



Bank Polski

Report of the PKO Bank Polski SA Group for the third quarter of 2016

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2016 to 30.09.2016	period from 01.01.2015 to 30.09.2015	period from 01.01.2016 to 30.09.2016	period from 01.01.2015 to 30.09.2015
Net interest income	5 733 989	5 172 199	1 312 486	1 243 766
Net fee and commission income	1 988 285	2 157 080	455 110	518 716
Operating profit	2 943 034	2 649 841	673 648	637 211
Profit before income tax	2 967 772	2 673 943	679 311	643 007
Net profit (including non-controlling shareholders)	2 281 138	2 153 085	522 143	517 755
Net profit attributable to equity holders of the parent company	2 280 655	2 165 307	522 032	520 694
Earnings per share for the period – basic (in PLN/EUR)	1.82	1.73	0.42	0.42
Earnings per share for the period – diluted (in PLN/EUR)	1.82	1.73	0.42	0.42
Net comprehensive income	2 053 829	1 961 952	470 113	471 793
Net cash flows used in operating activities	5 434 178	5 094 020	1 243 861	1 224 966
Net cash flows used in investing activities	(5 387 001)	(4 103 251)	(1 233 062)	(986 714)
Net cash flows from / used in financing activities	722 767	(2 854 591)	165 438	(686 447)
Total net cash flows	769 944	(1 863 822)	176 237	(448 196)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.09.2016	as at 31.12.2015	as at 30.09.2016	as at 31.12.2015
Total assets	275 607 790	266 939 919	63 916 463	62 639 897
Total equity	32 318 742	30 264 913	7 495 070	7 101 939
Capital and reserves attributable to equity holders of the parent company	32 336 663	30 283 285	7 499 226	7 106 250
Share capital	1 250 000	1 250 000	289 889	293 324
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	25.85	24.21	6.00	5.68
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	25.85	24.21	6.00	5.68
Capital adequacy ratio	16.00%	14.61%	16.00%	14.61%
Tier 1	27 026 249	24 608 318	6 267 683	5 774 567
Tier 2	2 492 265	2 483 126	577 984	582 688

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2016 to 30.09.2016	period from 01.01.2015 to 30.09.2015	period from 01.01.2016 to 30.09.2016	period from 01.01.2015 to 30.09.2015
Net interest income	5 468 783	5 020 812	1 251 781	1 207 361
Net fee and commission income	1 800 917	1 963 020	412 222	472 050
Operating profit	2 804 523	2 664 085	641 944	640 636
Profit before income tax	2 804 523	2 664 085	641 944	640 636
Net profit	2 170 657	2 164 428	496 854	520 483
Earnings per share for the period – basic (in PLN/EUR)	1.74	1.73	0.40	0.42
Earnings per share for the period – diluted (in PLN/EUR)	1.74	1.73	0.40	0.42
Total net comprehensive income	1 979 580	1 968 140	453 118	473 281
Net cash flows used in operating activities	7 486 954	4 173 121	1 713 732	1 003 516
Net cash flows used in investing activities	(5 363 960)	(4 204 617)	(1 227 788)	(1 011 090)
Net cash flows generated from/used in financing activities	(1 466 474)	(1 908 489)	(335 670)	(458 937)
Net cash flows	656 520	(1 939 985)	150 275	(466 511)

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.09.2016	as at 31.12.2015	as at 30.09.2016	as at 31.12.2015
Total assets	268 462 867	262 380 030	62 259 478	61 569 877
Total equity	32 197 467	30 217 887	7 466 945	7 090 904
Share capital	1 250 000	1 250 000	289 889	293 324
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	25.76	24.17	5.97	5.67
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	25.76	24.17	5.97	5.67
Capital adequacy ratio	17.03%	15.28%	17.03%	15.28%
Basic funds (Tier 1)	27 210 368	24 820 848	6 310 382	5 824 439
Supplementary funds (Tier 2)	2 430 572	2 428 511	563 676	569 872

The selected financial statements positions were translated into EUR using the following exchange rates:

- the income statement, the statement of comprehensive income and the cash flow statement items – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of the nine-month period ended 30 September 2016 and 30 September 2015: 1 EUR = 4,3688 PLN and 1 EUR = 4,1585 PLN,
- the statement of financial position items – average NBP exchange rate as at 30 September 2016: 1 EUR = 4,3120 PLN, as at 31 December 2015: 1 EUR = 4,2615 PLN.



**DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS
OF THE PKO BANK POLSKI SA GROUP FOR THE THIRD QUARTER OF 2016**

**Directors' Commentary
to the financial results
of the PKO Bank Polski SA Group
for the third quarter of 2016**



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE THIRD QUARTER OF 2016

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1. Summary of the third quarter of 2016

In the third quarter of 2016 as in the previous quarters of 2016, the banking sector operated in conditions of historically low levels of interest rates and new regulatory burdens, while the macroeconomic situation was favorable. The situation on the loan-deposit market was still shaped by the advantageous situation on the labor market. The level of domestic demand was supported by the government program 'Rodzina 500 plus' and deflation, which has been increasing the real purchasing power of households.

In the reported period Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (PKO Bank Polski SA Group, the Bank's Group or the Group) continued sustainable development, focused on improving the quality of customer service by increasing the innovativeness of products and distribution channels.

In the third quarter of 2016, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank) introduced a special offer for holders of Duża Rodzina cards, that decreased commission for granting a Własny Kąt Hipoteczny mortgage loan by 50%.

The Group systematically develops a package of electronic banking services. In the third quarter, the Bank has made available a more modern information service, which provides customer with more convenient contact with the Bank and quicker access to banking services. The Bank also introduced additional security element of log on process in the form of security image that provides customers with a higher level of protection when using electronic banking services.

Product offer development has been supported by implementation of the Nowy Rytm Sprzedaży - innovative sales program, which provides a greater range of knowledge about customers and enables presenting to the customer offer which is most tailored to his or her needs, while simplifying sales processes and formalities. The program was supported by an integrated incentive system for advisors in the branch network.

In the third quarter of 2016 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna became a strategic partner of the Polski Fundusz Rozwoju Group (PFR) in the field of export support offerings. Operational management of financial and advisory products will be held by the PFR. The value of the support offered by the PFR in the framework of the Polish Enterprises International Expansion Program may amount to PLN 60 billion.

In August 2016, the Bank signed an annex to the contract of portfolio guarantee line with the Fundusz Gwarancyjny Programu Operacyjnego Innowacyjna Gospodarka (POIG), allowing the Bank to obtain the opportunity to involve guarantees for BIZNES PARTNER overdrafts and revolving working capital loans in addition to non-renewable working capital loans and investment loans.

International certificate of the Chartered Institute of Procurement and Supply (CIPS) obtained by PKO Bank Polski SA confirmed the highest standards of procurement processes and the business credibility. The Bank is the first entity in the financial sector and the third in Poland that was highlighted in such a manner.

Actions taken by the PKO Bank Polski SA Group in 2016, despite record low interest rates and significant regulatory changes made it possible to achieve high financial results and strengthen its position among the largest financial institutions in Poland.

In the third quarter of 2016, the company Qualia Development Sp. z o.o. along with its subsidiaries completed two sale transactions of its assets. In this respect, the additional revenue of about PLN 100 million was recognized in the net other operating income and expenses in the Group's financial report.

**DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS
OF THE PKO BANK POLSKI SA GROUP FOR THE THIRD QUARTER OF 2016**

	Q3 2016	Q3 2015	Change y/y
Net profit	PLN 2 280.7 million	PLN 2 165.3 million	5.3% (y/y)
Result on business activity*	PLN 8 873.8 million	PLN 7 873.4 million	12.7% (y/y)
Net interest income	PLN 5 734.0 million	PLN 5 172.2 million	10.9% (y/y)
Net fee and commission income	PLN 1 988.3 million	PLN 2 157.1 million	-7.8% (y/y)
Administrative expenses	PLN (4 134.4) million	PLN (4 112.6) million	0.5% (y/y)
Tax on certain financial institutions	PLN (594.7) million	PLN - million	x
Net impairment allowance and write-downs	PLN (1 201.5) million	PLN (1 111.0) million	8.2% (y/y)
Balance sheet amount	PLN 275.6 billion	PLN 254.9 billion	8.1% (y/y)
Equity	PLN 32.3 billion	PLN 29.6 billion	9.3% (y/y)
ROA net	1.0 %	1.1 %	-0.1 p.p.
ROE net	8.8 %	10.2 %	-1.4 p.p.
C/I	57.0 %	52.2 %	4.8 p.p.
C/I excluding tax on certain financial institutions	51.9 %	52.2 %	-0.3 p.p.
Interest margin	3.2 %	3.1 %	0.1 p.p.
The share of impaired loans	6.2 %	6.9 %	-0.7 p.p.
Cost of risk	-0.7 %	-0.8 %	0.1 p.p.
Total capital ratio	16.0 %	14.5 %	1.5 p.p.

* Result on business activities defined as operating profit excluding administrative expenses, tax on certain financial institutions and net write-downs.

The net profit of the PKO Bank Polski SA Group generated in the 3 quarters of 2016 amounted to PLN 2 280.7 million which represents an increase of PLN 115.3 million in comparison to the result of the previous year. The achieved net profit was determined by:

- 1) the result on business activity of the PKO Bank Polski SA Group, which reached the level of PLN 8 873.6 million (+12.7% y/y), mainly due to:
 - increase in net interest income by PLN 561.8 million y/y, realized thanks to a substantial reduction of financing cost along with increased level of income generated on assets,
 - an increase in financial operations income by PLN 432.3 million y/y, mainly associated with the acquisition of Visa Europe Limited by the Visa Inc. which was settled in June 2016,
 - increase in net other operating income and expenses of PLN 84 million y/y, mainly as a result of the two asset sales of Qualia Development Sp. z o.o. and its subsidiaries (approx. PLN 100 million)
 - along with lower net fee and commission income (decrease by PLN 168.8 million PLN y/y), among others from securities transactions, maintenance of bank accounts and loans and advances,
- 2) introduction of tax on certain financial institutions in February 2016, which resulted in an additional burden on net profit in the amount of PLN 594.7 million.

As a result of actions taken in the 3 quarters of 2016 the PKO Bank Polski SA Group:

- increased the value of assets by PLN 8.7 billion up to PLN 276 billion,
- maintained a high market share in loans and deposits market at 17.6% and 17.3%, respectively,
- occupied the first position in the housing loans to individuals¹ market with 31.4% share in August 2016,
- was the largest lender to small and medium-sized enterprises of loan with de minimis guarantees with 22.6% market share²,
- expanded the product range of investment insurance and property insurance products for customers due to start of operation activities by PKO Towarzystwo Ubezpieczeń SA in January 2016,

¹ The date of The Polish Bank Association.

² According to the data from The Centre of Security Pledges and Guarantess of Bank Gospodarstwa Krajowego.

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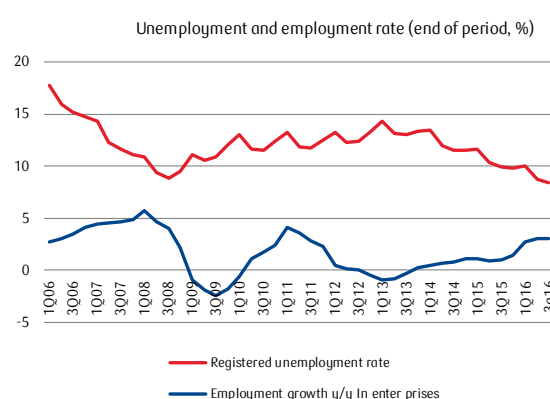
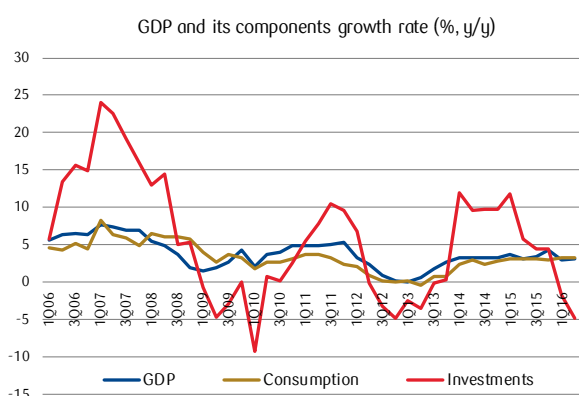
- increased the number of accounts of individual customers by over 159 thousand, strengthening its leading position in this field,
- strengthened its capital position due to accumulation of the net profit generated in the year 2015 and completing the transfer of net profit generated in the period from 1 January 2016 to 30 June 2016 to Tier 1 capital with the approval of PFSA, which had an impact on increase in the total capital ratio of 1.4 p.p. compared to year end of 2016 to a level of 16.0%.

2. External business environment

Macroeconomic environment

Macroeconomic factors influencing the Group in the third quarter of 2016:

- The stabilization of economic growth.** Based on monthly indicators of economic activity for the period July-August it can be estimated that in the third quarter of 2016 the GDP growth remained close to the result of the second quarter (3.1% y/y). In the structure of GDP growth a leading role played private consumption driven by a recovery in the labor market and the program "Rodzina 500 Plus". The decrease in investments has likely deepened, mainly due to very low investment activity of local governments.
- Situation on the labor market has continued to improve.** Registered unemployment rate at the end of September decreased to 8.4% (Preliminary data of the Ministry of Family, Labour and Social Policy) reaching the lowest level since May 1991. Annual growth rate of salaries in the corporate sector reached on average 4.7% in July-August 2016 (compared to 4.0% in the first half of 2016) and an average growth rate in pensions and benefits of employees slightly slowed down in July-August 2016 to the average level of 1.4% y/y compared to 2.2% in the first half of 2016.
- Reduction of deflation scale.** CPI inflation in September 2016 amounted to -0.5% y/y vs -0.8% y/y in June, with the fall in core inflation (-0.4% y/y in September vs -0.2% y/y in June) as a result of lower drug prices (the new list of reimbursed medicines and the introduction of free drugs for seniors) and school textbooks. The slowdown of fuel prices drop (low base effect) from -9% y/y in June to -2.5% y/y in September also notably contributed to the growth of inflation. Food and alcoholic beverages prices dynamic felt to 0.4% y/y in September from 0.9% y/y in June.
- Monetary policy stabilization.** Monetary Policy Council kept the interest rates unchanged, continuing conservative and neutral attitude in monetary policy. The MPC members speeches tempered interest cut expectations despite the weakening of real economic growth in July. Result of referendum in the United Kingdom on leaving the European Union by the United Kingdom where "Brexit" supporters triumphed and more flattened than previously assumed GDP growth path argues in favor of extension of the NBP interest rates stabilization period.





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The situation on the financial market

Stock market

The third quarter of 2016 on the global stock markets proved to be beneficial for investors. Beginning of the period was marked by declines that were the aftermath of the surprising outcome of referendum in the United Kingdom, where citizens spoke out for leaving the European Union. However, markets soon have brushed off after post-referendum shock, when on the one hand actions of central banks, and on the other hand toning political speeches calmed the mood. After a few days the indices began a strong upward movement, which lasted until about mid-August, when it turned to lateral trend. In September, concerns about the state of the global economy and the effects of expected increases in US interest rates again has intensified. On the Warsaw Stock Exchange, there was a similar situation as on most of the world stock markets in the third quarter. The WIG brought investors 5% of return. Index has declined for a short period of time in early July, which was followed by a significant increase in mid-August and stabilization in the second part of the quarter. In addition to global factors, the impact on the Polish companies stock prices, especially of large companies, had decisions and announcements of decisions in the field of ownership, tax and regulations.

Foreign exchange market

The third quarter of 2016 was characterized by high volatility on both the EUR/USD and EUR/PLN. EUR/USD fluctuated between 1.14 and 1.09, and EUR/PLN fluctuated between 4.25 and 4.46. EUR/USD started the third quarter of 2016 at relatively low levels (1.11) compared to levels from period before the Brexit referendum, which was held in the UK on June 23. Currency pair remained on this level until the July meeting of the FED, which was characterized by clear easing institution's position on interest rate increases possibility in the US. The result was a gradual increase on EUR/USD rate to 1.14 in the middle of August. Expectations for a quick interest rate hikes in the US again began to revive after the symposium in Jackson Hole (26 August), thanks to a moderately optimistic tone of J. Yellen and S. Fisher speeches, resulting in the EUR/USD once again lowered to around of 1.11. There was no changes in US monetary policy at the September meeting of the FED, despite emphasizing the will of raising the interest rates before the end of 2016, therefore the FED did not convince markets to increase purchases of the dollar vs. the euro, which resulted in EUR/USD ending the third quarter at 1.12. EUR/PLN started the third quarter at 4.38 and after a few days reached levels close to 4.46. The high exchange rate of EUR/PLN in the early weeks of the quarter was the result of concerns about the consequences of Brexit in terms of global financial markets balance. The factor that radically changed the picture of situation in favor of zloty was the announcement of new draft of President's Law on CHF mortgages, which assumes moderate (in relation to the initial announcements) burden for the financial sector. There was a clear appreciation of the zloty against the euro to 4.25 in mid-August. In September, the EUR/PLN even temporarily rose to around 4.40 on a wave of concern about the possibility of lowering the Polish credit rating by Moody's. However, the lack of a decision to downgrade the rating and to maintain US interest rates at the current level allowed EUR/PLN pair to end the quarter on the level of 4.29.

Interest rate market

In the third quarter of 2016 market expectations for interest rate cuts in Poland, which had previously assumed the possibility of lowering the reference rate by 25 p.p. have disappeared. FRA curve was close to WIBOR 3M, which was maintaining stable level of 1.71% during the quarter. The first half of the quarter brought high volatility on the interest rate market, which was caused by referendum in the UK. The pressure on monetary easing by the Bank of England, which decided to lower interest rates and expand the asset purchase program, led to a decline in profitability and to a growth in demand for riskier assets by investors seeking higher rates of return. However, the deteriorating investment moods regarding EM countries, difficult situation of the European banking sector and increasing pressure on interest rate hike by the FED before the end of the year contributed to the increase in bond yields. In the analyzed period there was an increase in profitability on the Polish Treasury bond market: by

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11 p.p. to 1.77% for 2-year bonds, 12 p.p. to 2.35% for 5-year bonds and by about 2 p.p. to 2.92% for 10-year bonds. Price of securities with a shorter maturity have come under pressure as the tone of MPC members speeches was suggesting to keep interest rates unchanged for a longer period of time. In contrast, longer-term securities were supported by favorable monetary policy in the world, but strong supply of Treasury securities on the primary market, as well as declining scale of deflation and rising commodity prices have negatively affected their quotations.

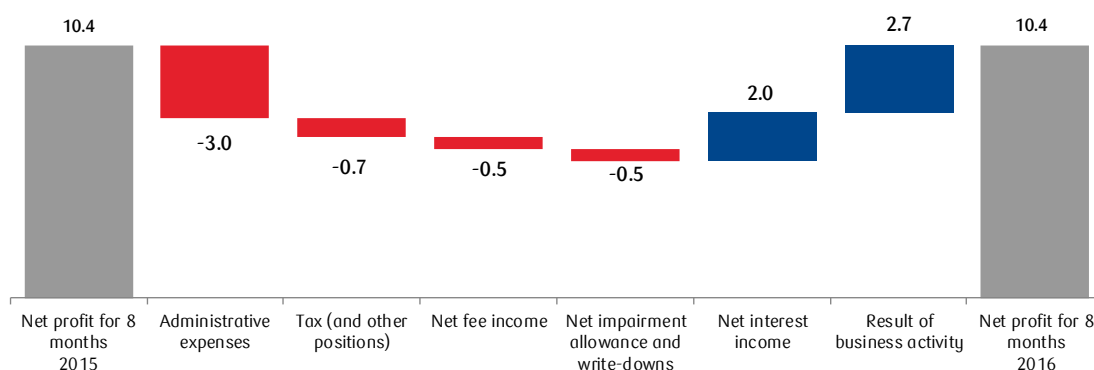
The situation of the Polish banking sector

Financial result

In conditions of stable economic growth, good situation on the labor market and good economic situation of enterprises and households, the banking sector has generated a net profit of PLN 10.4 billion in the period of January-August 2016 - the same amount as in the corresponding period of 2015. The level of net profit generated by the sector in 8 months of 2016 was affected mainly by:

- profit recognized from acquisition of Visa Europa Ltd. by Visa Inc. (gross of PLN 2.5 billion for the whole banking sector),
- costs of tax on certain financial institutions ('bank tax') effective since February 2016,
- improvement in net interest income, both due to the gradual increase in interest income and reduction of interest costs,
- continuation of decline in net fee and commission income - maintaining of negative impact of the weak situation on capital market and the impact of changes in the regulatory environment (including the limitations imposed by the recommendation U)
- decrease of net impairment allowance and write-downs³.

Chart 1. Change in net profit of banking sector (PLN billion)



Source: PFSA, the calculation of PKO Polski Bank SA

At the end of August 2016 the situation of the banking sector remained stable. However, there is a number of sources of risk, including the risk of a regulatory nature of FX mortgage loans that remains in banking environment.

Total assets and business volumes

Despite the continuous good economic situation at the end of August 2016 the banking sector noted a moderate increase in the scale of operations. The total assets of the sector rose to PLN 1 658 billion (+ 4.4% y/y). Changes related to the introduced bank tax, i.e. lower repo transactions level and a higher share of Treasury securities (approx. 15% of assets compared to approx. 12% before the introduction of a bank tax) is still visible in the structure of assets.

³ The pace of decreasing in net impairment allowance and write-downs in the period of January-August amounted to + 11.4% y/y, with significantly lower (amounted to + 0.3% y/y) rate of decreasing in net impairment allowance on the portfolio of loans and advances. This situation was affected by revaluation to fair value of assets of discontinued operations in one of the commercial banks in March 2016 (additional impact of approx. PLN 0.3 billion was recognized in the category of write-downs on non-financial assets).



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At the end of September 2016 the value of loans of the banking sector rose to PLN 1 113 billion. The situation on the credit market was the result of the increasing of the growth rate slowdown of total loans in the consecutive months of 2016 year to 4.0% y/y at the end of September, compared to 7.0% y/y at the end of 2015 which was influenced by, among others, changes in exchange rates.

The situation on the credit market was affected by:

- continued slowdown of the y/y growth rate of mortgage loans for individuals (+3.6% compared to +7.1% at the end of 2015, after adjusting for exchange rate changes relative stability was noted)
- continued slowdown of y/y growth rate of corporate loans (+5.3% compared to +8.3% at the end of 2015),
- acceleration of growth rate y/y of consumer loans (+7.5% vs. +6.6% at the end of 2015).

Consumer loans accounted for one of the fastest-growing category of loans (in conditions of low interest rates, banks focus on products that are more profitable and at the same time generating a relatively low capital requirements).

Chart 2. Changes in the net profit of banking sector (PLN bn)

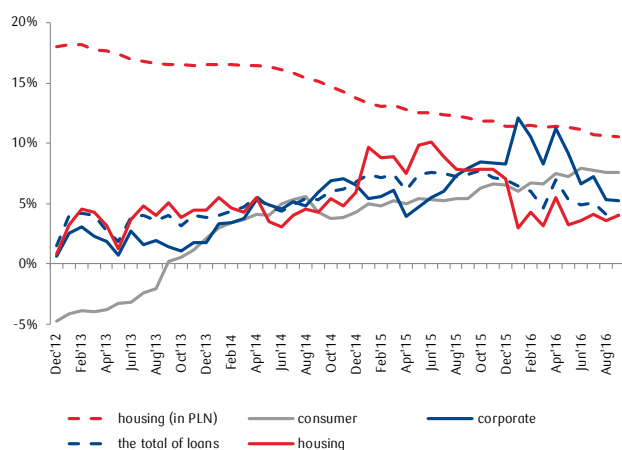
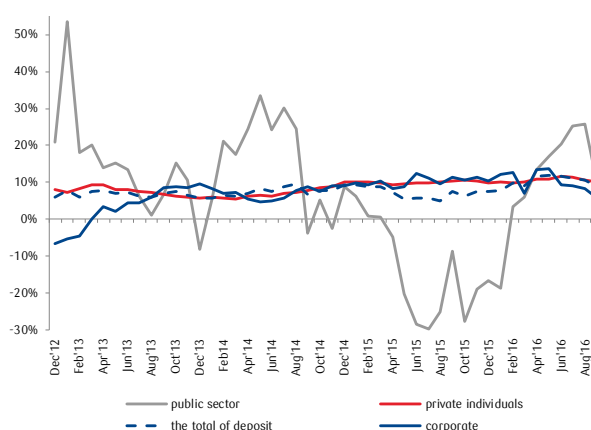


Chart 3. The pace of change in key income statement items of banking sector (y/y)



At the end of September 2016, the volume of deposits increased to PLN 1 116 billion, and its growth rate amounted to 8.8% y/y vs. 7.5% at the end of 2015 mainly as a result of:

- continuous high y/y growth rate of deposits of individuals (+10.1% y/y at the end of September, compared with +9.8% at the end of 2015),
- continuous slowdown of y/y growth rate of corporate deposits (+5.8% y/y vs. +10.5% y/y at the end of 2015) and
- growth of deposits of the public sector (+9.6% y/y compared with a decline of 16.6% / y at the end of 2015).

In the period of April-August 2016, the annual growth rate of total deposits stood at over 10%, but at the end of September as a result of, among others, reducing the annual growth rate of deposits of the public sector and enterprises, the growth rate of total deposits stood at below 10% y/y.

In conditions of stronger growth of deposits than loans in the banking sector, loans/deposits ratio decreased to 99.7% at the end of September 2016 vs. 103.0% at the end of December 2015.



DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP FOR THE THIRD QUARTER OF 2016

The situation of the Polish non-banking sector

Investment funds market

In the 3 quarters of 2016 domestic investment funds market was continuing upward trend. Assets under management of investment fund companies increased by 5.4% to PLN 265.8 billion. Realized growth, however, was twice weaker than in the corresponding period of 2015 year (+10.9%). The growth of the investment funds market in 2016 was mainly the result of positive balance of payments and redemptions (+ PLN 8.8 billion). Net inflow of funds was more than twice lower than in the comparable period of 2015. The value of investment fund assets was positively influenced by positive management result (+ PLN 3.4 billion). The situation on the market of investment funds has been affected by a permanently low investors' risk appetite, carried out in conditions of still rather weak situation on the stock market on the Warsaw Stock Exchange. During the first 3 quarters of 2016 WIG index increased by 1.3% compared to a decline in the comparable period of 2015 by 3.1%. Continued volatility of the debt market also influenced a situation on the investment fund market. In the third quarter of 2016 the investment funds market development was influenced by significantly increased growth in the demand for investment funds participation units from individuals. Net inflow of funds in segment of individuals amounted to PLN 3.7 billion and was the highest since the first quarter of 2015.

Most of the major segments of the retail funds market related to the Polish equity market in the first 3 quarters of 2016 realized the negative 12M rates of return. At the same time in the third quarter of 2016 was noted noticeable improvement in this area, and 12M rate of return achieved by investment funds at the end of the third quarter of 2016 was the highest recorded level in 2016. At the end of September 2016 positive 12M rates of return was realized by Polish bond funds, money market funds, cash and mixed Polish stable growth funds, while the only Polish bond funds noted 12M rate of returns above the average interest rate on household deposits.

Institutional investors slightly strengthened their dominant position in the asset structure of investment funds in 2016, despite a relatively strong inflow of new funds from individuals recorded in the third quarter of 2016. The share of individuals' assets dropped at the end of September 2016 to 48.3% compared to 48.5% at the end of 2015.

Open pension funds market

During the first 3 quarters of 2016 assets of the Open Pension Funds (OFE) increased by 1.7% (PLN 2.3 billion) to PLN 142.8 billion, vs. a decline of 2.5% (PLN 3.7 billion) in the same period of 2015. OFE market was influenced by the improvement in labor market conditions, regulatory changes and the slump on the Stock Exchange in Warsaw (WIG index dropped by 5.5% y/y; during the first 3 quarters of 2016 increased by 1.3% - mainly due to companies from mWIG40, or mid-caps). In the structure of assets of the Open Pension Funds Polish equity was still dominant. During the first 3 quarters of 2016 the number of participants of Open Pension Funds continued to decline (by about 75 thousand. to 16.5 million members).

Leasing market

During the first 3 quarters of 2016 the leasing market was continuing its dynamic development. According to data of the Polish Leasing Association, assets financed by leasing companies increased by 17.1% y/y, reaching PLN 42.0 billion (against a growth of 15.7% in the same period of 2015). The development of the leasing market was supported by the good economic situation in Poland, despite the transitional slowdown in GDP growth. The largest positive impact on the growth of the leasing market had vehicles leasing, including light vehicles and heavy transport. The value of financed assets in this segment amounted to PLN 29.4 billion (+32.3% y/y), which accounted for 70% of total funding granted by leasing companies. Leasing market recorded a setback in the segment of machinery and equipment (-6.3% y/y), while the leased assets value level amounted to PLN 10.7 billion. In this segment strongest contraction was noted in financing of agricultural equipment (-25.7% y/y). The decrease in financing of machinery and equipment, in spite of good and stable economic



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situation of enterprises, the relatively high level of capacity utilization and relatively high credit availability, was influenced among others by completion of financing from the 2007-2013 perspective EU funds from financial perspective and poor absorption of EU funds from the perspective of 2014-2020. In the analyzed period there was a strong decline in real estate financing to PLN 488.7 million (-55.2% y/y).

Factoring market During the first 3 quarters of 2016 factoring market was rapidly developing. This is confirmed by factoring companies data reported to the Polish Factors Association. Their turnover reached PLN 112.7 billion, which resulted in an acceleration of growth to 19.8% y/y vs. 17.6% y/y at the end of 2015. The growing interest in the services of factoring companies was also reflected by the increase in the number of customers (7.3 thousand of clients) and invoices (5.2 million units).

During the first 3 quarters of 2016 strongly growing domestic recourse factoring (turnover growth of 30% y/y to PLN 47.2 billion) was one of the main reason of growth of the whole factoring market. Despite the moderate growth of exports, export factoring was dynamically developing (turnover growth of approx. 20% y/y to PLN 24.3 billion). The share of import factoring was still marginal and amounted to 1.2% vs. 1.4% in the same period of previous year.

Insurance market In the first half of 2016 the value of assets of insurance companies continued slowdown, rising to PLN 181.4 billion (+0.7% vs. the end of 2015). The increase of total assets was connected to growth of assets in the segment of other personal insurance and non-life insurance (+2.6%) and a decrease in assets in the life insurance segment (-0.7%).

In the first half of 2016 financial performance of the insurance sector was continuing its downward trend. Net profit decreased by 35.1% y/y, reaching PLN 2.3 billion, which was affected by a marked decline of technical result (-17.7% y/y), a slight decrease of the result of investment activity (-2.7 % y/y). The insurance sector noted a decline of the value of gross written premiums (-17.8% y/y), accompanied by a decline in the value of claims paid (-2.2%). Decline in the cost of insurance activities was also continued (-5.8% y/y).

The results of the insurance sector was affected by cost of the tax on certain financial institutions burden which came into effect since February 2016. According to estimates of the Polish Insurance Association costs that were incurred in the first half of 2016 by insurance companies amounted to approx. PLN 0.27 billion.

The Ukrainian market

Economic situation

GDP growth in the second quarter of 2016 accelerated to 1.4% y/y vs. 0.1% y/y in the first quarter of 2016 (vs. -9.9% y/y in whole 2015). Data on industrial production (an average increase of 1.6% y/y in July-August 2016) and retail sales (+4.9% y/y in the same period) indicate a continuation of the moderate economic recovery in the third quarter of 2016. Throughout the year, GDP growth rate may fall to a level slightly above 1.0% y/y.

After the large decline in the second quarter of 2016, CPI inflation has stabilized in the third quarter of 2016 at 8.1% y/y (vs. 8.1% y/y in the second quarter of 2016). The stabilization of inflation at a lower level supports the growth of real wages (14.6% y/y on average in the third quarter of 2016 vs 10.5% y/y in the second quarter of 2016). The exchange rate depreciated to 25.94 UAH/USD at the end of September from 24.83 UAH/USD at the end of June 2016, while the local maximum was reached on 6 September 2016. (26.85 UAH/USD). The stabilization of inflation prompted the NBU to reduce the deposit interest rate twice: on July 29, 2016 from 16.5% to 15.5%, and on 16 September 2016 to 15.0%.

Public debt (including government guarantees) increased from 78.2% GDP in June 2016 to 80.1% in April 2016 (vs. 79.4% PKB in December 2015).



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The scale of its financing by Central Bank was continuously decreasing (measured by the share of the NBU in the structure of state treasury security holders) from 68.9% at the end of June 2016 to 66.4% at the end of September 2016, among others, due to an increase in the public debt portfolio in the balance sheets of commercial banks.

Banking sector

According to NBU data, the number of banks that operate in Ukraine fell in August 2016 to 100 (compared to 117 in December 2015). The share of foreign capital in August 2016 amounted to 53.3% vs. 43.3% at the end of 2015.

The value of total assets in the Ukrainian banking system grew in the third quarter of 2016 to approx. UAH 1.28 trillion from UAH 1.26 trillion in June 2016. Shareholders' equity increased to UAH 151.4 billion from UAH 103.7 billion in December 2015 (UAH 142.3 billion at the end of June 2016.). At the end of August 2016 capital accounted for 11.8% of total assets compared to 8.3% at the end of December 2015 and 11.3% in June 2016.

In August 2016 the volume of loans rose to UAH 985.7 billion from UAH 962.1 billion in June 2016, and UAH 981.6 billion in December 2015. Between June and August 2016 volume of foreign currency loans slightly decreased to the level of UAH 534.1 billion vs. UAH 535.2 billion at the end of June 2016. In the period under review loans to businesses increased to the level of UAH 807.6 billion compared to UAH 779.4 billion at the end of June 2016. Loans to households decreased slightly and reached UAH 164.1 billion vs. UAH 165.6 billion at the end of June 2016.

The value of banks deposits increased in the reporting period by about UAH 13.6 billion (to UAH 820.4 billion). Foreign currency deposits increased in this period by UAH 18.7 billion (up to UAH 399.9 billion). Corporate deposits increased by UAH 3.7 billion to UAH 298.3 billion, while households deposits increased by UAH 4.5 billion to UAH 427 billion. Loans/Deposits ratio increased to 123.6% vs. 134.2% in December 2015.

The ratio of non-performing loans has increased compared to the end of 2015 (25.8% at the end of August 2016 vs. 22.1% in December 2015). In the same period also improved ROA ratio (-0.78% vs. -5.46% at the end of 2015) and ROE ratio (-7.48% vs. -51.91% in December 2015).

Regulatory factors

In the third quarter of 2016 financial and organizational situation of the PKO Bank Polski SA Group was influenced by legal and regulatory solutions, including:

	Description of regulation	Impact on financial results of the Bank's Group and the whole banking sector
Tax on certain financial institutions ('bank tax')	Act of 15 January 2016 on tax on certain financial institutions (Journal of Laws of 2016, item 68) obliging banks, insurance companies and other financial market participants to pay tax on adjusted assets from 1 February 2016.	impact on the financial results, profitability of commercial and mortgage banks and insurance companies
Deposit guarantee system Fees	<ul style="list-style-type: none"> - Resolution No. 25 and 26 of the Bank Guarantee Fund ('BGF') Council of 25 November 2015 setting out bank's fees for the deposit guarantee system for 2016: decreasing rate to calculate the annual fee (from 0.189% to 0.167%) and increasing ratio used to calculate prudential fee (from 0.050% to 0.079%), - amendment of the law on the Bank Guarantee Fund (Journal of Laws of 2016, item 381) amending the frequency of determining the rates of mandatory and prudential fees from annually (based on total risk exposure as at 31 December of prior year) to quarterly (based on data as at the end of the last quarter), - Resolution No. 15, 16, 18, 19 and 36, 37 from 2016 of the BGF Council setting rules for bank's fees in favour of the deposit 	operating cost of banks



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	guarantee system in the first, second and third quarter of 2016 (annual fee of 0.04175%, prudential fee of 0.01975% of the total amount of risk exposure).	
Prudential requirements	Regulation of the European Parliament and the European Council No. 575/2013 on prudential requirements for credit institutions and investment companies changing the UE ordinance No. 648/2012, EBA technical standards (supplement to Regulation No. 575/2013) and recommendations of the Polish Financial Supervision Authority (PFSA), in particular to increase the short-term liquidity rate LCR to 70%.	capital base of banks, supervisory prudential standards, business activity of banks, implementation costs
Capital buffers - PFSA additional requirements	Act on macro-prudential oversight of the financial system and crisis management (Journal of Laws of 2015, item 1513), in particular introduction of the safety buffer of 1.25% since 1 January 2016.	banks' capital requirements
Tightening requirements on housing loans granting	Recommendation S of the PFSA on mortgage secured credit exposures (PFSA Official Journal of 2013, item 23) increasing the requirement for own contribution from 10% to 15% since 1 January 2016.	level of lending, interest income, fee and commission income of banks
Liquidity risk management	Recommendation P of the PFSA concerning financial liquidity risk management in banks (PFSA Official Journal of 2015, item 14), changing the rules of liquidity risk management since 1 January 2016.	measurement and management of liquidity risk in banks
Model risk management	Recommendation W of the PFSA concerning model risk management (PFSA Official Journal of 2015, item 49). Its implementation by the banks should take place by 30 June 2016.	model risk management process: model constructions and evaluation of their performance
Maximum non-interest charge	Amendment of the law on consumer loan (Journal of Laws of 2015, item 1357) that specifies the maximum level of non-interest expenses since 11 March 2016.	the level of non-interest income
"Rodzina 500+" program	Act on state assistance in raising children (Journal of Laws of 2016, item 195) that specifies the right to acquire the right to provide child care benefits since 1 April 2016.	level of individuals deposits, credit standing (consumer loans)
Change in the trade of agricultural real estate	Act of 14 April 2016 on cease of real estate sale of Agricultural Property Stock of the Treasury, and on change of some Acts (including Act on land registers and mortgages) effective since 30 April 2016 (Journal of Laws of 2016, item 585) and amendment to the Act on shaping the agricultural system and the Law on land registers and mortgages (Journal of Laws of 2016, item 1157), effective since 16 August 2016 year.	loan policy, the level of lending
Facilitation of the terms of issue of mortgage bonds	Amendment to the law on mortgage bonds and mortgage banks (Journal of Laws of 2015, item 1259) changing the principles of mortgage bonds issuance from 1 January 2016.	greater opportunities for financing loan business
Bank enforcement title	Amendment to the Banking Law (Journal of Laws of 2015, item 1854) abolishing bank enforcement title with effect from 1 August 2016	banks' risk management, increase of cost of risk, increase of operating costs,
Dormant accounts	Amendment to the Banking Law (Journal of Laws of 2015, item 1864) defining for banks from 1 July 2016 the procedure of inactive bank accounts, including accounts of deceased persons.	costs and expenditures of banks
The cost of banking market supervision	Regulation of the Council of Ministers (Journal of Laws of 2016, item 1371) changing the rules for the calculation and payment of contributions to cover the costs of banking supervision.	costs of banks

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The cost of capital market supervision	Amendment of the law on Capital Market Supervision (Journal of Laws of 2015, item 1260) requiring, among others, insurance companies and investment fund companies to greater participation in the costs of capital market supervision; effective from 1 January 2016.	the level of costs and earnings of insurance and investment fund companies
Restrictions for OFE	Law amending the rules for payment of pensions from the Open Pension Funds (Journal of Laws of 2013, item 1717) changing rules of pension payment from the OPF funds, allowing from 1 January 2016 increased involvement of OPF in shares of companies listed abroad (over 20%) and limiting the involvement of OPF in shares of domestic companies (35%).	the level of open pension funds (OPF) assets, financial results of general pension societies (GPS)
Changes in the conduct of insurance business	Amendment to the law on the activities of insurance and reinsurance (Journal of Laws of 2015, item 1844), in force since 2016.	changes in the standards of capital and prudential requirements
PFSA recommendations for insurance business	Recommendations of the PSFA of 22 March 2016 concerning the product management system and the examination of the adequacy of the insurance product to the needs and possibilities of the customer; their implementation by insurance companies should take place by 1 July 2016.	costs of insurance business

The activity of the PKO Bank Polski SA Group influenced new legislation introduced in the Ukraine (where operates, among others, a subsidiary KREDOBANK SA), including:

- Orders of the Management Board of the National Bank of Ukraine (NBU) decreasing NBUs' discount rate:
 - order No. 278 decreasing discount rate from 22% to 19% since 22 April 2016,
 - order No. 88 decreasing discount rate from 19% to 16.5% since 24 June 2016,
 - order No. 172 decreasing discount rate from 16.5% to 15.5% since 29 July 2016,
 - order No. 277 decreasing discount rate from 15.5% to 15.0% since 15 September 2016,
- orders of the Management Board of the National Bank of Ukraine (NBU) No. 140, 192, 341 and 386 of 2016 introducing a number of changes in the field of monetary-credit market and credit market transactions, including transfer of dividends to foreign investors,
- order No. 338 from year 2016 of the NBU specifying inclusion to the bank's share capital of the financial aid provided by shareholders after obtaining permission of the NBU,
- order No. 341 of the NBU changing policies in determining exchanges rates by banks since 15 June 2016.

3. Financial results for the third quarter of 2016

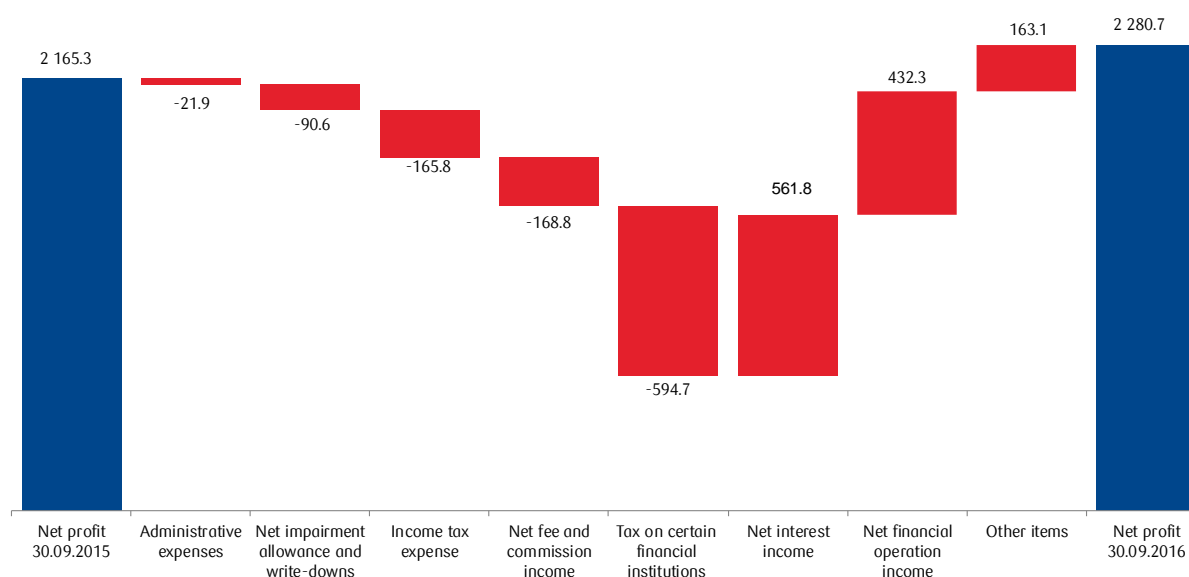
3.1. Commentary to the financial results of the PKO Bank Polski SA Group

Financial results

Net profit of the PKO Bank Polski SA Group acquired during three quarters of 2016 amounted to PLN 2 280.7 million and was higher by PLN 115.3 million than in the comparable period of 2015 (+5.3% y/y). The change was mainly influenced by improvement in result of business activity (mainly net interest income and other income), despite the tax on certain financial institutions introduced in February 2016.

