Bank Polski

Condensed interim financial statements of PKO Bank Polski SA for the six-month period ended 30 June 2017

Report publication date:
28 August 2017

Bank Polski

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2017 to 30.06.2017	period from 01.01.2016 to 30.06.2016	period from 01.01.2017 to 30.06.2017	period from 01.01.2016 to 30.06.2016
Net interest income	3 867	3 595	910	821
Net fee and commission income	1 316	1 185	310	271
Operating profit	1 725	1 970	406	450
Profit before income tax	**1 725**	**1 970**	**406**	**450**
Net profit	**1 251**	**1 573**	**295**	**359**
Earnings per share for the period – basic (in PLN/EUR)	**1.00**	**1.26**	**0.24**	**0.29**
Earnings per share for the period – diluted (in PLN/EUR)	**1.00**	**1.26**	**0.24**	**0.29**
Total net comprehensive income	1 634	1 404	385	321
Net cash flows generated from operating activities	4 669	4 912	1 099	1 121
Net cash flows used in investing activities	(1 887)	(5 182)	(444)	(1 183)
Net cash flows used in financing activities	(3 814)	(230)	(898)	(53)
Net cash flows	(1 032)	(500)	(243)	(114)

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 30.06.2017	as at 31.12.2016	as at 30.06.2017	as at 31.12.2016
Total assets	270 789	272 957	64 069	61 699
Total equity	34 223	32 589	8 097	7 366
Share capital	1 250	1 250	296	283
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	27.38	26.07	6.48	5.89
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	27.38	26.07	6.48	5.89
Capital adequacy ratio	18.82%	17.19%	18.82%	17.19%
Tier 1	30 497	28 673	7 216	6 481
Tier 2	1 534	2 456	363	555

Selected separate financial statements items translated into EUR using the following rates	30.06.2017	31.12.2016	30.06.2016
average NBP rates as at the last day of each month of the period	4.2474	4.3757	4.3805
mid NBP rate as at the last day of the period	4.2265	4.4240	4.4255

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INCOME STATEMENT

	Note	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Interest and similar income	5	2 510	4 924	2 337	4 648
Interest expense and similar charges	5	(537)	(1 057)	(531)	(1 053)
Net interest income		**1 973**	**3 867**	**1 806**	**3 595**
Fee and commission income	6	901	1 753	835	1 611
Fee and commission expense	6	(227)	(437)	(229)	(426)
Net fee and commission income		**674**	**1 316**	**606**	**1 185**
Dividend income	7	124	124	90	149
Net income from financial instruments measured at fair value	8	1	2	(3)	(18)
Gains less losses from investment securities	9	1	(1)	427	477
Net foreign exchange gains (losses)	10	104	204	109	210
Other operating income	11	37	58	30	52
Other operating expense	11	(19)	(46)	(38)	(61)
Net other operating income and expense		**18**	**12**	**(8)**	**(9)**
Net impairment allowance and write-downs	12	(373)	(745)	(382)	(753)
Administrative expenses	13	(1 213)	(2 604)	(1 261)	(2 498)
Tax on certain financial institutions	14	(223)	(450)	(220)	(368)
Operating profit		**1 086**	**1 725**	**1 164**	**1 970**
Profit before income tax		**1 086**	**1 725**	**1 164**	**1 970**
Income tax expense	15	(245)	(474)	(251)	(397)
Net profit		**841**	**1 251**	**913**	**1 573**
Earnings per share	16				
– basic earnings per share for the period (in PLN)		0.67	1.00	0.73	1.26
– diluted earnings per share for the period (in PLN)		0.67	1.00	0.73	1.26
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

STATEMENT OF COMPREHENSIVE INCOME

	Note	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Net profit		841	1 251	913	1 573
Other comprehensive income		168	383	(312)	(169)
Items that may be reclassified to the income statement		168	383	(312)	(169)
Cash flow hedges (gross)	21	3	26	77	214
Deferred tax	15; 21	(1)	(5)	(15)	(41)
Cash flow hedges (net)		2	21	62	173
Unrealized net gains on financial assets available for sale (gross)		205	446	(462)	(422)
Deferred tax	15	(39)	(84)	88	80
Unrealized net gains on financial assets available for sale (net)		166	362	(374)	(342)
Total net comprehensive income		1 009	1 634	601	1 404

STATEMENT OF FINANCIAL POSITION

	Note	30.06.2017	31.12.2016
ASSETS			
Cash and balances with the Central Bank	17	13 568	13 277
Amounts due from banks	18	5 977	8 471
Trading assets excluding derivative financial instruments	19	1 542	358
Derivative financial instruments	20	2 221	2 895
Financial assets designated upon initial recognition at fair value through profit and loss	22	7 102	11 744
Loans and advances to customers	23	190 556	189 067
Investment securities available for sale	24	37 863	35 773
Investment securities held to maturity	25	911	157
Investments in subsidiaries, joint ventures and associates	37	2 725	2 535
Non-current assets held for sale	26	369	361
Intangible assets	27	2 667	2 817
Tangible fixed assets	27	2 185	2 325
Deferred income tax assets	15	947	1 034
Other assets	28	2 156	2 143
TOTAL ASSETS		**270 789**	**272 957**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		4	4
Amounts due to banks	29	16 497	18 717
Derivative financial instruments	20	3 024	4 230
Amounts due to customers	30	211 264	209 371
Debt securities in issue	31	665	1 693
Subordinated liabilities	32	1 617	2 539
Other liabilities	33	3 097	3 340
Current income tax liabilities		194	251
Provisions	34	204	223
TOTAL LIABILITIES		**236 566**	**240 368**
Equity			
Share capital	35	1 250	1 250
Other capital	35	31 722	28 451
Net profit for the year	35	1 251	2 888
TOTAL EQUITY		**34 223**	**32 589**
TOTAL LIABILITIES AND EQUITY		**270 789**	**272 957**
Capital adequacy ratio	59	18.82%	17.19%
Book value (in PLN million)		34 223	32 589
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		27.38	26.07
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		27.38	26.07

(IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

For the six-months period ended 30 June 2017	Share capital	Other capital								Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income							
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital				
As at 1 January 2017	**1 250**	**24 268**	**1 070**	**3 555**	**(342)**	**(89)**	**(11)**	**28 451**	**-**	**2 888**	**32 589**
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	2 888	(2 888)	-
Total comprehensive income, of which:	**-**	**-**	**-**	**-**	**362**	**21**	**-**	**383**	**-**	**1 251**	**1 634**
Net profit	-	-	-	-	-	-	-	-	-	1 251	1 251
Other comprehensive income	-	-	-	-	362	21	-	383	-	-	383
Transfer from undistributed profits	-	2 850	-	38	-	-	-	2 888	(2 888)	-	-
As at 30 June 2017	**1 250**	**27 118**	**1 070**	**3 593**	**20**	**(68)**	**(11)**	**31 722**	**-**	**1 251**	**34 223**

For the six-months period ended 30 June 2016	Share capital	Other capital							Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income						
		Reserve capital	General banking risk fund	Other reserves	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital			
As at 1 January 2016	**1 250**	**20 518**	**1 070**	**3 484**	**145**	**(57)**	**(13)**	**25 147**	**1 250**	**2 571**	**30 218**
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	2 571	(2 571)	-
Total comprehensive income, of which:	**-**	**-**	**-**	**-**	**(342)**	**173**	**-**	**(169)**	**-**	**1 573**	**1 404**
Net profit	-	-	-	-	-	-	-	-	-	1 573	1 573
Other comprehensive income	-	-	-	-	(342)	173	-	(169)	-	-	(169)
Transfer from undistributed profits	-	2 500	-	71	-	-	-	2 571	(2 571)	-	-
As at 30 June 2016	**1 250**	**23 018**	**1 070**	**3 555**	**(197)**	**116**	**(13)**	**27 549**	**1 250**	**1 573**	**31 622**

(IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	01.01-30.06.2017	01.01-30.06.2016
Net cash flows from operating activities			
Profit before income tax		**1 725**	**1 970**
Adjustments:		**2 944**	**2 942**
Amortization and depreciation		363	358
(Gains) losses from investing activities		(5)	1
Interest and dividends		(217)	(250)
Change in:			
amounts due from banks		1 173	(909)
financial assets designated upon initial recognition of fair value through profit and loss		3 458	(690)
derivative financial instruments		(532)	268
loans and advances to customers		(1 610)	2 242
other assets and non-current assets held for sale		(7)	(824)
amounts due to banks		(955)	155
amounts due to customers		2 313	3 482
provisions and impairment allowances		89	173
other liabilities		(243)	(211)
Income tax paid		(533)	(363)
Other adjustments		(350)	(490)
Net cash generated from operating activities		**4 669**	**4 912**
Net cash flows from investing activities			
Inflows from investing activities		**29 747**	**42 996**
Redemption of a subsidiary's capital		-	50
Proceeds from sale of a subsidiary classified as assets held for sale		4	-
Proceeds from sale and interest on investment securities		29 673	42 813
Proceeds from sale of intangible assets and tangible fixed assets		20	-
Other investing inflows (dividends)		50	133
Outflows from investing activities		**(31 634)**	**(48 178)**
Acquisition of a subsidiary		(14)	-
Increase in equity of a subsidiary		(214)	(222)
Increase in equity of an associate		-	(1)
Purchase of investment securities		(31 302)	(47 616)
Purchase of intangible assets and tangible fixed assets		(104)	(339)
Net cash used in investing activities		**(1 887)**	**(5 182)**
Net cash flows from financing activities			
Proceeds from debt securities in issue		664	1 874
Redemption of debt securities in issue		(1 669)	(1 745)
Repayment of subordinated loan		(880)	-
Repayment of loans and advances		(1 685)	(131)
Repayment of interest from long-term borrowings		(244)	(228)
Net cash used in financing activities		**(3 814)**	**(230)**
Net cash flows		**(1 032)**	**(500)**
of which currency translation differences on cash and cash equivalents		(219)	109
Cash and cash equivalents at the beginning of the period		17 568	17 190
Cash and cash equivalents at the end of the period	42	16 536	16 690
of which restricted		11	10

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION ON THE BANK

BUSINESS ACTIVITIES OF THE BANK:

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski' SA or 'The Bank') was established in 1919 as Pocztowa Kasa Oszczędnościowa. In 1950 it started operations 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 Street, 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 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, 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.

According to the Warsaw Stock Exchange Bulletin (Ceduła Giełdowa), the Bank is classified under the macro-sector 'Finance', sector 'Banks'.

PKO Bank Polski SA is a universal deposit and credit bank which services individuals, legal entities and other entities, both Polish and foreign. The Bank may hold foreign exchange and foreign currencies and trade in those currencies, as well as conduct foreign exchange and foreign currency transactions, and open and close bank accounts in banks abroad, as well as deposit foreign exchange funds in those accounts.

