

The Annual Report 2016

KIR.

Management Board

Piotr Alicki	President of the Management Board (since November 2nd, 2016)
Dariusz Marcjasz	Vice-President of the Management Board
Michał Szymański	Vice-President of the Management Board
Kazimierz Małecki	President of the Management Board (until November 2nd, 2016)
Jacek Rapcia	Vice-President of the Management Board (until April 27th, 2016)

Supervisory Board

Adam Tochmański	Chairman of the Supervisory Board
Narodowy Bank Polski	
Mieczysław Groszek	Vice-Chairman
Związek Banków Polskich	of the Supervisory Board

Members of the Supervisory Board

Piotr Kasznik	Bank Millennium S.A.
Jarosław Mastalerz	mBank S.A.
Piotr Miałkowski	Bank Polska Kasa Opieki S.A.
Zygmunt Miętki	SGB-Bank S.A.
Maciej Palej	Bank Polskiej Spółdzielczości S.A.
Czesław Piasek	Bank Handlowy w Warszawie S.A.
Maciej Pietrucha	Bank Zachodni WBK S.A.
Elżbieta Witkowska-Hasny	Bank BGŻ BNP Paribas S.A.
Maciej Wyszoczarski	PKO Bank Polski S.A. (since July 11th, 2016)
Alicja Żyła	ING Bank Śląski S.A.
Jarosław Orlikowski	PKO Bank Polski S.A. (until June 30th, 2016)

Shareholding structure

shares in %

Narodowy Bank Polski	34,44	
Bank Zachodni WBK S.A.	14,23	
Bank BGŻ BNP Paribas S.A.	5,74	
Bank Handlowy w Warszawie S.A.	5,74	
Bank Millennium S.A.	5,74	
Bank Polska Kasa Opieki S.A.	5,74	
ING Bank Śląski S.A.	5,74	
mBank S.A.	5,74	
PKO Bank Polski S.A.	5,74	
Bank Polskiej Spółdzielczości S.A.	5,51	
Związek Banków Polskich	2,89	
SGB-Bank S.A.	2,75	



ABOUT KIR

■ As a trusted partner and key banking sector infrastructure supplier, KIR has been providing stable and reliable interbank clearing systems for 25 years. We consequently develop and maintain system solutions that are used by the entire sector. We are also a part of a broadly understood new technologies industry – we undertake ambitious challenges in this field, striving to achieve the position of a key supplier of solutions for public administration and e-commerce. Owing to our unique competences and long-term experience, we actively participate in the digitalization process of Poland.

The most important projects implemented in 2016 include, i.a., completion of the back-up data center, launching of new services in Ognivo system: Central Information on accounts and digitization of debt seizures on bank accounts, and implementation of Inkart system for domestic card payment clearing and settlement. Important achievements cover also the production implementation of new user applications in Elixir and Euro Elixir systems. Together with the Ministry of Finance we worked on promotion of the cashless payments and launched a pilot project for acceptance of payments with the use of payment terminals in the public administration entities.

The KIR logo is located in the top right corner of the page. It consists of the letters "KIR" in a bold, white, sans-serif font, positioned below a thin white horizontal line. The logo is set against a dark blue background that features a complex, abstract pattern of overlapping circles and shapes in various shades of blue.

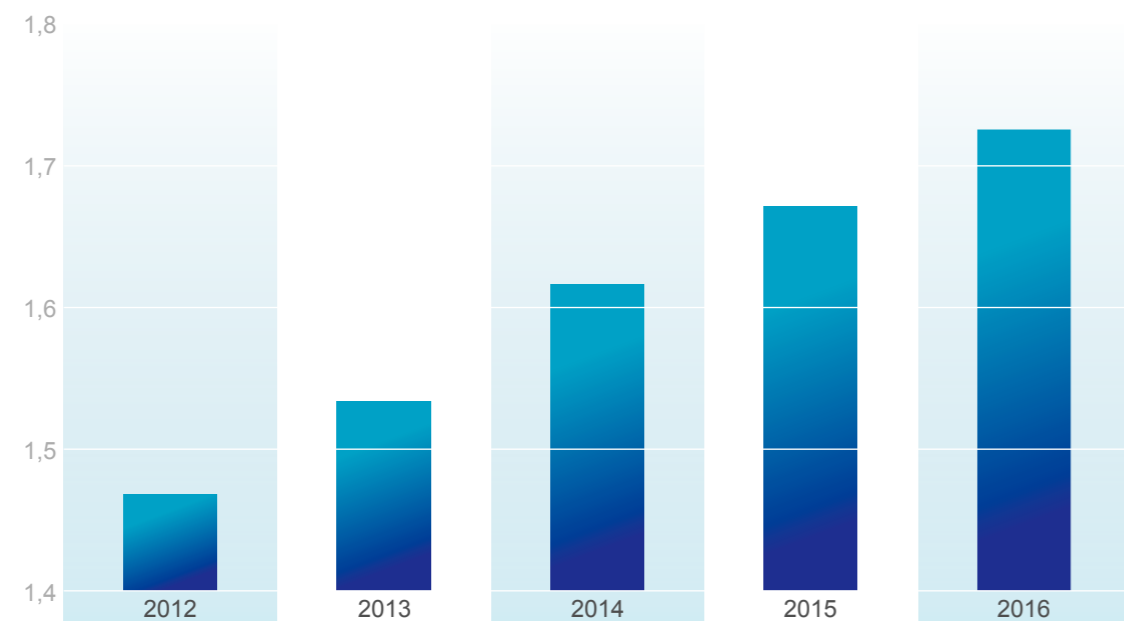
Elixir

■ Elixir system operated by KIR, launched as the first electronic interbank clearing system in Poland for exchange of retail orders, operating in the Polish currency, has been a basis for effective functioning of the banking sector for more than 20 years. In 2016 we cleared 1.72 billion messages in Elixir system – 2.8% more than in the previous year.

