This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

Directors' Report on the Operations of THE RAIFFEISEN BANK POLSKA S.A. GROUP in the first half of 2016

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

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Warsaw, 17 August 2016

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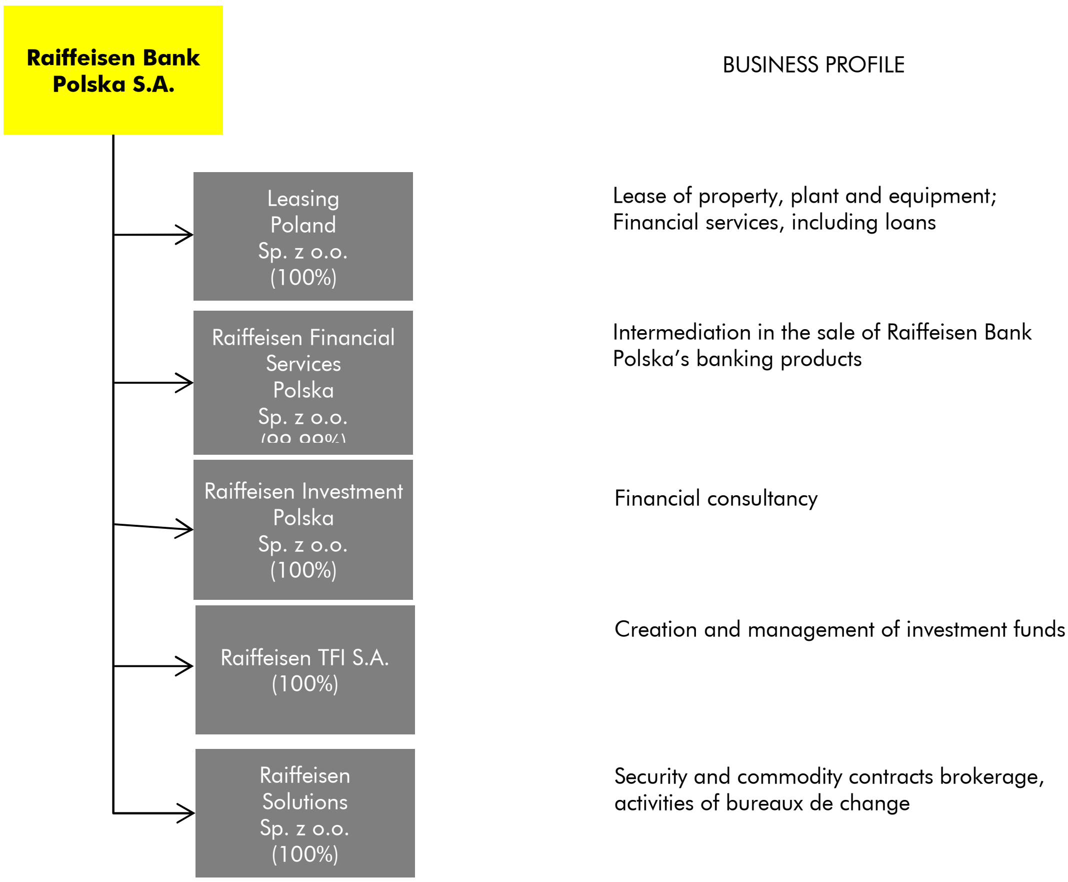
1. Overview

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 30 June 2016:



In the period covered by this Report on the operations, there was one change in the Group's structure:

- On 31 March 2016, the Bank sold 100 per cent of shares in Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG. As a result, the Bank lost control of Raiffeisen-Leasing Polska S.A. and the following companies of the Raiffeisen-Leasing Polska Group: Raiffeisen Insurance Agency Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o., Raiffeisen-Leasing Real Estate Sp. z o.o., and ROOF Poland Leasing 2014 DAC, a special purpose vehicle.

The business disposed of in the transaction was an important separate part of the Group's operations. Therefore, it was classified under discontinued operations. Following separation of the discontinued operations, the Group restated the consolidated statement of profit or loss for the first half of 2015 so that the continuing and discontinued operations were reflected in the comparative data. In the case of operations classified as discontinued, the comparative amounts in the statement of profit or loss were restated as if the operations had been discontinued at the beginning of the comparative period. For detailed information on changes in the presentation of financial statements and details of the separation of discontinued operations, see Note 3 and Note 13, respectively, to the interim condensed consolidated financial statements for the period 1 January–30 June 2016. The Group's financial data and financial analysis comments presented in particular in the chapters 3 and 4 of this Report on the operations of the Group are related to the continued activity of the Group unless otherwise stated.

2. Macroeconomic environment in the first half of 2016

2.1. Economic growth

Official economic growth figures for the first quarter of 2016 proved disappointing and were clearly below those reported in the fourth quarter of 2015 (4.3 per cent yoy) and the market consensus (3.5 per cent yoy). The reported GDP growth of 3.0 per cent yoy was the lowest since late 2013.

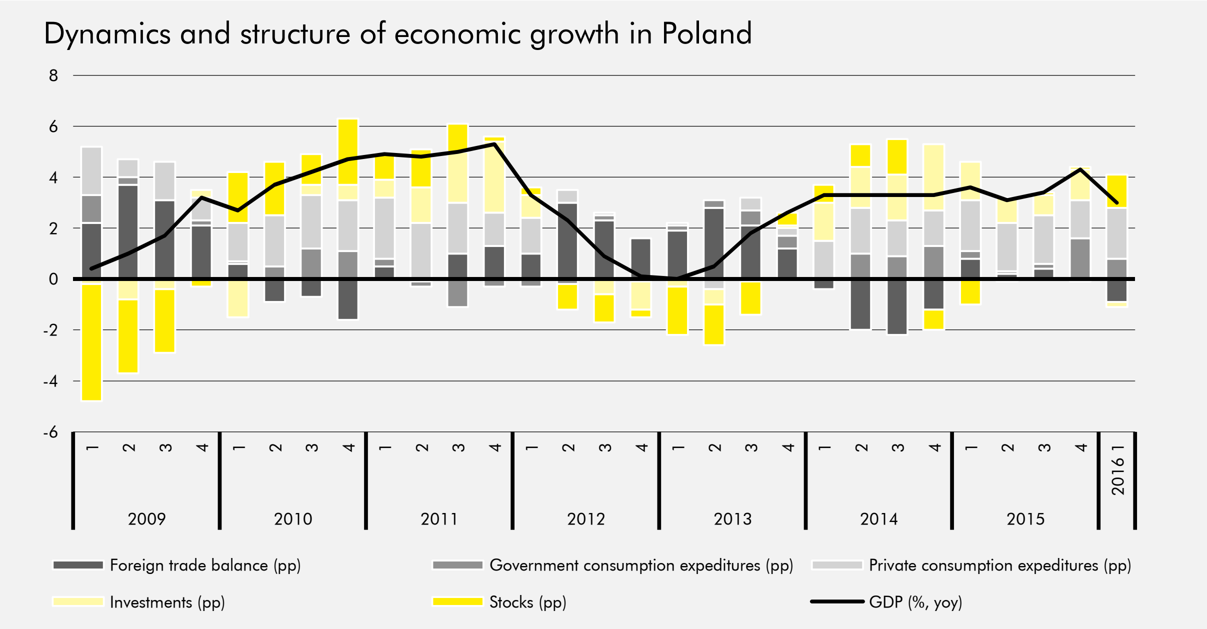
The official data clearly points to lower investments as the main contributor of the slowdown in early 2016. After two years, gross capital investments were negative again, indicating a 1.8 per cent yoy decrease in investments in the economy. This is mainly an effect of a pause in the absorption of EU funds between the 2007–2013 financial framework, which had already closed, and the current 2014–2020 budget. It had a negative impact on the performance of the construction sector, too, as demonstrated by a 12.6 per cent yoy reduction in gross value added in the sector in the first quarter of 2016. The effects of the pause in absorption of the EU funds coincided with increased uncertainty of businesses, as indicated by business cycle survey carried out by the National Bank of Poland in late 2015 and early 2016. The uncertainty was triggered by the overall market environment and the possible upcoming changes in the tax and legal regimes[1].

Private consumption had a stabilizing effect on the economic growth in the first quarter of 2016. Increase in private consumption from 3.0 per cent yoy in the fourth quarter of 2015 to 3.2 per cent yoy added 2.0 percentage points to the overall economic growth. Inventories were another major contributor. Their increase added 1.3 percentage points to the GDP growth in the first quarter of 2016. However, it was to a large extent attributable to the previous year's reduction of inventories, which produced the low-base effect, and thus the probability that inventories will continue to support GDP in the coming quarters is low.

The first quarter of 2016 also saw further increase in the negative contribution from net exports. For most of 2015, they stimulated Poland's economic growth, but in the first quarter of 2016 net exports chipped 0.9 percentage point off the GDP growth.

Monthly indicators available before the publication of this Report suggested that the overall market situation improved in the second quarter of 2016. According to the flash estimate published by the Central Statistics Office (GUS), the economy growth in the second quarter of 2016 was slower than expected and GDP edged up to 3.1% yoy vs. the market consensus forecast of 3.3% (according to Reuters). Still, in the second half of 2016, the dynamics of investment are expected to return to positive territory, and private consumption should accelerate, driven by release of funds from the Family 500+ (*Rodzina 500+*) social benefit scheme. However, the prevailing high uncertainty about the global economic growth is continuing as a risk factor. Fueled by concerns about the standing of developing economies (particularly China) that were at play already in 2015, the uncertainty was exacerbated by the British vote at the end of June to leave the European Union.

[1] Szybki Monitoring NBP No. 01/16; National Bank of Poland



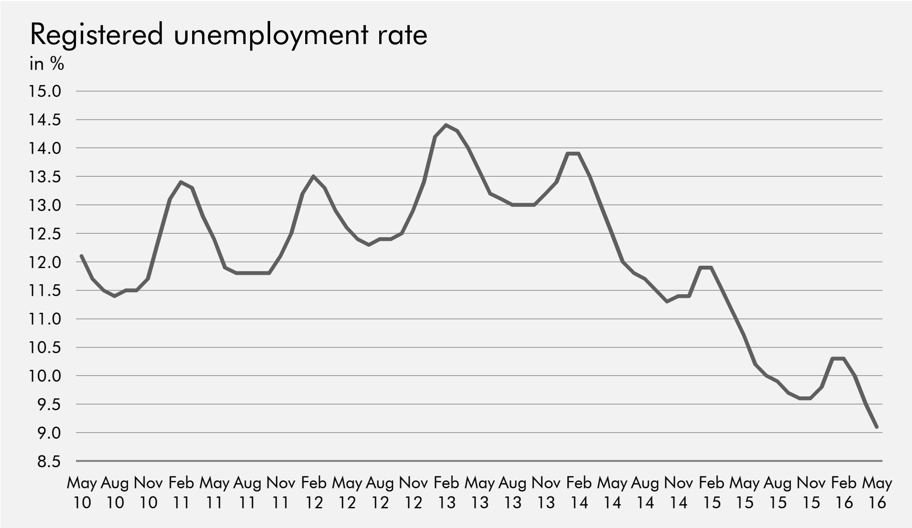
Source: Central Statistical Office (GUS).

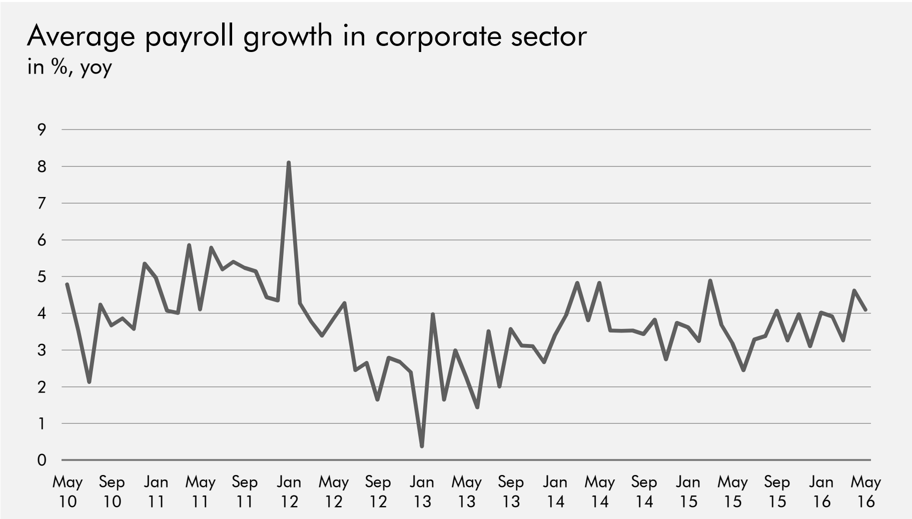
2.2. Labor market

The relatively strong (above 3 per cent yoy) economic growth continuing for the last two years has translated into a significant improvement of the labor market.

In May 2016, the registered unemployment rate was 9.1 per cent, compared with 13.9 per cent in early 2014 and 10.3 per cent at the beginning of 2016. The Labor Force Survey (BAEL) also shows that the proportion of unemployed job seekers went markedly down. According to BAEL, the jobless rate according fell to 7.0 per cent in the first quarter of 2016, from 8.6 per cent a year earlier. Seasonally adjusted, the BAEL figures show that the unemployment rate in the first quarter of 2016 was the lowest since the survey was first conducted.

The employment data indicates that demand for labor keeps growing. The number of new jobs in the enterprise sector rose clearly since the beginning of the year, partially as a result of new laws which require that as of the beginning of the year social security contributions must be paid also under types of employment contracts governed by regulations other than the Labor Law. What is more, sentiment indicators suggest that these favorable labor trends will continue in the coming months, fostering further employment growth. The stronger demand for labor is stimulating gradual increase in pay rates. Monthly data from the enterprise sector indicate that in the first five months of this year average pay rose 4.0 per cent yoy, relative to 3.7 per cent yoy in the corresponding period of 2015. Research also suggests that more and more companies plan pay rises for their staff and feel growing pay pressures, even though these are is still far weaker than in late 2008. Nominal pay growth may be limited by the continuing deflation. When it ends, pay rates may grow considerably faster.



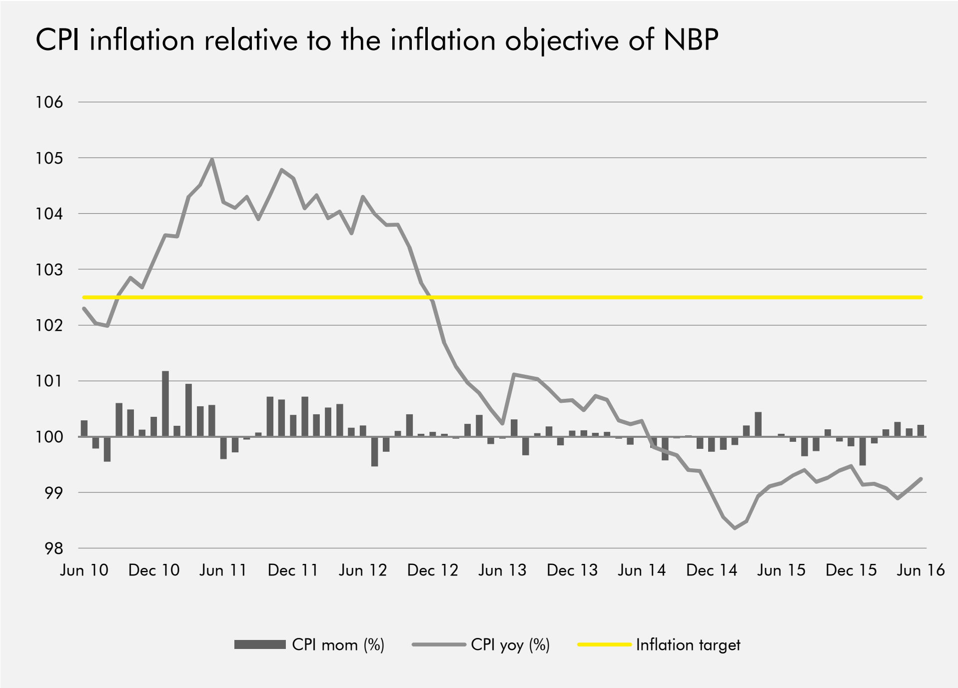


Source: Central Statistical Office (GUS).

2.3. Inflation

In the first half of 2016, Poland's economy was still in deflation, whose rate was stable at 0.8–1.1 per cent yoy. It was quite widespread – in May a decline in prices was reported for goods and services representing nearly 50 per cent of the inflation basket. In line with the trend observed since the first half of 2013, energy prices were the greatest contributor to the deflation. After a long period of deflation in food, grocery prices rose again in 2016. In May 2016, food and non-alcoholic beverages, which together accounted for 24 per cent of the inflation basket, were on average 0.9 per cent more expensive than a year earlier. Deflation, continuing since the second half of 2014, led to a gradual decline of core inflation which in January 2016 fell below 0 per cent yoy and remained negative throughout the first half of the year. Deflation continued to affect mainly prices of goods, while prices of services, which to a larger extent depend on the growing cost of labor, showed an upward trend in the first half of 2016 and in June were 0.6 per cent higher year on year.

The prices of industrial output sold were also in deflation, driven mainly by the prices of energy-related goods. Factoring out energy-related goods, manufacturer prices in the first quarter of 2016 showed a slight increase.



Source: Central Statistical Office (GUS).

2.4. Public finance and government securities market

In January 2016, Standard&Poor's downgraded both Poland's rating (from A- to BBB+) and outlook (from 'stable' to 'negative'), justifying its decision with concerns about the effectiveness and independence of Poland's key public institutions. At the beginning of July 2016, S&P maintained the BBB+ rating and negative outlook for Poland, pointing out to the country's promising prospects of economic growth and low dependence on foreign sources of financing on the one hand, and the continued concerns about the independence of key institutions, including the National Bank of Poland on the other.