(IN PLN MILLION)

INFORMATION ON MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

As at 30 June 2017, the Supervisory Board consisted of:

No.	Name and Surname	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017. The entity authorized to exercise rights from shares owned by the State Treasury, as Eligible Shareholder, appointed Piotr Sadownik as the Chairman of the Supervisory Board
2.	Grażyna Ciurzyńska	Vice-Chairman of the Supervisory Board	Appointed to the Supervisory Board on 30 June 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017. The entity authorized to exercise rights from shares owned by the State Treasury, as Eligible Shareholder, appointed Grażyna Ciurzyńska as the Vice-Chairman of the Supervisory Board.
3.	Zbigniew Hajłasz	Secretary of the Supervisory Board till 22 June 2017 Member of the Supervisory Board	Appointed to the Supervisory Board on 30 June 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. On 14 July 2016 he was elected as the Secretary of the Supervisory Board. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
4.	Mariusz Andrzejewski	Member of the Supervisory Board	Appointed to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
5.	Mirosław Barszcz	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
6.	Adam Budnikowski	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
7.	Wojciech Jasiński	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
8.	Andrzej Kisielewicz	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
9.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	Appointed to the Supervisory Board on 26 June 2014 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
10.	Janusz Ostaszewski	Member of the Supervisory Board	Appointed to the Supervisory Board on 25 February 2016 for the term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 26 June 2014. Appointed again to the Supervisory Board on 22 June 2017 for the next joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.
11.	Jerzy Paluchniak	Member of the Supervisory Board	Appointed to the Supervisory Board on 22 June 2017 for the joint term of the Supervisory Board, which commenced on the day of the Ordinary General Shareholders' Meeting convened on 22 June 2017.

(IN PLN MILLION)

As at 30 June 2017, the Management Board consisted of:

No.	Name and Surname	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	Appointed on 8 January 2014 again to the position of President of the Management Board for the previous joint term of the Management Board. Appointed on 14 June 2017 again to the position of President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
2.	Janusz Derda	Vice-President of the Management Board	Appointed on 3 November 2016 to the position of Vice-President of the Management Board for the previous term of the Management Board on 1 December 2016. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
3.	Bartosz Drabikowski	Vice-President of the Management Board	Appointed on 8 January 2014 again to the position of Vice-President of the Management Board for the previous joint term of the Management Board. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
4.	Maks Kraczkowski	Vice-President of the Management Board	Appointed on 30 June 2016 to the position of Vice-President of the Management Board for the previous joint term of the Management Board on 4 July 2016. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
5.	Mieczysław Król	Vice-President of the Management Board	Appointed on 2 June 2016 to the position of Vice-President of the Management Board for the previous joint term of the Management Board on 6 June 2016. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
6.	Piotr Mazur	Vice-President of the Management Board	Appointed on 8 January 2014 again to the position of Vice-President of the Management Board for the previous joint term of the Management Board. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
7.	Jakub Papierski	Vice-President of the Management Board	Appointed on 8 January 2014 again to the position of Vice-President of the Management Board for the previous joint term of the Management Board. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.
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 for the previous joint term of the Management Board on 18 July 2016. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board for the next joint term of the Management Board, which commenced on 2 July 2017.

On 14 June 2017, the Supervisory Board appointed Mr Rafał Antczak as Vice-President of the Management Board for a joint term of office of the Management Board, which commenced on 2 July 2017.
Mr Janusz Derda, Vice-President of the Management Board supervising Field of IT and Service resigned from the membership of the Bank's Management Board as of the end of the day 9 August 2017.

2. Approval of the financial statements

These condensed interim financial statements, reviewed by the Audit Committee of the Supervisory Board on 24 August 2017, were approved for publication by the Bank's Management Board on 24 August 2017.

3. Basis of preparation of the financial statements

The condensed interim financial statements of PKO Bank Polski SA have been prepared for the six-month period ended 30 June 2017 and include comparative data for the six-month period ended 30 June 2016 (as regards income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows), and comparative data as at 31 December 2016 (as regards statement of financial position). Financial data has been presented in Polish zloty (PLN), rounded to million zloty, unless indicated otherwise.

These condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) no. 34 Interim financial reporting as adopted by the European Union.

The accounting policies and the calculation methods used in the preparation of these condensed interim financial statements are consistent with the policies in force in the financial year ended 31 December 2016. Those policies have been described in the annual financial statements of PKO Bank Polski SA for 2016.

The presented condensed interim consolidated financial statements for the six-months period of 2017 do not include all information and disclosures required to be presented in the annual consolidated financial statements and they should be read jointly with the annual financial statements of PKO Bank Polski SA for the year ended 31 December 2016, prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

4. Changes in accounting policies

4.1. Amendments to published Standards and Interpretations that are effective from 1 January 2017

These financial statements include the requirements of all the International Accounting Standards and International Financial Reporting Standards adopted by the European Union, and the related interpretations which have been issued and are binding for annual periods beginning on or after 1 January 2017.

These financial statements do not include the standards and interpretations listed below which are waiting to be adopted by the European Union or have been adopted by the European Union but have or will become binding after the balance sheet date.

4.2. New standards, interpretations and amendments to published standards, that were published and adopted by the European Union, but did not come into force yet and were not introduced by PKO Bank Polski SA

The Management Board does not expect the adoption of the new standards, their changes and interpretations to have a significant impact on the accounting policies applied by the Bank with the exception of IFRS 9. The Bank intends to apply them in the periods indicated in the relevant standards and interpretations (without early adoption).

IFRS 9 Financial instruments

IFRS 9 Financial Instruments was published in July 2014 and endorsed for application in the EU Member States on 22 November 2016 by Commission Regulation (EU) no. 2016/2067. It is mandatory for financial statements prepared for the financial years starting on or after 1 January 2018 (with the exception of insurance companies, which may apply the standard from 1 January 2021). The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

Classification and measurement

IFRS 9 defines 3 measurement categories of financial assets:

- valuation at amortized cost calculated using the effective interest rate method (hereinafter ‘amortized cost’);
- fair value through other comprehensive income (hereinafter ‘FVOCI’); and
- fair value through profit or loss (hereinafter ‘FVP&L’).

The above corresponds to the measurement methods known from IAS 39, but the principles of classifying items to the individual categories are completely different.

In the case of debt instruments, classification of financial assets is based on the entity’s business model and the characteristics of cash flows generated by those assets.

The business model test determines whether a given instrument is maintained to obtain contractual cash flows or to realize fair value changes before the maturity date. There are three groups distinguished within the business model: ‘hold to collect’, ‘hold to collect and sell’ and ‘sell’.

The test of the cash flow characteristics establishes whether contractual cash flows are solely payments of principal and interest defined as consideration for the time value of money and risk related to the value of the exposure in a given period (eng. *solely principal and interest* – hereinafter ‘SPPI’).

Debt financial assets classified as ‘hold to collect’ and having met the SPPI test are classified as measured at amortized cost, with the exception of the possibility of classifying to FVP&L the instruments in case of which such measurement eliminates the accounting mismatch in the measurement method (eng. *accounting mismatch*).

The category of fair value through other comprehensive income (FVOCI) which include debt instruments used under a business model assuming both obtaining contractual cash flows and selling financial assets. The condition is that the SPPI test must be satisfied.

If debt financial assets do not satisfy above-mentioned criteria, they are classified and measured as FVP&L.

Classification of financial instruments is performed as at the moment of first-time adoption of IFRS 9, i.e. as at 1 January 2018 and at the moment of initial recognition of an instrument. Changes in the classification are only possible in case of a significant change of the business model and should occur rarely.

In the case of equity instruments, instruments as held for trading or instruments representing payment in a business combination are classified as FVP&L, and in the case of the remaining assets, the Bank is able to elect to either classify and measure them as FVP&L or as FVOCI. In the case of FVOCI, the entity recognizes fair value changes in other comprehensive income, with the exception of dividends – which are recognized in profit or loss. Fair value changes thus recognized in other comprehensive income would never be transferred to profit or loss which makes a difference compared to similar measurement of available-for-sale financial assets (AFS) under current IAS 39. Although the valuation changes may be transferred between the categories of equity.

Financial liabilities are measured according to the former provisions of IAS 39, with the exception of the obligation to recognize in other comprehensive income a part of the fair value measurement arising from changes in own credit risk – in the case of financial liabilities to which the fair value option was applied.

In 2016, the Bank in cooperation with an external advisor executed the first stage of the preparation for implementing the standard. The analysis performed with regard to classification and measurement comprised aspects such as verifying the lending products in terms of SPPI test, verifying the adopted business models and performing a simulation of the effect of implementing IFRS 9 in the form of a transposition matrix presenting the change in classification of financial instruments taking into account the effect on the Bank's financial statements.

The analyses performed led to the following conclusions:

- The potential change in the classification of measurement from amortized cost to measurement of FVOCI may concern the housing loans which will be subject to sale to PKO Bank Hipoteczny SA as part of the grouping and transferring (eng. *pooling*). Such classification will be maintained for the purpose of preparing the Bank's standalone financial statements. From the perspective of the consolidated financial statements, the adjustment will not apply because the loans subject to pooling will meet the business model criterion of 'hold to collect' within the PKO Bank Polski SA Group;
- IFRS 9 will change the method of disclosure of modification of cash flows from the Bank's financial assets, which will be disclosed in the income statement on a one-off basis upon making the modification, and the change in the carrying amount will be calculated using the original effective interest rate. To-date the impact of the modifications was deferred or accrued using the effective interest rate over the remaining period to maturity of the product;
- IFRS 9 distinguishes a new category of purchased or originated credit-impaired assets, which shall be measured at the effective interest rate taking into account credit risk throughout the life of the instrument – POCI.

Impairment

A fundamental change in the area of impairment is that IAS 39 is based on the concept of incurred losses, whereas IFRS 9 is based on the concept of expected losses.

In line with the general principle, impairment will be measured as 12-month expected credit losses or lifetime expected credit losses. The measurement basis will depend on whether credit risk increased significantly from the moment of initial recognition. Loans will be allocated to 3 categories (eng. *stages*):

Not impaired portfolio (IBNR according to IAS 39)	Stage 1 (assets, whose credit risk has not increased significantly)	12-month expected credit losses
	Stage 2 (significant increase in credit risk)	lifetime expected credit losses
Impaired portfolio	Impaired loans (the portfolio includes purchased or originated credit-impaired assets – POCI)	lifetime expected credit losses

The Bank identifies the evidence of a significant increase in risk based on the comparison of the probability of default curves over the life of an exposure as at the date of initial recognition and as at the reporting date. For each reporting date, only the parts of the original and current insolvency probability curves which correspond to the period starting from the reporting date to the maturity of the exposure are compared. The comparison is based on the value of the average probability of default in the analysed period, adjusted for the current and forecasted macroeconomic ratios.

In order to identify other evidence of a significant increase in credit risk, the Bank makes use of the full quantitative and qualitative information available, including:

- restructuring measures involving granting concessions to the debtor due to its financial difficulties – (eng. *forbearance*);
- a delay in repayments of more than 30 days;
- early warning signals identified as part of the monitoring process, indicating an significant increase in credit risk;
- a dispute in progress with a customer;
- an assessment by an analyst as part of the individualized analysis process;
- no credit risk assessment available for an exposure as at the date of initial recognition, preventing from assessing whether credit risk has increased.

The loss expected both during the entire life of an exposure and in a 12-month period is the total of the losses expected in the individual periods, discounted using the effective interest rate. The Bank assumes one month to be the base period. In order to determinate the value of an asset as at the default date in a given period, the Bank adjusts the parameter which determines the amount of the exposure as at the default date for future repayments.