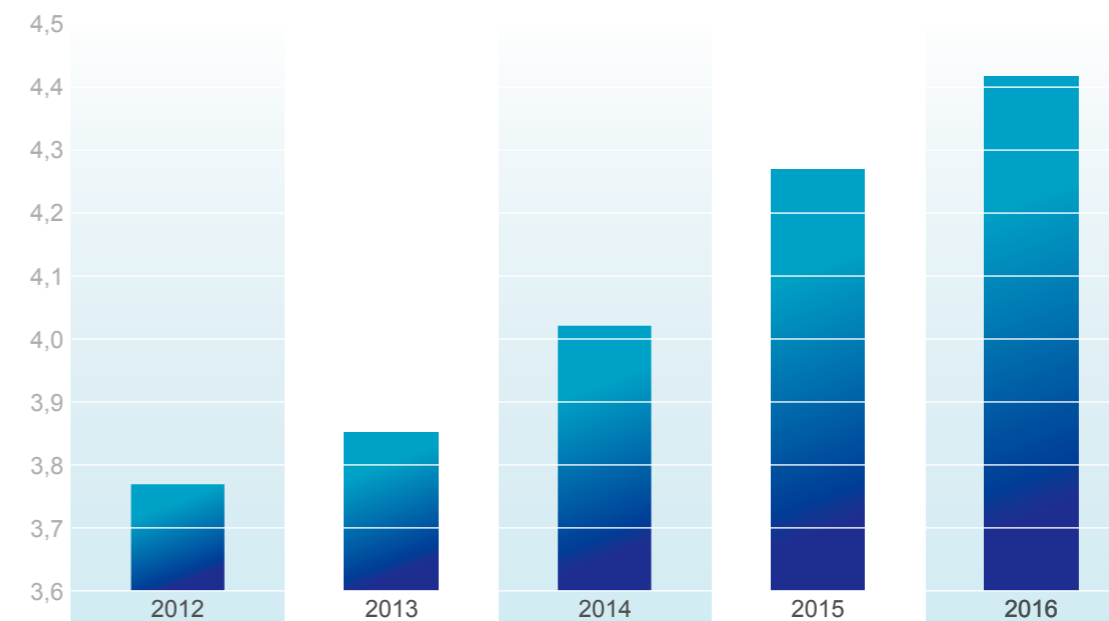
Their value exceeded PLN 4.42 trillion and was 3.7% higher than in 2015. The highest monthly number of messages – 152.15 million – was recorded in December 2016, while the highest daily volume – 13.11 million transactions amounting to PLN 20.60 billion was cleared on 10th of October 2016.

Throughout 2016, we used Elixir system to make settlements of users of BLIK mobile payment system, operated by Polski Standard Płatności, and since December to make also settlements of users of Inkart system, under analogical principles of the so called external system.

Total number of messages in Elixir system (in billion)



Total turnover value in Elixir system (in PLN trillion)



Euro Elixir

■ In Euro Elixir system, used for retail interbank clearing in EUR, in 2016 we processed 22.04 million messages – 3.62 million more than in the previous year (an increase by 19.6%). The total value of the processed messages amounted to EUR 116.30 billion, which in relation to EUR 100.84 billion in 2015 means an increase by 15.3%.

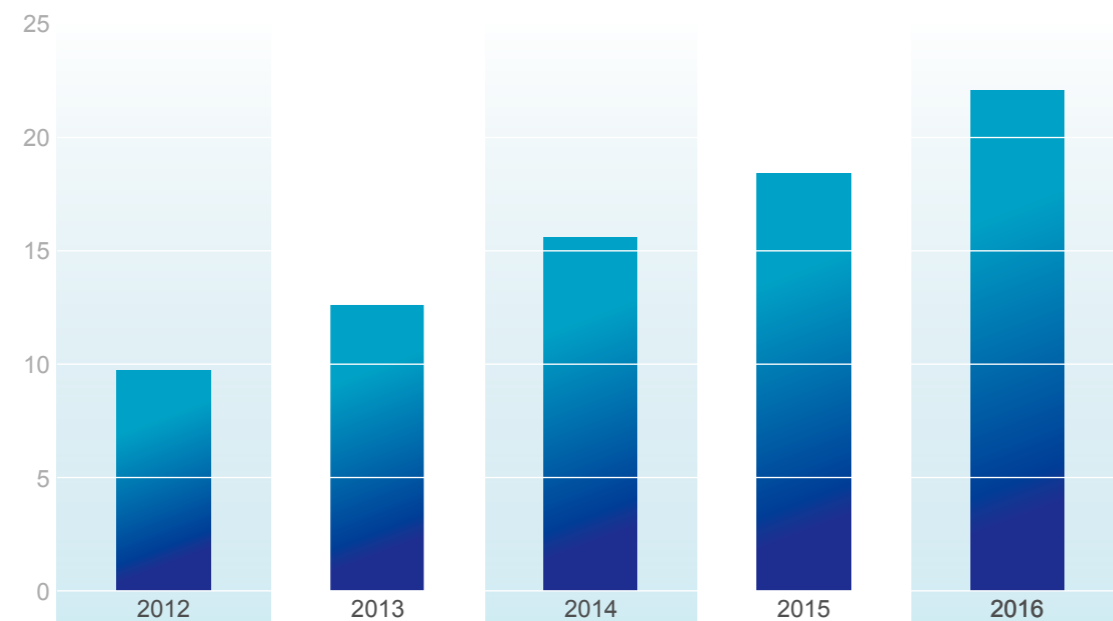
The highest monthly number of messages – 2.14 million – was cleared in December 2016, while the highest daily volume

– 124.36 thousand transactions amounting to EUR 654.66 billion, was recorded on 15th November 2016.