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Chart 4. Changes in the income statement of the PKO Bank Polski SA Group (in PLN million)



The consolidated income statement items were as follows:

Table 1. Movements in the income statement items of the PKO Bank Polski SA Group (in PLN million)

	III quarter period 01.07-30.09.2016	3 quarters 2016	III quarter period 01.07-30.09.2015	3 quarters 2015	Change Q3 2016/ Q3 2015 (in PLN million)	Change Q3 2016/ Q3 2015 (in %)
Interest and similar income	2 517.7	7 370.2	2 433.5	7 221.6	148.6	2.1%
Interest expense and similar charges	(546.2)	(1 636.3)	(615.4)	(2 049.4)	413.2	-20.2%
Net interest income	1 971.5	5 734.0	1 818.1	5 172.2	561.8	10.9%
Fee and commission income	897.4	2 652.2	904.3	2 709.7	(57.5)	-2.1%
Fee and commission expense	(211.1)	(663.9)	(183.8)	(552.6)	(111.3)	20.1%
Net fee and commission income	686.3	1 988.3	720.5	2 157.1	(168.8)	-7.8%
Dividend income	1.1	10.0	1.0	10.7	(0.6)	-5.8%
Net income from financial instruments measured at fair value	29.3	15.5	2.0	10.9	4.7	42.9%
Gains less losses from investment securities	26.9	503.3	6.4	75.7	427.6	6.6x
FX results	147.7	350.9	92.2	258.9	92.0	35.5%
Net other operating income and expense	178.6	271.6	58.0	187.9	83.7	44.6%
Net impairment allowance and write-downs	(419.2)	(1 201.5)	(362.3)	(1 111.0)	(90.6)	8.2%
Administrative expenses	(1 377.9)	(4 134.4)	(1 335.5)	(4 112.6)	(21.9)	0.5%
Tax on certain financial institutions	(225.4)	(594.7)	-	-	(594.7)	x
Operating profit	1 019.0	2 943.0	1 000.5	2 649.8	293.2	11.1%
Share in profit (loss) of associates and joint ventures	14.1	24.7	8.3	24.1	0.6	2.6%
Profit before income tax	1 033.1	2 967.8	1 008.7	2 673.9	293.8	11.0%
Income tax expense	(261.2)	(686.6)	(193.0)	(520.9)	(165.8)	31.8%
Net profit (including non-controlling shareholders)	771.8	2 281.1	815.7	2 153.1	128.1	5.9%
Profit (loss) attributable to non-controlling shareholders	3.3	0.5	0.5	(12.2)	12.7	x
Net profit	768.5	2 280.7	815.2	2 165.3	115.3	5.3%

In the income statement of the PKO Bank Polski SA Group after three quarters of 2016, the sum of income positions amounted to PLN 8 873.8 million and was PLN 1 000.4 million, i.e. 12.7% higher than in the corresponding period of 2015.

Net interest income

Obtained for three quarters of 2016 net interest income amounted to PLN 5 734.0 million and was PLN 561.8 million higher than last year. Net interest income still remains under pressure of the low level of market interest rates (for WIBOR 1M and 3M decline in annual terms amounted to -0.12 p.p. and -0.06 p.p., which was the result of the last interest rate cut by the MPC which took place in March 2015). At first, the decline has caused the decrease in profitability of interest-bearing assets based mostly on market rates. Afterwards - reduction in interest



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expense resulting from the adjustment of interest rates on deposit offer to lower market interest rates. As a result, in 2016, the main driver of growth in net interest income y/y was the decrease in interest expense resulting from a lower average interest rates on both customer deposits and borrowing costs, with an increase in interest income on loans and securities, related with increase in volumes of these groups of assets.

After the third quarter of 2016, interest income amounted to PLN 7 370.2 million and in comparison with the corresponding period of 2015 were higher by 2.1% mainly due to:

- The increase in income from loans and advances to customers (PLN 137.1 million y/y) – primarily the result of an increase in credit portfolio (mainly housing and consumer PLN loans), with the decrease in the average interest rate resulting from lower market interest rates in PLN and the NBP interest rates, which determine, among others, interest rates on consumer loans,
- the increase in income from securities of PLN 86.7 million y/y was a result of increase in the average volume of the portfolio,
- the decrease in revenues from derivative hedging instruments of PLN 77.0 million, resulting in decrease in the average volume and margin on IRS transactions subject to hedge accounting.

The decrease in interest expense of PLN 413.2 million, i.e. 20.2% y/y was mainly the result of:

- the decrease in the cost of liabilities to customers by PLN 323.3 million y/y, mainly resulting from a lower average interest rates on deposits as a result of lower market interest rates and adjusting pricing of deposit products and the expiration of deposits with terms of pricing before the MPC cuts rates,
- the decrease in expenses related to own issuance of debt securities and subordinated liabilities by PLN 129.5 million y/y, associated with the decrease in the level of liabilities from the issue of bonds in the international financial markets and the decline in debt servicing costs on the domestic market.

The interest margin increased by 0.1 p.p. y/y to 3.2% at the end of the third quarter 2016 as a result of increase in annualized net interest income, accompanied by an increase in the average volume of interest-bearing assets (mainly mortgage loans, consumer loans and securities portfolio).

Net fee and commission income

Net fee and commission income generated during three quarters of 2016 amounted to PLN 1988.3 million and was PLN 168.8 million lower than in the corresponding period of the previous year, as a result of a PLN 57.5 million decrease in fee and commission income, accompanied by PLN 111.3 million higher fee and commission expenses.

The level of net fee and commission income was mainly affected by the decrease in:

- net fee and commission income in from loan insurance (-PLN 23.1 million y/y), mainly due to the decrease in commissions from consumer loans insurance (in 2015 there was an increase in sales of insurance products offered by the PKO Bank Polski SA Group, the results of which were presented in categories: the remaining result of the insurance business),
- income from loans and borrowings (-PLN 22.7 million y/y), mainly related to commercial loans, partially offset by higher commissions related to granting housing loans,
- income from securities transactions (-PLN 20.6 million y/y), as a result of decline in commissions from securities trading (the effect of reducing the customers' interest in the stock market) and the decrease in commissions for organizing the issuance,
- the result on payment cards (-PLN 17.4 million y/y) - increase in the number of cards and the higher transaction volumes allowed to achieve positive dynamics in net commission income from payment cards after eliminating the effect of one-off events (in 2015 Bank received payments from the payment organizations under renegotiation of contracts with payment organizations).

Net investment securities income

Net investment securities income obtained from three quarters of 2016 amounted to PLN 503.3 million (+PLN 427.6 million y/y) and was determined by settlement of the acquisition of Visa Europe Limited by the company Visa Inc., in which PKO Polish Bank SA participated. Therefore, the Bank's result for the second quarter included PLN 417.6 million as a result of investment securities.



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Administrative expenses and tax on certain financial institutions

After the first three quarters of 2016, administrative expenses amounted to PLN 4 134.4 million and increased by 0.5% compared with the corresponding period previous year. The administrative expenses level was mainly determined by the increase in employee benefits in the amount of PLN 68.5 million i.e. 3.4% increase, increase has been mitigated with decrease in overheads cost in the amount of PLN 32.5 million y/y i.e. 3.0% and decrease of depreciation of tangible fixed assets in the amount of PLN 17.6 million i.e. 2.9%.

As of September 30, 2016, employment in the PKO Bank Polski SA Group amounted to 28 891 full time equivalents, which means an decrease of 98 job positions y/y. Employment in PKO Bank Polski SA decreased by 381 full time equivalents y/y, while in the other Group entities (outside PKO Bank Polski SA) increased by 283 full time equivalents. Change in employment y/y in subsidiaries is a result of business development and changes in the Group structure.

From the first quarter of 2016 under the law, banks and other financial institutions are obliged to pay tax on certain financial institutions. Tax burden on the Group in the first quarter amounted to PLN 594.7 million, with the vast majority falling on PKO Bank Polski SA (PLN 590.6 million).

The effectiveness of the PKO Bank Polski SA measured with C/I ratio in annual terms amounted to 57.0%. C/I ratio excluding tax on certain financial institutions stood at 51.9%. C/I ratio as of September 30, 2016 was under negative influence of one-off events from the fourth quarter of 2015 (PLN 142 million paid to Fundusz Wsparcia Kredytobiorców and PLN 337.9 million paid to Bank Guarantee Fund in connection to SK Bank guaranteed payments).

On a quarterly basis C/I ratio (without tax) was 45.3% compared to 49.5% realized in the third quarter of 2015.

Net impairment allowance and write-downs

In the period of three quarters of 2016 there was a deterioration of net impairment allowance and write-downs compared to the same period in 2015 for 8.2% y/y, it was mainly due to additional provisions booked for depreciation of securities, assets and off-balance sheet liabilities. Improvement of the portfolio quality ratios accompanied by an increase in the gross loan portfolio by 4% y/y reflects a proactive credit risk management policy of the Group, including the ongoing development of tools in the credit decision-making processes and close monitoring of receivables portfolios.

The share of impaired loans at the end of the third quarter of 2016 was 6.2%, which represents a decrease of 0.7 p.p. y/y resulting from improvement in corporate loans quality and consistent policy of selling the bad debts.

The cost of risk⁴ at the end of the third quarter of 2016 amounted to 0.7%, which represents a decrease of 0.05 p.p. y/y as a result of the improvement of the result on corporate loans.

Net other operating income and expense

Net other operating income and expense increased by PLN 84 million to the level of PLN 271.6 million compared to the corresponding period of the previous year, mainly as a result of two sales transactions in the third quarter of 2016 of the Qualia Development Sp z. o. o. company and its subsidiaries assets. In this respect, net additional revenue of about PLN 100 million was recognized in other operating income and expense of the Group.

⁴ Calculated by dividing the net write-downs for impairment of loans and advances to customers for the 12 months ended 30 September 2015 and 2016, the year by the average gross balance of loans and advances to customers at the beginning and end of the reporting period and intermediate quarterly periods.

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Statement of financial position

Table 2. Movements in the statement of financial position items of the PKO Bank Polski SA Group (in PLN million)

	30.09.2016	31.12.2015	Change (in %)
Cash and balances with the central bank	14 345.7	13 743.9	4.4%
Amounts due from banks	3 723.4	4 553.0	-18.2%
Loans and advances to customers	193 174.3	190 413.7	1.4%
Securities	51 151.1	44 457.1	15.1%
Other assets	13 213.3	13 772.2	-4.1%
Total assets	275 607.8	266 939.9	3.2%
Amounts due to banks	19 172.3	18 293.0	4.8%
Amount due to costumers	201 180.6	195 758.5	2.8%
Debt securities in issue and subordinated liabilities	12 914.2	11 932.1	8.2%
Liabilities from insurance activities	2 567.6	2 400.5	7.0%
Other liabilities	7 454.3	8 290.9	-10.1%
TOTAL LIABILITIES	243 289.0	236 675.0	2.8%
Total equity	32 318.7	30 264.9	6.8%
Total liabilities and equity	275 607.8	266 939.9	3.2%
Loans/Amounts due to customers	96.0%	97.3%	-1.2 p.p.
Loans/Stable sources of funding [*]	83.7%	85.0%	-1.2 p.p.
Interest bearing assets/Assets	90.0%	89.7%	0.3 p.p.
Interest paying liabilities/Liabilities	84.6%	84.7%	0 p.p.
Total capital ratio	16.0%	14.6%	1.4 p.p.

* Stable sources of financing include amounts due to customers and external financing in the form of: issue of securities, subordinated liabilities and loans received from financial institutions.

The statement of financial position of the PKO Bank Polski SA Group is most significantly influenced by the statement of financial position of the parent entity. It determines both total assets and the structure of assets and liabilities and equity.

The total assets of the PKO Bank Polski SA Group at the end of the third quarter of 2016 amounted to PLN 275.6 billion, an increase of PLN 8.7 billion in comparison to the end of 2015. The PKO Bank Polski SA Group maintained its position as the largest institution in the Polish banking sector.

The structure of assets at the end of the third quarter of 2016 was determined by the increase in the loans and advances portfolio and securities portfolio.

The ratio of loans to deposits (liabilities to customers) at the end of the third quarter of 2016 was 96% and the ratio of loans to stable sources⁵ of financing amounted to 83.7%, indicating good liquidity of the PKO Bank Polski SA Group.

The increase in average assets (by 6.1% y/y) and a significant strengthening of the capital base (increase in average equity 9.6% y/y) with growth rate of 5.3% resulted in a deterioration of profitability: assets (ROA) and equity (ROE) by 0.1 p.p. and 1.4 p.p. y/y to the levels of 1.0% and 8.8% annualized. The deterioration of the profitability ratios reflecting the trend in the market, the entire banking sector records worse results mainly due to the introduction of tax on certain financial institutions in the first quarter of 2016.

Loans and advances to customers

Loans and advances to customers represent the largest part of the assets of the PKO Bank Polski SA Group. Compared to the end of 2015 the net portfolio of loans and advances to customers increased by PLN 2.8 billion,

⁵ Stable funding sources include deposits from customers (including those in virtue. Issue of euro bonds) and external financing in the form of: subordinated liabilities, debt securities in issue and loans received from financial institutions.



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primarily due to increase in receivables from loans from non-financial sector (mainly corporate and housing), with the decrease of short-term receivables from the financial sector (-PLN 3.1 billion).

The gross loan portfolio consisted mainly of mortgage loans with a volume of PLN 106.1 billion, (+PLN 3.1 billion compared to the end of 2015). The volume of corporate receivables amounted to PLN 69.5 billion (+PLN 1.8 billion compared to the end of 2015). In the analysed period the consumer loan portfolio increased by PLN 0.9 billion. For the detailed information on loans and advances to customers please refer to note 19 of Notes to the condensed interim consolidated financial statement.

Securities

At the end of the third quarter of 2016, the carrying value of the securities portfolio increased by approx. PLN 6.7 billion compared to the end of 2015 and amounted to PLN 51.2 billion, representing 18.6% of the total assets of the PKO Bank Polski SA Group. The increase in the securities portfolio is associated with the process of the current liquidity management of the PKO Bank Polski SA. The structure of the portfolio was dominated by debt securities issued by the State Treasury, securities issued by the National Bank of Poland noted a decrease. Detailed information about the securities held in the portfolio of the Group is described in notes 15, 18, 20 and 21 of the Notes to the condensed interim consolidated financial statement.

Amounts due to customers

Amounts due to customers remain the primary source of financing of the PKO Bank Polski SA Group and at the end of September 2016 amounted to PLN 201.2 billion representing 73.0% of the total liabilities. In the structure of liabilities to customers the main items are liabilities to retail clients which at the end of the third quarter of 2016 noted an increase by PLN 7.1 billion (compared to the end of 2015) and amounted to PLN 142.5 billion. At the same time in comparison to the end of 2015 there was a decrease in liabilities to corporate entities by PLN 2.0 billion. The structure of amounts due to customers is dominated by funds in current accounts and term deposits, which as at the end of September 2016 amounted to 50.3% and 46.6% of amounts due to customers.

From the beginning of the 2016 the funds in current accounts increased by nearly PLN 9.1 billion and term deposits decreased in the same period by PLN 3.8 billion.

Detailed information on amounts due to customers is described in note 28 of the Notes to the condensed interim consolidated financial statement.

External financing

The PKO Bank Polski SA Group is an active participant in the market of debt security issues, both local and international. These actions are intended to diversify the sources of financing of operations and to adapt them to regulatory requirements. At the end of the third quarter of 2016 debt securities in issue and subordinated liabilities represented 5.3% of the total liabilities (+PLN 1.0 billion compared to the end of 2015). Change in the level of debt securities in issue in relation to the end of 2015 was due to increase of mortgage bonds issuance by PKO Bank Hipoteczny SA and own bonds, at the simultaneous fall in the bond issue from the EMTN program. Detailed information on security issues of PKO Bank Polski SA and subordinated liabilities are described in notes 30 and 31 of the Notes to the condensed interim consolidated financial statement.

Equity and total capital ratio

As at the end of the third quarter of 2016, equity amounted to PLN 32.3 billion and was PLN 2.1 billion higher than as at the end of 2015 and accounted for 11.7% of total liabilities and equity of the PKO Bank Polski SA Group (an increase in share by 0.4 p.p. compared to the end of 2015).

As at the end of the third quarter of 2016 the total capital ratio of the PKO Bank Polski SA Group was at a level of 16.0%, which represents an increase by 1.4 p.p. compared to the end of 2015. It was caused by an increase in equity due to the accumulation of profit earned in 2015 and including the capital net profit achieved in the period from 1 January 2016 to 30 June 2016 in the amount of PLN 1.2 billion to Tier 1. To do this, Bank has obtained Polish Financial Supervision Authority's approval.

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The level of capital adequacy in 9 months of 2016 stayed at the safe level, significantly above the regulatory limits. The value of capital adequacy measures in the third quarter of 2016 remained above the external limits and level recommended by the Banking Law (PFSA / EBA).

Key financial indicators

The summary of results, achieved by the PKO Bank Polski SA Group, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 3. Key financial indicators of the PKO Bank Polski SA Group

	30.09.2016	30.09.2015	Change
ROA net* (net profit/average total assets)	1.0%	1.1%	-0.1 p.p.
ROE net* (net profit/average total equity)	8.8%	10.2%	-1.4 p.p.
C/I* (cost including tax on financial institutions to income ratio)	57.0%	52.2%	4.8 p.p.
C/I excluding tax on certain financial institutions* (cost to income ratio annualized)	51.9%	52.2%	-0.3 p.p.
Interest margin* (net interest income/average interest-bearing assets)	3.2%	3.1%	0.1 p.p.
The share of impaired loans**	6.2%	6.9%	-0.7 p.p.
Cost of risk***	-0.7%	-0.8%	0.1 p.p.
The total capital ratio (own funds/ total capital requirement * 12.5)	16.0%	14.5%	1.5 p.p.

* Items in the profit and loss account in order to calculate indicators capture the period of the last 4 quarters (annual intake), while items in the statement of financial position capture the average of the last 5 values of the respective quarterly assets and liabilities.

** Calculated by dividing the gross amount of impaired loans and the carrying gross value of loans due to customers.

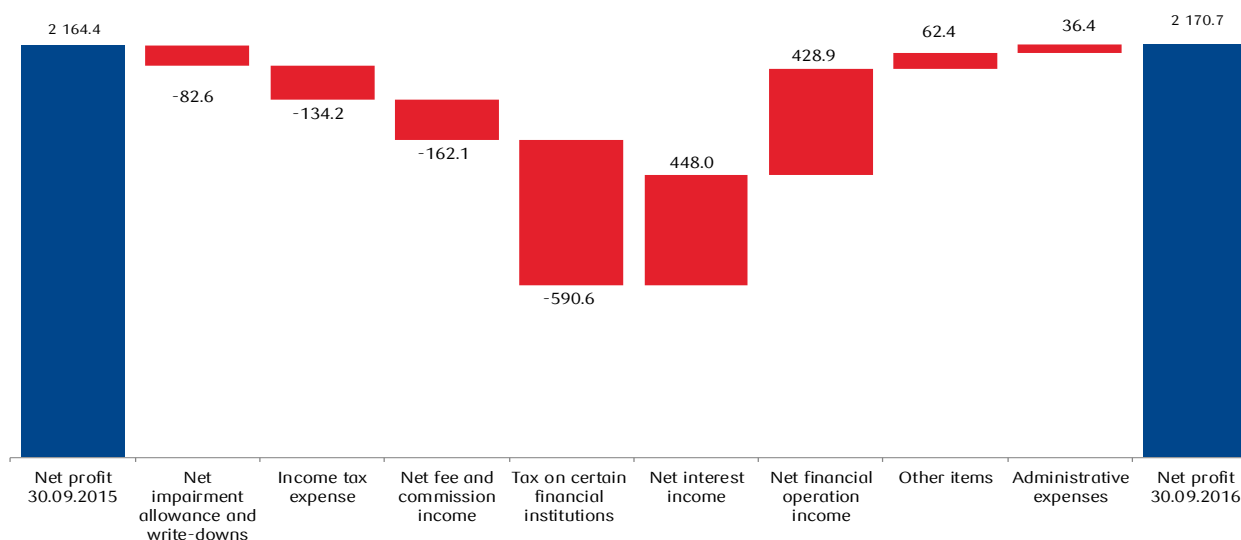
*** Calculated by dividing the net write-downs for impairment of loans due to customers for the period of 12 months by the average gross balance of loans due to customers at the beginning and end of the reporting period and intermediate quarterly periods.

3.2. Commentary to the financial results of PKO Bank Polski SA

Financial results

Net profit of PKO Bank Polski SA acquired during the three quarters of 2016 amounted to PLN 2170.7 million and was PLN 6.2 million higher than in the comparable period of 2015 (+0.3% y/y). It was influenced by the improved business activity result and lower cost of operation, with the negative impact of a bank tax.

Chart 5. Movements in the income statement items of PKO Bank Polski SA (in PLN million)



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The Bank's income statement items were as follows:

Table 4. Movements in the income statement items of PKO Bank Polski SA (in PLN million)

	Third quarter period 01.07- 30.09.2016	3 quarters 2016	Third quarter period 01.07- 30.09.2015	3 quarters 2015	Change Q3 2016/ Q3 2015 (in PLN million)	Change Q3 2016/ Q3 2015 (in %)
Interest and similar income	2 397.2	7 045.0	2 367.6	7 022.0	23.0	0.3%
Interest expense and similar charges	(522.9)	(1 576.2)	(601.8)	(2 001.2)	425.0	-21.2%
Net interest income	1 874.4	5 468.8	1 765.8	5 020.8	448.0	8.9%
Fee and commission income	810.1	2 421.0	828.8	2 498.9	(77.8)	-3.1%
Fee and commission expense	(194.1)	(620.1)	(176.0)	(535.8)	(84.3)	15.7%
Net fee and commission income	616.0	1 800.9	652.8	1 963.0	(162.1)	-8.3%
Dividend income	4.1	153.6	4.2	114.2	39.4	34.5%
Net income from financial instruments measured at fair value	29.6	11.4	0.3	1.5	9.9	7.5x
Gains less losses from investment securities	25.9	502.4	6.4	83.3	419.1	6x
FX results	142.0	352.2	91.2	297.6	54.6	18.3%
Net other operating income and expense	12.1	3.5	1.5	35.1	(31.6)	-90.1%
Net impairment allowance and write-downs	(409.6)	(1 162.5)	(330.7)	(1 079.9)	(82.6)	7.6%
Administrative expenses	(1 237.2)	(3 735.1)	(1 222.4)	(3 771.6)	36.4	-1.0%
The tax on certain financial institutions	(222.9)	(590.6)	-	-	(590.6)	x
Operating profit	834.4	2 804.5	969.1	2 664.1	140.4	5.3%
Gross profit	834.4	2 804.5	969.1	2 664.1	140.4	5.3%
Income tax expense	(236.2)	(633.9)	(186.6)	(499.7)	(134.2)	26.9%
Net profit	598.2	2 170.7	782.4	2 164.4	6.2	0.3%

The main trends in the change of the individual items of the financial result due to the dominant position of the Bank in the Group are consistent with discussed in section 3.1 of this Directors' Commentary.

Key financial indicators

The summary of results, achieved by PKO Bank Polski SA, is represented by the following key financial efficiency indicators, which are shown in the table below.

Table 5. Key financial indicators of PKO Bank Polski SA

	30.09.2016	30.09.2015	Change
ROA net* (net profit/average total assets)	1.0%	1.1%	-0.1 p.p.
ROE net* (net profit/average total equity)	8.4%	9.8%	-1.4 p.p.
C/I* (cost including tax on financial institutions to income ratio)	55.9%	49.6%	6.3 p.p.
C/I excluding tax on certain financial institutions* (cost to income ratio annualized)	50.5%	49.6%	0.9 p.p.
Interest margin* (net interest income/average interest-bearing assets)	3.1%	3.1%	0 p.p.
The share of impaired loans**	6.2%	6.7%	-0.5 p.p.
Cost of risk***	-0.7%	-0.8%	0.1 p.p.
The total capital ratio (own funds/ total capital requirement * 12.5)	17.0%	15.0%	2 p.p.

* Items in the profit and loss account in order to calculate indicators capture the period of the last 4 quarters (annual intake), while items in the statement of financial position capture the average of the last 5 values of the respective quarterly assets and liabilities.

** Calculated by dividing the gross amount of impaired loans and the carrying gross value of loans due to customers.

*** Calculated by dividing the net write-downs for impairment of loans due to customers for the period of 12 months by the average gross balance of loans due to customers at the beginning and end of the reporting period and intermediate quarterly periods.



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4. Activities of the PKO Bank Polski SA Group⁶

4.1. Business activities of PKO Bank Polski SA

The PKO Bank Polski SA Group conducts business activities within segments offering specific products and services targeted at specific groups of customers. The manner in which the business areas are divided ensures consistency with the sales management model and offers customers a comprehensive product offer comprising both traditional banking products and more complex investment products. Currently, the Group conducts its business activities within the retail segment and the corporate and investment segment.

Retail segment

The retail segment offers a full range of services for individuals within the retail and private banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, i.a.: current accounts, saving accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services, consumer and mortgage loans, as well as corporate loans to small and medium enterprises, developers, cooperatives and property managers.

Corporate and investment segment

The corporate and investment segment comprises transactions conducted with large corporate customers and financial institutions. This segment comprises, i.e. the following products and services: current accounts and term deposits, holding securities, foreign exchange and derivative products, corporate loans, as well as leases and factoring. Within segment's activities, the PKO Bank Polski SA also concludes, on its own or in consortiums with other banks, agreements for financing large projects in the form of loans and issues of non-treasury securities. Moreover, this segment comprises own activities, i.e. investing activities, brokerage activities, interbank transactions, as well as transactions in derivatives and debt securities.

4.1.1. PKO Bank Polski SA retail segment

In the first three quarters of 2016 PKO Bank Polski SA in the area of retail segment continued sustainable development, focused on identifying and satisfying consumers' needs, with whom the Bank builds strong, long-term relationship. Efforts has been made to improve the quality of customer service, actions leading to increased innovation in the new financial solutions, not only in the products but also the distribution channels, in particular in the field of electronic banking and mobile payments. At the end of September 2016 number of customers in retail segment reached 9.1 million, in which 8.7 million were individuals.

In early days of third quarter of 2016, in all PKO Bank Polski SA branches Nowy Rytm Sprzedaży was launched. This is a program, through which the Bank strengthened its position as a multi-channel institution, with fast processes, innovative products with individualized prices. Nowy Rytm Sprzedaży are modern tools and functionalities of banking applications that, with the support form ergonomic Platin CRM (Customer Relationship Management), provides complex knowledge about customer which helps to offer customer tailored cash loan product. Processes and documentation for consumer finance product has been significantly simplified. Implementation has been supported with incentive program with new tools for advisors working in branches network.

The loan offer in the retail segment

The PKO Bank Polski SA offer covers a wide range of credit products. Individuals can take advantage of the financing offered under consumer loans available in the form of cash loans, mortgage-backed loans, revolving loans and credit cards as well as the funding available in the form of mortgage loans. Offer for small and medium-sized enterprises is available in the form of investment and investor, as well as working capital loans.

⁶ In this sub-chapter any differences in total balances, shares and growth rates result from rounding of balances to PLN million and percentage shares to one decimal place.

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As of the end of September 2016 gross loans of retail segment of PKO Bank Polski SA amounted to PLN 144.0 billion and since the beginning of the year increased by PLN 3.7 billion (i.e. 2.6%). Mainly due to growth in mortgage portfolio (PLN +3 billion since the beginning of the year) and retail and private banking (PLN +1 billion).

Table 6. Gross loans of PKO Bank Polski SA (in PLN million)

	30.09.2016	31.12.2015	30.09.2015	Change since:	
				31.12.2015	30.09.2015
Gross loans and advances granted, of which:					
retail and private banking	24 198	23 340	23 298	3.7%	3.9%
small and medium enterprises	21 007	21 313	21 727	-1.4%	-3.3%
mortgage banking*	99 081	95 940	94 682	3.3%	4.6%
Total loans and advances	144 286	140 593	139 707	2.6%	3.3%

Retail and private banking loans

Retail Retail customers can use both the standard cash loan, as well as the current financing available under the revolving loans and credit cards.

In the first three quarters of 2016, PKO Bank Polski SA continued its activity to support sales of consumer loans as part of a marketing campaign under the slogan 'Mini Ratka z gwarantowaną stałą ratą' promoting the sale of short-term cash loan for up to 6 months. The offer was targeted at customers looking for short-term financing, rapid credit decision and a minimum of formalities. Additionally Bank provided with dedicated 'Mini Ratka na pierwszy dzwonek' offer with attractive loan parameters for the maximum period of 9 months, product was available since August 22 until September 30, 2016.

PKO Bank Polski SA systematically takes measures to increase effective access to credit offer for retail customers and private banking, regardless of distribution channel. The waiting time for the credit decision and disbursement of funds was shortened. Regular customers of the Bank may obtain the expected amount of the loan to an account even within 30 minutes through access to personalized credit offer.

In described period the Bank also introduced an offer with promotional pricing terms for customers, who were granted a revolving credit facility.

Additionally in the new sales process for renewal loans new service One Click was introduced, owner of saving account can sent request via iPKO transaction system or CC and accept agreement with authorization tool.

Mortgage banking loans

In the analysed period, the Bank maintained its dominant position in the market of mortgage loans. According to the data presented by the Polish Bank Association it shows that at the end of third quarter of 2016 PKO Bank Polski SA was the first on the market with 31.4% share in sales of mortgage loans for individuals. Since the beginning of the year a total amount of granted loans equaled to approx. PLN 9.2 billion.

Retail banking customers can use flagship mortgage product known as 'WŁASNY KĄT' available in "Mieszkanie dla Młodych" program as well.

PKO Bank Polski SA strives to provide customers not only with the widest range of credit products, but also to offer attractive prices of mortgage products available in the Bank offer. In promotional periods 'Mortgage Loans Open Days' it introduced a periodic decrease in margins. These actions are noticed and appreciated by the clients confirmed by award granted in mortgage category (the winner of mortgage loan ranking prepared by editors of financial comparator 'Comperia.pl', Golden Banker Award granted to PKO Bank Polski SA for 'Własny Kąt Hipoteczny' housing loan).

In described period PKO Bank Polski SA granted under the 'Mieszkanie dla Młodych' program more than 7.8 thousand loans for a total amount of PLN 1.3 billion. The program consists of subsidies from the state budget to own contribution and additional financial support in the form of repayment of part of the loan.



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In third quarter of 2016 a special offer available for holders of Duża rodzina card valid until 31 August 2020 was introduced, which states that provision for granting the mortgage 'Własny Kąt Hipoteczny' reduced to 50% of standard provision for granting the loan.

Processes and actions supporting customers with mortgage loans

- Due to the entry into force on 19 February 2016 the law on support for borrowers in a difficult financial situation, the Bank implemented the process of granting support. Solution is dedicated to borrowers in a difficult financial situation, who have a mortgage loan - either in local currency or in foreign currency, secured by mortgage on the credited property.

The support will be available for those, who on the day of submission of the application fulfil, among others, the following conditions:

- have the status of unemployed,
- the monthly cost of servicing the loan exceeds 60% of monthly household income,
- monthly household income net of loan instalment does not exceed the thresholds entitling to benefit from social assistance.

The solutions enable financial support by the Bank Gospodarstwa Krajowego ('BGK') for a period not exceeding 18 months, the equivalent of mortgage loan instalments (principal and interest), but no more than PLN 1.5 thousand per month. As of September 30, 2016 there were 133 requests for support registered in the Bank's system.

- According to a previous declaration the Bank continued to apply operations compensating clients for an increase in loan instalments due to the strengthening of the CHF, including:
 - 1% spread in handling mortgage loans in this currency,
 - taking into account the negative rate of LIBOR CHF in the cost of a mortgage loan,
 - extending the repayment date within the maximum term of the loan without charging a fee for extension of the term of the loan.

In addition, the Bank provided customers with the opportunity to apply for change of collateral of the loans in CHF in order to allow the sale of real estate secured with mortgage, associated with the granting of a new loan in PLN and the establishment of a mortgage on a newly purchased property.

In the last quarter Bank extended validity term until December 31, 2016 of the offer which supports CHF mortgage borrowers, it aims to reduce negative effects of change in CHF exchange rate.

Loans for small and medium enterprises

PKO Bank Polski SA consistently supports Polish entrepreneurship. Companies from the sector of small and medium enterprises are provided with funding for current and investment needs through a wide and flexible range of loans. Thanks to the cooperation between the PKO Bank Polski SA and Bank Gospodarstwa Krajowego agreement 'Portfelowa Linia Gwarancyjna de minimis' and 'Portfelowa Linia Gwarancyjna COSME' under the government and EU aid program for small and medium-sized businesses, entrepreneurs receive support in the form of BGK guarantees - *de minimis* and guarantees of counter guarantees granted by the European Investment Fund under the program COSME. The aim is to increase the availability of credit and the mobilization of additional resources for current operations of the company.

As of September 30, 2016 the 'Portfelowa Linia Gwarancyjna de minimis' value of loans amounted to PLN 4.1 billion. PKO Bank Polski SA was the largest lender of the twenty-one banks providing loans with *de minimis* guarantees and held 22.6% market share (according to the data provided by the Center of Sureties of BGK and Guarantees in Bank Gospodarstwa Krajowego, as at 30 September 2016). Guarantee limit currently granted to PKO Bank Polski SA was increased by PLN 1.0 billion and currently amounts PLN 5.8 billion. As of September 30, 2016, the exposure measured by the value of active signed contracts amounted to PLN 2.4 billion.

The value of loans granted under the 'Portfelowa Linia Gwarancyjna COSME' as of September 30, 2016 amounted to over PLN 130 million, and the amount of granted guarantees in third quarter increased to PLN 110 million (in comparison to PLN 63 million).



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On February 24, 2016, PKO Bank Polski SA and Bank Gospodarstwa Krajowego signed an annex to the portfolio guarantee de minimis agreement, on the basis of which innovative entrepreneurs will be granted de minimis guarantees financed from by the Operational Program Innovative Economy (OPIE) Guarantee Fund. The pool of available funds in PKO Bank Polski SA is PLN 55 million. The above guarantee was launched in May 2016. Another annex, signed on August 26, 2016 to the contract of portfolio guarantee line with the Fundusz Gwarancyjny OPIE, introduced the possibility to involve guarantees for BIZNES PARTNER overdrafts and revolving working capital loans in addition to non-renewable working capital loans and investment loans. In described period PKO Bank Polski SA offered to small and medium enterprises the number of promotions, which supposed to support financing of investments and business objectives. One of them was a promotional offer addressed to entrepreneurs, where provision for granting loan was 0.7%, additionally scope of documents was decreased to minimum (entrepreneurs do not have to present financial forecast or business plan) and the credit decision with fund transferring could take place even in one day.

Deposit and investment offer

In the three quarters of 2016 PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail segment customer's, taking into account current market conditions and competitive position. At the same time, activities aimed at diversifying sources of financing were carried out. As of September 30, 2016 the deposits of the retail segment of PKO Bank Polski SA amounted to PLN 156 billion and from the beginning of the year increased by PLN 8 billion (i.e. 5.7%). The increase in deposits of retail and private banking and SME contributed to this, due to growth of current and term deposits volume.

Table 7. Deposits of PKO Bank Polski SA (in PLN million)

	30.09.2016	31.12.2015	30.09.2015	Change since:	
				31.12.2015	30.09.2015
Customer deposits, of which:					
retail and private banking	134 717	127 833	125 606	5.4%	7.3%
small and medium enterprises	21 307	19 803	18 575	7.6%	14.7%
Total deposits	156 024	147 636	144 181	5.7%	8.2%

Current and saving accounts

PKO Bank Polski SA is the market leader in terms of the number of current accounts, which as of September 30, 2016 amounted to 6.8 million. The number of accounts stems from the varied offer in terms of customer preferences. The offer consists of, among others, products such as: PKO Konto bez Granic, PKO Konto za Zero, PKO Konto dla Młodych and PKO Junior.

PKO Bank Polski SA adjusted its offer to beneficiaries of "Rodzina 500+" program introducing dedicated 'Konto za Zero Rodzina 500+'. Using an account is free of charge. In 2016, 20.5 thousand this type of accounts have been opened.

Following the coming into effect of the Amendment to the Family Code, customers who were the subject of bank account seizure in this period, were allowed to free use of the cash inflows to their accounts related to 500+ program without the need to submit the permission from the enforcement authority to the bank.

What is more, the Bank extended 'PKO Konto dla Młodych' offer. As for now not only students and graduates aged between 18 and 26 can participate in the offer but everyone in the specified age group.

Small and medium enterprises interested in complex, modern and price attractive PKO Bank Polski SA services are offered with two packages:

- PKO Konto Firmowe for individuals running one-man business, freelancers and professional farmer who appreciate support of their finances with modern banking services, as well as with individual advisor in the Bank branch,
- PKO Rachunek dla Biznesu was created for enterprises with higher requirements, who anticipate an offer to be perfectly suited to their needs and appreciate the cooperation with individual bank advisor. The Bank offers to PKO



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Rachunek dla Biznesu owners access to advanced online banking iPKO business, all *cash-management* services, low costs of Internet transactions and many more modern banking products and services including the cheapest on the market SEPA online transfers or even access to simple currency exchange thanks to free iPKO dealer platform.

Account maintenance fees depend on customer activity and cash flow.

Term deposits and regular saving products

The dominant share of deposits in the retail market are deposits of retail and private banking. Customers in this segment allocated their resources primarily in term deposits. Since the beginning of 2016, the Bank offered to individual customers, among others, deposits with progressive interest rate and standard and structured deposits. The most popular term deposits among clients in the Bank's retail and private banking offer were:

- 24M term deposits with negotiated interest rates,
- 6M internet deposit available in the electronic banking system,
- term deposit account 3+3 for new funds, deposit 3+3 with negotiated interest rate,
- 1M special term deposits available via online transaction services iPKO and Inteligo (available in the 1st quarter 2016).

Bank extended its product range of term deposit to encourage customers to regular savings by:

- introducing a term deposit 'Kapitał na Własny Kąt' as a product that is designed for customers, who are planning to take a mortgage in the future, the possibility of regular saving for their own contribution,
- introducing a term deposit „Kapitał dla Dziecka” addressed to customers receiving „Rodzina 500+” program benefits as well as those not covered by the program, who want to build financial security of their children from earliest years.

Structured instruments are part of the standard offer of the Bank dedicated to individual clients. In the first three quarters of 2016 the Bank has conducted 16 subscriptions of 16 structured deposits, including deposits based on the USD/PLN exchange rate (9 and 15-month with guaranteed 1% interest rate) and a deposit based on the EUR/PLN exchange rate (9-month, 15-month and 15-month with 1% guaranteed interest rate).

The attractiveness of offered products provide achieved results: structured deposit based on basket of shares of new technology companies, which PKO Bank Polski SA offered to customers in 2014, at the end of investment period, which fell on May 30, 2016 brought to investors 10% profit for the wholes investment period, which is c.a. 5% annually.

In July 2016 the Bank introduced a new saving and investment deposit product in the form of Investment Program "Autolokacja", under which a customer at the same time opens a deposit with attractive interest rates and proceed to the sub-fund from the PKO TFI SA offer. Product design is based on a combination of the 12-month deposit investment program with an interest rate of 3% per annum. On the opening day of the Program funds are divided between the deposit part (12/13 of payment) and selected sub-fund part (1/13 payment). The payments transferred to the sub-funds will be charged a one-time fee for the program launching in the amount of max. 2% of the deposit. Further cyclic acquisition of the investment program participation units will be followed by monthly automatic transfer of funds from a deposit account to register of the desired sub-fund. PKO Bank Polski SA offered customers a product that gives a chance for a greater return on investment through staggered, gradual movement of funds from the deposit to the sub-fund with a higher profit potential. Customer may choose one of the six sub-funds as part of allocation:

- PKO Stabilnego Wzrostu Subfund,
- PKO Akcji Plus Subfund,
- PKO Akcji Rynku Europejskiego Subfund,
- PKO Akcji Dywidendowych Globalny Subfund,
- PKO Akcji Rynku Amerykańskiego Subfund,
- PKO Akcji Rynków Wschodzących Subfund.



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Investment funds

As a result of cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA ('TFI') customers of retail and private banking are offered 38 non-dedicated funds, with total assets of PLN 19.2 billion⁷.

PKO Bank Polski SA constantly extends offer in the area of investment funds. Since the beginning of 2016 PKO Bank Polski SA conducted issuance of investment certificates of closed-end investment funds PKO Globalna Strategia, PKO Absolutnej Stopy Zwrotu Europa Wschód – Zachód, PKO Strategii Obligacyjnych.

Sales of state treasury bonds

PKO Bank Polski SA is the only bank to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the expansive sales network of PKO Bank Polski SA, which is a great convenience for all persons who wish to invest in that instruments. Since the beginning of 2016, over 32 million of bonds were sold. In comparable period only 16 million of bonds were sold.

Other products and services in the retail segment

Banking cards

As of September 30, 2016 the number of PKO Bank Polski SA bank cards amounted to approx. 7.8 million, including 0.8 million credit cards. During analysed period, PKO Bank Polski SA introduced the possibility to order a credit card through the Contact Center and iPKO online banking. Simultaneously reduced sales process of credit cards called 'one-click' has been implemented by the Bank. With the new solutions when establishing new bank account in iPKO for euro, dollar and British pounds customer get possibility to order "multicurrency" VISA debit card. Card can be connected to all foreign currency accounts owned by the customer, according to that one card can make payments from three accounts, according to the currency in which transactions are made.

What is more PKO Bank Polski SA implemented free of charge 3D-Secure service, due to payments made in online shops marked with "Mastercard SecureCode" or "Verified by VISA" are additionally secured by single use code. In the third quarter of 2016 Bank carried out Diners Club card promotion for small and medium enterprises, it indicates with reduction of annual fee for newly issued PKO Standard Diner Club card to the amount of PLN 0 in the first year and for PKO Executive Diners Club card with reduction to the amount of PLN 120 in the first year.

Insurance products for retail segment

PKO Bank Polski SA continuously develops an offer of insurance products increasing attractiveness of banking products combined with them and giving customers opportunity to secure their debts, assets and to receive help due to accident. PKO Bank Polski SA offers insurance products to retail and private banking connected with products such as:

- consumer and mortgage loans (life and job loss insurance, low own contribution insurance, bridging insurance, non-life insurance, assistance insurance).
- current accounts (ROR) (i.a. life insurance, accident insurance (NNW)),
- banking cards (i.a. security insurance package for credit, charged and debit cards, travel insurance, loans payment insurance),

In terms of life insurance, the Bank offers products mainly developed in cooperation with PKO Życie Towarzystwo Ubezpieczeń SA. However, in the area of non-life insurance, the Bank offers products mainly developed in cooperation with PKO Towarzystwo Ubezpieczeń SA, new company from Bank's Capital Group, Bank also continue cooperation with foregoing business partners.