As regards the portfolio analysis, the impact of macroeconomic scenarios is included in the levels of the individual parameters. In determining the methodology of calculation of the individual risk parameters, the Bank examines the dependence of the levels of these parameters on macroeconomic conditions based on historical data. For calculating an expected loss, similarly to the case of identification of the evidence of a significant increase in credit risk, macroeconomic scenarios are used. The ultimate expected loss is the average of losses expected in the individual scenarios, weighted with the probability of the scenarios occurring. The Bank ensures the consistency of the macroeconomic scenarios used for calculating risk parameters with the macroeconomic scenarios used in credit risk budgeting processes.

At the time of initial recognition, all loans are recognized in stage 1, excluding the POCI portfolio.

Hedge accounting

IFRS 9 increases the range of items that can be designated as hedged items, as well as allows designating as a hedging instrument financial assets or liabilities measured at fair value through profit or loss. The obligation of retrospective measurement of hedge effectiveness together with previously applicable threshold of 80%-125% were eliminated (the condition to the application of hedge accounting is the economic relationship between the hedging instrument and the hedged item). In addition, the scope of required disclosures regarding risk management strategies, cash flows arising from hedging transactions and the impact of hedge accounting on the financial statements was extended.

Due to the fact that the standard is still being worked on to introduce amendments relating to accounting for macro hedges, entities have a choice of applying hedge accounting provisions: entities can either continue to apply IAS 39 or apply the new IFRS 9 standard with the exception of fair value macro hedges relating to interest rate risk.

Currently, the Bank has not yet decided whether it will apply the new standard, or continue to apply the provisions of IAS 39.

Disclosures and comparative data

In the Bank's opinion, the application of IFRS 9 requires making considerable changes to the manner of presentation and the scope of disclosures concerning the area of financial instruments, including in the first year of its application, when extensive information about the opening balance and restatements made is required. The Bank intends to use the IFRS 9 provisions which exempt entities from the obligation to restate the comparative data for the prior periods with regard to changes resulting from classification and measurement as well as impairment. Differences in the carrying amounts of financial assets and liabilities resulting from the application of IFRS 9 will be recognized in undistributed profits/accumulated losses, in equity as at 1 January 2018.

Implementation schedule

As described above, in 2016 the 'IFRS 9 Gap analysis' project was conducted, which comprised a business analysis of gaps in the preparation of the Bank for the implementation of IFRS 9. The project was split into two areas: 1) classification and measurement, including hedge accounting and reporting and tax issues, and 2) impairment. The first area was managed by the Accounting Division, and the second by the Risk Division. Additionally, the Bank established a Steering Committee whose task was to take key decisions and control the conduct of the project. The Steering Committee comprised the Directors of the Accounting Division, Risk Division and the following Departments: Credit Risk, Accounting and Reporting, Management Information and Development of Transactional Applications. The Steering Committee was supported by the Project Sponsors: the Vice-President of the Management Board responsible for Risk Management and the Vice-President of the Management Board responsible for Finance and Accounting. Apart from the accounting and reporting area, tax and risk area employees, the business, settlements and IT department employees were also involved in the project. Additionally, representatives of PKO Bank Hipoteczny SA (accounting and risk area) participated in the project.

In 2017, the second stage of the project carried out, aimed at implementing the changes resulting from IFRS 9. Similarly as in the first stage, which covers gap analysis, it is divided into two cooperating areas: 1) classification and measurement, including hedge accounting and reporting and tax issues, and 2) impairment. The second stage of the project covers, i.a.:

- developing the optimum solutions in IT systems, and their implementation;
- determining business models and developing new business processes, including in the areas of: SPPI tests, benchmark tests and modifications of cash flows;
- amendments to the Bank's internal regulations;
- calculating opening balance adjustments (as at 1 January 2018) resulting from implementing IFRS 9, including those which will be recognized in the Bank's equity as at 1 January 2018.

The Bank's work on the implementation of methodological solutions relating to the classification, measurement and impairment has reached an advanced stage.

In order to adapt the Bank's IT solutions to the requirements of IFRS 9 in the area of classification and measurement, the Bank has developed solutions for the central system supporting credit products and prepared assumptions for changes in the systems supporting treasury transactions (securities, derivative instruments). Categories of financial assets will be modified in the source systems to reflect IFRS 9 requirements and solutions regarding the modification of financial assets will be provided. The Bank is extending the existing applications to enable the calculation of fair value adjustments for credit exposures classified as measured at fair value and the identification of POCI exposures.

As far as impairment is concerned, the Bank's activities are focused on adjusting the applications dedicated to impairment measurement to the expected changes, in particular modifying the scope of input and output data, implementing impairment measurement algorithms in accordance with the IFRS 9 requirements and optimizing the IT infrastructure to achieve efficiency of applications that is adequate to the scope of the calculations, which is significantly greater than under IAS 39. Bearing in mind the significance of this issue, the Bank is introducing the changes with support of an external advisor.

At the same time, work is pending on changes in the Bank's data warehouse and reporting extracts on the basis of which reports are prepared.

The completion of implementing changes in respect of IFRS 9 is planned for the fourth quarter of 2017.

Quantification of the impact of IFRS 9 on the financial position and equity

Due to the methodological work in progress, mainly in respect of the area of impairment and the lack of information on the directions of change in tax regulations (including mainly the recognition of deferred tax due to impairment allowances on loan exposures) in the Bank's opinion, presentation of preliminary quantitative data would not increase the informational value of the financial statements for the readers. Taking the above into consideration, the Bank presented qualitative information which enables assessing the impact of IFRS 9 on the Bank's financial position and equity management.

The Bank assumes that the introduction of a new impairment model based on the concept of expected loss and, as a result, the early recognition of a loss will have an impact, in particular, on the amount of impairment allowances on the exposures classified into stage 2. As regards the impact of IFRS 9 on capital requirements, according to the draft CRR II / CRD V published on 23 November 2016, the Bank will have the right to temporarily include an additional component of own funds in Tier 1, relating to the implementation of IFRS 9. The aim of the additional component of own funds is to take into account gradually (i.e. over 5 years, on a straight line basis at 20% p.a.) the impact of a significant increase in allowances on the equity level. The additional component of own funds would be calculated as the difference in the amount of allowances in respect of an expected credit loss over the life of an exposure and an expected 12-month credit loss for loans with a significant increase in credit risk. According to the draft CRR II, the Bank will have the right to recognize 100% of this difference as a component of own funds in 2018, in 2019 it will be possible to recognize 80% of this value; in the following years, it will be 60%, 40% and 20% respectively. The entire drop in own funds resulting from the horizon for calculating allowances being changed from the loss identification period (the LIP parameter) to 12 months will already be included in the calculation of capital ratios as at the moment of implementation of IFRS 9. A quantitative assessment of the impact of changes in impairment on financial statements is not yet available mainly due to the work currently in progress, related to the implementation of the assumptions made on the IFRS 9 project on 'Gap Analysis' in credit risk models.

In the case of the portfolio of mortgage loans subject to pooling the Bank will measure this portfolio at fair value at the level of the separate financial statements, considering the result of this adjustment will be recognized in other comprehensive income.

IFRS 15 Revenue from contracts with customers

IFRS 15 replaces IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of Assets from Customers, SIC 31 Revenue – barter transactions involving advertising services.

The main principle is to recognize revenue in such way as to reflect the transaction of transfer of goods or services in the amount that reflects the value of remuneration, which the company expects in exchange for those goods or services. For the purpose of recognizing revenue at the appropriate moment and amount, the standard presents five-level analysis model, consisting of: the identification of an agreement with a customer and binding commitment, the determination of transaction price, its appropriate allocation and the recognition of revenue when the obligation is met.

New standards and interpretations and amendments, which have been published but not yet approved by the European Union

IFRS 16 Leases

Published by the International Accounting Standards Board on 13 January 2016 and is binding for annual periods starting on or after 1 January 2019. The new standard will replace the currently binding IAS 17 Leases.

IFRS 16 introduces new principles for recognizing leases. The main change is eliminating the classification of leases into operating and finance leases, and introducing one model for recognizing leases instead. Applying that one model the lessee is obliged to recognize the leased assets in the statement of financial position and the corresponding liabilities, save for short-term lease contracts (up to 12 months) and lease contracts for low-value assets. The lessee is also obliged to recognize depreciation on the leased asset separately from the interest expense in respect of the lease in the income statement.

The current accounting treatment of leases by the lessor will remain to a large extent unchanged according to IFRS 16. This means that the lessor will continue to classify leases into operating and finance, and treat them as two different types of leases for accounting purposes.

The Bank believes that the new standard will have an impact on the recognition, presentation, measurement and disclosure of assets subject to operating leases and the respective liabilities in the Bank's financial statements where the Bank is the lessee.

Other changes:

- Amendments to IAS 12 Income tax clarify the recognition of deferred tax assets in connection with debt instruments measured at fair value.
- Amendments to IFRS 10 and IAS 28 concern the sale or contribution of assets between an investor and its joint venture or associate. The Bank does not expect the impact of the above amendments to be material.
- Amendments to IAS 40 Investment property and improvements to IFRS 2014-2016 (IFRS 1, IAS 28) will have no impact on the financial statements of the Bank.
- Amendments to IFRS 2, Share-based Payment Transactions, were published by the International Financial Standards Board on 20 June 2016 and are binding for the reporting periods starting on or after 1 January 2018. The Bank believes that the amended standard will not have a material impact on the financial statements in the initial period of its application.
- Amendments to IFRS 15, Revenue from contracts with customers, clarifications to IFRS 15, were published by the International Financial Standards Board on 12 April 2016 and are binding for the reporting periods starting on or after 1 January 2018. The amendments to IFRS 15 give precise guidelines relating to the identification of the performance duties, accounting for licencing intellectual property and assessing whether an amount refers to a 'principal or agent' in the context of presenting revenue in gross or net amounts. Practical solutions which facilitate implementing the new standard were also added. The Bank believes that the amended standard will not have a material impact on the financial statements in the initial period of its application.
- IFRIC 22, Foreign Currency Transactions and Advance Consideration, was published by the International Accounting Standards Board on 8 December 2016 and is binding for reporting periods starting on or after 1 January 2018. The Bank believes that the interpretation will not have a material impact on the financial statements in the initial period of its application.