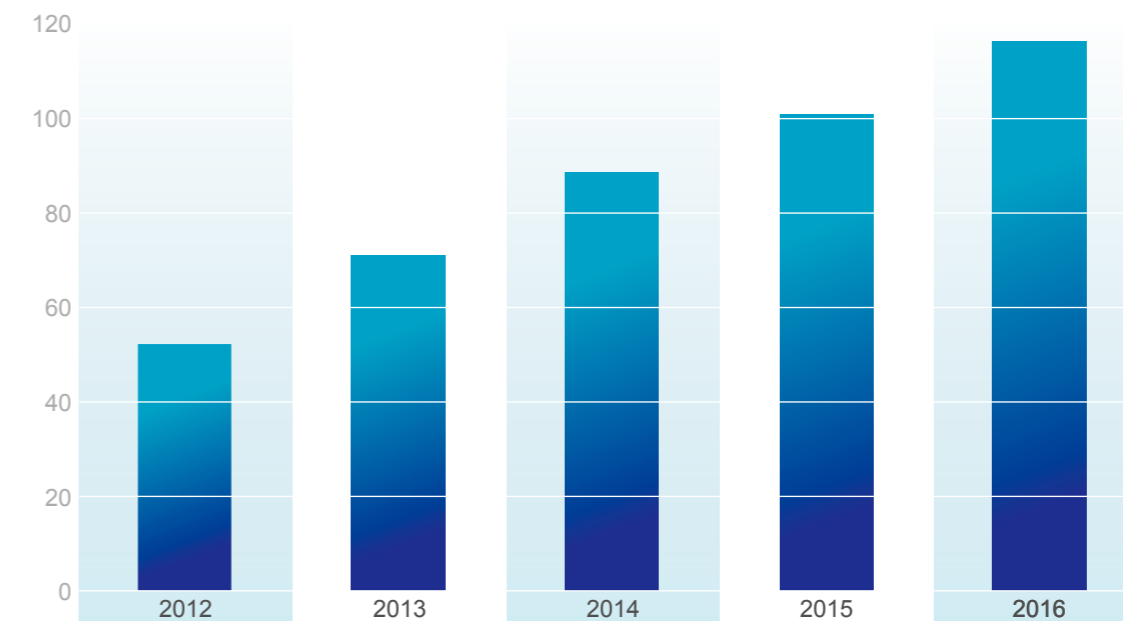
■ We consequently improve the quality and reliability of the services we provide. Completion of the production implementation of new Elixir-OK and Euro Elixir-OK user applications in all banks in Poland processing payment messages using these applications was a significant achievement in 2016.

Implementation of Elixir-OK and Euro Elixir-OK user applications together with the supporting solutions such as the new KIR gate, enabled to modernize the order processing system, increase the efficiency and security of applications, and extend the possibilities of integration of bank IT systems and KIR clearing systems.

Total number of messages in Euro Elixir system (in million)



Total turnover value in Euro Elixir system (in EUR billion)

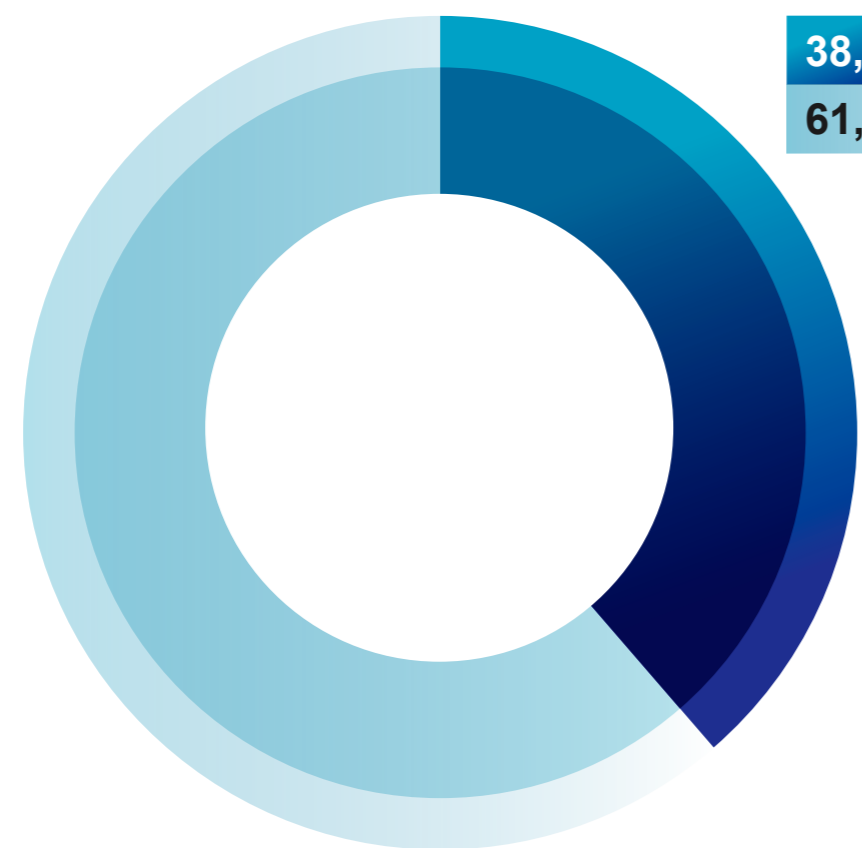


SWIFT

■ Within the interbank clearing system, KIR, as the only authorized SWIFT Service Bureau in Poland, offers financial institutions and commercial entities access to SWIFTNet – the global telecommunications network. Our clients have the possibility of sending financial and informational messages within the network of correspondent banking,

exchange payment orders with TARGET2 clearing system, and clear domestic orders with SORBNET2 system. The tailored business services available through KIR include, i.a., SWIFTNet Funds – a service targeted at entities active on the investment fund market.