In May 2016, Moody's updated its credit rating for Poland and maintained the A2 grade unchanged but cut its credit outlook to 'negative', citing concerns about the risk of deterioration of Poland's fiscal position as a result of growing spending, planned lowering of the retirement age, and worsening investment climate.

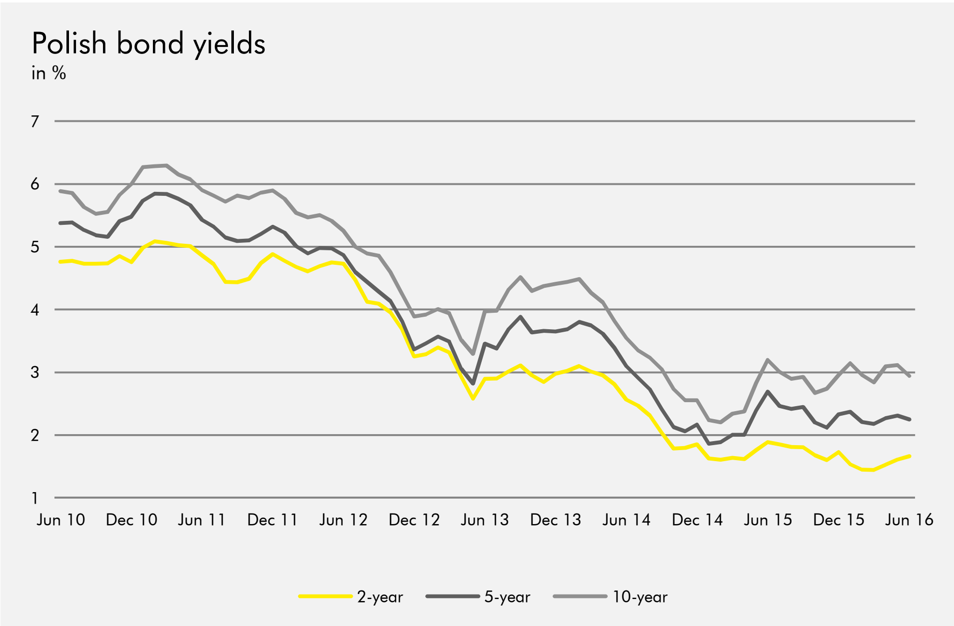
The unexpected downgrading of Poland's credit rating by S&P in January sent yields on Poland's government securities significantly higher along the entire curve, though for a short time. As the local uncertainties for investors continued, amid speculation on possible rating downgrades by other agencies, plans to pass a law requiring conversion of foreign currency-denominated mortgage loans, and a pension system reform, the spread between yields on Polish and German bonds widened in the first half of 2016. As a result, the Polish debt securities market followed the benchmark markets to a lesser extent and was in a wide lateral trend in the first half of 2016. As at the end of June 2016, yields on Poland's 10-year and 5-year treasury bonds were 2.91 per cent and 2.16 per cent, respectively, relative to 2.95 per cent and 2.28 per cent as at the end of 2015.

In January 2016, an act imposing new tax on assets of certain financial institutions, including banks, was passed. Since February 2016, banks' assets have been taxed at the rate of 0.0366 per cent per month (0.44 per cent annually). Because treasury bonds held by banks are excluded from the tax base, the yields on 2-year treasury bonds strengthened markedly at the year end, temporarily falling below 1.35 per cent. Budget revenue from the new tax is expected to reach PLN 5.5 billion in 2016. Four months on from the coming into force of the new law (i.e., in the period from February to May), it was approximately PLN 1.2 billion.

In April 2016, the Family 500+ scheme was launched, whereby all families with two or more children are entitled to receive PLN 500 of monthly allowance for the second and each subsequent child, as well as for the first child if the family's monthly income per capita is below a certain limit. The estimated cost of the program in 2016 is PLN 17 billion. This significant influx of funds to Polish households is seen as a potential stimulus to consumer demand in 2016 and 2017. At the same time, the scheme, which may cost in excess of PLN 20 billion next year, will come as a major long-term burden on the state budget.

The available data on budget performance for January—May 2016 show that this year's budget is not at risk. After the first five months of the year, the deficit was 24.6 per cent of the full-year target (PLN 54.7 billion), well below the previous year's level (42.6 per cent). This improvement was supported by a year-on-year reduction in spending (38.7 per cent against 39.6 per cent) and higher revenue received (41.1 per cent against 39.1 per cent). Better performance in terms of revenue was mainly driven by revenue from indirect taxes, which rose significantly in May.

Based on data from the Ministry of Finance, public debt stood at PLN 899.3 billion at the end of the first quarter of 2016 and was 2.5 per cent higher than at the end of 2016. The state and local government debt (EDP) increased 2.1 per cent compared with the end of 2015, to PLN 936.8 billion. In the first quarter of 2016, the share of debt to the Polish banking sector in the total public debt increased (to 31.9 per cent) and that of debt to foreign investors fell (to 52.6 per cent). [2] As at the end of April, foreign investors held 33.8 per cent of Polish treasury securities, relative to 39.5 per cent in 2015.



Source: Bloomberg.

2.5. Exchange rates

Heightened volatility of the Polish zloty, which started in 2015, continued in the first six months of 2016. As the Polish currency depreciated over this period, at the end of June 2016 the EUR/PLN exchange rate temporarily spiked to over 4.50, its highest since late 2011 and early 2012.

The first wave of decline hit the Polish zloty in January, caused by S&P's decision to downgrade Poland's rating from A- to BBB+ with a negative outlook, with political risk being cited as the main underlying factor. Additional negative pressure on the Polish currency came from the outflow of capital from emerging markets, driven by concerns about the condition of Chinese economy. At that point, the EUR/PLN exchange rate briefly rose slightly past 4.50. However, when it became apparent

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[2] Public debt in the first quarter of 2016; Ministry of Finance

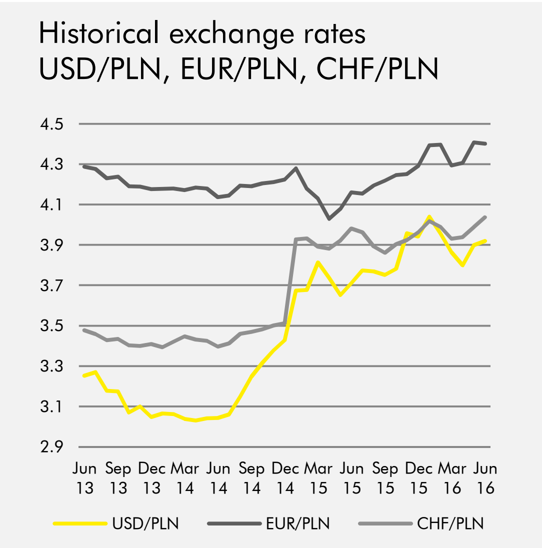
that other rating agencies would not take S&P's lead and the outflow of capital from emerging markets slowed down, there was a pronounced downward correction to below 4.30.

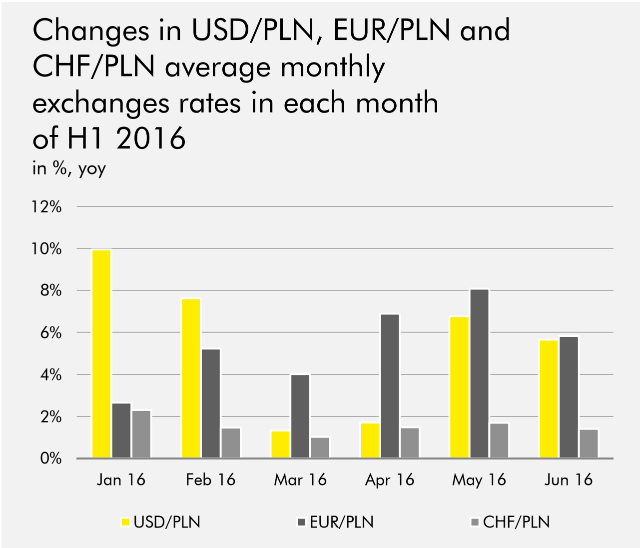
In late April, the Polish zloty started to depreciate again in the wake of fears that Moody's would follow in the footsteps of S&P's and cut Poland's credit rating, and amid concerns over the new foreign currency loans bill, which may potentially be very detrimental to the banking sector. As a result, the EUR/PLN exchange rate returned to over 4.40. Ultimately, Moody's confirmed Poland's credit rating and the final wording of the bill had not been presented by the end of the first half of 2016, so the EUR/PLN pair managed to stabilize at under 4.40 in the first half of June. However, following the Brexit referendum, in the second half of the month the Polish zloty was affected by another downward wave, causing the exchange rate of the currency pair to soar to around 4.54, the highest level in four and a half years. This strong growth was again largely countered and the euro closed the first six months of 2016 at just under PLN 4.40.

The USD/PLN exchange rate achieved multi-year highs of over 4.15 in January when the Polish zloty's weakness against the euro coincided with low EUR/USD levels fueled by expectations of further monetary policy easing by the European Central Bank and an opposite move by the US Federal Reserve. Another temporary spike in the USD/PLN exchange rate was observed after the June referendum in the UK, lifting the value of the dollar to over 4.10. The very end of the first half of 2016 saw the US dollar at lower levels, slightly below 4.0.

The outcome of the UK referendum incited a wave of risk aversion on the markets, supporting assets considered to be safe havens, the Swiss franc among them. This led to a temporary hike of the CHF/PLN exchange rate to its highest level since the Swiss central bank abolished the EUR/CHF floor in January 2015 (ca. PLN 4.25). However, already in late June, the Swiss franc almost touched 4.05.

The UK's decision to leave the European Union drove the GBP/PLN exchange rate down to slightly below 5.15, its lowest since 2014.

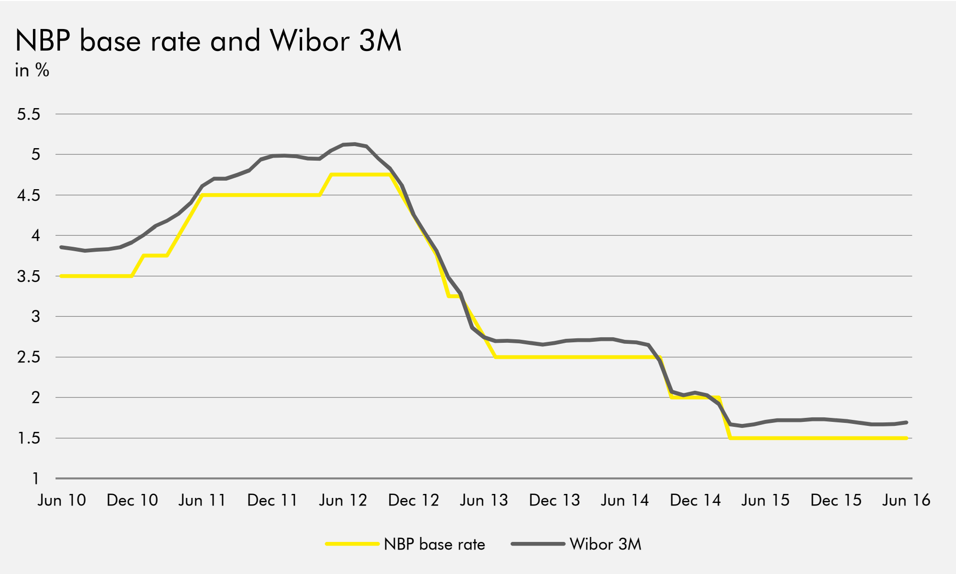




Source: NBP (National Bank of Poland).

2.6. Monetary policy

Early 2016 saw a major reshuffle in the composition of the Polish Monetary Policy Council, as the term of office of individual members expired. Compared with late 2015, there were eight new members of the Council, out of a total of nine members plus the Governor of the National Bank of Poland. The only member to continue his term of office was Jerzy Osiatyński. After his term of office expired, Marek Belka, the Governor of the National Bank of Poland, was superseded by Adam Glapiński, a former member of the Monetary Policy Council. All these changes had no effect on Poland's monetary policy. Throughout the first half 2016, the Monetary Policy Council upheld the monetary policy parameters, maintaining the main interest rate at 1.50 per cent. The Council also maintained a consistent approach, arguing that the deflation observed since 2014 has been by and large imported and has no negative impact on businesses. In its statements, the Monetary Policy Council emphasized its commitment to keeping positive nominal interest rates, indicating that against a background of high uncertainty, the current monetary policy would give it latitude to respond (interest rate cuts) in case of deterioration of market conditions. In late June, both the market consensus (Reuters) and FRA valuations assumed that the reference rate of the National Bank of Poland will remain unchanged until year-end at 1.50 per cent.



Source: Reuters.

2.7. Banking sector

In the first half of 2016, the situation in the banking sector remained stable, despite regulatory changes, including the introduction of a tax on assets of certain financial institutions in February 2016. According to the estimates of the Ministry of Finance, by June 2016 the state budget had received PLN 1.4 billion in revenue on account of this tax. The new levies had adversely affected banks' performance in the period under review: as at the end of June 2016, banks' operating costs grew by 13 per cent year on year. In the first half of 2016, the factor supporting the sector's results was the sale by banks of their shares in Visa Europe to Visa Inc., a transaction estimated to be worth approximately PLN 1.5 billion (net) for top ten banks listed on the WSE. Basing on the KNF's data, in June 2016, other income of the banking sector amounted to PLN 2.4 billion, up by PLN 2.0 billion mom and yoy.

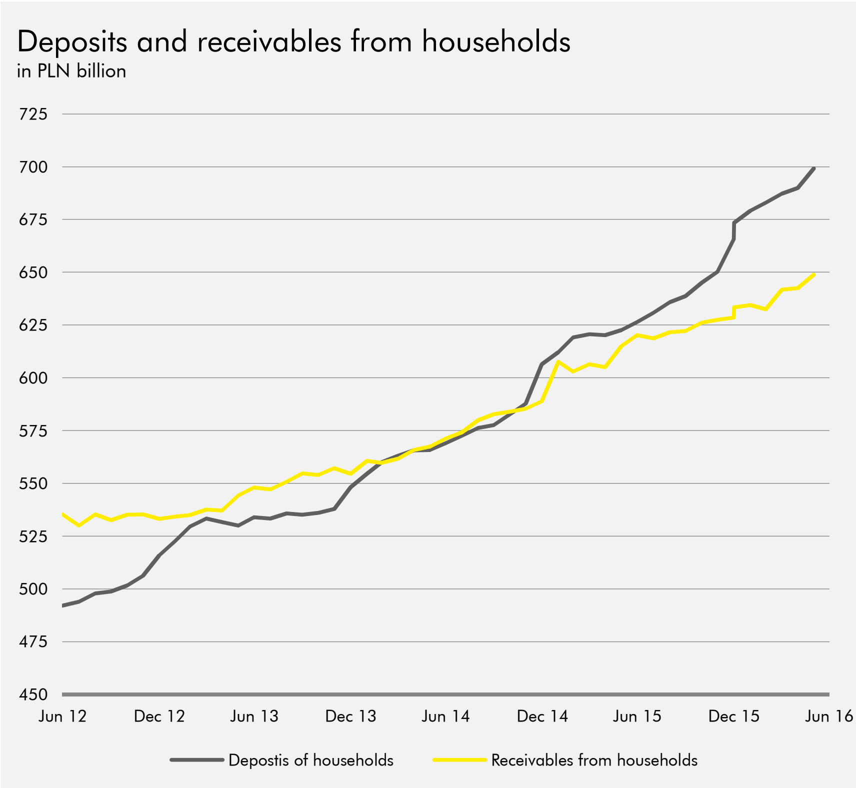
As a result, according to Polish Financial Supervision Authority (PFSA) data, as at the end of June 2016 the aggregate year-to-date net profit of the banking sector was PLN 8.0 billion, up 1.1 per cent year on year. The following items contributed to the sector's earnings in the period:

- Net interest income of PLN 18.5 billion, up 8.7 per cent year on year;
- Operating income of PLN 30.7 billion, up 9.9 per cent year on year;
- Operating costs of PLN 15.8 billion, up 13.2 per cent year on year (with the increase partly driven by the new bank tax);
- Recognized impairment losses of PLN 3.4 billion, up 1.5 per cent relative to the end of May a year earlier.

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

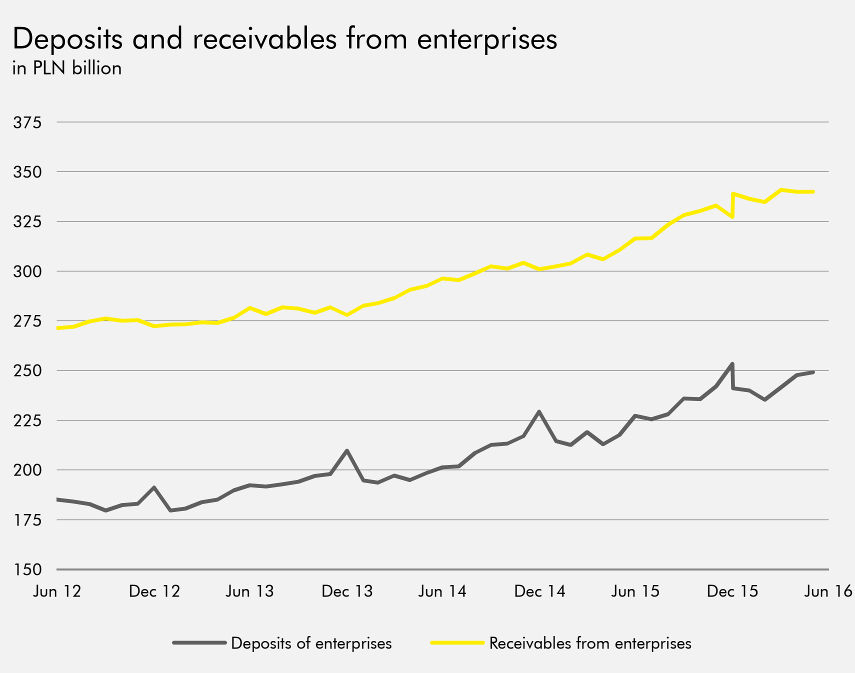
- Household deposits stood at PLN 699.1 billion and were higher by 11.6 per cent (up PLN 72.7 billion) relative to the end of June 2015. This shows that the population's willingness to deposit funds with banks was not adversely affected by the low interest rate environment, and indeed was supported by the continuing improvements on the labor market, growing payrolls, low inflation and the Family 500+ government scheme;

- Amounts due from households reached PLN 648.8 billion, having grown by 4.6 per cent year on year (up PLN 28.7 billion). Housing loans, which accounted for 60.6 per cent of the total, grew by 3.8 per cent year on year, to PLN 393.2 billion at the end of June 2016. Over the same period, the value of Polish zloty-denominated housing loans rose by 11.1 per cent year on year, to PLN 223.3 billion, while the volume of foreign currency loans was down 4.5 per cent year on year, to PLN 169.8 billion. This volume decrease was largely attributable to gradual repayments and the entry into force of Recommendation S of the Polish Financial Supervision Authority, which restricted the sales of foreign currency-denominated loans. As a result, the share of foreign currency-denominated loans in total housing loans declined by 3.7 percentage points year on year, to 43.2 per cent. As at the end of June 2016, loans denominated in the Swiss franc represented 80.9 per cent of all foreign currency housing loans. The share of consumer loans in total loans to households reached 22.5 per cent, and their value at the end of June 2016 was PLN 145.7 billion (up 8.3 per cent year on year).