In the third quarter of 2016 to Bank offer new insurance-investment product, insurance "Bezpieczny Kapitał +", especially for the private banking clients.



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It is a solution, which combines secure capital growth with a predetermined rate of return, with an insurance within the one of three predefined insurance packages: "Moje Zdrowie", "Moje Dziecko" and "Moja Rodzina".

Private banking

PKO Bank Polski SA is consistently developing Private Banking segment, focusing on close cooperation within the Group, allowing customers access to a wide range of products and financial instruments. During the quarter under analysis Bank offered to the private banking clients eight closed-end investment funds issues – four issues of PKO Obligacji Korporacyjnych investment certificates and two for each of PKO Europa Wschód – Zachód and PKO Globalnej Makroekonomii. Clients were engaged to issuance of corporate bonds issued by: Best SA, Ghelamco SA and Kruk SA.

Currently, the team that provides services to the most affluent customers consists of 63 counselors and 29 business analysts. Private Banking offices are located in 9 major cities in Poland: Warsaw, Gdansk, Krakow, Katowice, Poznan, Wroclaw, Lodz, Szczecin and Bydgoszcz. Private Banking Center of PKO Bank Polski SA manages assets portfolio worth PLN 14 billion.

Distribution network and access channels

As of September 30, 2016, the retail branch network of PKO Bank Polski SA consisted of 1 208 branches and 8 retail banking offices. Compared with the end of 2015 the total number of retail branches decreased by 22.

Development of multi-channel distribution model extensively influences the optimization of the on-site sales network. Optimization of the branch network takes place in a continuous manner, however the final decision not to close the certain branch located a certain micro-market is taken on a basis of economic assessment with regard to the potential development of the micro-market. That optimization is a multidimensional process, which covers activities such as changing of the nature of branches and reducing their number. The process of reducing large branches is carried out with the simultaneous universalization of smaller branches and transformation small branches into agencies in explanatory situations.

Table 8. Branches and ATMs of PKO Bank Polski SA

	30.09.2016	31.12.2015	30.09.2015	Change since:	
				31.12.2015	30.09.2015
Total number of branches	1 216	1 238	1 251	(22)	(35)
regional retail branches	11	11	11	-	-
retail branches	1 197	1 219	1 232	(22)	(35)
private banking offices	8	8	8	-	-
Number of ATMs	3 178	3 196	3 214	(18)	(36)
Number of agencies	851	881	887	(30)	(36)

Branch network and agencies

The Bank is constantly improving conditions for customers in the branch network. In 2016 these activities were focused on the modernization of the branches and moving them to the new attractive locations. As part of the projects of the Bank and as a result of gained experience, universally applicable branch format is constantly evolving in the direction of optimal operating conditions, tailored to the changing technology. Essential complement to the network of branches and ATMs is a network of agencies. As at September 31, 2016 PKO Bank Polski SA collaborated with 851 agencies and in comparison to December 31, 2015 the number of agencies has decreased by 30 units. The decrease in the number of agencies is a result of efforts to increase network's efficiency.

Electronic banking

Customers of the iPKO retail service benefit from a package of electronic banking services. Moreover, for small and medium enterprises there is a possibility of using electronic banking services under the name iPKO Biznes. These services provide customers with access to information about their accounts and products, as well as allow them arranging transactions through: Internet, self-service terminals, telephone. Bank systematically promotes the remote use of the Internet account, separate account management and banking products in the transaction service, which allows customers faster and easier access to their products, as well as lowering the cost of using banking services. One of the campaign popularizing modern banking channels was conducted in the first quarter of 2016 to promote 'Zmień kartę z drapaką na 10 zł', which the aim was encouraging customers to use authorization tools different from the transaction authentication codes, such as SMS or token.



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New possibilities implemented to Bank offer during 2016:

- quick and simple creation of foreign currency account in US Dollars, Swiss Francs, Euro, British Pounds, Swedish, Danish or Norwegian Kroner on the iPKO website,
- displaying to regular customers personalized offer of 'Mini Ratka' at iPKO transaction service,
- providing customers with the new website, including more comfortable navigation, quick access to transaction history, quick access to credit card repayment or blocking, deposits opening and quick contact with hotline in order to purchase products.
- additional security for customers on websites iPKO and Inteligo, there is new individually set up picture in a process to login to the customer account, it ensures customers that the website, in which they type their login and password, is verified Bank's site.

PKO Bank Polski SA was the first bank to become involved in the government program 'Rodzina 500 plus.' The relevant agreement was signed between the Ministry of Family, Labor and Social Policy and PKO Bank Polski SA. As a result, the Bank's customers with access to the Internet service both iPKO and Inteligo can apply for the benefit of program 'Rodzina 500 plus' electronically. During the first three months of the program, applications submitted through the PKO Bank Polski SA website accounted for 1/3 of all applications submitted via the Internet.

The participation of PKO Bank Polski SA in the program 'Rodzina 500 plus' is only one of the signs of the Bank's involvement in the construction of e-state. On March 8 PKO Bank Polski SA signed an agreement with the Social Insurance Institution, through which the Bank's customers will be able to soon set up a profile on Electronic Services Platform (ESP) of Social Insurance Institution from banking services level or online via iPKO or Inteligo.

Mobile banking IKO

PKO Bank Polski SA provides customers with modern technological solutions giving them full, simple, functional access to banking services by using the mobile that is safe and accessible everywhere at the same time. IKO is the most popular and the most developed system of mobile payments in Poland. It combines the functions of mobile banking with the ability to make mobile payments. The total number of application IKO activations has already exceeded 800 thousand. The application is constantly enriched with new functionalities. The changes have transformed the IKO application used for payments or withdrawals to mobile application constituting the bank in the phone. Currently, application enable to:

- payment services,
- establishment of investment and use of dedicated for customers using iPKO term deposits at 1, 3, 6 or 12 months with an attractive interest rate,
- use virtual money box launched in September,
- make contactless payments through mobile application IKO enriched with HCE technology (Host Card Emulation),
- change limits on a debit and credit cards,
- set up PIN for the card,
- receiving Western Union money transfers – new service can be used by all PKO Bank Polski SA customers who have access to their private accounts via IKO mobile app,
- make money transfers to the phone of people using BLIK in other banks, which allows instant money transfers,
- view details of standing orders (including repayment of credit card debt) and loans (including mortgages),
- view direct debits,
- display the balance without logging in,
- sending requests for transfer to other users, which is convenient option to remind the other person of outstanding debt,
- recharge prepaid mobile phone,
- personalize application through main screen management,
- quick copy of the BLIK digit code,



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- ability to display and generate a PDF confirmation of operations made, additionally, an ability to send them using communicator, SMS or e-mail (this functionality is available on iOS and Android system)
- single-touch login with TouchID function available for iOS systems users equipped with fingerprint reader,
- quick access to the application by displaying on the main screen of the phone 3D Touch shortcut,
- ability to change names of the products (only for PKO Bank Polski SA customers)

On the basis of IKO, Polish standard of mobile payments, BLIK, was created. BLIK is a universal form of payments and cash withdrawals from ATMs without using cash or credit card, created together with partner banks and the National Clearing House. As of September 30, 2016, the network of acceptance of mobile payments (IKO, BLIK) included more than 162 thousand devices (eService, First Data and PayTel terminals) throughout the country. In connection with the implementation of the BLIK system, IKO application now enables cash withdrawal from more than 14.6 thousand of PKO Bank Polski SA ATMs and Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA, Euronet ATMs (about 6 thousand) and IT Card (about 1.8 thousand). In June 2016 PKO Bank Polski introduced new option available for customers: "Płać z iPKO" payment method – transaction authorization through entering BLIK code generated in IKO application. Thanks to implemented method, payments can be performed in most of online shops in Poland, including the biggest integrator PayU. Change appeared as well in the biggest Polish e-commerce bidding platform – Allegro.

Moreover, the Bank allowed its youngest customers under 13, who use PKO Konto Dziecka and PKO Junior transaction service, access to bank account through PKO Junior mobile application. Application is not only handy but safe as well, additionally is enriched with financial education and development of entrepreneurial attitudes functions. Modern and intuitive is mobile equivalent of PKO Junior service.

The PKO Bank Polski SA Contact Center

Contact Center plays an important role in the retail segment client's service. The aim of this unit is to conduct the sale of products offered by the Bank during incoming and outgoing calls and to provide efficient and effective customer service, using remote communication. The tasks of the Contact Center are in particular:

- sale of banking products via incoming and outgoing calls,
- supporting remote sale processes initiated on the web,
- handling of incoming calls from customers of the retail segment,
- outgoing calls initiated by the Bank (information tasks),
- handling security issues (incoming and outgoing),
- support for e-mail correspondence,
- answering questions asked via customers infosite and iPKO service,
- internal customer service (professional helpdesk for branch employees),
- early monitoring of receivables.

Additionally Contact Center actively participates in a number of new projects, especially in the project, which aim is to increase security of transactions ordered by Bank's customers, Contact Center verifies with the client suspicious transfers. In the third quarter Contact Center introduced new functionality, which allows customer to cancel restriction on an identification document via telephone service, without visit in a branch.

4.1.2. Corporate and investment segment

In the third quarter of 2016 PKO Bank Polski SA likewise in previous periods based the development of corporate business on building stable relationships with customers through high quality services, cooperation based on partnership and specialized competence of the sales network. Current business financing (through working capital loans), as well as openness to participation in the implementation of their future projects (through investment loans) and support in the implementation of local government projects, invariably constitute the main priorities of the Bank's corporate segment.

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The Bank analyzed market expectations systematically and, in order to meet customer expectations, tailored its current product and service offer so as to cope with increasing competitive pressure. As a result, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency and commodity price risks) were being developed consistently, and financing structure needs were addressed in a flexible manner.

At the end of September 2016 in the segment nearly 14.2 thousand customers were serviced, including a thousand of strategic customers and more than 4.2 thousand units of local government and central government institutions together with budget-related and affiliated entities. The Bank on the basis of newly acquired competences services also over 0.6 thousand affiliates and subordinated units with their registered office abroad.

Lending activity and structured financing.

As at the end of September 2016 total financing provided to corporate customers including bonds issued amounted to PLN 62 billion and since the beginning of the year increased by more than PLN 2 billion.

Table 9. Financing of the corporate segment clients (in PLN million)

	30.09.2016	31.12.2015	30.09.2015	Change since:	
				31.12.2015	30.09.2015
Corporate loans, gross	48 875	46 763	46 670	4.5%	4.7%
Debt securities*	13 217	13 132	13 088	0.6%	1.0%
municipal	7 117	7 309	7 129	-2.6%	-0.2%
corporate	6 100	5 823	5 960	4.8%	2.4%
Total financing	62 093	59 895	59 759	3.7%	3.9%

* Data presented together with securities classified as loans and advances to customers.

In the third quarter of 2016 PKO Bank Polski SA participated in signing three loan agreements as a bank consortium participant, for a total value of PLN 1.65 billion, where PKO Bank Polski SA portion was about PLN 920 million. Additionally Bank signed annex to agreement with subsidiary, increasing amount of funding to PLN 1.5 billion. In cooperation with local government entities and financing local community investment project, in the third quarter of 2016 Bank signed 29 agreement for municipal bond issues with a total value of PLN 163.4 million and 3 annexes extending the duration of the previously concluded agreements for municipal bonds, for the total amount of PLN 5.01 million. In addition, an agreement for corporate bonds issuance were signed for the total amount of PLN 10.25 million.

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Deposit activities and transaction banking

The level of deposits at the end of third quarter of 2016 amounted to PLN 40 billion and decreased in comparison to the end of the last year. This is the result of liquidity management policy applied by the Bank.

Table 10. Deposits of corporate segment customers (in PLN million)

	30.09.2016	31.12.2015	30.09.2015	Change since:	
				31.12.2015	30.09.2015
Corporate deposits	39 890	42 908	29 721	-7.0%	34.2%

PKO Bank Polski SA is constantly enhancing the quality of its transaction banking services.

In the third quarter of 2016 the Bank developed services dedicated to entities characterized by extensive organizational structure (e.g. capital groups), allowing customers to use various kinds of products and services to facilitate settlement of transactions with domestic and foreign partners.

In case of electronic services provided by PKO Bank Polski SA for customers, the leading product for corporate banking is the iPKO biznes banking system. In the third quarter of 2016, the iPKO biznes application has been expanded with new functionalities to improve the comfort of use, including among others simplified and redesigned possibilities of key operations on the site, so they were even more user-friendly and intuitive. Currently iPKO biznes application allows customers to monitor and manage accounts, payment cards and loans and to submit orders for all kinds of transfers.

Financial institutions

Currently PKO Bank Polski SA holds a leading position in the field of foreign banking in Poland. It has a broad and efficient network of nostro accounts in banks around the world, has more than 1 400 SWIFT established relationships with banks in different countries and in different markets. The Bank provides more than 200 loro accounts for foreign banks, which are utilized to settle transactions of banks, both in Poland and in other markets.

Bank develops Interbank relations in order to support customers in foreign markets. With couple of banks signed preliminary agreements about establishing relationships, which should in next month's increase number of banks and turnover which are supported by the Bank.

Additionally PKO Bank Polski SA provides services to more than 500 domestic and foreign non-bank financial institutions, especially for investment funds, pension funds, insurance companies, exchange brokers and brokerage houses. Cooperation is conducted mainly with current accounts, deposits accounts and other treasury products. Bank provides support for foreign and domestic banks with high-tech cash management business products. In the last period significantly expanded cooperation with the largest entity offering services for money order remittances.

International banking

PKO Bank Polski SA actively participates in the development of the international expansion of its clients, offering them support in foreign markets, acting virtually everywhere in the world. International activities of the Bank take place on various levels. Initiatives are taken to facilitate financial support for Polish companies operating on the international markets. One of them was the opening of a corporate branch in Germany.

The branch offers a full range of services and products for corporate customers comprising i.a.: transaction banking (including international cash pooling), electronic banking, treasury products, trade finance and corporate loans.

Opening another corporate branch abroad, in Czech Republic is a subject of ongoing work. Submitted notification form concerning opening operations in Czech Republic was accepted by the Polish Financial Supervision Authority, For the entities operating in the territory of Ukraine banking services are being provided via KREDOBANK SA which is a part of the PKO Bank Polski SA Group.

Moreover the Bank provides specialized support to foreign companies operating in Poland, e.g. from the Scandinavian countries, South Korea and Ukraine. For this purpose teams of experts dedicated to serve companies from these countries have been appointed, which favors tightening economic relations. The wide range of products offered and the team of high quality advisors make PKO Bank Polski SA increasingly appreciated by foreign customers.



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Brokerage activities

Brokerage House of PKO Bank Polski SA ('BH', 'Biuro') is one of the leading brokerage houses in the domestic financial market, holding the largest sales network among financial institutions operating in Poland.

In the third quarter of 2016, the share of BH in trading on the stock market amounted nearly to PLN 10.33 billion which accounts for 8.94% of the market and translates to the second position in the market. On the bonds market BH reached 47.98% market share and is a leader in the bond market.

Additionally BH holds one of the leader position in a role of a market maker. At the end of September 2016 BH came with fifth place acting as a market maker and the issuance market maker on a GPW market and third place on a NewConnect exchange.

In the third quarter of 2016, BH was engaged in issuance of AE series of GetBack SA bonds. Value of transaction amounted to PLN 30 million. BH was also a member of syndicate in the public offering of PPI series of Ghelamco Invest Sp. z o.o. bonds, transaction amounted to PLN 50 million. Additionally BH participated as the intermediary in the acquisition of PGNiG SA shares, with a purpose for shares redemption. Value of redemption equals to PLN 0.5 billion.

At the end of September 2016, BH provided 165.8 thousands security accounts and cash accounts and had 168.5 thousand of registry accounts, it placed BH in the fourth position among 40 participants in the market.

Treasury Products

Knowledge, experience and the Bank's activity in the financial markets allows to offer to institutional clients a wide range of the Bank's treasury products tailored to the needs of current operations as well as those related to the protection against financial risk. Another advantage of the Bank in this area of activity is its extensive network of specialists and access to the most modern web platform iPKO dealer. In the third quarter of 2016, Bank finalized implementation of treasury agreements digitization, which aims to improve access to the iPKO dealer web platform for Banks customers.

Foreign exchange SPOT transactions have the largest share in sales of treasury products. Good results are generated by the Bank in the sale of derivative instruments, such as forwards, options, IRS, CIRS or commodity.

Interbank market

The Bank is the Treasury Securities Dealer and Money Market Dealer, which acts as a market maker on the domestic interest rate and foreign exchange market.

The Bank has a significant portfolio of securities, which is funded from the deposit surplus. The function of portfolio is related to the current liquidity management of the Bank and the function of the investment portfolio. The major part of the portfolio are Polish treasury securities.

Fiduciary services

The Bank maintains security accounts and facilitates domestic and foreign market transactions, provides fiduciary services and acts as a depository for pension and investment funds. As at the end of September 2016 assets held by the customers on fiduciary accounts maintained by the Bank amounted to PLN 67.6 billion and were higher by circa 1.7% as compared to the value noted as at the end of September 2015. Furthermore at the end of third quarter of 2016 the amount of security accounts maintained amounted to 2 thousand of unique accounts.

Sales network

The sales network of the corporate segment includes seven Corporate Macro-regions covering 32 Regional Corporate Centers and Branch in Frankfurt, which serves corporate clients of PKO Bank Polski SA in Germany.

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Table 11. PKO Bank Polski SA branches

	30.09.2016	31.12.2015	30.09.2015	Change since:	
				31.12.2015	30.09.2015
Total number of branches in corporate and investment segments:	40	40	39	-	1
regional corporate branches	7	7	7	-	-
regional corporate centres	32	32	32	-	-
branch of PKO Bank Polski SA in Federal Republic of Germany	1	1	x	-	1

4.2. Market share of PKO Bank Polski SA

At the end of the third quarter of 2016, the market share of PKO Bank Polski SA (including PKO Bank Hipoteczny SA) loans decreased by 0.3 p.p. compared to the end of 2015 to the level of 17.6%, which was determined by the decrease in share of institutional loans.

The deposits market share declined in comparison to the end of 2015 by 0.6 p.p. to the level of 17.3%, mainly due to the decrease in the share of deposits of institutional entities.

Table 12. Market share in loans and deposits market (in %)*

	30.09.2016	31.12.2015	30.09.2015	Change 30.09.2016/ 31.12.2015	Change 30.09.2016/ 30.09.2015
Loans	17.6	17.9	17.5	-0.3 p.p.	0.1 p.p.
private individuals	22.8	22.9	22.9	-0.1 p.p.	-0.1 p.p.
housing	25.6	25.5	25.5	0.1 p.p.	0.1 p.p.
PLN	28.6	28.7	28.7	-0.1 p.p.	-0.1 p.p.
foreign currency	21.4	21.5	21.5	-0.1 p.p.	-0.1 p.p.
consumer and other	15.9	16.1	16.2	-0.2 p.p.	-0.4 p.p.
institutional entities	12.5	13.0	12.4	-0.5 p.p.	0.1 p.p.
Deposits	17.3	17.9	16.8	-0.6 p.p.	0.5 p.p.
private individuals	20.6	20.7	21.1	-0.1 p.p.	-0.5 p.p.
institutional entities	12.7	14.0	11.0	-1.3 p.p.	1.7 p.p.

* Data according to NBP reporting system - Webis. In the third quarter of 2016 market shares were updated, which is result of changes in the presentation of market data for the period from September 2014 to September 2016. Position debt from mortgage banks, which was previously presented in other receivables classified as consumer loans, now, after the change, is recognized in loans to households.

4.3. Activities of other entities of the PKO Bank Polski SA Group

**PKO Towarzystwo
Funduszy
Inwestycyjnych SA**

1. The value of fund assets under management of the Company as at the end of September 2016 amounted to PLN 19.5 billion, which represents an 5.7% increase in comparison to the end of 2015. The increase in the value of assets was mainly associated with the significant net profit from sales and the result from assets management.
2. PKO Towarzystwo Funduszy Inwestycyjnych SA ranks 3rd in terms of the net assets value with a 7.3% share in the investment funds market and the 1st place with a 14.6% share in managed assets of non-dedicated funds*.
3. As at September 30, 2016 PKO Towarzystwo Funduszy Inwestycyjnych SA managed 41 investment funds and sub-funds.
4. In 2016 Company offered new close-end investment fund: PKO Absolutnej Stopy Zwrotu Europa Wschód – Zachód.

* Source: The Chamber of Fund and Asset Managers (Izba Zarządzających Funduszami i Aktywami).

**PKO BP BANKOWY
PTE SA**

1. As at the end of September 2016 net assets value of PKO BP Bankowy OFE manager by PKO BP Bankowy PTE SA amounted to PLN 6.5 billion, which represents an 2.5% increase in comparison to the end of 2015. The increase of net assets value result mostly from the reached return from the assets under management.



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2. As at the end of June 2016, the number of members of PKO BP Bankowy OFE amounted to 939 thousand.
3. PKO BP Bankowy OFE holds the ninth place on the pension funds market regarding the OFE's net assets value and the ninth place regarding the number of members.
4. According to the ranking of the Polish Financial Supervision Authority, PKO BP Bankowy OFE for the period from September 30, 2013 to September 30, 2016 reached the rate of return at the level of 3.073% (the weighted average rate of return of 0.133%) holding thereby second place in the OFE ranking for that period.

* Source: www.knf.gov.pl

PKO Leasing SA Group

1. In the period from January to September 2016 PKO Leasing SA Group entities leased out assets with a total value of PLN 3 billion PLN, i.e. 35.4% more than in the comparable period in 2015. The increase is a result of organic growth of the Company and the Bank's sales network utilization.
2. As at the end of September 2016 the total carrying amount of the lease investments of the PKO Leasing SA Group entities amounted to PLN 6 billion.
3. In terms of the value of assets leased the PKO Leasing SA Group at the end of September 2016 ranked 4th position with a leasing services market share of 7.0%*.
4. In 2016 the company has been providing domestic and export factoring services with both takeover of the risk and no risk taken, reverse factoring and factoring program service for contractors.
5. In the period from January to September 2016 the value of factoring turnover amounted to PLN 6.9 billion (for comparable period of the previous year the Company's turnover was PLN 4.3 billion); at the end of September 2016 the number of customers amounted to 315.
6. PKO BP Faktoring SA as of September 30, 2016 ranked ninth place among factoring companies associated in the Polish Factors' Association with a market share of 6.2%.

* Source: Polish Leasing Association

PKO Życie Towarzystwo Ubezpieczeń SA Group

1. PKO Życie Towarzystwo Ubezpieczeń SA offer wide range of insurance products starting from protective products to investment products. Company focuses its operations on offering to their customers life insurance and health protecting products, the Company has in offer individual products, as well as products complementing offer provided by PKO Bank Polski SA.
2. The value of gross assigned contributions from insurance contracts as of September 30, 2016 amounted to PLN 667 million.
3. As at the end of September 2016 the Company insured more than 667 thousand individuals.

PKO Towarzystwo Ubezpieczeń SA

1. PKO Towarzystwo Ubezpieczeń SA began their operating activity in January 2016.
2. The Company offers group insurance against loss of income or hospital treatment following a misadventure for the clients of PKO Bank Polski SA, whom are holders of credit cards and individual insurance for: cash loan repayment against loss of income or disability following a misadventure for PKO Bank Polski SA borrowers (via branch network and agencies); mortgage payment insurance, mortgage loan insurance in case of loss of income, disability following an misadventure and hospital treatment for clients of PKO Bank Polski SA or PKO Bank Hipoteczny SA and property insurance for customers of PKO Bank Polski SA and PKO Bank Hipoteczny SA who have entered into credit agreements or have loans secured with a mortgage.
3. The value of gross written premiums from insurance contracts concluded by the company as of September 30, 2016 amounted to PLN 250 million.



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4. At the end of 2016 the Company insured 271 thousand people.

**PKO Bank
Hipoteczny SA**

1. PKO Bank Hipoteczny SA started its operational activity in April 2015. It specializes in providing mortgage loans, and also acquires mortgage loan portfolios from PKO Bank Polski SA. The Bank acquires loans to its portfolio via strategic cooperation with PKO Bank Polski SA. The principal purpose of the Bank is to issue covered bonds, which serve as the main source of long-term financing of mortgage loans.
2. As of September 30, 2016 PKO Bank Hipoteczny SA gross value of credit portfolio amounted to PLN 6.1 billion, where PLN 4.4 billion constituted by mortgage acquired under Framework Agreement of Sale Debts.
3. In the first half of 2016 the Company carried out two issues of covered bonds targeting institutional investors with the total nominal value of PLN 1 billion maturing under the period of 5 years and one day from the issuance date. Interest rate based on variable yield equalled to respectively WIBOR 3M + 0.65 p.p. margin and WIBOR 3M + 0.59 p.p. margin
4. At September 28, 2016 Commission de Surveillance du Secteur Financier in Luxemburg approved Base Prospectus of PKO Banku Hipotecznego SA concerning issuance of covered bonds on European market. As a part of a program, the company could issue covered bonds in any currency. Total value of issued covered bonds being traded on a market cannot exceed EUR 4 billion. Program stipulates that covered bonds could be listed at the same time on the Luxembourg and Warsaw stock exchanges.
5. As at the end of September 2016 PKO Bank Hipoteczny SA had rating of Aa3 for its covered bonds issued, granted on December 11, 2015 by the rating agency Moody's Investors Service and preliminary long term rating (P)Aa3 for EUR denominated covered bonds, which will be issued by Company, granted on September 29, 2016.

**PKO BP Finat
Sp. z o.o.**

1. The Company provides complex services for the financial sector firms – such as transfer agent services, bookkeeping for funds and companies. It specializes also in outsourcing of IT specialists, project teams and IT processes. In 2016 the Company started providing group insurance dedicated to products offered by PKO Bank Polski SA.
2. In February 2016 the Company has been accepted as one the supporting bodies for Chamber of Fund and Asset Management.
3. In April 2016 the Company successfully passed a supervision audit and kept the Certificate of Registration - Information Security Management System valid, in line with requirements of ISO/IEC 27001:2013.
4. In September 2016 Company became a member of Association of Business Service Leaders in Poland, ABSL, i.e. organization bringing together Shared Service Centers, SSC, Business Process Outsourcing, BPO, Information Technology Outsourcing, ITO Research&Development, R&D and companies supporting development of the business services sector.
5. In the third quarter of 2016 Company entered into an agreement for purchase of an organized part of the enterprise dedicated to the valuation of investment funds, arrangements for a providing transfer agent services for 5 new investment funds and in a contract for providing accounting services for 37 close-end investment funds and 5 new open-end investment funds. Acquiring of organized part of the enterprise and starting operations is planned for the fourth quarter of 2016.

**KREDOBANK SA
Group
(date according to
IFRS/IAS utilised by**

1. Loan portfolio of the KREDOBANK SA Group (gross) in the period from January to September 2016 increased by UAH 1 022 million, ie. by 20.4% and at the end of September 2016 amounted to UAH 6 033 million (loan portfolio gross expressed in PLN at the end of September 2016 was equal to PLN 898 million). Increase of the loan



**DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS
OF THE PKO BANK POLSKI SA GROUP FOR THE THIRD QUARTER OF 2016**

PKO Bank Polski SA Group)

- portfolio value in UAH was mainly a result of the increase of new loans sales.
2. The value of customers term deposits in KREDOBANK SA Group) in the period from January to September 2016 increased by UAH 305 million, i.e. by 10.4 % and at the end of September 2016 amounted to UAH 3 244 million (term deposits expressed in PLN as of the end of September 2016 amounted to PLN 483 million). Increase of the deposit value is the effect of credibility increase and the position of KREDOBANK SA on the Ukrainian banking market.
 3. As of September 30, 2016 branch office network of KREDOBANK SA comprised the Central Branch in Lviv and 111 subordinated branches in 22 out of 24 Ukrainian districts. In 2016 location of the 4 subordinated branch was changed, 2 new branches were opened and two branches were closed.

Qualia Development Sp. z o.o. Group

- In the period from January to September 2016 the Group was focused on:
- completion of the final stage of the Royal Park investment implemented at part of the Nowy Wilanów project in Warsaw, obtaining perpetual usufruct and handover of units to clients,
 - completion of the fourth stage of the project Neptun Park in Gdańsk,
 - conducting sales of investments realised in Warsaw (Nowy Wilanów – Royal Park), in Międzyzdroje (Rezydencja Flotylla) and Sopot (Na Fali) and Gdańsk (Neptun Park Stage IV),
 - running hospitality business on the basis of completed projects in Gdańsk and Międzyzdroje,
 - conducting sales process for selected properties and entities from the Qualia Development Sp. z o.o. Group; sales of the Fort Mokotów Inwestycje Sp. z o.o. shares, which is the perpetual usufruct right owner of land located on Żwirki i Wigury and Raclawicka streets neighborhood, sales of rights and obligations of the general partner and limited partner rights in the Qualia Spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. and two plots of land located in Jurata.

4.4. Prizes and awards

In third quarter of 2016, the PKO Bank Polski SA Group's entities received below prizes and awards:

Awards and prizes granted to the PKO Bank Polski SA Group's entities	
Book of Lists	According to the ranking Book of Lists 2016/2017 prepared by „Warsaw Business Journal” magazine PKO Bank Polski SA and Dom Maklerski PKO Bank Polski took first place in ranking Book of Lists 2016/2017. Once again they were the best in categories: banks in Poland and brokerage houses. Book of Lists is the largest and longest present on the Polish publishing market ranking, which is in the form of charts presenting the most successful companies from various business sectors in Poland. Every year there are highlighted the best, the biggest and the most dynamic companies in Poland.
IT leader 2016	In twentieth anniversary edition of the „Computerworld” IT leader 2016 PKO Bank Polski SA won the category „banking and finance”. The jury appreciated Bank for the project which allows customers to submit application for program „Rodzina 500 plus” and possibility to use electronic platform (PUE) Social Insurance Institution (ZUS).
CIPS certificate for PKO Bank Polski SA	PKO Bank Polski SA as the first company in financial sector and third polish company received an international certificate confirming the highest standards of purchasing processes. Certificate is awarded by the largest in the world purchasing industry organization Chartered Institute of Procurement and Supply (CIPS). Certificate is confirming credibility of the Bank to customers and partners.



**DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS
OF THE PKO BANK POLSKI SA GROUP FOR THE THIRD QUARTER OF 2016**

<p>Best employer in Poland</p>	<p>For the consecutive time PKO Bank Polski SA was appreciated by students. In prestigious employer ranking – Universum Student Survey – in two categories: business and law, Bank was in a group of best Polish employers.</p> <p>Universum employers survey is one of the biggest surveys in the world. It is gaining respondents preferences and career goals, careers opportunities or industry, in which respondents would like to work.</p> <p>This year in survey took part about 26 thousand of students from 64 Polish universities. They have been rating employers from: business and economics, engineering and IT, humanities, science, law, medicine and pharmaceuticals industries.</p>
<p>Comperia Stars statuette for 'Własny kredyt hipoteczny'</p>	<p>Mortgage 'Własny kredyt hipoteczny' took the winning position in the July mortgage loan ranking prepared by editors of Comperia.pl.</p> <p>Comperia.pl analytics compared bank offers for PLN 250 thousands mortgage for 20 years. For mentioned assumptions PKO Bank Polski SA offer was the best one.</p> <p>'Własny kredyt hipoteczny' mortgage offer won for a third time in 2016 (mortgage won in February and June 2016).</p>
<p>The best products, Ranking 150 SME</p>	<p>Product „faktoring z przejęciem ryzyka i bez przejęcia ryzyka dla Małych i Średnich Przedsiębiorstw”, offered by PKO BP Faktoring SA, has been awarded by the Gazeta Finansowa in contest „Najlepszy Produkt dla MSP 2016”.</p>
<p>Forbes safest banks in Ukraine</p>	<p>KREDOBANK SA took seventh place in the safest and crisis resilient banks in Ukraine conducted by Forbes Ukraine as at September 2016. KREDOBANK SA maintained the highest possible rating of reliability - A.</p>
<p>KREDOBANK SA, reliable Bank</p>	<p>KREDOBANK SA took the first place in reliability of deposits in Ukrainian banks ranking, conducted by the „Standard-Rating” agency based on data for the first half of 2016.</p>
<p>„Quality Recognition Award” prize</p>	<p>KREDOBANK SA has been awarded with „Quality Recognition Award Euro Cash Clearing 2015” granted by KBC Bank NV (Belgium). Every year KBC Bank NV determines the best financial institution around the world among its correspondents.</p>



Bank Polski

Condensed interim
consolidated financial statements
of the PKO Bank Polski SA Group
for the nine-month period ended
30 September 2016

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED INCOME STATEMENT**

	Note	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Continuing operations					
Interest and similar income	4	2 517 701	7 370 240	2 433 497	7 221 629
Interest expense and similar charges	4	(546 223)	(1 636 251)	(615 398)	(2 049 430)
Net interest income		1 971 478	5 733 989	1 818 099	5 172 199
Fee and commission income	5	897 408	2 652 170	904 340	2 709 694
Fee and commission expense	5	(211 139)	(663 885)	(183 792)	(552 614)
Net fee and commission income		686 269	1 988 285	720 548	2 157 080
Dividend income		1 149	10 045	982	10 658
Net income from financial instruments measured at fair value	6	29 279	15 536	2 004	10 875
Gains less losses from investment securities	7	26 934	503 332	6 385	75 738
Net foreign exchange gains (losses)		147 708	350 942	92 247	258 935
Other operating income	8	272 455	546 455	111 138	355 706
Other operating expense	8	(93 899)	(274 833)	(53 157)	(167 822)
Net other operating income and expense		178 556	271 622	57 981	187 884
Net impairment allowance and write-downs	9	(419 152)	(1 201 520)	(362 316)	(1 110 965)
Administrative expenses	10	(1 377 916)	(4 134 448)	(1 335 476)	(4 112 563)
Tax on certain financial institutions	11	(225 353)	(594 749)	-	-
Operating profit		1 018 952	2 943 034	1 000 454	2 649 841
Share in profit (loss) of associates and joint ventures		14 123	24 738	8 279	24 102
Profit before income tax		1 033 075	2 967 772	1 008 733	2 673 943
Income tax expense	12	(261 240)	(686 634)	(193 031)	(520 858)
Net profit (including non-controlling shareholders)		771 835	2 281 138	815 702	2 153 085
Profit (loss) attributable to non-controlling shareholders		3 319	483	454	(12 222)
Net profit attributable to equity holders of the parent company		768 516	2 280 655	815 248	2 165 307

Earnings per share

-basic earnings per share for the period (PLN)	0.61	1.82	0.65	1.73
-diluted earnings per share for the period (PLN)	0.61	1.82	0.65	1.73
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000

Discontinued operations

In the nine-month periods ended 30 September 2016 and 30 September 2015 respectively, no discontinued operations were conducted by PKO Bank Polski SA Group.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Net profit (including non-controlling shareholders)		771 835	2 281 138	815 702	2 153 085
Other comprehensive income		(41 984)	(227 309)	30 950	(191 133)
Items that may be reclassified to the income statement		(41 984)	(227 309)	30 950	(191 133)
Cash flow hedges (gross)	17	(87 753)	126 114	25 260	(93 600)
Deferred tax on cash flow hedges	17	16 673	(23 962)	(4 800)	17 784
Cash flow hedges (net)	17	(71 080)	102 152	20 460	(75 816)
Unrealised net gains on financial assets available for sale (gross)		53 629	(391 510)	11 768	(124 240)
Deferred tax on unrealised net gains on financial assets available for sale		(10 096)	72 076	(1 036)	26 500
Unrealised net gains on financial assets available for sale (net)		43 533	(319 434)	10 732	(97 740)
Currency translation differences from foreign operations		(11 410)	(10 338)	(242)	(16 571)
Share in other comprehensive income of an associate		(3 027)	311	-	(1 006)
Total net comprehensive income		729 851	2 053 829	846 652	1 961 952
Total net comprehensive income, of which attributable to:		729 851	2 053 829	846 652	1 961 952
equity holders of PKO Bank Polski SA		726 570	2 053 378	846 198	1 974 204
non-controlling shareholders		3 281	451	454	(12 252)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.09.2016	31.12.2015
ASSETS			
Cash and balances with the central bank	13	14 345 681	13 743 864
Amounts due from banks	14	3 723 386	4 552 972
Trading assets	15	1 634 681	783 199
Derivative financial instruments	16	2 638 698	4 347 269
Financial assets designated upon initial recognition at fair value through profit and loss	18	15 163 093	15 154 100
Loans and advances to customers	19	193 174 343	190 413 708
Investment securities available for sale	20	34 071 689	28 309 515
Investment securities held to maturity	21	281 634	210 330
Investments in associates and joint ventures	22	398 252	391 871
Non-current assets held for sale	23	30 729	220 020
Inventories	24	198 326	400 948
Intangible assets	25	3 254 540	3 270 983
Tangible fixed assets, of which:	25	2 887 615	2 782 186
investment properties		136 764	141 813
Current income tax receivables		2 053	46 532
Deferred income tax asset		1 165 483	901 645
Other assets	26	2 637 587	1 410 777
TOTAL ASSETS		275 607 790	266 939 919
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank		4 269	4 219
Amounts due to banks	27	19 168 026	18 288 797
Derivative financial instruments	17	3 403 541	4 624 767
Amounts due to customers	28	201 180 557	195 758 461
Liabilities due to insurance operations	29	2 567 646	2 400 493
Debt securities in issue	30	10 419 749	9 432 973
Subordinated liabilities	31	2 494 465	2 499 163
Other liabilities	32	3 539 395	3 356 170
Current income tax liabilities		226 771	26 057
Deferred income tax liability		29 675	31 812
Provisions	33	254 954	252 094
TOTAL LIABILITIES		243 289 048	236 675 006
Equity			
Share capital		1 250 000	1 250 000
Other capital		27 801 400	25 417 809
Currency translation differences from foreign operations		(226 807)	(216 501)
Undistributed profits		1 231 415	1 222 413
Net profit for the year		2 280 655	2 609 564
Capital and reserves attributable to equity holders of the parent company		32 336 663	30 283 285
Non-controlling interest		(17 921)	(18 372)
TOTAL EQUITY		32 318 742	30 264 913
TOTAL LIABILITIES AND EQUITY		275 607 790	266 939 919
Total capital ratio	42	16.00%	14.61%
Book value (in PLN thousand)		32 318 742	30 264 913
Number of shares (in thousand)	34	1 250 000	1 250 000
Book value per share (in PLN)		25.85	24.21
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		25.85	24.21

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2016	Share capital	Other capital			Other comprehensive income				Total other capital	Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Share in other comprehensive income of an associate and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses							
		Reverse capital	General banking risk fund	Other capital											
As at 1 January 2016	1 250 000	20 711 174	1 070 000	3 536 391	(186)	170 646	(57 657)	(12 559)	25 417 809	(216 501)	1 222 413	2 609 564	30 283 285	(18 372)	30 264 913
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	2 609 564	(2 609 564)	-	-	-
Total comprehensive income, of which:	-	-	-	-	311	(319 434)	102 152	-	(216 971)	(10 306)	-	2 280 655	2 053 378	451	2 053 829
Net profit	-	-	-	-	-	-	-	-	-	-	-	2 280 655	2 280 655	483	2 281 138
Other comprehensive income	-	-	-	-	311	(319 434)	102 152	-	(216 971)	(10 306)	-	-	(227 277)	(32)	(227 309)
Transfer from undistributed profits	-	2 529 420	-	71 142	-	-	-	-	2 600 562	-	(2 600 562)	-	-	-	-
As at 30 September 2016	1 250 000	23 240 594	1 070 000	3 607 533	125	(148 788)	44 495	(12 559)	27 801 400	(226 807)	1 231 415	2 280 655	32 336 663	(17 921)	32 318 742

* A detailed description of undistributed profits is presented in explanatory note 'Information on dividend paid (or declared)'.

For the period ended 30 September 2015	Share capital	Other capital			Other comprehensive income				Total other capital	Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Share in other comprehensive income of an associate and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses							
		Reverse capital	General banking risk fund	Other capital											
As at 1 January 2015	1 250 000	18 802 387	1 070 000	3 474 127	1 006	31 046	5 204	(8 976)	23 374 794	(192 692)	(60 658)	3 254 122	27 625 566	(10 015)	27 615 551
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	-	3 254 122	(3 254 122)	-	-	-
Total comprehensive income, of which:	-	-	-	-	(1 006)	(97 740)	(75 816)	-	(174 562)	(16 541)	-	2 165 307	1 974 204	(12 252)	1 961 952
Net profit	-	-	-	-	-	-	-	-	-	-	-	2 165 307	2 165 307	(12 222)	2 153 085
Other comprehensive income	-	-	-	-	(1 006)	(97 740)	(75 816)	-	(174 562)	(16 541)	-	-	(191 103)	(30)	(191 133)
Transfer from undistributed profits	-	1 908 787	-	62 264	-	-	-	-	1 971 051	-	(1 971 051)	-	-	-	-
As at 30 September 2015	1 250 000	20 711 174	1 070 000	3 536 391	-	(66 694)	(70 612)	(8 976)	25 171 283	(209 233)	1 222 413	2 165 307	29 599 770	(22 267)	29 577 503

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CONSOLIDATED STATEMENT OF CASH FLOWS

	01.01- 30.09.2016	01.01- 30.09.2015
Net cash flows from operating activities		
Profit before income tax	2 967 772	2 673 943
Adjustments:	2 466 406	2 420 077
Amortisation and depreciation	592 485	610 100
(Gains) losses from investing activities	(132 961)	(13 691)
Interest and dividends	(132 491)	(110 001)
Change in amounts due from banks	997 873	66 201
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss	(860 475)	528 902
Change in derivative financial instruments (asset)	1 708 571	1 118 273
Change in loans and advances to customers	(2 630 858)	(6 207 920)
Change in other assets, inventories and non-current assets held for sale	(889 106)	(472 332)
Change in amounts due to banks	879 279	3 609 585
Change in derivative financial instruments (liability)	(1 221 226)	(689 198)
Change in amounts due to customers	5 405 341	3 846 385
Change in liabilities classified as held for sale	-	57 202
Change in debt securities in issue	(146 174)	581 767
Change in provisions and impairment allowances	(127 922)	517 323
Change in other liabilities, liabilities due to insurance operations and subordinated liabilities	345 680	(720 689)
Income tax paid	(660 225)	(401 189)
Other adjustments	(661 385)	99 359
Net cash generated from/ used in operating activities	5 434 178	5 094 020
Net cash flows from investing activities		
Inflows from investing activities	48 274 795	12 011 992
Proceeds from sale of subsidiary	133 538	-
Proceeds from sale and interest on investment securities	48 022 543	11 970 247
Proceeds from sale of intangible assets and tangible fixed assets	106 454	15 239
Other investing inflows (dividends)	12 260	26 506
Outflows from investing activities	(53 661 796)	(16 115 243)
Increase in equity of an associate	(1 148)	-
Purchase of investment securities	(53 175 948)	(15 798 648)
Purchase of intangible assets and tangible fixed assets	(484 700)	(316 595)
Net cash used in investing activities	(5 387 001)	(4 103 251)
Net cash flows from financing activities		
Proceeds from debt securities in issue	4 208 010	1 986 252
Redemption of debt securities	(3 075 060)	(1 753 734)
Repayment of interest from issued debt securities and subordinated loans	(343 644)	(335 095)
Long-term borrowings	371 256	134 090
Repayment of long-term borrowings	(437 795)	(2 886 104)
Net cash used in financing activities	722 767	(2 854 591)
Net cash flow	769 944	(1 863 822)
of which currency translation differences on cash and cash equivalents	3 401	42 209
Cash and cash equivalents at the beginning of the period	17 264 702	14 254 855
Cash and cash equivalents at the end of the period	18 034 646	12 391 033
of which restricted	12 830	12 216

Cash and equivalents	30.09.2016	31.12.2015	30.09.2015
Cash and balances with the central bank	14 345 681	13 743 864	8 181 397
Current amounts due from banks	3 688 965	3 520 838	4 209 636
Total	18 034 646	17 264 702	12 391 033

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The condensed interim consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group ('the PKO Bank Polski SA Group', 'the Bank Group', 'the Group') have been prepared for the nine-month period ended 30 September 2016 and include comparative data for the nine-month period ended 30 September 2015 (as regards consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows), and comparative data as at 31 December 2015 (as regards consolidated statement of financial position). Financial data has been presented in Polish zloty (PLN), rounded to thousand zloty, unless indicated otherwise.

