumption.

An improvement is also expected in investment, 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 a pickup in inflation, which will reduce the cost of credit in real terms.

Global situation remains the main risk for Poland's economic growth, with normalization of the major central banks' monetary policies coming to the fore. As a result, interest rates in the US and the eurozone may rise, dampening demand and GDP growth in countries which are Poland's major trading partners.

One of the key domestic-side factors will be the growing saturation of the labor market. As employers find it harder to hire enough workforce, employment growth may slow down and businesses may be forced to make additional investments, which may undercut their short-term growth potential. Demand could also be adversely affected by further strengthening of the złoty, making exports from Poland less competitive.

In 2018, the Polish banking sector may face the following risks posed locally:

- The still open question of forced conversion of foreign currency loans in bank portfolios and refund of FX spreads;
- Rising labor costs and difficulty in hiring/ retaining key staff;
- Continuing low interest rate environment;
- Risk of deterioration in public finances and potential downgrade of Poland's credit rating;
- Possible changes to the tax regime, including adjustments to bank tax;
- Risk of adverse regulatory changes, including an increase in contributions to the Bank Guarantee Fund;
- Worse-than-expected performance of the Polish economy, which might adversely affect the quality of bank loan portfolios.

In 2018, the Polish banking sector may face the following risks posed internationally:

- Uncertainty resulting from political risks over Brexit or the EU and eurozone possible reform directions. The main impact from these factors could be a weakening of the złoty against the US dollar and Swiss franc;
- Potentially substantial outflow of capital from emerging markets to US dollar assets in response to further interest rate rises in the US. This could result in a weaker złoty and provoke stronger sell-off on the Polish treasury bond market;
- Possible deterioration in the global economy, notably the eurozone, e.g. in the aftermath of a major financial institution's bankruptcy, which could aggravate uncertainty in global financial markets, leading to higher yields on Polish treasury bonds, depreciation of the Polish currency, falling foreign demand for Polish goods and services, and deteriorated quality of bank loan portfolios.

Any of the foregoing factors may affect the Group's future financial results.

12.2. Prospects of development for the Group

The Group aims to maintain its position as a leading mid-market bank, focusing on small and middle-market corporates, as well as microenterprises and retail customers, who are the main drivers of the Polish economy. The Group also aims to maintain strong relationships with large enterprises and international corporations. The Group seeks to achieve long-term sustainable returns across all business lines. For this purpose, the Group commenced the implementation of a new "Rightsizing Program" announced on 10 April 2017.

The Group's strategy is based on three key pillars: increasing operating income, decreasing costs by executing the "Rightsizing Program" while maintaining prudent and business-oriented risk management, and digitalization. The Group's objective is to reduce the cost-to-income ratio below 55% starting from 2019 onwards and to improve profitability.

In 2018, the Group will take actions to address all the three pillars.

Increasing operating income:

- The Group seeks to increase its scale of operations in target segments by offering a wide range of products, via distribution channels best suited to a given segment, product and client specifics;
- The Group intends to acquire and retain clients in order to increase its retail customer base to 1 million in the medium term. The Group plans to continue to successfully acquire customers in the Retail Banking segment through sales of innovative products, e.g. "Dream" products. The Group also seeks to effectively retain clients with high service quality;
- Moreover, the Group seeks to generate operating income by cross-selling additional products to existing customers.

Decreasing costs by executing the Rightsizing Program:

- The Group will continue to convert selected retail branches into cost effective, fit for purpose formats;
- The Group aims to standardize and automate processes through end-to-end process optimization and continued nearshoring of some processes to the low-cost Operations Center in Ruda Śląska;
- The Group will continue to rightsize the number of staff following the implementation of automation and demand management processes;
- In addition, the Group will reduce external spending in the main cost categories.