Source: PFSA.

- Amounts due to enterprises stood at PLN 249.1 billion, having grown by 9.6 per cent year on year (up by PLN 21.9 billion).
- Amounts due from enterprises were PLN 340.0 billion, up by 7.4 per cent year on year. Amounts due from large enterprises grew faster than amounts due from small and medium-sized enterprises (SMEs) – by 9.6 per cent year on year, to PLN 147.1 billion, compared with a 5.8 per cent year-on-year increase, to PLN 192.8 billion, in the SME segment. In the large enterprises segment the strongest growth was seen in property loans (up 61.3 per cent year on year), whereas in the SME segment it was the investment loans category that grew the fastest (up 8.9 per cent year on year), excluding amounts due classified as ‘other’ (up 20.1 per cent year on year).



Source: PFSA.

The capital base of Poland's banking sector improved to PLN 178.8 billion (up 7.6 per cent year on year) at the end of June 2016, while the capital adequacy ratio at the end of March 2016 rose to 17.1 per cent (based on the latest PFSA data), i.e., by 2.2 percentage points relative to March 2015. This was caused, among other things, by banks' decisions to retain most of profits earned in 2015 in connection with individual recommendations issued by the PFSA to certain banks, covering additional capital requirements to hedge the risk exposure under foreign currency-denominated mortgage loans, and the obligation for banks to maintain a capital conservation buffer of 1.25 per cent (pursuant to the Act on Macroprudential Supervision over the Financial System and on Crisis Management in the Financial System).

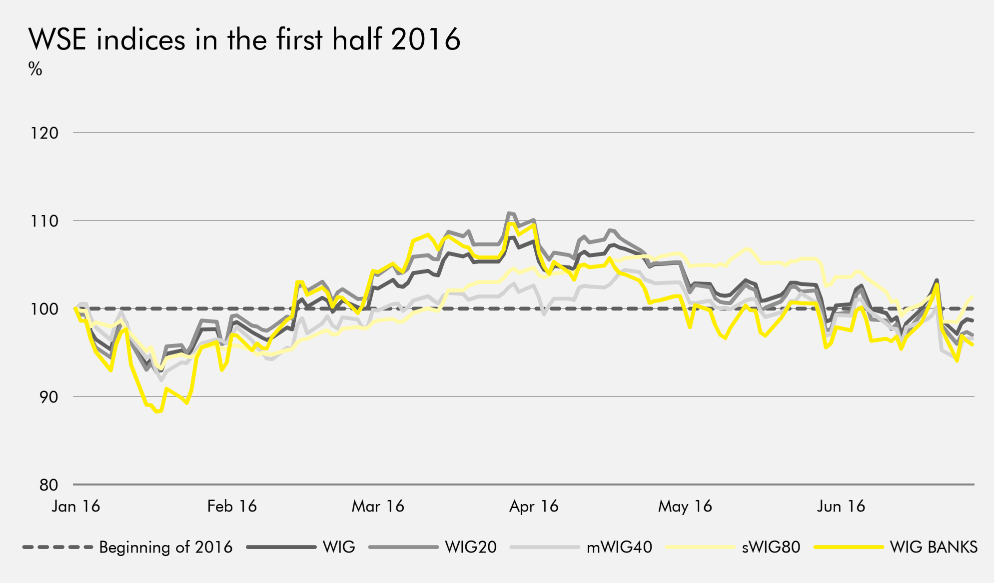
2.8. Capital market

In the first half of 2016, the performance of WSE market indices was rather volatile. The main index, WIG, moved within the range from minus 7 per cent to plus 8 per cent relative to its 2016 open, a volatility similar to the one observed in 2015. WIG closed the first half of 2016 down 1 per cent and the blue chip index (WIG20) declined by 3 per cent over the same period. Compared with general stock indices, the small-cap index (sWIG80) recorded a 1 per cent increase. The weaker performance of large companies was attributable to a reversal in the investor sentiment towards the energy sectors and banking, which closed the first half of the year 6 per cent and 4 per cent lower, respectively.

The number of IPOs on the WSE was 9 vs. 30 in 2015, while record low interest rates clearly encouraged businesses to seek financing on the debt market. The value of bonds listed on the Catalyst market amounted to PLN 75.5 billion, having grown 13 per cent year on year. The growth in the value of bonds was accompanied by a strong 53 per cent rise in the trading volume, to PLN 1.8 billion.

The markets of index futures and equity futures also saw a year-on-year increase in trading volumes, of 17 per cent and 43 per cent, respectively.

The segment of structured products continued to grow, gaining 10 per cent year on year, with a turnover of PLN 423 million.



Source: Bloomberg.

3. Key events and achievements at the Raiffeisen Bank Polska Group in the first half of 2016

The first half of 2016 was a period of increased volatility and uncertainty across the financial markets, with Poland's economic growth falling short of expectations and the banking sector strained by a variety of regulatory and fiscal pressures (e.g., a new tax on assets of certain financial institutions levied as of February 2016). Against this background, the Group remained committed to its strategy for 2015–2017, entrenching its position in Corporate Banking, while dynamically expanding its foothold on the retail market. Looking to further reinforce its capital position, the Bank sold its entire shareholding in Raiffeisen-Leasing Polska S.A. ("RLPL"). The transaction was made on 31 March 2016, leading to an improvement in Total Capital Ratio (TCR) and Common Equity Tier 1 capital ratio (CET1) to 15.83 per cent and 15.17 per cent as at 30 June 2016 – 0.50 and 3.36 percentage points, respectively, above the minimum requirements set by the PFSA.

In the first half of 2016, the Raiffeisen Bank Polska Group earned PLN 81.5 million in net profit, down by 18 per cent from PLN 99.8 million posted for the same period of 2015. The main contributors to the Group's net profit in the period included:

- 17 per cent year-on-year increase in operating income, to PLN 891.1 million as at the end of June 2016, mainly driven by settlement of the acquisition of Visa Europe Limited by Visa Inc., which delivered an income of PLN 80.6 million;
- Net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items of PLN 54.9 million, down 45 per cent on the first half of 2015;
- 6 per cent increase in general administrative expenses despite continued implementation of cost-saving measures;
- PLN 68.5 million in tax on assets of financial institutions due for the five months of the first half of 2016;
- Divestment of RLPL – the divested business was an important separate part of the Group's operations. Therefore, it was classified as discontinued operations. Net profit on discontinued operations amounted to PLN 11.7 million, whereas net profit on continuing operations in the first half of 2016 came in at PLN 69.8 million, marking an increase of 7 per cent on PLN 65.4 million reported for the first half of 2015.

In the first half of 2016, the Bank continued its strategy to dynamically expand in the Retail Banking segment, focusing on sales of Dream products (*Wymarzone*). As a result, 67.4 thousand Dream Personal Accounts were sold in the first half of 2016, of which 55.5 thousand were opened for new clients. The number of active clients also increased, by 7 per cent compared with the end of 2015, to

715 thousand as at the end of the first half of 2016. In recognition of its efforts to enhance customer service, Raiffeisen Polbank was named the Golden Bank for service quality in a ranking compiled jointly by *Puls Biznesu* and Bankier.pl.

In Private Banking, Raiffeisen Bank Polska reaffirmed its leading position, with the highest, five-star rating achieved at the beginning of 2016 for the third consecutive time in the Polish private banking ranking table compiled by *Forbes*. The first half of 2016 saw continued growth in private banking assets of Friedrich Wilhelm Raiffeisen – by 12 per cent year on year and 5 per cent YTD.

In the first half of 2016, the Bank further consolidated its position in Corporate Banking, expanding its client base by 7.1 per cent year on year, to 14.3 thousand, which was reflected in the volume of net loans to small and medium-sized enterprises (up by 8.2 per cent and 11.4 per cent year on year, respectively).

In the first half of 2016, Raiffeisen Bank Polska continued to rank second in the Polish factoring market, with a turnover of PLN 8.8 billion and more than 286 thousand invoices purchased in the period.

Raiffeisen Bank Polska also maintained its leading position in the FX market – the total volume of FX transactions in the first half of 2016 increased by 4.9 per cent year on year. The R-Dealer transaction platform enjoyed continued popularity: for SME clients, it was the main channel for entering into FX spot contracts, accounting for 85 per cent of all such transactions in the first half of 2016.

In the first half of 2016, Raiffeisen Solutions sp. z o.o. – the Bank's subsidiary boasting one of the most advanced currency exchange and money transfer tools on the market, launched in November 2015 under the name of RKantor.com, was actively looking to further expand its client base and range of products offered via RKantor.com. Dynamic growth of the client base was reflected in FX trading levels, which would reach up to EUR 1 million daily.

Summary of the Group's performance in the first half of 2016:

PLN 81.5 million in net profit	▶	Decline in net profit by 18.3 per cent year on year Tax on assets of financial institutions reducing net profit by PLN 68.5 million
PLN 134.3 million in profit before tax	▶	Year-on-year improvement in profit before tax of 39.9 per cent
Cost base growth despite saving measures	▶	6 per cent year-on-year increase in general administrative expenses
PLN 891.1 million in operating income	▶	Increase of 17 per cent year on year, mainly due to settlement of the acquisition of Visa Europe Limited by Visa Inc., which delivered an income of PLN 80.6 million
Improved loan portfolio quality	▶	Decrease in net provisioning for impairment losses on financial assets by 45.0 per cent year on year, and lower share of impaired loans in the overall loan portfolio, at 7.8 per cent as at the end of June 2016
Larger client base	▶	Higher number of clients, up 9.5 per cent year on year, to 730.8 thousand

Improved capital and liquidity ratios	Total Capital Ratio at 15.83 per cent Common Equity Tier 1 capital ratio at 15.17 per cent Loan-to-deposit ratio at 93.9 per cent

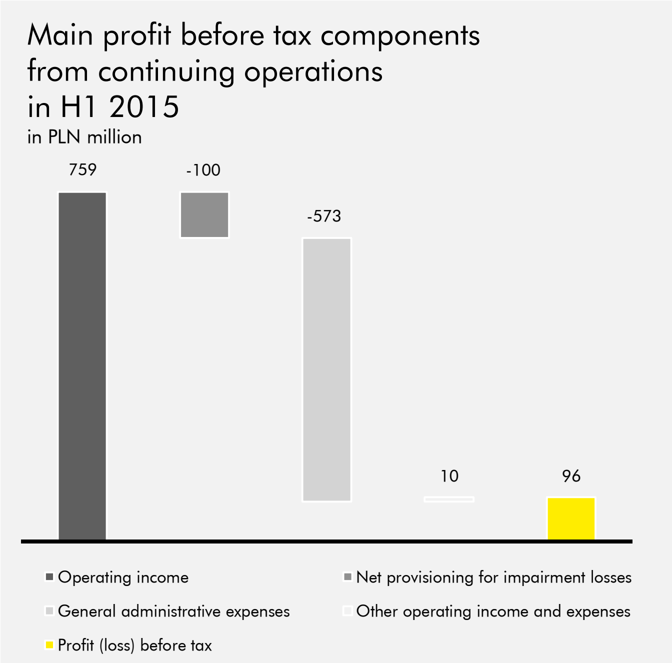
4. Financial standing of the Raiffeisen Bank Polska Group in the first half of 2016

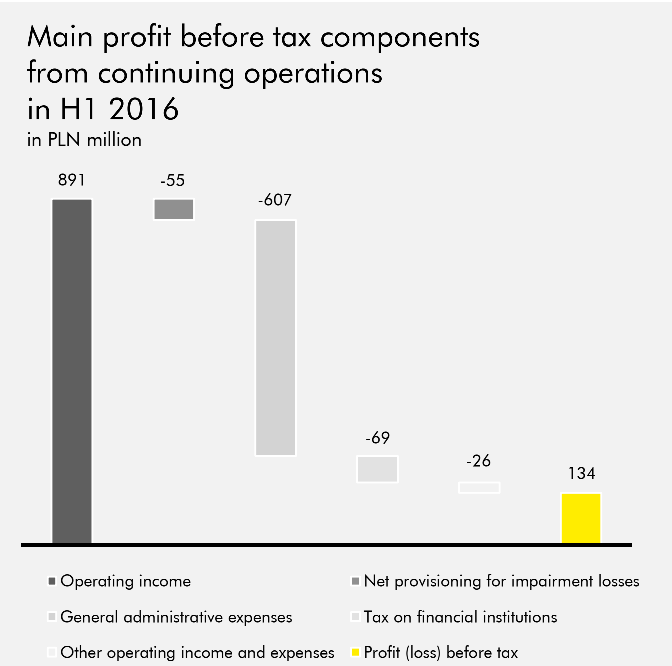
4.1. Statement of profit or loss

In the first half of 2016, the Raiffeisen Bank Polska Group earned PLN 81.5 million in net profit, down by 18 per cent from PLN 99.8 million posted for the same period of 2015.

The Group's performance in the first half of 2016 was affected by a combination of the following factors, absent in the corresponding period of 2015:

- PLN 68.5 million in tax on assets of financial institutions due for the five months of the first half of 2016;
- Disposal of the entire shareholding in Raiffeisen-Leasing Polska S.A., which took place on 31 March 2016. Following the transaction, the Bank lost control of RLPL and all companies of the RLPL Group. The transaction was designed to improve the Group's capital adequacy ratios to the levels recommended by the PFSA. The divested business was an important separate part of the Group's operations. Therefore, it was classified as discontinued operations. In the case of operations classified as discontinued, the comparative amounts in the statement of profit or loss were restated as if the operations had been discontinued at the beginning of the comparative period. Net profit on discontinued operations amounted to PLN 11.7 million, whereas net profit on continuing operations in the first half of 2016 came in at PLN 69.8 million, marking an increase of 7 per cent on PLN 65.4 million reported for the first half of 2015.
- Settlement of the acquisition of Visa Europe Limited by Visa Inc. – on the acquisition of Visa Europe Limited by Visa Inc. and the resulting disposal by the Bank of its equity interest in Visa Europe to Visa Inc., the Bank booked a total of PLN 80.6 million under net income from financial instruments measured at fair value and net foreign exchange result. The amount of PLN 80.6 million comprised: PLN 59.0 million of cash consideration for the shares sold by the Bank; PLN 16.5 million on account of preferred shares received and PLN 5.0 million of additional deferred cash consideration, to be paid three years after the transaction closing, i.e., in the second quarter of 2019.





Key factors contributing to the year-on-year changes in the Raiffeisen Bank Polska Group's performance from continuing operations in the first half of 2016 included:

- 17 per cent year-on-year increase in operating income, to PLN 891.1 million as at the end of June 2016, mainly on settlement of the acquisition of Visa Europe Limited by Visa Inc., which delivered an income of PLN 80.6 million. Excluding income from the Visa transaction, operating income for the first half of 2016 went up 6.8 per cent year on year;
- Net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items of PLN 54.9 million, down 45 per cent vs. the first half of 2015;
- 6 per cent increase in general administrative expenses, to PLN 607.0 million;
- New tax on assets of financial institutions reducing net profit by PLN 68.5 million;
- Net other operating result was at PLN 26.3 million against PLN 9.5 million in the same period of the previous year. The year-on-year decline was due to the absence of income from the one-off sale of fixed assets posted in the first half of 2015, as well as higher impairment losses on fixed

assets, costs of sale and liquidation of fixed and intangible assets in the process of optimizing the branch network and head office, and provisioning for receivables and disputes in the first half of 2016.