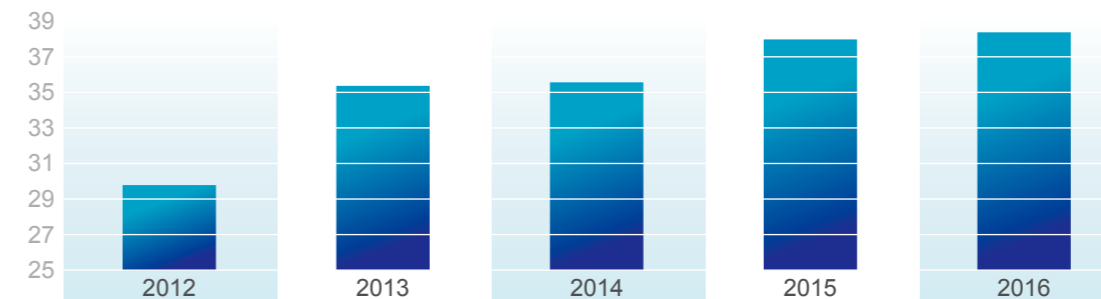
In 2016, services provided by SWIFT Service Bureau were used by 25 clients, allowing KIR to claim a 38.7% share of SWIFT services market in Poland. The volume of messages sent via SWIFT Service Bureau in 2016 reached 3.82 million and was 14.8% higher than in 2015.



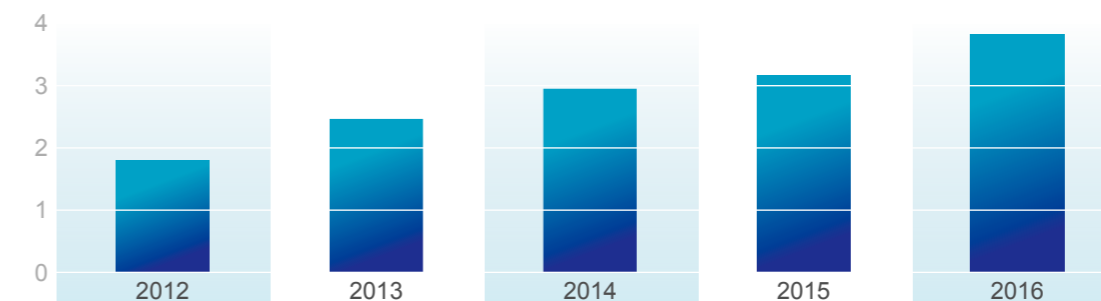
KIR's share in SWIFT services market in Poland (in %)

38,7% SWIFT Service Bureau KIR Customers
61,3% Remaining users of SWIFTNet

KIR's market share in SWIFT services in Poland (in %)



Volume of messages sent via SWIFT Service Bureaus KIR (in million)



Express Elixir

■ Express Elixir, the system designed for clearing instant payments – launched by KIR as the first solution in Poland and the second in Europe, dynamically developed in 2016. It enables the transfer of funds between accounts held in different banks within seconds, 24 hours a days, 7 days a week. Over 60 commercial and cooperative banks have implemented this service so far and further banks perform tests and plan launching thereof in 2017.

In 2016, via Express Elixir, we cleared 2.69 million messages and their value exceeded PLN 10.25 billion. When compared

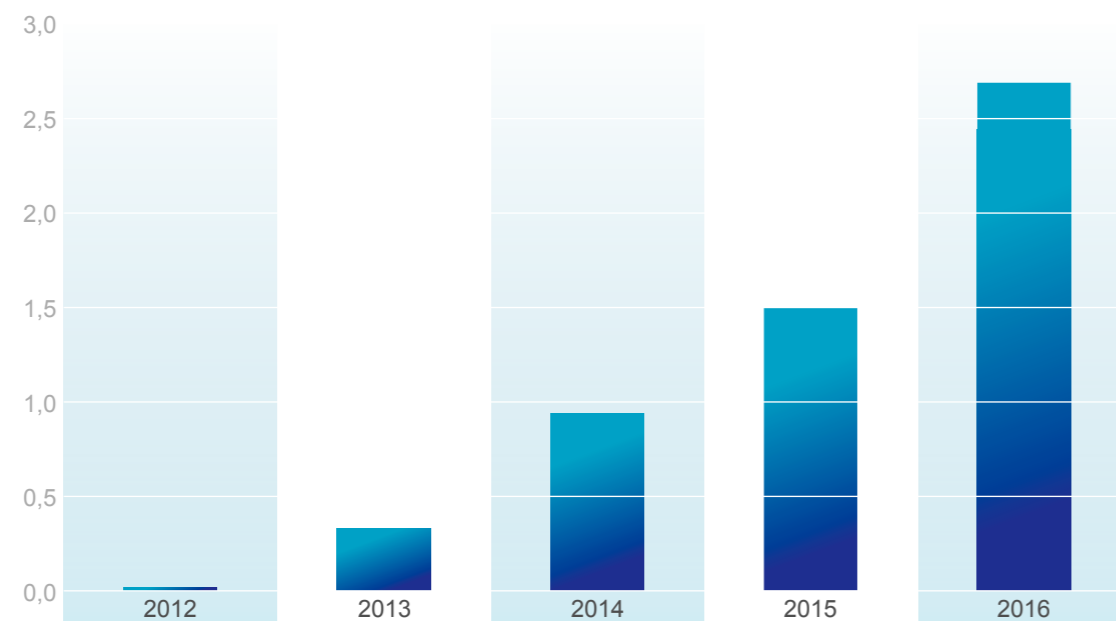
to 2015, the number of completed transactions increased by 79.7% (from 1.50 million), and the value grew by 52.9% (from PLN 6.71 billion). In November 2016, the monthly value of cleared transactions exceeded one billion PLN for the first time since the launch date. The highest monthly number of messages – 385,048 – was recorded in December 2016.

