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. CAPITAL GROUP in the first half of 2017

The Management Board of the Bank presents the report on the operations of the Raiffeisen Bank Polska S.A. Capital Group in the first half of 2017

Piotr Czarnecki	President of the Management Board	....
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Łukasz Januszewski	Member of the Management Board	....
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Piotr Konieczny	Member of the Management Board	....
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Warsaw, 9 August 2017

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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 2017:

Raiffeisen Bank Polska S.A.	PRINCIPAL BUSINESS
Leasing Poland Sp. z o.o. (100%)	Lease of property, plant and equipment; Financial services, including loans
Raiffeisen Financial Services Polska Sp. z o.o. (99.99%)	Intermediation in the sale of Raiffeisen Bank Polska's banking products
Raiffeisen Investment Polska Sp. z o.o. (100%)	Financial advisory
Raiffeisen TFI S.A. (100%)	Creation and management of investment funds
Raiffeisen Solutions Sp. z o.o. (100%)	Security and commodity contracts brokerage, activities of exchange offices

In the period covered by this Directors' Report, there was no change in the Group's structure.

2. Macroeconomic environment in the first half of 2017

2.1. Economic growth

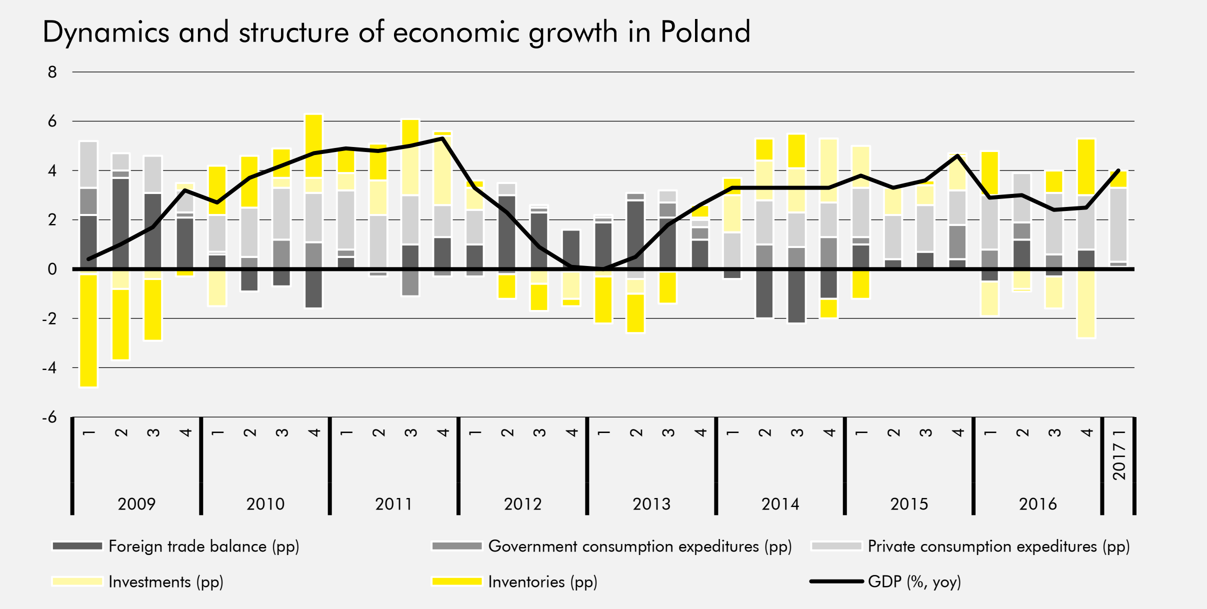
The beginning of 2017 brought a marked improvement in economic conditions, and the year-on-year GDP growth in the first quarter came in at 4.0 per cent. Private consumption continued to be the principal driver of the expansion, with an impressive growth rate of 4.7 per cent year on year and a 3.0 percentage points contribution to GDP. The results recorded in this category were the best since 2008. Rising household spending was driven primarily by a stable situation on the labor market, but social transfers under the 500+ program also played a major role.

Private consumption most likely remained the key driver of economic growth also in the second quarter of 2017, as confirmed by monthly data on real retail sales and continued very good labor market readings. During the period, the real wage fund in the enterprise sector rose 7.9 per cent year on year and the year-on-year sales growth was 6.3 per cent, which warrants expectations of a strong increase in consumption. It has to be stressed, however, that the annual growth in this category may gradually slow down due to the statistical effects of the high base after the launch of the 500+ program in April 2016.

Investment spending in the first quarter of 2017 (down 0.4 per cent) came as a major disappointment, with negative readings reported for the fifth consecutive time. The main reason for the poor results in this category was low utilization of EU funds from the 2014-2020 financial framework, which had a particularly negative impact on the public sector spending. In private enterprises, the uncertainty associated with political developments such as the elections in France, the consequences of Brexit, and the condition of public finances in Poland may have been an additional factor that weighed on investment spending.

From the mid-2017 perspective, many of the factors limiting investment growth seem to have subsided or decreased in importance. Construction and assembly output improved from 4.7 per cent year on year in the first quarter to 8.1 per cent year on year in the second quarter. The condition of Poland's public finances as well as the political and economic situation in the eurozone, Poland's main trading partner, are also much more stable. In addition, as at the end of May 2017, the number of signed contracts for projects co-financed under the EU programs was close to their aggregate full-year value in 2016. All this bodes well for investment spending in the coming quarters.

A gradual revival of investments may adversely affect the balance of trade in the coming quarters as investment projects in Poland often require imported goods. In the first quarter, the contribution of foreign trade to GDP growth was rather limited (0.1 percentage point) and it may become negative later in the year. The National Bank of Poland (NBP) data for the first five months of 2017 indicate that exports and imports of goods (in the euro) grew year on year at the average rates of 10.2 per cent and 12.8 per cent, respectively.



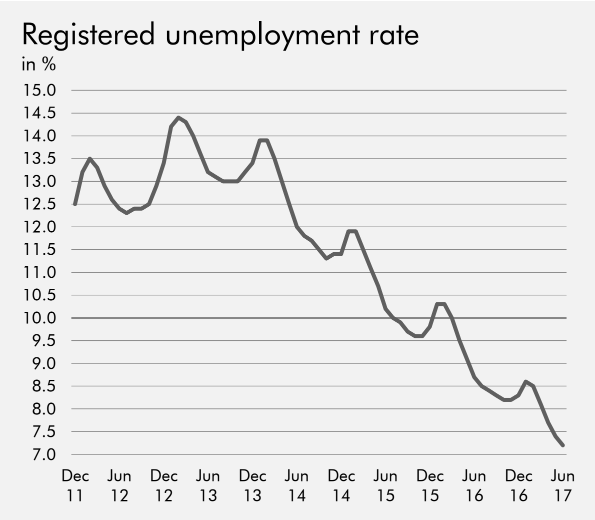
Source: Central Statistical Office (GUS).

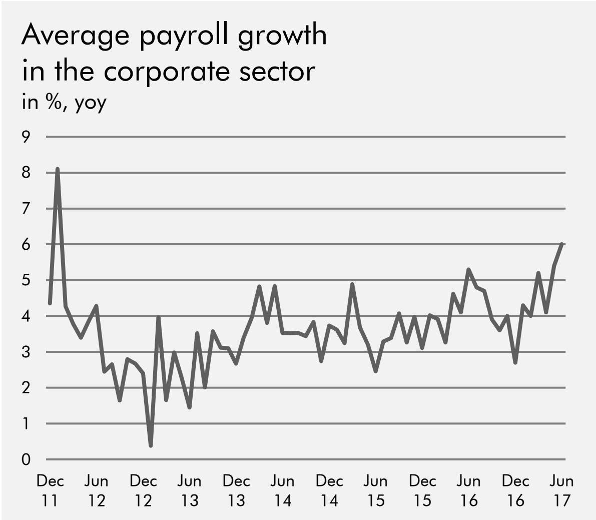
2.2. Labor market

The situation on the labor market in the first half of 2017 continued to improve. The average registered unemployment rate fell to 7.9 per cent, from 9.6 per cent a year ago. There was also a clear increase in the number of job offers, which rose by 15.0 per cent on average in the period January to May 2017. The decline in the jobless rate was mainly attributable to a marked increase in employment. In the enterprise sector, it reached 4.5 per cent year on year in the first half of 2017, against the average rate of 2.9 per cent for 2016.

The high demand for labor, however, had little impact on the dynamics of wages in the first half of 2017. In the enterprise sector, wages grew by an average of 4.8 per cent year on year, which is an only slight improvement on the 4.1 per cent increase recorded a year earlier. The influx of workforce from countries east of Poland, mainly from Ukraine, significantly eased the wage pressures in recent months. According to the NBP data, the estimated number of Ukrainians legally employed in Poland in 2016 was 770 thousand, which represented a 39.1 per cent rise on the previous year.

The positive trends in the labor market are expected to continue in the coming months. A continuing risk factor is the planned pension reform, lowering the retirement age to 60 for women and 65 for men, and potentially reducing labor supply. The final impact of the changes will depend on how many people who qualify for retirement benefits decide to leave the labor market. Data on occupational activity of people over 60/65 suggest that this percentage will be high, but the continuing high demand for labor in the face of the shrinking supply may encourage eligible workers to stay on the labor market.



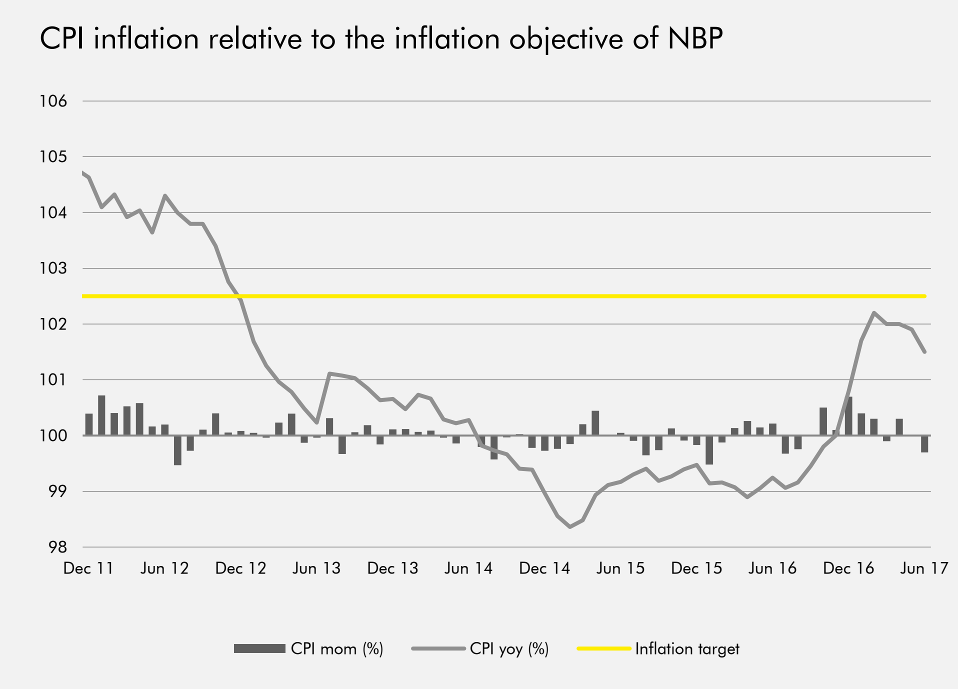


Source: GUS.

2.3. Inflation

The consumer price (CPI) inflation accelerated significantly in the first half of 2017, with prices rising at the average rate of 1.9 per cent year on year, compared with an 0.6 per cent year-on-year decline between January and December 2016. The fastest price increase was recorded in February, at 2.2 per cent year on year. After that, inflation started to slow down to gradually reach the lower limit of the National Bank of Poland ("NBP") inflation target, i.e. 1.5 per cent year on year, in June 2016. As the main drivers of price acceleration in the first six months of 2017 were fuel and food, the core inflation index, after excluding food and energy prices, was much lower at 0.6 per cent on average year on year.

Production price growth also picked up pace, with the production price index rising by 3.6 per cent year on year in the period under review, while the average PPI for 2016 was -0.1 per cent year on year. Also in this case, the key growth driver was commodity prices. This factor is likely to remain important for the inflation path in the coming months. Taking into account the acceleration in wages seen towards the end of the half-year period, the inflationary processes are likely to be increasingly driven by demand factors, which would be reflected not only in the CPI, but also in core inflation.



Source: GUS and NBP.

2.4. Public finances and debt securities market

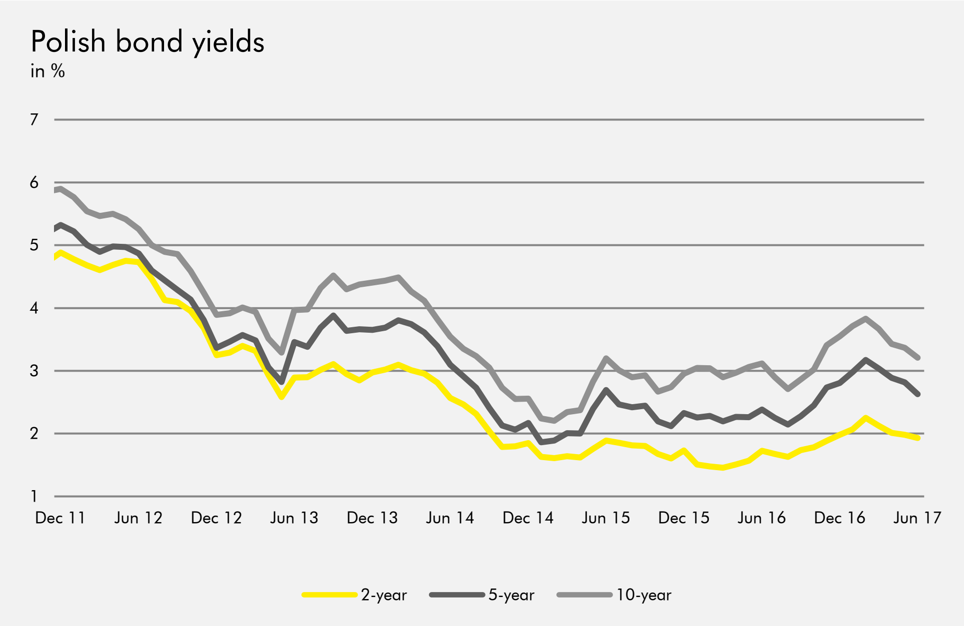
In the first half of 2017 the condition of Poland's public finances was very good. Thanks to high budget revenue, which in the six months to June exceeded the planned receipts of PLN 158.6 billion by as much as PLN 18.1 billion, the government reported a budget surplus of PLN 5.9 billion instead of the planned deficit of PLN 18.9 billion. Other contributing factors included a one-off distribution of PLN 8.7 billion from the NBP's profit and lower-than-planned actual expenditure of PLN 170.8 billion (compared with PLN 177.6 billion assumed in the budget).

The improved budget performance did not go unnoticed by credit rating agencies. In April 2017, Standard & Poor's maintained its BBB+ rating with a stable outlook. In May 2017, Poland's A2 rating by Moody's was left unchanged, and the agency raised the outlook from negative to stable, citing improvement in public finances. At the beginning of July, Poland's long-term rating of A- with a stable outlook was also maintained by Fitch, which pointed out to the balancing of risk factors for a potential future rating upgrade/downgrade. The next reviews of the country's ratings are scheduled for September (Moody's), October (S&P), and December (Fitch).

The main challenge for public finances in the coming quarters seems to be the possible increase in pension spending associated with the lowering of the retirement age. In addition, an acceleration of other budget expenditures, for instance on projects co-financed with EU funds, can be expected. Attempts to seal the tax system may improve the condition of public finances in the future, but a potential economic slowdown is an additional risk factor.

Healthy public finances combined with inflation going back on a deceleration path and rather dovish rhetoric of monetary authorities proved supportive for the Treasury bond market. Between the end of 2016 and the end of June 2017, yields on 10Y Treasuries fell from 3.63 per cent to 3.32 per cent, and on 2Y bonds from 2.03 per cent to 1.90 per cent. Throughout the period under review, the domestic market strengthened in relation to eurozone bonds. The yield difference between the 10-year benchmarks in Poland and Germany fell by over 50 bp, to 286 points.

In the coming months, the domestic T-bond market may remain under the dominant influence of developed markets. Particularly important are signals of monetary policy normalization in the eurozone, which may have a bearing on the sentiment among members of the National Monetary Policy Council. For investors, the inflation processes in the national economy and the condition of public finances will also be important as they affect borrowing needs and the supply in the primary market.



Source: Bloomberg.

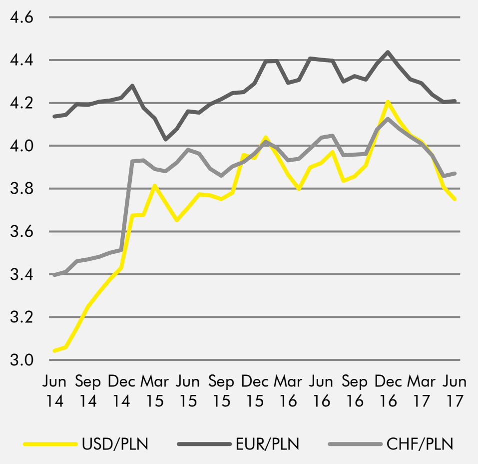
2.5. Exchange rates

The fluctuations of the zloty exchange rate in the first half of 2017 were determined both by internal factors and the general sentiment towards the emerging markets' currency basket. On the domestic front, the key factors were the economic acceleration coupled with good budget performance, attracting capital into the Polish financial market. The general sentiment towards currencies traditionally viewed as risky was supported by faster global economic growth, weakening of the US dollar, and abated concerns over significant economic slowdown in China.