(IN PLN MILLION)

NOTES TO THE INCOME STATEMENT

5. Interest income and expense

INTEREST AND SIMILAR INCOME ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
loans and other advances to banks	46	96	37	66
loans and advances to customers, of which:	2 043	4 022	1 947	3 878
on impaired loans	60	117	68	137
investment securities	266	498	192	375
derivative hedging instruments	95	176	87	182
financial assets designated upon initial recognition at fair value through profit and loss	48	109	56	109
trading financial assets	12	23	16	35
other	-	-	2	3
Total	**2 510**	**4 924**	**2 337**	**4 648**

INTEREST EXPENSE AND SIMILAR CHARGES ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
amounts due to banks	(36)	(65)	(27)	(43)
amounts due to customers	(458)	(901)	(450)	(903)
debt securities in issue and subordinated liabilities	(19)	(42)	(24)	(47)
debt securities available for sale	(18)	(38)	(18)	(32)
trading financial assets	(3)	(5)	(6)	(15)
financial assets designated upon initial recognition at fair value through profit and loss	(3)	(6)	(6)	(13)
Total	**(537)**	**(1 057)**	**(531)**	**(1 053)**

6. Fee and commission income and expense

FEE AND COMMISSION INCOME ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
payment and credit cards	268	514	270	499
maintenance of bank accounts	211	424	216	431
loans and advances granted	165	322	161	306
offering of insurance products	27	46	11	24
maintenance of investment funds and OFE (including management fees)	95	180	64	129
cash transactions	22	44	24	46
servicing foreign mass transactions	25	50	22	41
brokerage activities and issue arrangement	54	102	35	68
insurance and investment products	4	8	3	7
sale and distribution of court fee stamps	2	3	2	5
customer orders	10	21	11	21
fiduciary services	2	3	1	2
other	16	36	15	32
Total	**901**	**1 753**	**835**	**1 611**

(IN PLN MILLION)

FEE AND COMMISSION EXPENSE ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
card activities	(150)	(280)	(154)	(282)
commission paid to external entities for sales of products	(22)	(44)	(22)	(41)
cost of construction investment supervision and property valuation	(10)	(21)	(11)	(20)
settlement services	(7)	(17)	(9)	(18)
fee and commissions for operating services provided by banks	(5)	(9)	(4)	(8)
sending text messages (SMS)	(5)	(10)	(4)	(7)
fees incurred by the Brokerage House	(5)	(11)	(3)	(7)
other	(23)	(45)	(22)	(43)
Total	**(227)**	**(437)**	**(229)**	**(426)**

7. Dividend Income

DIVIDEND INCOME	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
from the issuers not related to the Bank	11	11	9	9
investment securities available for sale	10	10	9	9
trading financial assets	1	1	-	-
from subsidiaries, joint venture and associates, of which:	113	113	81	140
PKO Towarzystwo Funduszy Inwestycyjnych SA	60	60	56	56
CEUP eService Sp. z o.o.	3	3	-	-
PKO BP BANKOWY PTE SA	5	5	7	7
PKO BP Finat Sp. z o.o.	45	45	17	76
PKO Finance AB	-	-	1	1
Total	**124**	**124**	**90**	**149**

8. Net income from financial instruments measured at fair value

NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Debt securities	5	6	5	7
Equity instruments	(1)	(1)	(1)	-
Derivative instruments (of which an ineffective portion related to cash flow hedges)	(3)	(3)	(7)	(30)
Other	-	-	-	5
Total	**1**	**2**	**(3)**	**(18)**

(IN PLN MILLION)

9. GAINS LESS LOSSES FROM INVESTMENT SECURITIES

RESULT ON INVESTMENT SECURITIES	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Equity securities*	-	-	419	419
Debt securities	1	(1)	8	58
Total	**1**	**(1)**	**427**	**477**

* In the second quarter of 2016, the Bank recognized profit on the settlement of Visa transactions in the amount of PLN 418 million (the transactions are described in detail in the note 'Investment securities available for sale' in the financial statements of PKO Bank Polski SA for 2016).

10. FOREIGN EXCHANGE GAINS (LOSSES)

Foreign exchange gains (losses) comprise foreign exchange gains and losses, both realized and unrealized, resulting from revaluation of assets and liabilities denominated in foreign currency and from the fair value valuation of currency derivatives (FX forward, FX swap, CIRS and currency options). This item also includes the ineffective part of the cash flow hedge, where CIRS contracts are the hedging instruments.

Impairment allowances on loan exposures and other receivables denominated in foreign currencies, which are recognized in Polish zloty, are adjusted in line with a change in the valuation of the foreign currency assets for which these impairment allowances are recognized. The effect of this adjustment is recognized in net foreign exchange gains (losses).

11. OTHER OPERATING INCOME AND EXPENSE

OTHER OPERATING INCOME	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
gain on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	12	16	9	13
sundry income	7	13	7	13
recovery of expired and written-off receivables	1	2	1	2
other	17	27	13	24
Total	**37**	**58**	**30**	**52**

OTHER OPERATING EXPENSE	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
losse on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(1)	(11)	(10)	(14)
donations	(4)	(13)	(13)	(14)
sundry expense	(4)	(9)	(4)	(8)
other	(10)	(13)	(11)	(25)
Total	**(19)**	**(46)**	**(38)**	**(61)**

(IN PLN MILLION)

12. Net impairment allowance and write-downs

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS	Note	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Investment securities available for sale	24	(4)	(11)	(8)	(40)
Amounts due from banks		-	-	1	-
Loans and advances to customers	23	(350)	(693)	(367)	(702)
Non-current assets held for sale		(1)	(3)	-	(6)
Tangible fixed assets		(1)	(1)	-	-
Investments in subsidiaries, joint ventures and associates		-	(15)	-	-
Other receivables (other assets)		(7)	(12)	(1)	(2)
Provision for legal claims, loan commitments and guarantees granted	34	(10)	(10)	(8)	(4)
Provision for future liabilities (other provisions)	34	-	-	1	1
Total		**(373)**	**(745)**	**(382)**	**(753)**

13. Administrative expenses

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Employee benefits	(664)	(1 316)	(650)	(1 281)
Overheads	(305)	(594)	(305)	(616)
Amortization and depreciation	(181)	(363)	(185)	(358)
Contribution to the Bank Guarantee Fund (BGF)	(49)	(305)	(108)	(218)
Taxes and other charges	(14)	(26)	(13)	(25)
Total	**(1 213)**	**(2 604)**	**(1 261)**	**(2 498)**

According to IFRIC 21 ‘Levies’, fees paid by the Bank to the Bank Guarantee Fund are recognized in profit or loss on occurrence of the obligating event.

In 2016 the Bank was obliged to make contributions in respect of the annual fee and the prudential fee on a quarterly basis, therefore the respective costs were recognized in profit or loss on a quarterly basis. As of 2017 the Bank makes contributions to the Bank Guarantee Fund (on a quarterly basis) and to the mandatory bank restructuring fund (annually). With reference to the mandatory bank restructuring fund the obligation to make the respective contribution arises as of 1 January of a given year, therefore its amount was recognized in the costs for the first quarter of 2017 (PLN 209 million)

EMPLOYEE BENEFITS	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Wages and salaries, of which:	(553)	(1 092)	(536)	(1 056)
expenses on employee pension programme	(11)	(24)	(11)	(23)
Social insurance, of which:	(94)	(192)	(93)	(187)
contributions to retirement pay and pensions	(77)	(163)	(75)	(158)
Other employee benefits	(17)	(32)	(21)	(38)
Total	**(664)**	**(1 316)**	**(650)**	**(1 281)**

(IN PLN MILLION)

14. Tax on certain financial institutions

As of 1 February 2016, the Act of 15 January 2016 on tax on certain financial institutions came into force, which covered, among other things, banks and insurance companies. The tax basis is the surplus of an entity's total assets above PLN 4 billion in the case of banks arising from the trial balance as at the end of each month. Banks are entitled to reduce the tax basis, i.a. by the value of own funds and the value of Treasury securities. Additionally, banks reduce the tax basis by the value of assets acquired from the NBP, constituting collateral of a refinancing loan granted by the NBP. The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th 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 tax-deductible for the purpose of corporate income tax.

	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Tax on certain financial institutions	(223)	(450)	(220)	(368)

15. Income tax

	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Current income tax expense	(263)	(476)	(308)	(518)
Deferred income tax related to temporary differences	18	2	57	121
Income tax expense recognized in the income statement	**(245)**	**(474)**	**(251)**	**(397)**
Income tax expense recognized in other comprehensive income related to temporary differences	(40)	(89)	73	39
Total	**(285)**	**(563)**	**(178)**	**(358)**

	30.06.2017	30.06.2016
Profit before income tax	1 725	1 970
Tax calculated using the enacted tax rate (19%) in force in Poland	(328)	(374)
Permanent differences between profit before income tax and taxable income, of which:	(149)	(52)
Tax on certain financial institutions	(85)	(70)
Contribution to the BGF	(58)	(13)
Non-tax-deductible impairment allowances on loans and advances	(17)	(9)
Recognizing a non-tax-deductible impairment allowance on investments in subsidiaries, associates and joint ventures	(3)	-
Dividend income	24	28
Other permanent differences	(10)	12
Other differences between profit before income tax and taxable income, including new technologies tax relief and donations	3	29
Income tax expense recognized in the income statement	**(474)**	**(397)**
Effective tax rate	**27.5%**	**20.2%**

DEFERRED TAX LIABILITY	31.12.2016	Income statement	Other comprehensive income	30.06.2017
Interest accrued on receivables (loans)	237	(10)	-	227
Capitalized interest on performing housing loans	118	(5)	-	113
Interest on securities	43	13	1	57
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	329	7	-	336
Gross deferred tax liability	**727**	**5**	**1**	**733**
DEFERRED TAX ASSET				
Interest accrued on liabilities	105	(10)	-	95
Valuation of derivative financial instruments	186	(37)	(4)	145
Valuation of securities	134	(9)	(84)	41
Provision for employee benefits	84	(7)	-	77
Impairment allowances on loan exposures	596	43	-	639
Adjustment of straight-line valuation method and effective interest rate	572	33	-	605
Other temporary negative differences	84	(6)	-	78
Gross deferred income tax asset	**1 761**	**7**	**(88)**	**1 680**
DEFERRED TAX ASSETS (presented in the statement of financial position)	**1 034**	**2**	**(89)**	**947**

16. Earnings per share

Earnings per share	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Net profit	841	1 251	913	1 573
Weighted average number of ordinary shares during the period (in million)	1 250	1 250	1 250	1 250
Earnings per share (in PLN per share)	0.67	1.00	0.73	1.26

During the six-month period of 2017 as well as during the six-month period of 2016 there were no dilutive instruments. Therefore the amount of diluted earnings per share is equal to basic earnings per share.