■ Payments to mobile phone numbers (P2P mobile payments) were increasingly popular. They are carried out using Express Elixir system between individual BLIK system users. In 2016, this type of transfers were available

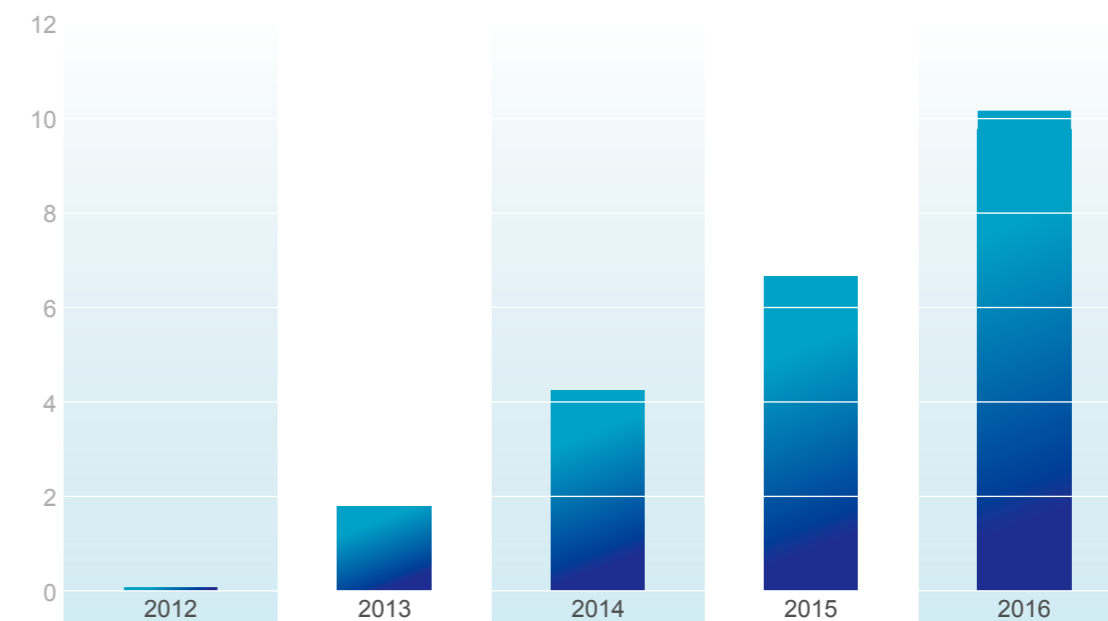
for the clients of PKO Bank Polski, mBank, Bank Zachodni WBK, ING Bank Śląski and Millennium Bank.

To ensure further intensive system development, KIR performed analytical and implementation works related to launching instant payments for the Polish Social Insurance Institution (ZUS), tax and custom authorities.

Total number of messages in Express Elixir system (in million)



Total turnover value in Express Elixir system (in PLN billion)



Ognivo

■ In 2016 Ognivo system functionality was extended by new services – Central Information on accounts and ICT system for operation of debt seizures on bank accounts.

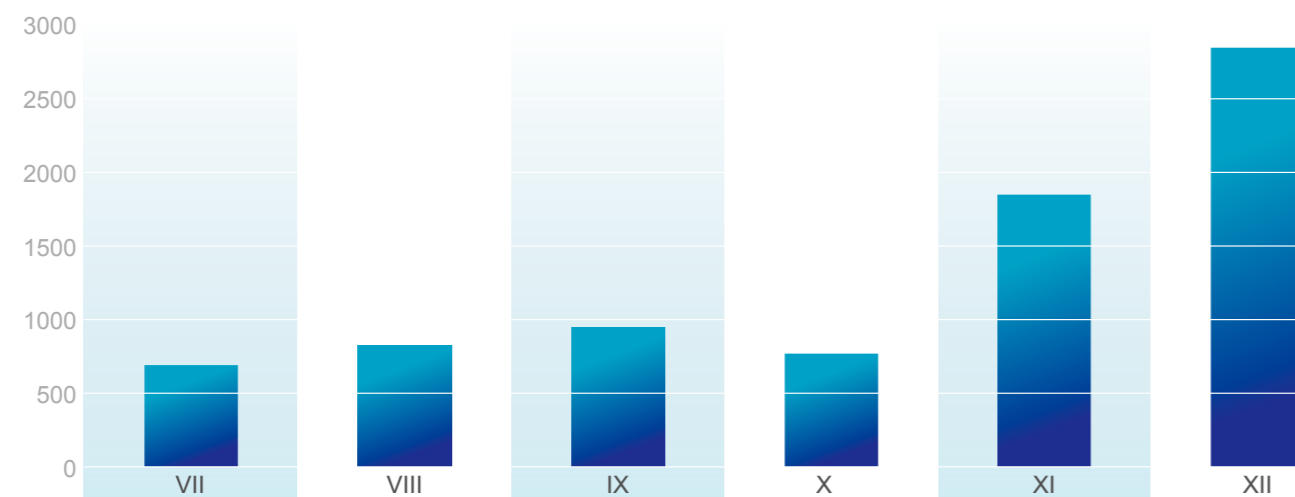
The Central Information, launched on 1st of July 2016, enables obtaining information on inactive accounts, i.e. accounts of deceased persons and forgotten accounts of natural persons. Owing to the Central Information, an heir holding a valid court decision on the right to inheritance, or an authorized entity, e.g. public prosecutor, police or