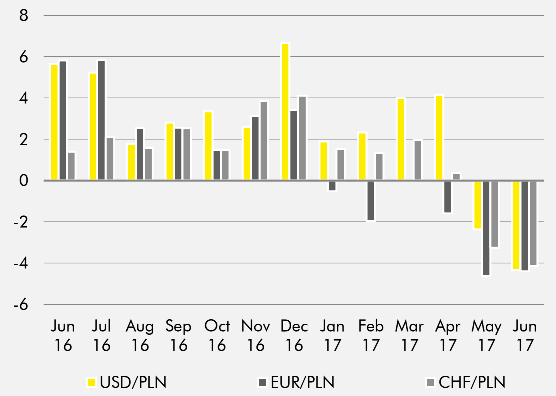
In the six months to the end of June 2017, the Polish currency strengthened by 3.9 per cent against the euro and 11.6 per cent against the US dollar. The zloty remained strong in the period also against the main currencies of the region. In relation to the Hungarian forint and the Czech crown, the zloty gained 3.8 per cent and 0.7 per cent, respectively. However, in May the Polish currency began to weaken relative to the pair, in particular against CZK. Demand for the Czech crown was supported by growing expectations of the monetary policy normalization by the Czech central bank.

In the coming quarters, the zloty should benefit from positive developments on the domestic market: solid economic growth and stable public finances. However, the monetary policy remains a risk. With the inflation below the middle of the NBP's inflation target set at 2.5 per cent, interest rates may stay unchanged for a long time, while in the eurozone there seems to be an increasing likelihood of steps being taken to normalize the monetary policy by limiting the asset purchase programs.

Historical exchange rates
USD/PLN, EUR/PLN, CHF/PLN



Changes in the following average monthly exchanges rates - USD/PLN, EUR/PLN and CHF/PLN in last 12 months
in %, yoy



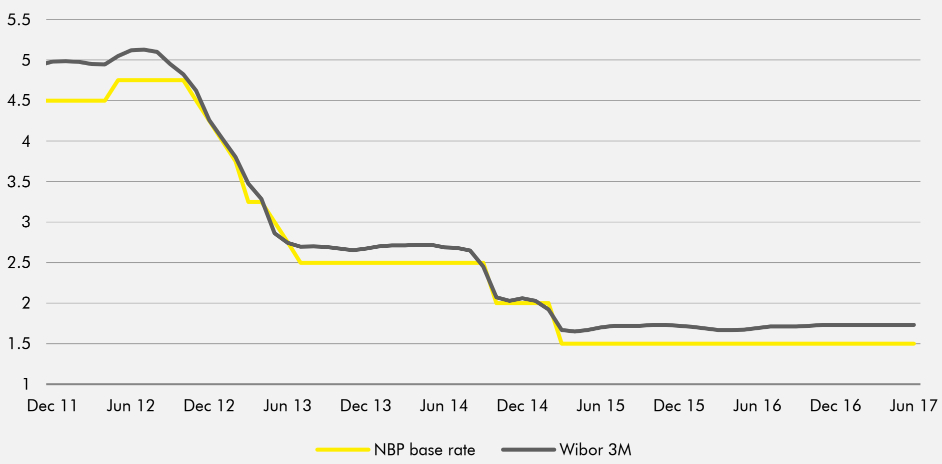
Source: NBP.

2.6. Monetary policy

The first months of 2017 brought no change in Poland's monetary policy. The main interest rate of the National Bank of Poland remained at 1.5 per cent, while the deposit and lombard rates were 0.5 per cent and 2.5 per cent, respectively. Neither was there any significant change in the position of the Monetary Policy Council, which maintains that the current rate level is appropriate given the state of the economy.

Taking into account comments from the Monetary Policy Council and the moderate inflationary pressures, any interest rate changes in the coming months seem unlikely. However, the Council may take a different approach if the CPI gets closer to the middle of the NBP inflation target of 2.5 per cent or the economy shows adverse effects of the low real interest rates, such as a decline in deposit volumes in the banking sector.

NBP base rate and Wibor 3M
in %



Source: NBP and Bloomberg.

2.7. Banking sector

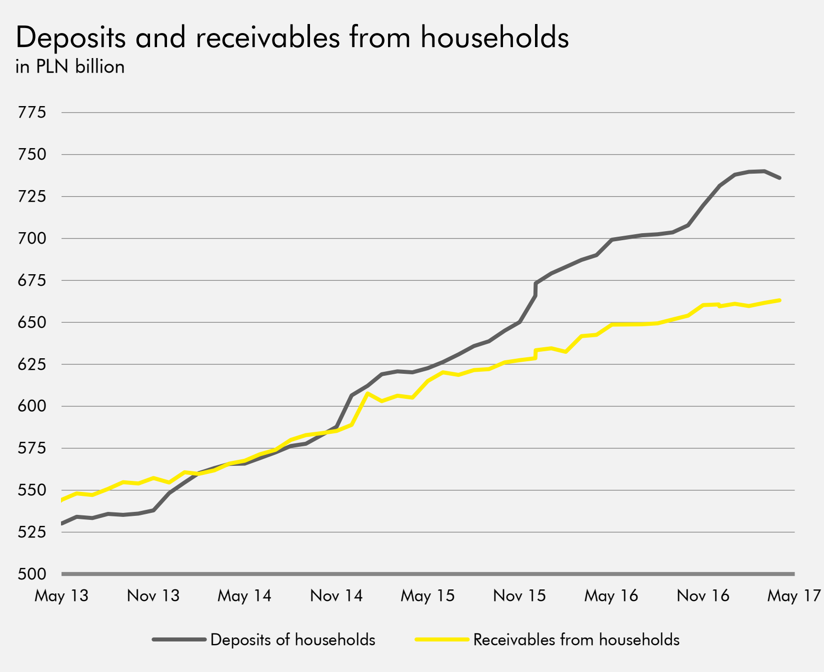
In the first half of 2017, the situation in the banking sector remained stable despite a significant burden of regulatory costs in the first quarter of 2017, due to the recognition of the full-year amount of fee to the mandatory bank restructuring fund for 2017 (almost PLN 1.2 billion) and continuing payments of tax on assets of certain financial institutions, effective from February 2016. According to the estimates of the Ministry of Finance, by May 2017 the state budget had received an additional PLN 1.8 billion in revenue on account of this tax. The new levies adversely affected banks' performance in the period under review: as at end of May 2017, banks' general administrative expenses (including depreciation and amortization) grew by 6.2 per cent year on year.

According to Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*) data, as at the end of May 2017 the aggregate year-to-date net profit of the banking sector was PLN 5.2 billion, down 2.2 per cent year on year. The following items contributed to the sector's earnings in the period:

- Net interest income of PLN 17.0 billion, up 11.1 per cent compared to the end of May 2016;
- Profit on banking activities/operating income of PLN 24.9 billion, up 4.8 per cent year on year;
- General administrative expenses (including amortization and depreciation) reaching PLN 15.2 billion after a year-on-year increase of 6.2 per cent, partly driven by the bank tax and the one-off payment to the mandatory bank restructuring fund for 2017;
- Recognized impairment losses of PLN 2.5 billion, down 2.0 per cent relative to the end of May a year earlier.

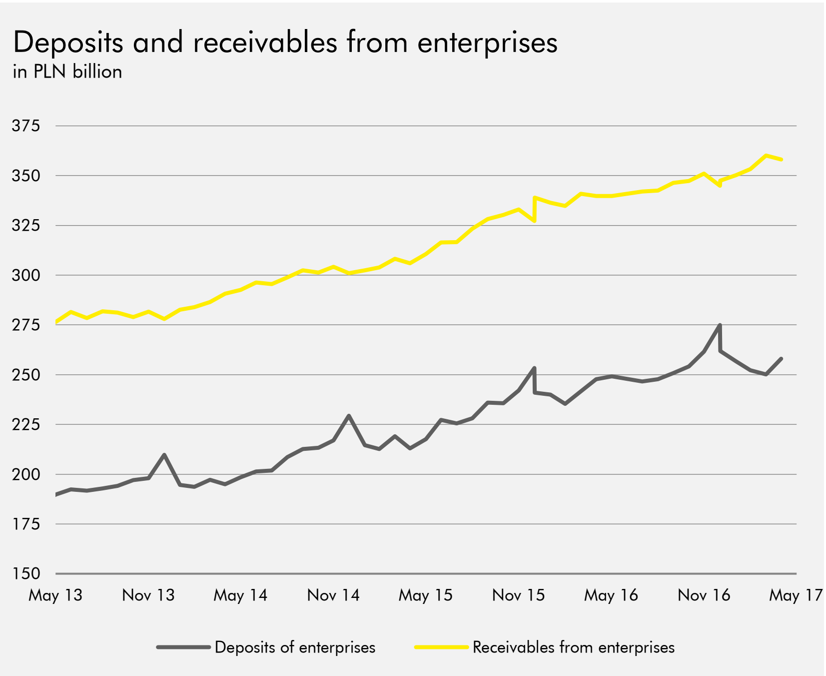
At the end of May 2017, the key items of the banking sector's balance sheet were as follows:

- Household deposits stood at PLN 736.1 billion and were higher by 0.7 per cent (up PLN 5.3 billion) than at the end of 2016. Despite the continuous improvement of the labor market, rising wages and the support offered by the 500+ government program, the growth rate in deposit volumes was on a decline. To compare, at the end of May 2016 it rose 3.6 per cent relative to the end of 2015. The current slowdown is attributable to a number of factors, including falling interest rates on bank deposits as well as high consumption supported by slightly rising but still low inflation and low interest rates;
- Amounts due from households reached PLN 663.1 billion, having grown 0.4 per cent year on year (up PLN 2.4 billion). Housing loans, accounting for 59.5 per cent of the total, fell by 1.4 per cent relative to the end of 2016, to PLN 394.5 billion at the end of May 2017. The value of housing loans in the zloty rose by 4.2 per cent, to PLN 244.3 billion, while the volume of foreign currency loans fell by 9.5 per cent, to PLN 150.2 billion. This decrease was caused by continued repayments and barely any sales of foreign currency loans, as well as the falling exchange rates (from the end of December 2016 to May 2017 the CHF/PLN rate went down by 6.9 per cent, EUR/PLN rate by 5.7 per cent, and USD/PLN by 10.6 per cent, according to the NBP). As a result, the share of currency-denominated loans in the total amount of housing loans was down 3.4 percentage points year on year, to 38.1 per cent, and the share of Swiss franc-denominated loans fell 0.3 percentage point, to 80.6 per cent of all currency-denominated housing loans. The share of consumer loans in total household loans reached 23.3 per cent, and their amount at the end of May 2017 was PLN 154.6 billion (up 2.9 per cent year on year).



Source: Polish Financial Services Authority ("PFSA").

- Corporate deposits reached PLN 257.9 billion, down 6.2 per cent (PLN -17.0 billion) compared to the end of 2016. The decline after the first five months of 2017 was greater than in the corresponding period of 2016, when corporate deposits shrank by 2.2 per cent (PLN 5.6 billion);
- Amounts due from enterprises were PLN 358.1 billion, up 3.8 per cent (or PLN 13.2 billion) compared to the end of 2016. Amounts due from small and medium-sized enterprises (SMEs) grew faster than amounts due from large enterprises – by 4.3 per cent year on year, to PLN 202.0 billion, compared with a 3.1 per cent year-on-year increase, to PLN 156.0 billion, in the large enterprise segment. The largest increase was seen in operating loans: 7.4 per cent in the large enterprise segment and 9.0 per cent in the SME segment.



Source: PFSA.

The capital base of the Polish banking sector further improved, having risen to PLN 189.1 billion at the end of May 2017 (up 2.9 per cent from the end of 2016), while the capital adequacy ratio at the end of March 2017 rose to 17.9 per cent, i.e. by 0.2 percentage point relative to the end of 2016 (based on the PFSA data). Those positive developments are partly driven by PFSA's recommendations for the sector and individual banks regarding the dividend policy.

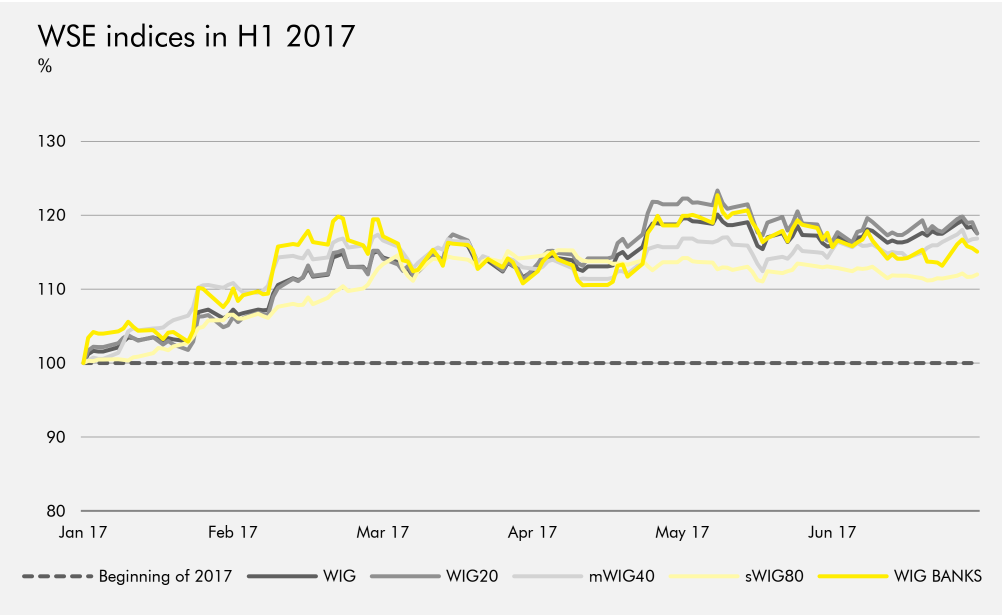
2.8. Capital market

In the first half of 2017, the performance of WSE indices was rather volatile. The main WIG index fluctuated from 0 per cent to plus 20 per cent relative to the beginning of 2017, showing positive dynamics throughout the first six months of the year. By the end of the first half of 2017, both WIG and WIG20 (the blue chip index) have gained 18 per cent. Compared with general stock indices, the small-cap index (sWIG80) did not perform so well, recording a 12 per cent increase. The strong performance of blue chips was attributable to a reversal in the investor sentiment towards the fuel, commodity and banking sectors, which closed the first half of the year 26 per cent, 18 per cent and 15 per cent higher, respectively.

The number of IPOs on the WSE was six (nine in the first half of 2016), 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 73.3 billion, having grown 10 per cent year on year. The growth was accompanied by a 26 per cent rise in the trading volume, to PLN 1.3 billion.

The markets of index and equity futures saw a year-on-year increase in trading volumes, of 4 per cent and 47 per cent, respectively.

The segment of structured products continued to grow with structured certificates gaining 12 per cent year on year in a turnover (to PLN 475 million) in the first half of 2017.



Source: Bloomberg.

3. Key events and achievements at the Raiffeisen Bank Polska S.A. Group in the first half of 2017

In the first half of 2017, the Group focused on implementing its current strategy while adapting its business model to changes in the environment and to market challenges. In response to the developments in the banking sector environment, such as growing regulatory costs and accelerating technological progress, driving the changes in the client behavior and preferences, in April 2017, the Bank's Management Board decided pursue a digital evolution project and carry out a rightsizing and optimization program in 2017–2019 (the "rightsizing program"). The purpose of the latter is to improve the Bank's profitability and bring down the cost to income ratio to less than 55 per cent from 2019 onwards. To this end the Bank plans to achieve savings of at least PLN 200 million relative to its 2016 cost base by the end of 2019, by reducing the number of branches (60–70 to be closed down by 2018) and optimizing the branch network (up to 90 retail branches to be transformed into cost-effective outlets with a fit-for-purpose format) and cutting the number of FTEs by approximately 850–950 by 2019. Measures will also be taken to transform certain operational processes, integrate IT systems and improve their performance, and improve cost management. In the second quarter of 2017, the Group recognized PLN 45.5 million for costs to be incurred as part of the program in connection with the workforce reduction and closing down of branches, of which PLN 32.1 million was recognized as a provision under other administrative expenses, and PLN 13.4 million was charged to other operating expenses. By the end of June 2017, 62 of the Group's retail branches discontinued operations as a result of the optimization measures.

Following the decision to launch the rightsizing program, the Management Board assessed the value of the "Polbank" brand and recognized an impairment of PLN 114.0 million, which was charged to other operating expenses in the first half of 2017. As a result, the Group reported a net loss of PLN 29.7 million for the first half of 2017. In the first half of 2016, the Group generated a net profit of PLN 81.5 million, of which PLN 69.8 million was net profit from continuing operations and PLN 11.7 million represented net profit from discontinued operations (after the sale of the subsidiary Raiffeisen-Leasing Polska S.A. to Raiffeisen Bank International AG in the first quarter of 2016). In the first half of 2017, the Group did not report any profit/loss from discontinued operations.