Digitalization:

- The Group will carry on with its digitalization program started in 2017;
- In Retail Banking, it focuses on the following three areas: digitalization of sales and after-sales processes, multichannel and digital user experience, and development of digital capabilities around customer analytics, business processes and organization;
- In Corporate Banking, the digital agenda includes in particular reinvented credit processes, new online and mobile banking, R-Dealer development, simple onboarding and aftersales processes, and CRM tools;
- In the area of support functions, work will be continued on the following projects: operating processes automation and the expansion of the use of robots, Big Data and Enterprise Content Management enhancements.

12.2.1. Prospects of development for Retail Banking

In 2018, the Group will take steps to further its strategic objectives in the Retail Banking segment, which include (i) growing the mass & affluent customer bases to reach the scale sufficient for a profitable Retail Banking segment; and (ii) growing operating income as a result of focusing on cross-selling fee income generating products across the retail customer base, as well as further leveraging its strong private banking franchise. The strong economic growth momentum expected to continue for still some time, with low unemployment, rising private consumption and increasing household incomes, should support achievement of the Group's objectives.

The Group aims to achieve the strategic goals of increasing profitability and utilizing the effects of scale through the following strategic initiatives:

- *Retail brand repositioning:* the Group has been repositioning the "Raiffeisen Polbank" brand to identify it with four characteristics that the Group believes are valued by mass, affluent and micro-enterprise customers: A bank that is trustworthy, is a partner to the customer, values loyalty, and whose product access and delivery is convenient;
- *Building a retail customer base of one million in the mid-term* by using its branch network, as well as digital distribution, contact centers and third party-partners where appropriate;

- *Enhancing customer experience:* the Group is focused on enhancing the level of customer satisfaction for all points of contact with the Bank. The Group's goal is to become the bank of choice for its most important customers;
- *Enhancing the product offer:* the Group is also enhancing its product offer in order to maximize the speed of customer acquisition;
- *Rightsizing and operating efficiency*: the Group seeks to continue to achieve improvements in operational efficiency and is striving to reduce the cost base by way of further conversion of retail branches to cost effective, fit-for-purpose formats and redesigning sales and after-sales processes to allow for process automation and digitalization.

12.2.2. Prospects of development for Corporate Banking

The GDP growth rate (at the previous year's constant average prices, not seasonally adjusted) of 5.1 per cent in the fourth quarter of 2017 (according to the Central Statistical Office of Poland) relative to the fourth quarter of 2016, a rise in investment activity fueled by infrastructure projects, projects run by local governments and projects co-financed with EU funds, combined with the likelihood of interest rates remaining at current low levels, should support the corporate sector's sound financial condition in 2018. This, in turn, should translate into a further growth of corporate banking, reflected in an increase in the number of clients, lending activities, and trade volumes.

In 2018, the Group will strive to maintain its leading position in the small and middle-market corporates segments and to maintain profitability across all sub-segments in the Corporate Banking segment. The Group seeks to build new and leverage its existing relationships with corporate customers to increase the scale of its business and to become the bank of choice for transaction banking services for corporate customers.

The Group seeks to develop its activities and expand its product offering through enhanced cross-selling and capital-light products like transaction banking and capital markets products. The Group also aims to maintain a leading position in Poland in factoring, which helps to enhance client relationships. In addition, the Group will continue its operations related to specialized lending (including trade finance, structured finance, and investment projects) and will seek to strengthen its market position in the Investment Banking business.

In line with its strategic objectives, in terms of new products and services for corporate customers, the Bank will focus on innovative products, especially in factoring, capital markets, transaction banking and trade services, to retain existing and attract new customers.

Additionally, in 2018 the Group will continue efforts initiated in 2017 to accelerate the digitalization of the Corporate Banking segment, which on the one hand should result in increased process efficiency, increased productivity levels and reduced operational costs and, on the other hand, increased client satisfaction, exceptional customer experience and, as a result, increased operating income.

12.2.3. Prospects of development for Financial Institutions and Capital Markets

The Group's strategic objective for this segment is to become a leading partner for capital markets and investment banking solutions in Poland. In 2018, the Group will be looking for ways to further this objective.