court, may verify the bank which keeps bank accounts owned by the deceased person and those forgotten by owners.

The possibility of receiving information in a single place, i.e., in a bank or SKOK (National Association of Cooperative Savings & Credit Unions), with which the application was filed is an important advantage of the service. The applicant receives a summary report from the Central Information, which contains, i.a., indication of the entity that holds or held

the account, number thereof, information on whether this is a joint account and information on agreements terminated or expired for reasons set forth in the Banking Law or the Act on National Association of Cooperative Savings & Credit Unions. From the date of launching the service until the end of 2016, 7,927 summary reports were generated in Ognivo system.

Number of inquires to the Central Information (July – December 2016)



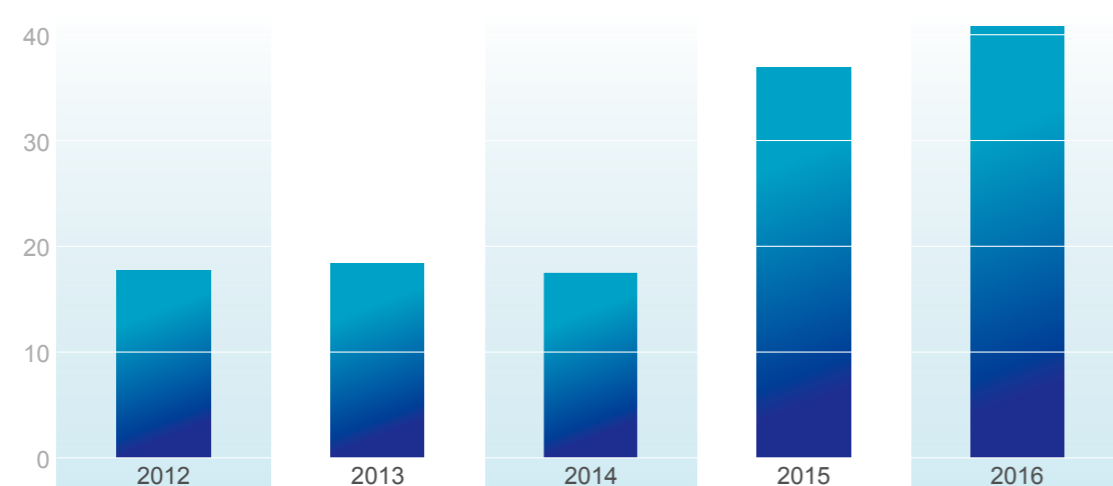
Ognivo

■ In 2016, the ICT system for operation of debt seizures on bank accounts (previously performed only in writing) was launched. This was enabled by the Act of July 10th, 2015 on amendment to the Civil Code, the Code of Civil Procedure and other acts, that became effective on 8th September 2016. As of launching the system, the enforcement authorities being participants thereof have submitted 2.40 million notices on debt seizure to banks.

Since 2010 a module for transfer of bank accounts has been available within Ognivo system. Poland is the first country in the European Union that launched this service in an electronic form. In 2016, the decision on bank account transfer using Ognivo system was made by 40,882 persons. This is an increase by 10.7% as compared to the previous year. In a month, the greatest number of applications (7,035) was received in June. In 2016, 40,522 persons, i.e. 99.3%

of all persons applying for account change, decided to close the previous bank account. The transfer of the balance to a new bank was ordered by 39,740 persons, i.e. 97.3%. Standing orders were transferred by 2,743 persons and payment orders by 1,933 persons.

Number of applications for bank account transfer (in thousand)



Inkart

■ One of the key successes in 2016. Implementation of Inkart system – dedicated to domestic card payments, was preceded by pilot tests. Inkart operates based on the consent of the President of the National Bank of Poland granted to KIR to operate the new payment system, and holds the necessary certifications, including the PCI DSS (Payment Card Industry Data Security Standard). In 2016, we signed three agreements for participation in the system and implemented the first two users.

In 2016, KIR took actively part in Polish banking sector's initiatives aimed at assessing the potential benefits of launching of a domestic card-based payment scheme in Poland and the creation of the so called "ATM union", which would be an agreement between players on the card market on the joint management and use of the in-country ATM network. It was possible due to the specific features of Inkart system that was designed as a flexible system and thus can be adapted to its participants' needs pertaining to the domestic card payments.

We also actively participated in initiatives of the financial sector as regards development of cashless trade. The cooperation with the Ministry of Finance is worth emphasizing, as part of which we launched and coordinated a pilot project to disseminate cashless payments in public administration entities using POS terminals.