Other contributors to the Group's net profit in the period included:

- Operating income of PLN 847.1 million, or 5 per cent lower than in the corresponding period of the previous year, when the Bank earned one-off income of PLN 80.6 million from the settlement of acquisition of Visa Europe Limited by Visa Inc. Excluding income from the Visa transaction, operating income in the first half of 2017 grew 5 per cent year-on-year, driven by a 12 per cent year-on-year increase in net interest income;
- 7 per cent year-on-year decrease in administrative expenses despite a one-off recognition of the full-year amount of payment to the mandatory restructuring fund operated by the Bank Guarantee Fund in the first quarter of 2017;
- Net impairment losses on financial assets and provisions for off-balance-sheet liabilities amounting to PLN 89.6 million, up 63 per cent compared to the first half of 2016, with the increase owing mainly to higher net impairment losses in the Retail Banking and a low base of net impairment losses in the Corporate Banking in the first half of 2016. On the other hand, the sale of loan receivables had a positive effect on the amount of net impairment losses; gain on the sale amounted to PLN 51.4 million (the transaction is described in more detail on p. 20 of this Report);
- Tax on assets of certain financial institutions of PLN 69.3 million.

The Group's assets decreased by PLN 3.4 billion (or 6 per cent) relative to the end of 2016, to PLN 49.8 billion as at the end of the first half of 2017, following reduction of the Group's excess liquidity, which brought down the value of the portfolio of financial assets held for trading. Compared with the end of 2016, loans and advances to customers remained almost unchanged (down 1 per cent, mainly because of the appreciation of the Polish zloty against the Swiss franc), while amounts due to customers fell 7 per cent as a result of the improvement in the efficiency of the Group's liquidity structure.

In the first half of 2017, the Bank continued to pursue its current strategy in Retail Banking, focusing in particular on acquiring new clients and strengthening client relationships based on an attractive offering of tailor-made products and services. In the first half of 2017, 64 thousand Dream Personal Accounts (*Wymarzone Konto Osobiste*) were sold, of which 56 thousand were opened for new clients. As a result, at the end of the period the Bank maintained 409 thousand Dream Personal Accounts. The total number of personal accounts for mass and affluent client sub-segments rose 12 per cent year on year, with a positive effect on the structure of deposit products and the related margin. In lending, the Bank maintained high sales dynamics, primarily by launching new small ticket products (low financing amounts and quick lending process). The Bank's activity in the cash loan segment met with recognition: the Bank was listed third in the cash loan category of the Golden Banker competition organized by the editors of Bankier.pl and Puls Biznesu. At the end of the first half of 2017, the number of active Retail Banking clients grew 7.5 per cent, to 769 thousand.

In the private banking segment, the Bank was again recognized in prestigious rankings. For the fourth consecutive time, Friedrich Wilhelm Raiffeisen's ("FWR") private banking received the highest, five-star rating in the Forbes' Polish private banking ranking table. FWR was also awarded for the first time as the best private banking provider in Poland in 'Europe Banking Awards 2016', organized by EMEA Finance.

In the first half of 2017, the Bank also strengthened its position in the Corporate Banking segment, increasing its client base by 3.2 per cent year on year, to 14.7 thousand, with the medium-sized enterprise sub-segment recording the highest growth (up 8.8 per cent year on year). The client base growth pushed up the net volume of loans to small and medium-sized enterprises: they rose 9.5 per cent compared to the year-end 2016. The data reflects the strategic directions for the Corporate Banking segment, which focuses on growth in the SME sector, while maintaining the Bank's position in the large enterprise segment (where net loans to clients went up 2.8 per cent relative to the end of 2016).

In the factoring segment, where the Bank is the leading and first-choice provider of factoring solutions to Polish businesses, 22 per cent of factoring clients in Poland used the Bank's services at the end of June 2017. The Bank ranked third on the market with a 10 per cent share in turnover, according to the Polish Factor Association. In the first half of 2017, the Bank's efforts to develop sales of factoring services in the SME segment translated into a 38 per cent year-on-year increase in the number of new clients. Moreover, in the second quarter of 2017, the Bank introduced the Smart FaktoR solution, being the first application on the Polish market enabling the entire process of invoice purchase to be carried out on a mobile device.

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

In the first half of 2017, in connection with an obligation binding on the Bank's shareholder, Raiffeisen Bank International AG ("RBI"), regarding the introduction of the Bank shares to trading on the Warsaw Stock Exchange ("WSE"), the Bank prepared for an initial public offering ("IPO"). On 19 June 2017, the Bank announced the shareholder's intention to conduct the IPO and seek the admission and introduction of the Bank shares to trading on the WSE. On 28 June 2017, the Polish Financial Supervision Authority approved the prospectus prepared for the IPO, which was to involve the sale of 33,850,251 ordinary registered shares in the Bank, with a par value of PLN 10 per share. Only institutional investors were eligible to participate in the IPO. On 6 July 2017, RBI after the consultations with Global Coordinators of the offering decided to suspend the IPO due to unsatisfactory interest in the offering on terms that meet the conditions set out in the RBI's obligation to the PFSA referred to above. The decision was made without announcing a new timetable for the IPO. During the meeting on 1 August 2017, as a result of the discussion with RBI on this matter, the PFSA decided to indicate a new deadline for the Bank's IPO to be conducted. The PFSA informed in its announcement that it expects from RBI to float shares of the Bank on the Warsaw Stock Exchange, assuring actual liquidity of the free float of 15% or higher, no later than on 15 May 2018.

Summary of the Group's performance in the first half of 2017[1] :

PLN 29.7 million in net loss	Net loss compared with a PLN 69.8 million net profit in the corresponding period of the previous year One-off charge against the financial result: PLN 114.0 million written off in relation to an intangible asset, the "Polbank" brand
PLN 0.9 million in profit before tax	Decline in profit before tax of 99.3 per cent year on year
Cost base reduction	6.9 per cent year-on-year decrease in general administrative expenses
PLN 847.1 million in operating income	Decrease of 4.9 per cent year on year, mainly due to the settlement of the acquisition of Visa Europe Limited by Visa Inc. in the first half of 2016, which delivered a one-off income of PLN 80.6 million; Excluding income from the Visa transaction, operating income for the first half of 2017 went up 4.5 per cent year on year
Quality of loan portfolio	63.1 per cent year-on-year rise in net impairment losses, to PLN 89.6 million 0.2 percentage point (compared with the end of 2016) decrease in the share of impaired loans in the overall loan portfolio, to 7.7 per cent
Growing customer base	7.5 per cent year-on-year increase in the number of active Retail Banking clients, to 769 thousand 3.2 per cent year-on-year increase in the number of active Corporate Banking clients, to 14.7 thousand
Volume of loans	The value of loans and advances to customers fell by PLN 379 million compared with the end of 2016, as a result of a decrease in the balance of mortgage loans denominated in the Swiss franc due to strengthening of the Polish zloty against the Swiss franc
Volume of deposits	Customer deposits decreased by PLN 2.6 billion compared with the end of 2016, to PLN 33.7 billion, which was attributable to the improved efficiency of the Group's liquidity structure

[1] The statement of profit or loss for the period 1 January—30 June 2016 includes data concerning continuing operations.

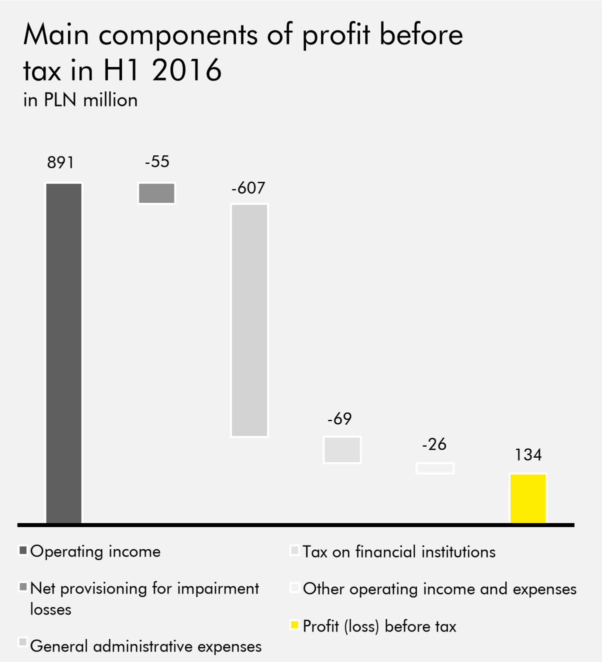
Safe liquidity position	Loan-to-deposit ratio at 99.2 per cent
Improvement of capital ratios	Total capital ratio at 17.62 per cent – an increase of 0.92 percentage point compared with the end of 2016 Common Equity Tier 1 capital ratio at 17.03 per cent – an increase of 0.98 percentage point compared with the end of 2016

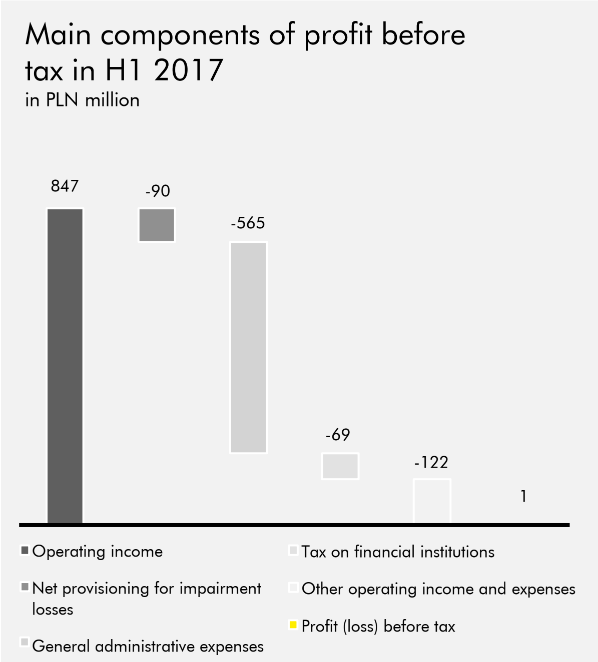
4. Financial condition of the Raiffeisen Bank Polska S.A. Group in the first half of 2017

4.1. Statement of profit or loss

In the first half of 2017 the Group reported a net loss of PLN 29.7 million, compared with a net profit of PLN 81.5 million in the corresponding period of the previous year, which included net profit from continuing operations of PLN 69.8 million and net profit from discontinued operations of PLN 11.7 million. In the first half of 2017, the Group did not report any result from discontinued operations.

The net loss in the first half of 2017 was primarily due to a one-off event: PLN 114.0 million written off in respect of an intangible asset, the "Polbank" brand, and charged to other operating expenses. The write-off decision was made by the Bank's Management Board following a brand value assessment carried out with respect to the "Polbank" brand following adoption by the Management Board of a digital evolution and rightsizing program for the Bank for the years 2017–2019 (for more details, see p. 13 of this Report).





Key factors contributing to the Group's performance in the first half of 2017 compared to first half of 2016 included:

- 5 per cent year-on-year decrease in operating income, to PLN 847.1 million at the end of June 2017, attributable mainly to the settlement of the acquisition of Visa Europe Limited by Visa Inc. in the first half of 2016, which delivered a one-off income of PLN 80.6 million; excluding

income from the Visa transaction, operating income for the first half of 2017 went up 5 per cent year on year;
- 7 per cent year-on-year decrease in general administrative expenses, to PLN 565.4 million;
- 63 per cent year-on-year rise in net provisioning for impairment losses on financial assets and provisions for off-balance sheet items, to PLN 89.6 million;
- Tax on financial institutions of PLN 69.3 million, broadly unchanged to first half of 2016 (year-on-year increase of 1 per cent).

Selected items of the statement of profit or loss (PLN thousand)	**For the period from 01.01.2017 to 30.06.2017**	**For the period from 01.01.2016 to 30.06.2016**	**Change**	
			PLN thousand	**%**
Interest income	783,051	782,882	169	0.0
Interest expense	-236,611	-296,578	59,967	-20.2
Net interest income	546,440	486,304	60,136	12.4
Net provisioning for impairment losses on financial assets and provisions for off-balance sheet items	-89,551	-54,917	-34,634	63.1
Fee and commission income	324,752	335,488	-10,736	-3.2
Fee and commission expense	-34,197	-40,360	6,163	-15.3
Net fee and commission income	290,555	295,128	-4,573	-1.5
Net income from financial instruments measured at fair value and net foreign exchange result	9,972	109,708	-99,736	-90.9
General administrative expenses	-565,361	-607,048	41,688	-6.9
Dividend income	167	0	167	-
Other operating income and expenses	-121,982	-26,327	-95,655	363.3
Tax on financial institutions	-69,298	-68,509	-789	1.2
Profit (loss) before tax	**942**	**134,339**	**-133,397**	**-99.3**
Income tax expense	-30,635	-64,573	33,938	-52.6
Net profit (loss) from continuing operations	**-29,693**	**69,766**	**-99,459**	**-**
Net profit (loss) from discontinued operations	**0**	**11,720**	**-11,720**	**-100.0**
Net profit (loss)	**-29,693**	**81,486**	**-111,179**	**-**

4.1.1. Net interest income

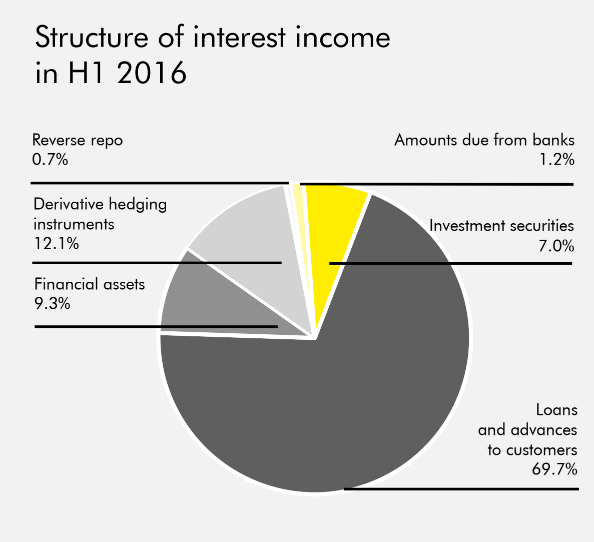
In the first half of 2017, the Group's net interest income reached PLN 546.4 million, up 12 per cent on the same period of the year before, as interest expenses fell significantly and interest income remained unchanged. The fall in interest expense was mainly driven by a significant reduction in the cost of customer deposits.

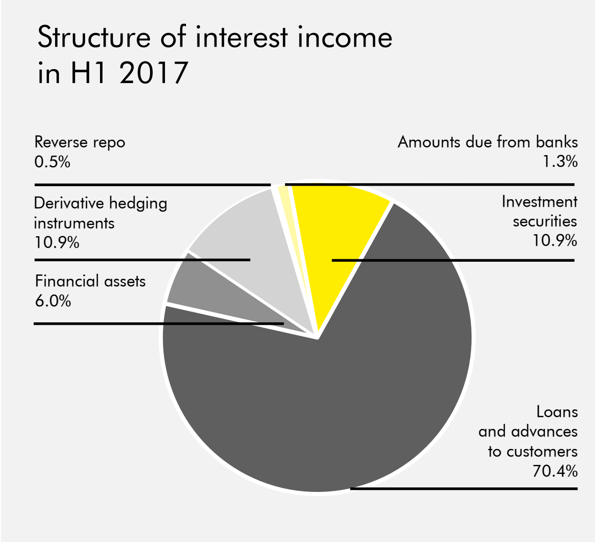
4.1.1.1. Interest income structure

Interest income amounted to PLN 783.1 million in the first half of 2017, almost on a par with the figure posted for the corresponding period of 2016.

The structure of interest income remained broadly unchanged compared with the first six months of 2016. Interest income from loans and advances to customers remained the key component of interest income, with a share of 70 per cent, and totaled PLN 551.5 million, up 1 per cent year on year. This increase was due to a higher margin on loans and advances to customers. The share of interest income from hedging derivatives declined from 12 per cent in the first half of 2016 to 11 per cent in the first half of 2017. The income fell 10 per cent year on year as a result of a decline in the hedging derivatives portfolio value. Income from investment securities rose significantly as a proportion of total interest income, from 7 per cent in the first half of 2016 to 11 per cent in the first half of 2017. Income from investment securities amounted to PLN 85.5 million, having risen 57 per cent year on year, mainly due to a 54 per cent rise in the average balance of investment securities.