The Group seeks to leverage strength in servicing financial institutions in Poland through intensified cross-selling between product groups as well as new customer acquisition. The Group also seeks to maintain a leading position in FX, market making and hedging of exchange and interest rate risk by continuing active online sales to microenterprises, increasing its share of derivatives sales and concentrating on the sale of investment products to corporate customers.

Additionally, the Group will further strengthen its position in custody for local customers through expansion into open-end fund services.

The Group aims to extend its retail offer of investment funds, investment deposits and brokerage house based on research and customer relations. In 2018, Raiffeisen TFI will focus on rolling out new products for retail and corporate clients (an investment solution based on fund portfolios or asset management).

In addition, the Group seeks to maintain its share in debt capital markets using the Group's strong position among corporate customers as leverage. The Group aims to be recognizable to customers in the small and middle-market corporates segments by concentrating on mid-sized transactions.

The outlook for financial institutions and capital markets will also be affected by changes in the regulatory environment, including the MIFID2/MIFIR package, which took effect in 2018. The new regulations 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. The Group will keep analyzing the impact of the changing legal and market environment on its operations, seeking to use the changes to its advantage with a view to offering new services and winning new clients.

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

13.1. Corporate governance standards and scope of their application

Since the beginning of 2015, the Bank, as a financial institution, has been required to comply with the 'Principles of Corporate Governance for Supervised Institutions' (the '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 8 March 2017, the Supervisory Board adopted the results of an assessment of the Bank's compliance with the Principles in 2016. In the Supervisory Board's opinion, in 2016 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.

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 principle was not fully complied with given that 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. In 2016, the General Meeting approved amendments to the Bank's Articles of Association, ensuring compliance of the Bank's operations with this principle; however, these changes have not yet been registered.

5. Principles set out in Section 12, according to which:

   - Shareholders are responsible for making, without any delay, additional capital payments if necessary to maintain the supervised institution's equity at a level prescribed by relevant laws and regulatory requirements, and if the security of the supervised institution so requires;
   - Shareholders should be responsible for providing, without any delay, financial support if necessary to maintain the supervised institution's liquidity at a level prescribed by relevant laws and regulatory requirements, and if the security of the supervised institution so requires;
   - Decisions regarding dividend distribution should take into account the need to maintain an appropriate level of the supervised institution's equity and to pursue its strategic objectives, as well as any recommendations and individual guidance issued by regulatory authorities;
   - Where the Principles require specific conduct by the shareholders, the shareholders will ensure that a general meeting is convened at which proposals of relevant resolutions will be considered, having due regard to all statutory duties, the shareholders' obligations towards the Polish Financial Supervision Authority, all material facts and circumstances concerning the Company, the shareholders' interests, including their financial condition, and the interests of other stakeholders.

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 the Bank, by way of their respective resolutions of 10 March 2017 and 13 March 2017, acknowledged the results of the Supervisory Board's assessment of the Bank's compliance in 2016 with the 'Principles of Corporate Governance for Supervised Institutions' adopted by the Polish Financial Supervision Authority on 22 July 2014.

In January 2018, the Supervisory Board commenced a review of the Bank's compliance with the 'Principles of Corporate Governance for Supervised Institutions' in 2017. Findings of the review will be reported to relevant bodies by the end of the first quarter of 2018.

13.2. Articles of Association

The Extraordinary General Meeting held on 29 September 2016 passed resolutions to amend the Bank's Articles of Association, which were registered by the competent court on 14 February 2017.

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 means of electronic communication;
  - Amendment to Art. 19, in particular by replacing the simple majority requirement for General Meeting resolutions with, in a majority of 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.

13.3. Shareholding structure and General Meeting

As at 31 December 2017, the Bank's share capital consisted of 225,668,340 shares with a par value of PLN 10 per share.

As at 31 December 2017, the sole shareholder in Raiffeisen Bank Polska was Raiffeisen Bank International AG.

The General Meeting is the company's supreme governing body, acting in accordance with generally applicable laws, including the Commercial Companies Code and the Banking Law; it is through the General Meeting that the shareholder exercises its rights and makes key decisions regarding the Bank's operations.