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna („PKO Bank Polski SA” or „Bank”) – parent company.

The Bank was established in 1919 as Poczтовая Kasa Oszczędnościowa. In 1950 it started operating as the Powszechna Kasa Oszczędności State-owned bank. Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws of 2000 No. 5, item 55 with subsequent amendments) Powszechna Kasa Oszczędności (a State-owned bank) was transformed into a State-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its Head Office in Warsaw, Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Register of Companies by the District Court in Warsaw for the capital city of Warsaw, Commercial Court XVI Registration Department. At present, the appropriate court is the District Court for the capital city of Warsaw in Warsaw, XIII Economic Department of the National Court Register. The Bank was registered under entry No. KRS 0000026438 and was granted a statistical REGON No. 016298263. The paid share capital amounts to PLN 1 250 000 000.

Business activities of the Group

PKO Bank Polski SA is a universal deposit-loan commercial bank offering services to both residents and non-residents retail, corporate and other clients. PKO Bank Polski SA is licensed to hold foreign exchange and currencies and sell/buy them, as well as to perform a full range of foreign exchange services, to open and hold bank accounts abroad and to deposit foreign exchange in these accounts.

Moreover, through its subsidiaries, the PKO Bank Polski SA Group offers mortgage loans, provides financial services relating to leasing, factoring, investment funds, pension funds and life insurance and acts as a transfer agent, it conducts real estate development activities and manages real estate and also through its subsidiaries in Ukraine it conducts banking, debt collection and factoring activities.

The scope of activities of each of the Group entities is set out in the item 'Structure of the PKO Bank Polski SA Group'.

The Group operates on the Polish territory and, through its subsidiaries: KREDOBANK SA, 'Inter-Risk Ukraina', Company with additional responsibility, Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o., Finansowa Kompania 'Idea Kapital' Sp. z o.o. in Ukraine; as well as through its subsidiaries PKO Finance AB and PKO Leasing Sverige AB in Sweden.

In addition, on 7 December 2015 a branch of PKO Bank Polski SA started its operations in the Federal Republic of Germany. The strategy of this branch is to offer banking products and services on the German market to key corporate customers of the Bank and their subsidiaries based in the Federal Republic of Germany.

Approval of financial statements

These condensed interim consolidated financial statements, revised by the Bank's Supervisory Board's Audit Committee on 3 November 2016, have been approved for issuance by the Bank's Management Board on 27 October 2016.

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Structure of the PKO Bank Polski SA Group

Bank consists of the following direct and indirect subsidiaries:

Name of entity	Head Office	Range of activity	Share in equity (%)*	
			30.09.2016	31.12.2015
PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment funds management	100.00	100.00
PKO BP BANKOWY PTE SA	Warsaw	pension funds management	100.00	100.00
PKO Leasing SA	Lodz	leasing services	100.00	100.00
PKO Bankowy Leasing Sp. z o.o.	Lodz	leasing services	100.00	100.00
PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100.00	100.00
PKO BP Faktoring SA	Warsaw	factoring services	100.00	100.00
PKO BP Finat Sp. z o.o.	Warsaw	services, including transfer agent services and outsourcing of IT specialists	100.00	100.00
PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	life insurance	100.00	100.00
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	services	100.00	100.00
PKO Towarzystwo Ubezpieczeń SA	Warsaw	other personal and property insurance	100.00	100.00
PKO Bank Hipoteczny SA	Gdynia	banking activities	100.00	100.00
PKO Finance AB	Stockholm, Sweden	financial services	100.00	100.00
KREDOBANK SA	Lviv, Ukraine	banking activities	99.6293	99.5655
Finansowa Kompania 'Idea Kapital' Sp. z o.o.	Lviv, Ukraine	financial services	100.00	100.00
'Inter-Risk Ukraina' Spółka z dodatkową odpowiedzialnością	Kiev, Ukraine	debt collection services	100.00	100.00
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. ¹	Kiev, Ukraine	financial services	95.4676	95.4676
Qualia Development Sp. z o.o. ²	Warsaw	real estate development	100.00	100.00
Qualia 3 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	100.00	100.00
Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia 2 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp. k.	100.00	100.00
Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp. k.	Warsaw	real estate development	99.9750	99.9750
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of other entities of the Qualia Development Group	100.00	100.00
Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	real estate development	99.9902	99.9902
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k. ³	Warsaw	real estate development	-	99.9770
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	real estate development	99.9123	99.9123
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k. ⁴	Warsaw	real estate development	-	99.8951
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. ⁵	Warsaw	real estate development	-	50.00
Qualia - Residence Flotylla Sp. z o.o. ⁴	Warsaw	real estate development	-	100.00
Qualia - Residence Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Sarnia Dolina Sp. z o.o.	Warsaw	real estate development	100.00	100.00
Gęda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	100.00
'Fort Mokotów Inwestycje' Sp. z o.o. ³	Warsaw	real estate development	-	100.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	in liquidation	51.00	51.00
Merkury - fiz an ⁶	Warsaw	placement of funds collected from fund members	100.00	100.00
'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	real estate management	100.00	100.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 1 SKA.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 2 SKA.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 3 SKA.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 4 SKA.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 5 SKA.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 6 SKA.	Warsaw	purchase and sale of real estate for own account, real estate management	100.00	100.00
NEPTUN - fiz an ⁶	Warsaw	placement of funds collected from fund members	100.00	100.00
Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100.00	100.00
'CENTRUM HAFFNERA' Sp. z o.o.	Sopot	subsidiaries' real estate management	72.9766	72.9766
'Sopot Zdrój' Sp. z o.o.	Sopot	real estate management	100.00	100.00
'Promenada Sopotka' Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00

* Share in equity of direct parent entity

- The second shareholder of the Entity is 'Inter-Risk Ukraina' Additional Liability Company.
- For limited partnership entities of Qualia Development Group the total contribution made by the limited partner – Qualia Development Sp. z o.o. is presented in the position 'Share in equity'.
- The company was sold in 2016.
- In 2016 an acquisition was registered in National Court Register. All assets of Qualia Sp. z o.o. – Pomeranka Sp. k. and Qualia – Rezydencja Flotylla Sp. z o.o. (acquired companies) were transferred to Qualia Hotel Management Sp. z o.o. (acquiring company).
- In 2016 the company was dissolved without conducting liquidation proceedings.
- PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity'.

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Additionally, the Bank holds the following associates and joint ventures included in the condensed interim consolidated financial statements:

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			30.09.2016	31.12.2015
Join ventures of PKO Bank Polski SA				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	activities supporting financial services, including servicing transactions made by using payment instruments	34.00	34.00
EVO Payments International Sp. z o.o.	Warsaw	activities supporting financial services	100.00	100.00
EVO Payments International s.r.o.	Prague, Czech Republic	activities supporting financial services	100.00	100.00
Join ventures of NEPTUN - fizan				
'Centrum Obsługi Biznesu' Sp. z o.o.	Poznan	hotel management	41.44	41.44
Associates of PKO Bank Polski SA				
Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	25.0001
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	100.00
Spółka Dystrybucyjna Banku Poczowego Sp. z o.o.	Warsaw	intermediary financial services	100.00	100.00
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	Poznan	guarantees	33.33	33.33
FERRUM SA	Katowice	production of welded steel pipes, production of structural hollow section and delivering coating services	22.14	20.97
FERRUM MARKETING Sp. z o.o.	Katowice	marketing services	100.00	100.00
Zakład Konstrukcji Spawanych FERRUM SA	Katowice	production of steel structures and their parts	100.00	100.00
Walcownia Blach Grubych Batory Sp. z o.o. ¹	Katowice	production of heavy plates	100.00	-

* Share in equity of direct parent entity.

1) According to the report for the first half of 2016 of FERRUM SA Group the company has not started its operational activity till 30 June 2016.

Information on changes in the participation in the share capital of the subsidiaries is set out in the Note 39 'Changes to the entities of the PKO Bank Polski SA Group, associates companies and joint ventures'.

2. Summary of significant accounting policies, estimates and judgments

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group have been prepared in accordance with requirements of the International Accounting Standard 34 'Interim Financial Reporting', as approved by the European Union.

The accounting policies and calculations applied in these condensed interim consolidated financial statements are consistent with those applied in preparation of the annual consolidated financial statements of the PKO Bank Polski SA Group for the year 2015.

These condensed interim consolidated financial statements for the nine-month period of 2016 does not include all information and disclosures required in the annual financial statements and should be read together with consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards, as approved by the European Commission.

Explanation of the differences between previously published reports and these condensed interim consolidated financial statement

- pertaining to the Group

The change is regarding to the presentation of the result on the sale of leased objects. So far the sale of leased objects income and costs were presented in the opened formation, i.e. received income of the sale of leased objects was included in the other operating income, and costs connected with the sale of leased objects in other operating expenses.

Above changes have only display character and are not affecting to the financial result.

The table below presents the impact of changes in respect of the presentation of comparative data.

	01.01.2015 - 30.09.2015 data before conversion	Change in recognition of profit on sale of leased assets	01.01.2015 - 30.09.2015 converted
Other operating income	397 747	(42 041)	355 706
Other operating cost	(209 863)	42 041	(167 822)
Net other income and expenses	187 884	-	187 884

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- pertaining to the Bank

The differences concern reclassification of receivables from PKO Bank Hipoteczny due to the sale by the PKO Bank Polski SA the loans mortgage portfolio, on the terms of the Framework Agreement of Debt Sale signed in 2015.

In order to maintain the comparability of financial data with presentation in current period, the Bank implemented, described below, the presentation change of financial data as at 31 December 2015 in relation to previously published data in the Financial Statements for the year ended 31 December 2015. These changes concern the presentation of amounts due from PKO Bank Hipoteczny on account of housing mortgage loans under the Framework Agreement of Debt Sale signed in 2015.

The table below presents the impact of changes in respect of the presentation of comparative data.

	31.12.2015 before adjustment	Change	31.12.2015 adjusted
ASSETS			
Amounts due from banks	4 592 360	429 516	5 021 876
Other assets	1 510 341	(429 516)	1 080 825
TOTAL ASSETS	262 380 030	-	262 380 030

3. Information on the segments of activities and about geographical areas

3.1 Information on the segments of activities

The PKO Bank Polski SA Group conducts business activities as part of segments offering specific products and services addressed to specific groups of customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers the customers a comprehensive product mix comprising both traditional banking products and more complex investment products, as well as services provided by the PKO Bank Polski SA Group entities. The segment note below is recognized in an internal reporting system, i.e. information presented to the Management Board of PKO Bank Polski SA, used to assess achieved results and to allocate resources. The segment report below reflects an internal organizational structure of the PKO Bank Polski SA Group.

The PKO Bank Polski SA Group comprises three basic segments: retail, corporate and investment, and transfer center:

1. The retail segment offers a full range of services for individuals as part of retail and private banking as well as mortgage banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, among others: current accounts, saving accounts, term deposits, *private banking* services, investment and insurance products, credit and debit cards, electronic banking services, consumer and mortgage loans, as well as corporate loans to small and medium enterprises, developers, cooperatives and property managers.
2. The corporate and investment segment includes transactions concluded with large corporate clients and financial institutions. This segment comprises i.a. the following products and services: current accounts, term deposits, depositary services, currency and derivative products, corporate loans, leasing and factoring. Within this segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. This segment also comprises the Bank's portfolio activity on its own account i.e. investment and brokerage activities, interbank transactions, derivative instruments and debt securities. The results of corporate and investment segment include results of activities of PKO Bank Polski SA's subsidiaries.
3. The transfer center comprises the result on internal settlements related to funds transfer pricing, the results on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependent on market rates. The transactions between business segments are conducted at arms' length. Long-term external financing includes the issuance of securities,

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subordinated liabilities and amounts due to financial institutions. PKO Bank Polski SA was notified about the contract of acquisition of shares of Visa Europe Limited by Visa Inc. in the transfer center.

The PKO Bank Polski SA Group typically settles inter-segment transactions as if they were concluded between unrelated parties, using internal settlement rates. The transactions between business segments are conducted at arms' length.

Accounting policies applied in the segment report are consistent with accounting policies described in Note 2 of these financial statements.

Disclosed values of assets and liabilities are operating assets and liabilities applied by segment in operating activities. Values of assets, liabilities, income and expenses of particular segments are based on internal management information. Assets and liabilities as well as income and costs related to these assets and liabilities are assigned to particular segments.

The income tax expense in respect of the presentation of the financial result, and deferred income tax asset, current income tax receivables, current income tax liabilities and deferred income tax liability in respect of the statement of financial position presentation were recognized at the Group level.

The tables below present data relating to income and results of individual business segments of the PKO Bank Polski SA Group for the nine-month periods ended 30 September 2016 and 30 September 2015 and assets and liabilities as at 30 September 2016 and 31 December 2015.

For the period ended 30 September 2016	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	4 775 247	1 078 491	(119 749)	5 733 989
Net fee and commission income	1 448 338	541 926	(1 979)	1 988 285
Other net income	205 011	505 120	441 346	1 151 477
Net result from financial operations	4 717	111 034	403 117	518 868
Net foreign exchange gains (losses)	178 191	134 522	38 229	350 942
Dividend income	-	10 045	-	10 045
Net other operating income and expense	2 359	269 263	-	271 622
Income/ expenses relating to internal customers	19 744	(19 744)	-	-
Net impairment allowance and write-downs	(736 682)	(464 838)	-	(1 201 520)
Administrative expenses, of which:	(3 257 010)	(877 438)	-	(4 134 448)
amortisation and depreciation	(489 686)	(102 799)	-	(592 485)
Tax on certain financial institutions	(335 315)	(239 466)	(19 968)	(594 749)
Share of profit (loss) of associates and joint ventures	-	-	-	24 738
Segment gross profit	2 099 589	543 795	299 650	2 967 772
Income tax expense (tax burden)	-	-	-	(686 634)
Profit (loss) attributable to non-controlling shareholders	-	-	-	483
Net profit attributable to equity holders of the parent company	2 099 589	543 795	299 650	2 280 655

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As at 30 September 2016	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets	145 033 537	125 562 164	3 844 553	274 440 254
Unallocated assets	-	-	-	1 167 536
Total assets	145 033 537	125 562 164	3 844 553	275 607 790
liabilities	158 555 122	55 328 347	29 149 133	243 032 602
Unallocated liabilities	-	-	-	256 446
Total liabilities	158 555 122	55 328 347	29 149 133	243 289 048

For the period ended 30 September 2015	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Net interest income	4 583 569	858 630	(270 000)	5 172 199
Net fee and commission income	1 619 841	537 338	(99)	2 157 080
Other net income	188 048	358 455	(2 413)	544 090
Net result from financial operations	5 762	81 797	(946)	86 613
Net foreign exchange gains (losses)	132 939	127 463	(1 467)	258 935
Dividend income	-	10 658	-	10 658
Net other operating income and expense	29 757	158 127	-	187 884
Income/ expenses relating to internal customers	19 590	(19 590)	-	-
Net impairment allowance and write-downs	(866 063)	(244 902)	-	(1 110 965)
Administrative expenses*, of which:	(3 292 987)	(819 576)	-	(4 112 563)
amortisation and depreciation	(513 211)	(96 889)	-	(610 100)
Share of profit (loss) of associates and joint ventures	-	-	-	24 102
Segment gross profit	2 232 408	689 945	(272 512)	2 673 943
Income tax expense (tax burden)	-	-	-	(520 858)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(12 222)
Net profit attributable to equity holders of the parent company	2 232 408	689 945	(272 512)	2 165 307

* The data for 2015 was transformed to be comparable i.e. recalculated in accordance to the new methodology.

As at 31 December 2015	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre	Total activity of the PKO Bank Polski SA Group
Assets*	140 811 660	121 419 976	3 760 106	265 991 742
Unallocated assets	-	-	-	948 177
Total assets	140 811 660	121 419 976	3 760 106	266 939 919
Liabilities*	150 189 893	56 122 250	30 304 994	236 617 137
Unallocated liabilities	-	-	-	57 869
Total liabilities	150 189 893	56 122 250	30 304 994	236 675 006

* The data for 2015 have been brought to comparability. Changes relate to amounts in Central Bank (transferred from transfer center to corporate and investment segment) and funds raised from issuance of mid- and long-term securities (transferred from corporate and investment segment to transfer center).

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3.2. Information about geographical areas

As a complementary, the PKO Bank Polski SA Group applies distribution by geographical areas. The PKO Bank Polski SA Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, "Inter-Risk Ukraina" Additional Liability Company and Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., as well as in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB and in Germany through PKO Bank Polski SA's corporate branch (PKO Bank Polski Niederlassung Deutschland). The results of companies operating in Sweden and branch operating in Germany are insignificant in the scale of operations of PKO Bank Polski SA Group and for the presentation purposes are included in the Polish segment.

For the period ended 30 September 2016	Poland	Ukraine	Total
Net interest income	5 632 240	101 749	5 733 989
Net fee and commission income	1 957 526	30 759	1 988 285
Other net income	1 152 873	(1 396)	1 151 477
Administrative expenses	(4 060 421)	(74 027)	(4 134 448)
Net impairment allowance and write-offs	(1 180 237)	(21 283)	(1 201 520)
Tax on certain financial institutions	(594 749)	-	(594 749)
Share of profit (loss) of associates and joint ventures	-	-	24 738
Profit (loss) before income tax	2 907 232	35 802	2 967 772
Income tax expense (tax burden)	-	-	(686 634)
Profit (loss) attributable to non-controlling shareholders	-	-	483
Net profit (loss) attributable to equity holders of the parent company	2 907 232	35 802	2 280 655

As at 30 September 2016	Poland	Ukraine	Total
Assets of which:	274 100 506	1 507 284	275 607 790
non-financial fixed assets	6 268 790	71 691	6 340 481
deferred tax assets and current income tax receivable	1 157 416	10 120	1 167 536
Liabilities	241 929 176	1 359 872	243 289 048

For the period ended 30 September 2015	Poland	Ukraine	Total
Net interest income	5 107 564	64 635	5 172 199
Net fee and commission income	2 122 533	34 547	2 157 080
Other net income	583 115	(39 025)	544 090
Administrative expenses	(4 041 284)	(71 279)	(4 112 563)
Net impairment allowance and write-offs	(1 089 150)	(21 815)	(1 110 965)
Share of profit (loss) of associates and joint ventures	-	-	24 102
Profit (loss) before income tax	2 682 778	(32 937)	2 673 943
Income tax expense (tax burden)	-	-	(520 858)
Profit (loss) attributable to non-controlling shareholders	-	-	(12 222)
Net profit (loss) attributable to equity holders of the parent company	2 682 778	(32 937)	2 165 307

As at 31 December 2015	Poland	Ukraine	Total
Assets of which:	265 572 205	1 367 714	266 939 919
non-financial fixed assets	6 388 189	65 928	6 454 117
deferred tax assets and current income tax receivable	936 113	12 064	948 177
Liabilities	235 382 254	1 292 752	236 675 006

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4. Interest income and expense

Interest income:	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Income from loans and advances to customers, of which:	2 119 496	6 187 426	2 036 697	6 050 306
from impaired loans	71 016	215 886	86 072	249 312
Income from loans to banks	3 750	9 053	1 533	7 006
Income from investment securities available for sale	217 866	619 163	180 761	536 017
Income from placements with banks	24 384	72 922	23 500	74 110
Other	1 124	3 759	1 278	2 814
Other income, of which:	151 081	477 917	189 728	551 376
Income from financial assets designated upon initial recognition at fair value through profit and loss	53 345	162 497	48 028	170 382
Income from derivative hedging instruments	77 770	260 230	124 976	337 211
Income from trading financial assets	19 966	55 190	16 724	43 783
Total	2 517 701	7 370 240	2 433 497	7 221 629
amount of interest income reduction due to negative LIBOR	(51)	(212)	(169)	(372)

Interest expense:	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Interest expense on amounts due to customers	(388 535)	(1 194 905)	(436 729)	(1 518 215)
Interest expense on loans from banks	(24 087)	(60 365)	(13 996)	(50 511)
Interest expense on debt securities in issue and subordinated liabilities	(86 909)	(271 098)	(133 327)	(400 622)
Premium expense on debt securities available for sale	(24 647)	(56 308)	(16 453)	(46 235)
Interest expense on deposits from banks	(804)	(3 858)	(4 454)	(7 219)
Interest expense on financial assets designated upon initial recognition at fair value through profit and loss	(7 345)	(20 388)	(4 367)	(12 535)
Interest expense on trading financial assets	(13 896)	(29 329)	(6 072)	(14 093)
Total	(546 223)	(1 636 251)	(615 398)	(2 049 430)

5. Fee and commission income and expense

Income from:	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
income from loans and advances granted	150 876	456 796	164 873	479 528
payment cards	247 542	750 852	251 892	712 683
maintenance of bank accounts	222 775	667 851	211 651	675 752
maintenance of investment and open pension funds (including management fees)	115 495	331 450	119 810	348 975
cash transactions	26 138	76 427	25 316	75 738
securities transactions	19 706	51 032	17 263	71 634
servicing foreign mass transactions	22 609	63 474	19 637	53 259
providing services of an agent for the issue of Treasury bonds	7 150	21 460	5 146	13 334
commissions of the Brokerage House for servicing Initial Public Offering issuances	2 415	13 708	7 243	18 090
sale and distribution of court fee stamps	3 400	8 861	4 136	9 639
loans insurance	11 497	16 899	13 628	39 981
guarantees and letters of credit	2 150	5 450	1 793	5 022
investment and insurance products	31 055	81 714	25 891	78 276
fiduciary activities	1 189	3 367	1 116	3 118
commissions for servicing indebtedness of borrowers against the State budget	768	2 295	795	2 320
commissions of the Brokerage House for acting as a market maker	689	1 933	639	1 858
other	31 954	98 601	33 511	120 487
Total	897 408	2 652 170	904 340	2 709 694

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Fee and commission expense	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
payment cards	(119 165)	(403 889)	(123 502)	(348 276)
acquisition services	(22 574)	(63 489)	(19 436)	(50 143)
cost of construction investments control and real estate appraisals	(9 984)	(30 388)	(8 955)	(24 873)
settlement services	(6 909)	(22 256)	(7 600)	(23 245)
fee and commissions for operating services provided by banks	(4 850)	(13 755)	(2 779)	(14 615)
SMS sending	(4 052)	(11 489)	(3 954)	(16 788)
amounts paid by the Brokerage House to GPW, KDPW and KDPW_CCP	(3 488)	(9 364)	(3 581)	(10 950)
servicing foreign mass transactions	(1 643)	(4 732)	(1 408)	(3 257)
commission paid to Poczta Polska	(885)	(3 247)	(805)	(3 194)
other	(37 589)	(101 276)	(11 772)	(57 273)
Total	(211 139)	(663 885)	(183 792)	(552 614)

6. Net income from financial instruments measured at fair value

Net income from financial instruments measured at fair value	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Derivative instruments, of which:	16 570	(11 333)	(9 614)	33 518
an ineffective portion related to cash flow hedges	(6 308)	(8 565)	3 474	6 886
Structured bank securities measured at fair value through profit and loss	-	5 480	5 412	(1 767)
Debt securities	13 902	22 192	8 943	(16 245)
Equity instruments	(1 193)	(803)	(2 737)	(4 631)
Total	29 279	15 536	2 004	10 875

7. Gains and losses from financial securities

Gains on investment securities available for sale	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Equity instruments*	-	417 874	835	1 407
Debt Securities	26 990	91 730	8 064	80 913
Treasury bonds PLN	21 480	77 535	1 510	73 116
other	5 510	14 195	6 554	7 797
Total	26 990	509 604	8 899	82 320

* Information relating to the settlement of Visa transactions are described in the note 20 'Investment securities available for sale'.

Losses on investment securities available for sale	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Equity securities issued by non-financial institutions	-	-	-	(217)
Debt securities	(56)	(6 272)	(2 514)	(6 365)
treasury bonds PLN	-	(6 129)	(1)	(3 781)
other	(56)	(143)	(2 513)	(2 584)
Total	(56)	(6 272)	(2 514)	(6 582)
Result on investment securities available for sale	26 934	503 332	6 385	75 738

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8. Other operating income and expense

Other operating income	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Net income from sale of products and services	77 299	227 396	56 426	155 321
Sale of subsidiaries	77 025	77 025	-	-
Sale and disposal of tangible fixed assets, intangible assets and assets held for sale*	60 788	76 726	8 870	38 914
Damages, penalties and fines received	21 067	50 050	8 624	34 323
Sundry income	4 593	17 608	5 917	16 497
Recovery of expired and written-off receivables	4 415	6 296	3 570	17 269
Other	27 268	91 354	27 731	93 382
Total	272 455	546 455	111 138	355 706

* The item 'Sale and disposal of tangible fixed assets, intangible assets and assets held for sale' includes profit result on the sale of ground from Qualia Development Sp. o.o. group in the amount of PLN 36 969 thousand.

Other operating expense	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Costs of sale of products and services	(31 026)	(126 832)	(23 778)	(69 918)
Costs of sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(6 166)	(20 790)	(7 603)	(25 223)
Donations	(200)	(13 971)	(5 136)	(7 214)
Sundry expenses	(4 363)	(12 486)	(2 179)	(5 101)
Other	(52 144)	(100 754)	(14 461)	(60 366)
Total	(93 899)	(274 833)	(53 157)	(167 822)

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9. Net impairment allowance and write-downs

For the period ended 30 September 2016	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Currency translation differences	Other	Derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	20	132 490	40 308	-	31 347	37	-	314	-	203 794	(40 308)
Debt securities available for sale		56 925	40 308	-	31 347	-	-	311	-	128 269	(40 308)
Equity securities		75 565	-	-	-	37	-	3	-	75 525	-
Amounts due from banks	14	405	3 620	-	-	-	3 557	-	223	245	(63)
Loans and advances to customers measured at amortised cost	19	8 287 209	3 260 663	-	62 069	1 097 927	2 168 604	18 041	167 937	8 157 432	(1 092 059)
Non-financial sector		8 042 917	3 179 334	-	62 054	1 087 295	2 094 602	17 824	166 191	7 918 393	(1 084 732)
corporate loans		4 067 391	1 440 209	-	43 451	466 797	888 297	12 101	73 859	4 109 997	(551 912)
consumer loans		1 569 318	826 898	-	3 565	270 851	561 457	2 471	51 906	1 513 096	(265 441)
housing loans		2 337 224	912 227	-	14 962	349 647	644 379	3 252	40 426	2 226 709	(267 848)
debt securities		68 984	-	-	76	-	469	-	-	68 591	469
Financial sector		7 624	782	-	14	307	2 272	217	1 746	3 878	1 490
corporate loans		7 624	782	-	14	307	2 272	217	1 746	3 878	1 490
Public sector		34 600	5 210	-	1	5	7 115	-	-	32 691	1 905
corporate loans		31 905	-	-	-	5	7 115	-	-	24 785	7 115
debt securities		2 695	5 210	-	1	-	-	-	-	7 906	(5 210)
Finance lease receivables		202 068	75 337	-	-	10 320	64 615	-	-	202 470	(10 722)
Non-current assets held for sale	23	185	-	-	-	-	-	-	-	185	-
Tangible fixed assets	25	57 006	145	-	16 592	109	4 566	790	817	67 461	4 421
Intangible assets	25	191 338	3 842	-	-	-	-	-	-	195 180	(3 842)
Investments in associates and joint ventures	22	89 826	17 222	-	-	-	400	-	-	106 648	(16 822)
Inventories	24	37 252	2 795	-	-	1 205	-	-	15 231	23 611	(2 795)
Other receivables		265 056	88 274	-	8	22 951	65 904	272	-	264 211	(22 370)
Provision for legal claims, loan commitments and guarantees granted	33	105 107	249 684	-	432	6 649	222 483	16	-	126 075	(27 201)
Provision for future liabilities		2 076	2 248	-	-	57	1 767	-	-	2 500	(481)
Total		9 167 950	3 668 801	-	110 448	1 128 935	2 467 281	19 433	184 208	9 147 342	(1 201 520)

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For the period ended 30 September 2015	Note	Value at the beginning of the period	Increases			Decreases				Value at the end of the period	Net – impact on the income statement
			Recognised during the period	Currency translation differences	Other	Derecognition of assets and settlement	Reversed during the period	Currency translation differences	Other		
Investment securities available for sale	20	129 369	38 567	74	-	102 282	3 170	11	-	62 547	(35 397)
Debt securities available for sale		-	33 842	74	-	-	-	-	-	33 916	(33 842)
Equity securities		129 369	4 725	-	-	102 282	3 170	11	-	28 631	(1 555)
Amounts due from banks	14	111	2 357	-	377	-	2 232	-	-	613	(125)
Loans and advances to customers measured at amortised cost	19	8 022 477	3 664 168	-	504 853	932 852	2 622 967	64 679	36 334	8 534 666	(1 041 201)
Non-financial sector		7 812 724	3 581 970	-	503 103	924 784	2 559 884	63 916	35 409	8 313 804	(1 022 086)
corporate loans		4 089 160	1 921 991	-	35 043	430 696	1 359 335	47 262	5 705	4 203 196	(562 656)
consumer loans		1 322 907	804 108	-	315 804	284 349	546 497	5 229	465	1 606 279	(257 611)
housing loans		2 307 712	855 089	-	152 173	209 739	625 665	11 425	28 176	2 439 969	(229 424)
debt securities		92 945	782	-	83	-	28 387	-	1 063	64 360	27 605
Financial sector		9 483	49 694	-	868	-	50 526	763	859	7 897	832
corporate loans		9 483	49 694	-	868	-	50 526	763	859	7 897	832
Public sector		15 462	10 894	-	882	1 632	6 131	-	66	19 409	(4 763)
corporate loans		12 639	10 837	-	882	1 632	6 131	-	-	16 595	(4 706)
debt securities		2 823	57	-	-	-	-	-	66	2 814	(57)
Finance lease receivables		184 808	21 610	-	-	6 436	6 426	-	-	193 556	(15 184)
Non-current assets held for sale	23	93 430	951	-	27 804	1 751	-	-	-	120 434	(951)
Tangible fixed assets	25	10 080	48 375	-	20 069	-	-	2 045	-	76 479	(48 375)
Intangible assets	25	139 726	184	-	-	-	-	-	-	139 910	(184)
Investments in associates and joint ventures	22	108 715	3 219	-	-	-	28 854	-	74 142	8 938	25 635
Inventories	24	29 164	11 243	-	-	2 514	336	-	-	37 557	(10 907)
Other receivables		154 897	42 953	-	46 363	5 126	25 542	612	438	212 495	(17 411)
Provision for legal claims, loan commitments and guarantees granted	33	151 324	236 140	-	7 168	7 592	252 846	49	3 055	131 090	16 706
Provision for future liabilities		11 192	1 496	-	606	-	2 741	-	1 942	8 611	1 245
Total		8 850 485	4 049 653	74	607 240	1 052 117	2 938 688	67 396	115 911	9 333 340	(1 110 965)

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10. Administrative expenses

Administrative expenses	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Employee benefits	(709 071)	(2 108 596)	(680 545)	(2 040 091)
Overheads	(341 946)	(1 050 760)	(323 453)	(1 083 230)
Amortisation and depreciation, of which:	(198 269)	(592 485)	(204 473)	(610 100)
tangible fixed assets	(79 563)	(239 661)	(87 016)	(262 254)
intangible assets	(118 023)	(350 556)	(117 075)	(346 272)
investment properties	(683)	(2 268)	(382)	(1 574)
Taxes and other charges*	(18 857)	(53 396)	(15 598)	(45 307)
Contribution and payments to the Bank Guarantee Fund	(109 773)	(329 211)	(111 407)	(333 835)
Total	(1 377 916)	(4 134 448)	(1 335 476)	(4 112 563)

* Excluding tax on certain financial institutions. Disclosures concerning tax on certain institutions were presented in Note 11.

Employee benefits

Employee benefits	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Wages and salaries, of which:	(599 087)	(1 753 007)	(570 827)	(1 694 011)
expenses on employee pension programme	(11 504)	(34 617)	(10 925)	(33 747)
Social Insurance, of which:	(91 241)	(294 539)	(90 281)	(287 320)
contributions to retirement pay and pensions	(75 963)	(248 147)	(75 093)	(244 629)
Other employee benefits	(18 743)	(61 050)	(19 437)	(58 760)
Total	(709 071)	(2 108 596)	(680 545)	(2 040 091)

11. Tax on certain financial institutions

On 1 February 2016 the Act of a tax on specific financial institutions dated 15 January 2016 (Journal of Laws of 2016, item 68 with subsequent amendments) entered into force. Taxes are covered by domestic banks, branches of foreign banks, branches of credit institutions, cooperative credit unions (SKOK), national insurance companies, national reinsurance companies, branches of foreign insurance companies and foreign reinsurance companies, main branches of foreign insurance companies and foreign reinsurance companies, as well as lending institutions. The tax base represents the excess of the total assets of the entity (over PLN 4 billion in the case of banks, more than PLN 2 billion for insurance companies) resulting from the trial balance at the end of each month. Banks and cooperative credit unions are entitled to a reduction of the tax base, for the value of own funds, and the value of Treasury securities. In addition, banks reduce the tax base by the value of the assets acquired from the NBP as collateral of the loan granted by NBP. The tax rate for all taxpayers amounts to 0.0366%, and the tax is paid per month to the 25th day of the month following the month to which it relates. Within the Group the tax applies to PKO Bank Polski SA, PKO Bank Hipoteczny SA, as well as PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA.

The tax was paid for the first time for February 2016. The tax paid is not deductible.

	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Tax on certain financial institutions, of which		
PKO Bank Polski SA	(222 868)	(590 611)
PKO Życie Towarzystwo Ubezpieczeń SA	(1 066)	(2 595)
PKO Bank Hipoteczny SA	(1 269)	(1 269)
PKO Towarzystwo Ubezpieczeń SA	(150)	(274)
TOTAL	(225 353)	(594 749)

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12. Income tax expense

	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Current income tax expense	(333 055)	(906 635)	(164 108)	(549 145)
Deferred income tax related to creating and reversal of temporary differences	71 815	220 001	(28 923)	28 287
Tax expense in the consolidated income statement	(261 240)	(686 634)	(193 031)	(520 858)
Deferred tax expense in other comprehensive income related to creating and reversal of temporary differences	6 577	48 114	(5 836)	44 284
Total	(254 663)	(638 520)	(198 867)	(476 574)

As at 31 December 2015, PKO Bankowy Leasing Sp. z o.o. showed a receivable in the amount of PLN 20 400 thousand due to overpayment of VAT and penalty interest on tax liabilities in connection with the adjustments of VAT declarations submitted in December 2014 for the periods from January 2011 to June 2013. On 7 January 2015, the Company made a payment of arrears of VAT. At the same time, on 26 January 2015 the company applied for a refund of overpaid tax.

On 6 February 2015, the Tax Office issued an unfavorable decision on the settlement of overpayments and VAT returns for the periods from January 2011 to June 2013. The settlement of overpaid VAT refunds and arrears of VAT does not occur until the date of the submission of corrected declaration and the application for overpaid tax refund. The settlement does not occur on the date of payment of the tax in the amount greater than the tax due, as argued by the Company. On 19 February 2015 the Company filed a complaint to Head of the Tax Chamber and then, on 14 August 2015 filled a complaint to the Regional Administrative Court against the decision of the Internal Revenue Service of 6 February 2015 on the method of settlement of excessive tax payments and tax refunds on account of tax arrears, indicating on the contravention of the Tax Ordinance resulting in misinterpretation and incorrect application of its articles and non-application of the principle of proportionality for charging interest on tax debts.

On 30 December 2015 the Regional Administrative Court issued a favorable verdict for the Company, repealing the appealed resolution of the Internal Revenue Service of 6 February 2015 and sustaining Company's objections to misinterpretation of the Ordinance's articles and nonapplication of the principle of proportionality by the tax authorities. The court verdict is not binding. On 19 February 2016 Head of the Tax Chamber in Łódź filled the cassation complaint to the Supreme Administrative Court. On 30 August 2016 the Supreme Administrative Court reversed the judgment of the Regional Administrative Court and remanded the issue back. The supreme Administrative Court recognized that the provisions of the Tax Code were precise sufficiently and the authorities applied them correctly.

According to the Supreme Administrative Court verdict, PKO Leasing SA group created the unabridged write-down for the above-described receivable and other receivables and liabilities as at 30 September 2016, in the amount of PLN 21 114 thousands.

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13. Cash and balances with the central bank

	30.09.2016	31.12.2015
Current account in the central bank	10 674 685	9 854 137
Cash	3 670 993	3 889 658
Other funds	3	69
Total	14 345 681	13 743 864

14. Amounts due from banks

	30.09.2016	31.12.2015
Deposits with banks	2 969 677	2 484 467
Current accounts	728 543	951 480
Loans and advances granted	18 606	134 180
Receivables due from repurchase agreements	1 814	980 630
Cash in transit	4 991	2 620
Total	3 723 631	4 553 377
Impairment allowances on receivables	(245)	(405)
Net Total	3 723 386	4 552 972

Amounts due from banks - the Group's exposure to credit risk	Exposure	
	30.09.2016	31.12.2015
Amounts due from banks impaired, of which:	145	520
assessed on an individual basis	145	145
Amounts due from banks not impaired, of which:	3 723 486	4 552 857
not past due	3 723 486	4 552 857
Gross total	3 723 631	4 553 377
Impairment allowances	(245)	(405)
Net total by carrying amount	3 723 386	4 552 972

15. Trading assets

At carrying amounts	30.09.2016	31.12.2015
Debt securities	1 613 968	766 641
issued by the State Treasury, of which:	1 503 870	648 695
Treasury bonds PLN	1 427 220	640 009
Treasury bonds EUR	5 326	8 686
Treasury bills PLN	71 324	-
issued by local government bodies, municipal bonds PLN	43 755	48 596
issued by non-financial institutions, of which:	49 308	46 122
corporate bonds PLN	49 253	46 052
corporate bonds EUR	55	70
issued by other financial institutions, of which:	6 343	5 344
bonds issued by the WSE PLN	6 343	5 238
corporate bonds PLN	-	106
issued by banks, corporate bonds	10 692	17 884
Shares in other entities – listed on stock exchange	18 297	9 910
Investment certificates, allotment certificates, subscription rights	2 416	6 648
Total	1 634 681	783 199

The available for sale portfolio includes financial instruments held by the Brokerage House of PKO Bank Polski SA.

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16. Derivative financial instruments

Type of derivative instruments	30.09.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	349 264	840 150	508 665	998 527
Other derivative instruments	2 289 434	2 563 391	3 838 604	3 626 240
Total	2 638 698	3 403 541	4 347 269	4 624 767

Type of contract	30.09.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	1 582 932	1 955 201	3 206 281	3 053 133
CIRS	425 693	1 004 687	472 355	1 210 159
FX Swap	168 733	74 482	309 954	85 953
Options	378 100	241 678	237 919	177 513
FRA	7 586	5 423	16 226	22 192
Forward	70 994	120 974	104 534	72 588
SBB	4 660	1 096	-	3 229
Total	2 638 698	3 403 541	4 347 269	4 624 767

17. Derivative hedging instruments

The strategies used by the Bank are described in the annual financial statements for the year 2015. During the nine months ended 30 September 2016 the Bank did not introduce any new or discontinued use of current hedging strategies.