(IN PLN MILLION)

NOTES TO THE STATEMENT OF FINANCIAL POSITION

17. Cash and balances with the Central Bank

CASH AND BALANCES WITH THE CENTRAL BANK	30.06.2017	31.12.2016
Current account in the Central Bank	9 318	7 444
Cash on hand	4 250	4 153
Deposits with the Central Bank	-	1 680
Total	13 568	13 277

18. Amounts due from banks

AMOUNTS DUE FROM BANKS	30.06.2017	31.12.2016
Deposits with banks	2 228	3 851
Amount due from PKO Bank Hipoteczny SA for the sale of mortgage secured housing loans by the Bank	1 787	3 038
Current accounts	729	429
Loans and advances granted	1 233	492
Receivables due from repurchase agreements	-	661
Gross total	**5 977**	**8 471**
Net total	**5 977**	**8 471**

Amounts due from banks - exposure to credit risk	Exposure	
	30.06.2017	31.12.2016
Amounts due from banks not impaired, not past due	5 977	8 471
Gross total	**5 977**	**8 471**
Net total	**5 977**	**8 471**

19. Trading assets excluding derivative financial instruments

TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	30.06.2017	31.12.2016
Debt securities	1 512	344
Treasury bonds PLN	1 313	186
foreign currency Treasury bonds	47	6
municipal bonds PLN	32	42
corporate bonds PLN	77	76
foreign currency corporate bonds	-	2
covered bonds	43	32
Shares in other entities – listed on stock exchange	26	11
Investment certificates, rights to shares, pre-emptive rights	4	3
Total	1 542	358

(IN PLN MILLION)

20. DERIVATIVE FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	430	602	382	1 163
Other derivative instruments	1 791	2 422	2 513	3 067
Total	**2 221**	**3 024**	**2 895**	**4 230**

TYPES OF CONTRACT	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	1 164	1 532	1 388	2 098
CIRS	390	634	570	1 423
FX Swap	185	207	205	164
Options	359	356	540	437
FRA	2	2	2	2
Forward	119	293	177	106
Other	2	-	13	-
Total	**2 221**	**3 024**	**2 895**	**4 230**

21. DERIVATIVE HEDGING INSTRUMENTS

The Bank applies the following hedging strategies:

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN using CIRS transactions during the hedged period
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in CHF and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – October 2026

STRATEGY 2	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED POSITION	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – December 2021

STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions, where the Bank pays coupons based on floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED POSITION	the portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
	As at 30 June 2017, the Bank had no active hedging relationships based on this strategy

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the period covered by the hedge
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions, where the Bank pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD rate on the nominal value, for which they were concluded
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – September 2022

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in convertible currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates, and changes in foreign exchange rates using CIRS transactions in the period covered by the hedge
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M EURIBOR rate, and receives coupons based on 3M WIBOR rate on the nominal value for which the transaction was concluded
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in EUR and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union.
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – March 2021

STRATEGY 6	HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP.
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flows fluctuations generated by mortgage loans denominated in convertible currencies and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates, using two hedging instruments: IRS and CIRS-EP, in the period covered by the hedge
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a floating 3M WIBOR rate on the nominal amount, and IRS transactions, where the Bank pays coupons based on a floating 3M EURIBOR rate and receives coupons based on a fixed EUR rate on the nominal amount, for which they were concluded. In case of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – February 2024

STRATEGY 7	HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING TWO HEDGING INSTRUMENTS: CIRS AND CIRS-EP
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flows fluctuations generated by mortgage loans denominated in convertible currencies and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates, using two hedging instruments: CIRS and CIRS-EP, in the period covered by the hedge
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupon based on a fixed rate in EUR and receives coupons based on a floating 3M WIBOR rate on the nominal amount for which it was concluded, and CIRS transactions, where the Bank pays coupon based on a floating 3M CHF LIBOR rate and receives coupons based on a fixed EUR rate on the nominal amount, for which it was concluded. In case of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED POSITION	the portfolio of floating interest rate mortgage loans denominated in CHF and the portfolio of short-term negotiated term deposits, including renewals in the future (high probability of occurrence). The Bank designated the hedged position according to the regulations of IAS 39 AG 99C as adopted by the European Union
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – January 2023

(IN PLN MILLION)

STRATEGY 8	HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVING PRODUCTS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flows fluctuations generated by floating interest rate loans in CHF and by floating interest rate regular saving products in PLN resulting from changes in reference CHF interest rates and PLN and from changes in the CHF/PLN exchange rate, using CIRS transactions, in the period covered by the hedge
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED POSITION	the portfolio of variable interest mortgage loans in CHF and the portfolio of floating interest rate regular saving products in PLN
	Period in which cash flows are expected and in which they should have an impact on the financial result: July 2017 – July 2023

Carrying amount/fair value of derivative hedging instruments	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	111	34	90	32
CIRS	319	568	292	1 131
Total	**430**	**602**	**382**	**1 163**

Change in other comprehensive income related to cash flow hedges and ineffective portion of cash flow hedges	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Other comprehensive income at the beginning of the period, gross	**(86)**	**(109)**	**66**	**(71)**
Gains/losses transferred to other comprehensive income in the period	130	895	(159)	49
Amount transferred from other comprehensive income to the income statement, of which:	(127)	(869)	236	165
- interest income	(95)	(176)	(87)	(182)
- net foreign exchange gains	(32)	(693)	323	347
Accumulated other comprehensive income at the end of the period, gross	**(83)**	**(83)**	**143**	**143**
Tax effect	15	15	(27)	(27)
Accumulated other comprehensive income at the end of the period, net	**(68)**	**(68)**	**116**	**116**
Impact on other comprehensive income in the period, gross	**3**	**26**	**77**	**214**
Tax effect	(1)	(5)	(15)	(41)
Impact on other comprehensive income in the period, net	**2**	**21**	**62**	**173**
An ineffective portion of cash flow hedges recognized in the income statement, of which the amount related to:	**2**	**4**	**(2)**	**(2)**
Net foreign exchange gains (losses)	2	3	-	-
Net income from financial instruments measured at fair value	-	1	(2)	(2)

(IN PLN MILLION)

22. FINANCIAL INSTRUMENTS DESIGNATED UPON INITIAL RECOGNITION AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial instruments designated upon initial recognition at fair value through profit and loss	30.06.2017	31.12.2016
Debt securities		
NBP money market bills	3 499	8 999
Treasury bonds PLN	2 407	1 432
foreign currency Treasury bonds	972	1 075
municipal bonds PLN	106	111
foreign currency municipal bonds	118	127
Total	**7 102**	**11 744**

23. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by product type	30.06.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
Loans	**192 889**	**(7 363)**	**185 526**	**190 100**	**(7 243)**	**182 857**
housing	96 476	(2 051)	94 425	100 010	(2 144)	97 866
corporate	71 193	(3 723)	67 470	65 810	(3 667)	62 143
consumer	25 220	(1 589)	23 631	24 280	(1 432)	22 848
Debt securities	**4 951**	**(76)**	**4 875**	**4 948**	**(77)**	**4 871**
debt securities (corporate)	2 422	(70)	2 352	2 352	(69)	2 283
debt securities (municipal)	2 529	(6)	2 523	2 596	(8)	2 588
Receivables due from repurchase agreements	**155**	**-**	**155**	**1 339**	**-**	**1 339**
Total	**197 995**	**(7 439)**	**190 556**	**196 387**	**(7 320)**	**189 067**

Loans and advances to customers by method of calculating impairment allowances	30.06.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	5 023	(1 971)	3 052	5 714	(2 159)	3 555
impaired	3 960	(1 966)	1 994	4 420	(2 150)	2 270
not impaired	1 063	(5)	1 058	1 294	(9)	1 285
portfolio basis	7 368	(4 899)	2 469	7 022	(4 656)	2 366
group basis (IBNR)	185 604	(569)	185 035	183 651	(505)	183 146
Total	**197 995**	**(7 439)**	**190 556**	**196 387**	**(7 320)**	**189 067**

Loans and advances to customers - the Bank's exposure to credit risk	30.06.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which:	11 328	(6 865)	4 463	11 442	(6 806)	4 636
assessed on an individual basis	3 960	(1 966)	1 994	4 420	(2 150)	2 270
not impaired, of which:	186 667	(574)	186 093	184 945	(514)	184 431
with recognized individual impairment trigger	1 063	(5)	1 058	1 234	(9)	1 225
not past due	849	(4)	845	1 022	(8)	1 014
past due	214	(1)	213	212	(1)	211
without recognized individual impairment trigger/IBNR, of which:	185 604	(569)	185 035	183 711	(505)	183 206
not past due	183 149	(413)	182 736	180 830	(348)	180 482
past due	2 455	(156)	2 299	2 881	(157)	2 724
Total	**197 995**	**(7 439)**	**190 556**	**196 387**	**(7 320)**	**189 067**

(IN PLN MILLION)

Loans and advances to customers by client segment	30.06.2017	31.12.2016
Loans and advances to customers, gross, of which:	**197 995**	**196 387**
mortgage banking	89 874	93 078
corporate (receivables due from repurchase agreements)	62 440	58 458
retail and private banking	25 220	24 280
small and medium enterprises	20 461	20 571
Impairment allowances on loans and advances	(7 439)	(7 320)
Loans and advances to customers, net	**190 556**	**189 067**

Loan quality ratios	30.06.2017	31.12.2016
Share of impaired loans	5.7%	5.8%
Coverage ratio of impaired loans*	65.7%	64.0%
Share of loans overdue more than 90 days in relation to the gross amount of loans and advances to customers	4.5%	4.4%

* The coverage ratio of impaired loans and advances to customers is calculated as the ratio of total impairment allowances of loans and advances to customer (both on impaired loans and advances to customers and IBNR) to the total gross impaired loans and advances to customers.

Impairment allowances on loans and advances to customers – reconciliation of movements in the first half of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Recoveries from written-off exposures*	Net impact on the income statement
housing loans	2 144	410	(290)	(147)	(66)	2 051	5	(115)
corporate loans	3 667	1 081	(732)	(240)	(53)	3 723	16	(333)
consumer loans	1 432	651	(403)	(82)	(9)	1 589	2	(246)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
Total	**7 320**	**2 143**	**(1 427)**	**(469)**	**(128)**	**7 439**	**23**	**(693)**

* This item relates to recoveries from customer repayments and credit sales.

Impairment allowances on loans and advances to customers – reconciliation of movements in the first half of 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Recoveries from written-off exposures*	Net impact on the income statement
housing loans	2 291	625	(454)	(218)	1	2 245	2	(169)
corporate loans	3 987	931	(543)	(266)	(14)	4 095	34	(354)
consumer loans	1 540	545	(374)	(59)	3	1 655	1	(170)
debt securities (corporate)	69	4	-	-	-	73	-	(4)
debt securities (municipal)	3	5	-	-	-	8	-	(5)
Total	**7 890**	**2 110**	**(1 371)**	**(543)**	**(10)**	**8 076**	**37**	**(702)**

* This item relates to recoveries from customer repayments and credit sales.

RECLASSIFICATION OF SECURITIES

In 2012 due to the change of intention as regards holding of the selected portfolio of non-treasury securities classified upon initial recognition as available for sale, the Bank reclassified them to loans and advances to customers category. As a result of the reclassification of the portfolio, the valuation methods for the portfolio have changed, i.e. from measured at fair value to measured at amortized cost.