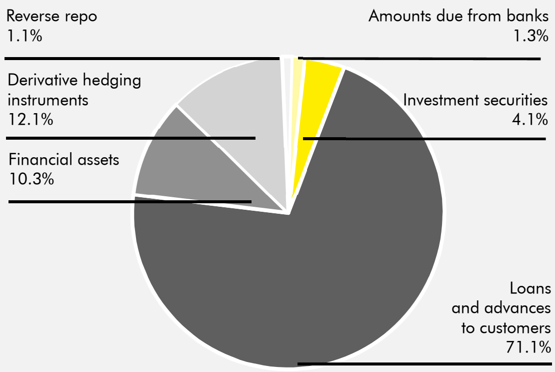
Selected items of the statement of profit or loss (PLN thousand)	30.06.2016	30.06.2015	Change	
			PLN thousand	%
Continuing operations				
Interest income	782,882	821,329	-38,447	-4.7
Interest expense	-296,578	-351,967	55,388	-15.7
Net interest income	**486,304**	**469,362**	**16,941**	**3.6**
Net provisioning for impairment losses	-54,917	-99,877	44,960	-45.0
Fee and commission income	335,488	313,560	21,928	7.0
Fee and commission expense	-40,360	-46,646	6,286	-13.5
Net fee and commission income	**295,128**	**266,914**	**28,214**	**10.6**
Net income from financial instruments measured at fair value and net foreign exchange result	109,708	22,657	87,051	384.2
General administrative expenses	-607,048	-572,568	-34,480	6.0
Other operating income and expenses	-26,327	9,543	-35,870	-
Tax on financial institutions	-68,509	0	-68,509	-
Profit (loss) before tax	**134,339**	**96,031**	**38,307**	**39.9**
Income tax expense	-64,573	-30,601	-33,972	111.0
Net profit (loss) from continuing operations	**69,766**	**65,430**	**4,336**	**6.6**
Net profit (loss) from discontinued operations	**11,720**	**34,367**	**-22,647**	**-65.9**
Net profit (loss)	**81,486**	**99,797**	**-18,311**	**-18.3**

The Group's net interest income in the first half of 2016 reached PLN 486.3 million, up 4 per cent on the same period of the year before, as interest expenses fell faster than interest income. Two factors were responsible for the decrease in interest expenses: reduction of the National Bank of Poland's interest rates by the Monetary Policy Council ("MPC") in March 2015 and a significantly lower cost of funding obtained by the Group. In the first two months of 2015, the National Bank of Poland's reference rate was 2 per cent, while its lombard rate was 3 per cent. On 5 March 2015, the rates were reduced to 1.5 per cent and 2.5 per cent, respectively, and stayed unchanged until the end of the first half of 2015 and throughout the first half of 2016.

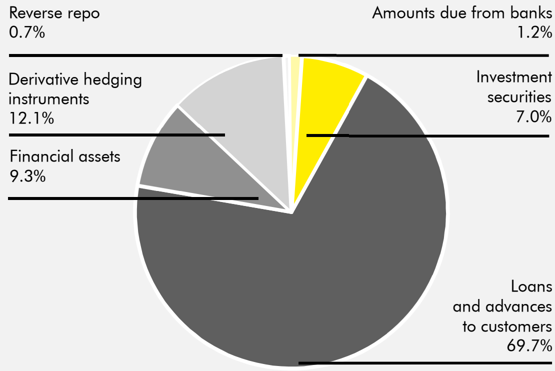
4.1.1. Structure of interest income

In the first half of 2016, interest income fell 5 per cent year on year, largely as a result of the interest rate cuts. The structure of interest income remained broadly unchanged compared with the first six months of 2015. Income from loans and advances to customers decreased 7 per cent year on year, with the average balance of these loans having decreased 2 per cent. The share of interest income from loans and advances to customers in total interest income declined slightly, to 70 per cent in the first half of 2016, from 71 per cent a year earlier. The share of interest income from hedge derivatives remained at the previous year's level, i.e. at 12 per cent. Income from these derivatives fell 4 per cent relative to the same period last year. Another material item, accounting for 9 per cent of total interest income, was interest income from financial assets held for trading, which went down 15 per cent year on year, on an 8 per cent decline in the average balance of these assets relative to the first half of 2015. Income from investment securities in the first six months of 2016 grew 61 per cent, while its share in the total interest income increased from 4 per cent at the end of June 2015 to 7 per cent a year later, driven by a 114 per cent increase in the average balance of investment securities.

Structure of interest income in H1 2015



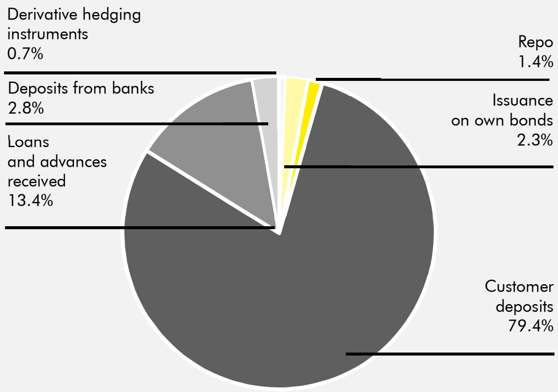
Structure of interest income in H1 2016



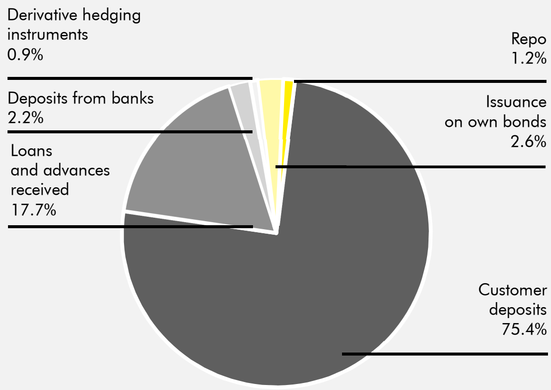
4.1.2. Structure of interest expense

In the first half of 2016, interest expense was down 16 per cent year on year, mainly on account of the interest rate reduction and a significantly lower cost of funding obtained by the Group. The share of interest expense on customer deposits, accounting for 75 per cent of the total in June 2016, fell from 79 per cent in the first half of 2015. Interest expense on customer deposits decreased 20 per cent year on year, despite a 4 per cent growth in the average balance of deposited funds compared with the corresponding period of 2015. The decline resulted from lower interest rates on zloty-denominated deposits and effective management of the deposit pricing policy. Interest expense on loans and advances received went up 12 per cent year on year in June 2016. This was mostly attributable to a 4 per cent year-on-year increase in the average balance of loans and advances received, and in particular a higher volume of subordinated loans. The share of these expenses went up from 13 per cent in June 2015 to 18 per cent in the first half of 2016. Interest expense on bonds issued by the Bank fell 5 per cent year on year due to the lower interest rates, whereas its share in total expenses went up from 2 per cent in the first half of 2015 to 3 per cent a year later.

Structure of interest expense in H1 2015



Structure of interest expense in H1 2016



4.1.3. Non-interest income

In the first half of 2016, non-interest income amounted to PLN 404.8 million, up 40 per cent year on year. The increase was driven mainly by income related to the acquisition of Visa Europe Limited by Visa Inc., which came in at PLN 80.6 million revenue. Excluding income on the Visa transaction, the Group's non-interest income went up 12 per cent year on year.

Relative to the first half of 2015, net fee and commission income increased 11 per cent, primarily on higher income from spread on clients' foreign exchange transactions, as well as higher income from insurance agency and custodian services.

Net income from financial instruments measured at fair value and net foreign exchange result, excluding income from the Visa transaction, was PLN 29.1 million in the first half of 2016, up 28 per cent year on year. The increase was driven by an improved net result on proprietary forex trading.

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

Net provisioning for impairment losses decreased after the first six months of 2016 by 45 per cent relative to the same period of 2015, to PLN 54.9 million from PLN 99.9 million in June 2015. A significant reduction in net provisioning of PLN 68.3 million was seen in the Corporate Banking segment as a result of improved portfolio quality. Net provisioning for impairment losses on the retail portfolio in the first half of 2016 was PLN 59.7 million, compared with PLN 33.6 million as at the end of June 2015, with the increase due to deteriorated risk parameters in the microenterprises sub-segment.

The share of impaired loans was 7.8 per cent, having decreased 0.1 percentage point on the end of 2015. Impaired loans coverage at the end of the first half of 2016 was 61.7 per cent, which represented an increase of 4.8 percentage points year on year.

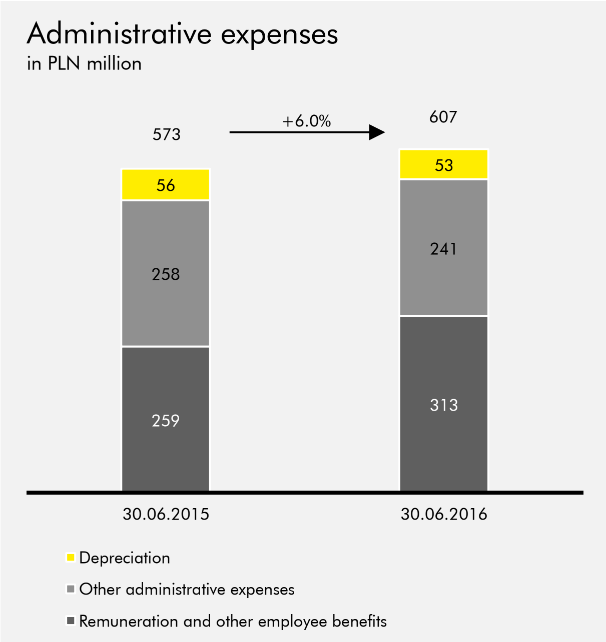
4.1.5. General administrative expenses

The Group's general administrative expenses in the first half of 2016 amounted to PLN 607 million, having increased by PLN 34.5 million or 6 per cent year on year. Despite continued implementation of cost-saving programs, the cost base expanded due to:

- Lower costs of salaries, wages and other employee benefits in the first half of 2015 due to reversal of a provision for annual bonuses totaling PLN 21.6 million (following the decision not to pay annual bonuses for 2014 at the Raiffeisen Bank International Group);
- Optimization of the branch network and head office – provision recognized for the closing down of 35 branches and workforce streamlining (by 500 FTEs) of PLN 19.4 million;
- Sales-related costs, retention programs and costs of consulting services;
- Provision recognized for accrued holiday entitlements of PLN 24.7 million.

The cost-saving programs, continued by the Group in the first half of 2016, involved:

- closing down of 35 branches and continued workforce restructuring (reduction by approximately 500 FTEs);
- continued implementation of the Operations Transformation Project to centralize (nearshore) functions in the Operating Center located in Ruda Śląska;
- relocation of the Bank's head office to a new building, release of office space in two buildings previously occupied by the head office;
- optimization of the IT architecture and of IT systems and infrastructure maintenance costs;
- reduction of marketing expenses.



4.2. 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.

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

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

Profit (loss) before tax by segment (PLN thousand)	**30.06.2016**		**30.06.2015**		**Change**	
	Result	**Share**	**Result**	**Share**	**PLN thousand**	**%**
Corporate banking	181,044	134.8%	142,689	148.6%	38,355	26.9
Retail banking	-52,665	-39.2%	-85,312	-88.8%	32,647	-38.3
Financial institutions and capital markets	42,219	31.4%	42,220	44.0%	-1	0.0
Asset and liability management and other operations	-36,259	-27.0%	-3,565	-3.7%	-32,694	917.1
Group total	**134,339**	**100.0%**	**96,031**	**100.0%**	**38,308**	**39.9**

Corporate Banking

In the first half of 2016, Corporate Banking's profit before tax improved considerably year on year. At PLN 181.0 million, it grew by PLN 38.4 million (27 per cent). The key drivers of the year-on-year increase in Corporate Banking's profit before tax in the first half of 2016 included:

- Decline in net interest income by PLN 15.5 million or 8 per cent year on year. The environment of lower interest rates, combined with the smaller average volume of loans, had the effect of reducing interest income by PLN 25.0 million (10 per cent) compared with the same period of the year before. Lower interest rates also translated into lower net interest income from capital refinancing allocated to the segment, recognized as internal net interest income. Effective management of the deposit structure, combined with a higher average balance of deposited funds, supported the margin earned on liabilities and reduced interest expense by PLN 17.6 million (23 per cent), which partly offset the income erosion;

- Net non-interest income in the first half of 2016 increased by PLN 15.4 million (10 per cent) year on year, driven by higher income from FX transactions, higher commission income from project finance loans, and additional income on settlement of the acquisition of Visa Europe Limited by Visa Inc. Excluding the income on the Visa transaction, non-interest income increased by 4 per cent year on year;
- General administrative expenses rose, by 6.7 per cent year on year;
- Reversal of provisions for impairment losses of PLN 5.1 million against recognition of provisions of PLN 63.3 million in the first half of 2015. The decrease in net provisioning resulted from improved portfolio quality compared with the same period of 2015;
- The amount of tax on assets of certain financial institutions introduced in 2016, of which PLN 20 million was allocated to the Corporate Banking segment in the first half of 2016, had a negative effect on the segment's profit before tax.

Corporate Banking (PLN thousand)	**30.06.2016**	**30.06.2015**	**Change**	
			PLN thousand	**%**
Interest Income	235,315	260,318	-25,003	-9.6
Interest Expense	-59,165	-76,714	17,549	-22.9
Interest Income (external)	176,150	183,604	-7,454	-4.1
Interest Income (internal)	6,763	14,839	-8,076	-54.4
Net Interest Income	182,913	198,443	-15,530	-7.8
Revenues non-interest	171,369	155,934	15,435	9.9
Operating Income	**354,282**	**354,377**	**-95**	**0.0**
General administrative expenses	-158,334	-148,437	-9,897	6.7
there of: Depreciation	-9,426	-13,871	4,445	-32.0
Tax on financial institutions	-20,000	0	-20,000	-
Provisioning for impairment losses	5,097	-63,251	68,347	-108.1
Profit (loss) before tax	**181,044**	**142,689**	**38,355**	**26.9**
Total assets	**12,378,825**	**13,222,349**	**-843,524**	**-6.4**
Liabilities	**14,238,212**	**13,669,042**	**569,169**	**4.2**

Retail Banking

Retail Banking generated a loss of PLN 52.7 million in the first half of 2016, which marked an improvement of PLN 32.7 million compared with the first half of the previous year. The key drivers of the year-on-year improvement of the segment's performance in the first half of 2016 included:

- PLN 1.8 million growth in net interest income on effective management of the deposit pricing policy, despite lower interest rates. Higher asset balances did not offset the impact of reduced interest rates (especially the lombard rate) on interest income (down by 3 per cent) and segment-allocated net interest income from capital refinancing, which is a component of internal net interest income. On the other hand, the improved margin earned on deposits, coupled with higher average balances of deposits, led to a significant reduction (by 13 per cent) of interest expenses, ultimately improving net interest income;
- A PLN 88.6 million increase (92 per cent) in non-interest income was driven by additional income on settlement of the acquisition of Visa Europe Limited by Visa Inc., as well as higher commission income, mainly from insurance agency services. Excluding income on the Visa transaction, non-interest income went up 18.3 per cent year on year;

- General administrative expenses in Retail Banking remained at the previous year's level;
- Net provisioning for impairment losses increased by PLN 26.1 million due to deteriorated risk parameters in the microenterprise sub-segment;
- A negative contributor to gross result was the tax on assets of certain financial institutions introduced in 2016, allocated to Retail Banking in the amount of PLN 30.7 million.

Retail Banking (PLN thousand)	**30.06.2016**	**30.06.2015**	**Change**	
			PLN thousand	**%**
Interest Income	320,425	330,649	-10,224	-3.1
Interest Expense	-147,274	-169,176	21,902	-12.9
Interest Income (external)	**173,151**	**161,473**	**11,678**	**7.2**
Interest Income (internal)	56,918	66,799	-9,882	-14.8
Net Interest Income	**230,069**	**228,273**	**1,796**	**0.8**
Revenues non-interest	184,844	96,285	88,559	92.0
Operating Income	**414,913**	**324,557**	**90,356**	**27.8**
General administrative expenses	-379,434	-379,097	-338	0.1
there of: Depreciation	-41,783	-36,750	-5,033	13.7
Tax on financial institutions	-30,682	0	-30,682	-
Provisioning for impairment losses	-59,700	-33,625	-26,075	77.5
Other operating result	2,239	2,852	-613	-21.5
Profit (loss) before tax	**-52,665**	**-85,312**	**32,647**	**-**
Total assets	**22,162,745**	**21,825,902**	**336,842**	**1.5**
Liabilities	**19,380,069**	**18,201,961**	**1,178,107**	**6.5**

Financial Institutions and Capital Markets

In the first half of 2016, the Financial Institutions and Capital Markets segment's profit before tax came in at PLN 42.2 million, unchanged from the first half of 2015.

The main item contributing to the segment's profit before tax was operating income, which improved by PLN 5.8 million, largely on account of a PLN 13 million (25 per cent) increase in non-interest income from proprietary forex trading. Net other operating income fell by PLN 1.2 million, mainly due to the absence in the first half of 2016 of additional income from preparation and management of securities issues, which was reported in the first half of 2015. A negative contributor to profit before tax was the tax on assets of certain financial institutions introduced in February 2016, allocated to Financial Institutions and Capital Markets in the amount of PLN 4.6 million. General administrative expenses increased by PLN 1.0 million. Reversal of provisions for impairment losses of PLN 70 thousand, against recognition of provisions of PLN 1.0 million in the first half of 2015, had a positive effect on the segment pre-tax profit in the reporting period.