As at 31 December 2017:

- 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 it is vested in the Supervisory Board;
- Extraordinary General Meetings are convened in cases set out in generally applicable laws and the Articles of Association of Raiffeisen Bank Polska, and whenever persons or bodies authorized to convene the General Meeting deem it fit;
- Members of the Management and Supervisory Boards are entitled 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 in light of matters placed on its agenda. However, the absence of Management or Supervisory Board members or the auditor does not affect the validity of the General Meeting;
- Apart from matters listed in the Commercial Companies Code, the General Meeting's resolution is also required for: defining a remuneration policy for Supervisory Board members, creating and releasing special accounts other than statutory funds and accounts, appointing the Bank's liquidators in the event of its liquidation due to reasons other than those specified 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.

13.4. Supervisory Board

The Supervisory Board exercises ongoing 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 2017, the Supervisory Board's powers and responsibilities include in particular: supervising the Bank's operations, approving the Bank's budgets, 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 Group and audited financial statements, approving the risk management policy and essential amendments to that policy, defining terms and conditions for the Bank to establish 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, appointing the auditor of the Bank's financial statements, and approving the division of remits within the Management Board.

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

- 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 10 million, and the transaction is not provided for in the budget;
- 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 budget;
- 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 budget, where the annual value of such branches or expenditures exceeds EUR 5 million;
- Entering into transactions or agreements with the shareholder or the 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 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 compensation, 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;

- Granting, or extending the repayment period of, loans or advances, and granting, or extending the repayment period of, other limits of debt to members of the Bank's Management Board and Supervisory Board;
- Approving rules and procedures for making decisions regarding granting, or extending the repayment period of, loans or advances, and granting, or extending the repayment period of, other limits of debt to Bank employees;
- Approving large exposures within the meaning of relevant legal provisions, including credit lines, off-balance-sheet liabilities and other exposures to a single client or a group of connected clients (as defined by applicable laws and standards of EU legislation).

The composition of the Supervisory Board of Raiffeisen Bank Polska as at 31 December 2017 was as follows:

- Dr Johann Strobl – Chairman of the Supervisory Board;
- Martin Grüll – Deputy Chairman of the Supervisory Board;
- Dr Hannes Mösenbacher;
- Peter Lennkh;
- Andreas Gschwenter;
- Władysław Gołębiewski[3];
- Krzysztof A. Rozen;
- Beata Mońka.

The following main changes in the composition of the Supervisory Board took place in 2017:

- Karl Sevelda resigned as Chairman of the Supervisory Board with effect from 9 March 2017, and Herbert Stepic resigned as member of the Supervisory Board with effect from 9 March 2017;
- On 10 March 2017, the General Meeting appointed Johann Strobl as Chairman of the Supervisory Board (previously he was a member of the Supervisory Board), and Hannes Mösenbacher as member of the Supervisory Board;
- On 21 July 2017, the Bank's Extraordinary General Meeting appointed Beata Mońka and Krzysztof A. Rozen as members of the Bank's Supervisory Board with effect from 1 August 2017. According to the representations submitted, both Beata Mońka and Krzysztof A. Rozen meet the independence criteria for audit committee members defined in the Act on Statutory Auditors, Auditing Firms, and Public Oversight of 11 May 2017, and the requirements under Art. 22aa of the Banking Law of 29 August 1997, as well as the independence criteria defined in the Code of Best Practice for WSE Listed Companies;
- On 17 July 2017, Selcuk Sari resigned as member of the Supervisory Board;
- Klemens Breuer resigned as member of the Supervisory Board with effect from 1 November 2017.

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 2017 was as follows:

Members of the Supervisory Board	**Executive Committee**	**Audit Committee**	**Remuneration Committee**	**Risk Committee**
Dr Johann Strobl	-	-	Chairman	Member
Martin Grüll	Chairman	Member	Member	Member
Peter Lennkh	Member	-	-	-
Dr Hannes Mösenbacher	Member	-	-	Chairman

[3] Władysław Gołębiewski resigned as member of the Supervisory Board with effect from 2 January 2018.