Portfolio reclassified in 2012	30.06.2017		31.12.2016	
	fair value	carrying amount	fair value	carrying amount
Municipal bonds	600	606	623	628
Corporate bonds	8	8	8	8
Total	**608**	**614**	**631**	**636**

(IN PLN MILLION)

Portfolio reclassified in 2012 as at the reclassification date	nominal value	fair value	carrying amount
Municipal bonds	1 219	1 237	1 237
Corporate bonds	1 289	1 294	1 294
Total	**2 508**	**2 531**	**2 531**

Estimated change in impairment allowances on loans and advances resulting from implementation of scenarios of worsening or improving risk parameters, of which*:	30.06.2017		31.12.2016	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated future cash flows for the Bank's loans and advances portfolio assessed on an individual basis (individually determined to be impaired)	(173)	269	(196)	320
change in probability of default	47	(47)	49	(49)
change in recovery rates	(345)	345	(353)	353

*(in plus - increase in allowances, in minus - decrease in allowances)

24. Investment securities available for sale

Investment securities available for sale	30.06.2017	31.12.2016
Debt securities, gross	37 676	35 588
Treasury bonds PLN	28 222	25 147
foreign currency Treasury bonds	-	457
municipal bonds PLN	4 527	4 552
corporate bonds PLN	4 372	4 791
foreign currency corporate bonds	555	641
Impairment allowances	(243)	(274)
corporate bonds PLN	(243)	(210)
foreign currency corporate bonds	-	(64)
Total net debt securities	**37 433**	**35 314**
Equity securities, gross	176	162
not admitted to public trading	129	128
admitted to public trading	47	34
Impairment allowances	(1)	(1)
Total net equity securities	**175**	**161**
Shares in joint investment institutions	255	298
Total net investment securities available for sale	**37 863**	**35 773**

(IN PLN MILLION)

Investment debt securities available for sale - the Bank's exposure to credit risk	Exposure 30.06.2017	31.12.2016
impaired, assessed on an individual basis	817	1 293
not impaired, not past due	36 859	34 295
with external rating	32 188	29 207
with internal rating	4 671	5 088
Gross total	**37 676**	**35 588**
Impairment allowances	(243)	(274)
Net total by carrying amount	**37 433**	**35 314**

Impairment allowances – reconciliation of movements in the first half of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other	Value at the end of the period	Net - impact on the income statement
Debt securities	274	77	(66)	-	(42)	243	(11)
Equity securities	1	-	-	-	-	1	-
Total	**275**	**77**	**(66)**	**-**	**(42)**	**244**	**(11)**

Impairment allowances – reconciliation of movements in the first half of 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other	Value at the end of the period	Net - impact on the income statement
Debt securities	53	40	-	-	1	94	(40)
Total	**53**	**40**	**-**	**-**	**1**	**94**	**(40)**

25. INVESTMENT SECURITIES HELD TO MATURITY

Investment securities held to maturity	30.06.2017	31.12.2016
Debt securities gross, of which:	911	157
Treasury bonds PLN	911	157
Total	**911**	**157**

26. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale	30.06.2017	31.12.2016
Investments in subsidiaries	344	351
Finansowa Kampania 'Prywatne Inwestycje' Sp. z o. o.	26	29
'Inter-Risk Ukraina' Additional Liability Company	-	4
Qualia Development Sp. z o. o.	318	318
Land and buildings	25	10
Total	**369**	**361**

(IN PLN MILLION)

27. Intangible assets and Tangible fixed assets

INTANGIBLE ASSETS

Intangible assets	30.06.2017	31.12.2016
Software	1 532	1 583
Goodwill	871	871
Customer relationships	29	34
Other, including capital expenditure	235	329
Total	**2 667**	**2 817**

Goodwill

Net goodwill	30.06.2017	31.12.2016
Nordea Bank Polska SA	863	863
Centrum Finansowe Puławska Sp. z o.o.	8	8
Total	**871**	**871**

TANGIBLE FIXED ASSETS

Tangible fixed assets	30.06.2017	31.12.2016
Land and buildings	1 541	1 602
Machinery and equipment	426	428
Assets under construction	35	104
Other	183	191
Total	**2 185**	**2 325**

28. Other assets

Other assets	30.06.2017	31.12.2016
Settlements of payment cards transactions	1 179	1 235
Settlements of financial instruments (including unpaid option premium)	363	382
Cash settlements receivables	94	125
Receivables and settlements of securities turnover	51	80
Receivables from dividends to be received and payments to subsidiaries	97	-
Receivables due to discharge of excess currency	62	26
Assets for sale	61	78
Prepayments	78	54
Trade receivables	102	77
Other	69	86
Total	**2 156**	**2 143**
of which financial assets	1 806	1 791

(IN PLN MILLION)

29. Amounts due to banks

	30.06.2017	31.12.2016
Loans and advances received*	14 875	17 109
Bank deposits	682	793
Amounts due from repurchase agreements	408	206
Current accounts	498	567
Other money market deposits	34	42
Total	**16 497**	**18 717**

* Financing of the loan portfolio acquired in merger transaction with Nordea Bank Polska

30. Amounts due to customers

AMOUNTS DUE TO CUSTOMERS	30.06.2017	31.12.2016
Amounts due to retail clients	149 292	147 392
Current accounts and overnight deposits	79 452	72 196
Term deposits	69 423	74 876
Other liabilities	417	320
Amounts due to corporate entities	52 604	53 570
Current accounts and overnight deposits	29 865	30 661
Term deposits	13 370	12 168
Loans and advances received	8 506	9 680
Other liabilities	863	1 061
Amounts due to budget entities	9 368	8 409
Current accounts and overnight deposits	8 263	8 163
Term deposits	1 083	187
Other liabilities	22	59
Total	**211 264**	**209 371**

AMOUNTS DUE TO CUSTOMERS BY CLIENT SEGMENT	30.06.2017	31.12.2016
Amounts due to customers, of which:		
retail and private banking	141 644	139 423
corporate	39 303	38 025
loans and advances received	8 506	9 680
small and medium enterprises	21 811	22 243
Total	**211 264**	**209 371**

(IN PLN MILLION)

31. Debt securities in issue

Debt securities in issue	30.06.2017	31.12.2016
banking bonds	665	1 693
Total	**665**	**1 693**

In the first half of 2017 the Bank issued 6 700 bank bonds with a nominal value of PLN 670 million, at the same time redeemed bank bonds in the amount of EUR 200 million and bank bonds in the amount of PLN 815 million (in the first half of 2016 the Bank issued bank bonds in EUR with a nominal value of PLN 886 million (EUR 200 million) measured at amortized cost. In the first half of 2016 the Bank redeemed investment securities and bank bonds in PLN with a nominal value of PLN 860 million and bank bonds in EUR with a nominal value of PLN 858 million (EUR 200 million).

32. Subordinated liabilities

	Nominal value in currency	Currency	Period	Special terms	Balance in PLN	
					30.06.2017	31.12.2016
Subordinated bonds	1 601	PLN	14.09.2012-14.09.2022	right of early redemption within 5 years from the issue date	1 617	1 617
Subordinated loan from Nordea Bank AB (publ)	224	CHF	24.04.2012 - 24.04.2022		-	922
Total					**1 617**	**2 539**

On 25 April 2017, there was a repayment of a subordinated loan from Nordea Bank AB (publ).

33. Other liabilities

	30.06.2017	31.12.2016
Accounts payable	452	463
Deferred income	464	406
Liability due to tax on certain financial institutions	75	76
Interbank settlements	423	813
Liabilities relating to investment activities and internal operations	166	350
Liabilities due to suppliers	52	61
Liabilities and settlements due to securities turnover	374	209
Financial instruments settlements (of which unpaid option premium)	302	356
Liabilities due to the contribution to the Bank Guarantee Fund	238	-
Social and legal settlements	102	83
Liabilities from foreign currency activities	192	217
Liabilities related to payment cards	45	111
Other	212	195
Total	**3 097**	**3 340**
of which financial liabilities	2 360	2 693

As at 30 June 2017 and as at 31 December 2016, the Bank had no overdue contractual liabilities.

(IN PLN MILLION)

34. Provisions

For the period ended 30 June 2017	Provisions for legal claims	Provisions for retirement benefits	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2017, of which:	20	45	67	91	223
Short-term provision	20	7	51	91	169
Long-term provision	-	38	16	-	54
Increase/reassessment of provision	2	-	113	1	116
Use of provision	(6)	-	-	(21)	(27)
Release of provision	(5)	(1)	(100)	(1)	(107)
Other changes and reclassifications	-	-	(1)	-	(1)
As at 30 June 2017, of which:	**11**	**44**	**79**	**70**	**204**
Short-term provision	11	6	64	70	151
Long-term provision	-	38	15	-	53

* The item 'Other provisions' comprises, i.a. a restructuring provision of PLN 38 million and a provision for potential claims related to sale of receivables in the amount of PLN 3 million.

For the period ended 30 June 2016	Provisions for legal claims	Provision for retirement benefits	Provision for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	20	45	83	98	246
Short-term provision	20	3	64	98	185
Long-term provision	-	42	19	-	61
Increase/reassessment of provision	11	-	142	3	156
Use of provision	(6)	-	-	(12)	(18)
Release of provision	-	-	(149)	(4)	(153)
Other changes and reclassifications	-	-	1	-	1
As at 30 June 2016, of which:	**25**	**45**	**77**	**85**	**232**
Short-term provision	25	3	56	85	169
Long-term provision	-	42	21	-	63

* The item 'Other provisions' comprises, i.a. restructuring provision of PLN 55 million and a provision for potential claims related to the sale of receivables in the amount of PLN 2 million.

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

(IN PLN MILLION)

35. Equity and shareholding structure of the Bank

Equity	30.06.2017	31.12.2016
Share capital	1 250	1 250
Reserve capital	27 118	24 268
General banking risk fund	1 070	1 070
Other reserves	3 593	3 555
Other comprehensive income, of which:	(59)	(442)
Financial assets available for sale	20	(342)
Cash flow hedges	(68)	(89)
Actuarial gains and losses	(11)	(11)
Net profit for the period	1 251	2 888
Total	**34 223**	**32 589**

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

Name of the entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 30 June 2017				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
Nationale-Nederlanden Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	733 534 125	58.68	PLN 1	58.68
Total	**1 250 000 000**	**100.00**	---	**100.00**
As at 31 December 2016				
The State Treasury	367 918 980	29.43	PLN 1	29.43
Aviva Otwarty Fundusz Emerytalny[1]	83 952 447	6.72	PLN 1	6.72
Nationale-Nederlanden Otwarty Fundusz Emerytalny[2]	64 594 448	5.17	PLN 1	5.17
Other shareholders	733 534 125	58.68	PLN 1	58.68
Total	**1 250 000 000**	**100.00**	---	**100.00**

1) Number of shares held as at 29 January 2013, reported by Aviva OFE after exceeding the threshold of 5% 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.
2) Number of shares held as at 24 July 2012, reported by Nationale-Nederlanden OFE after exceeding the threshold of 5% share in PKO Bank Polski SA's shareholding structure after settlement of the transaction of sale of 95 million shares of PKO Bank Polski SA by the State Treasury.

All the shares of PKO Bank Polski SA carry the same rights and obligations. Shares are not preference shares, in relation to voting rights and dividends. However, the Memorandum of Association of PKO Bank Polski SA restricts the voting rights of shareholders holding more than 10% of the total number of votes at the General Shareholders' Meeting and forbids those shareholders to execute more than 10% of the total number of votes at the General Shareholders' Meeting. The above does not apply to:

1) those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of the voting rights are entitled from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK),
2) shareholders who have the rights from A-series registered shares (the State Treasury),
3) shareholders acting with the shareholders referred to in point 2 above based on the agreements concerning the joint execution of voting rights from shares.

Moreover, limitation of the voting rights of shareholders shall expire when the share of the State Treasury in the Bank's share capital drops below 5%.