Cash flow hedges

Carrying amount/ fair value of derivative instruments constituting cash flow hedges related to the interest rate and/ or exchange rate	30.09.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	93 981	7 260	269 122	-
CIRS	255 283	832 890	239 543	998 527
Total	349 264	840 150	508 665	998 527

The effect of hedging instruments on other comprehensive income	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Other comprehensive income at the beginning of the period, gross	142 685	(71 182)	(112 435)	6 425
Gains/ losses transferred to other comprehensive income in the period	157 960	207 431	674 185	(732 120)
Amount transferred from other comprehensive income to the income statement, of which:	(245 713)	(81 317)	(648 925)	638 520
- interest income	(77 770)	(260 230)	(124 976)	(337 211)
- net foreign exchange gains (losses)	(167 943)	178 913	(523 949)	975 731
Accumulated other comprehensive income at the end of the period, gross	54 932	54 932	(87 175)	(87 175)
Tax effect	(10 437)	(10 437)	16 563	16 563
Accumulated other comprehensive income at the end of the period, net	44 495	44 495	(70 612)	(70 612)
Effect on other comprehensive income in the period, gross	(87 753)	126 114	25 260	(93 600)
Deferred tax on cash flow hedges	16 673	(23 962)	(4 800)	17 784
Effect on other comprehensive income in the period, net	(71 080)	102 152	20 460	(75 816)

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18. Financial instruments designated upon initial recognition as at fair value through profit and loss

By carrying amount	30.09.2016	31.12.2015
Debt securities	13 422 087	13 337 373
issued by central banks, NBP money market bills	9 423 231	10 036 898
issued by the State Treasury, of which:	3 757 787	3 052 701
Treasury bonds PLN	2 571 347	1 934 817
Treasury bonds EUR	187 908	91 634
Treasury bonds CHF	998 532	993 615
Treasury bonds UAH	-	32 635
issued by local government bodies, of which:	241 069	247 263
municipal bonds EUR	128 767	131 341
municipal bonds PLN	112 302	115 922
issued by non-financial institutions, corporate bonds PLN	-	511
Participation units in ICF (insurance capital funds) related to insurance products belonging to the group of products where the investment risk is borne by the policyholder	1 741 006	1 816 727
Total	15 163 093	15 154 100

19. Loans and advanced to customers

Loans and advances to customers by sector and type of product	30.09.2016	31.12.2015
Loans and advances to customers, gross, of which:	201 331 775	198 700 917
financial sector	1 611 986	4 834 177
corporate, of which:	300 367	391 286
finance lease receivables	23 692	101
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	12 930	10 217
receivables due from repurchase agreements	1 311 619	4 432 239
International financial organisations	-	10 652
non-financial sector	190 419 597	183 864 042
housing	106 058 513	103 005 812
corporate, of which:	57 517 296	54 668 212
finance lease receivables	6 499 718	5 664 209
consumer	24 439 008	23 529 145
finance lease receivables	591	-
debt securities (corporate)	2 392 487	2 660 873
receivables due from repurchase agreements	12 293	-
public sector	9 300 192	10 002 698
corporate of which:	6 665 024	7 307 327
finance lease receivables	60 260	71 584
debt securities (municipal)	2 635 168	2 695 371
Impairment allowances on loans and advances, of which:	(8 157 432)	(8 287 209)
impairment allowances on receivable from leasing	(202 470)	(202 068)
Loans and advances to customers, net	193 174 343	190 413 708

Loans and advances to customers by customer segment	30.09.2016	31.12.2015
Loans and advances granted, gross, of which:	201 331 775	198 700 917
mortgage banking	99 165 703	96 060 668
corporate	52 662 010	51 160 753
retail and private banking	24 439 008	23 529 145
small and medium enterprises	23 728 212	23 497 243
International financial organisations	-	10 652
receivables due from repurchase agreements	1 323 912	4 432 239
other receivables	12 930	10 217
Impairment allowances on loans and advances	(8 157 432)	(8 287 209)
Loans and advances granted, net	193 174 343	190 413 708

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Loans and advances to customers - Group exposure to credit risk	Credit exposure	
	30.09.2016	31.12.2015
Loans and advances impaired, of which:	12 496 367	13 100 910
assessed on an individual basis	5 139 696	5 412 768
Loans and advances not impaired, of which:	188 835 408	185 600 007
with recognised individual impairment trigger	1 792 761	2 043 049
not past due	1 490 867	1 605 408
past due	301 894	437 641
without recognised individual impairment trigger	187 042 647	183 556 958
not past due	184 165 410	180 382 118
past due	2 877 237	3 174 840
Gross total	201 331 775	198 700 917
Impairment allowances, of which:	(8 157 432)	(8 287 209)
for impaired exposures	(7 597 942)	(7 704 535)
for not impaired exposures, of which:	(559 490)	(582 674)
with recognised impairment trigger	(11 215)	(13 479)
without recognised impairment trigger	(548 275)	(569 195)
Total net carrying amount	193 174 343	190 413 708

Loans and advances to customers by method of calculating impairment allowances	30.09.2016	31.12.2015
Assessed on an individual basis, of which:	8 409 452	7 549 635
impaired, of which:	5 139 696	5 412 768
finance lease receivables	292 125	407 063
not impaired, of which:	3 269 756	2 136 867
finance lease receivables	205 297	332 905
Assessed on a portfolio basis, of which:	7 356 671	7 688 142
impaired, of which:	7 356 671	7 688 142
finance lease receivables	91 751	96 732
Assessed on a group basis (IBNR)	185 565 652	183 463 140
finance lease receivables	5 995 088	4 899 194
Loans and advances to customers, gross	201 331 775	198 700 917
Impairment allowances on exposures assessed on an individual basis, of which:	(2 758 809)	(2 895 857)
finance lease receivables	(115 468)	(111 165)
impaired, of which:	(2 747 543)	(2 882 352)
finance lease receivables	(114 443)	(109 504)
Impairment allowances on exposures assessed on a portfolio basis, of which:	(4 850 399)	(4 822 183)
finance lease receivables	(73 074)	(77 804)
Impairment allowances on exposures assessed on a group basis (IBNR), of which:	(548 224)	(569 169)
finance lease receivables	(13 928)	(13 099)
Impairment allowances - total	(8 157 432)	(8 287 209)
Loans and advances to customers, net	193 174 343	190 413 708

Credit ratios (%)	30.09.2016	31.12.2015
the share of impaired loans	6.2%	6.6%
the coverage ratio of impaired loans*	65.3%	63.3%
the share of loans overdue more than 90 days in relation to the value of gross loans and advances	4.7%	4.9%

*The coverage ratio of impaired loans is calculated as the ratio of total write-off (for both impaired loans and IBNR) and sum of the gross exposure for impaired loans.

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**Debt securities reclassified from financial assets available for sale to loans and advances to customers
(reclassified in the third and fourth quarter of 2012)**

As at 30.09.2016	nominal value	fair value	carrying amount
Municipal bonds	711 698	712 804	718 640
Corporate bonds	51 489	8 456	8 456
Total	763 187	721 260	727 096

As at 31.12.2015	nominal value	fair value	carrying amount
Municipal bonds	745 362	741 656	747 693
Corporate bonds	582 000	591 416	537 703
Total	1 327 362	1 333 072	1 285 396

20. Investment securities available for sale

At the carrying value, gross	30.09.2016	31.12.2015
Debt securities available for sale, gross	33 679 818	27 661 838
issued by the State Treasury	24 017 824	18 358 006
Treasury bonds PLN	23 691 154	17 920 035
Treasury bonds EUR	153 578	310 620
Treasury bonds USD	83 247	77 375
Treasury bonds UAH	89 845	49 976
issued by local government bodies, municipal bonds PLN	4 481 791	4 613 726
issued by financial institutions, corporate bonds PLN	156 283	-
issued by non-financial institutions, of which:	3 561 026	3 171 012
corporate bonds PLN	2 943 007	2 626 682
corporate bonds EUR	338 028	320 712
corporate bonds USD	279 991	223 618
issued by banks, of which:	1 462 894	1 519 094
corporate bonds PLN	1 459 433	1 470 753
corporate bonds EUR	-	44 569
corporate bonds UAH	3 461	3 772
Impairment allowances on debt securities available for sale, of which	(128 269)	(56 925)
corporate bonds PLN	(63 307)	(22 959)
corporate bonds USD	(61 501)	(30 194)
corporate bonds UAH	(3 461)	(3 772)
Total net debt securities available for sale	33 551 549	27 604 913
Equity securities available for sale, gross	293 291	567 346
Equity securities not admitted to public trading	124 521	346 941
Equity securities admitted to public trading	168 770	220 405
Impairment allowances on equity securities available for sale	(75 525)	(75 565)
Total net equity securities available for sale	217 766	491 781
Participation units in investment funds and shares in joint investment institutions	302 374	212 821
Total net investment securities available for sale	34 071 689	28 309 515

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Investment securities available for sale - debt securities - Group's exposure to credit risk	Exposure	
	30.09.2016	31.12.2015
Debt securities impaired, of which:	580 727	397 434
assessed on an individual basis	580 727	397 434
Debt securities not impaired, of which:	33 099 091	27 264 404
not past due	33 099 091	27 264 404
with external rating	25 779 150	21 725 977
with internal rating	7 319 941	5 538 427
Gross total	33 679 818	27 661 838
Impairment allowances	(128 269)	(56 925)
Net total by carrying amount	33 551 549	27 604 913

On 29 January 2016 the Management Board of PKO Bank Polski SA accepted the terms of the Bank's share in the acquisition of Visa Europe Limited by Visa Inc. presented to the Bank by Visa Europe Limited. On 16 June 2016, there was a confirmation of the final amounts due to the Bank. On 21 June 2016, the Bank received from Visa Europe Limited information about the completion of the acquisition of Visa Europe Limited by Visa Inc.

The final PKO Bank Polski SA participation in above-mentioned transaction includes:

- the amount of EUR 70 528 thousand in cash, paid on the Bank's account on 21 June 2016 (equivalent to PLN 309 867 thousand according to NBP average exchange rate of 21 June 2016),
- the number of 25 612 preference C-series shares of Visa Inc., the value of which as at transaction date was estimated at the amount of USD 20 899 thousand (equivalent to PLN 80 964 thousand according to NBP average exchange rate of 21 June 2016),
- the receivable due to deferred payment in cash equivalent to 0.5435987989% from the amount of EUR 1.12 billion, i.e. the amount attributable to all transaction participants, paid on the 3rd anniversary of the transactions, unless potential adjustments, in case of occurrence of situation described in the transaction terms; the value of above-mentioned receivable as at 21 June 2016 amounted to EUR 6 088 thousand (equivalent to PLN 26 749 thousand).

The Bank recognized in the income statement due to settlement of the transaction the total amount of PLN 417 580 thousand (the profit before taxation). In this the amount settled in the other comprehensive income due to valuation of Visa Europe Limited shares amounted to PLN 336 713 thousand.

Received preference C-series shares will be converted to ordinary Visa Inc. shares, and terms of transaction provide progressive shares conversion. The conversion of all preference shares shall occur not later than in 2028. Current conversion ratio equals to 13.952 and may reduce in the period until 2028, which is depended on potential liabilities due to legal claims in that period relating to acquired company i.e. Visa Europe Limited.

Preference shares of Visa Inc. have been classified to the portfolio of securities available for sale and they are measured at its fair value based on the market price of quoted ordinary shares, taking into consideration discount due to the limited liquidity of the preference shares and the conditions of shares conversions (adjustments resulting from court proceedings). The fair value of mentioned above shares as at 30 September 2016 was estimated at USD 22 894 thousand (equivalent to PLN 88 274 thousand according to NBP average exchange rate of 30 September 2016).

21. Investment securities held to maturity

At the carrying value, gross	30.09.2016	31.12.2015
Debt securities		
issued by the State Treasury, of which:	281 634	210 330
issued by the Treasury State USD	238 237	170 265
issued by the Treasury State PLN	40 764	37 436
issued by the Treasury State EUR	2 633	2 629
Total	281 634	210 330

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Investment securities held to maturity - debt securities - The Group exposure to credit risk	Exposure	
	30.09.2016	31.12.2015
Debt securities not impaired, of which:	281 634	210 330
not past due with external rating	281 634	210 330
Gross total	281 634	210 330
Net total by carrying amount	281 634	210 330

22. Investment in associates and joint ventures

1) the value of PKO Bank Polski SA Group's investments in joint ventures

Joint ventures	30.09.2016	31.12.2015
„Centrum Obsługi Biznesu” Sp. z o.o.	-	-
Purchase price	17 498	17 498
Change in share of net assets	(15 219)	(14 819)
Impairment allowance	(2 279)	(2 679)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	224 894	206 228
Fair value of the remaining part of shares as at the date of obtaining joint control	197 320	197 320
Change in share of net assets	27 574	8 908
Total	224 894	206 228

2) the value of the PKO Bank Polski SA Group's in associates

Associates	30.09.2016	31.12.2015
Bank Poczty SA Group	147 500	161 500
Purchase price	161 500	161 500
Change in share of net assets	84 432	81 372
Impairment allowance	(98 432)	(81 372)
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-
Purchase price	1 500	1 500
Change in share of net assets	4 437	4 275
Impairment allowance	(5 937)	(5 775)
FERRUM SA Group	25 858	24 143
Purchase price	25 291	24 143
Change in share of net assets	567	-
Total	173 358	185 643

As at 30 September 2016 and 31 December 2015, the parent company had no share in contingent liabilities of associates acquired jointly with other investor.

The value of shares of Bank Poczty SA, owned by PKO Bank Polski SA in the Group's balance sheet was incorporated in the amount equal to the Bank's involvement in the Company, based on the impairment test made using the discounted dividends.

23. Non-current assets held for sale

	30.09.2016	31.12.2015
Land and buildings	30 432	217 359
Other	297	2 661
Total	30 729	220 020

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24. Inventories

	30.09.2016	31.12.2015
Goods	126 364	150 401
Finished goods	35 548	63 872
Building investments for sale	42 932	201 468
Materials	17 093	22 459
Impairment allowances on inventories	(23 611)	(37 252)
Total	198 326	400 948

In the third quarter of 2016 in PKO Bank Polski SA group there was significant sale transactions of tangible fixed assets described in Note 39 'Changes to the entities of the PKO Bank Polski SA Group, associates companies and joint ventures'.

25. Intangible assets and tangible fixed assets

Intangible assets	30.09.2016	31.12.2015
Software	1 656 248	1 673 081
Goodwill acquired as a result of business combinations (including subsidiaries' goodwill)	1 194 816	1 198 642
Future profits on concluded insurance contracts	85 725	99 207
Relations with customers	37 690	48 114
Other, including capital expenditure	280 061	251 939
Total	3 254 540	3 270 983

Net goodwill	30.09.2016	31.12.2015
Nordea Polska entities	985 221	985 221
PKO Towarzystwo Funduszy Inwestycyjnych SA	149 564	149 564
PKO BP BANKOWY PTE SA	51 158	51 158
Qualia 2 spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp.k.	1 088	4 914
Goodwill related to assets taken over from Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	1 194 816	1 198 642

Tangible fixed assets	30.09.2016	31.12.2015
Land and buildings	1 875 231	1 673 517
Machinery and equipment	497 755	427 458
Means of transport	123 500	89 633
Assets under construction	58 270	260 796
Investment properties	136 764	141 813
Other	196 095	188 969
Total	2 887 615	2 782 186

In the third quarter of 2016 in PKO Bank Polski SA group there was significant sale transactions of tangible fixed assets described in Note 39 'Changes to the entities of the PKO Bank Polski SA Group, associates companies and joint ventures'.

	01.01- 30.09.2016	01.01- 30.09.2015
Compensation from third parties for impairment or loss of tangible fixed assets	18 497	13 917

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26. Other assets

	30.09.2016	31.12.2015
Settlements of payment cards transactions	1 272 905	384 342
Accruals and prepayments	293 495	264 331
Settlements of financial instruments	327 832	178 687
Assets for sale	192 890	178 146
Trade receivables	164 951	149 962
VAT receivables	80 079	80 198
Reinsurance receivables	95 577	-
Receivables and settlements of securities turnover	35 073	17 423
Receivables from other transactions with financial and non-financial institutions	18 863	8 790
Bails and security deposits receivables	10 328	11 020
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	13 615	10 191
Own economy receivables	3 584	15 470
Alternative service settlements with Poczta Polska	1 402	1 487
Receivables from unsettled transactions related to derivatives	2 067	2 854
Other	124 926	107 876
Total	2 637 587	1 410 777
of which financial assets	1 930 883	875 195

27. Amounts due to banks

	30.09.2016	31.12.2015
Loans and advances received	16 569 641	16 418 082
Nordea Bank AB (publ)	16 554 928	16 371 687
Bank deposits	1 497 054	1 168 407
Current accounts	452 901	473 738
Amounts due from repurchase agreements	570 043	197 023
Other money market deposits	78 387	31 547
Total	19 168 026	18 288 797

28. Amounts due to customers

	30.09.2016	31.12.2015
Amounts due to retail clients	142 461 780	135 410 367
Term deposits	73 176 638	71 079 630
Current accounts and overnight deposits	68 926 798	64 039 511
Other liabilities	358 344	291 226
Amounts due to corporate entities	49 215 797	51 213 728
Term deposits	17 892 443	23 032 660
Current accounts and overnight deposits	25 483 191	22 447 227
Loans and advances received, of which:	4 075 878	3 924 099
granted from international financial institutions	3 971 171	3 877 413
Amounts due from repurchase agreements	761 953	829 114
Other liabilities	1 002 332	980 628
Amounts due to public entities	9 502 980	9 134 366
Current accounts and overnight deposits	6 851 044	5 679 394
Term deposits	2 632 949	3 435 443
Other liabilities	18 987	19 529
Total	201 180 557	195 758 461

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By client segment	30.09.2016	31.12.2015
Amounts due to customers, of which:		
retail and private banking	135 241 366	128 269 113
corporate	39 384 202	42 606 510
small and medium enterprises	21 706 146	20 122 652
loans and advances received, of which:	4 075 878	3 924 099
granted from international financial institutions	3 971 171	3 877 413
amounts due from repurchase agreements	761 953	829 114
other liabilities	11 012	6 973
Total	201 180 557	195 758 461

29. Liabilities due to insurance operations

	30.09.2016	31.12.2015
Technical provisions	226 978	114 597
Liabilities due to insurer's investment contracts divided into:	2 340 668	2 285 896
Structured products	21 992	37 051
Products combining policy and deposit	2 734	2 788
Unit-linked insurance financial products	2 142 039	2 246 057
"Bezpieczny Kapitał" product	173 903	-
Total	2 567 646	2 400 493

30. Debt securities in issue

	30.09.2016	31.12.2015
Financial instruments measured at amortised cost	10 419 749	9 361 229
bonds issued by PKO Finance AB	6 255 144	7 332 263
bonds issued by PKO Bank Polski SA	1 858 753	1 645 917
bonds issued by PKO Leasing SA	255 450	363 130
bonds issued by PKO Bank Hipoteczny SA	1 051 199	-
mortgage-backed securities issued by Bank Hipoteczny SA	999 203	19 919
Financial instruments measured at fair value through profit and loss - bank securities issued by PKO Bank Polski SA	-	71 744
Total	10 419 749	9 432 973

Bonds issued by PKO Finance AB

Issuance date	Nominal value	Currency	Maturity date	Carrying amount as at 30.09.2016	Carrying amount as at 31.12.2015
07.07.2011	250 000	CHF	07.07.2016	-	1 003 047
25.07.2012	50 000	EUR	25.07.2022	213 488	214 573
26.09.2012	1 000 000	USD	26.09.2022	3 851 942	3 938 519
23.01.2014	500 000	EUR	23.01.2019	2 189 714	2 176 124
Total				6 255 144	7 332 263

31. Subordinated liabilities

As at 30 September 2016	Nominal value in currency	Nominal value in PLN	Currency	Maturity date	Liability balance in PLN
Subordinated bonds	1 600 700	1 600 700	PLN	14.09.2022	1 602 839
Subordinated loan	224 000	891 565	CHF	24.04.2022	891 626
Total	x	2 492 265	x	x	2 494 465

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As at 31 December 2015	Nominal value in currency	Nominal value in PLN	Currency	Maturity date	Liability balance in PLN
Subordinated bonds	1 600 700	1 600 700	PLN	14.09.2022	1 616 619
Subordinated loan	224 000	882 426	CHF	24.04.2022	882 544
Total	x	2 483 126	x	x	2 499 163

32. Other liabilities

	30.09.2016	31.12.2015
Accounts payable	512 403	658 230
Deferred income	504 574	501 124
Liabilities related to tax on certain financial institutions	73 722	-
Other liabilities	2 448 696	2 196 816
Total	3 539 395	3 356 170
of which financial liabilities	2 758 816	2 340 804

As at 30 September 2016 and as at 31 December 2015 the PKO Bank Polski SA Group had no overdue contractual liabilities.

33. Provisions

For the period ended 30 September 2016	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	22 369	46 033	82 738	100 954	252 094
Short term provision	22 054	3 575	64 045	100 954	190 628
Long term provision	315	42 458	18 693	-	61 466
Increase/ reassessment of provision	23 584	16	226 100	3 789	253 489
Release of provision	(13 795)	-	(208 688)	(5 344)	(227 827)
Use of provision	(6 649)	(1 171)	-	(15 398)	(23 218)
Currency translation differences	(15)	-	(1)	-	(16)
Other changes and reclassifications	-	-	432	-	432
As at 30 September 2016, of which:	25 494	44 878	100 581	84 001	254 954
Short term provision	25 179	2 404	84 827	84 001	196 411
Long term provision	315	42 474	15 754	-	58 543

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 51 510 thousand, provision of PLN 2 493 thousand for potential claims on impaired loan portfolio sold and provisions for litigation, including judicial, which are the subject of compensation in the amount of PLN 255 thousand.

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For the period ended 30 September 2015	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2015, of which:	47 480	39 847	103 844	132 667	323 838
Short term provision	47 165	3 141	73 707	132 667	256 680
Long term provision	315	36 706	30 137	-	67 158
Acquisition of entity	2 343	128	-	-	2 471
Increase/ reassessment of provision	13 483	19	222 657	1 846	238 005
Release of provision	(11 337)	-	(241 509)	(9 880)	(262 726)
Use of provision	(7 592)	(38)	-	(23 128)	(30 758)
Currency translation differences	(19)	-	(30)	-	(49)
Other changes and reclassifications	4 825	-	(3 055)	(1 679)	91
As at 30 September 2015, of which:	49 183	39 956	81 907	99 826	270 872
Short term provision	48 868	3 145	60 918	99 826	212 757
Long term provision	315	36 811	20 989	-	58 115

* Included in 'Other provisions' are i.e.: restructuring provision of PLN 64 223 thousand, provision of PLN 2 081 thousand for potential claims on impaired loan portfolio sold and provisions for litigation, including judicial, which are the subject of compensation in the amount of PLN 328 thousand.

Provisions for legal claims were recognized in the amount of expected outflow of economic benefits.

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34. Shareholding structure of the Bank

According to information available as at 30 September 2016 the Bank's shareholding structure is as follows:

Name of entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 30 September 2016				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva OFE ¹	83 952 447	6.72	PLN 1	6.72
Nationale-Nederlanden OFE ²	64 594 448	5.17	PLN 1	5.17
Other shareholders ³	733 534 125	58.68	PLN 1	58.68
Total	1 250 000 000	100.00	---	100.00
As at 31 December 2015				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva OFE ¹	83 952 447	6.72	PLN 1	6.72
Nationale-Nederlanden OFE ²	64 594 448	5.17	PLN 1	5.17
Other shareholders ³	733 534 125	58.68	PLN 1	58.68
Total	1 250 000 000	100.00	---	100.00

- Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of share in PKO Bank Polski SA's shareholding structure after settlement of the transaction of sale of 153.1 million of PKO Bank Polski SA's shares by BGK and the State Treasury.
- Number of shares held as at 24 July 2012, reported by ING OFE (the entity name was changed to Nationale Nederlanden OFE) after exceeding 5% of share in PKO Bank Polski SA's shareholding structure after settlement of the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury,
- Including Bank Gospodarstwa Krajowego, which on the day of publication of the report for the first quarter of 2016 owned 24 487 297 shares, representing 1.96% of the number of votes at the General Meeting of Shareholders.

The structure of PKO Bank Polski SA's share capital:

Series	Type of shares	Number of shares	Nominal value of 1 share	Series amount by nominal value
Series A	registered ordinary shares	312 500 000	PLN 1	PLN 312 500 000
Series A	bearer ordinary shares	197 500 000	PLN 1	PLN 197 500 000
Series B	bearer ordinary shares	105 000 000	PLN 1	PLN 105 000 000
Series C	bearer ordinary shares	385 000 000	PLN 1	PLN 385 000 000
Series D	bearer ordinary shares	250 000 000	PLN 1	PLN 250 000 000
Total	---	1 250 000 000	---	PLN 1 250 000 000

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35. Contingent liabilities and off-balance sheet liabilities received

Securities covered with underwriting agreements (maximum liability of the Group to acquire securities)

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities	Contract period
As at 30 September 2016			
Company A	corporate bonds	1 055 000	31.07.2020
Company B	corporate bonds	1 125 800	31.12.2020
Company C	corporate bonds	660 000	15.06.2022
Company D	corporate bonds	72 200	31.12.2022
Company E	corporate bonds	12 000	31.12.2026
Company F	corporate bonds	8 624	31.12.2029
Total		2 933 624	

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities	Contract period
As at 31 December 2015			
Company B	corporate bonds	1 950 000	31.12.2020
Company A	corporate bonds	1 055 000	31.07.2020
Company C	corporate bonds	342 700	15.06.2022
Company D	corporate bonds	80 600	31.12.2022
Company G	corporate bonds	60 000	23.11.2021
Company F	corporate bonds	28 224	31.12.2029
Company E	corporate bonds	17 900	31.12.2026
Company H	corporate bonds	4 424	31.01.2016
Company I	corporate bonds	3 403	30.09.2030
Total		3 542 251	

All agreements relate to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Program.

All securities of the Group under the sub-issue (underwriting) program have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

Contractual commitments

Value of contractual commitments concerning:	30.09.2016	31.12.2015
intangible assets	81 422	178 899
tangible fixed assets	26 127	50 278

Loan commitments granted by nominal value	30.09.2016	31.12.2015
Credit lines and limits		
to financial entities	2 725 182	2 306 177
to non-financial entities	34 071 983	36 157 856
to public entities	4 462 660	4 080 379
Total	41 259 825	42 544 412
of which: irrevocable loan commitments	30 046 413	30 513 878

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Guarantees and pledges	30.09.2016	31.12.2015
Guarantees in domestic and foreign trading	6 049 098	7 555 837
to financial entities	228 300	85 504
to non-financial entities	5 809 306	7 463 037
to public entities	11 492	7 296
Guarantees and pledges granted – domestic corporate bonds	3 857 974	4 930 649
to non-financial entities	3 857 874	4 930 649
to financial entities	100	-
Letters of credit granted	1 374 635	1 838 101
to non-financial entities	1 374 532	1 838 000
to public entities	103	101
Guarantees and pledges granted, payment guarantee to financial entities	187 222	143 646
Guarantees and pledges granted, domestic municipal bonds	315 488	59 320
Total	11 784 417	14 527 553
of which: good performance guarantees granted	2 383 638	2 378 395

Off-balance sheet liabilities received by nominal value	30.09.2016	31.12.2015
Financial	776 036	505 350
Guarantees	7 705 666	6 831 132
Total	8 481 702	7 336 482

Moreover, the Bank has a contingent liability in respect of contingent dividend, which was described in details in the note 'Information on dividend paid (or declared)'.

Right to sell or pledge collateral established for the Group

As at 30 September 2016 and at 31 December 2015, there was no collateral established for the Group, which the Group was entitled to sell or encumber with another pledge in the event of fulfilment of all obligations by the owner of the collateral.

36. Legal claims

As at 30 September 2016, the total value of court proceedings in which the PKO Bank Polski SA Group entities (including the Bank) are a defendant was PLN 710 919 thousand, of which PLN 42 273 thousand refers to court proceedings in Ukraine (as at 31 December 2015 the total value of the above-mentioned court proceedings was PLN 638 019 thousand), while as at 30 September 2016 the total value of court proceedings in which the entities of the PKO Bank Polski SA Group (including the Bank) are the plaintiff was PLN 1 199 372 thousand, of which PLN 69 329 thousand referred to court proceedings in Ukraine (as at 31 December 2015 the total value of the above-mentioned court proceedings was PLN 697 041 thousand).

The most significant legal claims of the PKO Bank Polski SA Group are described below

a) Unfair competition proceeding

• Proceedings against practices that restrict competition in the payments cards market in Poland

The Bank is a party to proceeding initiated by President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów - UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization – Employers' association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed interchange fees for transactions made using mentioned above cards as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand.

The Bank appealed against the decision of the President of UOKiK to Court for the Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK). On 20 December 2011 no factual resolution of the appeals was reached in the Court. The SOKiK obligated MasterCard to submit explanations concerning the

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issue and scheduled the date of the next meeting for 9 February 2012. The date was postponed for 24 April 2012, and next SOKiK postponed announcing the court's decision on request for suspension until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of mentioned above. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. By judgment of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 359 thousand. On 7 February 2014 the judgment was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgment was also appealed by other participants of the proceedings, i.e. by the President of the Competition and Consumer Protection Office (UOKiK) and of the Polish Trade and Distribution Organization (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Limited, Bank Pocztowy S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed at imposing more strict fines on participants to the agreement). By judgement of 6 October 2015, the Court of Appeal in Warsaw dismissed the appeal of banks and Visa, and considered the appeal of the UOKiK. The Court restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. the penalty in the amount of PLN 16 597 thousand and the penalty in the amount of PLN 4 825 thousand (the penalty imposed on Nordea Bank Polska SA). The penalties were paid by the Bank in October 2015. On 28 April 2016 the Bank filed cassation complaint together with other participants of the proceedings.

As at 30 September 2016 the Bank is also a party to i.a. following proceedings:

- **Before the Court of Appeal – as a result of an appeal from the verdict of SOKiK issued in result of the complaint from the President of UOKiK** due to suspicion of using of unfair contractual provisions in forms of consumer loan agreements, with the exclusion of credit card agreements. In accordance to decision from 31 December 2013, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 29 064 thousand. The Bank appealed against this decision. By judgment of 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK.

On 28 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank responded to the appeal rejecting the allegations of the President of the UOKiK. No trial date has been set. The appeal proceeding is pending and as at 30 September 2016 the Bank had no provision in this respect.

- **initiated by Bank - at the conclusion of the appeal proceeding brought by the Bank to SOKiK against the decision of the President of UOKiK in connection with the use of unfair contractual terms in patterns of individual contracts (IKE)**

On 19 December 2012, the President of UOKiK imposed a fine on the Bank in a total amount of PLN 14 697 thousand, of which:

- 1) PLN 7 111 thousand for not indicating in the IKE agreements responsibilities of the Bank for timely and proper carrying out the monetary settlements and compensation for the delay in execution of a holder instruction,
- 2) PLN 4 741 thousand for application in the form of IKE agreements, an open list of termination conditions,
- 3) PLN 2 845 thousand for application a clause, entered in the register, defining for disputes with customers a court with jurisdiction over the seat of PKO Bank Polski SA's branch, carrying the IKE deposit account.

The Bank appealed against the decision of the President of UOKiK on 2 January 2013. SOKiK reduced the penalty imposed on the Bank to the amount of PLN 4 000 thousand by the court judgment of 25 November 2014, as regards to:

- the practice described in the point 1 above to the amount of PLN 2 500 thousand,
- the practice described in the point 2 above to the amount of PLN 1 500 thousand,
- the practice described in the point 3 above, the penalty was repealed, as the Court considered that the practice of the Bank did not violate collective interests of consumers.

In January 2015 both the Bank and the President of UOKiK appealed against the judgment. The Court of Appeal in its judgment of 10 February 2016 dismissed the appeal of the Bank and the appeal of the President of UOKiK. Since the judgment is final, the Bank paid a fine in the amount of PLN 4 000 thousand on 23 February 2016 year. The Bank has not yet received a judgment with justification. On 26 September of 2016 bank appealed a cassation complaint to the Supreme Court.

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• **six proceedings before SOKiK initiated by on individual:**

- 1) On the recognition as abusive and prohibiting the respondent from using in trading with customers the provisions in forms of agreements for loans denominated in CHF, indicating that the currency conversion rules used by the Bank for the purpose of loan payment and for the purpose of conversion of installments as well as decisions concerning the amount of interest rate were against good practice and highly violated consumer interest.
- 2) To establish invalidity of the clauses contained in the mortgage contract by regarding them as illegal (non-existent) and prohibiting the respondent from using in trading with customers the provisions in forms of agreements used by the defendant in the exercising economic activity.
- 3) For recognition as illegal of the provisions in forms of mortgage product Nordea - Habitat and the surety agreement
- 4) For recognition as illegal of the provisions of a standard loan agreement. Plaintiff (appraiser) accuses the Bank that it only accepts real estate valuations prepared by designated appraisers which seriously violates the interests of consumers by imposing on consumers, as the weaker party to the contract, onerous conditions eliminating the right to obtain the valuation services from the chosen company,
- 5) For recognition as illegal of the provisions in forms of mortgage loan agreement (product Własny Kąt).
- 6) For recognition as illegal of the provisions related to low downpayment insurance of mortgage loan Własny Kąt repaid in annuity granted installments in PLN

As at 30 September 2016 the Bank had no provisions for above-mentioned proceeding due to the fact, that the probability of unfavorable result of these proceedings is assessed as remote.

• **before the President of UOKiK:**

Additionally, there are fourteen explaining proceedings before the President of UOKiK due to the activity of the bank.

As at 30 September 2016, PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:

- 1) Six proceedings before SOKiK initiated by individuals to determine some of provisions in the forms of life insurance agreements to be illegal; in all cases the Company responded to the lawsuit and applied for its dismissal due to bringing legal action after 6 months since the day of giving up their application, in this case there is no risk of imposing a financial penalty on the Company.
- 2) A proceeding connected to the cassation complaint brought by PKO Życie Towarzystwo Ubezpieczeń SA against the judgment of the Court of Appeal in relation to the fine imposed on the Company in 2010 by the President of UOKiK for the violation of the collective interests of consumers by the Company (fine was paid in 2013); the Supreme Court issued a ruling reversing the appealed ruling in the part concerning the amount of the fine and referred the case for reconsideration to the court of second instance. The second instance upheld its previous position of didn't take into account the guidelines of the Supreme Court. PKO Życie Towarzystwo Ubezpieczeń SA make another cassation complaint to the Supreme Court.

At the same time, during the third quarter of 2016 PKO Życie Towarzystwo Ubezpieczeń SA implemented the obligations resulted from the decision, made in October 2015 by the President of UOKiK, regarding amendments to 25 forms of insurance agreements with insurance capital funds, concerning surrender fees. The Company's liability resulting from the above-mentioned decision consist in particular with regard to these 25 forms:

- a) surrender fees incurred by the existing customers for insurance with regular premium will not be higher than 25 % of the value of premiums paid, and 4 % in the case of contracts with one-off premium,
- b) PKO Życie Towarzystwo Ubezpieczeń SA will provide consumers with a proposal of an annex to the contract of insurance, or equivalent agreement,
- c) PKO Życie Towarzystwo Ubezpieczeń SA will inform customers about the availability of new conditions through the website, applications for customers and directly customer - every time the customer indicates that it intends to terminate the contract.

PKO Życie Towarzystwo Ubezpieczeń SA implemented the obligations resulted from the decision until 17 May 2016. On August 12, 2016 the Company submitted to the Presided of UOKiK report of the implementation of the obligations arising from the decision. The decision does not exhaust the possibility of a pursuing by the existing customers of their rights through civil law.

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As at 30 September 2016 PKO Życie has no provision for an administrative penalty in respect of the proceeding (due the decision becoming final, the provision in the amount of PLN 8 127 thousand was released in 2015). At the same time PKO Życie Towarzystwo Ubezpieczeń SA maintains the adequate to the conditions of the decision level of technical provisions.

In the third quarter of 2016 the insurance industry within Polska Izba Ubezpieczeń ('PIU') took the initiative to develop with UOKiK and KNF compromise solution about regulating issue concerning fees from insurance capital fund products, purpose is to support clients currently not covered with President of UOKiK decision without changing the law. Following a discussion between the PIU and UOKiK and KNF first 10 insurance companies, including PKO Życie Towarzystwo Ubezpieczeń SA, declared their willingness to enter into negotiations with UOKiK in order to extend UOKiK's decision across all active customers portfolio.

In the third quarter of 2016 the Group's entities (other than PKO Bank Polski SA) were the parts to two proceedings conducted by the President of UOKiK regarding to mortgage loan-related research and market research about investment products for customers.

b) Re-privatizations claims relating to properties held by the Group

As at the date of these financial statements the following proceedings are pending:

- 1) twelve administrative proceedings, of which five is suspended, in relation to five properties owned by Bank's subsidiaries, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, the return of the property, as well as acquisition by adverse possession;
- 2) sixteen proceedings, of which one is suspended in relation to five properties owned by Bank's subsidiaries, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, the return of the property, as well as acquisition by adverse possession.

In the opinion of the Management Board of PKO Bank Polski SA the probability of significant claims against the Bank to the above mentioned proceedings is remote.

37. Transactions with the State Treasury and related parties

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note 'Equity and shareholding structure of the Bank' to these financial statements. Receivables, securities and liabilities arising from transactions conducted with the State Treasury, budgetary units and entities in which the State Treasury is the shareholder are disclosed in the Group's statement of financial position. In accordance with the Act of relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts dated 30 November 1995 (Journal of Laws of 2013, No. 763) PKO Bank Polski SA receives payments from the State budget in respect of redemption of interest receivable on housing loans.

	01.01- 30.09.2016	01.01- 30.09.2015
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	61 665	62 513
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	20 584	26 409
Difference between income recognised for this period and income received in cash – the position 'Loans and advances to customers'	41 081	36 104

The Act on the coverage of repayment of certain housing loans by State Treasury (Journal of Laws of 2000, No. 122 item 1310 with subsequent amendments) guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralization of the default risk on these loans.

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The State Treasury guarantees are realized when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee. PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State budget on housing loans.

	01.01- 30.09.2016	01.01- 30.09.2015
Fee and commission income	2 315	2 293

As of 1 January 1996 the Bank became the general distributor of court fee stamps. The Bank receives commissions in this respect from the State Budget.

	01.01- 30.09.2016	01.01- 30.09.2015
Fee and commission income	8 861	9 639

The Brokerage House of PKO Bank Polski SA performs the role of an agent for the issue of retail Treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds.

	01.01- 30.09.2016	01.01- 30.09.2015
Fee and commission income	21 460	13 334

Significant transactions of PKO Bank Polski SA Group with the State Treasury's related entities

The transactions were concluded at arm's length terms. The margins on credit transactions are in the range of 0.28% to 3.75%.

Entity	30.09.2016			01.01-30.09.2016		
	Loans and advances granted in total*	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest and similar income	Fee and commission income	Interest expense and similar charges
Entity 1	-	-	2 450 000	-	-	-
Entity 2	330 582	2 038 592	1 170 000	47	73	(4 195)
Entity 3	-	912 179	-	274	720	(922)
Entity 4	-	870 813	1 346 800	1 980	1 799	(6 263)
Entity 5	282 876	680 866	553 017	6 422	1 118	(3 709)
Entity 6	-	509 689	-	-	4	(9 073)
Entity 7	380 437	414 453	-	-	22	(2 082)
Entity 8	385 793	279 421	1 349 530	4 639	2 791	(3 696)
Entity 9	-	213 317	-	-	722	(1 993)
Entity 10	673 831	85 522	-	-	3	(9 738)
Entity 11	-	67 492	-	-	-	(504)
Entity 12	274 915	66 798	438 539	4 527	639	(40)
Entity 13	233 499	56 904	536 148	2 805	456	(2 688)
Entity 14	55 653	55 413	294 443	239	827	(579)
Entity 15	110 179	46 020	50 000	2 623	79	(453)
Other entities	3 845 327	454 169	1 391 880	17 265	2 757	(9 999)
Total	6 573 092	6 751 648	9 580 357	40 821	12 010	(55 934)

* including corporate bonds

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Entity	31.12.2015			01.01 - 30.09.2015		
	Loans and advances granted in total*	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest and similar income	Fee and commission income	Interest expense and similar charges
Entity 1	-	-	2 450 000	-	-	-
Entity 2	8	1 046 516	1 500 000	2	3	(21 601)
Entity 10	666 981	931 422	-	-	2	(767)
Entity 19	1 146 264	606 343	350 000	-	36	(8 570)
Entity 6	-	501 001	715 852	-	3	(3 884)
Entity 5	472 602	380 543	386 854	6 836	683	(4 650)
Entity 91	-	264 443	-	-	723	(1 244)
Entity 8	250 057	240 524	2 407 840	1 129	2 413	(518)
Entity 27	-	219 506	-	10	130	(2 190)
Entity 7	340 509	214 989	-	-	12	(4 285)
Entity 13	113 467	196 961	574 780	2 855	6	(579)
Entity 37	220	156 451	-	260	914	(1 198)
Entity 43	-	118 217	-	-	-	(8)
Entity 15	163 275	99 099	50 000	4 019	62	(605)
Entity 14	-	73 188	354 500	-	596	(911)
Other entities	3 042 211	587 016	2 355 363	21 932	6 304	(28 583)
Total	6 195 594	5 636 219	11 145 189	37 043	11 887	(79 593)

* including corporate bonds

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38. Related party transactions

All transactions with related parties presented below were arm's length transactions. Repayment terms are within a range from one month to fifteen years.

As at 30 September 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	51 957	8 357	29 887	11 402
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	21 018	21 018	9 185	-
Direct associates				
Bank Pocztowy SA	434	-	18	1 108
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2 739	-
Indirect associates				
Centrum Operacyjne Sp. z o.o.	-	-	9	-
Walcownia Blach Grubych „Batory” Sp. z o.o.	-	-	4	-
Total Joint ventures and associates	73 409	29 375	41 842	12 510

For the nine-month period ended as at 30 September 2016 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	177 521	175 788	82 558	82 392
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	360	360	29	29
Direct associates				
Bank Pocztowy SA	20	17	75	-
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	2	2	23	23
FERRUM SA	1	1	-	-
Indirect associates				
Centrum Operacyjne Sp. z o.o.	2	2	-	-
Walcownia Blach Grubych „Batory” Sp. z o.o.	1	1	-	-
Total Joint ventures and associates	177 907	176 171	82 685	82 444

As at 31 December 2015 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	5 964	-	31 072	2 011
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	27 414	27 414	8 623	-
Direct associates				
Bank Pocztowy SA	14 057	-	949	1 086
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2 788	-
Indirect associates				
Centrum Operacyjne Sp. z o.o.	-	-	5	-
Total Joint ventures and associates	47 435	27 414	43 437	3 097

For the nine-month period ended as at 30 September 2015 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	120 268	119 104	79 807	79 672
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	689	689	69	69
Direct associates				
Bank Pocztowy SA	498	20	515	-
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	2	2	14	14
Indirect associates				
Centrum Operacyjne Sp. z o.o.	2	2	-	-
Total Joint ventures and associates	121 459	119 817	80 405	79 755

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39. Changes to the entities of the PKO Bank Polski SA Group, associates companies and joint ventures

In the third quarter of 2016, the following events affecting the structure of the PKO Bank Polski SA Group occurred:

1. concerning PKO Bank Hipoteczny SA

On 28 July 2016 the National Court Register recorded an increase of the share capital of PKO Bank Hipoteczny SA by the amount of PLN 200 000 thousand. Shares from an increase of share capital have been covered by PKO Bank Polski SA

As at 30 September 2016 the share capital of the Company amounts to PLN 700 000 thousand and is divided into 700 000 000 shares with a nominal value of PLN 1 each. The sole shareholder of the Company is PKO Bank Polski SA.

2. concerning entities of the Qualia Development Sp. z o.o. Group

On 13 July 2016 the shareholders of Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. adopted the resolution on dissolution of the Company without liquidation procedure. On 5 September 2016 the Company was deleted from the entrepreneurs register.

On 28 July 2016 Qualia Development Sp. z o.o. repurchased 1 share of the Fort Mokotów Inwestycje Sp. z o.o. from Qualia Sp. z o.o. After that, it became the sole shareholder of the Fort Mokotów Inwestycje Sp. z o.o.

On 28 July 2016 Qualia Development Sp. z o.o. and Dom Development SA signed an agreement on sale 100% of shares of Fort Mokotów Inwestycje Sp. z o.o., which is the usufructuary of land located in the area of Żwirki i Wigury Street and Raclawicka Street in Warsaw. The amount of the transaction including price of shares and loan repayment, which was provided to Fort Mokotów Inwestycje Sp. z o.o. by Qualia Development Sp. z o.o., equals to PLN 133 500 thousand. Since 28 July 2016 Fort Mokotów Inwestycje Sp. z o.o. has been no longer subsidiary of Qualia Development Sp. z o.o.

On 24 August 2016, the Company Qualia Development Sp. z o.o. sold all rights and obligations of the limited partner in the company Qualia Spółka z ograniczoną odpowiedzialnością - Jurata - Sp. k. and the company Qualia Sp. z o.o. sold all the rights and obligations of the general partner of the company Qualia Spółka z ograniczoną odpowiedzialnością - Jurata Sp. k. and no longer is a subsidiary of the Qualia Development Sp. z o.o.