Members of the Supervisory Board	Executive Committee	Audit Committee	Remuneration Committee	Risk Committee
Andreas Gschwenter	-	-	Member	-
Krzysztof A. Rozen	-	Chairman	-	-
Beata Mońka	-	Member	-	-

Executive Committee

The Supervisory Board has authorized the Executive Committee to:

- Render opinions on any Limit Application and Credit Review that requires the Supervisory Board's prior opinion in accordance with the Credit Decision Making Powers and appendices thereto, and render opinions on the appointment of members of the Bank's Credit Committee, if such appointment requires an opinion of the Supervisory Board;
- Render opinions on any Application examined by the Problem Loan Committee that requires the Supervisory Board's prior opinion in accordance with the Decision Making Rules for the Problem Loan Committee at RBPL and appendices thereto, and render opinions on the appointment of members of the Problem Loan Committee, if such appointment requires an opinion of the Supervisory Board.

The Executive Committee consists of three persons appointed by the Supervisory Board from among its members for a period of five years, but not longer than the Supervisory Board's term of office. The Executive Committee is headed by a Chairperson nominated by the Supervisory Board. Meetings of the Executive Committee are convened by the Chairperson as needed, depending on the Bank's current situation.

Before making a specific lending decision, the Supervisory Board must obtain prior approval of the Executive Committee.

Audit Committee

In accordance with its Rules approved by the Supervisory Board, tasks of the Audit Committee include:

- Monitoring the financial reporting process;
- Monitoring the effectiveness of the internal control, internal audit and risk management systems;
- Monitoring financial audit activities;
- Monitoring independence of the auditor and entity qualified to audit financial statements (the auditing firm), including when these entities provide services other than financial audit.

The Audit Committee consists of persons appointed by the Supervisory Board from among its members for the Supervisory Board's term of office. The majority of the Committee members, including its Chairperson, should meet the criteria of being independent from the Bank, as specified by the General Meeting in a resolution. At least one member of the Audit Committee should have expertise and skills in accounting or financial auditing.

Meetings of the Audit Committee should be convened whenever the Chairperson of the Committee deems it fit given the current situation, but at least four times a year.

Remuneration Committee

In accordance with its Rules, key tasks and objectives of the Remuneration Committee include:

- Providing opinions on variable remuneration policies and determining the amounts of variable remuneration components;
- Making decisions on any matters related to the terms of remuneration for senior managers (in particular salary limits, amounts of bonuses and other allowances);

- Reviewing and recommending to the Supervisory Board any amendments to the terms and conditions of contracts with the Bank's senior managers.

The Remuneration Committee consists of three to five persons appointed by the Supervisory Board from among its members for a period of five years, but not longer than the Supervisory Board's term of office.

The Committee consists of the Chairperson and other members. Meetings of the Remuneration Committee are convened as needed, but at least four times a year.

Risk Committee

In accordance with its Rules, key tasks 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 the Supervisory Board's term of office. If the Chairperson of the Supervisory Board is appointed to the Risk Committee, he/she serves also as Chairperson of the Committee. This provision also applies to the Deputy Chairperson of the Supervisory Board, if the Chairperson of the Supervisory Board is not appointed to the Risk 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 directly by the Chairperson of the Committee directly or, by the Chairperson acting upon the request of any member of the Committee, whenever it is necessary to pursue the Committee's activities and competences, but at least four times a year. Meetings of the Risk Committee shall be convened shortly before the meetings of the Supervisory Board.

13.5. 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 of office, including President of the Management Board, Vice President or Vice Presidents of the Management Board, and other members. The Vice President or one of the Vice Presidents of the Management Board may be appointed by the Supervisory Board as First Vice President of the Bank's Management Board to supervise in particular the Bank's retail banking operations.

The composition of the Management Board of Raiffeisen Bank Polska as at 31 December 2017 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;
- Witold Broniszewski – Member of the Management Board, CRO;
- Michael Höllerer – Member of the Management Board;
- Łukasz Januszewski – Member of the Management Board;
- Piotr Konieczny – Member of the Management Board, CFO;
- Werner Georg Mayer – Member of the Management Board, COO.