(IN PLN MILLION)

In accordance with the PKO Bank Polski SA's Memorandum of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires an approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or transfer of A-series registered shares, after getting the above-mentioned approval, results in the expiry of the above-mentioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

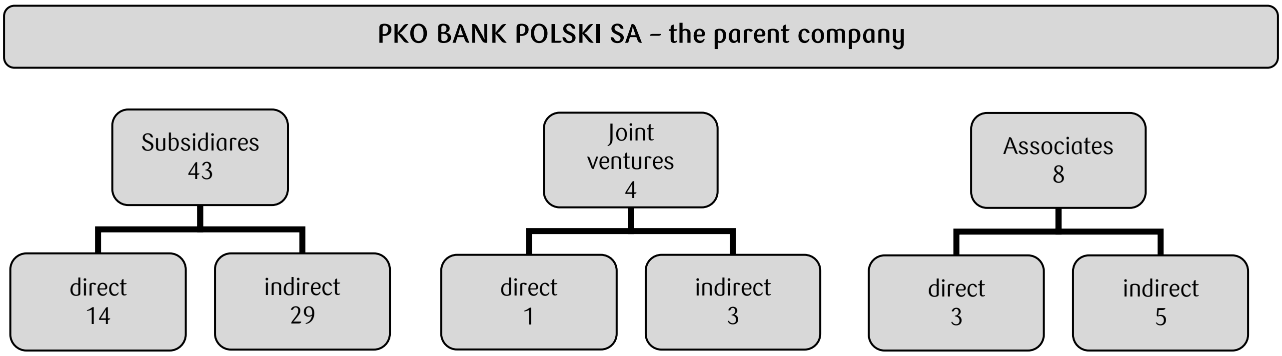
The Bank's shares are listed on the Warsaw Stock Exchange.

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**

In the first half of 2017, there were no changes in the amount of the share capital of the Bank. Issued shares of the Bank are not preferred shares and are fully paid.

(IN PLN MILLION)

INFORMATION ABOUT THE ENTITIES OF THE PKO BANK POLSKI SA GROUP, JOINT VENTURES AND ASSOCIATES



36. STRUCTURE OF THE PKO BANK POLSKI SA GROUP AND THE SCOPE OF ACTIVITIES OF THE PKO BANK POLSKI GROUP ENTITIES

The PKO Bank Polski SA Group consists of the following subsidiaries:

No.	NAME OF ENTITY DIRECT SUBSIDIARIES	HEADQUARTERS	% SHARE IN SHARE CAPITAL 30.06.2017	 31.12.2016
1	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
2	PKO BP BANKOWY PTE SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP Finat Sp. z o.o.	Warsaw	100	100
5	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
6	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Bank Hipoteczny SA	Gdynia	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	99.6293	99.6293
10	Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.[1]	Kiev, Ukraine	95.4676	95.4676
11	Qualia Development Sp. z o.o.[2]	Warsaw	100	100
12	ZenCard Sp. z o.o.[3]	Warsaw	100	-
13	Merkury - fiz an[4]	Warsaw	100	100
14	NEPTUN - fizan[4]	Warsaw	100	100

1) The second shareholder of the entity is 'Inter-Risk Ukraina' Additional Liability Company; the share in the entity is recognized as non-current assets held for sale.
2) The share in the entity is recognized as non-current assets held for sale.
3) The Company was acquired on 26 January 2017.
4) 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 share capital'.

(IN PLN MILLION)

No.	NAME OF ENTITY INDIRECT SUBSIDIARIES	HEADQUARTERS	% SHARE IN EQUITY * 30.06.2017	 31.12.2016
	The PKO Leasing SA GROUP[1]			
1	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
2	PKO Faktoring SA	Warsaw	100	100
3	PKO Leasing Nieruchomości Sp. z o.o.[2]	Warsaw	100	100
4	PKO Agencja Ubezpieczeniowa Sp. z o.o.[3]	Warsaw	100	100
	PKO Leasing Finanse Sp. z o.o.[4]	Warsaw	100	100
5	ROOF Poland Leasing 2014 DAC[5]	Dublin, Ireland	-	-
	The PKO Życie Towarzystwo Ubezpieczeń SA GROUP			
6	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA GROUP			
7	Finansowa Kompania 'Idea Kapitał' Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. GROUP[6]			
8	Qualia 3 Sp. z o.o.	Warsaw	100	100
9	Qualia 2 Sp. z o.o.	Warsaw	100	100
10	Qualia Sp. z o.o.	Warsaw	100	100
11	Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	99.9975	99.9975
12	Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	99.9546	99.9787
13	Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	99.9750	99.9750
14	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	99.9123	99.9123
15	Qualia Hotel Management Sp. z o.o.	Warsaw	100	100
16	Qualia - Residence Sp. z o.o.	Warsaw	100	100
17	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
18	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	100	100
19	FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	51	51
	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.[7]	Warsaw	-	50
	Merkury - fiz an			
20	'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	100	100
21	Molina Sp. z o.o.	Warsaw	100	100
22	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
23	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
24	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
25	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
26	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
27	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - fizan			
28	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	'Inter-Risk Ukraina' Additional Liability Company[8]	Kiev, Ukraine	99.90	-
29	'CENTRUM HAFFNERA' Sp. z o.o.	Sopot	72.9766	72.9766
	'Sopot Zdrój' Sp. z o.o.	Sopot	100	100
	'Promenada Sopocka' Sp. z o.o.	Sopot	100	100

* share in share capital of direct parent entity

1) On 28 April 2017, there was a business combination of Raiffeisen-Leasing Polska SA (as the acquiree) with PKO Leasing SA (as the acquirer); until 27 April 2017, Raiffeisen-Leasing Polska SA was a direct subsidiary of PKO Leasing SA.
2) Previous name: Raiffeisen-Leasing Real Estate Sp. z o.o.; until 27 April 2017, the Company was a direct subsidiary of Raiffeisen-Leasing Polska SA.
3) Previous name: 'Raiffeisen Insurance Agency' Sp. z o.o.; until 27 April 2017, the Company was a direct subsidiary of Raiffeisen-Leasing Polska SA.
4) Previous name: Raiffeisen-Leasing Service Sp. z o.o.
5) Pursuant to IFRS 10, PKO Leasing SA (as the legal successor of Raiffeisen-Leasing Polska SA) exercises control over the Company, even though it does not have an equity interest in the Company.
6) In the limited partnerships to the belonging to the Qualia Development Sp. z o.o. Group Qualia Development Sp. z o.o. is a limited, partner, while the general partner is either: Qualia Sp. z o.o., Qualia 2 Sp. z o.o. or Qualia 3 Sp. z o.o.; pursuant to the foundation deed of the said companies, a limited partner participates in the profits, losses and assets of the limited partnership in 99.9%, in the cases of the partnership's liquidation while the general partner participates in 0.1%.; in the list, in the item 'share in capital' the limited partner's share in the value of the contributions made is presented.
7) In 2017, the Company was dissolved, without going through liquidation proceedings.
8) Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o. is the second shareholder of the Entity; until 27 April 2017, the Company was a direct subsidiary of PKO Bank Polski SA.

NAME OF THE SUBSIDIARY	THE CORE BUSINESS
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core business of the company is the creation, representation towards third parties and the management of open and closed investment funds and management of clients portfolio, which include one or more financial instruments. The company also offers specialized investment programmes and conducts employee pension programmes (PPE).
PKO BP BANKOWY PTE SA	The core business of the company is the creation and management of open and voluntary pension funds and representation towards third parties. It manages PKO BP Bankowy Otwarty Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which Individual Retirement Account (Indywidualne Konto Emerytalne - IKE) and Individual Retirement Security Account (Indywidualne Konto Zabezpieczenia Emerytalnego - IKZE) is offered.
PKO BANK HIPOTECZNY SA	The core business of the company is issuance of coverage bonds which constitute the main source of long-term financing of loans secured with mortgage. The company specializes in granting mortgage housing loans to individual clients and it also purchases receivables relating to such loans from the Bank.
PKO LEASING SA	The company together with its subsidiaries - PKO Leasing Sverige AB and PKO Leasing Nieruchomości Sp. z o.o. provides lease services. Companies offer financial and operating leasing: cars, vans, trucks, machinery and equipment, technological lines, medical equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service. Moreover the subsidiary - PKO Leasing Finanse Sp. z o.o. deals with keeping, preparation and active selling of post-debt-collection, post-contract objects, and PKO Agencja Ubezpieczeniowa Sp. z o.o. provides specialist services within the scope of creating insurance products and programmes for clients of financial institutions. The Group also includes a special purpose company with its registered office in Ireland, formed for the purpose of securitization of lease receivables. The PKO Leasing SA Group also includes PKO Faktoring SA, which provides services of domestic and export factoring with assuming the risk and without assuming the risk, reverse factoring and service of factoring programme for the suppliers.
PKO BP FINAT SP. Z O.O.	PKO BP Finat Sp. z o.o. provides comprehensive services to companies in the financial sector – including transfer agent, fund and companies accounting. It also specializes in competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the company also provides services as a national payment institution. Its clients are both companies of the PKO Bank Polski SA Group, as well as companies outside the PKO Bank Polski SA Group. In 2016, the company began to handle group insurance dedicated to the products offered by the Bank.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The scope of the company's operations comprises insurance activities in the area of section I of insurance - life insurance. The factual scope of the company's operations comprises policies in all categories of insurance covered by the PFSA licence (groups 1, 2, 3, 4, 5 of section I). The Company offers a wide range of insurance products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.

PKO Towarzystwo Ubezpieczeń SA	The business of the company is an insurance activity within the scope of section II of insurance – other personal insurance and property insurance. The factual scope of the company's operations comprises policies in all categories of insurance covered by the PFSA licence (groups 1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 of section II). PKO TU SA focuses on insuring the risks of income loss, accidents, sickness and on insuring real properties for borrowers and holders of mortgage loans. The company offers a wide range of insurance products addressed to the clients of PKO Bank Polski SA and to other entities in the Bank's Group.
PKO Finance AB	The business of the company is the acquisition of the Bank's financial resources from international markets through bond issues.
Qualia Development Sp. z o.o.	The core business of the companies from the Qualia Development Sp. z o.o. Group is to carry out developer activity and in particular the implementation of construction projects, building installations and finishing construction works. Moreover, the Group is engaged in the hotel business, and intermediary activity in real estate turnover. In the first half of 2017, the Group continued activities related to ended the execution of current projects and selling selected property and companies.
KREDOBANK SA	KREDOBANK SA is a universal bank, focused on customer service of retail clients and small and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time company strives to attract corporate customers with high creditworthiness. The company offers services including maintaining bank accounts of individuals and businesses, collecting deposits, lending, issuing warrantees and guarantees, lease, checks and bills trading, operations on the currency market, as well as operations on the securities market. The core business of Finansowa Kompania 'Idea Kapitał' Sp. z o.o. – a subsidiary of KREDOBANK SA – is providing various financial services, including factoring services consisting, in acquisition of rights to the assignment of monetary claims under the loan agreements according to Ukrainian law.
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.	The company's business is to provide various financial services, including factoring services which according to Ukrainian law consist of the acquisition of rights to the assignment of monetary claims under the loan agreements.
ZenCard Sp. z o.o.	The company is engaged in services in the area of IT and computer technologies. It specializes in developing discount and loyalty programme solutions using payment cards. The company built a platform for establishing discount and loyalty programmes by sellers, at the same time enabling virtualization of the loyalty cards. The platform is integrated with a POS terminal and makes it possible to resign from many separate loyalty cards or separate applications installed on a phone and replace them with a single payment card which is also a virtual loyalty card for each of the sellers. CEUP eService Sp. z o.o. – one of the largest clearing agents in Poland, is the company's strategic partner.
Merkury - FIZ AN	The business of the Fund is to invest the funds collected by non-public offering of investment certificates. The Fund is managed by PKO TFI SA. Fund conducts investment activities through subsidiaries whose business is buying and selling real estate for its own account and property management.