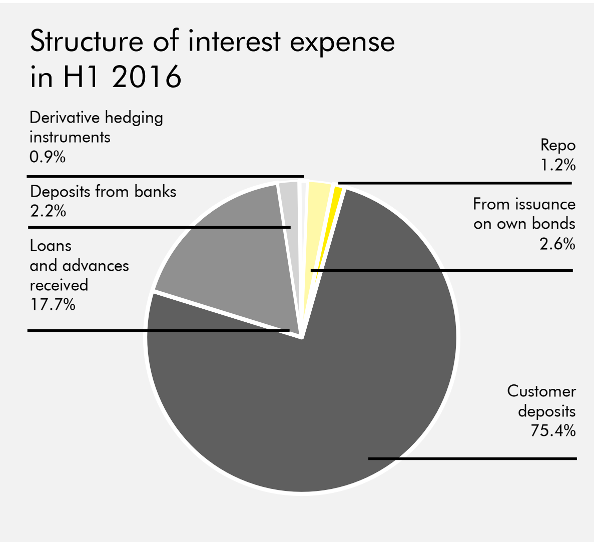
The share of interest income from financial assets held for trading dropped from 9 per cent in the first half of 2016 to 6 per cent in the first half of 2017. This income item fell 36 per cent, to PLN 46.7 million, driven by a 38 per cent decrease in the average balance of financial assets held for trading as the Group changed its balance-sheet management policy by increasing the balance of investment securities and reducing excess liquidity.

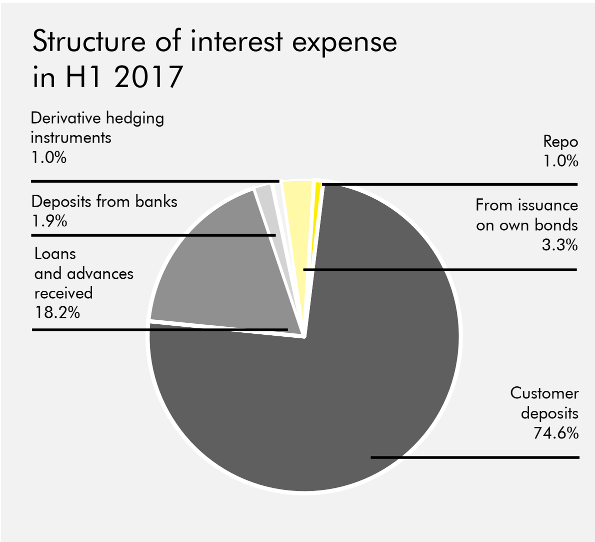




4.1.1.2. Interest expense structure

In the first half of 2017, interest expense was 20 per cent lower than in the corresponding period of the previous year, reflecting lower total liabilities, a shift in the structure of amounts due to customers, and an improved margin. Interest expense on customer deposits, which remained the main item of interest expense with a share of 75 per cent, decreased by 21 per cent year on year, to PLN 176.6 million. This was mainly due to a lower balance of customer deposits and an improved margin, achieved through effective pricing policies and a shift in the structure of amounts due to customers, with the share of current and savings accounts increased at the expense of time deposits. The second largest item of interest expense was interest expense on loans and advances received, which fell 18 per cent year on year in the first half of 2017, to PLN 43.2 million, led by a 9 per cent year-on-year decline in the average balance of loans and advances received. At the same time, the share of interest expense on loans and advances received in total interest expense remained unchanged year on year, at 18 per cent.





4.1.2. Non-interest income

In the first half of 2017, the Group's non-interest income (consisting of net fee and commission income, net income from financial instruments measured at fair value and net foreign exchange result, and dividend income) amounted to PLN 300.7 million, down 26 per cent on the same period last year, when the Group recorded a one-off income from the settlement of acquisition of Visa Europe Limited by Visa Inc. of PLN 80.6 million. Excluding income on the Visa transaction, the Group's non-interest income went down 7 per cent year on year.

Net fee and commission income totaled PLN 290.6 million, down 2 per cent year on year, primarily due to lower income from spread on customers' foreign exchange and derivative transactions. This occurred despite a significant drop in fee and commission expense (15 per cent year on year) as the Group outsourced card payment processing services.

Net income from financial instruments measured at fair value and net foreign exchange result was PLN 10.0 million in the first half of 2017, down 66 per cent on the figure posted for the same period last year adjusted for the one-off income from the Visa transaction. The decrease was caused by changes in the currency structure of the Group's balance sheet, a change in net income from derivative hedging instruments not designated for hedge accounting and negative valuations of foreign exchange options, which was partially offset by positive valuations of securities and an improved net result on proprietary forex trading.

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

Net impairment losses on loans and advances recognized in the Group's statement of profit or loss amounted to PLN 89.6 million in the first six months of 2017, having increased 63 per cent, mainly due to higher net impairment losses on the Retail Banking mortgage book, a maturing portfolio of unsecured loans – whose share in the retail portfolio has been rising since the second half of 2015 – and a low base of impairment losses in Corporate Banking in the first half of 2016.

In the first half of 2017, the Group sold a significant portion of its loan receivables. On 25 May 2017, the Bank entered into an agreement to transfer to HSBC Bank plc. receivables from Celsa Huta Ostrowiec Sp. z o.o. and other obligors of approximately PLN 76.0 million and approximately EUR 8.5 million, arising under a loan agreement of 18 October 2007, amended and restated by the agreement of 30 October 2015, subsequently included in a scheme of arrangement governed by English law. The debt had been classified as impaired, with impairment losses recognized for a significant portion of these assets. As a result of the transaction, the Bank received PLN 37.9 million for the receivables denominated in the zloty and EUR 4.6 million for the receivables denominated in the euro. Gross gain from the sale totaled PLN 51.4 million and was recognized in net provisioning for impairment losses on financial assets and provisions for off-balance-sheet items.

The share of impaired loans was 7.7 per cent, having decreased 0.2 percentage point compared to the end of 2016. Impaired loans coverage at the end of the first half of 2017 was 57.1 per cent, which represented an increase of 0.7 percentage point year-on-year.

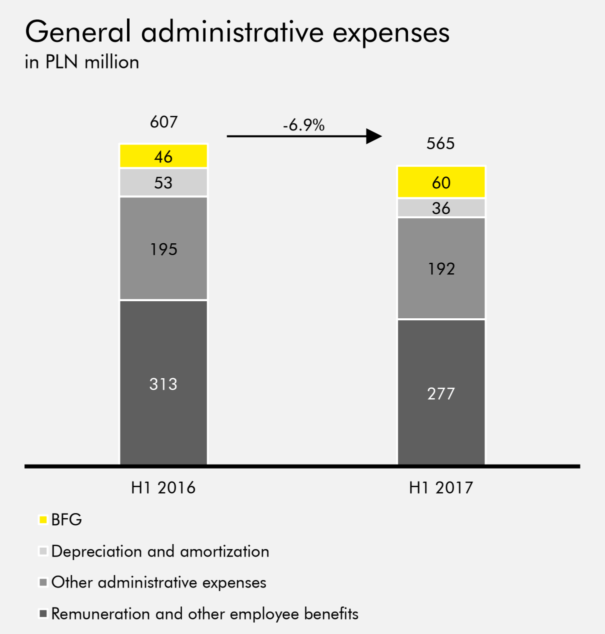
4.1.4. General administrative expenses

The Group's general administrative expenses in the first half of 2017 amounted to PLN 565.4 million, having fallen by PLN 41.7 million, or 7 per cent year-on-year, with the decrease mainly driven by:

- Decrease in salaries, wages and other employee benefits expense, which fell following a workforce reduction in 2016 and the launch of the rightsizing program, involving closure of 62 Bank branches and employment restructuring measures. At the end of the first half of 2017, the Bank's workforce was down by 318 FTEs, or 8 per cent, year-on-year;

- No additional provision for accrued holiday entitlements recognized in the first half of 2017. In the corresponding period of 2016, a provision of PLN 24.8 million was made;
- Decrease in property maintenance and rent expenses as a result of relocation of the Bank's head office in May 2016 and branch closures in 2016;
- Decrease in depreciation and amortization expense as a result of optimization of the IT architecture and of IT systems and infrastructure maintenance costs;
- Continued implementation of the Operations Transformation Project to centralize (nearshore) functions in the Operating Center located in Ruda Śląska.

The decline in expenses was partly offset by recognition of the full-year payment to the mandatory restructuring fund of the Bank Guarantee Fund of PLN 48.4 million, in the profit or loss for the first half of 2017, and recognition of the Bank and branch network restructuring provisions (totaling PLN 32.1 million).



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.

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

Profit (loss) before tax by segment (PLN thousand)	**For the period from 01.01.2017 to 30.06.2017**	**For the period from 01.01.2016 to 30.06.2016**	**Change**	
			PLN thousand	**%**
Corporate banking	148,144	181,044	-32,900	-18.2
Retail banking	-71,867	-52,665	-19,202	36.5
Financial institutions and capital markets	35,063	42,219	-7,155	-16.9
Asset and liability management and other operations	-110,400	-36,259	-74,140	204.5
Group total	**942**	**134,339**	**-133,397**	**-99.3**

Corporate Banking

Corporate Banking posted a profit before tax of PLN 148.1 million for the first half of 2017, down 18 per cent year on year. The key drivers of the year-on-year decrease in Corporate Banking's profit before tax in the first half of 2017 included:

- Net interest income, which fell slightly (by 1 per cent), to PLN 181.3 million. Interest income decreased by 1 per cent due to lower lending margins. A drop of 41 per cent interest expense was due to a 16 per cent year-on-year reduction in average liabilities, an improved margin on deposits, and a shift in the structure of the segment's amounts due to customers (an increase in the balance of current accounts and a decline in the balance of time deposits). The drop in interest expense was offset by a lower internal net interest income allocated to the segment, driven by lower segment liabilities and a lower liquidity margin allocated to the segment, which was a result of the Group's good liquidity position;
- Net non-interest income falling to PLN 147.1 million, or 14 per cent on the first half of 2016, when one-off income from acquisition of Visa Europe Limited by Visa Inc. was recognized. Net foreign exchange result and net fee and commission income on project finance loans were also down. Excluding income on the Visa transaction, the Group's non-interest income went down 9 per cent year on year;
- 3 per cent year-on-year decrease in general administrative expenses;
- Net provisioning for impairment losses of PLN 6.2 million against reversal of provisions of PLN 5.1 million in the first half of 2016. The low level of impairment losses reported in the first half of 2016 and the first half of 2017 was an effect of successful restructuring and debt recovery activities, including the sale of the Bank's receivables from Celsa Huta Ostrowiec Sp. z o.o. (for more information, see p. 20 of this Report). The year-on-year increase in net impairment losses was caused by a low base of new impairment losses recognized in the first half of 2016;
- In the first half of 2017, tax on financial institutions allocated to the Corporate Banking segment decreased slightly, by 1 per cent, compared with the same period last year, to PLN 19.9 million.

Corporate Banking (PLN thousand)	For the period from 01.01.2017 to 30.06.2017	For the period from 01.01.2016 to 30.06.2016	Change	
			PLN thousand	%
Interest income	233,121	235,315	-2,194	-0.9
Interest expense	-35,163	-59,165	24,002	-40.6
Interest income (external)	197,958	176,150	21,808	12.4
Interest income (internal)	-16,693	6,763	-23,456	-
Net interest income	181,265	182,913	-1,648	-0.9
Non-interest revenue	147,145	171,369	-24,224	-14.1
Operating income	328,410	354,282	-25,872	-7.3
General administrative expenses	-154,215	-158,334	4,119	-2.6
Tax on financial institutions	-19,853	-20,000	147	-0.7
Net provisioning for impairment losses	-6,198	5,097	-11,294	-
Profit (loss) before tax	**148,144**	**181,044**	**-32,900**	**-18.2**
	As at 30.06.2017	**As at 31.12.2016**		
Assets	**12,549,299**	**12,042,858**	**506,441**	**4.2**
Liabilities	**11,493,235**	**13,562,024**	**-2,068,789**	**-15.3**

Retail Banking

Retail Banking result amounted to PLN 71.9 million in the first half of 2017, which was PLN 19.2 million lower than in the first half of the previous year. The key drivers of the year-on-year deterioration in the segment's performance in the first half of 2017 included:

- Net interest income rising 10 per cent year on year, to PLN 253.7 million. Interest income grew 2 per cent despite a 2 per cent year-on-year decline in the average balance of assets. This growth was driven by an improved margin as the repaid mortgage portfolio is being replaced with high-margin unsecured loans. The segment's interest expense fell 13 per cent despite a 6 per cent year-on-year rise in the average balance of liabilities, as a result of effective management of the pricing policy applied to new deposits;
- Non-interest income declined by PLN 65.2 million, or 35 per cent, compared with the first half of 2016, when one-off income from the settlement of acquisition of Visa Europe Limited by Visa Inc. was reported. Adjusted for the income from the Visa transaction, non-interest income went up 5.0 per cent year-on-year, reflecting higher income from payment and credit cards, driven by a revamped card offering and an increase of number of card, as well as a reduction in the cost of payment card and ATM transactions after the processing of card transactions was outsourced to third parties;
- In Retail Banking, general administrative expenses fell 11 per cent year on year, to PLN 336.8 million;
- Net impairment losses rose 40 per cent to PLN 83.4 million due to the deteriorated risk profile of the mortgage loan portfolio, identification of impairment with respect to individual cases of foreign currency mortgage loans, and the maturing of the unsecured loan portfolio (its share has been rising since the second half of 2015);
- Tax on financial institutions allocated to Retail Banking increased 11 per cent year on year, to PLN 33.9 million.

Retail Banking (PLN thousand)	**For the period from 01.01.2017 to 30.06.2017**	**For the period from 01.01.2016 to 30.06.2016**	**Change**	
			PLN thousand	**%**
Interest income	326,700	320,426	6,274	2.0
Interest expense	-128,168	-147,274	19,106	-13.0
Interest income (external)	198,531	173,151	25,380	14.7
Interest income (internal)	55,135	56,918	-1,783	-3.1
Net interest income	253,666	230,069	23,598	10.3
Non-interest revenue	119,635	184,844	-65,209	-35.3
Operating income	373,301	414,913	-41,611	-10.0
General administrative expenses	-336,752	-379,434	42,682	-11.2
Tax on financial institutions	-33,928	-30,682	-3,246	10.6
Net provisioning for impairment losses	-83,371	-59,700	-23,672	39.7
Other operating result	8,883	2,239	6,645	296.8
Profit (loss) before tax	**-71,867**	**-52,665**	**-19,202**	**36.5**
	As at 30.06.2017	**As at 31.12.2016**		
Assets	**21,091,607**	**22,117,056**	**-1,025,449**	**-4.6**
Liabilities	**19,760,313**	**20,510,794**	**-750,481**	**-3.7**

Financial Institutions and Capital Markets

In the first half of 2017, the Financial Institutions and Capital Markets segment's profit before tax came in at PLN 35.1 million, down 17 per cent compared to result generated in the first half of 2016.

The key drivers of the year-on-year deterioration in the segment's performance in the first half of 2017 included:

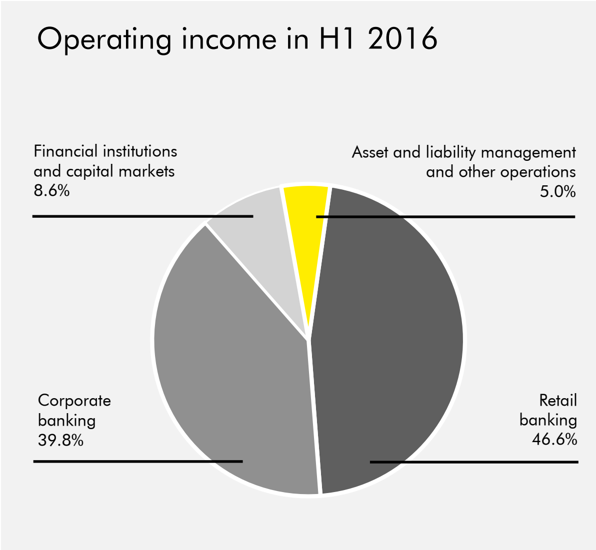
- Increase in net interest income of PLN 2.6 million, or 23 per cent, year on year, driven by lower interest expense, which went down 24 per cent year on year as a result of a 21 per cent year-on-year reduction in the average balance of liabilities and an improved margin on liabilities. Interest income slightly decreased, by 1 per cent, compared with the corresponding period of the previous year. The decrease in interest expense was partly offset by a decline in internal interest income allocated to the segment, driven by lower liabilities of the segment;

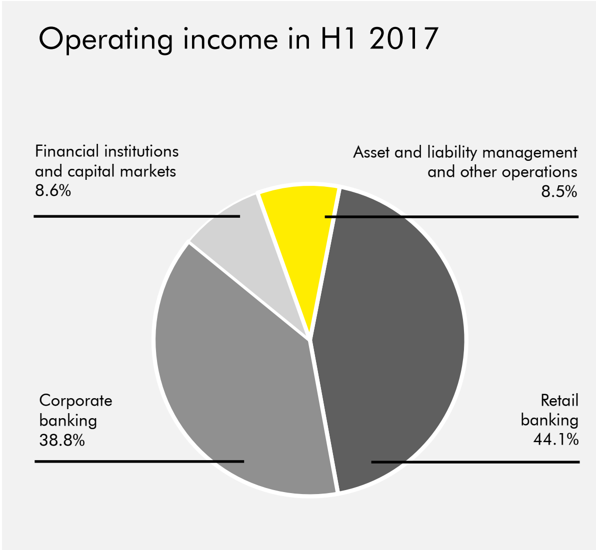
- Non-interest income fell 10 per cent compared with the first half of 2016, to PLN 59.5 million, due to a lower net foreign exchange result and negative valuation of currency options. On the other hand, net income from custodian services was higher;
- General administrative expenses were up 18 per cent year on year, to PLN 36.5 million;
- Tax on financial institutions allocated to the segment amounted to PLN 4.4 million in the first half of 2017 and was 4 per cent lower than in the corresponding period of the previous year.