On 24 August 2016 Qualia Residence Sp. z o.o. sold two properties located in Jurata, Mestwina Street No. 32 and Mestwina Street No. 34 and No. 38

3. concerning events that will affect PKO Bank Polski SA Group structure in the following quarters:

On 4 May 2016, the Court and Commercial Journal (Monitor Sądowy i Gospodarczy) recorded a merger of PKO Leasing SA (as acquiring company) and PKO Bankowy Leasing Sp. z o.o. (as acquired company). The planned merger is going to be effected by the transfer of all assets of PKO Bankowy Leasing Sp. z o.o. to the PKO Leasing SA (merger by acquisition), without increasing the share capital of PKO Leasing SA and without exchange of the shares of PKO Bankowy Leasing Sp. z o.o. for shares of PKO Leasing SA. On 9 August 2016 in the registration court proper for both of companies, have been submitted request for the merger of companies - the requested date of merger is set for 31 October 2016

4. concerning associated entities and joint ventures

In the third quarter of 2016 Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. – company constituting a joint venture of PKO Bank Polski S.A. – acquired shares due to two increases of the share capital in its own subsidiary company EVO Payments International Sp. z o.o. with a total nominal value of PLN 100 000 and total issue price amounting to PLN 5 000 thousand. On 9 August 29

On 19 August 2016 the National Court Register recorded an increase of the share capital in the amount of PLN

50 000, second increase was not recorded on 30 September 2016.

In the third quarter of 2016 PKO Bank Polski SA exposed in the structure of Capital Group FERRUM SA – associate company of the PKO Bank Polski SA – new company Walcownia Blach Grubych “Batory” Sp.z o.o. with seat in Katowice with capital share in the amount of PLN 5 000. According to financial statement from half year of 2016 of mentioned above Capital Group, the Company has not started its operating activity and the profile of activity of this company is manufacturing of quarto plate.

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40. Fair value of financial assets and liabilities

40.1. Categories of fair value valuation of financial assets and liabilities measured at fair value in the consolidated statement of financial position

Assets and liabilities measured at fair value as at 30.09.2016	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	15	1 634 681	1 563 357	71 324	-
Debt securities		1 613 968	1 542 644	71 324	-
Shares in other entities		18 297	18 297	-	-
Investment certificates		2 416	2 416	-	-
Derivative financial instruments	16	2 638 698	3 163	2 635 535	-
Hedging instruments		349 264	-	349 264	-
Trade instruments		2 289 434	3 163	2 286 271	-
Financial instruments designated upon initial recognition at fair value through profit and loss	18	15 163 093	5 498 794	9 664 299	-
Debt securities		13 422 087	3 757 788	9 664 299	-
Participation units		1 741 006	1 741 006	-	-
Investment securities available for sale	20	34 038 343	25 108 868	5 537 698	3 391 777
Debt securities		33 551 549	24 997 468	5 537 698	3 016 383
Equity securities		184 420	94 394	-	90 026
Participation units in investment funds and shares in joint investment institutions		302 374	17 006	-	285 368
Financial assets measured at fair value - total		53 474 815	32 174 182	17 908 856	3 391 777
Derivative financial instruments	16	3 403 541	734	3 402 807	-
Hedging instruments		840 150	-	840 150	-
Trade instruments		2 563 391	734	2 562 657	-
Financial liabilities measured at fair value - total		3 403 541	734	3 402 807	-

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Assets and liabilities measured at fair value as at 31.12.2015	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	15	783 199	783 199	-	-
Debt securities		766 641	766 641	-	-
Shares in other entities		9 910	9 910	-	-
Investment certificates		6 648	6 648	-	-
Derivative financial instruments	16	4 347 269	2 163	4 345 106	-
Hedging instruments		508 665	-	508 665	-
Trade instruments		3 838 604	2 163	3 836 441	-
Financial instruments designated upon initial recognition at fair value through profit and loss	18	15 154 100	4 837 304	10 316 796	-
Debt securities		13 337 373	3 020 577	10 316 796	-
Participation units		1 816 727	1 816 727	-	-
Investment securities available for sale	20	28 291 352	19 255 389	5 401 333	3 634 630
Debt securities		27 604 913	19 093 221	5 401 333	3 110 359
Equity securities		473 618	145 990	-	327 628
Participation units in investment funds and shares in joint investment institutions		212 821	16 178	-	196 643
Financial assets measured at fair value - total		48 575 920	24 878 055	20 063 235	3 634 630
Derivative financial instruments	16	4 624 767	1 476	4 623 291	-
Hedging instruments		998 527	-	998 527	-
Trade instruments		3 626 240	1 476	3 624 764	-
Debt securities in issue	30	71 744	-	71 744	-
Financial instruments designated at fair value through profit and loss		71 744	-	71 744	-
Financial liabilities measured at fair value - total		4 696 511	1 476	4 695 035	-

Depending on the category of classification of financial assets and liabilities to the fair value hierarchy, different methods of fair value valuation are used. Detailed description was presented in the financial statements for the year 2015.

Influence of parameters estimated on fair value of financial instruments, for which the Group applies the fair value measurement in Level 3 as of 30 September 2016 were as follows:

Financial instrument classified to Level 3	Valuation technique	Unobservable factor	Fair value as at 30 September 2016 by	
			positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions - Fund	Net Asset Value (NAV) method	price for a participation unit	299 636	271 100
Preferred series C Shares of Visa Europe Limited	estimate of fair value based on the current market value of listed ordinary shares of Visa Inc. including discounting taking into account the limited liquidity of C series shares and the conditions of C series shares conversion on ordinary shares	the final number and value ordinary Visa Inc. shares which Bank's will receive as a result of conversion of C series shares	96 547	63 491
Corporate bonds	Credit index method	credit spread	3 026 051	3 006 610

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In the period from 1 January to 30 September 2016, there were no transfers between levels in the fair value hierarchy used in measuring financial instruments at fair value.

The tables below presents a reconciliation during the periods of measurement fair value at level 3 of fair value hierarchy:

Investment securities available for sale	01.01- 30.09.2016	01.01- 30.09.2015
Opening balance at the beginning of the period	3 634 630	203 276
Total gains or losses	(28 932)	4 362
recognised in financial result	(70 680)	(3 649)
recognised in other comprehensive income	41 748	8 011
Translation differences of currency entities	-	(2 305)
Shares settlement of Visa Europe Limited	(336 713)	-
Take up of Visa Inc shares	80 964	-
Take up of new shares in the Fund	67 563	-
Other take ups and sales (including settlements)	(25 735)	(12 364)
Closing balance at the end of the period	3 391 777	192 969

In the period from 1 January to 30 September 2016, there were no changes to the methodology of estimating fair value of financial instruments

40.2. Financial assets and liabilities not presented at fair value in consolidated statement of financial position

	level of fair value hierarchy	valuation method	30.09.2016	
			carrying amount	fair value
Cash and balances with the central bank	nd	value at cost to pay	14 345 681	14 345 681
Amounts due from banks	2	discounted cash flows	3 723 386	3 723 386
Loans and advances to customers			193 174 343	188 341 278
housing loans	3	discounted cash flows	103 831 804	99 235 619
corporate loans	3	discounted cash flows	60 141 557	60 509 150
consumer loans	3	discounted cash flows	22 925 912	22 394 393
receivables due from repurchase agreements	3	discounted cash flows	1 323 912	1 323 912
debt securities	3	discounted cash flows	4 951 158	4 878 204
Investment securities held to maturity	3	discounted cash flows	281 634	287 026
Other financial assets	3	value at cost to pay including impairment allowance	1 930 883	1 930 883
Amounts due to the central bank	2	value at cost to pay	4 269	4 269
Amounts due to other banks	2	discounted cash flows	19 168 026	19 168 030
Amounts due to customers			201 180 557	201 128 122
due to corporate entities	3	discounted cash flows	49 215 797	49 215 616
due to public entities	3	discounted cash flows	9 502 980	9 502 980
due to retail clients	3	discounted cash flows	142 461 780	142 409 526
Debt securities in issue	1, 2	market quotations / discounted cash flows	10 419 749	10 856 618
Subordinated debt	2	discounted cash flows	2 494 465	2 494 677
Other financial liabilities	3	value at cost to pay	2 758 816	2 758 816

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	level of fair value hierarchy	valuation method	31.12.2015	
			carrying amount	fair value
Cash and balances with the central bank	nd	value at cost to pay	13 743 864	13 743 864
Amounts due from banks	2	discounted cash flows	4 552 972	4 552 971
Loans and advances to customers			190 413 708	183 613 721
housing loans	3	discounted cash flows	100 668 588	93 429 678
corporate loans	3	discounted cash flows	58 057 837	58 749 000
consumer loans	3	discounted cash flows	21 959 827	21 815 550
receivables due from repurchase agreements	3	discounted cash flows	4 432 239	4 432 239
international financial institutions	3	discounted cash flows	10 652	10 652
debt securities	3	discounted cash flows	5 284 565	5 176 602
Investment securities held to maturity	3	discounted cash flows	210 330	213 624
Other financial assets	3	value at cost to pay including impairment allowance	875 195	875 195
Amounts due to the central bank	2	value at cost to pay	4 219	4 219
Amounts due to other banks	2	discounted cash flows	18 288 797	18 288 795
Amounts due to customers			195 758 461	195 718 940
due to corporate entities	3	discounted cash flows	51 213 728	51 214 193
due to public entities	3	discounted cash flows	9 134 366	9 134 366
due to retail clients	3	discounted cash flows	135 410 367	135 370 381
Debt securities in issue	1, 2	market quotations / discounted cash flows	9 361 229	9 637 428
Subordinated debt	2	discounted cash flows	2 499 163	2 486 132
Other financial liabilities	3	value at cost to pay	2 340 804	2 340 804

Detailed assumptions concerning valuation methods were presented in the annual consolidated financial statements of PKO Bank Polski SA Group for the year 2015.

41. Objectives and principles of risk management in the PKO Bank Polski SA Group

Risk management is a key internal processes within PKO Bank Polski SA including the Bank's foreign branches and in other entities of the PKO Bank Polska SA Group. It aims at ensuring profitability of business activity by ensuring control of risk level and maintaining it within the risk tolerance and system of limits applied by the Bank and the Group, in a changing macroeconomic and legal environment. The level of the risks plays an important role in the planning process.

In the Group, the following types of risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk (including financing risk), commodity price risk, price risk of equity securities, derivative instruments risk, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation, capital risk, excessive leverage, risk of foreign currency mortgages for households and insurance risk. In the third quarter of 2016 the catalog of relevant risks to the Bank was extended by the conduct risk and in the context of credit risk - the risk of adjustment to the valuation of derivative instruments within counterparty credit risk (CVA).

In the consolidated financial statements of the Group for the year 2015 are described in detail elements of the risk management process, the main principles of risk management, the organization of risk management at the Bank and the Group, the identification of significant risks and measures for risk management in the Group.

In addition, the consolidated financial statements of the Group for the year 2015 are described in detail for the individual identified by the Group, the following types of risk, ie.: the definition of risk management objective specified risk identification, measurement and assessment, monitoring, forecasting and monitoring, reporting and management activities.

Significant events occurred in the three-quarters of 2016 in the field of risk management:

- in the second quarter of 2016 the Bank rolled over of six-month short-term bonds with a value of PLN 800 million, and issued additional bonds amounted to PLN 200 million,
- issuance one year bonds amounted to EUR 200 million in the second quarter of 2016,
- issuance of mortgage bonds amounted PLN 1 billion in the second quarter of 2016,
- on 30 June 2016 the Ordinary General Shareholders' Meeting of the Bank adopted resolution on conditional dividend payment from the net profit for 2015 and retained earnings from previous years. The dividend will be paid, unless not later that on 8 December 2016 (inclusive) PKO Bank Polski SA takes over control of the bank or other entity of the financial sector, as well as regulatory changes occur or

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supervisory recommendations occur, affecting the requirements for the Bank's own funds according to the level of capital adequacy ratios recognized in the financial statements of the Bank for Q3 2016 – would cause a lack of possibility to pay dividend in accordance with the regulatory requirements and supervisory recommendations.

Currently PKO Polish Bank SA took part in the another European transparency exercise carried out by the European Banking Authority (EBA) in close cooperation with the Polish Financial Supervision Authority. The survey includes 133 institutions from European Union countries plus Norway while PKO Bank Polski SA was included in the test as the only Polish bank. Deadline for the publication of data by the EBA is planned for December 2016.

Credit risk management

Information on risk monitoring and risk measurement on 30 September 2016 is also presented in the notes: amounts due from banks, loans and advances to customers, investment securities available for sale and investment securities held to maturity.

Maximum exposure to credit risk

Exposure to credit risk - Items of the statement of financial position	30.09.2016	31.12.2015
Current account in the central bank	10 674 685	9 854 137
Amounts due from banks	3 723 386	4 552 972
Trading assets – debt securities	1 613 968	766 641
issued by the State Treasury	1 503 870	648 695
issued by local government bodies	43 755	48 596
issued by non-financial institutions	49 308	46 122
issued by financial institutions	6 343	5 344
issued by banks	10 692	17 884
Derivative financial instruments	2 638 698	4 347 269
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	13 422 087	13 337 373
issued by central banks	9 423 231	10 036 898
issued by the State Treasury	3 757 787	3 052 701
issued by local government bodies	241 069	247 263
issued by non-financial institutions	-	511
Loans and advances to customers	193 174 343	190 413 708
financial sector	1 608 108	4 826 553
corporate loans	296 489	383 662
international financial organisations	-	10 652
receivables due from repurchase agreements	1 311 619	4 432 239
non-financial sector	182 298 734	175 619 057
housing loans	103 831 804	100 668 588
corporate loans	53 204 829	50 398 753
consumer loans	22 925 912	21 959 827
debt securities	2 323 896	2 591 889
receivables due from repurchase agreements	12 293	-
public sector	9 267 501	9 968 098
corporate loans	6 640 239	7 275 422
debt securities	2 627 262	2 692 676
Investment securities - debt securities	33 551 549	27 604 913
issued by the State Treasury	24 017 824	18 358 006
issued by local government bodies	4 481 791	4 613 726
issued by non-financial institutions	3 436 218	3 117 859
issued by banks	1 459 433	1 515 322
issued by financial institutions, treasury bonds in PLN	156 283	-
Investment securities held to maturity	281 634	210 330
issued by the State Treasury	281 634	210 330
Other assets - other financial assets	1 930 883	875 195
Total	261 011 233	251 962 538

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Exposure to credit risk - Off-balance sheet items	30.09.2016	31.12.2015
Irrevocable liabilities granted	30 046 413	30 513 878
Guarantees granted	6 236 320	7 199 483
Guarantees of issue	4 173 462	5 489 969
Letters of credit granted	1 374 635	1 838 101
Total	41 830 830	45 041 431

Financial assets assessed on an individual basis for which individual impairment has been recognised by carrying amount gross	30.09.2016	31.12.2015
Amounts due from banks	145	145
Loans and advances to customers	5 139 696	5 412 768
Financial sector	3 058	4 557
corporate loans	3 058	4 557
Non-financial sector	5 118 136	5 391 741
corporate loans	3 969 026	3 875 074
housing loans	845 961	1 104 228
consumer loans	230 195	304 476
debt securities	72 954	107 963
Public sector	18 502	16 470
corporate loans	18 502	16 470
Financial assets available for sale	580 731	397 479
issued by financial entities	3 465	3 777
issued by non-financial entities	577 266	393 702
Total	5 720 572	5 810 392

Interest rate risk

As at 30 September 2016 and 31 December 2015, the exposure of the PKO Bank Polski SA Group to the interest rate risk comprised mainly of the exposure of the Bank. Interest rate risk generated by the Group entities did not have a significant effect on the interest rate risk of the entire Group and therefore did not significantly affect its risk profile.

VaR of the Bank and stress-tests analysis of the Group's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	30.09.2016	31.12.2015
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	230 423	271 674
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)**	2 005 823	2 013 781

* Due to the nature of the activities carried out by the Group's other entities generating significant interest rate risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 10 209 thousand as at 30 September 2016 and PLN 11 460 thousand as at 31 December 2015.

** The table presents the value of the most adverse stress-test of the scenarios: movement of interest rate curves in particular currencies by 200 p.p. up and by 200 p.p. down.

As at 30 September 2016 the interest rate VaR for a 10-day time horizon (10-day VaR, 99%) amounted to PLN 230 423 thousand, which accounted for approximately 0.78 % of the Bank's own funds. As at 31 December 2015 VaR for the Bank amounted to PLN 271 674 thousand, which accounted for approximately 1.00 % of the Bank's own funds.

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Currency risk

VaR of the Bank and stress-testing of the Group's exposure to currency risk are stated cumulatively for all currencies in the table below:

Name of sensitivity measure	30.09.2016	31.12.2015
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)*	10 297	25 384
Change in CUR/ PLN by 20% (in PLN thousand) (stress-test)**	17 207	1 941

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as the specific nature of the market on which they operate, the Bank does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 4 302 thousand as at 30 September 2016 and approx. PLN 4 836 thousand as at 31 December 2015.

** The table presents the absolute value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

The volume of currency positions is a key factor in determining the level of currency risk to which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with reference to own funds, 99% VaR for a 10-day time horizon for the Bank's currency position as at 30 September 2016 amounted to ca. 0.03%).

Liquidity risk

Liquidity gaps presented below contain i.e. the Group's items of the statement of financial position in real terms concerning permanent balances on deposits of non-financial entities and their maturity, permanent balances on loans in current accounts of non-financial entities and their maturity and liquid securities and their maturity.

	a 'vista	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.09.2016								
adjusted periodic gap	15 928 143	27 944 121	(737 878)	(1 330 651)	8 454 099	8 195 044	19 287 266	(77 740 144)
adjusted cumulative periodic gap	15 928 143	43 872 264	43 134 386	41 803 735	50 257 834	58 452 878	77 740 144	-
31.12.2015								
adjusted periodic gap	13 974 617	19 405 644	(346 858)	3 590 950	7 972 011	8 034 672	12 600 252	(65 231 288)
adjusted cumulative periodic gap	13 974 617	33 380 261	33 033 403	36 624 353	44 596 364	52 631 036	65 231 288	-

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms, which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and contractual liquidity gaps of the remaining Group entities, as at 30 September 2016 and as at 31 December 2015 was positive. This means a surplus of assets receivable over liabilities payable.

The table below shows the Bank's liquidity reserve as at 30 September 2016 and 31 December 2015:

Name of sensitivity measure	30.09.2016	31.12.2015
Liquidity reserve up to 1 month* (in PLN million)	31 203	30 186

* Liquidity reserve is the difference between the most liquid assets vs. expected and potential liabilities which mature in a given period of time.

As at 30 September 2016, the level of core deposits amounted to approx. 92.8% of all deposits of the Bank (excluding interbank market), which is a decrease of approx. 0.8 p.p. in comparison to the end of 2015.

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The Group's policy in the area of CHF

The Group constantly analyses changes in the financial and macroeconomic environment, especially the level of market interest rates as well as exchange rates and takes it into consideration managing specified types of risk and activities towards Group's customers with long-term mortgages. The Group especially analyses the portfolio of mortgages denominated in CHF. The Group constantly monitors quality of this portfolio and analyses the risk of worsening of the quality of this portfolio. Currently the level of quality portfolio is acceptable.

The influence of the external factors and regulations is being monitored constantly. The Group currently tracks legislative initiatives related to the support for borrowers holding foreign currency mortgage loans, analyzing their impact on the Group's and the Group's clients situation.

The following tables presents qualitative analysis of the loans denominated in CHF

Loans and advances to customers in impairment valuation method in CHF (presented in PLN)	30.09.2016			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	171 159	153 291	324 450
impaired	-	130 559	146 528	277 087
Valuated with portfolio method, impaired	-	29 407	1 158 028	1 187 435
Valuated with group method (IBNR)	5 147	345 794	28 963 329	29 314 270
Loans and advances to customers - gross	5 147	546 360	30 274 648	30 826 155
Allowances on exposures valuated on an individual basis, of which:	-	(58 126)	(56 076)	(114 202)
impaired	-	(57 741)	(56 053)	(113 794)
Allowances on exposures valuated with portfolio method	-	(20 745)	(763 023)	(783 768)
Allowances on exposures valuated with group method (IBNR)	(106)	(2 934)	(73 937)	(76 977)
Allowances - total	(106)	(81 805)	(893 036)	(974 947)
Loans and advances to customers - net	5 041	464 555	29 381 612	29 851 208

Loans and advances to customers in impairment valuation method in CHF (presented in PLN)	31.12.2015			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	170 986	223 586	394 572
impaired	-	134 743	208 089	342 832
Valuated with portfolio method, impaired	-	32 034	1 126 528	1 158 562
Valuated with group method (IBNR)	6 098	372 332	30 309 066	30 687 496
Loans and advances to customers - gross	6 098	575 352	31 659 180	32 240 630
Allowances on exposures valuated on an individual basis, of which:	-	(45 601)	(95 867)	(141 468)
impaired	-	(45 185)	(93 751)	(138 936)
Allowances on exposures valuated with portfolio method	-	(18 199)	(699 206)	(717 405)
Allowances on exposures valuated with group method (IBNR)	(171)	(2 711)	(100 384)	(103 266)
Allowances - total	(171)	(66 511)	(895 457)	(962 139)
Loans and advances to customers - net	5 927	508 841	30 763 723	31 278 491

Loans and advances to customers valuated in the group method (IBNR)	30.09.2016		
	PLN	CHF	Other currencies
Loans and advances to customers - gross	140 370 512	29 314 270	15 880 870
past due	1 897 519	596 651	217 605
not past due	138 472 993	28 717 619	15 663 265
Impairment on exposures valuated using the group method (IBNR)	(410 163)	(76 977)	(61 084)
past due	(136 404)	(36 946)	(5 710)
not past due	(273 759)	(40 031)	(55 374)
Net loans and advances to customers	139 960 349	29 237 293	15 819 786

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Loans and advances to customers valuated in the group method (IBNR)	31.12.2015		
	PLN	CHF	Other currencies
Loans and advances to customers - gross	137 684 206	30 687 496	15 091 438
past due	2 215 404	719 752	241 215
not past due	135 468 802	29 967 744	14 850 223
Impairment on exposures valuated using the group method (IBNR)	(414 211)	(103 266)	(51 692)
past due	(153 193)	(49 835)	(8 393)
not past due	(261 018)	(53 431)	(43 299)
Net loans and advances to customers	137 269 995	30 584 230	15 039 746

Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies	30.09.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers forbearance	945 794	607 570	55 494
Impairment on exposures valuated using the group method (IBNR) forbearance	(32 571)	(24 648)	(1 558)
Net loans and advances to customers forbearance	913 223	582 922	53 936

Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies	31.12.2015		
	PLN	CHF	Other currencies
Gross loans and advances to customers forbearance	1 718 753	776 522	67 787
Impairment on exposures valuated using the group method (IBNR) forbearance	(51 567)	(35 930)	(2 151)
Net loans and advances to customers forbearance	1 667 186	740 592	65 636

As at 30 September 2016, the average LTV for loans in CHF amounted to 81.02%, while the average LTV for the whole portfolio amounted to 69.48%.

42. Capital Adequacy

Basic regulations applicable in the assessment of capital adequacy as at 30 September 2016 are described in the consolidated financial statements for the year ended 31 December 2015.

For the purpose of prudential consolidation the Group comprises: PKO Bank Polski SA, PKO Leasing SA Group, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, KREDOBANK SA Group, PKO Finance AB, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., PKO Finat sp. z o.o and PKO Bank Hipoteczny SA.

The level of capital adequacy of the Group in the third quarter of 2016 remained on a safe level, significantly above the supervisory limits.

The Group constantly monitors changes in the regulatory and legislative environment that may have a significant impact on capital adequacy ratios.

On 3 August 2016 EBA issued a recommendation for ratio leverage ratio level of at least 3%, which is consistent with preliminary assumptions of BCBS in January 2014. The Bank maintains a leverage ratio significantly above the level indicated by the EBA and recommended by the PFSA.

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	30.09.2016	31.12.2015
Total own funds	29 518 514	27 091 444
Basic funds (Tier 1)	27 026 249	24 608 318
Tier I capital before regulatory adjustments and deductions, of which:	30 387 876	27 828 677
Share capital	1 250 000	1 250 000
Other reserves	26 719 504	24 118 542
General banking risk fund for unidentified banking risk	1 070 000	1 070 000
Retained earnings	1 348 372	1 390 135
(-) Goodwill	(1 102 497)	(1 102 497)
(-) Other intangible assets	(1 702 121)	(1 690 794)
Other accumulated comprehensive income	(381 025)	(135 783)
Assets from deferred tax that are dependent on future profitability, but not derived from temporary differences	(1 074)	(2 017)
Adjustments to Tier I Capital in respect of prudential filters	(121 713)	(14 403)
Other adjustments to Tier I Capital during transitional period	(53 197)	(274 865)
Supplementary funds (Tier 2)	2 492 265	2 483 126
Capital instruments and subordinated loans eligible as Tier II Capital	2 492 265	2 483 126
Requirements as regard own funds	14 757 961	14 836 827
Credit risk	13 477 386	13 658 288
Operational risk	641 748	662 547
Market risk	610 970	484 532
Credit valuation adjustment risk	27 857	31 460
Total capital adequacy ratio	16.00%	14.61%
Tier 1 Capital ratio	14.65%	13.27%

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**STAND-ALONE FINANCIAL DATA
INCOME STATEMENT**

	Note	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Continuing operations					
Interest and similar income	1	2 397 225	7 045 017	2 367 640	7 022 016
Interest expense and similar charges	1	(522 861)	(1 576 234)	(601 846)	(2 001 204)
Net interest income		1 874 364	5 468 783	1 765 794	5 020 812
Fee and commission income	2	810 116	2 421 021	828 795	2 498 857
Fee and commission expense	2	(194 067)	(620 104)	(176 003)	(535 837)
Net fee and commission income		616 049	1 800 917	652 792	1 963 020
Dividend income		4 143	153 577	4 159	114 160
Net income from financial instruments measured at fair value	3	29 580	11 393	312	1 518
Gains less losses from investment securities	4	25 872	502 386	6 363	83 312
Net foreign exchange gains (losses)		142 026	352 223	91 193	297 619
Other operating income	5	34 741	86 846	25 643	106 606
Other operating expense	5	(22 612)	(83 388)	(24 096)	(71 506)
Net other operating income and expense		12 129	3 458	1 547	35 100
Net impairment allowance and write-downs	6	(409 640)	(1 162 459)	(330 732)	(1 079 887)
Administrative expenses	7	(1 237 249)	(3 735 144)	(1 222 358)	(3 771 569)
Tax on certain financial institutions	8	(222 868)	(590 611)	-	-
Operating profit		834 406	2 804 523	969 070	2 664 085
Profit before income tax		834 406	2 804 523	969 070	2 664 085
Income tax expense	9	(236 226)	(633 866)	(186 645)	(499 657)
Net profit		598 180	2 170 657	782 425	2 164 428

Earnings per share

- basic earnings per share for the period (PLN)	0.48	1.74	0.63	1.73
- diluted earnings per share for the period (PLN)	0.48	1.74	0.63	1.73
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000

Discontinued operations

In the nine-month periods ended 30 September 2016 and 30 September 2015 respectively, no discontinued operations were conducted by PKO Bank Polski SA.

STATEMENT OF COMPREHENSIVE INCOME

	Note	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Net profit		598 180	2 170 657	782 425	2 164 428
Other comprehensive income		(21 906)	(191 077)	14 503	(196 288)
Items that may be reclassified to the income statement		(21 906)	(191 077)	14 503	(196 288)
Cash flow hedges (gross)	14	(87 753)	126 114	25 260	(93 600)
Deferred tax on cash flow hedges	14	16 673	(23 962)	(4 800)	17 784
Cash flow hedges (net)	14	(71 080)	102 152	20 460	(75 816)
Unrealised net gains on financial assets available for sale (gross)		60 567	(362 127)	(7 354)	(148 731)
Deferred tax on unrealised net gains on financial assets available for sale		(11 506)	68 805	1 397	28 259
Unrealised net gains on financial assets available for sale (net)		49 061	(293 322)	(5 957)	(120 472)
Currency translation differences from foreign operations		113	93	-	-
Total net comprehensive income		576 274	1 979 580	796 928	1 968 140

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STATEMENT OF FINANCIAL POSITION

	Note	30.09.2016	31.12.2015
ASSETS			
Cash and balances with the central bank	10	14 280 856	13 707 730
Amounts due from banks	11	7 254 472	5 021 876
Trading assets	12	1 667 972	793 213
Derivative financial instruments	13	2 633 086	4 348 034
Financial assets designated upon initial recognition at fair value through profit and loss	15	12 925 178	12 796 036
Loans and advances to customers	16	185 672 352	188 552 440
Investment securities available for sale	17	33 323 058	27 859 727
Investments in subsidiaries, joint ventures and associates	18	2 449 541	2 037 987
Non-current assets held for sale	19	227 167	422 676
Intangible assets	20	2 787 843	2 797 791
Tangible fixed assets, of which:	20	2 325 395	2 276 322
investment properties		7 999	8 239
Current income tax receivables		-	40 762
Deferred income tax asset		868 957	644 611
Other assets	21	2 046 990	1 080 825
TOTAL ASSETS		268 462 867	262 380 030
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank		4 269	4 219
Amounts due to banks	22	19 110 935	18 249 857
Derivative financial instruments	13	3 406 194	4 627 189
Amounts due to customers	23	205 933 280	201 809 202
Debt securities in issue	24	1 858 753	1 717 661
Subordinated liabilities	25	2 494 465	2 499 163
Other liabilities	26	3 022 105	3 009 074
Current income tax liabilities		186 195	-
Provisions	27	249 204	245 778
TOTAL LIABILITIES		236 265 400	232 162 143
Equity			
Share capital		1 250 000	1 250 000
Other capital		27 526 717	25 146 745
Currency translation differences from foreign operations		93	-
Undistributed profits		1 250 000	1 250 000
Net profit for the year		2 170 657	2 571 142
TOTAL EQUITY		32 197 467	30 217 887
TOTAL LIABILITIES AND EQUITY		268 462 867	262 380 030
Capital adequacy ratio	32	17.03%	15.28%
Book value (in PLN thousand)		32 197 467	30 217 887
Number of shares (in thousand)		1 250 000	1 250 000
Book value per share (in PLN)		25.76	24.17
Diluted number of shares (in thousand)		1 250 000	1 250 000
Diluted book value per share (in PLN)		25.76	24.17

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STATEMENT OF CHANGES IN EQUITY

For the period ended 30 September 2016	Share capital	Other capital						Currency translation differences from foreign operations	Undistributed profits*	Net profit for the period	Total equity	
		Reserves			Other comprehensive income							
		Reserve capital	General capital	Other capital	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses					Total other capital
As at 1 January 2016	1 250 000	20 518 111	1 070 000	3 484 177	144 673	(57 657)	(12 559)	25 146 745	-	1 250 000	2 571 142	30 217 887
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	2 571 142	(2 571 142)	-
Total comprehensive income, of which:	-	-	-	-	(293 322)	102 152	-	(191 170)	93	-	2 170 657	1 979 580
Net profit	-	-	-	-	-	-	-	-	-	-	2 170 657	2 170 657
Other comprehensive income	-	-	-	-	(293 322)	102 152	-	(191 170)	93	-	-	(191 077)
Transfer from undistributed profits	-	2 500 000	-	71 142	-	-	-	2 571 142	-	(2 571 142)	-	-
As at 30 September 2016	1 250 000	23 018 111	1 070 000	3 555 319	(148 649)	44 495	(12 559)	27 526 717	93	1 250 000	2 170 657	32 197 467

* A detailed description of the retained earnings is presented in the additional explanatory notes "Information concerning paid (or declared) dividend."

For the period ended 30 September 2015	Share capital	Other capital						Undistributed profits	Net profit for the period	Total equity	
		Reserves			Other comprehensive income						
		Reserve capital	General capital	Other capital	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses				Total other capital
As at 1 January 2015	1 250 000	18 618 111	1 070 000	3 421 913	33 640	5 204	(8 976)	23 139 892	132 793	3 079 471	27 602 156
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 079 471	(3 079 471)	-
Total comprehensive income, of which:	-	-	-	-	(120 472)	(75 816)	-	(196 288)	-	2 164 428	1 968 140
Net profit	-	-	-	-	-	-	-	-	-	2 164 428	2 164 428
Other comprehensive income	-	-	-	-	(120 472)	(75 816)	-	(196 288)	-	-	(196 288)
Transfer from undistributed profits	-	1 900 000	-	62 264	-	-	-	1 962 264	(1 962 264)	-	-
As at 30 September 2015	1 250 000	20 518 111	1 070 000	3 484 177	(86 832)	(70 612)	(8 976)	24 905 868	1 250 000	2 164 428	29 570 296

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STATEMENT OF CASH FLOWS

	01.01- 30.09.2016	01.01- 30.09.2015
Net cash flows from operating activities		
Profit before income tax	2 804 523	2 664 085
Adjustments:	4 682 431	1 509 036
Amortisation and depreciation	536 817	559 610
(Gains) losses from investing activities	(8 100)	(14 015)
Interest and dividends	(275 591)	(207 017)
Change in amounts due from banks	(2 149 042)	(17 594)
Change in trading assets and financial assets designated upon initial recognition at fair value through profit and loss	(1 003 901)	679 226
Change in derivative financial instruments (asset)	1 714 948	1 106 011
Change in loans and advances to customers	2 996 372	(6 924 508)
Change in other assets, inventories and non-current assets held for sale	(771 737)	(489 231)
Change in amounts due to banks	861 128	3 327 415
Change in derivative financial instruments (liability)	(1 220 995)	(687 270)
Change in amounts due to customers	5 280 933	4 209 599
Change in provisions and impairment allowances	(111 937)	566 897
Change in other liabilities and subordinated liabilities	8 333	(384 026)
Income tax paid	(586 057)	(358 610)
Other adjustments	(588 740)	142 549
Net cash generated from/ used in operating activities	7 486 954	4 173 121
Net cash flows from investing activities		
Inflows from investing activities	49 010 910	12 077 788
Proceeds from redemption of subsidiary's equity	49 833	-
Proceeds from sale and interest on investment securities available for sale	48 758 776	11 950 713
Proceeds from sale of intangible assets and tangible fixed assets	49 504	14 015
Other investing inflows (dividends)	152 797	113 060
Outflows from investing activities	(54 374 870)	(16 282 405)
Purchase of equity of subsidiaries	-	(181 000)
Increase in equity of subsidiary	(422 000)	(48 000)
Purchase of shares in associate	(1 148)	-
Purchase of investment securities available for sale	(53 517 507)	(15 783 927)
Purchase of intangible assets and tangible fixed assets	(434 215)	(269 478)
Net cash used in investing activities	(5 363 960)	(4 204 617)
Net cash flows from financing activities		
Proceeds from debt securities in issue	1 854 440	1 986 252
Redemption of debt securities in issue	(1 741 160)	(1 753 734)
Repayment of interest from issued debt securities and subordinated loans	(69 918)	(68 672)
Repayment of long-term borrowings	(1 509 836)	(2 072 335)
Net cash generated from/ used in financing activities	(1 466 474)	(1 908 489)
Net cash flows	656 520	(1 939 985)
of which currency translation differences on cash and cash equivalents	9 823	64 142
Cash and cash equivalents at the beginning of the period	17 189 740	14 052 760
Cash and cash equivalents at the end of the period	17 846 260	12 112 775
of which restricted	12 830	12 216

Cash and equivalents	30.09.2016	31.12.2015	30.09.2015
Cash and balances with the central bank	14 280 856	13 707 730	8 138 986
Current amounts due from banks	3 565 404	3 482 010	3 973 789
Total	17 846 260	17 189 740	12 112 775

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NOTES TO THE FINANCIAL STATEMENTS

1. Interest income and expense

Interest and similar income	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Income from loans and advances to customers, of which:	1 995 617	5 873 684	1 982 494	5 884 478
from impaired loans	65 765	203 004	83 776	242 957
Income from investment securities available for sale	205 051	580 415	170 696	507 806
Income from placements with banks	25 616	74 945	23 451	74 019
Income from loans to banks	3 154	8 521	1 308	4 608
Other	17 068	30 479	1 074	2 332
Other income, of which:	150 719	476 973	188 617	548 773
Income from derivative hedging instruments	77 770	260 230	124 976	337 211
Income from financial assets designated upon initial recognition at fair value through profit and loss	52 983	161 553	46 917	167 779
Income from trading assets	19 966	55 190	16 724	43 783
Total	2 397 225	7 045 017	2 367 640	7 022 016
of which, the amount of interest income reduction due to negative LIBOR	(51)	(212)	(169)	(372)

Interest expense and similar charges	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Interest expense on amounts due to customers	(430 277)	(1 344 033)	(539 985)	(1 820 245)
Interest expense on loans from banks	(25 544)	(63 750)	(12 531)	(44 973)
Interest expense on debt securities in issue and subordinated liabilities	(18 858)	(54 953)	(17 983)	(55 904)
Premium expense on debt securities available for sale	(24 647)	(56 308)	(16 453)	(46 235)
Expense on trading assets	(13 896)	(29 329)	(6 072)	(14 093)
Expense on financial assets designated upon initial recognition at fair value through profit and loss	(7 345)	(20 388)	(4 367)	(12 535)
Interest expense on deposits from banks	(2 294)	(7 473)	(4 455)	(7 219)
Total	(522 861)	(1 576 234)	(601 846)	(2 001 204)

2. Fee and commission income and expense

Fee and commission income	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
payment cards	244 437	743 173	249 776	706 796
maintenance of bank accounts	218 167	656 054	206 953	664 214
income from loans and advances granted	150 194	455 724	164 002	474 742
maintenance of investment and open pension funds (including management fees)	72 372	201 864	71 766	216 654
cash transactions	23 217	68 838	22 761	69 022
servicing foreign mass transactions	22 609	63 474	19 637	53 259
securities transactions	19 706	51 032	17 263	71 634
loans insurance	15 793	39 998	28 971	79 861
providing services of an agent for the issue of Treasury bonds	7 150	21 460	5 146	13 334
commissions of the Brokerage House for servicing Initial Public Offering issuances	2 415	13 708	7 243	18 090
investment and insurance products	3 421	10 768	4 105	13 567
sale and distribution of court fee stamps	3 400	8 861	4 136	9 639
guarantees and letters of credit	1 651	4 951	1 793	5 022
fiduciary activities	1 189	3 367	1 116	3 118
commissions for servicing indebtedness of borrower against the State budget	768	2 295	795	2 320
commissions of the Brokerage House for acting as the market maker	689	1 933	639	1 858
other	22 938	73 521	22 693	95 727
Total	810 116	2 421 021	828 795	2 498 857

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Fee and commission expense	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
payment cards	(117 500)	(399 581)	(122 738)	(346 053)
acquisition services	(16 113)	(48 779)	(13 365)	(48 327)
cost of construction investments control and real estate appraisals	(9 984)	(30 388)	(8 955)	(24 873)
settlement services	(6 901)	(22 232)	(7 592)	(23 221)
fee and commissions for operating services provided by banks	(4 338)	(12 454)	(2 589)	(14 107)
SMS sending	(4 052)	(11 489)	(3 954)	(16 788)
amounts paid by the Brokerage House to GPW, KDPW and KDPW_CCP	(3 488)	(9 364)	(3 581)	(10 950)
servicing foreign mass transactions	(1 643)	(4 732)	(1 408)	(3 257)
commission paid to Poczta Polska	(885)	(3 247)	(805)	(3 194)
other	(29 163)	(77 838)	(11 016)	(45 067)
Total	(194 067)	(620 104)	(176 003)	(535 837)

3. Net income from financial instruments measured at fair value

Net income from financial instruments measured at fair value	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Derivative instruments, of which:	17 901	(12 916)	(7 628)	32 801
an ineffective portion related to cash flow hedges	(6 308)	(8 565)	3 474	6 886
Structured bank securities measured at fair value through profit and loss	-	5 480	5 412	(1 767)
Debt securities	13 589	20 765	4 996	(24 935)
Equity instruments	(1 910)	(1 936)	(2 468)	(4 581)
Total	29 580	11 393	312	1 518

4. Gains less losses from investment securities on financial assets

Gains from investment securities available for sale	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Equity instruments*	-	418 434	-	9 287
Debt securities	25 928	90 177	6 368	80 237
Treasury bonds PLN	21 186	77 151	1 510	73 116
Treasury bonds EUR	9 397	9 397	61	61
other	(4 655)	3 629	4 797	7 060
Total	25 928	508 611	6 368	89 524

*A detailed information regarding to Visa transaction is described in Note 17 'Loans and advanced to customers'.

