

Questions asked by the shareholders at the Annual General Meeting of PKO Bank Polski SA convened on 30 June 2016.

The questions were answered by Zbigniew Jagiełło, President of the Management Board

Questions regarding the hedging of the CHF portfolio

An attorney representing a minority shareholder inquired whether all of the CHF-denominated liabilities were secured with a financial collateral consisting of CIRS transactions. What were the cash flows related to these transactions.

Answer:

CIRS, Swaps and other forms of hedging of credit exposures are part and parcel of banking business. They have been known ever since foreign currency loans have been made in Poland, i.e. since 2002. FX loans enjoyed the greatest success in terms of sales volumes in 2006-2008. They exist in the Bank's balance sheet and the credit exposure is secured with long-term liabilities, i.e. bonds issued in CHF, but also in EUR and USD, which are then converted into CHF, or directly with loans taken in Swiss francs. The forms which the question pertains to represent only a part (about 20%) of such collateral and they are meant to secure shorter positions. When a CIRS or Swap transaction expires, the Bank does not renew them because on the one hand loans are repaid and on the other, the Bank looks for other, more advantageous forms of collateral to secure such assets.

Supplementary information

Information about the hedging of the cash flows from loans in convertible currencies by way of CIRS is provided in Note 21.5 (pp. 53-54) of PKO Bank Polski Annual Financial Report 2015.

The attorney representing a minority shareholder also asked who the counterparties in the CIRS transaction were, which banks, which financial institutions underwrote them? Could the President disclose the names of these institutions?

Answer:

PKO Bank Polski enters into such transactions with a number of banks. In addition, PKO BP evaluates the risk of counterparty's default in such transactions according to its proprietary rating methodology. The Bank had been audited numerous times by the Polish Financial Supervision Authority and its own external auditors, in case the Bank's own evaluation were ever questioned.

Naturally, the names of the institutions in question are trade secrets. However, information in this respect is available to the controllers, such as the Polish Financial Supervisory Authority or the National Bank of Poland and is also subject to control by the Supervisory Board, which supervises over the Bank's Management Board.

Furthermore, the attorney representing a minority shareholder also asked specifically which unit of the Bank was responsible and for what particular activities in regard to the exposure

to the effects of the high proportion of CHF-denominated mortgages in the total credit portfolio, as described in page 105 of the Annual Report, ite, 50.5 “The Bank's policy in the area of the CHF”.

Answer:

This is done on the cross-control basis, i.e. by the Treasury Department and the Risk Management Area, which oversees the execution of such transactions.

Questions about steps taken in connection with the appreciation of the CHF in order to help CHF borrowers and mitigate the risks to the Bank's operations.

An attorney representing a minority shareholder inquired about problems that the appreciation of the CHF and EUR might engender. What steps has the Bank taken to help the borrowers and at the same time to limit the growth of its risk?

Answer:

As regards CHF mortgage loans, the Bank acted with due care concerning easements for the customers who found themselves in a difficult situation in the wake of an unexpected appreciation of the Swiss franc after the National Bank of Switzerland had removed the so-called cap on 15 January 2015. The Bank was the leader in the banking community regarding the creation of a certain standard of customer support. The Bank introduced easements consisting, among other things, in acknowledging the negative values of the CHF LIBOR rate, reducing the FX spread and allowing the extension of the loan life, refraining from taking steps to obtain additional security, all as part of the so-called “bank six-pack”. The idea was to make sure that following the increase in the CHF exchange rate, the burden on the customer in 2015 remained the same as in 2014. It seems that the customers who took advantage of these solutions, and not all of them would, are satisfied with it. An indication of this is the number of complaints regarding the adopted procedure - it is negligible compared with the number of customers. The same is the case now of the Borrower Support Fund. In the whole banking sector, it has been used by 250 people. Half of the cases concerned CHF loans and the other half PLN loans, which are also extremely important.

I already told you about this while presenting the idea of the mortgage bank, volatility of interest rates and our actions in the future. We are not able to do everything at once but as far as PLN mortgage loans are concerned, our aim is for the funding of such loans to be based on a fixed rate and be handled mainly by mortgage banks, which design the offering in a better way from the point of view of risk for the customer and the economic system in Poland.

Questions about litigations by the Consumer and Competition Protection Office

An attorney representing a minority shareholder inquired about Chapter 39 of the Annual Report (pages 77-79) “Legal Claims”. What was meant were litigations initiated by the President of the Consumer and Competition Protection Office. Based on what premises and what studies by advisors did the members of the Management Board and the Supervisory Board of PKO Bank Polski conclude that the likelihood of materialisation of said risk was small while chapter 39 contains a description of numerous litigations involving high disputed

amounts where just the costs of legal assistance and court fees can be assessed at at least more than a dozen million zloty?

Answer:

Being a big institution as it is, PKO Bank Polski is unable to avoid all situations where a customer or the Bank initiates a dispute. The Bank litigates where its interests or security of the deposits may be at risk - these are mainly cases of unpaid loans.

As regards the matter of legal disputes brought up by the shareholder, naturally, it is not the intention of the Bank to be involved in litigations for litigation's sake. Where the interests of the customers or shareholders are in danger, it is the duty of the Management Board of the Bank to first use the services of its in-house lawyers and in complicated cases requiring very narrow expertise - engage external lawyers. Such activities are monitored not only by the Legal Department but also by the Management Board and then the Supervisory Board.

The situation of the Bank with regard to such legal claims is not extraordinary compared with other financial institutions. When entering into a transaction, the Bank does not know the opinion of the Consumer and Competition Protection Office but when the Office states that, for example, a certain agreement was concluded in 2007 in breach of the law, the Bank complies with such an opinion. However, if the Bank is of the opposite opinion, it starts a court action and appeals against the penalty amount. It is the court which is the deciding authority and not the Office, which only presents its position.