Paybynet

■ While implementing the tasks aimed to extend the cashless payment market, KIR developed Paybynet Internet payment system dedicated to the e-commerce and public administration sector. This is a pay-by-link system offering competitive advantage of the direct transfer of funds and the irrevocability of the payment order. Paybynet enables direct transfer of funds from the client's bank account to the bank account of an e-shop or a public administration entity and is the only service on the Polish market that cooperates with mass-collect systems. Our services related to mass payments, booked using these systems on individual accounts, enjoys growing popularity among public administration.

For the clients of public sector entities we launched WebPOS Paybynet service. This is a solution that allows for making administrative fee payments using a smartphone – directly in the customer service point. WebPOS Paybynet application eliminates the necessity to visit the cash office and does not require any additional expenditures of the authority – including, e.g. equipment of the public official position with a payment terminal.

In addition, we dynamically developed the service of making available payment gates to entities offering payment services or starting their activity in that field. Paybynet system was implemented by additional e-shops and public administration entities. Consequently, our group of clients reached nearly 1,500 entities (in 2015 it reached 1,300). The number of commercial banks participating in the service remained the same as in the previous year (8), and the number of cooperative banks exceeded to 140 (in 2015 – 100).

Szafir

■ In 2003, KIR made available the electronic signature as one of the first institutions in Poland. For over a dozen of years we have been providing trust services related to the issue of certified electronic signatures and electronic time stamps. Sets offered by www.elektronicznypodpis.pl allow for placing qualified e-signatures that are equivalent to the original handwritten signatures. They can be used for signing the Social Insurance Institution (ZUS) declarations, tax declarations and for sending data to the General Inspector of Financial Information (GIIF), the Inspector General for Personal Data Protection (GIODO), National Court Register (KRS) and other public administration authorities.

Among the events that have influence on development of e-signature related services, the entry into force of the so called eIDAS regulation on 1st of July 2016 needs to be mentioned. This is a regulation of the European Parliament and of the Council (EU) on electronic identification and trust services for electronic transactions in the internal market which systematized and unified the method of providing trust services in the European Union. The regulation harmonizes the use of the e-signature in the EU and introduces new tools that are to contribute to increase e-transactions security, including regulations on electronic identification of EU citizens.

The solutions proposed by eIDAS, if implemented in the Polish law and practice, will allow for introduction of additional applications for the e-signature services provided by KIR. It will be possible i.a. to render services related to the issue of qualified electronic stamp certificates and authentication of websites.

The present and the future

■ Our priority is to maintain key position in the Polish payment system by providing comprehensive, safe and reliable clearing services. As a technological and infrastructural company, we are ready to accept the liability for implementation of challenges additional to the Polish banking sector in a dynamically changing world. In cooperation with banks and the public sector, we will continue to actively contribute to the development of cashless economy in Poland and support the use of innovative digital technologies in order to create solutions extending the banking sector offer and increasing the digital awareness and the quality of life, of Poles.

Independent auditor's opinion

INDEPENDENT AUDITOR'S OPINION

for the Annual General Meeting of Shareholders and the Supervisory Board of Krajowa Izba Rozliczeniowa S.A.

Report on the audit of the financial statement

We have audited the accompanying financial statement of Krajowa Izba Rozliczeniowa S.A. Company (the "Company"), with its headquarters located at 65 W. Pileckiego street in Warsaw, which consists of:

- introduction to the financial statement;
- balance sheet as at December 31st, 2016;
- profit and loss report for the fiscal year from January 1st to December 31st, 2016;
- statement of changes in equity for the fiscal year from January 1st to December 31st, 2016;
- cash flow statement for the financial year from January 1 to December 31, 2016;
- additional notes and explanations.

Responsibility of the manager of the entity and persons exercising supervision for the financial statement

The entity manager is responsible for the preparation, on the basis of correctly kept accounting books, of the financial statement and for its true presentation in accordance with the

Act of September 29th, 1994 on accounting (Dz.U. from 2016, Pos. 1047, with further amendments), hereinafter referred to as the "Accounting Act", implementing provisions issued on its basis and other applicable provisions of law. The entity manager is also responsible for the internal control, which is considered necessary for the preparation of the financial statement not containing material distortion caused by fraud or error.

In accordance with the Accounting Act the entity manager and the members of the entity's Supervisory Board are required to ensure that the financial statement meets the requirements of the Accounting Act.

Auditor's responsibility

Our responsibility is to express an opinion on this financial statement based on the audit we conducted.

We conducted the audit in accordance with the provisions of chapter 7 of the Accounting Act and with the National Auditing Standards in the wording of the International Auditing Standards adopted by resolution no. 2783/52/2015 of the National Council of Statutory Auditors dated February 10th, 2015, with further amendments. These standards require compliance with ethical

requirements as well as planning and conducting the audit in such a manner as to obtain sufficient assurance that the financial statement does not contain a material distortion.

The audit consisted in carrying out the procedures aimed at obtaining evidence of auditing amounts and disclosures in the financial statement. Selection of auditing procedures depends on the auditor's judgment, including the assessment of the risk of material distortion of the financial statement caused by fraud or error. While assessing the risk, the auditor considers the internal control functioning, in the scope of preparation and true presentation of the financial statement by the entity in order to design auditing procedures appropriate in given circumstances and not of expressing an opinion on the entity's internal control effectiveness. The audit also includes evaluating the correctness of the adopted accounting principles (policy), the reasonable nature of the estimate values determined by the entity manager, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence obtained by us provide a sufficient and appropriate basis for expressing our opinion on the audit.