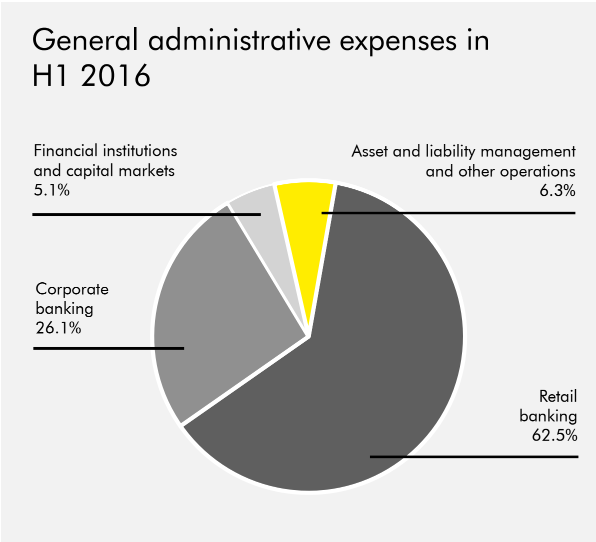
Financial Institutions & Capital Markets (PLN thousand)	**For the period from 01.01.2017 to 30.06.2017**	**For the period from 01.01.2016 to 30.06.2016**	**Change**	
			PLN thousand	**%**
Interest income	18,396	18,514	-117	-0.6
Interest expense	-30,450	-40,114	9,663	-24.1
Interest income (external)	-12,054	-21,600	9,546	-44.2
Interest income (internal)	25,948	32,861	-6,914	-21.0
Net interest income	13,894	11,262	2,632	23.4
Non-interest revenue	59,502	65,834	-6,332	-9.6
Operating income	73,396	77,096	-3,699	-4.8
General administrative expenses	-36,481	-31,002	-5,480	17.7
Tax on financial institutions	-4,392	-4,592	200	-4.4
Net provisioning for impairment losses	-49	70	-119	-
Other operating result	2,589	647	1,942	300.3
Profit (loss) before tax	**35,063**	**42,219**	**-7,155**	**-16.9**
	As at 30.06.2017	**As at 31.12.2016**		
Assets	**2,300,777**	**1,930,827**	**369,950**	**19.2**
Liabilities	**3,083,750**	**2,666,098**	**417,652**	**15.7**

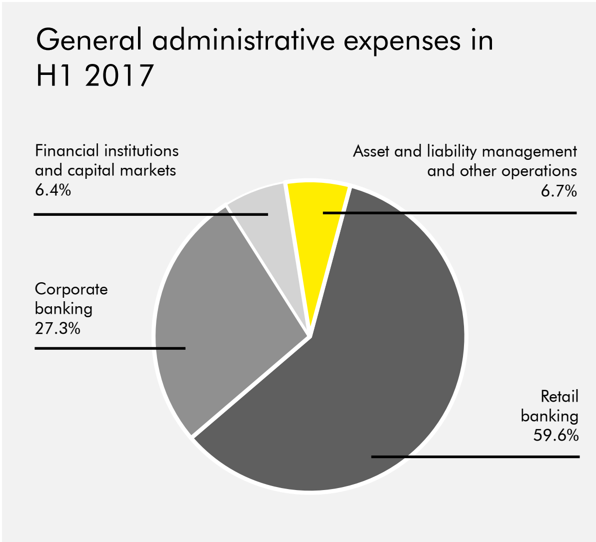
Asset and Liability Management and Other Operations

Loss before tax of the Asset and Liability Management and Other Operations segment deteriorated in the first half of 2017 by PLN 74.1 million year on year, to PLN 110.4 million. The loss reported by the segment was mainly due to the PLN 114.0 million write-off of the "Polbank" brand, which was charged to the segment's other operating result. Operating income grew 61 per cent, to PLN 72.0 million, mainly as a result of an increase in net interest income as the method of hedging open derivatives with negative values was changed from EUR-denominated margin deposits to PLN-denominated securities. In the first half of 2017, general administrative expenses of the segment fell 1 per cent year-on-year, to PLN 37.9 million, while tax on financial institutions allocated to the segment amounted to PLN 11.1 million, i.e. 16 per cent down compared to the corresponding period of the previous year.









4.3. Statement of financial position

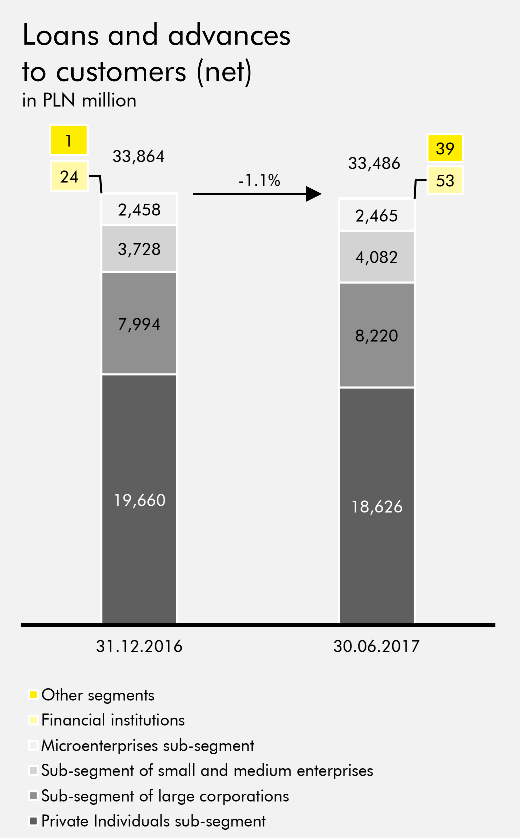
4.3.1. Assets

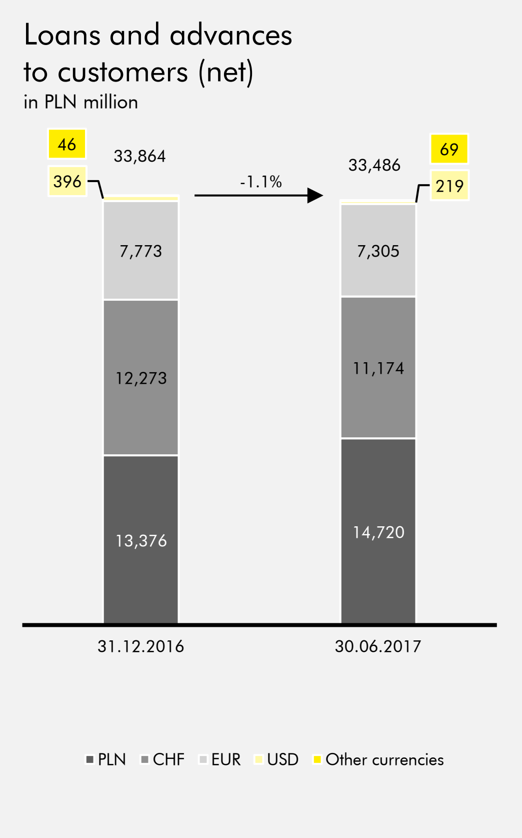
The Group's assets decreased by PLN 3.4 billion (or 6 per cent) relative to the end of 2016, to PLN 49.8 billion as at the end of the first half of 2017, following reduction of the Group's excess liquidity, which brought down the value of the portfolio of financial assets held for trading. Loans and advances to customers were the largest item in the Group's assets, accounting for 67 per cent of the total. The value of loans and advances to customers fell slightly, by PLN 379 million from the end of 2016. This decrease was a consequence of a decline in the balance of mortgage loans denominated in CHF as a result of the appreciation of PLN against CHF. The balance of CHF loans was 9 per cent lower compared with the end of 2016, while the balance of PLN-denominated loans increased 10 per cent in the period.

A significant increase between 31 December 2016 and the end of June 2017 was recorded in the portfolio of investment securities, whose balance grew by PLN 2.2 billion. The increase offset a decline in the balance of financial assets held for trading, which went down by PLN 5.3 billion. The changes in those items relative to the end of 2016 were aimed at improving the yield on the securities portfolio and better align it with the Bank's interest rate structure, and resulted from a reduction in the Group's excess liquidity.

Assets of the Group (PLN million)	As at 30.06.2017	As at 31.12.2016	Change	
			PLN million	%
Cash and balances with the Central Bank	2,062	1,732	330	19.1
Amounts due from banks	200	335	-134	-40.1
Financial assets held for trading	2,773	8,047	-5,274	-65.5
Derivative financial instruments	423	467	-44	-9.4
Investments securities	10,182	7,963	2,220	27.9
Loans and advances to customers	33,486	33,864	-379	-1.1
Intangible assets	261	383	-122	-31.9
Fixed assets	93	118	-25	-21.3
Other assets[1]	345	349	-5	-1.3
Total assets	**49,825**	**53,258**	**-3,433**	**-6.4**

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





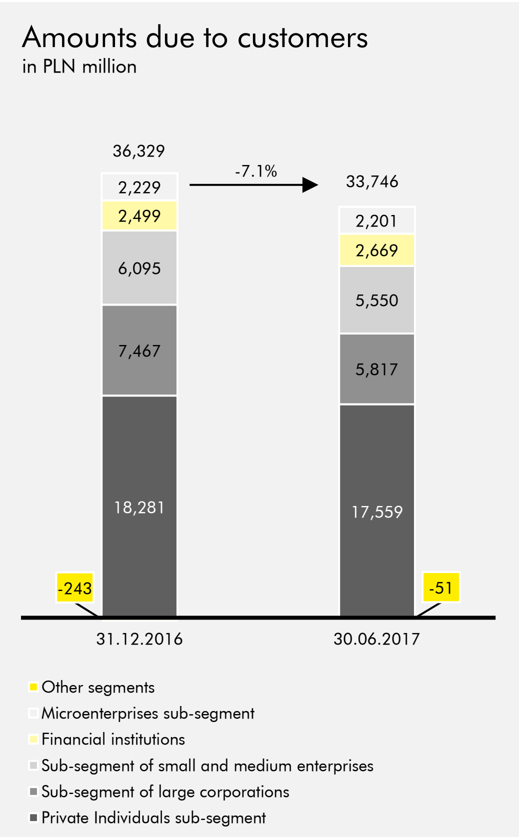
4.3.2. Liabilities and equity

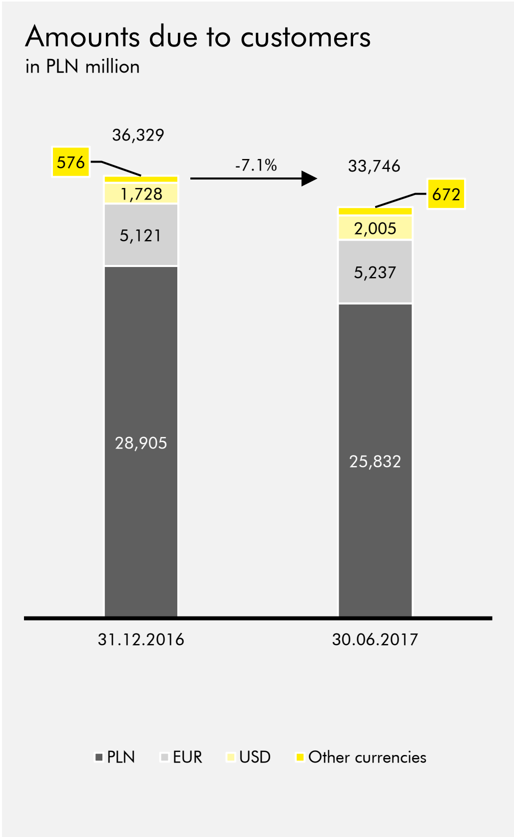
The Group's liabilities fell 7 per cent compared with the end of 2016, to PLN 43.5 billion. Amounts due to customers remained the main source of funding for the Group's operations. Their share in total liabilities was 78 per cent at the end of June 2017 and stayed broadly flat compared to the level reported at the end of 2016. After the first half of 2017, amounts due to customers were PLN 33.7 billion, having decreased by PLN 2.6 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 2017 accounted for 16.1 per cent of the Group's total liabilities. The balance of deposits from banks and other financial institutions went down 5.6 per cent, to PLN 7.0 billion.

Equity as at the end of the first half of 2017 decreased slightly compared to the end of the previous year, by PLN 2.8 million, and amounted to PLN 6.4 billion.

Liabilities and equity of the Group (PLN million)	**As at 30.06.2017**	**As at 31.12.2016**	**Change**	
			PLN million	**%**
Amounts due to banks and other monetary institutions	7,017	7,433	-417	-5.6
Derivative financial instruments	1,041	1,546	-505	-32.7
Amounts due to customers	33,746	36,329	-2,584	-7.1
Subordinated liabilities	317	332	-15	-4.5
Liabilities from debt securities issued	502	502	0	0.0
Other liabilities[1]	842	752	89	11.9
Total liabilities	**43,465**	**46,895**	**-3,431**	**-7.3**
Total equity	**6,360**	**6,363**	**-3**	**0.0**
Total liabilities and equity	**49,825**	**53,258**	**-3,433**	**-6.4**

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





4.4. Key financial ratios

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

Selected financial ratios of the Group[1] (in %)	**As at 30.06.2017**	**As at 30.06.2016**
ROA net	-0.1	0.3
ROE net	-0.9	2.2
Net interest margin	2.1	1.8

Selected financial ratios of the Group[1] (in %)	As at 30.06.2017	As at 30.06.2016
Cost / Income Ratio	78.0	70.2
Net loans / Deposits	99.2	93.9

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

Due to the sale of shares of Raiffeisen-Leasing Polska S.A. ROA net and ROE net and net interest margin for the first half of 2016 were calculated as follows:
ROA net – net profit (loss) from continuing operations / assets at end of period;
ROE net - net profit (loss) from continuing operations / equity at end of period;
Net interest margin – net interest income (from continuing operations) / assets at end of period.

5. Operations of Raiffeisen Bank Polska S.A. in the first half of 2017

5.1. Retail Banking

Retail Banking products and services are marketed to individual clients and microenterprises. The segment comprises the following sub-segments: mass clients, affluent clients, private banking and microenterprises.

In the first half of 2017, the Bank continued its current strategy, focusing in particular on acquiring new customers by further enhancing its offering of products and services for Retail Banking clients and on strengthening customer relationships by increasing sales of customized products. In the reported period, the Bank worked to further improve profitability of its deposit product portfolio and significantly enhanced the structure of deposits and margins achieved. At the same time, it maintained high volumes of conversion of deposits into medium- and long-term investment products, featuring higher yields. In credit products, the Bank maintained high sales dynamics, primarily by launching new small ticket products (low financing amounts and quick lending process).

In the second quarter of 2017, 62 of the Bank's retail branches discontinued their operations in line with the rightsizing program (see page 13 of this Report for more details). In addition, in early July 2017, 6 retail outlets were transformed into franchises.

At the end of the first half of 2017, the Bank had 769 thousand active Retail Banking clients, i.e. 7.5 per cent more than in the corresponding period of 2016.

5.1.1. Deposit products

Current accounts and savings accounts

In March 2015, the Dream Personal Account (*Wymarzone Konto Osobiste*) was added to the offering as one of the Dream Package (*Pakiet Wymarzony*) products and in the first half of 2017 it was still the main product aimed at acquiring new clients. In March 2017, the Bank took steps to adjust the Dream Personal Account, which included bringing the interest rate in line with the market conditions (the new rate applied to accounts opened after 20 March 2017 but is also available to existing clients who may switch to the new product at any time), adding the Dream Visa (*Wymarzona Visa*) debit card to the package, and offering Cyber Assistance (*Cyber Pomoc*), a unique insurance for holders of debit Mastercard. Sales of the Package were supported with nationwide marketing campaigns run from March to July 2017.

As a result, 64 thousand Dream Personal Accounts were sold in the first half of 2017, of which 56 thousand accounts were opened for new clients. The main sales channel for the Dream Account was the branch network (74 per cent), but clients also opened accounts using the automatic online service and through the call center. Sales of personal accounts to mass and affluent clients through remote channels rose year on year and accounted for more than 26 per cent of all accounts opened between January and June 2017. In terms of cost effectiveness, these channels represented an attractive alternative to the traditional branch distribution network.

As at the end of June 2017, the number of Dream Personal Accounts operated by the Bank reached 409 thousand. At the end of the first half of 2017, the Bank had a total of 796 thousand personal accounts for mass and affluent clients, having achieved a 12 per cent increase in the number of PLN-denominated personal accounts and a 13 per cent increase in the number of on-demand EUR-, USD-, CHF- and GBP- denominated accounts compared with June 2016. Zloty-denominated deposits held in personal accounts of mass and affluent clients totaled approximately PLN 2.7 billion at the end of the first half of 2017 (increase of approximately PLN 103 million on the end of 2016), of which as much as 75 per cent were core deposits in Dream Personal Accounts.

Holders of Dream Personal Accounts opened in the first half of 2017 are frequent users of the on-line banking service – 70 per cent of them have activated the on-line banking system, 49 per cent have active access to the Mobile Bank service, and as many as 83 per cent receive electronic account statements.