The following main changes in the composition of the Management Board took place in 2017:

- On 7 November 2016, the Bank's Supervisory Board conditionally appointed Witold Broniszewski as member of the Management Board responsible for risk management. The appointment took effect on 14 February 2017, when the Bank received the Polish Financial Supervision Authority's approval for appointing Witold Broniszewski as the Management Board member responsible for the management of risks material to the Bank's operations. Until then, the area had been temporarily included in the remit of the President of the Management Board;
- On 22 December 2016, Ryszard Drużyński, Vice President of the Bank's Management Board responsible for operations and IT management, resigned as member of the Bank's Management Board with effect from 31 January 2017;
- On 29 May 2017, the Supervisory Board appointed Werner Georg Mayer as the Bank's Management Board member responsible for operations and IT management (COO), with effect from 1 June 2017;
- On 18 December 2017, the Supervisory Board appointed Michael Höllerer as member of the Management Board in charge of the new Project Portfolio and Project Management Department, with effect from 20 December 2017.

On 15 January 2018, the Supervisory Board of Raiffeisen Bank International AG appointed Łukasz Januszewski as member of the Management Board of RBI, responsible for the markets and investment banking, conditional upon approvals from institutions supervising Austrian banks. Łukasz Januszewski resigned as member of the Management Board of Raiffeisen Bank Polska S.A. effective 27 February 2018. Responsibilities concerning management of Financial Institutions and Capital Markets were taken over by the President of the Bank's Management Board.

The Management Board is the Bank's executive body, whose 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 remits.

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

Having first sought the Supervisory Board's opinion, the Management Board may decide to establish or wind up organizational units at the Head Office or local organizational units, and determine the Bank's internal organization as defined in the Bank's Organizational Rules.

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

Members of the Management Board make decisions, issued in the form of Management Board Member orders, on operating instructions and general product handling instructions, rules for the performance of 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

13.6. 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 risk function is organized so as to facilitate implementation of the risk strategy and maintenance of the risk appetite within the limits approved by the Supervisory Board. For that purpose, dedicated committees have been established at the Bank to support 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 reporting 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 condition, threat to the Bank's financial stability, challenging macroeconomic conditions or other circumstances having an adverse effect on the financial market or the Bank.

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

In order to ensure the achievement of internal control objectives, the Bank has in place an internal control system aligned with its organizational structure, appropriate for the Bank's business, size and defined risk profiles. The Bank's Management Board is responsible for, and the Bank's Supervisory Board supervises, the design, implementation and operation at the Bank's organizational units and subsidiaries of an adequate and effective internal control system.

The key objective of the Bank's internal control system is to ensure:

- Effectiveness and efficiency of the Bank's operations;
- Reliability of financial reporting;
- Adherence to the risk management principles at the Bank;
- Compliance of the Bank's operations with the provisions of law, internal regulations and market standards.

The control function at the Bank consists of:

- Control mechanisms;
- Independent monitoring of compliance with control mechanisms;
- Reporting as part of the control function.

The Bank's internal control system is based on the following three pillars (lines of defense):

1. First line of defense – all of the Bank's organizational units, with regard to ensuring compliance with control mechanisms concerning, in particular, risk management at the Bank. The first line of defense includes individual positions, employee groups or organizational units responsible for their assigned tasks;
2. Second line of defense – the compliance unit (Compliance Department), tasked with identifying, assessing, controlling and monitoring the risk of non-compliance of the Bank's operations with applicable laws, internal regulations and market standards, and submitting relevant reports; as well as risk units, responsible for identifying, assessing, controlling and monitoring the risks inherent in banking operations. These units include: Strategy and Organization Department, Risk Management Department, Credit Risk Management Departments, managing credit risk for

individual business lines, Information and IT Systems Security Department, Financial Accounting and Tax Department, Legal Department, Procurement Department, Human Capital Management Department, Planning and Controlling Department, Management Information Department;

3. Third line of defense – the independent internal audit unit (Internal Audit Department), whose role is to independently and objectively examine and assess the adequacy and effectiveness of the risk management and internal control systems, excluding the internal audit unit.