Independent auditor's opinion

In our opinion, the accompanying financial statement:

- a) provide true and clear view of the economic and financial position of the entity as at December 31st, 2016 and its financial result for the fiscal year from January 1st to December 31st, 2016, in accordance with the applicable provisions of the Accounting Act and the adopted accounting principles (policy),
- b) was prepared based on correctly maintained accounting books; and
- c) is consistent in the form and contents with the applicable laws for the entity and the provisions of the entity's Articles of Association.

Report on other legal and regulatory requirements

Our opinion on the audit of the financial statements does not include the report on operations.

The entity manager shall be responsible for the preparation of the report on operations in accordance with the Accounting Act and other applicable laws. In addition, the entity manager and members of the supervisory board of the entity are required to ensure that the report on operations meets the requirements provided for in the Accounting Act.

Our responsibility was, in connection with the conducted audit of the financial statement, to get acquainted with the contents of the report on operations and to indicate whether the information contained therein take into account the provisions of Article 49 of the Accounting Act and is compliant with the information included in the attached financial statement. Our responsibility also included submission of a declaration whether in the light of our knowledge about the entity and its environment obtained during the audit of the financial statement we found significant distortions in the report on operations.

In our opinion, the information contained in the report on operations takes into account the provisions of Article 49 of the Accounting Act and is compliant with the information included in the financial statement. Moreover, in the light of the knowledge about the entity and its environment obtained during the audit of the financial statement, we did not find any distortions in the report on operations.

Information about the fulfillment of other obligations arising from the laws.

The financial statement for the period from January 1st to December 31st, 2015 was approved on April 27th, 2016 and submitted to the National Court Register on May 6th, 2016.

Warsaw, March 14th, 2017

BDO Sp. z o.o.

ul. Postępu 12

02-676 Warszawa

The entity authorized to audit financial statements No. 3355

Key auditor conducting the audit:



Artur Staniszewski

Auditor

Reg. No. 9841

Financial Results

■ Balance sheet

ASSETS (in thousands PLN)		31.12.2016	31.12.2015
A.	Fixed assets	115 242	79 976
I.	Intangible assets	18 178	5 345
II.	Tangible fixed assets	88 896	66 455
III.	Long-term receivables	-	-
IV.	Long-term investments	4 813	4 813
V.	Long-term accruals	3 355	3 363
B.	Current assets	22 787	41 334
I.	Inventory	459	736
II.	Short-term receivables	13 817	11 466
III.	Short-term investments	6 578	27 239
IV.	Short-term accruals	1 933	1 893
Total assets		138 029	121 310

LIABILITIES (in thousands PLN)		31.12.2016	31.12.2015
A.	Equity	108 847	95 861
I.	Share capital	5 445	5 445
II.	Called up share capital not paid (negative value)	-	-
III.	Treasury shares (negative value)	-	-
IV.	Supplementary capital	4 784	4 784
V.	Revaluation capital	1	1
VI.	Other reserve capital	69 764	56 779
VII.	Profit (loss) from previous years	-	-
VIII.	Net profit (loss)	28 853	28 852
IX.	Net profit write-offs in the course of the financial year (negative)	-	-
B.	Liabilities and provisions for liabilities	29 182	25 449
I.	Provisions for accounts liabilities	14 442	12 810
II.	Long-term liabilities	759	-
III.	Short-term liabilities	13 077	11 986
IV.	Accruals	904	653
Total liabilities		138 029	121 310

Financial Results

■ Characteristics of assets and liabilities

As at December 31st, 2016 KIR balance sheet closed in the amount of PLN 138,029 thousand, which is 13,7% higher than at the end of the previous year.

The values of fixed assets at the end of the reporting period, compared to 2015, increased by PLN 35,266 thousand (that is 44,1%) mainly due to the increase in intangible assets (increase by PLN 12,833 thousand) and tangible fixed assets reflecting the value of the investments that the company has made (increase by PLN 22,441 thousand).

The value of current assets, as compared to December 31st, 2015 decreased by PLN 18,547 thousand (i.e. 44,9%) mainly due to the decrease in the value of short-term investments.

The value of the Company's equity as at December 31st., 2016 amounted to PLN 108,847 thousand and, compared to December 31, 2015, increased by PLN 12,986 thousand (that is 13,5%).

The value of liabilities and provisions for liabilities increased by PLN 3,733 thousand (i.e. 14,7%) mainly due to the higher value of provisions for accounts liabilities (increase by PLN 1,632 thousand), long-term liabilities (increase by PLN 759 thousand) and short-term liabilities (increase by PLN 1,091 thousand).

Financial Results

■ Profit and loss account

(in thousands PLN)	for 2016	for 2015
Net revenue on sales and equivalent income	125 530	120 069
Operating expenses	89 191	85 728
Profit (loss) on sales	36 339	34 341
Other operating revenue	1 019	1 344
Other operating costs	1 478	382
Profit (loss) on operations	35 880	35 303
Financial revenue	443	600
Financial costs	94	25
Profit (loss) on business activities	35 878	35 878
Extraordinary items	-	-
Gross profit (loss)	36 229	35 878
Income tax	7 376	7 026
Other obligatory profit reductions	-	-
Net profit (loss)	28 853	28 852

Throughout 2016 KIR kept current financial liquidity and a high level of profitability ratios. The return on equity (ROE) was at 28,2%, return on assets (ROA) at 22,3%, while return on sales (ROS) at 23%.

In June 2016, KIR made a dividend payment for 2015 in the amount of 55% of the net profit achieved in 2015.