Client acquisition efforts related to another ‘Dream’ line product – the Dream Goal Account (*Konto Wymarzony Cel*), developed to encourage clients to make regular savings, led to the Bank opening 26 thousand such accounts in the first half of 2017, with the deposited funds totaling approximately PLN 1.6 billion.

In the first half of 2017, the Bank started to adapt its activities to a number of changes introduced to generally applicable laws, e.g. Regulation 2016/679 of the European Parliament and of the Council on the protection of personal data, the amended Payment Services Act with respect to comparability of fees for payment accounts, transferring bank accounts, and access to basic payment accounts, Payment Services Directive 2 (PSD2), and the Act Amending the Act on Value Added Tax (split payment). The changes required by the laws will be made gradually in 2018.

Term deposits

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

In the first half of 2017, clients showed the greatest interest in the e-Lokata online PLN deposit account and the Loyal Bank deposit account (*Lokata Lojalny Bank*) 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 rate, and it was used as a tool for promoting mobile banking among users of electronic delivery channels.

At the end of the first half of 2017, term deposits (including investment deposits) in the Retail Banking segment accounted for 29 per cent of the Bank’s financial liabilities to Retail Banking clients, a decrease from 45 per cent as year earlier, mainly to the benefit of current accounts. Coupled with the new Dream Personal Account, the change in the product structure referred to above helped to markedly improve margins on deposit products.

5.1.2. Debit and credit cards

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

The Bank achieved an almost 16 per cent year-on-year growth in the total value of payment card transactions (retail debit and credit cards) in the first half of 2017. A very important element of the activities aimed at increasing the frequency of payment card use was continued promotion of on-line payments. In the area of on-line payments, the value of transactions made with cards issued by the Bank grew by 23 per cent year on year in the first half of 2017.

It should also be noted that the number of payment cards issued exceeded 636 thousand, having increased by more than 6 per cent during the last 12 months. This was an effect of the Bank's consistent client acquisition strategy, mainly in sales of the Dream Personal Accounts and the accompanying debit cards.

5.1.3. Lending products

Mortgage loans

Mortgage lending represents a material share of the Bank's balance sheet. As at 30 June 2017, the net on-balance-sheet exposure to individual clients was PLN 15.5 billion, accounting for more than 83 per cent of net loans granted to this client group. The decrease of 8 per cent relative to the end of 2016 was mainly attributable to changes in the CHF/PLN exchange rate.

In the first half of 2017, the Bank maintained its selective policy in new mortgage lending and focused on supporting mortgage borrowers in financial distress. In this area, the Bank also continued activities targeted at borrowers with loans indexed to and denominated in the Swiss franc as part of the "six-pack" developed together with the Polish Bank Association and other banks.

Consumer loans

In consumer lending, the Bank pursued its objectives and worked to keep the sales stable. The main focus was on the distribution of Custom-Made Loans (*Kredyt na Miarę* cash loans). Their sales volumes in the first half of 2017 were kept on a par with those reported a year earlier, but the number of cash loans sold increased significantly – by 23 per cent year on year.

Such good sales performance was made possible by the following measures:

- New sales campaigns, e.g. First Loan at 2.99% (*Pierwsza Pożyczka* 2.99%), the main factor driving sales of cash loans;
- Further automation of the lending process and modification of the lending policy parameters, which increased the number of automatic credit decisions and reduced the average time to decision;
- Maintenance of the preferential credit terms for clients opening the Dream Personal Account;
- Intensification of the CRM campaign targeted at the Bank's clients;
- Further cooperation with the franchise network, including modification of sales tools and loan offering;
- Changes in the incentive systems for particular distribution channels.

As at 30 June 2017, the portfolio of consumer loans to mass and affluent clients totaled PLN 2.8 billion, up 12 per cent year on year.

5.1.4. Insurance products

The Bank offers insurance products with other products for retail clients. It does not act as an insurer but only sells insurance policies of third parties. At the same time, the Bank is steadily expanding its range of stand-alone insurance products.

In pursuit of its strategy for bancassurance, in the first half of 2017 the Bank introduced the following products to its offering of insurance for individual clients:

- Family Protection (*Ochrona Rodziny*) – a unique life insurance solution with high sums insured (up to PLN 0.5 million), including coverage for death of natural causes for the Bank's clients up to 75 years of age, with a simplified contract execution procedure. The insurance covers also incapacity to work or care for oneself (for any reason) and medical benefits;
- Cyber Assistance – an innovative insurance covering online risks (protection of identity, online shopping, unauthorized use of a payment card for online transactions) and the first such insurance in Poland available to private individuals – the Bank's individual clients holding debit Mastercard.

5.1.5. Investment products

In the first half of 2017, the Bank continued to sell funds marketed under the Raiffeisen brand but managed by a third-party manager (white label funds). The Raiffeisen Specjalistyczny Fundusz Inwestycyjny Otwarty ("SFIO") Umbrella Fund consisted of four sub-funds with different investment strategies and risk levels. The Raiffeisen SFIO sub-funds were managed for the Bank by ALTUS Towarzystwo Funduszy Inwestycyjnych.

As at the end of June 2017, assets in the Raiffeisen SFIO Umbrella Fund and the closed-end fund FWR Selektywny (marketed exclusively to Friedrich Wilhelm Raiffeisen private banking clients) totaled PLN 1.1 billion, down 4.6 per cent year on year. Structure of assets in each sub-fund:

Structure of investment fund assets distributed by the Bank (PLN million) **Fund**	**Asset manager**	**Assets as at 30.06.2017**	**Assets as at 31.12.2016**	**Assets as at 30.06.2016**
Raiffeisen SFIO Parasolowy				
Raiffeisen Aktywnego Oszczędzania	Altus TFI S.A.	110.2	123.0	122.1
Raiffeisen Aktywnych Strategii Dłużnych	Altus TFI S.A.	126.1	95.2	40.2
Raiffeisen Globalnych Możliwości	Altus TFI S.A.	139.2	70.3	20.7
Raiffeisen Aktywnego Inwestowania	Altus TFI S.A.	712.4	858.9	771.3
FWR Selektywny FIZ	Altus TFI S.A.	18.4	12.0	18.9
Funds total		**1,106.3**	**1,159.4**	**973.2**

The Bank continued to offer, on a subscription basis, investment deposits and structured certificates issued on the primary market by Raiffeisen Centrobank AG ("RCB"). In the first half of 2017, 15 subscriptions were launched for investment deposits, totaling PLN 476.6 million, and 21 subscriptions for structured certificates, totaling PLN 147.9 million.

Clients of the Retail Banking segment are also offered life insurance products. In the first half of 2017, the Bank joined forces with UNIQA TU to launch a new unit-linked life insurance product offered under the name of Dream Pension (*Wymarzona Emerytura*). In the first half of 2017, sales of insurance and investment products reached PLN 897.6 million, up 75 per cent year on year.

The Retail Banking segment reported a rise in client assets managed by the Bank and invested in (the Bank's or its partners') investment products: they grew 6 per cent relative to the end of 2016, that is by PLN 320 million net, to PLN 5.2 billion at the end of June 2017.

5.1.6. Brokerage activities

In the first half of 2017, Raiffeisen Brokers continued its activities in the area of public offerings of structured products of RCB, a leading issuer of certificates traded on the Warsaw Stock Exchange. The value of structured certificates sold in that period reached PLN 147.9 million.

The number of investment accounts operated by the brokerage house rose 7 per cent relative to December 2016, to almost 16 thousand at the end of June 2017. Its assets grew 15 per cent in the period, to PLN 955 million.

5.1.7. Friedrich Wilhelm Raiffeisen Private Banking

Friedrich Wilhelm Raiffeisen Private Banking is offered to clients with assets in excess of PLN 1 million. At the end of the first half of 2017, FWR clients' assets (in deposit and/or investment products) totaled PLN 7.7 billion, down 1.9 per cent compared with the end of 2016, due to changes in the deposit offering. At the same time, client assets managed by the Bank and invested in investment products rose 6 per cent (PLN 140 million net) relative to the end of 2016.

FWR private banking was again recognized in prestigious rankings – for the fourth consecutive time it received the highest, five-star rating in the *Forbes*' Polish private banking ranking table, and in the first quarter of 2017, FWR was for the first time named Poland's best private banking provider by EMEA Finance in Europe Banking Awards 2016.

5.1.8. Microenterprises

In the first half of 2017, the Bank acquired 7.8 thousand new microenterprise accounts, which is 17 per cent less than in the corresponding period of the previous year. This was an effect of the Bank focusing on attracting business customers from the house-owner associations and housing cooperatives sector instead of small businesses and sole traders. The balance of deposit products was similar to that reported at the end of 2016, i.e. PLN 2.2 billion, but margins improved considerably in the first half of 2017, largely supported by changes in the interest rates for deposits and the sales of the Dream Non-Profit Business Account package (*Wymarzone Konto dla Biznesu Non-Profit*) offered to such clients as foundations, associations, house-owner associations and housing cooperatives.

In April 2017, the Bank partnered up with third-party providers to expand its offering and implemented new lease service processes in the business client segment. Changes were also made to the Dream Car (*Wymarzone Auto*) lease offering for individual clients, including addition of products and services of the Bank's new lease partners. The services offered by the Bank follow the trend of customers preferring to use cars and have them maintained by specialist companies rather than own the vehicles themselves.

In the first half of 2017, the Bank's lending to microenterprises generated sales of PLN 299 million, i.e. 14 per cent more than in the corresponding period of the previous year. The largest increase was reported in sales of credit cards (up 98 per cent). Sales of mortgage loans and unsecured loans grew 29 per cent and 87 per cent, respectively. These growth figures were achieved in parallel with improvements in the lending process, and were supported by such measures as:

- Development of the Bank's offering, including changes in small ticket products (i.e. extended lending term and increased maximum loan amount);
- Support of sales by experts in funding for house-owner associations;

- Further changes in the lending policy, which translated into more competitive offering, particularly of unsecured loans;
- Closer cooperation with local and nationwide financial intermediaries and the franchise network, as well as modifications of the incentive system for franchises.

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. In the first half of 2017, the Bank generated higher sales of its Terminal for PLN 1 (*Terminal za 1 zł*), a unique offer developed together with Play and Evo and started in June 2016. While in the second half of 2016 this service attracted 47 clients, in the first half of 2017 the number of new clients reached 395.

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 in Retail Banking. The Corporate Banking segment is further divided into sub-segments of Large, Medium-Sized, and Small Enterprises.

In the first half of 2017, the Bank continued measures aimed at improving customer experience, thus increasing the level of customer satisfaction. One of them was the roll-out of a new IT solution that shortened the bank account opening process – opening a corporate customer account with full functionality can be now completed in one day.

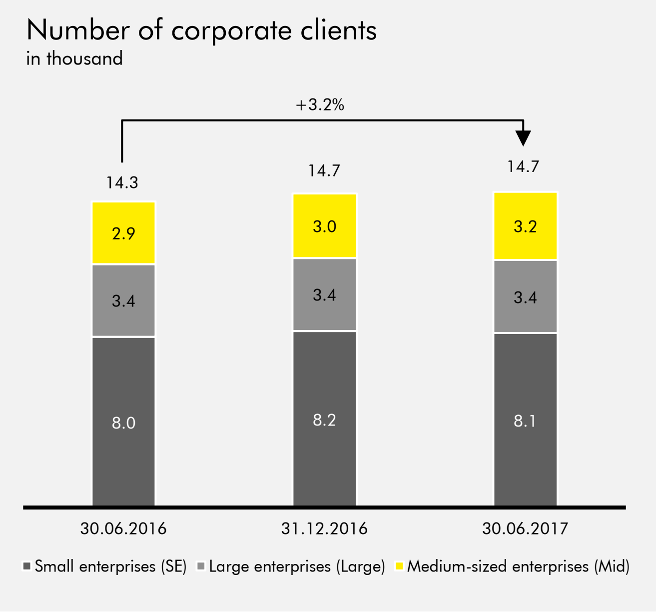
In addition, in order to boost efficiency in the Corporate Banking segment, the Bank centralized operations relating to the credit process by transferring the credit documentation teams from the Corporate Banking Macro-Regions to the Operations Center in Ruda Śląska.

In the sub-segment of Small Enterprises – businesses with annual revenues from PLN 4 million to PLN 25 million – in the first half of 2017 the Bank also focused on improving service quality through comprehensive training of customer advisors in the field of customer relationship management and the strategy of offering banking products and services to customers. While improving the professional qualifications of its customer advisors, the Bank seeks to ensure that they team up with product specialists to support customers in their day-to-day business with state-of-the-art products and services tailored to meet their needs.

5.2.1. Client base growth

In the first half of 2017, the Bank focused on expanding its 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 of those measures, the total number of active clients at the end of June 2017 was 14.7 thousand, an increase of approximately 0.4 thousand clients, i.e. 3.2 per cent compared with June 2016. By business sub-segments, the corporate client base comprised 8.1 thousand small enterprises, 3.2 thousand medium-sized companies and 3.4 thousand large companies.

Over the last year, Medium-Sized Enterprises has been the fastest growing sub-segment, with 259 new accounts added (up 8.8 per cent).

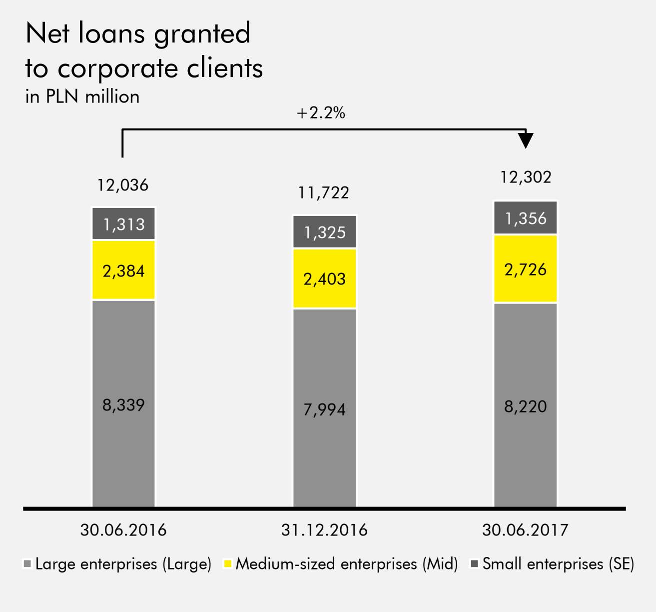


Breakdown of clients:
Small Enterprises (SE) – clients with annual turnover from PLN 4 million to PLN 25 million
Medium-Sized Enterprises (Mid) – clients with annual turnover from PLN 25 million to PLN 100/200[1] *million*
Large Enterprises (Large) – clients with annual turnover in excess of PLN 100/200[1]*million*

Expansion of the corporate client base is primarily a result of acquisition activities, but it is also partly owed to the Bank's focus on customer satisfaction and ongoing improvement of internal processes and product range based on customer feedback. At least once a year, the Bank measures the level of customer satisfaction for all key client points of contact with the Bank in the Corporate Banking segment using the Net Promoter Score (NPS) methodology. In the most recent survey conducted in the first half of 2017, NPS for Corporate Banking stood at 38 points and was 6 points higher than in the first half of 2016.

5.2.2. Lending activities

In the first half of 2017, the net volume of loans to corporate clients increased by PLN 580 million, or 5 per cent, compared with the end of 2016, to PLN 12.3 billion at the end of June.



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

Changes in the net volume of loans granted to customers in the first half of 2017 reflect the Bank's strategic development directions in the Corporate Banking segment, with attention and growth being focused on the sub-segments of Small and Medium-Sized Enterprises, while maintaining the Bank's position in the Large Enterprises sub-segment.

In line with these directions, in the first half of 2017, there was a dynamic growth in net loans to Small and Medium-Sized Enterprises. Their volume went up by PLN 354 million, or 9.5 per cent compared with the end of 2016, reaching almost PLN 4.1 billion at the end of June 2017. Meanwhile, in the sub-segment of Large Enterprises, the growth rate of net loans to customers reached 2.8 per cent (or PLN 226 million) compared with the end of 2016. The dynamics of lending growth in the individual business sub-segments shows that the share of loans to Small and Medium-Sized Enterprises has been growing steadily across the Corporate Banking segment. At the end of June 2017, this share was 33.2 per cent, up 2.5 percentage points on June 2016.

The net loan-to-deposit ratio in Corporate Banking was 107 per cent as at the end of June 2017. It grew by 20.6 percentage points compared with the end of 2016 as a result of an increase in net loans to customers and a decrease in customer deposits, driven by measures aimed at optimizing the Bank's financing structure and improving its net interest margin. As part of those measures, the Bank focused on increasing the share of current and savings accounts in liabilities.

In the first half of 2017, the Bank continued its activity in the area of loans secured with the *de minimis* guarantees available under the government liquidity-support scheme for micro-, small- and medium-sized enterprises. In May 2017, the Bank entered into an additional cooperation agreement under the portfolio guarantee line provided by the Guarantee Fund of the Smart Growth Operational Program (FG POIR), which will enable it to grant loan repayment guarantees to entrepreneurs free of charge.