13.8. 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 applicable laws, taking into account the Bank's relations with other entities, and for promoting the importance of compliance of the Bank's operations with applicable laws and the role of the Bank's compliance system. As part of the internal control system, the Bank's Management Board established a Compliance Department within the Bank and ensured its independence, including access to all information and documents needed by Compliance Department employees in connection with the performance of their duties. The Bank's Management Board also takes appropriate measures, including corrective or disciplinary steps, particularly those specified in the Bank's Compliance Policy, in order to remove any irregularities in the Bank's operations identified by the Compliance Department.

The Bank's key internal regulation within the compliance system is its Compliance Policy. It is the primary regulation defining the organizational framework and methods of achieving compliance, including the division of responsibilities within the compliance system; it also regulates the compliance risk management process, setting out rules for the identification, assessment, control and monitoring of non-compliance risk and reporting, while clarifying the main elements of the compliance risk management process.

The Bank's Management Board also seeks to ensure compliance with the highest professional and ethical standards at the Bank. To this end, it implemented relevant procedures, including the Code of Conduct for Bank 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.

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

Capital management is an element of 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 and reporting of 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;
- Assessment of capital risk as part of internal capital adequacy assessment process (ICAAP);
- Monitoring of the leverage ratio and managing the excessive leverage risk.

Capital risk is identified at two levels – in the planning process and in 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.

13.10. Auditor

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

In 2017, the Bank's Supervisory Board again selected 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 2017.

The auditor's fees for its services to the Raiffeisen Bank Polska S.A. Group were as follows:

Auditor's remuneration (in PLN thousand net)	Concerning the year	
	2017	2016
Remuneration for the audit of the annual financial statements[1]	866	360
Remuneration for other certification services[2]	1,131	0
Other	40	0
Total	**2,037**	**360**

[1] Including the audit of the RBI Group reporting package for 2017.
[2] Including services related to the Bank's prospectus prepared for the IPO, review of the Bank's financial statements for the first quarter 2017 and the audit of the RBI Group reporting package for the first half of 2017.

14. Statement of Raiffeisen Bank Polska S.A. Capital Group on non-financial data for 2017

Statement of Raiffeisen Bank Polska S.A. Capital Group on non-financial data covering Raiffeisen Bank Polska S.A. and Raiffeisen Bank Polska S.A. Capital Group is covered by the Statement on non-financial data of the parent entity of Raiffeisen Bank Polska S.A., i.e. Raiffeisen Bank International AG with its headquarter in Austria, Am Stadtpark 9, 1030 Vienna.

15. Statement of the Management Board of Raiffeisen Bank Polska S.A.

15.1. Reliability and accuracy of the presented financial statements

The Management Board of Raiffeisen Bank Polska S.A., 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, Michael Höllerer – Member of the Management Board, Piotr Konieczny – Member of the Management Board and Werner Georg Mayer – Member of the Management Board, represent that, to the best of their knowledge:

- The stand-alone full-year financial statements for the financial year ended 31 December 2017 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 and its financial result;
- The consolidated full-year financial statements for the financial year ended 31 December 2017 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 the Raiffeisen Bank Polska Group and its financial result;

- The Directors' Report on the Operations of the Raiffeisen Bank Polska Group in 2017, including the Directors' Report on the Operations of Raiffeisen Bank Polska, gives a true view of the development, achievements and situation of Raiffeisen Bank Polska and the Raiffeisen Bank Polska 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 2017, Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k., auditing the full-year financial statements of Raiffeisen Bank Polska and the Raiffeisen Bank Polska Group for 2017, was appointed in compliance with the applicable laws. The auditing firm and the auditors acting on its behalf satisfied the conditions required to issue an impartial and independent auditor's opinion in compliance with the applicable laws and professional standards.