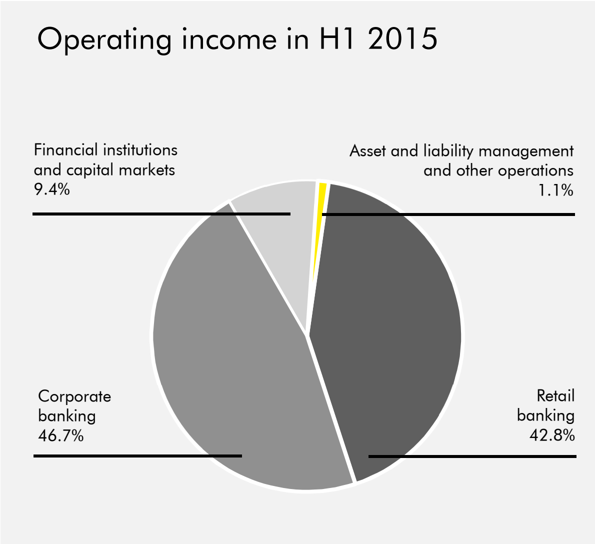
Financial Institutions & Capital Markets (PLN thousand)	**30.06.2016**	**30.06.2015**	**Change**	
			PLN thousand	**%**
Interest Income	18,514	26,118	-7,605	-29.1
Interest Expense	-40,114	-52,011	11,897	-22.9
Interest Income (external)	-21,600	-25,892	4,292	-16.6
Interest Income (internal)	32,861	44,370	-11,509	-25.9
Net Interest Income	11,262	18,478	-7,217	-39.1
Revenues non-interest	65,834	52,828	13,006	24.6
Operating Income	**77,096**	**71,306**	**5,790**	**8.1**

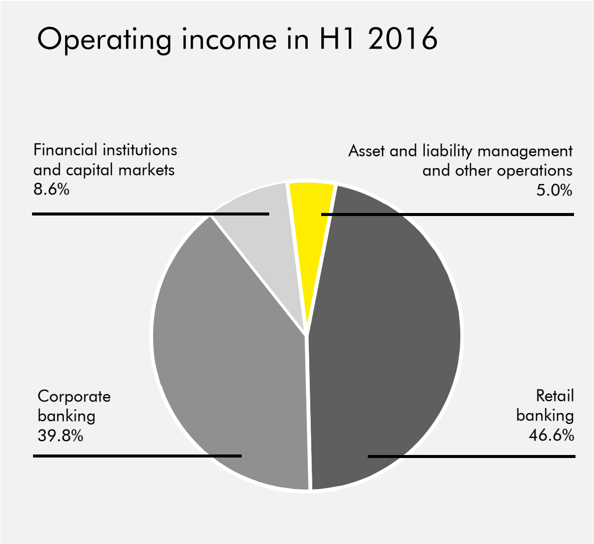
Financial Institutions & Capital Markets (PLN thousand)	30.06.2016	30.06.2015	Change	
			PLN thousand	%
General administrative expenses	-31,002	-29,979	-1,022	3.4
there of: Depreciation	-1,728	-2,942	1,214	-41.3
Tax on financial institutions	-4,592	0	-4,592	-
Provisioning for impairment losses	70	-1,003	1,073	-107.0
Other operating result	647	1,896	-1,249	-65.9
Profit (loss) before tax	**42,219**	**42,220**	**-1**	**0.0**
Total assets	**1,801,949**	**4,820,157**	**-3,018,208**	**-62.6**
Liabilities	**3,530,524**	**5,291,669**	**-1,761,145**	**-33.3**

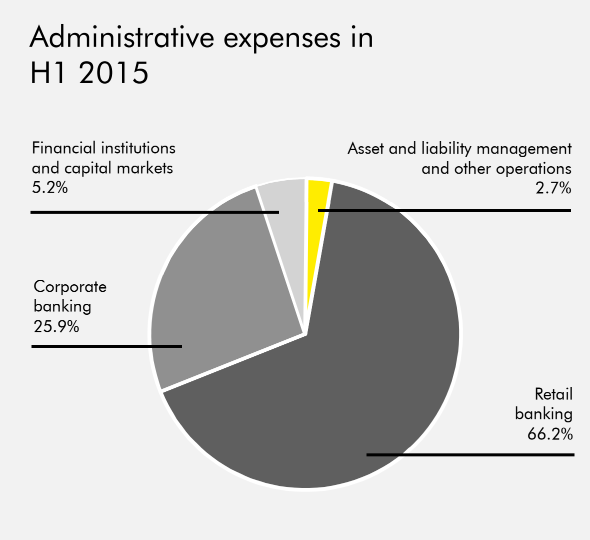
Asset and Liability Management and Other Operations

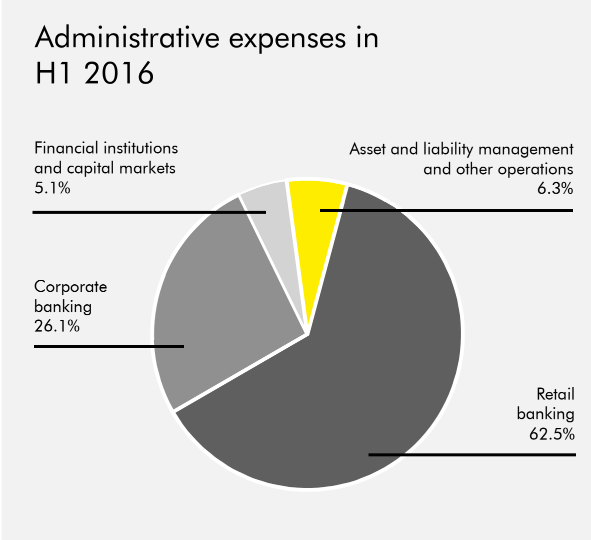
The gross loss of the Asset and Liability Management and Other Operations segment deteriorated in the first half of 2016 by PLN 32.7 million year on year, to PLN 36.3 million. The key drivers of the year-on-year deterioration in the segment's performance in the first half of 2016 included:

- An increase in operating income of PLN 36.2 million, following from interest rate cuts and changes in the Group's financing structure. Interest income increased by PLN 4.4 million, mainly on higher income from investment securities. Interest expense fell by PLN 4 million due to changes in the Group's financing structure. Internal net interest income rose by PLN 29.5 million, driven by improved liquidity of the Group and reduced pricing pressure on client funding, with the resulting reduction in the liquidity margin allocated to client segments. Non-interest income declined by PLN 1.7 million, driven down by higher loss on the valuation of derivative instruments recognized under non-interest income;
- A rise in general administrative expenses in the first half of 2016 by PLN 23.2 million was associated with higher costs of the Bank's sales processes, retention programs and costs of consulting services;
- Net other operating income in the six months of 2016 fell by PLN 34.0 million due to the absence of income from the one-off sale of fixed assets posted in the first half of 2015, as well as higher impairment losses on fixed assets, costs of sale and liquidation of fixed and intangible assets in the process of optimizing the branch network and head office, and provisioning for receivables and disputes in the first half of 2016;
- The amount of tax on assets of certain financial institutions allocated in the first half of 2016 to the Asset and Liability Management and Other Operations segment was PLN 13.2 million, adversely affecting the segment's gross result.









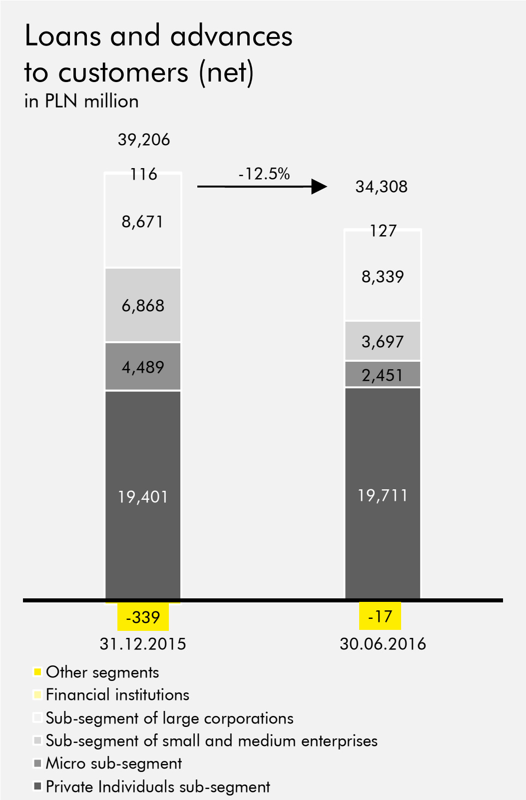
4.3. Statement of financial position

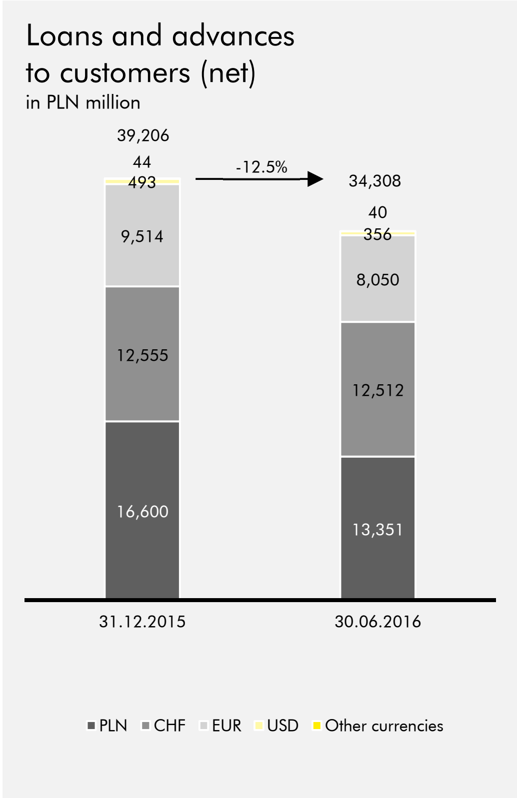
4.3.1. Total assets

The Group's total assets decreased by PLN 7.9 billion (13 per cent) relative to the end of 2015, to PLN 54.0 billion as at the end of the first half of 2016. This significant decrease was due mainly to the disposal of all shares in Raiffeisen-Leasing Polska S.A. Loans and advances to customers are the largest item in the Group's statement of financial position, accounting for 63.5 per cent of its total assets. The value of loans and advances to customers fell by PLN 4.9 billion from the end of 2015. Excluding loans and advances from Raiffeisen-Leasing Polska S.A. which had been consolidated in 2015, loans and advances to customers increased by PLN 626 million, mainly on growing sales of cash loans in Retail Banking.

A significant increase between 31 December 2015 and the end of June 2016 was recorded in the balance of investment securities, which grew by PLN 3.7 billion. The increase offset a decline in the balance of financial assets held for trading, which decreased by PLN 3.7 billion. The considerable changes in these items relative to the end of 2015 were aimed to improve the yield on the securities portfolio and better align it with the Bank's interest rate structure.

Assets of Raiffeisen Bank Polska S.A. Group (PLN milion)	**30.06.2016**	**31.12.2015**	**Change**	
			PLN million	**%**
Cash and balances with the Central Bank	1,380	2,704	-1,324	-49.0
Amounts due from banks	334	1,326	-993	-74.9
Financial assets held for trading	8,884	12,570	-3,687	-29.3
Derivative financial instruments	590	562	28	5.0
Investments securities	7,548	3,842	3,706	96.5
Loans and advances to customers	34,308	39,206	-4,898	-12.5
Intangible assets	506	552	-45	-8.2
Fixed assets	131	276	-145	-52.4
Other assets	336	867	-531	-61.3
Total assets	**54,017**	**61,905**	**-7,888**	**-12.7**





4.3.2. Liabilities and equity

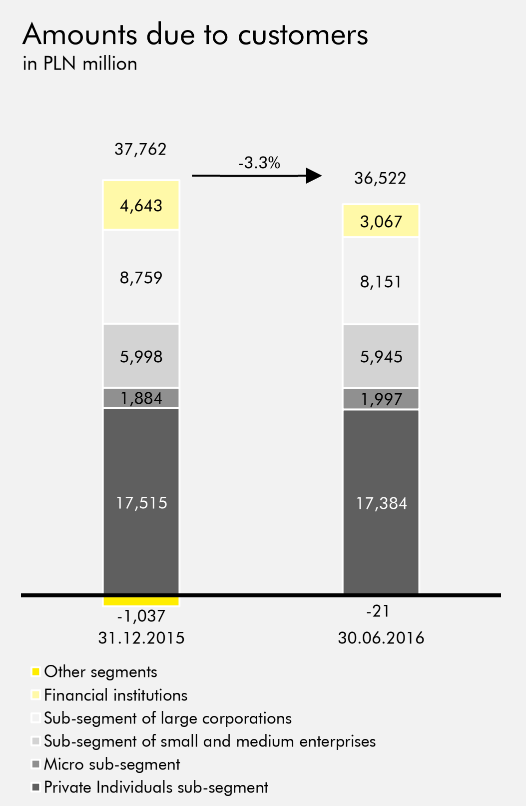
The Raiffeisen Bank Polska Group's liabilities and equity fell 13 per cent compared with the end of 2015, to PLN 54.0 billion. This significant decrease was due mainly to the disposal of all shares in Raiffeisen-Leasing Polska S.A.

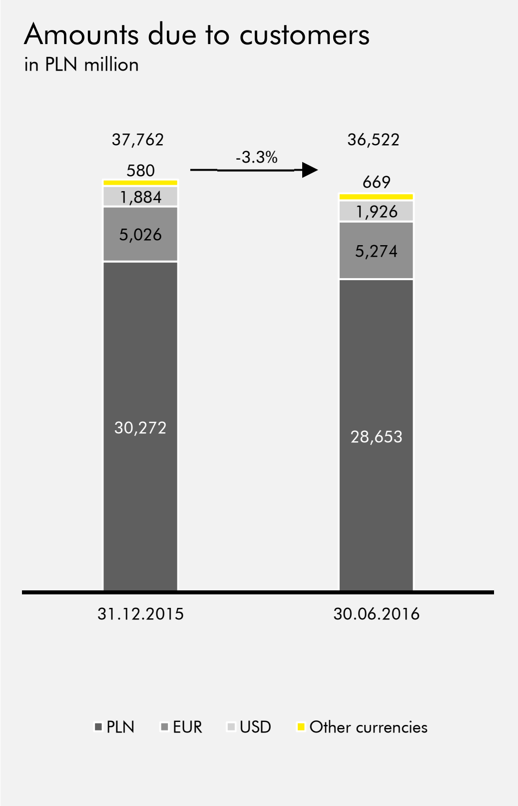
Customer deposits remain the key source of financing the Group's operations. The share of customer deposits in total equity and liabilities increased to 67.6 per cent as at the end of June 2016, compared with 61.0 per cent as at the end of 2015. After the first half of 2016, amounts due to customers were PLN 36.5 billion, having decreased by PLN 1.2 billion compared with the end of the previous year, as a result of improved efficiency of the Group's liquidity structure. Another major item were amounts due to banks and other monetary institutions, which after the first half of 2016 accounted for 14.7 per cent of the Group's total equity and liabilities. The balance of amounts due to banks and other monetary institutions fell by PLN 5.1 billion, to PLN 8.0 billion, following the sale of shares in Raiffeisen-Leasing Polska S.A.

Equity as at the end of the first half of 2016 increased slightly on the end of the previous year, by PLN 55.1 million (1 per cent). The change resulted mainly from higher retained earnings and current period net profit (up 19 per cent), with a concurrent reduction in supplementary capital (down 3 per cent).

Liabilities and equity of Raiffeisen Bank Polska S.A. Group (PLN million)	**30.06.2016**	**31.12.2015**	**Change**	
			PLN million	**%**
Amounts due to banks and other monetary institutions	7,963	13,089	-5,126	-39.2
Derivative financial instruments	1,571	1,479	93	6.3
Amounts due to customers	36,522	37,762	-1,240	-3.3
Subordinated liabilities	332	725	-393	-54.2
Liabilities from debt securities issued	502	1,759	-1,257	-71.5
Other liabilities	682	703	-21	-2.9

Liabilities and equity of Raiffeisen Bank Polska S.A. Group (PLN million)	30.06.2016	31.12.2015	Change	
			PLN million	%
Total liabilities	**47,572**	**55,516**	**-7,943**	**-14.3**
Total equity	**6,444**	**6,389**	**55**	**0.9**
Total liabilities and equity	**54,017**	**61,905**	**-7,888**	**-12.7**





4.4. Key financial ratios

The following table presents the Group's key financial ratios.

Key financial ratios (in %)	30.06.2016	30.06.2015
ROA net	0.3	0.3
ROE net	2.2	3.2
Net Interest Margin	1.8	1.9
Cost Income Ratio	70.2	70.7
Net Loans / Deposits	93.9	116.1

Net ROA – net profit attributable to owners of the parent/average assets
Net ROE – net profit attributable to owners of the parent/average equity
Net interest margin – net interest income/average assets
Cost/income ratio – operating costs including depreciation and amortization/income including net other operating income
Given the sale of shares in RLPL, net ROA, net ROE and net interest margin for the first half of 2016 were calculated according to the following formulas:
Net ROA – net profit/loss on continuing operations/assets at end of period;
Net ROE – net profit/loss on continuing operations/equity at end of period;
Net interest margin – net interest income from continuing operations/assets at end of period.

5. Operations of Raiffeisen Bank Polska S.A. in the first half of 2016

5.1. Retail Banking

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

In the first half of 2016, the Bank continued to implement its Strategy for 2015–2017 and focused on enhancing its product and service offering for Retail Banking clients. It worked to further improve its financial advisory models and client service standards by focusing on affluent clients and private banking clients. Measures were also taken to develop electronic banking channels and solutions enabling clients to use the Bank's products without visiting a branch. Additionally, the offering of the distribution network was enhanced through partnership with several financial intermediaries with nationwide coverage.

At the end of the first half of 2016, the number of active Retail Banking customers was 715 thousand, having increased by 44 thousand (7 per cent) on the end of 2015.

5.1.1. Deposit products

Current and savings accounts

In March 2015, the Dream Personal Account (*Wymarzone Konto Osobiste*) was added to the offering as one of the Dream Package (*Pakiet Wymarzony*) products and was the main product aimed at acquiring new clients in 2016. Sales of the Package were supported with nationwide marketing campaigns run from February to April 2016.

As a result, 67.4 thousand Dream Personal Accounts were sold in the first half of 2016, of which 55.5 thousand accounts were opened for new clients. As at the end of June 2016, the number of Dream Personal Accounts operated by the Bank reached 306 thousand.

As at the end of June 2016, the Bank maintained 709 thousand personal accounts for mass and affluent clients, having achieved a 1.6 per cent increase in the number of PLN-denominated personal accounts and a 5.4 per cent increase in the number of on-demand EUR-, USD-, CHF- and GBP-denominated accounts compared with the end of the previous year. Zloty-denominated deposits held in personal accounts of mass and affluent clients were almost PLN 2.2 billion at the end of the first half of 2016 (increase of approximately PLN 400 million on the end of 2015), of which as much as 66 per cent were core deposits in the Dream Personal Account.