Cumulatively, from March 2013 to the end of May 2017, the bank granted loans secured with the *de minimis* guarantees in over 5.7 thousand cases, with an aggregate value of over PLN 1.2 billion. In terms of the *de minimis* guarantee limit used, Raiffeisen Polbank ranked 11th among the 20 lending banks that had signed cooperation agreements with BGK (*Bank Gospodarstwa Krajowego*). As at the end of June 2017, the Bank had over 3.3 thousand loans, totaling PLN 885 million, secured with the *de minimis* guarantees worth nearly PLN 528 million. 494 of these loans, totaling close to PLN 370 million and secured with the *de minimis* guarantees worth PLN 216 million, were granted to Corporate Banking clients. The remainder, over 2.8 thousand loans, totaling PLN 516 million, were granted to microenterprises (in the Retail Banking segment) and were secured with the *de minimis* guarantees worth nearly PLN 312 million.

5.2.3. Trade finance services

As part of trade finance services to corporate clients, in the first half of 2017 the Bank issued 2.9 thousand guarantees, with a total balance of commitments under the guarantees at PLN 1.7 billion as at the end of the period. According to figures for the first quarter of 2017, Raiffeisen Polbank ranked sixth in the Polish Bank Association's ("PBA") ranking of largest providers of new guarantees, and had a market share of 10.2 per cent.

In the first half of 2017, the Bank issued and advised nearly 1.1 thousand letters of credit for a total value of over PLN 0.5 billion. Among the ten banks reporting to the PBA after the first quarter of 2017, Raiffeisen Polbank was fourth in terms of the number of export letters of credit it advised and sixth in terms of the number of letters of credit it issued. Letters of credit issued and advised by the Bank in the first quarter of 2017 accounted for 10.0 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 2017, the Bank was the first-choice provider of factoring solutions to Polish enterprises: at the end of June 2017, 22 per cent of factoring clients in Poland used the Bank's services. Factoring turnover in the period amounted to PLN 8.5 billion, i.e. 2.7 per cent less than in the same period of 2016. At the end of June 2017, the Bank ranked third on the factoring market, with a 10 per cent market share, according to the Polish Factor Association.

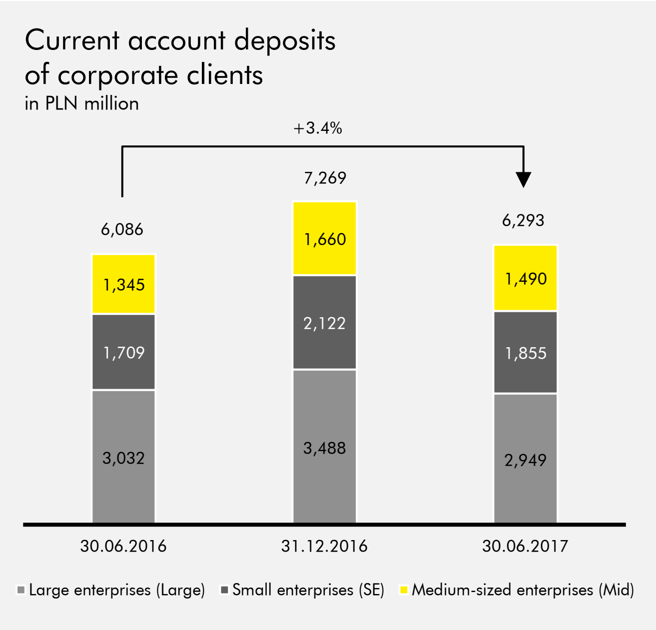
In the first half of 2017, the Bank's efforts to develop sales of factoring services in the Small Enterprises and Medium-Sized Enterprises segments translated into a 38 per cent year-on-year increase in the number of new clients. In the second quarter of 2017, Raiffeisen Polbank launched its Smart FaktoR mobile factoring application, the first application on the Polish market enabling the entire process of invoice purchase to be carried out on a mobile device.

5.2.5. Transaction banking

In the first half of 2017, the Bank's activities in the transaction banking area focused on the sub-segments of Small and Medium-Sized Enterprises.

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

All these developments in the transaction banking area contributed to a growth in the volume of funds held in the clients' accounts. Particularly high growth was recorded in the sub-segment of Medium-Sized Enterprises, where the average client account balance in the first half of 2017 was 19 per cent higher compared with the year-end 2016 (while the balance as at the end of the first half of 2017 was 9% lower compared to the year-end 2016).



5.2.6. Treasury banking and deposits

In the first half of 2017, 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 3 per cent year on year.

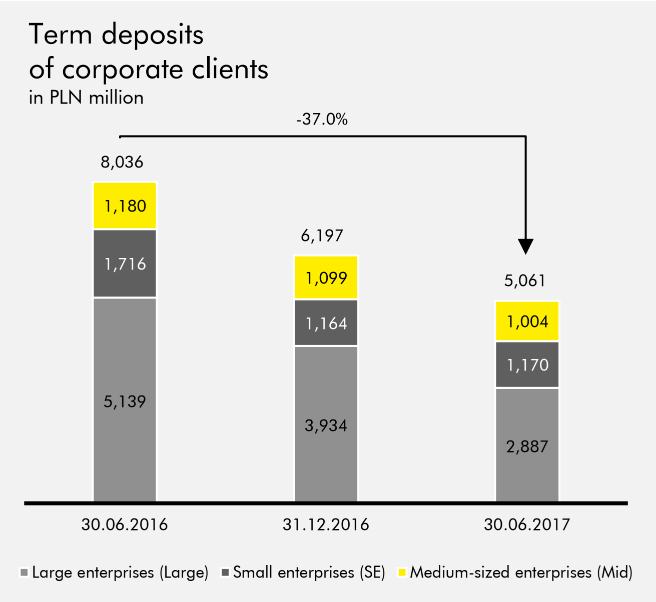
The total volume of FX transactions in the first half of 2017 was on a par with the same period of 2016. However, due to a strong competition from other banks and a growing number of on-line currency exchange services, the Bank's revenues from FX transactions declined by 7 per cent compared with the first half of 2016.

One of the channels used by clients to make FX Spot transactions is the R-Dealer trading platform. In the case of SMEs, it was the main channel for entering into FX spot contracts. In the first half of 2017, 85 per cent of all such transactions were handled using this tool.

The Bank's FX dealers and derivatives specialists assisted clients in hedging their currency positions using a range of available derivative products. In the first half of 2017, the result on currency risk and interest rate risk hedging transactions remained at the same level as in the corresponding period of 2016. The number of clients actively using derivative transactions went up 16 per cent during this period. FX forwards were the most popular product. Clients also used currency options, which in the first half of 2017, delivered 51 per cent higher revenue than in the first half of 2016.

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

At the end of the first half of 2017, the total value of corporate term deposits was PLN 5.0 billion, 18 per cent down compared to the end of 2016. The volume of deposits fell because of lower need for increasing the Bank's liquidity and the introduction of a policy to limit sales and renewals of lower-margin deposits.



5.2.7. Investment banking

In the first half of 2017, the Bank continued to develop its investment banking business.

In the first half of 2017, the Bank was involved in a number of debt issues (notes, bonds and commercial paper), including for:

- Polsteam Shipping Company Ltd – USD 155.4 million bond issue (Bank acting as Arranger, Paying Agent, Depositary and Dealer);
- Polska Żegluga Morska – USD 82.1 million bond issue (Bank acting as Arranger, Paying Agent, Depositary and Dealer);
- ATAL S.A. – PLN 40 million bond issue (Bank acting as Arranger and Dealer);
- BBI Development S.A. – PLN 53 million bond issue (Bank acting as Arranger and Dealer);
- MCI Capital S.A. – PLN 20 million bond issue (Bank acting as Arranger and Dealer);
- JW. Construction – PLN 70 million bond issue (Bank acting as Arranger and Dealer);

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

In aggregate, in the first half of 2017, the Bank assisted in issues of debt instruments totaling close to PLN 3.5 billion, which means a threefold increase on the figure reported in the same period of last year. At the end of the first half of 2017, the total nominal value of debt securities of corporate issuers and banks (excluding local government units) issued with the Bank's assistance was close to PLN 4.8 billion, including PLN 828.7 million in short-term securities, nearly twice the figure for the same period of last year.

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 bank.

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

Moreover, the Bank was 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 October 2016 to 31 March 2017, in the selected segments of the financial market, the Bank ranked as follows:

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

In its services to financial institutions, the Bank focuses on two client segments: banks and non-bank financial institutions. To develop its cash trading business, since the beginning of 2016 was also actively offered its services to traditional currency exchange offices.

As a provider of custodian services, the Bank remained the market leader, both in terms of the number of investment funds 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. As at 30 June 2017, its services were used by a total of 339 funds. The value of funds' assets held by the Bank increased by nearly 5 per cent from the beginning of 2017.

In the area of custodian bank services, the Bank focused on the implementation of tasks resulting from the new regulatory requirements introduced by the Amendment of the Investment Funds and Alternative Investment Funds Act of 4 June 2016 and the consolidation of the market practice resulting from these changes and from the extended catalog of obligations of the custodian bank. In the first half of the year, as part of the activities of the custodian bank, Raiffeisen Bank Polska also took part in the adjustment of control activities to the new tax regulations applicable to closed funds.

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 as at the end of 2016) – was the market leader.

5.4. Awards

In the first half of 2017, the Bank received the following titles and awards:

- Best Private Banking in Poland – in the Europe Banking Awards 2016 ranking by EMEA Finance;
- 1st position in the category of best service quality at a bank branch for 2016 – in a competition organized by the mojebankowanie.pl portal;
- 3rd position in the cash loan category – in the Golden Banker ranking organized by editorial boards of Bankier.pl and the Puls Biznesu daily;

- Quality Mark in the "best account for free" category for the Dream Personal Account – awarded by the Polish Institute of Quality Research as part of the Polish-Swiss bank account test;
- Client's Laurel 2017 and Client's Laurel 2017 Grand Prix in the category of "factoring services" – in the 13th edition of a nationwide poll on product and service popularity, conducted by the Gazeta Wyborcza daily.

6. Operations of Raiffeisen Solutions Sp. z o.o. in the first half of 2017

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

In the first half of 2017, Raiffeisen Solutions focused on expanding its client base and developing the product offering available through RKantor.com. Growth of the client base and efforts taken to encourage activity of the existing clients were reflected in increased FX trading levels, reaching up to EUR 5 million daily.

7. Operations of Raiffeisen TFI S.A. in the first half of 2017

Raiffeisen TFI S.A. (the "Company"), a fund management company focusing on the management and distribution of investment funds, was registered in the fourth quarter of 2015.

In the second quarter of 2017, the Company received the PFSA's license to carry out its business and signed an agreement with ALTUS TFI to take over management of the Raiffeisen SFIO Parasolowy and FWR Selektywny FIZ funds.

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

8.1. IT and operations

In the first half of 2017, twelve project management and software development initiatives were implemented, and IT efforts focused on the following issues:

- Development of a new e-banking platform for individual clients together with mobile payment services;
- Implementation of a new FX platform;
- Development of a system to improve the sales and support processes relating to accounts and loans for individual clients;
- Improvements to risk management support systems;
- Changes in the e-banking systems for corporate clients;
- Measures to facilitate opening of corporate clients' accounts/customer information files;
- Optimization of the integration bus and customer service systems;
- Adaptation of the Bank's systems to the CRS and PFSA regulations;
- Implementation of a new product package for individual clients.

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

- Adaptation of the Bank's systems to the MIFID II requirements;
- Adaptation of the Bank's systems to the IFRS 9 requirements;
- Projects related to the Bank's digitization project.

In the area of IT infrastructure management, the key development was the upgrade of technical infrastructure at the Bank's data processing centers. The work involved replacing disk arrays with more efficient and higher capacity memory devices, and replacing some of the network hardware nearing the end of its lifetime.

In cost management, as part of the rightsizing program steps will be taken to optimize IT operating costs by streamlining the application architecture, adjusting the demand and supply of IT services, adjusting system development and maintenance models, streamlining IT processes and functions, and optimizing the IT infrastructure.

In the first half of 2017, the Bank continued the Operations Transformation Project to centralize (nearshore) functions in the Operations Center in Ruda Śląska. In the third phase of the project, processes related to the management of the Bank's physical security, post-sale support for financial institutions, and credit facility administration and documentation related to corporate clients, financial institutions and project finance were migrated to the Operations Center. Further process migrations are currently in progress. All processes transferred to the Center are carried out with improved efficiency, with the high quality of internal and external customer service maintained. As the Center assumes new functions, the migrated processes are optimized and streamlined. At the end of the first half of 2017, the Center employed over 500 staff, of whom about 390 worked in the operations division, and 110 in the retail division.

8.2. Development of electronic service channels

R-Online

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

Following the launch of a new version of R-Online in 2016, in the first half of 2017 the Bank focused on stabilization and optimization of the new service and started efforts to add new functionalities, designed in particular for microenterprises.

As at 30 June 2017, 620 thousand users had access to the R-Online e-banking system, down 0.6 per cent on the end of 2016.

R-Online Biznes

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

In the first half of 2017, the Bank implemented a number of minor changes to enhance the functionality and usability of the system. Some of the modifications were inspired by customer feedback from the NPS survey. The key changes included addition of post-transaction balances, development of reports and account statements, and modifications to the batch import mechanism. Work also continues on the system security. One of the implemented solutions was a signature component that can be used with USB tokens with a button on MAC operating system computers.

As at 30 June 2017, 30 thousand businesses had access to the R-Online Biznes e-banking system.

Mobile Wallet

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

As at 30 June 2017, the Mobile Wallet was installed on 3,200 active devices (active in the last 30 days), and the clients installed a total of 3,800 cards (3,000 debit cards and 800 credit cards) in the application, which means a 39 per cent increase in the number of NFC cards compared with the end of 2016.

In the coming quarters, the Bank plans to significantly expand the Mobile Wallet application by adding further functionalities (such as access to the new e-banking, addition of the R-dealer platform, and the *#korzystaj* shopping program), and by launching the Mobile Wallet on iOS system-powered platforms (Apple).

Mobile Bank

As at 30 June 2017, the Mobile Bank (*Mobilny Bank*) application was available to more than 135 thousand users among Retail Banking clients, i.e. up 1 thousand compared to the end of 2016.

Number of clients with access to the Bank's internet and mobile banking (thousand)	**As at 30.06.2017**	**As at 31.12.2016**
Mobilny Bank	135	134
R-Online	620	624
R-Online Biznes	30	30

8.3. Branch network

As at 30 June 2017, the Bank operated 236 branches, including:

- A network of 204 retail branches,
- A network of 24 franchise branches,
- A Corporate Banking Center (CBK) operating outside the retail network,
- Seven Private Banking Centers operating outside the retail network.

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

In the first half of 2017, 62 own branches were closed down as part of the Bank's rightsizing program.

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 24 brokers and approximately 3,000 local intermediaries.

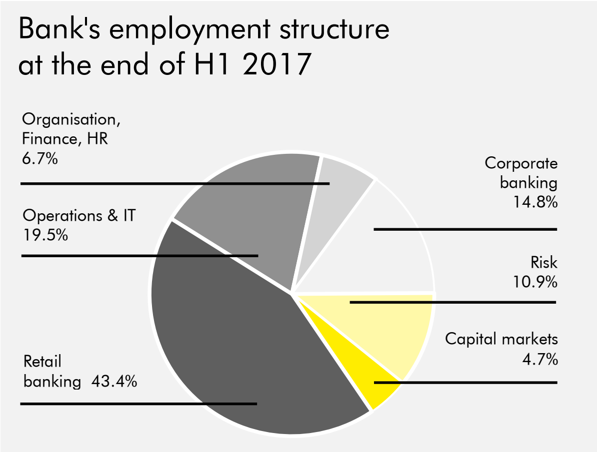
8.4. Headcount

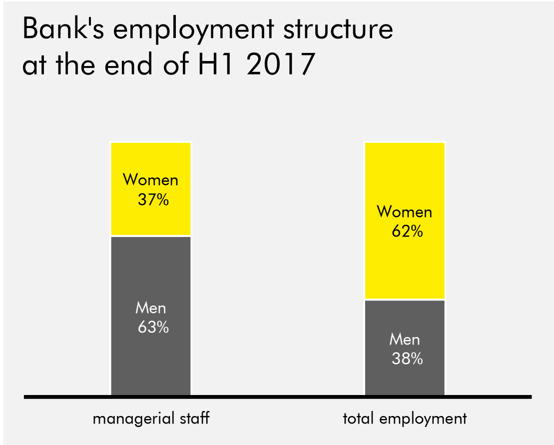
As at the end of June 2017, the Bank employed 4,253 active staff[1], including Management Board members, compared with 4,453 staff at the end of 2016. On an active FTE-basis[1], as at 30 June 2017 the employment at the Bank was 4,060, down by 189 FTEs (or 4.4 per cent) on the end of 2016. On an active FTE-basis[1] the employment at the Group was 4,152, down by 185 FTEs (or 4.3 per cent) compared with the end of 2016.

The employment at the Bank and Group in active FTEs[1]	**As at 30.06.2017**	**As at 31.12.2016**	**As at 30.06.2016**
Retail banking	1,761.6	1,933.8	1,949.7
Corporate banking	600.6	610.1	616.8
Capital markets	188.8	189.9	198.0
Operations & IT	790.7	758.2	809.1
Risk	444.6	455.0	501.1
Organization, Finance, HR	273.7	301.8	304.3
Bank total	**4,060.0**	**4,248.8**	**4,379.0**
Raiffeisen Investment Polska Sp. z o. o.	0.5	0.6	0.7
Raiffeisen Financial Services Polska Sp. z o. o.	54.9	48.8	57.9

[1] Active employees/active FTEs, that is excluding employees on parental leave and long-term sickness absence, at the end of reporting period.