Losses from investment securities available for sale	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Equity securities	-	-	-	(2 357)
Debt securities	(56)	(6 225)	(5)	(3 855)
Treasury bonds PLN	-	(6 129)	-	(3 781)
other	(56)	(96)	(5)	(74)
Total	(56)	(6 225)	(5)	(6 212)
Result on investment securities available for sale	25 872	502 386	6 363	83 312

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5. Other operating income and expense

Other operating income	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Sale, disposal of tangible fixed assets, intangible assets and assets held for sale	14 350	27 930	8 791	38 571
Sundry income	6 344	19 204	5 890	16 425
Recovery of expired and written-off receivables	4 184	5 930	3 554	16 509
Other	9 863	33 782	7 408	35 101
Total	34 741	86 846	25 643	106 606

Other operating costs	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Cost of sale, disposal of tangible fixed assets, intangible assets and assets held for sale	(5 491)	(19 830)	(8 189)	(24 556)
Donations	(148)	(13 848)	(5 120)	(7 152)
Sundry expense	(4 132)	(12 128)	(2 165)	(5 070)
Other	(12 841)	(37 582)	(8 622)	(34 728)
Total	(22 612)	(83 388)	(24 096)	(71 506)

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6. Net impairment allowance and write-downs

For the period ended 30 September 2016	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net- impact on the income statement
			Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	17	53 253	40 308	31 347	-	-	-	124 908	(40 308)
Debt securities available for sale		53 153	40 308	31 347	-	-	-	124 808	(40 308)
Equity securities		100	-	-	-	-	-	100	-
Amounts due from banks	11	260	3 620	-	-	3 557	223	100	(63)
Loans and advances to customers measured at amortised cost	16	7 890 237	3 156 503	62 069	1 084 201	2 087 263	163 392	7 773 953	(1 069 240)
Non-financial sector		7 829 927	3 142 563	62 054	1 083 889	2 078 471	161 790	7 710 394	(1 064 092)
corporate loans		3 929 033	1 428 715	43 451	464 696	879 610	70 868	3 986 025	(549 105)
housing loans		2 291 382	897 855	14 962	348 539	640 908	39 355	2 175 397	(256 947)
consumer loans		1 540 528	815 993	3 565	270 654	557 484	51 567	1 480 381	(258 509)
debt securities		68 984	-	76	-	469	-	68 591	469
Financial sector		25 710	8 730	14	307	1 677	1 602	30 868	(7 053)
corporate loans		25 710	8 730	14	307	1 677	1 602	30 868	(7 053)
Public sector		34 600	5 210	1	5	7 115	-	32 691	1 905
corporate loans		31 905	-	-	5	7 115	-	24 785	7 115
debt securities		2 695	5 210	1	-	-	-	7 906	(5 210)
Non-current assets held for sale	19	427 058	6 771	-	-	-	1 123	432 706	(6 771)
Tangible fixed assets	20	20 202	-	1 361	-	1 369	817	19 377	1 369
Intangible assets	20	15 373	-	-	-	-	-	15 373	-
Investments in subsidiaries, joint ventures and associates	18	795 141	14 000	-	-	-	-	809 141	(14 000)
Other receivables		204 947	71 420	8	5 520	64 827	-	206 028	(6 593)
Provision for legal claims, loan commitments and guarantees granted	27	102 204	238 085	432	6 166	211 713	-	122 842	(26 372)
Provisions for future liabilities		2 076	2 248	-	57	1 767	-	2 500	(481)
Total		9 510 751	3 532 955	95 217	1 095 944	2 370 496	165 555	9 506 928	(1 162 459)

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For the period ended 30 September 2015	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net- impact on the income statement
			Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	17	127 747	32 908	-	102 282	-	-	58 373	(32 908)
Debt securities available for sale		-	29 790	-	-	-	-	29 790	(29 790)
Equity securities		127 747	3 118	-	102 282	-	-	28 583	(3 118)
Amounts due from banks	11	11 596	2 357	377	-	13 717	-	-	11 360
Loans and advances to customers measured at amortised cost	16	7 527 200	3 673 673	503 762	964 282	2 579 414	35 270	8 125 669	(1 094 259)
Non-financial sector		7 504 886	3 540 498	502 011	901 013	2 523 521	34 345	8 088 516	(1 016 977)
corporate loans		3 869 710	1 895 994	33 952	408 426	1 329 401	5 705	4 056 124	(566 593)
housing loans		2 247 418	847 802	152 173	208 398	621 320	28 176	2 389 499	(226 482)
consumer loans		1 295 876	795 920	315 803	284 189	544 413	464	1 578 533	(251 507)
debt securities		91 882	782	83	-	28 387	-	64 360	27 605
Financial sector		6 854	122 281	868	61 637	49 762	859	17 745	(72 519)
corporate loans		6 854	122 281	868	61 637	49 762	859	17 745	(72 519)
Public sector		15 460	10 894	883	1 632	6 131	66	19 408	(4 763)
corporate loans		12 638	10 837	883	1 632	6 131	-	16 595	(4 706)
debt securities		2 822	57	-	-	-	66	2 813	(57)
Non-current assets held for sale	19	155 934	1 590	267 003	-	-	-	424 527	(1 590)
Tangible fixed assets	20	18	93	20 069	-	-	-	20 180	(93)
Intangible assets	20	15 373	-	-	-	-	-	15 373	-
Investments in subsidiaries, joint ventures and associates	18	1 120 101	2 399	-	62 062	32 419	265 878	762 141	30 020
Other receivables		145 672	40 891	46 269	5 007	24 566	-	203 259	(16 325)
Provision for legal claims, loan commitments and guarantees granted	27	133 078	228 726	7 168	-	251 389	3 055	114 528	22 663
Provisions for future liabilities		9 250	1 496	700	94	2 741	438	8 173	1 245
Total		9 245 969	3 984 133	845 348	1 133 727	2 904 246	304 641	9 732 223	(1 079 887)

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7. Administrative expenses

Administrative expenses	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Employee benefits	(645 602)	(1 926 938)	(624 591)	(1 882 123)
Overheads	(290 568)	(906 136)	(287 011)	(960 314)
Amortisation and depreciation, of which:	(178 880)	(536 817)	(187 447)	(559 610)
intangible assets	(111 734)	(332 693)	(110 613)	(323 658)
tangible fixed assets	(67 109)	(204 013)	(76 809)	(235 925)
investments properties	(37)	(111)	(25)	(27)
Taxes and other charges*	(13 680)	(38 380)	(11 902)	(35 687)
Contribution and payments to the Bank Guarantee Fund	(108 519)	(326 873)	(111 407)	(333 835)
Total	(1 237 249)	(3 735 144)	(1 222 358)	(3 771 569)

*Excluding tax on certain financial institutions. Disclosures concerning tax on certain institutions were presented in Note 11.

Employee benefits

Employee benefits	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Wages and salaries, of which:	(545 617)	(1 601 731)	(523 460)	(1 562 681)
expenses on employee pension programme	(11 504)	(34 617)	(10 925)	(33 747)
Social insurance, of which:	(83 769)	(270 389)	(83 476)	(265 849)
contributions for retirement pay and pensions	(70 763)	(229 128)	(68 282)	(225 244)
Other employee benefits	(16 216)	(54 818)	(17 655)	(53 593)
Total	(645 602)	(1 926 938)	(624 591)	(1 882 123)

8. Tax on certain financial institutions

On 1 February 2016 the Act of a tax on specific financial institutions dated 15 January 2016 (Journal of Laws of 2016, item 68 with subsequent amendments) entered into force. Taxes are covered by domestic banks, branches of foreign banks, branches of credit institutions, cooperative credit unions (SKOK), national insurance companies, national reinsurance companies, branches of foreign insurance companies and foreign reinsurance companies, main branches of foreign insurance companies and foreign reinsurance companies, as well as lending institutions.

The tax base represents the excess of the total assets of the entity (over PLN 4 billion in the case of banks, more than PLN 2 billion for insurance companies) resulting from the trial balance at the end of each month. Banks and credit unions are entitled to a reduction of the tax base, for the value of own funds, and the value of Treasury securities. In addition, banks will reduce the tax base by the value of assets acquired from the NBP as collateral refinancing loan by the NBP. The tax rate for all taxpayers amounts to 0.0366%, and the tax is paid per month to the 25th day of the month following the month to which it relates.

The tax was paid for the first time for February 2016. The tax paid is not deductible.

	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Tax on certain financial institutions	(222 868)	(590 611)

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9. Income tax expense

	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
Current income tax expense	(295 030)	(813 371)	(150 763)	(495 728)
Deferred income tax related to creating and reversal of temporary differences	58 804	179 505	(35 882)	(3 929)
Tax expenses in the income statement	(236 226)	(633 866)	(186 645)	(499 657)
Tax expense in other comprehensive income related to creating and reversal of temporary differences	5 167	44 843	(3 403)	46 043
Total	(231 059)	(589 023)	(190 048)	(453 614)

10. Cash and balances with the central bank

	30.09.2016	31.12.2015
Current account in the central bank	10 663 715	9 854 133
Cash	3 617 138	3 853 596
Other funds	3	1
Total	14 280 856	13 707 730

11. Amounts due from banks

	30.09.2016	31.12.2015
Deposits with banks	2 989 467	2 484 552
Current accounts	585 192	858 326
Loans and advances granted	409 755	269 027
Receivables due from repurchase agreements	-	980 630
Cash in transit	196	85
Amount due from PKO Bank Hipoteczny on account of mortgage-backed housing loans sold by PKO Bank Polski	3 269 962	429 516
Total	7 254 572	5 022 136
Impairment allowances on receivables	(100)	(260)
Net total	7 254 472	5 021 876

Amounts due from banks - the Bank's exposure to credit risk	Exposure	
	30.09.2016	31.12.2015
Amounts due from banks impaired, of which:	-	375
Amounts due from banks not impaired, of which:	7 254 572	5 021 761
not past due	7 239 130	5 021 761
Gross total	7 254 572	5 022 136
Impairment allowances	(100)	(260)
Net total by carrying amount	7 254 472	5 021 876

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12. Trading assets

At carrying amounts	30.09.2016	31.12.2015
Debt securities	1 647 259	776 655
issued by the State Treasury, of which:	1 503 870	648 695
Treasury bonds PLN	1 427 220	640 009
Treasury bonds EUR	5 326	8 686
Treasury bills PLN	71 324	-
issued by local government bodies, municipal bonds PLN	43 755	48 596
issued by non-financial institutions, of which:	49 308	46 122
corporate bonds PLN	49 253	46 052
corporate bonds EUR	55	70
issued by other financial institutions, of which:	6 343	5 344
bonds issued by the WSE PLN	6 343	5 238
corporate bonds PLN	-	106
issued by banks	43 983	27 898
corporate bonds PLN	10 692	17 884
mortgage-backed securities	33 291	10 014
Shares in other entities – listed on stock exchange	18 297	9 910
Investment certificates, Allotment certificates, Subscription rights	2 416	6 648
Total	1 667 972	793 213

Trading assets portfolio includes securities held by the Brokerage House of PKO Bank Polski SA.

13. Derivative financial instruments

Type of derivative instruments	30.09.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	349 264	840 150	508 665	998 527
Other derivative instruments	2 283 822	2 566 044	3 839 369	3 628 662
Total	2 633 086	3 406 194	4 348 034	4 627 189

Type of contract	30.09.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	1 584 081	1 955 201	3 208 234	3 053 133
CIRS	425 693	1 007 340	472 355	1 212 581
FX Swap	168 704	74 482	309 928	85 953
Options	371 368	241 678	236 757	177 513
FRA	7 586	5 423	16 226	22 192
Forward	70 994	120 974	104 534	72 588
SBB	4 660	1 096	-	3 229
Total	2 633 086	3 406 194	4 348 034	4 627 189

14. Derivative hedging instruments

The strategies used by the Bank was presented in the financial statements for the year 2015. For the nine-month period ended 30 September 2016 the Bank did not introduce any new or discontinued use of current hedging strategies.

Cash flow hedges

Carrying amount/ fair value of derivative instruments constituting cash flow hedges related to the interest rate and/ or exchange rate	30.09.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	93 981	7 260	269 122	-
CIRS	255 283	832 890	239 543	998 527
Total	349 264	840 150	508 665	998 527

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	Third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016	Third quarter period from 01.07.2015 to 30.09.2015	3 quarters cumulative period from 01.01.2015 to 30.09.2015
The impact of hedging instruments on other comprehensive income				
Other comprehensive income at the beginning of the period, gross	142 685	(71 182)	(112 435)	6 425
Gains/ losses transferred to other comprehensive income in the period	157 960	207 431	674 185	(732 120)
Amount transferred from other comprehensive income to income statement, of which:	(245 713)	(81 317)	(648 925)	638 520
- interest income	(77 770)	(260 230)	(124 976)	(337 211)
- net foreign exchange gains	(167 943)	178 913	(523 949)	975 731
Accumulated other comprehensive income at the end of the period, gross	54 932	54 932	(87 175)	(87 175)
Tax effect	(10 437)	(10 437)	16 563	16 563
Accumulated other comprehensive income at the end of the period, net	44 495	44 495	(70 612)	(70 612)
Effect on other comprehensive income in the period, gross	(87 753)	126 114	25 260	(93 600)
Deferred tax on cash flow hedges	16 673	(23 962)	(4 800)	17 784
Effect on other comprehensive income in the period, net	(71 080)	102 152	20 460	(75 816)

15. Financial instruments designated upon initial recognition as at fair value through profit and loss

At carrying amount	30.09.2016	31.12.2015
Debt securities	12 925 178	12 796 036
issued by central banks, NBP money market bills	9 356 396	9 996 910
issued by the State Treasury, of which:	3 327 713	2 551 863
Treasury bonds PLN	2 141 273	1 466 614
Treasury bonds EUR	187 908	91 634
Treasury bonds CHF	998 532	993 615
issued by local government bodies, of which:	241 069	247 263
municipal bonds EUR	128 767	131 341
municipal bonds PLN	112 302	115 922
Total	12 925 178	12 796 036

16. Loans and advanced to customers

Loans and advances to customers by sector and product type	30.09.2016	31.12.2015
Loans and advances to customers, gross, of which:	193 446 305	196 442 677
financial sector	7 606 622	9 901 760
corporate, of which:	6 295 003	5 458 869
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	12 930	10 217
receivables due from repurchase agreements	1 311 619	4 432 239
international financial organizations	-	10 652
non-financial sector	176 599 751	176 609 803
housing	99 894 219	102 162 396
corporate	50 102 621	48 446 610
repurchase agreements	12 293	-
consumer	24 198 131	23 339 924
debt securities (corporate)	2 392 487	2 660 873
public sector	9 239 932	9 931 114
corporate	6 604 764	7 235 743
debt securities (municipal)	2 635 168	2 695 371
Impairment allowances on loans and advances	(7 773 953)	(7 890 237)
Loans and advances to customers, net	185 672 352	188 552 440

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Loans and advances to customers by customer segment	30.09.2016	31.12.2015
Loans and advances granted, gross, of which:	193 446 305	196 442 677
mortgage banking	93 001 409	95 217 252
corporate	53 902 728	52 119 477
retail and private banking	24 198 131	23 339 924
small and medium enterprises	21 007 195	21 312 916
International financial organisations	-	10 652
receivables due from repurchase agreements	1 323 912	4 432 239
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund	12 930	10 217
Impairment allowances on loans and advances	(7 773 953)	(7 890 237)
Loans and advances granted, net	185 672 352	188 552 440

Loans and advances to customers by method of calculating impairment allowances	30.09.2016	31.12.2015
Assessed on an individual basis, of which:	7 900 269	6 799 156
impaired	4 853 821	4 972 235
not impaired	3 046 448	1 826 921
Assessed on a portfolio basis, impaired	7 217 202	7 552 256
Assessed on a group basis (IBNR)	178 328 834	182 091 265
Loans and advances to customers, gross	193 446 305	196 442 677
Impairment allowances on exposures assessed on an individual basis, of which:	(2 517 010)	(2 630 480)
impaired	(2 506 769)	(2 617 808)
Impairment allowances on exposures assessed on a portfolio basis	(4 737 870)	(4 713 044)
Impairment allowances on exposures assessed on a group basis (IBNR)	(519 073)	(546 713)
Impairment allowances - total	(7 773 953)	(7 890 237)
Loans and advances to customers, net	185 672 352	188 552 440

Credit ratios (in %)	30.09.2016	31.12.2015
the share of impaired loans	6.2%	6.4%
the coverage ratio of impaired loans*	64.4%	63.0%
the share of loans overdue more than 90 days in relation to the value of gross loans and advances	4.7%	4.8%

*The coverage ratio for impaired loans is being counted as the quotient of the whole of allowance (both for impaired loans as well as IBNR) and the sum of gross exposures for impaired loans.

Loans and advances to customers - Bank exposure to credit risk	Credit exposure	
	30.09.2016	31.12.2015
Loans and advances impaired, of which:	12 071 023	12 524 491
assessed on an individual basis	4 853 821	4 972 235
Loans and advances not impaired, of which:	181 375 282	183 918 186
with recognised individual impairment trigger	1 581 439	1 746 700
not past due	1 327 179	1 423 097
past due	254 260	323 603
without recognised individual impairment trigger	179 793 843	182 171 486
not past due	177 447 519	179 521 234
past due	2 346 324	2 650 252
Gross total	193 446 305	196 442 677
Impairment allowances, of which:	(7 773 953)	(7 890 237)
for impaired exposures	(7 244 639)	(7 330 852)
for not impaired exposures, of which:	(529 314)	(559 385)
with recognised impairment trigger	(10 190)	(12 646)
without recognised impairment trigger	(519 124)	(546 739)
Total net carrying amount	185 672 352	188 552 440

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Debt securities (municipal and corporate bonds) reclassified from financial assets available for sale to loans and advances to customers (reclassified in the third and fourth quarter of 2012)

As at 30 September 2016	nominal value	fair value	carrying amount
Municipal bonds	711 698	712 804	718 640
Corporate bonds	51 489	8 456	8 456
Total	763 187	721 260	727 096

As at 31 December 2015	nominal value	fair value	carrying amount
Municipal bonds	745 362	741 656	747 693
Corporate bonds	582 000	591 416	537 703
Total	1 327 362	1 333 072	1 285 396

17. Investment securities available for sale

At carrying amount	30.09.2016	31.12.2015
Debt securities available for sale, gross	33 002 779	27 312 620
issued by the State Treasury, of which:	23 338 572	18 021 339
Treasury Bonds PLN	23 184 994	17 710 719
Treasury Bonds EUR	153 578	310 620
issued by local government bodies, municipal bonds PLN	4 481 791	4 613 726
issued by non-financial institutions, of which:	3 551 708	3 161 994
corporate bonds PLN	2 933 689	2 617 664
corporate bonds EUR	338 028	320 712
corporate bonds USD	279 991	223 618
issued by other financial institutions, corporate bonds PLN	156 283	239
issued by banks, of which:	1 474 425	1 515 322
corporate bonds PLN	1 474 425	1 470 753
corporate bonds EUR	-	44 569
Impairment allowances on debt securities available for sale, of which	(124 808)	(53 153)
corporate bonds PLN	(63 307)	(22 959)
corporate bonds USD	(61 501)	(30 194)
Total net debt securities available for sale	32 877 971	27 259 467
Equity securities available for sale, gross	159 819	403 717
Equity securities not admitted to public trading	122 937	346 893
Equity securities admitted to public trading	36 882	56 824
Impairment allowances on equity securities available for sale	(100)	(100)
Total net equity securities available for sale	159 719	403 617
Participation units in joint investment institution	285 368	196 643
Total net investment securities available for sale	33 323 058	27 859 727

On 29 January 2016 the Management Board of PKO Bank Polski SA accepted the terms of the Bank's share in the acquisition of Visa Europe Limited by Visa Inc. presented to the Bank by Visa Europe Limited. On 16 June 2016, there was a confirmation of the final amounts due to the Bank. On 21 June 2016, the Bank received from Visa Europe Limited information about the completion of the acquisition of Visa Europe Limited by Visa Inc.

The final PKO Bank Polski SA participation in above-mentioned transaction includes:

- the amount of EUR 70 528 thousand in cash, paid on the Bank's account on 21 June 2016 (equivalent to PLN 309 867 thousand according to NBP average exchange rate of 21 June 2016),
- the number of 25 612 preference C-series shares of Visa Inc., the value of which as at transaction date was estimated at the amount of USD 20 899 thousand (equivalent to PLN 80 964 thousand according to NBP average exchange rate of 21 June 2016),

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- the receivable due to deferred payment in cash equivalent to 0.5435987989% from the amount of EUR 1.12 billion, i.e. the amount attributable to all transaction participants, paid on the 3rd anniversary of the transactions, unless potential adjustments, in case of occurrence of situation described in the transaction terms; the value of above-mentioned receivable as at 21 June 2016 amounted to EUR 6 088 thousand (equivalent to PLN 26 749 thousand).

The Bank recognized in the income statement due to settlement of the transaction the total amount of PLN 417 580 thousand (the profit before taxation). In this the amount settled in the other comprehensive income due to valuation of Visa Europe Limited shares amounted to PLN 336 713 thousand.

Received preference C-series shares will be converted to ordinary Visa Inc. shares, and terms of transaction provide progressive shares conversion. The conversion of all preference shares shall occur not later than in 2028. Current conversion ratio equals to 13.952 and may be reduced in the period until 2028, which is depended on potential liabilities due to legal claims in that period relating to acquired company i.e. Visa Europe Limited.

Preference shares of Visa Inc. have been classified to the portfolio of securities available for sale and they are measured at its fair value based on the market price of quoted ordinary shares, taking into consideration discount due to the limited liquidity of the preference shares and the conditions of shares conversions (adjustments resulting from court proceedings). The fair value of mentioned above shares as at 30 September 2016 was estimated at USD 22 894 thousand (equivalent to PLN 88 274 thousand according to NBP average exchange rate of 30 September 2016).

Investment securities available for sale - debt securities - Bank exposure to credit risk	Exposure	
	30.09.2016	31.12.2015
Debt securities impaired, of which:	577 266	393 662
assessed on an individual basis	577 266	393 662
Debt securities not impaired, of which:	32 425 513	26 918 958
not past due	32 425 513	26 918 958
with external rating	25 090 580	21 380 292
with internal rating	7 334 933	5 538 666
Gross total	33 002 779	27 312 620
Impairment allowances	(124 808)	(53 153)
Net total by carrying amount	32 877 971	27 259 467

18. Investment in associates and joint ventures

As at 30 September 2016	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	1 070 308	(793 641)	276 667
PKO Bank Hipoteczny SA	700 000	-	700 000
PKO Życie Towarzystwo Ubezpieczeń SA	240 636	-	240 636
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Leasing SA	178 000	-	178 000
PKO BP BANKOWY PTE SA	150 841	-	150 841
Merkury - fiz an ¹	120 000	-	120 000
PKO Towarzystwo Ubezpieczeń SA	110 000	-	110 000
NEPTUN - fiz an ¹	94 663	-	94 663
PKO BP Finat Sp. z o.o.	21 462	-	21 462
PKO Finance AB	172	-	172
Joint ventures			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 320	-	197 320
Associates			
Bank Pocztowy SA	161 500	(14 000)	147 500
FERRUM SA	25 291	-	25 291
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	1 500	(1 500)	-
Total	3 258 682	(809 141)	2 449 541

1) PKO Bank Polski SA holds investment certificates in the Fund allowing, in accordance with IFRS, to control the Fund.

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In the third quarter of 2016 PKO Bank Polski SA formed shares write-down of Bank Pocztowy SA in the amount of PLN 14 000 thousand based on estimation of the recoverable value of the shares mentioned above using the dividend discount method.

As at 31 December 2015	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA ¹	1 018 069	(793 641)	224 428
PKO Bank Hipoteczny SA	300 000	-	300 000
PKO Życie Towarzystwo Ubezpieczeń SA	240 636	-	240 636
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Leasing SA	178 000	-	178 000
PKO BP BANKOWY PTE SA	150 841	-	150 841
Merkury - fizan ²	120 000	-	120 000
NEPTUN - fizan ²	94 663	-	94 663
PKO Towarzystwo Ubezpieczeń SA	88 000	-	88 000
PKO BP Finat Sp. z o.o.	71 295	-	71 295
PKO Finance AB	172	-	172
Joint ventures			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 320	-	197 320
Associates			
Bank Pocztowy SA	161 500	-	161 500
FERRUM SA	24 143	-	24 143
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	1 500	(1 500)	-
Total	2 833 128	(795 141)	2 037 987

- 1) The above does not include the amounts paid by PKO Bank Polski SA for the new shares issue in the value of UAH 330 000 thousand; the increase of the share capital has not been registered by 31 December 2015.
- 2) PKO Bank Polski SA holds investment certificates in the Fund allowing, in accordance with IFRS, to control the Fund.

19. Fixed assets held for sale

	30.09.2016	31.12.2015
Fixed assets available for sale reclassified from subsidiaries	196 438	203 210
Land and buildings	30 432	217 359
Other	297	2 107
Total	227 167	422 676

20. Intangible assets and tangible fixed assets

Intangible assets	30.09.2016	31.12.2015
Software	1 648 027	1 672 434
Goodwill	871 047	871 047
Relations with customers	37 690	48 114
Other, including capital expenditure	231 079	206 196
Total	2 787 843	2 797 791

Goodwill related to assets taken over from:	30.09.2016	31.12.2015
Nordea Bank Polska SA	863 262	863 262
Centrum Finansowe Puławska Sp. z o.o.	7 785	7 785
Total	871 047	871 047

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	30.09.2016	31.12.2015
Tangible fixed assets		
Land and buildings	1 632 623	1 453 499
Machinery and equipment	454 151	386 270
Means of transport	-	2
Assets under construction	60 106	265 101
Investment properties	7 999	8 239
Other	170 516	163 211
Total	2 325 395	2 276 322

	01.01- 30.09.2016	01.01- 30.09.2015
Received compensation from third parties for the impairment or loss of tangible fixed assets	192	46

In the periods ended 30 September 2016 and on 30 September 2015 there were no significant acquisitions and sales of tangible fixed assets.

21. Other assets

	30.09.2016	31.12.2015
Settlements of payment cards transactions	1 272 853	384 236
Settlements of financial instruments	327 832	178 687
Assets for sale	81 758	69 479
Receivables and settlements of securities turnover	74 530	64 991
Accruals and prepayments	72 103	59 213
Trade receivables	35 073	140 369
Inventories related to utilisation, auxiliary operations and investment	16 609	6 767
Receivables from other transactions with financial and non-financial institutions	14 943	20 247
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	13 615	10 191
Receivables from security deposits and bid bonds	10 113	11 020
Receivables from internal operations	3 584	15 470
Settlements of substitutive services with Poczta Polska	2 067	2 040
Receivables from unsettled transactions related to derivatives	1 402	1 487
Other	120 508	116 628
Total	2 046 990	1 080 825
of which financial assets*	1 742 579	787 281

22. Amounts due to banks

	30.09.2016	31.12.2015
Loans and advances received (Nordea Bank AB publ)	16 554 928	16 371 687
Bank deposits	1 495 863	1 177 407
Amounts due from repurchase agreements	570 043	197 023
Current accounts	411 714	472 193
Other money market deposits	78 387	31 547
Total	19 110 935	18 249 857

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23. Amounts due to customers

	30.09.2016	31.12.2015
Amounts due to retail clients	141 926 178	134 967 428
Term deposits	72 799 983	70 756 674
Current accounts and overnight deposits	68 779 489	63 926 647
Other liabilities	346 706	284 107
Amounts due to corporate entities	54 504 122	57 707 408
Term deposits	18 337 287	23 185 159
Current accounts and overnight deposits	25 145 438	22 276 890
Loans and advances received, of which:	9 257 112	10 435 617
- received from PKO Finance AB	6 255 144	7 332 263
- from international financial organisations	3 001 968	3 103 354
Other liabilities	1 002 332	980 628
Amounts due from repurchase agreements	761 953	829 114
Amounts due to public entities	9 502 980	9 134 366
Current accounts and overnight deposits	6 851 044	5 679 394
Term deposits	2 632 949	3 435 443
Other liabilities	18 987	19 529
Total	205 933 280	201 809 202

By client segment	30.09.2016	31.12.2015
Amounts due to customers, of which:		
retail and private banking	134 717 402	127 833 147
corporate	39 889 727	42 908 352
loans and advances received, of which:	9 257 112	10 435 617
small and medium enterprises	21 307 086	19 802 972
amounts due from repurchase agreements	761 953	829 114
Total	205 933 280	201 809 202

24. Debt securities in issue

	30.09.2016	31.12.2015
Financial instruments designated at fair value through profit and loss - bank securities	-	71 744
Financial instruments measured at amortised cost – bank bonds	1 858 753	1 645 917
Total	1 858 753	1 717 661

25. Subordinated liabilities

As at 30 September 2016	Nominal Value in currency	Nominal value in PLN	Currency	Maturity date	Balance in PLN
Subordinated bonds	1 600 700	1 600 700	PLN	14.09.2022	1 602 839
Subordinated loan	224 000	891 565	CHF	24.04.2022	891 626
Total	x	2 492 265	x	x	2 494 465

As at 31 December 2015	Nominal Value in currency	Nominal value in PLN	Currency	Maturity date	Balance in PLN
Subordinated bonds	1 600 700	1 600 700	PLN	14.09.2022	1 616 619
Subordinated loan	224 000	882 426	CHF	24.04.2022	882 544
Total	x	2 483 126	x	x	2 499 163

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26. Other liabilities

	30.09.2016	31.12.2015
Accounts payable	431 569	587 251
Deferred income	406 873	384 383
Liabilities related to tax on certain financial institutions	73 281	-
Other liabilities	2 110 382	2 037 440
Total	3 022 105	3 009 074
of which financial liabilities	2 404 891	2 151 795

As at 30 September 2016 and as at 31 December 2015 the Bank had no overdue contractual liabilities.

27. Provisions

For the period ended 30 September 2016	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	19 512	45 496	82 692	98 078	245 778
Short term provision	19 512	3 549	64 029	98 078	185 168
Long term provision	-	41 947	18 663	-	60 610
Increase/ reassessment of provision	12 048	-	226 037	3 761	241 846
Release of provision	(6 166)	(1 171)	-	(14 486)	(21 823)
Use of provision	(3 043)	-	(208 670)	(5 316)	(217 029)
Other changes and reclassifications	-	-	432	-	432
As at 30 September 2016, of which:	22 351	44 325	100 491	82 037	249 204
Short term provision	22 351	2 378	84 826	82 037	191 592
Long term provision	-	41 947	15 665	-	57 612

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 51 510 thousand and provision of PLN 2 493 thousand for potential claims on impaired loans portfolios sold, provisions for disputes, including judicial, which are the subject of compensation in the amount of PLN 255 thousand.

For the period ended 30 September 2015	Provision for legal claims	Provisions for retirement benefits and anniversary bonuses	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2015, of which:	29 457	39 363	103 621	130 725	303 166
Short term provision	29 457	3 117	73 484	130 725	236 783
Long term provision	-	36 246	30 137	-	66 383
Unit acquisition	2 343	128	-	-	2 471
Increase/ reassessment of provision	6 239	-	222 487	1 846	230 572
Release of provision	-	-	-	(23 128)	(23 128)
Release of provision	(10 000)	-	(241 389)	(9 880)	(261 269)
Other changes and reclassifications	4 825	-	(3 055)	262	2 032
As at 30 September 2015, of which:	32 864	39 491	81 664	99 825	253 844
Short term provision	32 864	3 121	60 696	99 825	196 506
Long term provision	-	36 370	20 968	-	57 338

* Included in 'Other provisions' are i.e.: restructuring provision of PLN 64 223 thousand and provision of PLN 2 081 thousand for potential claims on impaired loans portfolios sold, provisions for disputes, including judicial, which are the subject of compensation in the amount of PLN 328 thousand.

Provisions for legal claims were recognized in the amount of expected outflow of economic benefits.

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28. Contingent liabilities and off-balance sheet liabilities received

28.1 Sub-issue programs

As at 30 September 2016 and as at 31 December 2015, the underwriting agreements covered the following securities (maximum liability of the Bank to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities	Contract period
As at 30 September 2016			
Company A	corporate bonds	1 055 000	31.07.2020
Company B	corporate bonds	1 125 800	31.12.2020
Company C	corporate bonds	660 000	15.06.2022
Company D	corporate bonds	72 200	31.12.2022
Company E	corporate bonds	12 000	31.12.2026
Company F	corporate bonds	8 624	31.12.2029
Total		2 933 624	

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities	Contract period
As at 31 December 2015			
Company B	corporate bonds	1 950 000	31.12.2020
Company A	corporate bonds	1 055 000	31.07.2020
Company C	corporate bonds	342 700	15.06.2022
Company D	corporate bonds	80 600	31.12.2022
Company G	corporate bonds	60 000	23.11.2021
Company F	corporate bonds	28 224	31.12.2029
Company E	corporate bonds	17 900	31.12.2026
Company H	corporate bonds	4 424	31.01.2016
Company I	corporate bonds	3 403	30.09.2030
Total		3 542 251	

All agreements relate to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Program.

All securities of the Group under the sub-issue (underwriting) program have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

28.2 Contractual commitments

Value of contractual commitments related to:	30.09.2016	31.12.2015
intangible assets	78 942	177 404
tangible fixed assets	22 580	20 399

28.3 Loan commitments granted

Loan commitments granted by nominal value	30.09.2016	31.12.2015
Credit lines and limits		
to financial entities	5 404 485	3 313 918
to non-financial entities	32 542 847	35 057 214
to public entities	4 462 660	4 080 379
Total	42 409 992	42 451 511
of which: irrevocable loan commitments	30 046 413	30 513 878

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28.4 Guarantee liabilities granted

Guarantees and pledges granted	30.09.2016	31.12.2015
Guarantees granted in domestic and foreign trading	7 290 696	8 836 503
to financial entities	1 520 225	1 374 964
to non-financial entities	5 758 979	7 454 243
to public entities	11 492	7 296
Guarantees and pledges granted – domestic corporates bonds	4 201 284	5 665 178
to financial entities	343 410	734 529
to non-financial entities	3 857 874	4 930 649
Letters of credit granted	1 374 635	1 838 101
to non-financial entities	1 374 532	1 838 000
to public entities	103	101
Guarantees and pledges granted – payment guarantee to financial entities	187 222	143 646
Guarantees and pledges granted – domestic municipal bonds to public entities	315 488	59 320
Total	13 369 325	16 542 748
of which: performance guarantees	2 383 638	2 378 395

28.5 Off-balance sheet liabilities received

Off-balance sheet liabilities received by nominal value	30.09.2016	31.12.2015
financial	634 669	48 365
guarantees	7 549 482	6 660 698
Total liabilities received	8 184 151	6 709 063

Moreover, the Bank has a contingent liability in respect of contingent dividend, which was described in details in the note 'Information on dividend paid (or declared)'.

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29. Related party transactions

All transactions with related parties presented below were arm's length transactions. Repayment terms are within a range from one month to fifteen years.

As at 30 September 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
PKO Bank Hipoteczny SA	3 644 033	302 569	7 636	597 431
KREDOBANK SA	183 114	92 784	7 484	100 251
Merkury - fiz an	25 250	25 250	-	-
PKO BP BANKOWY PTE SA	34	-	3 240	-
PKO BP Finat Sp. z o.o.	174	-	56 091	593
PKO Finance AB	-	-	6 255 144	-
PKO Leasing SA	2 723 931	2 723 755	11 350	2 933 172
PKO Towarzystwo Funduszy Inwestycyjnych SA	18 304	-	48 866	-
PKO Towarzystwo Ubezpieczeniowe SA	-	-	3 254	-
PKO Życie Towarzystwo Ubezpieczeń SA	40 091	40 073	279 172	15 914
Qualia Development Sp. z o.o.	1	-	140 421	433
Indirect subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	1	-	10 758	-
„CENTRUM HAFFNERA” Sp. z o.o.	-	-	2 511	-
Finansowa Kompania „Idea Kapital” Sp. z o.o.	7 610	7 610	-	-
„Fort Mokotów” Sp. z o.o. w likwidacji	-	-	1 812	-
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	-	-	4 777	-
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	-	-	9 863	-
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	-	-	8 535	-
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	-	-	3 124	-
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	-	-	3 547	-
PKO BP Faktoring SA	534 984	534 974	2 558	315 026
PKO Bankowy Leasing Sp. z o.o.	2 568 257	2 566 623	1	136 590
PKO Leasing Sverige AB	98 708	98 708	3 742	6 557
„Promenada Sopotka” Sp. z o.o.	41 294	41 294	5 123	-
Qualia Hotel Management Sp. z o.o.	129 483	129 483	21 021	-
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	-	-	46 108	-
Qualia - Residence Sp. z o.o.	-	-	35 252	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	-	-	9 061	-
„Sopot Zdrój” Sp. z o.o.	193 869	193 869	27 794	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	-	-	1 325	-
„Zarząd Majątkiem Górczewska” Sp. z o.o.	-	-	1 625	-
Other indirect subsidiaries	-	-	1 261	-
Total Subsidiaries	10 209 138	6 756 992	7 012 456	4 105 967

As at 30 September 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	51 957	8 357	29 887	11 402
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	21 018	21 018	9 185	-
Direct associates				
Bank Pocztowy SA	434	-	18	1 108
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2 739	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	-	-	9	-
Walcownia Blach Grubych „Batory” Sp. z o.o.	-	-	4	-
Total joint ventures and associates	73 409	29 375	41 842	12 510

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As at 31 December 2015 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
KREDOBANK SA	312 081	205 420	9 189	74 589
Merkury - fizan	39 200	39 200	1 336	-
PKO Bank Hipoteczny SA	481 088	39 782	15 254	160 218
PKO BP BANKOWY PTE SA	69 710	-	2 857	-
PKO BP Finat Sp. z o.o.	192	-	151 263	593
PKO Finance AB	-	-	7 332 263	-
PKO Leasing SA	1 730 988	1 730 354	104 909	1 396 657
PKO Towarzystwo Funduszy Inwestycyjnych SA	19 031	-	60 239	-
PKO Towarzystwo Ubezpieczeniowe SA	-	-	7 140	-
PKO Życie Towarzystwo Ubezpieczeń SA	35 082	35 067	133 735	55 000
Qualia Development Sp. z o.o.	-	-	6 203	428
Indirect subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	1	-	11 637	-
„CENTRUM HAFNERA” Sp. z o.o.	-	-	2 338	-
Finansowa Kompania „Idea Kapital” Sp. z o.o.	22 321	22 321	-	-
„Fort Mokotów” Sp. z o.o. w likwidacji	-	-	3 008	-
Molina Sp. z o.o.	-	-	18 583	-
PKO BP Faktoring SA	329 612	329 610	990	522 307
PKO Bankowy Leasing Sp. z o.o.	2 827 053	2 825 105	1 084	84 120
PKO Leasing Sverige AB	109 849	109 849	226	7 294
„Promenada Sopotka” Sp. z o.o.	42 762	42 762	4 380	-
Qualia - Rezydencja Flotylla Sp. z o.o.	55 124	55 124	1 193	-
Qualia Hotel Management Sp. z o.o.	-	-	4 222	-
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	-	-	15 598	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	76 798	76 798	1 147	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	-	-	3 663	-
„Sopot Zdrój” Sp. z o.o.	194 228	194 228	19 479	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	-	-	1 454	-
„Zarząd Majątkiem Górczewska” Sp. z o.o.	-	-	2 521	-
Other indirect subsidiaries	-	-	1 158	-
Total Subsidiaries	6 345 120	5 705 620	7 917 069	2 301 206

As at 31 December 2015 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	5 964	-	31 072	2 011
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	27 414	27 414	8 623	-
Direct associates				
Bank Pocztowy SA	14 057	-	949	1 086
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2 788	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	-	-	5	-
Total joint ventures and associates	47 435	27 414	43 437	3 097

For the nine-month period ended 30.09.2016 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
KREDOBANK SA	5 330	4 907	-	-
Merkury - fizan	1 272	1 272	13	13
PKO Bank Hipoteczny SA	70 684	61 397	386	1
PKO BP BANKOWY PTE SA	1 731	6	55	55
PKO BP Finat Sp. z o.o.	1 440	30	2 990	525
PKO Finance AB	32	32	199 611	199 281
PKO Leasing SA	40 426	35 223	13 522	34
PKO Towarzystwo Funduszy Inwestycyjnych SA	170 815	169 116	733	733
PKO Towarzystwo Ubezpieczeniowe SA	173 865	11	250 322	55
PKO Życie Towarzystwo Ubezpieczeń SA	143 360	854	221 521	1 280
Other	427	23	333	333
Indirect subsidiaries				
Finansowa Kompania „Idea Kapital” Sp. z o.o.	502	502	-	-
PKO BP Faktoring SA	8 043	7 872	-	-
PKO Bankowy Leasing Sp. z o.o.	48 381	48 222	73	-
PKO Leasing Sverige AB	1 374	1 374	-	-
Qualia Hotel Management Sp. z o.o.	3 281	3 281	105	105
„Sopot Zdrój” Sp. z o.o.	2 398	2 398	137	137
Other	611	539	747	677
Total Subsidiaries	673 972	337 059	690 548	203 229



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For the nine-month period ended 30.09.2016 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint venture				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	177 521	175 788	82 558	82 392
Indirect joint venture				
„Centrum Obsługi Biznesu” Sp z o.o.	360	360	29	29
Direct associates				
Bank Pocztowy SA	20	17	75	-
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	2	2	23	23
Ferrum SA	1	1	-	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	2	2	-	-
Walcownia Blach Grubych „Batory” Sp. z o.o.	1	1	-	-
Total joint ventures and associates	177 907	176 171	82 685	82 444

For the nine-month period ended 30.09.2015 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
PKO Bank Hipoteczny SA	5 891	2 765	1 571	1 571
Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o. ¹⁾	-	-	30 683	-
KREDOBANK SA	5 948	5 798	-	-
Merkury - fiz an	1 916	1 916	17	17
PKO BP Finat Sp. z o.o.	1 607	31	4 303	1 846
PKO Finance AB	63	63	344 211	342 458
PKO Leasing SA	26 146	22 564	13 451	1 464
PKO Towarzystwo Funduszy Inwestycyjnych SA	179 854	178 838	823	823
PKO Życie Towarzystwo Ubezpieczeń SA	253 992	253 825	219 118	219 118
Other	663	68	489	559
Indirect subsidiaries				
Finansowa Kompania „Idea Kapital” Sp. z o.o.	1 258	1 258	31 218	-
PKO BP Faktoring SA	5 406	5 204	15	15
PKO Bankowy Leasing Sp. z o.o.	46 685	45 670	72	72
PKO Leasing Sverige AB	1 601	1 601	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	2 815	2 815	9	9
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	2 840	2 840	11	11
„Sopot Zdrój” Sp. z o.o.	2 651	2 651	153	153
Other	845	835	640	640
Total Subsidiaries	540 181	528 742	646 784	568 756

For the nine-month period ended 30.09.2015 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint venture				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	120 268	119 104	79 807	79 672
Indirect joint venture				
„Centrum Obsługi Biznesu” Sp z o.o.	689	689	69	69
Direct associates				
Bank Pocztowy SA ¹⁾	498	20	515	-
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	2	2	14	14
Indirect associate				
Centrum Operacyjne Sp. z o.o.	2	2	-	-
Total joint ventures and associates	121 459	119 817	80 405	79 755

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30. Fair value of financial assets and liabilities

30.1. Categories of fair value valuation of financial assets and liabilities measured at fair value in the consolidated statement of financial position

Assets and liabilities measured at fair value as at 30.09.2016	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	12	1 667 972	1 596 648	71 324	-
Debt securities		1 647 259	1 575 935	71 324	-
Shares in other entities		18 297	18 297	-	-
Investment certificates, allotment certificates, subscription rights		2 416	2 416	-	-
Derivative financial instruments	13	2 633 086	3 163	2 629 923	-
Hedging instruments		349 264	-	349 264	-
Trade instruments		2 283 822	3 163	2 280 659	-
Financial instruments designated upon initial recognition at fair value through profit and loss	15	12 925 178	3 327 714	9 597 464	-
Debt securities		12 925 178	3 327 714	9 597 464	-
Investment securities available for sale	17	33 289 712	24 544 228	5 355 288	3 390 196
Debt securities		32 877 971	24 506 300	5 355 288	3 016 383
Equity securities		126 373	37 928	-	88 445
Shares in joint investment institutions		285 368	-	-	285 368
Financial assets measured at fair value - total		50 515 948	29 471 753	17 653 999	3 390 196
Derivative financial instruments	13	3 406 194	734	3 405 460	-
Hedging instruments		840 150	-	840 150	-
Trade instruments		2 566 044	734	2 565 310	-
Financial liabilities measured at fair value - total		3 406 194	734	3 405 460	-

Assets and liabilities measured at fair value as at 31.12.2015	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	12	793 213	793 213	-	-
Debt securities		776 655	776 655	-	-
Shares in other entities		9 910	9 910	-	-
Investment certificates		6 648	6 648	-	-
Derivative financial instruments	13	4 348 034	2 163	4 345 871	-
Hedging instruments		508 665	-	508 665	-
Trade instruments		3 839 369	2 163	3 837 206	-
Financial instruments designated upon initial recognition at fair value through profit and loss	15	12 796 036	2 551 863	10 244 173	-
Debt securities		12 796 036	2 551 863	10 244 173	-
Investment securities available for sale	17	27 841 564	18 941 736	5 264 964	3 634 864
Debt securities		27 259 467	18 883 905	5 264 964	3 110 598
Equity securities		385 454	57 831	-	327 623
Shares in joint investment institutions		196 643	-	-	196 643
Financial assets measured at fair value - total		45 778 847	22 288 975	19 855 008	3 634 864
Derivative financial instruments	13	4 627 189	1 476	4 625 713	-
Hedging instruments		998 527	-	998 527	-
Trade instruments		3 628 662	1 476	3 627 186	-
Debt securities in issue	24	71 744	-	71 744	-
Financial instruments designated at fair value through profit and loss		71 744	-	71 744	-
Financial liabilities measured at fair value - total		4 698 933	1 476	4 697 457	-

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The impact of parameters estimated on measurement of financial instruments at fair value, for which the Bank uses fair value measurement on Level 3 as at 30 September 2016 is as follows:

Financial instrument classified to Level 3	Valuation technique	Unobservable factor	Fair value as at 30 September 2016 by	
			positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions - Fund	Net Asset Value (NAV) method	price for a participation unit	299 636	271 100
Preferred series C Shares of Visa Europe Limited	estimate of fair value based on the current market value of listed ordinary shares of Visa Inc. including discounting taking into account the limited liquidity of C series shares and the conditions of C series shares conversion on ordinary shares	the final number and value ordinary Visa Inc shares which Bank's will receive as a result of conversion of C series shares	96 547	63 491
Corporate bonds	Credit index method	credit spread	3 026 051	3 006 610

In the period from 1 January to 30 September 2016, there were no changes to the methodology of estimating fair value of financial instruments.