The clients who opened a Dream Personal Account in 2016 are frequent users of the on-line banking service – 80 per cent of them have activated the R-online banking system, 57 per cent have active access to the Mobile Bank service, and as many as 98 per cent clients receive electronic account statements.

The main sales channel for the Dream Account was the branch network (70 per cent), but clients also opened accounts using the automatic online service, through the call center, at partner branches and through financial intermediaries. Between January and June 2016, sales of personal accounts to mass and affluent clients through remote channels accounted for almost 24 per cent of all accounts opened; in terms of cost effectiveness, these channels represent an attractive alternative to the traditional branch distribution network.

Client acquisition efforts related to another 'Dream' line product – the Dream Goal Account (*Konto Wymarzony Cel*), developed to encourage clients to make regular savings, resulted in the Bank opening 36.2 thousand such accounts by the end of the first half of 2016, with the deposited funds totaling approximately PLN 394 million.

The first half of 2016 was also a period of aligning bank regulations, in particular the terms and conditions of bank accounts and banking product agreements, with the amendments in applicable laws, including the regulations on dormant accounts entering into effect on 1 July 2016, i.e., the rules to be followed with respect to accounts whose holders died and accounts which have shown no activity. Furthermore, the Bank adjusted its sales processes and related formal and legal internal regulations to the recommendations of the Polish Financial Supervision Authority concerning the rules for secure opening of bank accounts via account transfers from another bank.

Term deposits

In the first half of 2016, the Bank focused on maintaining the volume of deposits. To retain maturing term deposits, the Bank undertook extensive efforts and CRM campaigns to optimize the management of maturing balances. The efforts included tailoring terms of the deposit offering to clients' individual needs based on prior analyses and client segmentation.

Clients showed the greatest interest in the R-Lokata deposit account for new zloty funds and the Loyal Bank deposit account (*Lokata Lojalny Bank*) available as part of the Loyal Bank program for clients to whom the Bank is their bank of choice and who elected to have their monthly remuneration transferred to accounts held with Raiffeisen Polbank. Mobile Deposit (*Lokata Mobilna*) continued as one of the products with the highest interest, and it was used as a tool for promoting mobile banking among users of electronic delivery channels.

Despite the persistently low interest rates in 2016, the Bank pursued its pricing policy aimed at retaining savings product volumes among mass and affluent clients at the year-end 2015 levels, while converting low-margin term deposit balances into investment products and savings and current accounts. As a result, the savings product volume (all current accounts, savings accounts and term deposits) slightly decreased, to PLN 11 billion at the end of June 2016, or by approximately PLN 180 million compared with the end of 2015. On the other hand, the personal account balances were on a rise (year-on-year increase of 650 million at the end of the first half of 2016).

5.1.2. Debit and credit cards

In the first half of 2016, the Bank's activities in the area of payment cards focused on the effective implementation of a program aimed at optimizing and adjusting the current business model to the changing market conditions. The most important element of the program involved migration of the card support services to the First Data Polska's system and concurrent termination of the payment card support in the Bank's internal systems. Along with the credit card migration process, the product offering was optimized and standardized, one benefit of which was the introduction of uniform charges. In addition, the card migration to a single platform opens new possibilities for development of the product offering. An example of such a development initiative is a joint project of the Bank and First Data Polska related to NFC HCE mobile payments, launched in the first half of 2016. It is a continuation of the long-term strategy in the area of card payment transactions, where the Bank has focused on innovative payment methods for a number of years.

The Bank has also actively engaged in initiatives to issue new cards via new distribution channels, such as the Call Center, and to develop the card business in the existing channels, i.e., telemarketing and the Internet. These initiatives included promotion of the Bank cards' usability and transactability. The Bank achieved an almost 20 per cent year-on-year growth in the total value of payment card transactions (debit cards and retail credit cards) in the first half of 2016. A very important element of the activities aimed at increasing the frequency of payment card use was continued promotion of on-line payments. The Bank was the first institution in Poland to launch, in partnership with MasterCard, the MasterPass wallet, which can be used to make quick and secure on-line payments without disclosing the card details in online stores. In the area of on-line payments, the value of transactions made with cards issued by the Bank grew by over 40 per cent year on year in the first half of 2016.

It should be noted that the payment card portfolio (debit and credit cards) exceeded 600 thousand cards, an increase of over 12 per cent during the last 12 months. This was an effect of the Bank's successful client acquisition strategy, mainly the sales of the Dream Account.

5.1.3. Lending products

Mortgage lending

Mortgage lending represents a material share of the Bank's balance sheet. As at the end of the first half of 2016, the net on-balance-sheet exposure to retail clients was PLN 16.9 billion, accounting for 88 per cent of net loans advanced to this client group.

In the first half of 2016, the Bank continued to work on the modification of solutions applied in the process of mortgage lending and post-sales support. The Bank also implemented a process dedicated to borrowers in connection with the Act on Support to Financially Distressed Borrowers Who Had Taken out Housing Loans.

The Bank offers mortgage loans available under the Home for the Young (*Mieszkanie dla Młodych*) government scheme, which represented 45 per cent of the total volume of loans advanced by the Bank in the first half of 2016.

Consumer loans

The Bank continued its consumer loans strategy, which produced record high sales. The main focus was on Custom-Made Loans (*Kredyt na Miarę*) cash loans, whose sales reached PLN 607 million in the first half of 2016, i.e., up by 36 per cent compared with the corresponding period of 2015. An overdraft limit was another important product that helped build the sales potential: its sales between January and June 2016 were reported at in excess of 5 thousand, up by 108 per cent on the corresponding period of 2015. This growth was achieved through the implementation of a number of improving changes and initiatives, including:

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

5.1.4. Investment products

In the first half of 2016, the Bank continued to sell funds marketed under the Raiffeisen brand but managed by a third-party manager (white label funds). The Raiffeisen Specjalistyczny Fundusz Inwestycyjny Otwarty ("SFIO") Umbrella Fund consisted of four sub-funds with different investment strategies and risk levels. The Raiffeisen sub-funds are managed for the Bank by ALTUS Towarzystwo Funduszy Inwestycyjnych. The product is available in the retail banking network and via on-line banking system.

At the end of June 2016, the number of investment unit holders was 17.2 thousand, and assets in the Raiffeisen SFIO Umbrella Fund totaled almost PLN 954.3 million. Including the FWR Selektywny FIZ closed-end fund, offered exclusively to Friedrich Wilhelm Raiffeisen Private Banking clients, the assets of the Bank's funds were in excess of PLN 973.2 million. The structure of assets in specific sub-funds is as follows:

Structure of investment fund assets distributed by the Bank (PLN milion) **Fund**	**Asset manager**	**Assets as of 30.06.2016**	**Assets as of 31.12.2015**
Raiffeisen SFIO Parasolowy			
Raiffeisen Aktywnego Oszczędzania	Altus TFI S.A.	122.1	113.9

Structure of investment fund assets distributed by the Bank (PLN milion) Fund	Asset manager	Assets as of 30.06.2016	Assets as of 31.12.2015
Raiffeisen Aktywnych Strategii Dłużnych	Altus TFI S.A.	40.2	43.4
Raiffeisen Globalny Możliwości	Altus TFI S.A.	20.7	15.1
Raiffeisen Aktywnego Inwestowania	Altus TFI S.A.	771.3	386.5
FWR Selektywny FIZ	Altus TFI S.A.	18.9	26.3
Funds total		**973.2**	**585.2**

The Bank continued to offer, on a subscription basis, investment deposits and structured insurance products as well as structured certificates issued on the primary market by Raiffeisen Centrobank AG of Vienna (RCB). In the first half of 2016, five subscriptions were launched for structured insurance products from TU Warta S.A. for a total of PLN 58 million, and twelve subscriptions for investment deposits totaling PLN 555 million.

The range of investment products offered to retail clients was expanded to include unit-linked life insurance from TUnŻ Europa S.A. marketed as Dream Prospects (*Wymarzone Perspektywy*). The product was very well received by clients and the insurance market, as evidenced by the received awards, including the award in the Innovative Firm (*Innowacyjna Firma*) ranking for an outstanding market offering and the Product of the Month (*Produkt Miesiąca*) title awarded by the *Gazeta Ubezpieczeniowa* weekly. In the first half of 2016, sales of this investment product reached over PLN 362 million.

The range of investment products offered to the Bank's retail clients includes RCB guaranteed certificates, described in more detail below in the section on brokerage activities below.

5.1.5. Brokerage activities

In the first half of 2016, Raiffeisen Brokers continued its activities in the area of public offerings of structured products of Raiffeisen Centrobank AG, a leading issuer of certificates traded on the Warsaw Stock Exchange. The value of structured certificates sold in that period reached PLN 140 million.

In the first half of 2016, the number of investment accounts operated by the brokerage subsidiary rose by over 40 per cent year on year, to more than 13.5 thousand as at 30 June 2016.

5.1.6. Friedrich Wilhelm Raiffeisen Private Banking

Friedrich Wilhelm Raiffeisen Private Banking ("FWR") is offered to clients with assets in excess of PLN 1 million. The first half of 2016 saw a strong growth in the assets of Friedrich Wilhelm Raiffeisen clients, fueled by an influx of funds from both current and new clients. As at the end of June 2016, the balance of clients' assets (invested in deposit and investment products) increased to PLN 7.6 billion, i.e., by 12 per cent year on year, and by 5 per cent from the beginning of 2016.

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

In early 2016, for the third consecutive time, FWR Private Banking received the highest, five-star rating in *Forbes'* Polish private banking ranking table. It was given in recognition of FWR investment advisory services and commitment to innovation, both in area of investments and development of individual strategies, e.g., succession strategies.

5.1.7. Microenterprises

In the first half of 2016, the Bank acquired 9.5 thousand new microenterprise accounts, which is 15 per cent more than in the corresponding period of the previous year. One of the drivers of growth was addition in December 2015 of new Dream Business Account (*Wymarzone Konto dla Biznesu*) functionalities to the range of deposit and account products. At the same time, deposit product balances increased by 7 per cent relative to the end of the previous year, to PLN 2 billion, supported by the launch 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 cooperatives.

In addition, based on the Bank's cooperation with Raiffeisen-Leasing Polska S.A. ("Raiffeisen-Leasing"), a special offer was prepared for clients entering into new financing agreements with Raiffeisen Leasing: they could open a business account and receive a PLN 600 bonus, and obtain an overdraft facility or Business Credit Card (*Karta Kredytowa dla Biznesu*) without any proof of income. In the first half of 2016, the product attracted almost 1 thousand new clients for the Bank.

In the first half of 2016, the Bank's lending to microenterprises generated sales of PLN 263 million, or 15 per cent more than in the corresponding period of the previous year. The largest increase was reported in investment loans secured with BGK's *de minimis* guarantee (up by almost 300 per cent), secured credit facilities (up by 179 per cent), and unsecured loans (up by 29 per cent). These growth figures were achieved in parallel with improvements in the lending process. The average time to cash disbursement was shortened to nine days for unsecured loans and to 15 days for secured loans, i.e., it improved by over one-third compared with the corresponding period of 2015. This was achieved due to such measures as:

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

As regards its terminal /card acceptance business, in a strategic partnership with the EVO Group, operating in Poland under the Revo brand, the Bank actively expanded its terminal business by offering clients (microenterprises and clients in the Corporate Banking segment) that use terminals in their day-to-day business state-of-the-art payment methods available on the global payment market. Since the beginning of 2016, Revo terminal product has been marketed through the Bank's branch network. In the first half of 2016, the Bank sold the product to almost 1.3 thousand microenterprises, which represents a 200 per cent year-on-year increase.

5.2. Corporate Banking

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

To further improve its efficiency and the quality of services offered to Corporate Banking clients, including in particular small and medium-sized enterprises (seen by the Bank as a strategic group with significant potential for banking business growth), on 1 March 2016 the Bank made certain changes to the organizational structure and management of the individual Corporate Banking sub-segments. Concurrently, the client classification criteria for the Medium-Sized and Large Enterprises sub-segments were changed. The changes involved:

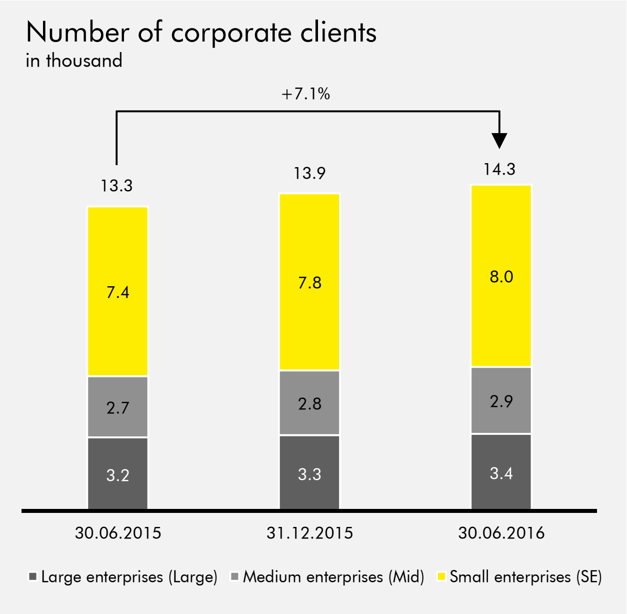
- separation of the Small Enterprises sub-segment from the former seven Corporate Centers and creation of three Small Enterprise Banking Macro-Regions;
- consolidation of management structures for Medium-Sized and Large Enterprises at the former seven Corporate Centers and transforming them into six Corporate Banking Macro-Regions – the Eastern Corporate Center (Lublin) was incorporated into the Central Corporate Banking Macro-Region (Warsaw);
- change of a classification criterion – the threshold of annual sales revenue based on which clients were classified as Large Enterprises or Medium-Sized Enterprises was raised from PLN 100 million to PLN 200 million, for new clients only. The Bank's existing clients with revenues within the range of PLN 100 million – PLN 200 million were not transferred from Large to Medium-Sized Enterprises. The threshold change was introduced to improve service quality and to extend the scope of cooperation with companies with revenues ranging from PLN 100 million to PLN 200 million, as they are considered by the Bank as a client group offering considerable potential for growth of the banking business.

The sub-segment of small and medium-sized enterprises (SMEs) continued to be perceived as a priority area, with the Bank placing particular focus on this client group in the context of further development of its corporate banking. In the group of small enterprises, i.e. companies with annual revenues of PLN 4–25 million, in the first half of 2016 the Bank continued its business growth strategy started in 2015, i.e., it sought to ensure very good terms of business and high service quality for the existing clients, and at the same time engaged in intensive client acquisition efforts. As part of these initiatives, the Bank launched a campaign involving sale of preferential factoring limits to the existing lending clients, with simplified approval criteria, and started a pilot project whereby small current account overdraft limits were offered to selected clients. To make its offering more attractive to new clients, the Bank prepared a special financing solution for exporters and importers.

5.2.1. Client base growth

In the first half of 2016, in line with its strategy, the Bank focused on expanding its corporate client base which is to serve as a platform for further development of the banking business and increasing the product-per-client ratio. As a result, the number of active accounts reached 14.3 thousand at the end of June 2016, having increased by nearly 1 thousand (or 7.1 per cent) compared with June 2015, and by nearly 400 (or 2.7 per cent) relative to December 2015. By business sub-segments, the corporate client base comprised 3.4 thousand large companies, 2.9 thousand medium-sized companies, and 8.0 thousand small enterprises.

Over the last year, medium-sized enterprises has been the fastest growing sub-segment, with 249 new accounts added to the client base (up by 9.3 per cent).

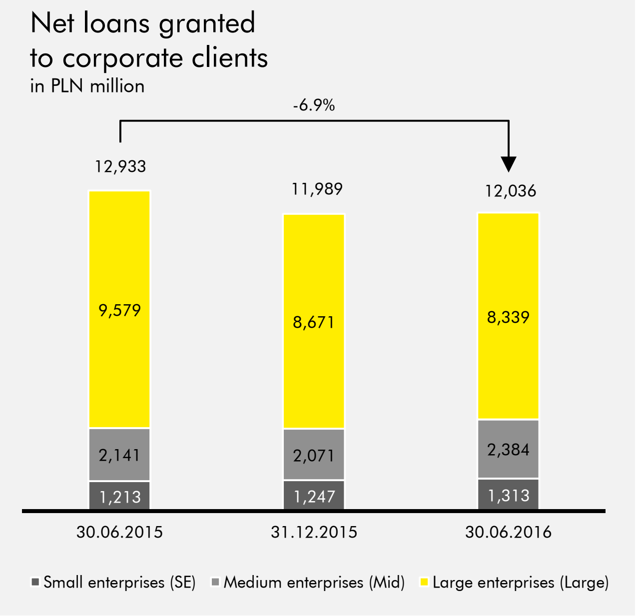


Clients by segment:
SE – clients with annual turnover from PLN 4 million to PLN 25 million, Mid – clients with annual turnover from PLN 25 million to PLN 100 million[3], Large – clients with annual turnover over PLN 100 million[3]

The growth of Raiffeisen Polbank's corporate client base was an effect of the Bank focusing on client satisfaction and improving internal processes and product mix based on feedback received from its clients. Every six months, the Bank measures the level of corporate clients' satisfaction based on the Net Promoter Score (NPS) methodology, using telephone surveys carried out by an external entity. In the last edition of the survey, in December 2015, the NPS for corporate clients was 34, up by 9 on the first half of 2015.

5.2.2. Lending activity

In the first half of 2016, the net volume of loans to corporate clients increased by PLN 46 million, or 0.4 per cent, to PLN 12.0 billion at the end of June.



[3] Since 1 March 2016, the Bank has applied new classification criteria for the business sub-segments (see pages 33-34 of this Report).