The employment at the Bank and Group in active FTEs[1]	As at 30.06.2017	As at 31.12.2016	As at 30.06.2016
Raiffeisen Solutions Sp. z o.o.	36.8	39.4	36.5
Group total	**4,152.2**	**4,337.5**	**4,474.1**





Women represent the majority of the workforce (62 per cent). Over 63 per cent of managerial positions at the Bank are held by men.

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

Corporate Social Responsibility initiatives have been part of Raiffeisen Bank Polska activities for years now. In the first half of 2017, the Bank continued the partnership with Towarzystwo Nasz Dom, which supports children in difficult family situation, 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.

In the first half of 2017, the Bank lent assistance to local educational, cultural and public benefit organizations across Poland, and continued cooperation with the Austrian Cultural Forum – a renowned cultural institution, closely associated with Polish artistic, scientific and cultural circles.

As part of the Children's Day events, in partnership with the Cinema City network, the Bank organized film screenings in four cities along with refreshments and gifts for residents of local children's homes and incurably ill children under the care of the Fundacja Dziecięca Fantazja foundation.

For another consecutive year, the Bank's employees were involved in the Bankers for Financial Education of Youth BAKCYL initiative ("BAKCYL"), where financial institutions' employees volunteer to teach basics of finance management to junior high school students. BAKCYL was conceived and organized by the Warsaw Banking Institute, and it is partnered by the Polish Bank Association. The project is aimed at getting young people acquainted with practical banking principles they may find useful when entering the adult world and when making conscious decisions about their finances.

The Bank's employees actively volunteered in charitable initiatives. As in the previous years, before the Children's Day they collected gifts and other necessary supplies for families in need and children under the care of the *Fundacja Dziecięca Fantazja* foundation and the *Dom Dziecka Niewidomego* orphanage for the blind.

As a partner of the DKMS foundation, the Bank continued a project to encourage its staff to register as potential stem cell donors, which again proved very successful.

10. Managing the key risks

10.1. Credit risk management

Credit risk refers to potential failure of the Group's debtor to timely settle contractual liabilities (granted credit). The Group's credit risk exposure results mainly from its lending activities and, to a lower 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 Group are aimed at increasing the efficiency and effectiveness of risk identification and defining actions to be taken in the event of changes in risk levels.

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

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

In order to control credit portfolio risk in terms of expected and unexpected losses (capital and impairment allowance), 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 2017 (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 2017, the Group did not exceed any of the applicable concentration limits.

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

All financial asset categories presented in the consolidated statement of financial position are tested for impairment (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 2017 (note on credit risk management).

10.1.1. Loan portfolio quality

The quality of the Group's credit portfolio remains solid. As at the end of the first half of 2017, the share of impaired loans in the portfolio declined from 7.9 per cent at the year-end 2016 to 7.7 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 56.4 per cent as at the end of 2016 to 57.1 per cent as at 30 June 2017.

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

Quality measures of credit risk portfolio (in %)	Impaired loans ratio		Coverage ratio	
	As at 30.06.2017	As at 31.12.2016	As at 30.06.2017	As at 31.12.2016
Private individuals	5.5	5.1	62.1	61.6
Microenterprises	26.3	26.1	49.9	47.5
Large enterprises	7.1	8.9	55.8	56.4
Small and medium enterprises	4.3	4.1	77.4	77.2
Total	**7.7**	**7.9**	**57.1**	**56.4**

10.1.2. 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 2017, they accounted for 31 per cent of all of the Bank's loans. The table below presents the value of the portfolio of mortgage loans by currency and sub-portfolio.

Mortgage loans granted to private individuals and microenterprises by currency (PLN million)	As at 30.06.2017, CHF/PLN fx = 3.9		As at 31.12.2016, CHF/PLN fx = 4.1		As at 30.06.2016, 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	2,067.2	12.0%	1,954.9	10.6%	1,873.1	10.0%
EUR	3,362.3	19.5%	3,657.4	19.8%	3,782.1	20.2%
CHF	10,538.3	61.0%	11,538.5	62.4%	11,707.8	62.6%
USD	6.0	0.0%	5.7	0.0%	5.6	0.0%
Total	**15,973.8**	**92.5%**	**17,156.5**	**92.8%**	**17,368.6**	**92.9%**
Microenterprises						
PLN	854.2	4.9%	832.8	4.5%	802.3	4.3%
EUR	74.8	0.4%	84.5	0.5%	90.5	0.5%
CHF	359.8	2.1%	407.5	2.2%	433.0	2.3%
USD	0.0	0.0%	0.0	0.0%	0.0	0.0%
Total	**1,288.8**	**7.5%**	**1,324.8**	**7.2%**	**1,325.9**	**7.1%**
Private individuals & Microenterprises						
PLN	2,921.4	16.9%	2,787.7	15.1%	2,675.4	14.3%
EUR	3,437.1	19.9%	3,741.8	20.2%	3,872.6	20.7%
CHF	10,898.1	63.1%	11,946.1	64.6%	12,140.8	64.9%
USD	6.0	0.0%	5.7	0.0%	5.6	0.0%
Total	**17,262.6**	**100.0%**	**18,481.3**	**100.0%**	**18,694.5**	**100.0%**

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

The average LTV ratio, weighted by the value of exposure, for the portfolio of mortgage loans denominated in foreign currencies was 116.6 per cent as at 30 June 2017 (compared with 126.1 per cent as at 31 December 2016).

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

10.2. Capital adequacy

The key objective of the capital management process is to consistently maintain the Group's long-term capital adequacy by ensuring that the Group has in place a proper process for capital risk identification, measurement, monitoring, mitigation, and reporting.

The Group is required to maintain the Total Capital Ratio of at least 12.06 per cent based on the regulatory requirements, and at least 16.06 per cent based on supervisory recommendations. The table below presents the minimum Total Capital Ratio applicable to the Group as at 30 June 2017.

Minimum level of total capital ratio	Regulatory requirements[1]	Supervision recommendations
Minimum total capital ratio	8.00%	12.00%
Buffer to cover risk resulting from the portfolio of currency mortgage loans	2.56%	2.56%
Safety buffer	1.25%	1.25%
Buffer for other systemically important institutions	0.25%	0.25%
Total capital ratio	**12.06%**	**16.06%**

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

The Group regularly strengthens its capital base, with a particular focus on maintaining a large share of the highest quality capital (Tier 1/CET1). The share of Tier 1 capital as at the end of the first half of 2017 remained very high, at 97 per cent.

As at the end of the first half of 2017, the Bank's Tier 1 capital ratio was 17.03 per cent, while the Total Capital Ratio (TCR) stood at 17.62 per cent, which means that the Group met both the regulatory requirements and requirements under the supervisory recommendations. The main developments which drove the change in the capital ratios in the first half of 2017 included: inclusion of the Bank's entire profit for 2016 in Tier 1 capital, decrease in intangible assets following write-off of the "Polbank" brand, and changes in the application of the credit conversion factor (CCF). As at the end of March 2017, upon receipt of a post-inspection recommendation from the PFSA, the Bank replaced CCF of 0 per cent with CCF of 20 per cent and 50 per cent, in accordance with point 4 of Annex I to Regulation (EU) No. 575/2013 of the European Parliament and of the Council. On 30 June 2017, as a result of the measures realized by the Bank to address the PFSA's concerns expressed in the post-inspection recommendation, the Bank reassigned CCF of 0 per cent to its off-balance sheet exposures.

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 30.06.2017 stand-alone[1]	As at 31.12.2016 stand-alone[1]
Credit and counterparty risk	Standard	2,585,359	2,613,173
Market risk	Standard	28,471	44,066
Operational risk	Standard	258,855	271,001
Total capital requirements		**2,872,685**	**2,928,240**
Own funds		**6,328,775**	**6,111,419**
Risk weighted assets		**35,908,557**	**36,603,003**
Common equity Tier 1 ratio		**17.03%**	**16.05%**
Total capital ratio		**17.62%**	**16.70%**

[1] As at 31 December 2016 and 30 June 2017, the Bank did not hold interests in any subsidiaries which would be subject to mandatory prudential consolidation, therefore, capital ratios are computed and reported on a stand-alone basis only.

On 1 June 2017, the Resolution of Ministry of Economic Development and Finance dated 25 May 2017 related to higher risk requirements for exposures secured with mortgage on real estate was published. According to this resolution, exposures secured with mortgage on residential real estate, for which the amount of principal and/or interest installment depends on changes of the exchange rate of currency or currencies other than currencies of the debtor's income, have been assigned with the risk requirement of 150%. Exposures secured with mortgage on office premises or other commercial real estate located in Poland have been assigned with the risk requirement of 100%. The resolution will come into force within 6 months from its publication.

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

The 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 stress scenarios, including an internal crisis scenario, financial market crisis scenario, and a combination of the two;
- Set of supervisory liquidity measures.

In the first half of 2017, 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.

10.4. Market risk

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

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

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

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

To following tools are used, among 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 re-measurement schedule;
- Limits of the maximum open FX position per currency and in aggregate for all currencies;
- Limits of the Value-at-Risk for the foreign exchange and interest rate risks, with 1-day holding period and 99 per cent confidence level. The Value at Risk is determined using the variance-covariance method;
- Monthly, quarterly and annual limits of maximum loss;
- Earnings-at-Risk measure, which presents sensitivity of net interest income in a one-year horizon assuming an immediate and identical change of the market interest rates for all currencies by 100 basis points, continuing for the entire modeling period. Measurements as at the end of the first half of 2017 showed the effect on the Bank's net interest income at PLN 125,680 thousand (or 2.0 per cent of the own funds used in the calculation of the capital adequacy ratio), against PLN 153,642 thousand (or 2.5 per cent of those funds) for the first half of 2016.

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

Value-at-risk (PLN thousand)		**Min.**	**Max.**	**Average**	**As at 30.06.2017**	**As at 30.06.2016**
Interest rate risk	Banking book	5,067	13,426	8,879	12,123	6,622[1]
	Trading book	226	1,404	686	747	843
Foreign exchange risk		9	183	66	54	98

[1] The change in value-at-risk as at 30 June 2016 versus the value presented in the Report on the operations of Raiffeisen Bank Polska S.A. Capital Group in the first half of 2016 is a result of the change in allocation and aggregation of VaR regarding the particular risks in order to keep the data comparable going forward.

10.5. Operational risk

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

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

In the first half of 2017, 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 operational risk in individual areas of its activity and at improving the quality of operational risk management.

The most important activities in that respect included:

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

10.6. Compliance risk management

The Group defines compliance risk as possible effects of non-compliance of the Group's operations with applicable laws, internal regulations and standards of conduct adopted by the Group. The consequences of such risk may include loss of clients, complaints, deterioration 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 2017 included work on:

- Adapting the internal control system to the Regulation of the Minister of Development and Finance on the risk management system and internal control system, remuneration policy, and detailed rules for internal capital adequacy assessment at banks, dated 6 March 2017 (Journal of Laws from 2017, item 637);
- Adapting the Bank's operations to the requirements of the Act on Automatic Exchange of Information (CRS).

In the first half of 2017, work continued on implementing:

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

11. Events subsequent to the reporting date

Events subsequent to the reporting date are discussed in Note 34 'Events subsequent to the reporting date' to the interim condensed consolidated financial statements of the Raiffeisen Bank Polska S.A. Capital Group for the period from 1 January to 30 June 2017.

12. Outlook for the Raiffeisen Bank Polska S.A. Group

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

The Group expects economic growth to remain strong throughout 2017, reaching the level of 3.8 per cent. The coming quarters may see the GDP growth slightly slow down due to the weakening impact of the Family 500+ (Rodzina 500+) social benefit scheme on consumption and a possible economic downturn in the eurozone, resulting, among other things, from an increase in market interest rates. Under these circumstances, economic growth should mainly be driven by investments, primarily in the public sector. However, accelerating the performance of this category will depend on increased utilization of EU funds within the financial framework 2014–2020.

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

- Uncertainty regarding the stability of improvements in public finances after the pension reform takes effect;
- Unresolved issue of foreign currency-denominated and foreign currency-indexed loans in the banking sector;
- Shrinking supply of qualified workforce;
- Interest rates continuing at an all-time low;
- Lower-than-planned utilization of EU funds within the financial framework 2014–2020.

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

- Possible political changes in the eurozone and in the European Union as a result of Brexit, which may lead to a revision of the EU budget;
- Potential adverse impact of the monetary policy normalization measures in the US and in the eurozone on global economic growth and capital flows between the emerging markets and developed economies;
- Recurring concerns about a significant slowdown in China's economy, which would adversely affect GDP growth in the eurozone and in Poland;
- Geopolitical tensions in North Korea, the Middle East and Ukraine;
- Risk of another crisis in global financial markets, including as a result of bankruptcy of a major financial institution, or in a group of economies that are highly dependent on commodity prices.

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

12.2. Outlook for the Group

In the second half of 2017, the Group will continue to pursue the rightsizing program announced on 10 April 2017, whose overriding objective is to improve the Bank's profitability, bring down the cost to income ratio to less than 55 per cent from 2019 onwards, and adjust the Bank's business model to the market challenges. While aligning its plans and decisions with the current and projected market environment, the Bank will seek to maintain the position as a midmarket leader, focusing on small and medium-sized enterprises, as well as micro-enterprises and individual clients as the main drivers of the Polish economy. 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 to generate higher operating income and reduce costs through implementation of the rightsizing program, while maintaining prudent and business-oriented risk management.

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

13.1. Corporate governance standards and scope of their application

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. In accordance with the Principles, in March 2017, the supervisory body assessed the Bank's compliance with the Principles. The Bank's Management Board and the General Meeting have acknowledged the results of the assessment.

13.2. Shareholding structure

As at 30 June 2017, the Bank's share capital consisted of 225,668,340 shares with a par value of PLN 10 per share.

According to the information held as at 30 June 2017, the sole shareholder in Raiffeisen Bank Polska S.A. was Raiffeisen Bank International AG .

13.3. Supervisory Board

The Supervisory Board exercises on-going supervision of the Bank's business. The scope of its activities is based on 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 2017 was as follows:

- Dr Johann Strobl – Chairman of the Supervisory Board;
- Martin Grüll – Deputy Chairman of the Supervisory Board;
- Klemens Breuer – Member of the Supervisory Board;
- Andreas Gschwenter – Member of the Supervisory Board;
- Władysław Gołębiewski – Member of the Supervisory Board;
- Peter Lennkh – Member of the Supervisory Board;
- Hannes Mösenbacher – 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 2017 was as follows:

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

On 21 July 2017, the Bank's Extraordinary General Meeting appointed Ms Beata Mońka and Mr Krzysztof A. Rozen as members of the Bank's Supervisory Board with effect from 1 August 2017. According to the representations received by the Bank, Ms Beata Mońka and Mr Krzysztof A. Rozen meet the independence criteria for audit committee members specified in the Polish Act on Statutory

Auditors, Auditing Firms, and Public Oversight of 11 May 2017, and the requirements under Art. 22aa of the Polish Banking Law of 29 August 1997.

Given the above and considering the resignation tendered by Mr Selcuk Sari as member of the Supervisory Board, as at 1 August 2017, the composition of the Bank's Supervisory Board was as follows: Dr Johann Strobl – Chairman of the Supervisory Board, Martin Grüll – Deputy Chairman of the Supervisory Board, Klemens Breuer – Member of the Supervisory Board, Władysław Gołębiewski – Member of the Supervisory Board, Andreas Gschwenter – Member of the Supervisory Board, Peter Lennkh – Member of the Supervisory Board, Beata Mońka – Member of the Supervisory Board, Hannes Mösenbacher – Member of the Supervisory Board, Krzysztof A. Rozen – Member of the Supervisory Board.

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

The Management Board member appointed subject to approval by the competent banking supervision authority is responsible, in particular, for supervising risk management.

In the first half of 2017 (on 29 May 2017), Mr Werner Georg Mayer was appointed to the Bank's Management Board to be responsible for oversight over the operations and IT management (COO), with effect from 1 June 2017.

The composition of the Management Board of Raiffeisen Bank Polska as at 30 June 2017 was as follows:

- Piotr Czarnecki – President of the Management Board, CEO;
- Maciej Bardan – First Vice President of the Management Board;
- Jan Czeremcha – Vice President of the Management Board;
- Witold Broniszewski – Member of the Board, CRO;
- Łukasz Januszewski – Member of the Management Board;
- Piotr Konieczny – Member of the Management Board, CFO;
- Werner Georg Mayer – Member of the Board, COO.

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

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

- The interim condensed consolidated financial statements for the period from 1 January 2017 to 30 June 2017 and comparative data were prepared in compliance with applicable accounting standards and give a true, fair and clear view of the assets and financial position of the Raiffeisen Bank Polska S.A. Capital Group and its financial result;

- The Directors' Report on the operations of the Raiffeisen Bank Polska S.A. Capital Group in the first half of 2017 gives a true view of the development, achievements and situation of the Raiffeisen Bank Polska S.A. Capital Group, including the description of principal risks and threats.