The tables below presents a reconciliation of fair value during the periods of measurement of level 3 of fair value hierarchy:

Investment securities available for sale	01.01-30.09.2016	01.01-31.09.2015
Opening balance at the beginning of the period	3 634 864	198 302
Total gains or losses	(28 875)	7 592
recognized in financial result	(70 680)	-
recognized in other comprehensive income	41 805	7 592
Translation differences of currency entities	-	(929)
Shares settlement of Visa Europe Limited	(336 713)	-
Take up of Visa Inc. shares	80 964	-
Take up of a new shares in the Fund	67 563	-
Other take ups and sales (including settlements)	(27 607)	(12 000)
Closing balance at the end of the period	3 390 196	192 965

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30.2. Financial assets and liabilities not presented at fair value in consolidated statement of financial position

	level of fair value hierarchy	valuation method	30.09.2016	
			carrying amount	fair value
Cash and balances with the central bank	nd	value at cost to pay	14 280 856	14 280 856
Amounts due from banks	2	discounted cash flows	7 254 472	7 254 472
Loans and advances to customers			185 672 352	180 729 178
housing loans	3	discounted cash flows	97 718 822	93 122 823
corporate loans	3	discounted cash flows	58 960 710	59 252 372
consumer loans	3	discounted cash flows	22 717 750	22 151 867
receivables due from repurchase agreements	3	discounted cash flows	1 323 912	1 323 912
debt securities	3	discounted cash flows	4 951 158	4 878 204
Other financial assets	3	value at cost to pay including impairment allowance	1 742 579	1 742 579
Amounts due to the central bank	2	value at cost to pay	4 269	4 269
Amounts due to other banks	2	discounted cash flows	19 110 935	19 110 939
Amounts due to customers			205 933 280	206 314 889
due to corporate entities	3	discounted cash flows	54 504 122	54 938 499
due to public entities	3	discounted cash flows	9 502 980	9 502 980
due to retail clients	3	discounted cash flows	141 926 178	141 873 410
Debt securities in issue	2	discounted cash flows	1 858 753	1 860 947
Subordinated debt	2	discounted cash flows	2 494 465	2 494 677
Other financial liabilities	3	value at cost to pay	2 404 891	2 404 891

	level of fair value hierarchy	valuation method	31.12.2015	
			carrying amount	fair value
Cash and balances with the central bank	nd	value at cost to pay	13 707 730	13 707 730
Amounts due from banks	2	discounted cash flows	5 021 876	5 021 875
Loans and advances to customers			188 552 440	181 648 571
housing loans	3	discounted cash flows	99 871 014	92 632 582
corporate loans	3	discounted cash flows	57 154 574	57 756 844
consumer loans	3	discounted cash flows	21 799 396	21 639 652
receivables due from repurchase agreements	3	discounted cash flows	4 432 239	4 432 239
International financial organisations	3	discounted cash flows	10 652	10 652
debt securities	3	discounted cash flows	5 284 665	5 176 602
Other financial assets	3	value at cost to pay including impairment allowance	787 281	787 281
Amounts due to the central bank	2	value at cost to pay	4 219	4 219
Amounts due to other banks	2	discounted cash flows	18 249 857	18 249 855
Amounts due to customers			201 809 202	202 043 766
due to corporate entities	3	discounted cash flows	57 707 408	57 982 333
due to public entities	3	discounted cash flows	9 134 366	9 134 366
due to retail clients	3	discounted cash flows	134 967 428	134 927 067
Debt securities in issue	2	discounted cash flows	1 645 917	1 647 575
Subordinated debt	2	discounted cash flows	2 499 163	2 486 132
Other financial liabilities	3	value at cost to pay	2 151 795	2 151 795

Detailed assumptions concerning valuation methods were presented in the annual financial statements of PKO Bank Polski SA for the year 2015.

31. Objectives and principles of risk management in PKO Bank Polski SA

Risk management is one the most important internal processes in PKO Bank Polski SA. Risk management aims at ensuring profitability of business activity, with ensuring control of risk level and maintaining it within the risk tolerance and limits system applied by the Bank, in the changing macroeconomic and legal environment. The level of the risks plays an important role in the planning process.

In the of PKO Bank Polski SA Group, the following types of risk have been identified, which are subject to management: credit risk, interest rate risk, foreign exchange risk, currency risk, liquidity risk, commodity price risk, price risk of equity securities, derivative instruments risk, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation, capital risk, excessive leverage, risk of foreign currency mortgage loans for households and insurance. In the third quarter of 2016, the

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risk catalogue has been expanded to the conduct risk. In case of derivative instruments adjustment of the valuation of derivatives reflecting counterparty credit risk CVA has been added.

Elements of risk management process, main principles of risk management, the organisation of risk management in the Bank, identification of significant types of risk and activities in the area of risk management in the Bank in the PKO Bank Polski SA were presented in details in the annual consolidated financial statements of the PKO Bank Polski SA for the year 2015.

Additionally, there are described in details in the PKO Bank Polski SA financial statements for the year 2015 for particular, identified by the Bank types of the risk following elements: definition of risk, the aim of specified risk management, the identification of the risk, measurement and evaluation, supervision, prediction and monitoring, reporting and management actions.

Significant events occurred in the three-quarters of 2016 in the field of risk management:

- in the second quarter of 2016 the Bank rolled over of six-month short-term bonds with a value of PLN 800 million, and issued additional bonds amounted to PLN 200 million,
- issuance one year bonds amounted to EUR 200 million in the second quarter of 2016,
- on 30 June 2016 the Ordinary General Shareholders' Meeting of the Bank adopted resolution on conditional dividend payment from the net profit for 2015 and retained earnings from previous years. The dividend will be paid, unless not later than on 8 December 2016 (inclusive) PKO Bank Polski SA takes over control of the bank or other entity of the financial sector, as well as regulatory changes occur or supervisory recommendations occur, affecting the requirements for the Bank's own funds according to the level of capital adequacy ratios recognized in the financial statements of the Bank for Q3 2016 – would cause a lack of possibility to pay dividend in accordance with the regulatory requirements and supervisory recommendations.

Currently PKO Bank Polski SA is involved in a another European transparency exercise (transparency exercise) built by the European Banking Authority (EBA) in the close cooperation with the Polish Financial Supervision Authority. The examination includes 133 institutions from countries of the European Union and Norway. PKO Bank Polski SA have been selected to examination as the only one bank from Poland. The date of publications given by EBA is being scheduled for December 2016.

Credit risk management

Information on risk monitoring and risk measurement as at 30 September 2016 is also presented in the notes: amounts due from banks, loans and advances to customers, investment securities available for sale.

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Maximum exposure to credit risk

Exposure to credit risk - Items of the statement of financial position	30.09.2016	31.12.2015
Current account in the central bank	10 663 715	9 854 133
Amounts due from banks	7 254 472	5 021 876
Trading assets – debt securities	1 647 259	776 655
issued by banks	43 983	27 898
issued by other financial institutions	6 343	5 344
issued by non-financial institutions	49 308	46 122
issued by the State Treasury	1 503 870	648 695
issued by local government bodies	43 755	48 596
Derivative financial instruments	2 633 086	4 348 034
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	12 925 178	12 796 036
issued by the State Treasury	3 327 713	2 551 863
issued by central banks	9 356 396	9 996 910
issued by local government bodies	241 069	247 263
Loans and advances to customers	185 672 352	188 552 440
financial sector	7 575 754	9 876 050
corporate loans	6 264 135	5 433 159
receivables due from repurchase agreements	1 311 619	4 432 239
international financial organisations	-	10 652
non-financial sector	168 889 357	168 779 876
housing loans	97 718 822	99 871 014
corporate loans	46 116 596	44 517 577
consumer loans	22 717 750	21 799 396
repurchase agreements	12 293	-
debt securities	2 323 896	2 591 889
public sector	9 207 241	9 896 514
corporate loans	6 579 979	7 203 838
debt securities	2 627 262	2 692 676
Investment securities available for sale - debt securities	32 877 971	27 259 467
issued by the State Treasury	23 338 572	18 021 339
issued by banks	1 474 425	1 515 322
issued by other financial institutions	156 283	239
issued by non-financial institutions	3 426 900	3 108 841
issued by local government bodies	4 481 791	4 613 726
Other assets - other financial assets	1 742 579	787 281
Total	255 416 612	249 395 922

Exposure to credit risk - Off-balance sheet items	30.09.2016	31.12.2015
Irrevocable liabilities granted	30 046 413	30 513 878
Guarantees granted	7 477 919	8 980 149
Letters of credit granted	1 374 634	1 838 101
Guarantees of issue	4 516 772	5 724 498
Total	43 415 738	47 056 626

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Financial assets assessed on an individual basis for which individual impairment has been recognised by carrying amount gross	30.09.2016	31.12.2015
Loans and advances to customers	4 853 821	4 972 235
Financial sector	36 618	43 219
corporate loans	36 618	43 219
Non-financial sector	4 798 701	4 912 546
corporate loans	3 699 142	3 456 214
housing loans	800 313	1 047 710
consumer loans	226 292	300 659
debt securities	72 954	107 963
Public sector	18 502	16 470
corporate loans	18 502	16 470
Investment debt securities available for sale issued by non-financial institutions	577 266	393 662
Total	5 431 087	5 365 897

Operational risk management

In the third quarter of 2016 Bank has implemented specific reverse stress tests based on script of the realization of the operational risk on the level of the value endangered losses.

Interest rate risk management

In the third quarter of 2016 Bank has implemented specific reverse stress tests based on script of potential changes of yield curves resulting in Bank determined amount of loss.

VaR of the Bank and stress-test analysis of the Bank's exposure to the interest rate risk are presented in the following table:

Name of sensitivity measure	30.09.2016	31.12.2015
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	230 423	271 674
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)*	2 059 563	2 040 191

* The table presents the absolute value of the most adverse stress-test of the scenarios: change of interest rate curves in the particular currencies by 200 p.p. up and by 200 p.p. down.

As at 30 September 2016, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 230 423 thousand, which accounted for approximately 0.78% of the Bank's own funds. As at 31 December 2015, VaR for the Bank amounted to PLN 271 674 thousand, which accounted for approximately 1.00% of the Bank's own funds.

Currency risk management

In the third quarter of 2016 Bank has implemented specific reverse stress tests based on script of potential changes of foreign exchange regarding to PLN in Bank determined amount loss.

VaR of the Bank and stress-test analysis of the Bank's exposure to the currency risk are stated in the table below:

Name of sensitivity measure	30.09.2016	31.12.2015
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	10 297	25 384
Change in CUR/ PLN by 20% (in PLN thousand) (stress-test)*	26 572	62 244

* The table presents the absolute value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.

Liquidity risk management

The Bank's adjusted liquidity gap in real terms is presented in the table below:

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
30.09.2016								
Adjusted gap in real terms	16 212 155	17 412 195	(747 501)	415 251	7 984 149	6 763 270	18 920 684	(66 960 203)
Cumulative adjusted gap in real terms	16 212 155	33 624 350	32 876 849	33 292 100	41 276 249	48 039 519	66 960 203	-
31.12.2015								
Adjusted gap in real terms	14 038 877	16 783 091	52 969	3 643 433	8 518 231	7 597 329	11 794 304	(62 428 234)
Cumulative adjusted gap in real terms	14 038 877	30 821 968	30 874 937	34 518 370	43 036 601	50 633 930	62 428 234	-



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In all time horizons, the Bank's cumulative adjusted liquidity gap in real terms as at 30 September 2016 and as at 31 December 2015 was positive. This means a surplus of assets receivable over liabilities payable.

The table below presents liquidity reserve of the Bank as at 30 September 2016 and as at 31 December 2015:

Name of sensitivity measure	30.09.2016	31.12.2015
Liquidity reserve up to 1 month* (in PLN million)	31 203	30 186

*Liquidity reserve equals the gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.

As at 30 September 2016 the level of permanent balances on deposits constituted approx. 93.42% of all deposits in the Bank (excluding interbank market), which means an decrease by approximately -0.2 p.p. as compared to the end of 2015.

The Bank's policy in the area of CHF

The Bank constantly analyses changes in the financial and macroeconomic environment, especially the level of market interest rates as well as exchange rates and takes it into consideration managing specified types of risk and activity towards Bank's customers with long-term mortgages. The Bank especially analyses the portfolio of mortgages denominated in CHF. The Bank constantly monitors quality of this portfolio and analyses the risk of worsening of the quality of this portfolio. Currently the level of quality portfolio is acceptable.

The influence of the external factors and regulations is being monitored constantly. The Bank currently tracks legislative initiatives related to the support for borrowers holding foreign currency mortgage loans, analyzing their impact on the Bank's and the Bank's clients situation.

The following tables presents qualitative analysis of the loans denominated in CHF

Loans and advances to customers in impairment valuation method in CHF (translated into PLN)	30.09.2016			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	161 626	153 291	314 917
impaired	-	121 026	146 528	267 554
Valuated with portfolio method, impaired	-	26 085	1 158 028	1 184 113
Valuated with group method (IBNR)	5 147	343 539	28 963 329	29 312 015
Loans and advances to customers - gross	5 147	531 250	30 274 648	30 811 045
Allowances on exposures valuated on an individual basis, of which:	-	(49 263)	(56 076)	(105 339)
impaired	-	(48 878)	(56 053)	(104 931)
Allowances on exposures valuated with portfolio method	-	(17 545)	(763 023)	(780 568)
Allowances on exposures valuated with group method (IBNR)	(106)	(2 912)	(73 937)	(76 955)
Allowances - total	(106)	(69 720)	(893 036)	(962 862)
Loans and advances to customers - net	5 041	461 530	29 381 612	29 848 183

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Loans and advances to customers in impairment valuation method in CHF (translated into PLN)	31.12.2015			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	170 986	223 586	394 572
impaired	-	134 743	208 089	342 832
Valuated with portfolio method, impaired	-	32 034	1 126 528	1 158 562
Valuated with group method (IBNR)	6 098	372 332	30 309 066	30 687 496
Loans and advances to customers - gross	6 098	575 352	31 659 180	32 240 630
Allowances on exposures valuated on an individual basis, of which:	-	(45 601)	(95 867)	(141 468)
impaired	-	(45 185)	(93 751)	(138 936)
Allowances on exposures valuated with portfolio method	-	(18 199)	(699 206)	(717 405)
Allowances on exposures valuated with group method (IBNR)	(171)	(2 711)	(100 384)	(103 266)
Allowances - total	(171)	(66 511)	(895 457)	(962 139)
Loans and advances to customers - net	5 927	508 841	30 763 723	31 278 491

Loans and advances to customers valuated in the group method (IBNR)	30.09.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers	134 389 543	29 312 015	14 627 276
past due	1 524 860	596 651	59 465
not past due	132 864 683	28 715 364	14 567 811
Impairment on exposures valuated using the group method (IBNR)	(397 852)	(76 955)	(44 266)
past due	(129 541)	(36 946)	(2 631)
not past due	(268 311)	(40 009)	(41 635)
Net loans and advances to customers	133 991 691	29 235 060	14 583 010

Loans and advances to customers valuated in the group method (IBNR)	31.12.2015		
	PLN	CHF	Other currencies
Gross loans and advances to customers	137 032 884	30 687 496	14 370 885
past due	1 856 370	719 752	74 127
not past due	135 176 514	29 967 744	14 296 758
Impairment on exposures valuated using the group method (IBNR)	(403 833)	(103 266)	(39 614)
past due	(146 169)	(49 835)	(4 822)
not past due	(257 664)	(53 431)	(34 792)
Net loans and advances to customers	136 629 051	30 584 230	14 331 271

Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies	30.09.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers forbearance	935 982	607 570	51 984
Impairment on exposures valuated using the group method (IBNR) forbearance	(32 334)	(24 648)	(1 472)
Net loans and advances to customers forbearance	903 648	582 922	50 512

Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies	31.12.2015		
	PLN	CHF	Other currencies
Gross loans and advances to customers forbearance	1 709 390	776 522	65 185
Impairment on exposures valuated using the group method (IBNR) forbearance	(51 304)	(35 930)	(2 088)
Net loans and advances to customers forbearance	1 658 086	740 592	63 097

As at 30 September 2016, the average LTV for loans portfolio in CHF amounted to 81.02% - compared to the average LTV for the whole portfolio amounting to 70.31%.

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32. Capital Adequacy

Basic regulations applicable in the assessment of capital adequacy as at 30 September 2016 are described in the financial statements for the year ended 30 December 2015.

Capital adequacy of the Bank for the nine-month period of 2016 remained on a safe level and was significantly above the statutory limits.

The value of capital adequacy measurement in the third quarter of 2016 remained above the external limits, as well as above level recommended by supervisory authorities (PFSA/EBA).

The Bank is constantly monitoring changes in the regulatory and legislative initiatives, as they could have an impact on the level of capital adequacy.

On 3 August 2016 EBA has published recommendation for the leverage ratio on the level at least 3%, what is matching preliminary BCBS assumptions from January 2014. The bank is keeping the leverage ratio much above the level indicated by EBA and recommended by PFSA.

	30.09.2016	31.12.2015
Total own funds	29 640 940	27 249 359
Basic funds (Tier 1)	27 210 368	24 820 848
Tier I capital before regulatory adjustments and deductions, of which:	30 044 430	27 572 288
Share capital	1 250 000	1 250 000
Other reserves	26 573 430	24 002 288
General banking risk fund for unidentified banking risk	1 070 000	1 070 000
Retained earnings	1 151 000	1 250 000
(-) Goodwill	(871 047)	(871 047)
(-) Other intangible assets	(1 657 844)	(1 654 902)
Other accumulated comprehensive income	(116 620)	74 457
Adjustments to Tier I Capital in respect of prudential filters	(121 574)	(14 429)
Other adjustments to Tier I Capital during transitional period	(66 977)	(285 519)
Supplementary funds (Tier 2)	2 430 572	2 428 511
Capital instruments and subordinated loans eligible as Tier II Capital	2 492 265	2 483 126
(-) Capital exposures deducted from own funds	(61 693)	(54 615)
Requirements as regard own funds	13 926 741	14 269 355
Credit risk	12 783 517	13 176 070
Operational risk	503 877	543 163
Market risk	611 490	518 662
Credit valuation adjustment risk	27 857	31 460
Total capital adequacy ratio	17,03%	15,28%
Tier 1 Capital ratio	15,63%	13,92%

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OTHER INFORMATION

The Authorities of PKO Bank Polski SA in the reporting period

The Management Board of PKO Bank Polski SA as at 30 September 2016

No.	Name	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	Re-appointed on 8 January 2014 to the position of President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board.
2.	Piotr Alicki	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board. On the 5 October 2016 he resigned from membership in Management Board, with the end of 30 October 2016.
3.	Bartosz Drabikowski	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board. On the 5 October 2016
4.	Maks Kraczkowski	Vice-President of the Management Board	Appointed on 30 June 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, on 4 July 2016.
5.	Mieczysław Król	Vice-President of the Management Board	Appointed on 2 June 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, on 6 June 2016.
6.	Piotr Mazur	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board.
7.	Jakub Papierski	Vice-President of the Management Board	Re-appointed on 8 January 2014 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board.
8.	Jan Emeryk Rościszewski	Vice-President of the Management Board	Appointed on 14 July 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board, on 18 July 2016.

The Supervisory Board of PKO Bank Polski SA as at 30 September 2016

No.	Name	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
2.	Grażyna Ciurzyńska	Deputy Chairman of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
3.	Zbigniew Hajłasz	Secretary of the Supervisory Board	Appointed on 30 June 2016 for present term of the Supervisory Board, which began on the day of the Ordinary General Shareholder's Meeting convened as at 26 June 2014. On 14 July 2015 has appointed as Secretary of the Supervisory Board.
4.	Miroslaw Barszcz	Member of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
5.	Adam Budnikowski	Member of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
6.	Wojciech Jasiński	Member of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
7.	Andrzej Kisielewicz	Member of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
8.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	Appointed on 26 June 2014 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.
9.	Janusz Ostaszewski	Member of the Supervisory Board	Appointed on 25 February 2016 for the next term of the Supervisory Board, which began on the day of the Ordinary General Shareholders' Meeting convened as at 26 June 2014.

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Shareholders holding, directly or indirectly through subsidiaries, at least 5% of total votes at the GSM

To the best knowledge of PKO Bank Polski SA, as at the date of submission of the report, the shareholders holding, directly or indirectly, considerable block of shares (at least 5%) are three entities: the State Treasury, Aviva Otwarty Fundusz Emerytalny, Nationale-Nederlanden Otwarty Fundusz Emerytalny.

Shareholding structure in PKO Bank Polski SA

Shareholders	As at the date of publication of the report		As at the date of publication of the report		Changes of the share in the number of votes at GSM (p.p.)
	for the 3rd quarter of 2016		for the 1st quarter of 2016		
	Number of shares	Share in the number of votes at GSM	Number of shares	Share in the number of votes at GSM	
State Treasury	367 918 980	29,43%	367 918 980	29,43%	0
Aviva OFE ¹⁾	83 952 447	6,72%	83 952 447	6,72%	0
Nationale-Nederlanden OFE (till 23 June 2015 ING Otwarty Fundusz Emerytalny) ²⁾	64 594 448	5,17%	64 594 448	5,17%	0
Other shareholders ³⁾	733 534 125	58,68%	733 534 125	58,68%	0
Total	1 250 000 000	100,00%	1 250 000 000	100,00%	0

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding 5% of share in PKO Bank Polski SA's shareholding structure after settlement the transaction of sale of 153.1 million of PKO Bank Polski SA's shares by BGK and the State Treasury.

2) Number of shares held as at 24 July 2012, reported by ING OFE (at the moment Nationale-Nederlanden OFE) after exceeding 5% of share in PKO Bank Polski SA shareholding structure after settlement the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury.

3) Including BGK, with the date of publication of the report for third quarter 2015 owned 24 487 297 shares, representing 1.96% of the number of votes at the General Meeting of Shareholders.

Changes in the number and rights to PKO Bank Polski SA's shares held by Management and Supervisory Board Members

PKO Bank Polski SA's shares held by the Management and Supervisory Board Members

No.	Name	As at the date of publication of the report for the 3rd quarter of 2016	Purchase	Disposal	As at the date of publication of the report for the 1st quarter of 2016
I. Management Board of the Bank					
1.	Zbigniew Jagiełło, President of the Management Board of the Bank	11 000	-	-	11 000
2.	Piotr Alicki, Vice-President of the Management Board of the Bank	2 627	-	-	2 627
3.	Bartosz Drabikowski, Vice-President of the Management Board of the Bank	-	-	-	-
4.	Maks Kraczkowski, Vice-President of the Management Board of the Bank	-	-	-	-
5.	Mieczysław Król, Vice-President of the Management Board of the Bank	5 000	-	-	5 000
6.	Piotr Mazur, Vice-President of the Management Board of the Bank	4 500	-	-	4 500
7.	Jakub Papierski, Vice-President of the Management Board of the Bank	3 000	-	-	3 000
8.	Jan Emeryk Rościszewski, Vice-President of the Management Board of the Bank	-	-	-	-
II. Supervisory Board of the Bank					
1.	Piotr Sadownik, Chairman of the Supervisory Board of the Bank	-	-	-	-
2.	Grażyna Ciurzyńska, Deputy-Chairman of the Supervisory Board of the Bank	-	-	-	-
3.	Zbigniew Hajłasz, Secretary of the Supervisory Board of the Bank	-	-	-	-
4.	Mirosław Barszcz, Member of the Supervisory Board of the Bank	-	-	-	-
5.	Adam Budnikowski, Member of the Supervisory Board of the Bank	-	-	-	-
6.	Wojciech Jasiński, Member of the Supervisory Board of the Bank	-	-	-	-
7.	Andrzej Kisielewicz, Member of the Supervisory Board of the Bank	-	-	-	-
8.	Elżbieta Mączyńska-Ziemacka, Member of the Supervisory Board of the Bank	-	-	-	-
9.	Janusz Ostaszewski, Member of the Supervisory Board of the Bank	-	-	-	-

Seasonality or cyclicity of activities in the reporting period

PKO Bank Polski SA is a universal bank, which provides services on the territory of Poland, and thus its activities are exposed to similar cyclical fluctuations to those affecting the entire Polish economy. The activities of other companies of the PKO Bank Polski SA Group also do not show any particular seasonality or cyclicity characteristics.

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Factors which may affect future financial performance within at least the next quarter

In subsequent quarters, the results of the Bank and the PKO Bank Polski SA Group will be affected by economic processes which will take place in the Polish and global economies, as well as by reactions of the financial markets. The interest rate policy applied by the Monetary Policy Council and by other largest central banks will also have a great impact on the future performance.

The financial and organizational situation of the PKO Bank Polski SA Group will be impacted by legal and regulatory regulations coming in force in next quarter or in the nearest future.

Continuing regulation risk concerning the Bank's treatment of monetary housing loans secured with a mortgage is an important factor affecting the situation of the Bank, in spite of considerable liberalizing of the legislative prior proposal by limiting the support for the return of excess monetary spreads in August 2016.

Negative influence on the results and profitability of banks will bring tax on assets of certain financial institutions which came into force from February 2016. This burden results of increase cost incurred by banks. In the medium term a reduction in lending potential return on equity of the industry is possible, mainly affecting banks with the lowest return on assets, and at the same time the highest capital leverage.

Other regulatory solutions that will have an impact on the activity and organization of the Group in subsequent periods are among others:

- resolution No. 48/2016 of the Bank Guarantee Fund from 20 September 2016 on the continuation of the rate of annual fee to the Bank Guarantee Fund in the fourth quarter of 2016 in the amount of respectively 0.04175% of the total risk exposure
- resolution No. 49/2016 of the Bank Guarantee Fund from 20 September 2016 on the determining not-carrying by banks the prudential fees payable to the Bank Guarantee Fund in the fourth quarter of 2016,
- of the Bank Guarantee Fund Act, the system of guaranteeing deposits and the compulsory restructuring (PFSA Official Journal of 2016, item 996) entered into force on 9 October 2016, among others, requiring banks to hold the current recovery plan setting out the actions in case of a significant worsening of the financial situation in case of threats to financial stability, the difficult macroeconomic conditions or other events affecting the financial market or a bank,
- resolution No. 351/2016 of the PFSA from 2016 (PFSA Official Journal of 2016, item 15) in the matter of recommendation C management of concentration risk of loans and other areas of universal and specialist banks, including mortgage, which should be introduced by banks until 1 January 2017,
- recommendation S of the PFSA on mortgage secured credit exposures (PFSA Official Journal of 2013, item 23) increasing the requirement for own contribution from 15% to 20% since 1 January 2017, what will be interacting to the demand for home loans in the fourth quarter of 2016, when the lower contribution requirement is valid,
- amendment of the Regulation of the Minister of Finance concerning granting by the Bank Gospodarstwa Krajowego de minimis aid in the form of guarantees repayment of loans (PFSA Official Journal of 2016, item 1471), extending de minimis program for 2017.

The financial results of the PKO Bank Polski SA Group will also be affected by political and economic situation of Ukraine, in which the Group entities operate: KREDOBANK SA and financial services and debt collection companies. Current analysis on the financial performance and the risk of deterioration in asset quality of the Group in Ukraine is carried out in the context of the impact of economic and political situation, including any changes in regulatory environment. PKO Bank Polski SA continues efforts to ensure the safe operation of its companies in the Ukraine, among others, by strengthening the supervisory activities, including monitoring the development of the regulatory requirements set by the National Bank of Ukraine.

Information on the issue, redemption and repayment of debt and equity securities

In the third quarter of 2016 PKO Bank Polski SA carried out the following issuances, repurchases and repayments of securities:

- PKO Finance AB redeemed bonds with a total nominal value of CHF 250 000 thousand,
- PKO Leasing SA issued 25 590 bonds with a total nominal value of PLN 255 900 thousand and redeemed 17 431 bonds with a total nominal value of PLN 174 310 thousand. As at 30 September indebtedness of the Company from the issue of bonds amounted to 255 900 thousand PLN. PLN – all bonds were sold on the secondary market,



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- PKO Bank Hipoteczny SA issued 10 719 bonds with a total nominal value of PLN 1 071 900 thousand and redeemed 2 470 bonds with a total nominal value of PLN 247 000 thousand. As at 30 September indebtedness of the Company from the issue of bonds amounted to 1 071 900 thousand PLN. Bonds with the total nominal value of PLN 15 000 thousand in the PKO Bank Polski SA portfolio, and the remaining bonds were acquired by other investors were 150,
- Subsidiaries of Merkury-fiz an redeemed bonds with a total nominal value of PLN 11 000 thousand. At the end of September the total debt of Merkury's) amounted to PLN 81 000 thousand results to the issue of bonds (the value of issue). Bonds were issued to Merkury-fizan and its subsidiary.

Information on the conclusion by the issuer or its subsidiary of one or more transactions with related parties, if they are significant and were concluded on other than market conditions

In the third quarter of 2016 PKO Bank Polski SA and its subsidiaries did not conclude significant transactions with related parties not on arm's length.

The effects of changes in the structure of the business unit, including mergers, acquisitions or disposals of the Group's entities, long-term investments, division, restructuring and discontinued operations

The effects of changes in the structure of the business unit, including mergers, acquisitions or sale of Group entities have been described in Note 39 to the condensed interim consolidated financial statements.

Information on warranties on loan or advance granted by the issuer or by the issuer's subsidiary or on guarantee granted – cumulatively to a single entity or its subsidiary, if the total value of outstanding warranties or guarantees constitutes at least 10% of the issuer's equity

In the third quarter of 2016, PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA did not grant any warranties on loan or advance or a guarantee to a single entity or its subsidiary that would constitute at least 10% of the Bank's equity.

Loans taken and advances, guarantee and warranties agreements not related to operating activity

In the third quarter of 2016, PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA did not take any loans, advances or receive any guarantees or warranties that were not related to its operating activity.

Significant contracts and important agreements with the central bank or supervisory authorities

In the third quarter of 2016, PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA did not conclude any significant contracts and important agreements with the central bank or supervisory authorities.

At September 28, 2016 Commission de Surveillance du Secteur Financier in Luxemburg approved Base Prospectus of PKO Banku Hipotecznego SA concerning issuance of covered bonds on European market. Total value of issued covered bonds being traded on a market cannot exceed EUR 4 billion with the assumption that the value of one bond will be minimum of EUR 100 thousand. Société Générale Corporate is a Global coordinator and a chief co-organizer of the program & Investment Banking, additionally, there are co-organizers: Deutsche Bank, J.P. Morgan and PKO Bank Polska SA, whereas the dealers are mentioned above as well as Landesbank Baden-Württemberg.

Proceedings pending before the court, arbitration tribunal or public administrative authority

The subsidiaries of PKO Bank Polski SA have not conducted any proceedings pending before court, arbitration tribunal or a public administration authority concerning liabilities or receivables, the value of which constitutes at least 10% of the equity of PKO Bank Polski SA.

Position of the Management Board of PKO Bank Polski SA in regards to possibility of achieving previously published forecasts for the given year

PKO Bank Polski SA did not publish any financial result forecasts for the year 2016.

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Information on dividend paid (or declared)

On 30 June 2016 the Ordinary General Shareholders' Meeting of the Bank adopted resolution No. 7/2016 on distribution of the net profit for the year 2015 and retained earnings. Resolution was in line with Management Board recommendation from 2 June 2016. Net profit from 2015 (PLN 2 571 142 thousand) and retained earnings from previous years (PLN 1 250 000 thousand), in the total amount of PLN 3 821 142 thousand as follows:

- for the dividend for shareholders PLN 1 250 000 thousand,
- for the reserve capital in the amount of PLN 2 500 000 thousand,
- for the other reserve in the amount of PLN 71 142 thousand.

The distribution of profit in the manner specified above is subject to the following conditions being fulfilled not later than on 8 December 2016 (inclusive):

- 1) Bank shall not take over control of a bank or other entity of the financial sector by a direct or indirect acquisition of a block of shares and shall not acquire a right or incur an obligation to take over control in the manner specified above, and
- 2) there shall not occur any regulatory changes or changes of the supervisory recommendations affecting the requirements for the Bank's own funds that – according to the level of capital adequacy ratios recognized in the financial statements of the Bank for Q3 2016 – would cause a lack of possibility to pay dividend in accordance with the regulatory requirements and supervisory recommendations.

If there is no Fulfilment of these two conditions, the net profit of the Bank for the year 2015 (PLN 2 571 142 thousand) and retain earnings from previous years (PLN 1 250 000 thousand), in the total amount of PLN 3 821 142 thousand, will be distributed as follows:

- for the reserve capital in the amount of PLN 3 750 000 thousand,
- for the other reserve in the amount of PLN 71 142 thousand.

The Management Board of the Bank is obliged to adopt a resolution on the establishment of the fulfilment of these two conditions or the lack of the fulfilment of these two conditions not later than on 9 December 2016 (inclusive). This date was fixed in the enabling way for Bank conducting essential analyses, as well as including possible dates of presenting new supervisory requirements in scope of the equity and determining their influence on levels of rates of the capital adequacy included in the financial statement of the third quarter of 2016. As a results it is necessary for meeting the requirements of the dividend or the lack of fulfilling them.

If both conditions are met, the dividend is to be paid in an amount of PLN gross 1.00 per one share.

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Events that occurred after the date of preparation of the financial statements, which may affect the future financial results

1. On 5 October 2016 Piotr Alicki resigned from PKO Bank Polski SA Management Board member position effective from 30 October 2016. An appointment for the President of the Management Board of Krajowa Izba Rozliczeniowa SA was the reason for resigning of Piotr Alicki.
2. On 10 October 2016, under the proceeding, conducted to identify the Bank as the other systemically important institution "O-SII", on the basis of the assessment of systemically importance of the Bank according to Macro-prudential supervision of the financial system and crisis management Act from 5 August 2015 art. 39 item 6 the PFSA decided to put on the Bank obligation to fulfill the buffer in the amount of 0.75% of the total risk exposure calculated in accordance with art. 92 § 3 in CRR. According to the § 39 item 4 above decision of PFSA shall be immediately enforceable. At the day of drafting the condensed interim financial statements of the PKO Bank Polski SA, the Bank fulfilled the requirements of PFSA in the minimal capital rates, both in the individual and consolidated presentation.
3. On 18 October 2016, PKO Bank Polski SA received the decision of PFSA on a recommendation to the Bank to comply with the additional requirement in own funds beyond the value resulting from requirements calculated in CRR. The Bank received PFSA recommendation about keeping the own funds by the Bank for covering the additional capital requirement in order to protect the risk from monetary mortgage credits for households on the individual level in the amount of 0.83 p.p., beyond the value of the total capital rate which should to comprise at least in the 75% from capital Tier1 (which corresponds to the capital requirement at the level of 0.62 p.p. more than the value of capital Tier1) and at least in the 56% from the core capital 1 Tier (which corresponds to the capital requirements at the level of 0.46 p.p. more than the value of the core capital Tier 1.) According to § 11 item 2 point 21 of the Banking Act, the above decision of PFSA has the power of the ultimate administrative decision and shall be subject to an immediate enforceable.
4. On 24 October 2016, PKO Bank Hipoteczny SA issued covered bonds denominate in EUR in the amount of 500 million with maturity up to 5 years and 8 months from the date of issuance. Fixed interest rate during the period covered bonds is 0.125%. Letters of pledge were acquired by investors at the price of the 99.702% towards the nominal value. Program stipulates that covered bonds could be listed at the same time on the Luxembourg and Warsaw stock exchanges. Moody's Investors Service agency gave long-term rating Aa3 to the letters of pledge of PKO Bank Hipoteczny SA denominated in EUR. The level of the rating is identical with the rating for being letters of pledge of PKO Bank Hipoteczny SA denominate in zlotys and is the highest rating possible to reach by Polish securities. Its limitation is the country ceiling Polish at Aa3
5. In October 2016, PFSA issued the positive opinion on the branch in the Czech Republic. PFSA took note of the Bank's notification concerning opening the branch in Prague and decided to send it to the competent supervisory authorities in the Czech Republic. Sending the request notification by PFSA terminates the proceedings of supervision authority in Poland. Czech supervisory authorities will get acquainted with the conclusion, and then will inform the Bank of Czech law which will be applicable to a branch. Opening the branch is planned in the first half of 2017, and the exact date depends on obtaining all regulatory approvals. The division in the Czech Republic will focus on serving corporate clients.
6. In October 2016, the Management Board of PKO Bank Polski SA has decided to increase capitals in the PKO Bank Hipoteczny SA of PKO Bank Polski SA subsidiary with amount of the 100 million PLN for the end of 2016.
7. On 28 October 2016 the Bank has received an information from the Bank Guarantee Fund, according to which the Bank is obliged to pay the mandatory fee (in compliance with art. 26a item 2 of the Act on the Bank Guarantee Fund of 14 December 1994 (Official Journal of 2014 item 1866 with amendments, act dismissed) , in accordance with art. 384 item 2 and 3 of the Act on the Bank Guarantee Fund and the system of guaranteeing deposits and the compulsory restructuring of 10 June 2016)(Official Journal from 2016, item 996) , for the payout of the guaranteed deposits located in Bank Spółdzielczy in Nadarzyn. On 28 October 2016, the Bank Guarantee Fund has published a resolution no. 308/DGD/2016 of the Management of the Bank Guarantee Fund on repayment of guaranteed deposits to the depositors of Bank Spółdzielczy in Nadarzyn and noticed the Bank about the necessity of making a payment of PLN 24 382.4 thousand for the Bank Guarantee Fund until 2 November 2016. The Bank has made the payment on 2 November 2016.

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8. On 31 October 2016 there was an acquisition of PKO Leasing SA (as the acquiring company) and PKO Bankowy Leasing Sp. z o.o. (as the acquired company) registered in the National Court Register. The merger has been registered in accordance with rules described in the Note: Changes to the entities of the PKO Bank Polski SA Group, associates companies and joint ventures.
9. On 2 November 2016, PKO Bank Polski SA (as an underwriter), Raiffeisen Bank International AG (as a seller) and PKO Leasing SA (as a buyer) signed an agreement on selling 100% shares of Raiffeisen-Leasing Polska SA to PKO Leasing by Raiffeisen Bank International AG. Agreed price for 100% shares of RLPL transaction is PLN 850 million. As a part of this transaction, PKO Bank Polski SA guaranteed PKO Leasing's obligations of payment and obligated to replace financing provided to RLPL by RBI or other entities from the RBI Group. The closing of the acquisition transaction of 100% shares of Raiffeisen-Leasing Polska SA by PKO Leasing depend on obtaining required antitrust approvals in particular.
10. On 3 November 2016, Supervisory Board appointed Janusz Derda to the position of Vice-President of the Management Board of PKO Bank Polski SA for the joint term of the Management Board starting from 1 December 2016.
11. On 3 November 2016, the Supervisory Board approved the development strategy of PKO Bank Polski SA (the Bank) for the period of 2016 – 2020. Management Board also informs about main goals and objectives of the Bank's development strategy.

Until the end of 2020 Bank's intends to:

- achieve a return on equity (ROE) above 10%,
- reduce the cost to income ratio (C/I) to a level below 45%,
- keep the cost of risk in the range of 75 – 85 b.p.,
- efficiently and rationally manage the capital adequacy, so the levels of TCR and CET1 indicators reach level above regulatory and supervisory requirements and simultaneously allow Bank for distribution of the net profit.

Pursuing the unquestioned leader of Polish banking market and keeping a leadership position in all key market segments, the Bank is aiming challenges till 2020 in strategic purposes:

- supporting development of Polish entrepreneurship, especially in segment of small and medium-sized enterprises,
- customer satisfaction,
- increasing of number of customers which are using digital solutions,
- simple and efficient processes – “szybciej i bez papieru”,
- the best employer,
- innovativeness and new revenue sources,
- leader of cooperation in the field of cybersecurity.

Thanks to the strategy based on the levers of sustainable growth, in 2020 PKO Bank Polski will be:

1. aligned with your and your business's needs

Close to the customer – Simple and transparent offer and intuitive processes; high quality advisory; flexible pricing solutions; intuitive and fast sale and service processes; customer interaction channels matching their needs.

2. available whenever and wherever you need

Distribution excellence – Modernity and at the same time closeness and local character of the physical distribution network; top class experience in the digital channels; channel integration and supporting the processes with top-of-the range tools.

3. growing steadily thanks to effective internal processes

Operational effectiveness – Speed and effectiveness of decision-making on the basis of high quality data and analytical tools; automation and dematerialization of processes – comfortably and without unnecessary prints (“Bank bez papieru dla klientów i pracowników”). Maximising the effective use of capital.

4. open and dynamic, friendly and attractive as an employer

Modern organization – Modern corporate culture and engaging leadership as a catalyst for changes; a pleasant and inclusive workplace which supports diversity; friendliness and mutual trust coupled with responsibility; modern solutions supporting bureaucracy.

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ENDED 30 SEPTEMBER 2016
(IN PLN THOUSAND)**



5. innovative for customers and the Polish economy

Innovation and technology – Active involvement in the creation of new market-wide standards; innovative tools for the customers and the organization; reinforcement of the role of a public trust institution and counteracting cyber threats.

6. the leader in the area of financial products and added services

Business model expansion – New non-interest income streams; new markets and business areas driven by customer needs; enhancing the availability of the offers belonging to the PKO Bank Polski Group companies.

The Bank will continue to combine care for the growth of shareholder value with social commitment and aim for sustainable growth. In day-to-day operations, it will integrate its business objectives with actions benefiting all the stakeholder groups, while at the same time getting involved in social initiatives. The Bank's values and transparent communication will be the key to developing a dialogue with the customers, employees, shareholders and local communities.

Signatures of all Members of the Bank's Management Board

03.11.2016	Zbigniew Jagiełło	President of the Management Board (signature)
03.11.2016	Bartosz Drabikowski	Vice-President of the Management Board (signature)
03.11.2016	Maks Kraczkowski	Vice-President of the Management Board (signature)
03.11.2016	Mieczysław Król	Vice-President of the Management Board (signature)
03.11.2016	Piotr Mazur	Vice-President of the Management Board (signature)
03.11.2016	Jakub Papierski	Vice-President of the Management Board (signature)
03.11.2016	Jan Emeryk Rościszewski	Vice-President of the Management Board (signature)

Signature of person responsible for
maintaining the books of account

03.11.2016

Danuta Szymańska
Director of the Accounting Division

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(signature)