The change in the net volume of loans granted in the first half of 2016 was in line with the trends seen in 2015, when the volume of loans to large corporate clients declined while loans to small and medium-sized companies increased rapidly. The decline of the lending volume in the large enterprises sub-segment (by PLN 332 million, or 3.8 per cent, relative to the end of 2015) was attributable to early repayment of large credit exposures related to investment project financing and to a smaller number of new large-volume credit transactions with large companies. Both changes were a consequence of the Bank pursuing the strategic objective of strengthening its position in the segments of small and medium-sized companies, among others through increased lending activity. In the first half of 2016, the net volume of loans in these two sub-segments increased by PLN 379 million, or 11.4 per cent, compared with the end of 2015. The strongest growth was seen on loans to medium-sized companies – by PLN 313 million, or 15.1 per cent, in the first six months of 2016, relative to the end of December 2015. In the sub-segment of small companies, the net loan volume expanded by PLN 66 million, or 5.3 per cent, in the first half of 2016.

The net loans to deposit ratio in Corporate Banking was 85.4 per cent as at the end of June 2016, up 4.0 percentage points compared with the end of 2015.

In the first half of 2016, the Bank continued as an active provider of loans secured with the *de minimis* guarantees available under the government liquidity-support scheme for micro-, small- and medium-sized enterprises. In February 2016, the Bank signed an annex to the *de minimis* guarantee agreement with Bank Gospodarstwa Krajowego (BGK), whereby the Bank obtained an additional PLN 10 million sub-limit and was able to offer its clients a new instrument: a free-of-charge credit repayment guarantee for innovative entrepreneurs, from the Guarantee Fund of the Innovative Economy Operational Program. The Bank was the first among all Program participants to grant a loan secured with a guarantee covered by the Guarantee Fund.

From March 2013 to the end of May 2016, the Bank used nearly 4.6 thousand guarantees, worth PLN 956 million, to secure loans granted to its clients. In terms of the amount of limit used under the *de minimis* guarantee, Raiffeisen Polbank ranked 10th among the 20 lending banks that had signed cooperation agreements with BGK. As at the end of June 2016, the Bank had over 2.9 thousand loans, totaling PLN 724 million, secured with the *de minimis* guarantees worth nearly PLN 434 million. 391 of these loans, totaling PLN 277 million and secured with the *de minimis* guarantees worth PLN 165 million, were granted to Corporate Banking clients. The remaining 2.6 thousand loans, for a total of PLN 447 million, were granted to microenterprises (in the Retail Banking segment) and were secured with the *de minimis* guarantees worth PLN 269 million.

5.2.3. Trade finance services

As part of trade finance services to corporate clients, in the first half of 2016 the Bank issued close to 3 thousand guarantees, with a total balance of commitments under the guarantees of nearly PLN 1.7 billion as at the end of the period. According to data for the first quarter of 2016, Raiffeisen Polbank still ranked third in the Polish Bank Association's ranking of largest guarantee providers in Poland, and had a market share of almost 12 per cent.

In the first half of 2016, the Bank issued and advised nearly 1.2 thousand letters of credit for a total value of PLN 1.2 billion. After the first quarter of 2016, Raiffeisen Polbank ranked third among the ten banks reporting to the PBA in terms of the number of advised export letters of credit, and sixth in terms of the number of issued import letters of credit. Letters of credit issued and advised by the Bank in the first quarter of 2016 accounted for 10 per cent of the value and number of all letters of credit issued and advised by the institutions reporting to the PBA.

5.2.4. Factoring

In the first half of 2016, the Bank was the preferred provider of factoring solutions to Polish businesses – at the end of June 2016, 29 per cent of factoring clients in Poland used the Bank's services.

With its factoring turnover of PLN 8.8 billion in the first half of 2016, the Bank held on to its second position among members of the Polish Factor Association.

In the second quarter of 2016, Raiffeisen Polbank started offering an innovative solution called 'dynamic limits' in reverse factoring. It combines the advantages of reverse factoring and uses trade receivables as security, so clients can obtain higher limits of reverse factoring without having to provide additional security. All the processes relating to the solution are handled electronically.

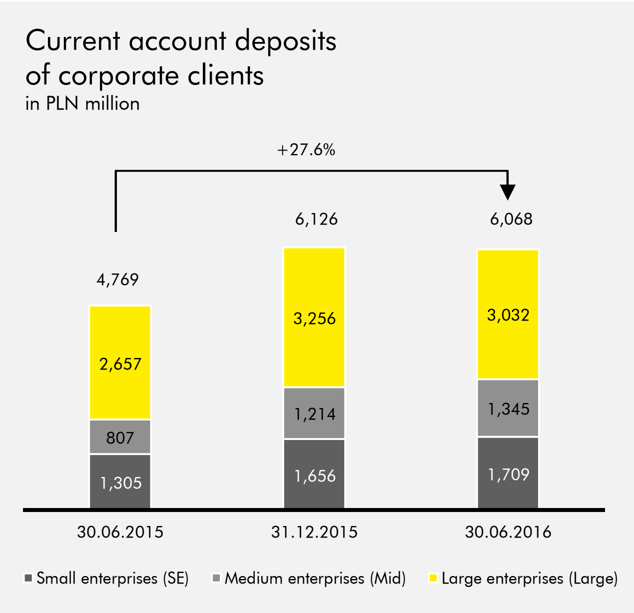
5.2.5. Transaction banking

In the first half of 2016, the Bank's activities in the transaction banking area focused on the sub-segments of small and medium-sized enterprises. Thanks to the improvements carried out in 2015 and a new product launched, marketed as Capital Package (*Pakiet Kapitalny*) and targeted at companies with annual turnovers ranging from PLN 4 million to PLN 10 million, the Bank attracted a record-high number of new clients. In the first six months of the year, close to 240 new clients used the Capital Package.

In the large enterprises segment, the Bank introduced new mass payment solutions. It also started to offer accounts in new exotic currencies, e.g. in United Arab Emirates dirham (AED), Saudi riyal (SAR) and Serbian dinar (RSD).

To respond to the growing needs of all corporate clients, the Bank made certain changes to its payment solutions, including the online banking system R-Online Biznes. As a result, clients can now manage their standing orders by themselves, and the flexibility offered by the Bank's product enables them to use the standing orders in settlements in a variety of ways, e.g. with delegation cards. In the first quarter of 2016, the Bank began settling transactions in the euro in real time, as a direct participant of TARGET2.

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



As at the end of June 2016, the volume of funds in corporate client accounts reached PLN 6.1 billion, having increased 27.6 per cent year on year and nearly flat vs. year-end 2015. The largest year on year growth was seen in current account balances of medium-sized companies (up 66.7 per cent) and of small enterprises (up 31.0 per cent).

5.2.6. Treasury banking and deposits

In the first half of 2016, the Bank offered FX spot, FX forward, FX option and IRS transaction products to corporate clients. The number of clients actively using the treasury products increased by 2 per cent year on year.

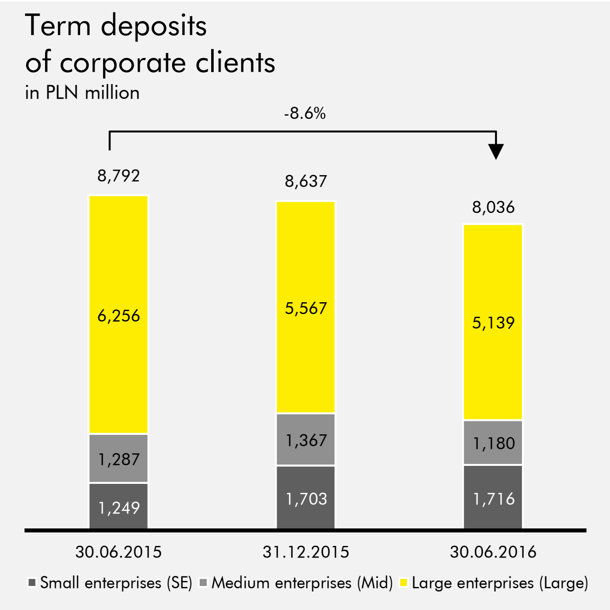
The total volume of FX transactions in the first half of 2016 grew by 4.9 per cent over the corresponding period of 2015, which strengthened the Bank's position as one of the leading players on the market. However, due to strong competition from other banks and a growing number of on-line currency exchange services, the Bank's revenues from FX transactions declined by 1.3 per cent year on year.

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

The Bank's currency dealers and derivative transaction experts supported the clients in hedging their currency positions with the use of derivative instruments offered by the Bank. The Bank's revenue from FX risk hedges was 26 per cent higher in the first half of 2016 than in the same period of 2015, and the number of clients actively using the derivative transactions went up by 9 per cent in the period. FX forwards were the most popular product, with the Bank's revenue from these transactions rising 28 per cent year on year. Clients also used currency options, which in the first half of 2016 delivered 45 per cent higher revenue than in the first half of 2015.

In the first half of 2016, the Bank also offered structured deposits — a Dual Currency Deposit (*Lokata Dwuwalutowa*) and Investment Deposit (*Lokata Inwestycyjna*).

As at the end of June 2016, the total value of corporate term deposits was PLN 8.0 billion, 7.0 per cent less compared with the end of 2015 and down 8.6 per cent year on year.



5.2.7. Investment banking

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

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

- Polsteam Shipping Company Ltd – USD 60 million bond issue (Bank acting as Arranger, Paying Agent, Depositary and Dealer);
- INTEGER.PL S.A. – PLN 20 million bond issue (Bank acting as Arranger and Dealer);
- BBI Development S.A. – PLN 22 million bond issue (Bank acting as Arranger and Dealer);
- Magellan S.A. – PLN 30 million note issue (Bank acting as Arranger, Paying Agent, Depositary and Dealer);

- ATAL S.A. – PLN 80 million bond issue (Bank acting as Arranger and Dealer);
- RAIFFEISEN-LEASING POLSKA S.A. – PLN 300 million bond issue (Bank acting as Arranger and Dealer);
- MCI Capital S.A. – PLN 54.5 million bond issue (Bank acting as Arranger and Dealer).

The total value of debt instrument transactions carried out in the first half of 2016 with the Bank's assistance was PLN 927.5 million. As at the end of the first half of 2016, the total nominal value of outstanding debt securities of corporate issuers and banks (excluding local government units) issued with the Bank's assistance was close to PLN 2.5 billion, including approximately PLN 425 million in short-term securities.

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

In 2015, in performance of the recommendation issued by the Polish Financial Supervision Authority with respect to EMIR (European Market Infrastructure Regulation), the Bank implemented a solution for settlement of interest rate derivative transactions (IRS, FRA, OIS) by KDPW_CCP S.A. In the first half of 2016, the Bank also put in place a solution enabling settlement of such transactions in other currencies as well. To this end, it partnered with Commerzbank Frankfurt, which is to act as a clearing broker for the Bank in the settlement of derivative transactions with the London Clearing House. These arrangements will help the Bank perform its obligations under the EMIR, improve liquidity and risk parameters of its transactions, and gain wider access to international financial markets.

Moreover, the Bank is an active market maker for local FX swaps and other interest-rate derivatives. In an analysis of the activity of 15 candidates to act as money market dealers, covering the period from 1 November 2015 to 31 March 2016, the Bank ranked as follows:

- PLN FX swaps – 4th position;
- FRA and IRS transactions – 8th position;
- OIS transactions – 6th position.

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

As a provider of custodian services, the Bank remained the market leader, both in terms of the number of investment funds using its services and the value of assets held for closed-ended investment funds. At the same time, the Bank continued to expand its services for open-ended investment funds. The number of clients using its account maintenance and investment fund valuation services grew to 320 at the end of the first half of 2016.

The Bank also worked to further develop its Paying Agent services for foreign open-ended investment funds, and – with a market share of 53 per cent (PFSA data available as at the end of 2015) – was the market leader.

5.4. Awards

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

- Golden Bank, in recognition of top quality of service, in the Golden Banker competition (3rd place in the main category);
- Client's Laurel 2016 in the 12th edition of a nationwide poll on product and service popularity, conducted by the *Gazeta Wyborcza* daily (category: factoring services);

- Golden Bank – 2nd place in the cash loan category;
- Golden Bank – 3rd place in the credit card category;
- Golden Columns – awarded to Connect as the best electronic magazine for employees in the Columns of the Year competition;
- Top Employers Poland 2016 title (received for the third time).

6. Operations of Raiffeisen Solutions Sp. z o.o. in the first half of 2016

Raiffeisen Solutions Sp. z o.o. ("Raiffeisen Solutions", or the "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.

In the first half of 2016, Raiffeisen Solutions focused on expanding its client base and developing the product offering available through RKantor.com. Dynamic growth of the client base was reflected in increased FX trading levels, which would reach up to EUR 1 million daily. New solutions were introduced, such as the Deferred Payment Exchange (*Wymiana z Odroczoną Wpłatą*) product offering the possibility of settling a currency exchange transaction within two business days of its execution.

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

7. Development of Raiffeisen Bank Polska Group's organization and infrastructure in the first half of 2016

7.1. IT and operations of the Bank

One of major IT-related challenges in the first half of 2016 was adjusting the operating model after the changes in the organizational structure that came into effect on 1 December 2015. The adjustment process is still under way and includes changes in processes, reorganization of development and maintenance teams' work, and implementation of new tools and methodologies.

In the first half of 2016, ten project management and software development initiatives were implemented, and IT efforts focused on the following issues:

- the new head office project;
- optimization of systems under the Operations Transformation Project;
- changes in the e-banking systems for institutional clients;
- improvements to risk management support systems.

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

- upgrade of the e-banking platform for Retail Banking clients;
- improvement of the sales and support processes relating to accounts for retail clients and microenterprises;
- optimization and streamlining of the card systems' architecture;
- adaptation of systems to the MIFID II requirements;
- adaptation of systems for cross-border bank transfers denominated in the euro to the EU requirements (SEPA);
- adaptation of systems to the IFRS 9 requirements;
- development of the FX platform.

In the area of IT infrastructure management, the key developments were preparation of the Bank's new head office and transfer of employees from three locations to the new site. At the same time, in connection with abandonment of the former premises, efforts were made to consolidate and simplify the wide-area network infrastructure.

In cost management, a new model of allocating costs to business lines was implemented to enhance the transparency of IT costs. Moreover, a three-year program launched in 2015 to optimize IT operating costs by streamlining the application architecture, adjusting the level and supply of IT services, adjusting system development and maintenance models, streamlining IT processes and functions, and optimizing the IT infrastructure, was continued.

In the first half of 2016, the Bank continued the Operations Transformation Project to centralize (nearshore) functions in the Operating Center in Ruda Śląska. As part of the second phase of the project, administrative processes, debt collection support, administration of mortgage loan agreements and disbursements, further call center processes, as well as cash-in-transit management were migrated to the Center. Further process migrations are currently under way. All processes migrated 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 migrated processes are optimized and streamlined. At the end of the first half of 2016, the Center employed over 450 staff, of whom about 350 worked in the operations division, and approximately 100 in the retail division.

7.2. Development of electronic service channels of the Bank

R-Online

The R-Online banking system has been designed to support the provision of services to retail clients and microenterprises. As at 30 June 2016, the number of its users reached 678 thousand, up 19 per cent year on year. Additionally, the number of active users (at least one logging a month) at the end of June 2016 increased to 247 thousand.

In the first half of 2016, the Bank implemented a new electronic banking system using a responsive technology, which automatically adjusts the user interface to the display size. In July 2016, the new system, enabling access to innovative and personalized solutions tailored to client's needs, was put in service.

R-Online Biznes

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

In the first half of 2016, the Bank implemented two projects: Standing Orders (*Zlecenia stałe*) and e-Guarantee (*Gwaracje Elektroniczne*). The first project enabled placing standing orders in the R-Online Biznes system (which previously required a written form). The module is designed to meet the needs of corporate customers, i.e. apart from setting the order, a client can also define certain parameters such as the balance percentage or the procedure in case the account balance is insufficient to execute the order. The purpose of the e-Guarantee project was to enhance the existing functionality. After the product parameters were adjusted, some of the clients' guarantees are now automatically processed in the Bank's systems. The Bank also offers an option of sending guarantees by electronic mail.

As at 30 June 2016, the R-Online Biznes banking system for corporate clients had 57 thousand users. The number of active users (at least one logging a month) increased by 4 thousand year on year, to 30 thousand.

Mobilny Bank

In 2004, the Bank was the first financial institution on the market to develop and offer a mobile banking application for its clients. Since then, the application has been continuously developed to satisfy customer expectations. As at 30 June 2016, it was available to 117 thousand users, that is 48 per cent more than in June 2015. In the same period, the number of Mobilny Bank active users increased by 41 per cent.

Number of active* users of the Bank's internet and mobile banking (thousand)	30.06.2016	31.12.2015	30.06.2015
Mobilny Bank	62	53	44
R-Online	247	236	227
R-Online Biznes	30	27	26

* At least one login per month

Number of users of the Bank's internet and mobile banking (thousand)	30.06.2016	31.12.2015	30.06.2015
Mobilny Bank	117	94	79
R-Online	678	631	569
R-Online Biznes	57	54	51

7.3. The Bank's branch network

As at 30 June 2016, the Bank operated 298 branches, including:

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

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

In the first half of 2016, 35 branches were closed down as a result of network optimization and restructuring measures. Also, a uniform business model of partner branches was introduced in cooperation with the Bank.

The Bank also employs other distribution channels, such as Telemarketing Team and Mobile Advisors Team to reach the clients directly, and cooperates on an ongoing basis with 22 brokers and approximately 3,000 local intermediaries.

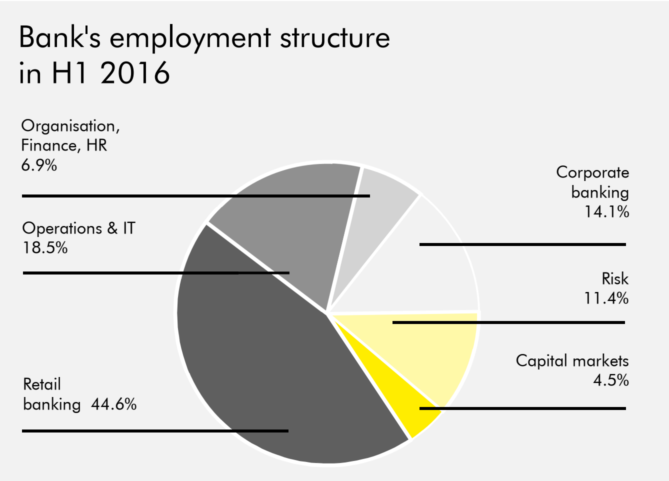
7.4. Headcount

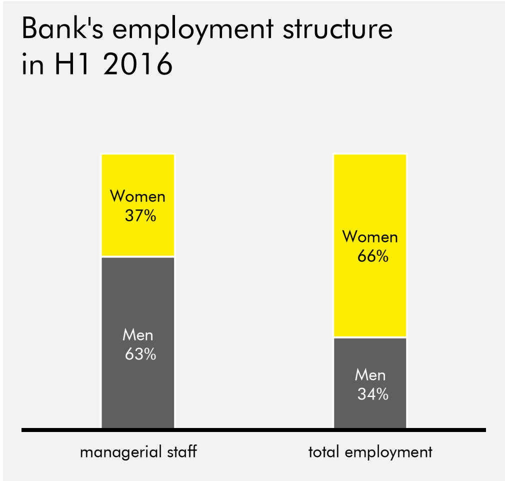
As at the end of June 2016, Raiffeisen Bank Polska employed 4,568 staff, including Management Board members, compared with 4,852 staff at year-end 2015 (both figures net of employees on parental leave and long-term sickness absence).

On an FTE-basis, as at the end of June 2016 the headcount was 4,379, down by 279 (6 per cent) on the end of 2015. The change was a result of the restructuring efforts initiated in 2013 following the merger of Raiffeisen Bank Polska with Polbank EFG.

The employment in FTEs	30.06.2016	31.12.2015	30.06.2015
Retail banking	1,950	2,127	2,310
Corporate banking	617	660	661
Capital markets	198	168	174
Operations & IT	809	841	893
Risk	501	544	564
Organization, Finance, HR	304	318	342

The employment in FTEs	30.06.2016	31.12.2015	30.06.2015
Bank total	**4,379**	**4,658**	**4,944**
Raiffeisen Investment Polska Sp. z o. o.	1	7	7
Raiffeisen Financial Services Polska Sp. z o. o.	58	70	88
Raiffeisen Solutions Sp. z o.o.	37	35	30
Group total	**4,475**	**4,770**	**5,069**





Women represent the majority of the workforce (66 per cent). Nearly 63 per cent of managerial positions at the Bank are held by men.

8. Corporate Social Responsibility at the Raiffeisen Bank Polska Group

Corporate Social Responsibility initiatives have been part of Raiffeisen Bank Polska activities for years now. In the first half of 2016, the Bank continued the partnership with Towarzystwo Nasz Dom and once again was the 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, including those who want to enter the next stage of education (high school, university) or pursue occupational training. For another consecutive year, the Bank's employees were involved in the Bankers for Financial Education of Youth Bakcyl initiative, where banks' employees volunteer to teach basics of finance management to junior high school students. The initiative was conceived and organized by the Warsaw Banking Institute, and it is partnered by the Polish Bank Association. The honorary patronage over the project was taken by the National Bank of Poland, the Minister of Education, and local education authorities.

9. Managing key risks

9.1. Credit risk management

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

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

The purpose of credit risk management is to improve the security of the Group's lending activity by 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 loan portfolio.

The monitoring of credit risk at the portfolio level includes performing regular analyses of the credit portfolio, ensuring identification of adverse trends and concentrations as well as performing ad-hoc reviews of the portfolio, in particular in the event of changes 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 interim condensed consolidated financial statements for the period from 1 January to 30 June 2016 (note on credit risk management). There were no significant changes in the area of credit risk management relative to the previous period. In the first half of 2016, 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 (separately or in groups). 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 interim condensed consolidated financial statements for the period from 1 January to 30 June 2016 (note on credit risk management).

9.1.1. Loan portfolio quality

The quality of the Group's loan portfolio remains solid. As at the end of the first half of 2016, the share of impaired loans in the portfolio declined from 7.9 per cent to 7.8 per cent, and the coverage ratio, defined as the proportion of impairment losses on impaired loans to the amount of such loans, also showed improvement – from 56.9 per cent as at the end of 2015 to 61.7 per cent as at 30 June 2016.

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 30.06.2016	**As at 31.12.2015**	**As at 30.06.2016**	**As at 31.12.2015**
Private individuals	4.8	4.7	61.1	59.2
Microenterprises	25.5	14.4	47.3	51.1
Large enterprises	9.0	10.4	71.0	57.4
Small and medium enterprises	3.9	4.5	85.3	78.4
Total	**7.8**	**7.9**	**61.7**	**56.9**

9.1.2. Portfolio of mortgage loans denominated in the 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 the first half of 2016, they accounted for 35.2 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 as at 31 December 2015 and 30 June 2016.

Mortgage loans granted to private individuals and microenterprises by currency (PLN million)	As at 30.06.2016 (CHF/PLN fx=4.0)		As at 31.12.2015 (CHF/PLN fx=3.9)		As at 30.06.2015 (CHF/PLN fx=4.0)	
	Value of balance sheet exposure, gross	Share in the mortgage portfolio	Value of balance sheet exposure, gross	Share in the mortgage portfolio	Value of balance sheet exposure, gross	Share in the mortgage portfolio
Private individuals						
PLN	1,873.1	10.0%	1,708.5	9.3%	1,421.7	7.5%
EUR	3,782.1	20.2%	3,754.0	20.4%	3,801.4	20.2%
CHF	11,707.8	62.6%	11,629.2	63.1%	12,257.0	65.1%
USD	5.6	0.0%	5.6	0.0%	4.3	0.0%
Total	**17,368.6**	**92.9%**	**17,097.3**	**92.7%**	**17,484.3**	**92.8%**
Microenterprises						
PLN	802.3	4.3%	787.7	4.3%	741.1	3.9%
EUR	90.5	0.5%	95.0	0.5%	104.4	0.6%
CHF	433.0	2.3%	454.0	2.5%	505.0	2.7%
USD	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	**1 325.9**	**7.1%**	**1 336.8**	**7.3%**	**1,350.5**	**7.2%**

The table presents exclusively retail loans (i.e. loans to retail clients and microenterprises) and mortgage products (loans resulting from restructuring or consolidation of, among other things, 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 127.4 per cent as at 30 June 2016 (compared with 125.7 per cent as at 31 December 2015).

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.

9.2. 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.

The Bank regularly strengthens its capital base, with a particular focus on maintaining a large share of the highest quality capital (Tier 1/CET1). In the first quarter of 2016, the Bank's entire profit for 2015, of PLN 160 million, was transferred to Tier 1 capital. The share of Tier 1 capital as at the end of the first half of 2016 remained very high, at 96 per cent.

On 31 March 2016, the Bank sold shares in Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG in a transaction designed to improve the Group's capital adequacy ratios. Following the transaction, the Bank does not hold interests in any subsidiaries which would be subject to mandatory prudential consolidation. Therefore, since 31 March 2016, the Bank has been computing and reporting the capital adequacy ratio on a separate basis only.

As at the end of the first half of 2016, Tier 1 capital ratio was 15.17 per cent, while the total capital ratio (TCR) stood at 15.83 per cent, thus meeting the regulator's requirements of 11.81 per cent and 11.68 per cent for Tier 1 capital ratio, and 15.33 per cent and 15.15 per cent for TCR, on a separate and consolidated basis, respectively.

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 30.06.2016**	**As at 31.12.2015***
Credit and counterparty risk	Standard	2,657,613	3,068,983
Market risk	Standard	65,920	40,291
Operational risk	Standard	271,001	315,915
Total capital requirements		**2,994,534**	**3,425,189**
Own funds		**5,924,366**	**5,827,115**
Risk weighted assets		**37,431,671**	**42,814,856**
Common equity Tier 1 ratio		**15.17%**	**13.03%**
Total capital ratio		**15.83%**	**13.61%**

* consolidated

9.3. Liquidity risk

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

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

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

As part of the liquidity risk management process:

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

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

- marked-to-market liquidity gap methodology, including modeling renewals of term deposits, current account balances, probability of off-balance sheet liabilities, adjusting amounts due to

the Bank for any identified impairments, level of liquid assets, results of concentration analyses for financing sources, etc.;
- set of emergency scenarios, including an internal crisis emergency scenario, financial market crisis scenario, and a combination of the two;
- set of supervisory liquidity measures.

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

9.4. 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 the interest rate and foreign exchange risks, and to control the balance sheet structure so as to maximize financial performance while maintaining the risk appetite at the assumed level.

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

- the Management Board defines the Bank's market risk appetite;
- the 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 Risk Management Department monitors risk exposures on a daily basis and reports them to appropriate authorities;
- the Assets and Liabilities Management Department, the 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 other things, to measure the Group's market risk exposure:

- limits of the maximum open interest rate position measured as the value by which the fair value changes when market interest rates increase by 1 basis point. The limits are diversified in terms of exposure sources (banking book and trading book), exposure currency and time interval, in accordance with the Group's remeasurement schedule;
- limits of the maximum open FX position per currency and in aggregate for all currencies;
- limits of the Value-at-Risk for the foreign exchange and interest rate risks, with 1-day holding period and 99% confidence level. The Value-at-Risk is determined using variance-covariance method;
- monthly, quarterly and annual limits of maximum loss;
- Earnings-at-Risk measure, which presents sensitivity of net interest income in a one-year horizon assuming an immediate and identical change of the market interest rates for all currencies by 100 basis points, continuing for the entire modeling period. Measurements as at the end of the first half of 2016 showed the effect on net interest income at PLN 153,642 thousand (or 2.5 per cent of the own funds used in the calculation of the capital adequacy ratio), against PLN 134,095 thousand (or 2.38 per cent of the own funds) for the first half of 2015.

The table below presents statistics of the 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 30.06.2016	As at 30.06.2015
Interest rate risk	Banking book	923	2,046	1,319	1,107	2,711
	Trading book	177	1,061	428	843	459
Foreign exchange risk		20	663	84	98	170

9.5. Operating risk

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

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

The most important activities in that respect included:

- periodic assessment and review of the Bank's current operating 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 operating risk limits defined as part of operating risk appetite;
- implementing a number of measures mitigating the operating risk in the operating processes and systems, including in particular in relation to the risk of fraud and the security of IT systems, which makes it possible to effectively prevent criminal threats and to ensure the security of transactions carried out by the clients;

In the first half of 2016, the use of the operating risk limit was kept below the maximum values set by the Bank.

9.6. Compliance risk management

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

The compliance function's material activities in the first half of 2016 included work on harmonizing the applicable procedures with the provisions of the MAD II/MAR regulatory package taking effect on 3 July 2016.

In the first half of 2016, work continued on implementing:

- the Common Reporting Standard requirements, planned to be enacted into law in September 2016, related to the implementation of the tax information exchange standard;
- the MiFID II / MIFIR package, taking effect on 3 January 2018, to ensure compliance of the Group's operations with the new legal requirements related to offering investment products, with a view to increasing customer protection and ensuring transaction transparency.

The following activities were undertaken to further enhance the Bank's standards:

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

10. Events subsequent to the reporting date

Events subsequent to the reporting date are discussed in Note 36 "Events subsequent to the reporting date" to the interim condensed consolidated financial statements of the Raiffeisen Bank Polska Group for the period from 1 January to 30 June 2016.

11. Outlook for the Raiffeisen Bank Polska Group

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

The Group assumes that the significant slowdown in economic growth in the first quarter of 2016 will be temporary. The released data on monthly indicators for the first two months of the second quarter of 2016 support expectations that the rate of economic growth will pick up. The Group expects investment dynamics to return to positive territory and gradually gain momentum in the coming quarters. Increased investment activity should be supported by strong financial performance of businesses, high production capacity utilization rates, interest rates continuing at an all-time low, and lower market uncertainty as findings of business cycle research suggest it started to ebb away. The Group believes that the key driving force for economic growth this year will be private consumption, supported by exceptionally good labor market conditions (expected achievement of a record low registered unemployment rate, accelerated pay growth, maintenance of the job creation rate) and scaling up of benefit payments under the Family 500+ government scheme. The prevailing relatively high EUR/PLN exchange rates should support the attractiveness of Polish exports and reduce the role of imports in satisfying the growing internal demand. Accordingly, the Group expects the negative contribution of net exports to decrease. The Group assumes that with a further growth in domestic demand, closing of the output gap and unwinding of base effects following the strong declines in inflation at the end of 2015, the final months of 2016 will see a significant increase in the dynamics of consumer prices and their return to positive values. The inflation rate will, however, remain below the Monetary Policy Council's target. Despite this, the Group believes that, given the improving market conditions, the MPC will continue its current monetary policy and maintain interest rates unchanged relative to the end of June 2016. In the Group's opinion, the heightened risk aversion on global markets will keep the EUR/PLN rate close to the level seen at the end of June 2016 (4.43) and may weaken the Polish zloty against the US dollar.

<u>The Polish banking sector may face the following challenges in the second half of 2016:</u>

- Poland's economic and fiscal policy, including any changes in the tax regime (lower than expected revenues from the tax on assets of certain financial institutions);
- enactment of the act related to foreign currency-denominated mortgage loans, whose draft was proposed by the President in August, however it is still subject to discussion and changes;
- possible capital flows in response to interest rates in the US being increased sooner than estimated by the market, which may result in some investors exiting the Polish market in search for higher yields in the US;
- possible deterioration in the global economy, notably the eurozone, caused by the difficulties of emerging economies (primarily China) or Brexit, which, on the one hand, could aggravate uncertainty in global financial markets (and weaken Polish financial assets) and, on the other, affect economic growth in Poland;
- worse-than-expected performance of the Polish economy with, for instance, investment deceleration continuing for longer than assumed or private consumption growth falling short of expectations, which might adversely affect the quality of banks' loan portfolios.

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

11.2. Outlook for the Group

In the second half of 2016, the Group will continue to pursue its Strategy for 2015—2017. While aligning its plans and decisions with the current and projected market environment, the Bank intends to focus on the pillars of the Strategy, which are to constantly strengthen the Group's position as a midmarket leader specializing in corporate banking and providing services to the segment of SMEs and Polish middle class. In order to successfully deliver its stated objectives, maximize returns for the existing and future shareholders, and maintain its reputation for financial security among customers and the financial sector, the Group will continue its efforts in the following three areas: delivering long-term sustainable returns across all business lines, adapting the structure and level of costs to the scale of the Group's business, and adequate and business-oriented risk management.

11.3. Commitment of the Bank's shareholder towards the PFSA

According to the announcement from the 308th meeting of the Polish Financial Supervision Authority held on 24 May 2016, the PFSA unanimously approved the new procedure for satisfying the investors' commitment of Raiffeisen–Landesbanken–Holding GmbH and Raiffeisen Bank International AG (RBI) concerning introduction of the Bank shares to trading on the regulated market of the Warsaw Stock Exchange no later than on 30 June 2016. In line with the new procedure for fulfilling the investors' commitment, the PFSA will consider the commitment satisfied upon execution, no later than on 31 December 2016, of a transaction involving the Bank, by which the Bank will be demerged through spin-off, in accordance with Art. 124c of the Banking Law in conjunction with Art. 529.1.4 of the Commercial Companies Code, into a business comprising the portfolio of CHF-denominated and CHF-indexed loans (CHF loan portfolio), which will remain with the Bank as the demerging company, and the banking business, which will be acquired under the demerger by another bank operating on the Polish market and listed on the WSE, acceptable to the PFSA. Following the demerger, the business comprising only the CHF loan portfolio will be merged as part of a cross-border merger with RBI and, as a result, the CHF loan portfolio will be transferred to a Polish branch of the RBI as a credit institution.

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

12.1. Compliance with corporate governance principles

Since 2015, the Bank, as a financial institution, has been required to comply with the 'Principles of Corporate Governance for Supervised Institutions' (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. In accordance with the Principles, in March 2016, the Supervisory Board assessed the Bank's compliance with the Principles. The Bank's Management Board and the General Meeting have acknowledged the results of the assessment.

12.2. Shareholding structure

As at 30 June 2016, the Bank's share capital consisted of 248,260 shares with a par value of PLN 9,090 per share.

According to information held as at 30 June 2016, the sole shareholder in Raiffeisen Bank Polska was Raiffeisen Bank International AG (RBI).

12.3. Supervisory Board

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

The composition of the Supervisory Board of Raiffeisen Bank Polska as at 30 June 2016 was as follows:

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

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 30 June 2016 was as follows:

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

12.4. Management Board

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

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

The Member of the Management Board appointed with approval of the relevant banking supervision authorities mainly supervises the risk management area.

The composition of the Management Board of Raiffeisen Bank Polska as at 30 June 2016 was as follows:

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

There were no changes in the composition of the Bank's Management Board in the first half of 2016.

13. Statement of the Management Board of Raiffeisen Bank Polska

13.1. Truthfulness and fairness of the presented financial statements

The Management Board of Raiffeisen Bank Polska, whose members are: Piotr Czarnecki – President of the Management Board, Maciej Bardan – First Vice President of the Management Board, Jan Czeremcha – Vice President of the Management Board, Ryszard Drużyński – Vice President of the Management Board, Łukasz Januszewski – member of the Management Board, Piotr Konieczny – member of the Management Board, and Marek Patuła – member of the Management Board, represent that to the best of their knowledge:

- the interim condensed consolidated financial statements for the period from 1 January 2016 to 30 June 2016 and comparative data were prepared in compliance with applicable accounting standards and give a true, fair and clear view of the assets and financial position of the Raiffeisen Bank Polska Group and its financial result,
- the report on the operations of the Raiffeisen Bank Polska Group in the first half of 2016 gives a true view of the development, achievements and situation of the Raiffeisen Bank Polska Group, including the description of principal risks and threats.