(IN PLN MILLION)

NEPTUN - FIZAN	The core business of the Fund is to invest the funds collected by non-public offering of investment certificates. The Fund is managed by PKO TFI SA. PKO Bank Polski SA sells to the Fund shares of companies whose business is not complementary to the offer of financial services offered by the Bank.

The Group holds the following associates and joint ventures:

No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN SHARE CAPITAL* 30.06.2017	31.12.2016
	Joint Ventures of PKO Bank Polski SA			
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	34	34
	1 EVO Payments International Sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, Czech Republic	100	100
	Joint Ventures of NEPTUN - fizan			
	3 'Centrum Obsługi Biznesu' Sp. z o.o.	Poznań	41.44	41.44
	Associates of PKO Bank Polski SA			
1	Bank Pocztowy SA	Bydgoszcz	25.0001	25.0001
	1 Centrum Operacyjne Sp. z o.o.	Bydgoszcz	100	100
	2 Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	100	100
2	'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o	Poznań	33.33	33.33
3	FERRUM SA	Katowice	22.14	22.14
	3 FERRUM MARKETING Sp. z o.o.	Katowice	100	100
	4 Zakład Konstrukcji Spawanych FERRUM SA	Katowice	100	100
	5 Walcownia Rur FERRUM Sp. z o.o.	Katowice	100	-

* share in share capital of direct parent entity

NAME OF JOINT VENTURES AND ASSOCIATES	THE CORE BUSINESS
CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.	The company offers services which consist of processing transactions involving payment instruments conducted both through POS terminals in Poland and abroad and online, lease of POS terminals, top-ups of mobile phone cards and servicing of gift cards. PKO Bank Polski SA, together with the company, offer comprehensive services which involve attracting and servicing entities which use POS terminals and settling transactions conducted with payment instruments using such terminals. Both entities participate jointly in tenders and the cooperation is governed by agreements on, i.a.: • servicing cashless transaction concluded using payment instruments for bilateral agreements with merchants, • marketing cooperation as regards services of fundamental importance to the functioning of the products and services offered both by the Bank and the Company, • the provision of services relating to withdrawals of cash in the Bank's agent and branch offices and in post offices using Visa and MasterCard payment cards using POS terminals, • cooperation in providing services associated with attracting retail outlets which accept payment instruments. The company has two direct subsidiaries and exerts full control over these subsidiaries.
'CENTRUM OBSŁUGI BIZNESU' SP. Z O.O.	The company is the joint project of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. The Bank is a member of a syndicate of banks which granted the company an investment loan for the execution of the said project. The hotel was completed and started operating in February 2007. The operating results generated by the company are insufficient to ensure the current, full servicing of the liabilities

	arising from the loan agreement. At the company's request, as part of the restructuring of the loans, the syndicate modified the repayment schedule of principal and interest instalments which is valid until 30 June 2018. Since June 2015, the Company's shares are included in the portfolio of a Bank's subsidiary, NEPTUN – fizan.
BANK POCZTOWY SA	Bank Pocztowy SA specializes in standard banking products offered to retail clients and a supplementary offer for micro-businesses and institutional clients. The Bank also operates in the segment of settlements and treasury. As part of the strategic partnership with Poczta Polska SA (shareholder with 75% minus 10 shares of the company) uses a potential of a shareholder and develops a range of products in collaboration with stakeholders across the Poczta Polska SA Group. The company has two direct subsidiaries and exerts full control over these subsidiaries.
'POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH' SP. Z O.O.	The company is a specialized entity supporting the development of small and medium-sized enterprises by providing guarantees and provision of a range of business services. The company guarantees loans and advances granted by banks, including PKO Bank Polski SA, as well as bank guarantees, leasing and factoring transaction and security payment. The entity cooperates with PKO Leasing SA. The company's offer also includes guarantees for small and medium-sized enterprises granted under the JEREMIE (*Joint European Resources for Micro to Medium Enterprises*), which are re-underwritten mutually at 70% or 80% from the Wielkopolski Regionalny Program Operacyjny, managed by Bank Gospodarstwa Krajowego. As part of its B2B services the company engages among other things in preparing business plans, feasibility studies, recovery and restructuring programmes, preparing financial documentation and looking for appropriate forms of corporate finance.
FERRUM SA	The company's operations comprise manufacturing welded steel tubes, hollow profiles and insulating tubes. The company has three direct subsidiaries and exerts full control over these subsidiaries[1]. The company's shares were taken up by the Bank under the debt recovery actions (foreclosure of collateral). The company is a public company whose shares are listed on the Warsaw Stock Exchange.

[1] The data consistent with the expanded consolidated report of the FERRUM SA Group for the first quarter of 2017.

(IN PLN MILLION)

37. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

As at 30 June 2017	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
KREDOBANK SA	1 070	(793)	277
PKO Bank Hipoteczny SA	950	-	950
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN – fizan[1]	132	-	132
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO BP Finat Sp. z o.o.	22	-	22
PKO Finance AB[2]	0	-	0
ZenCard Sp. z o.o.	18	-	18
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	161	(44)	117
FERRUM SA	25	-	25
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	2	(2)	-
Total	**3 564**	**(839)**	**2 725**

1) PKO Bank Polski SA has investment certificates of the Fund allowing, according with IFRS, exercising control over the Fund.

2) The above-mentioned amount does not include the newly issued shares paid up by the Bank in the amount of EUR 5.5 million. The said capital increase as at 30 June 2017 has not been registered and has been presented as 'other assets', receivables from dividend to receive and surcharges from subsidiaries.

As at 31 December 2016	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
KREDOBANK SA	1 070	(793)	277
PKO Bank Hipoteczny SA	800	-	800
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
Merkury - fiz an[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110		110
NEPTUN – fizan[1]	95	-	95
PKO BP Finat Sp. z o.o.	22		22
PKO Finance AB	0	-	0
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	161	(29)	132
FERRUM SA	25	-	25
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	2	(2)	-
Total	**3 359**	**(824)**	**2 535**

1) PKO Bank Polski SA has investment certificates of the Fund allowing, according with IFRS, exercising control over the Fund.

38. Changes to the Entities of the PKO Bank Polski SA Group

In the first half of 2017 the following events affecting the structure of the PKO Bank Polski SA Group took place:

Regarding the purchase and increasing the capital of ZenCard Sp. z o.o.

On 26 January 2017 the Bank purchased 1 374 shares in ZenCard Sp. z o.o. with a nominal value of PLN 50 each, constituting 100% of the company's share capital and entitling to 100% of votes at the General Shareholders' Meeting of the company. Simultaneously, on 26 January 2017 the Extraordinary General Shareholders' Meeting of ZenCard Sp. z o.o. (represented by the Bank as the company's sole shareholder) passed a resolution regarding an increase in the company's share capital of PLN 22 050 by issuing 441 new shares with a nominal value of PLN 50 each.

The above-mentioned changes were registered with the National Court Register on 14 March 2017.

As at 30 June 2017 the share capital of the company amounted to PLN 90 750 and is made up of 1 815 shares with a nominal value of PLN 50 each.

ZenCard Sp. z o.o. is a technology company. The Bank is interested in using the company's and its founders' know-how relating to the solutions developed by the company, especially as regards creating loyalty programmes based on payment cards and supporting own promotional campaigns.

Regarding the PKO Leasing SA Group

On 28 April 2017 the merger between PKO Leasing SA (the acquirer) and Raiffeisen-Leasing Polska SA (RLPL) (the acquiree) was registered with the National Court Register authorized to register the acquirer. The merger was executed by way of transferring all the assets of RLPL to PKO Leasing SA (merger by acquisition), without increasing the share capital of PKO Leasing SA or exchanging shares. Therefore, PKO Leasing SA assumed all the rights and obligations of RLPL. The integration process of the two companies will end with an operational merger which is planned to be completed at the turn of 2017 and 2018.

On 28 April 2017, the following changes to the names of the PKO Leasing SA Group companies were entered in the National Court Register:

- ✓ Raiffeisen-Leasing Real Estate Sp. z o.o. to PKO Leasing Nieruchomości Sp. z o.o.,
- ✓ 'Raiffeisen Insurance Agency' Sp. z o.o. to PKO Agencja Ubezpieczeniowa Sp. z o.o.,
- ✓ Raiffeisen-Leasing Service Sp. z o.o. to PKO Leasing Finanse Sp. z o.o.

Regarding the Qualia Development Sp. z o.o. Group

- **Qualia sp. z o.o. - Sopot Sp. k.**

In the first half of 2017 (on 18 January 2017 and 10 April 2017) the following changes in the Articles of Association of Qualia sp. z o.o. – Sopot Sp. k. were recorded in the National Court Register: relating to the reduction in the limited partner's (i.e. Qualia Development Sp. z o.o.'s) contribution – from PLN 10 200 000 to PLN 2 200 000 and the reduction in the threshold of the limited partner's liability from PLN 4 700 000 to PLN 2 200 000. The funds resulting from the said reduction in the limited partner's contribution were returned to limited partner, including PLN 5 500 000 in December 2016.

- **Qualia Hotel Management Sp. z o.o.**

On 6 February 2017 an increase in the share capital of Qualia Hotel Management Sp. z o.o. of PLN 1 149 700 was registered with the National Court Register. All the shares were taken up and paid in October 2016 by the then sole shareholder, Qualia Development Sp. z o.o.

As at 30 June 2017 the share capital of the company amounted to PLN 1 411 500 divided to 28 230 shares with a nominal value of PLN 50 each.

- **Sarnia Dolina Sp. z o.o.**

On 6 April 2017 an increase in the share capital of Sarnia Dolina Sp. z o.o. of PLN 5 000 was registered with the National Court Register. All the shares were taken up by current, sole shareholder – Qualia Development Sp. z o.o.

On 7 April 2017, the Extraordinary Shareholders' Meeting adopted a resolution on returning to shareholder a contribution of PLN 21 549 527 made pursuant to Articles 177-179 of the Commercial Companies Code. The respective amount was paid out on the same date.

As at 30 June 2017 the share capital of the company amounted to PLN 6 979 000 divided to 13 958 shares with a nominal value of PLN 500 each.

- **Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.**

On 10 March 2017 partners in Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k. passed a resolution to dissolve the partnership without liquidation proceedings. On 18 April 2017 the partnership was struck from the Register of Businesses.

- **Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.**

On 27 April 2017, the partners of Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. adopted a resolution on reducing the limited partner's (Qualia Development Sp. z o.o.'s) share in the capital by PLN 28 000 000 through a disbursement of funds accumulated in the reserve capital arising from contributions to the partnership made in accordance with Articles 177-179 of the Commercial Companies Code, before transforming the partnership from a limited liability company into a limited partnership. The respective amount was transferred in April 2017.

REGARDING OTHER COMPANIES

- **PKO Bank Hipoteczny SA**

On 12 April 2017 an increase in the share capital of PKO Bank Hipoteczny SA of PLN 150 000 000 was registered with the National Court Register. All the shares in the increased capital were taken up by current, sole shareholder.

As at 30 June 2017 the share capital of PKO Bank Hipoteczny SA amounted to PLN 950 000 000 divided to 950 000 000 shares with a nominal value of PLN 1 each.

- **regarding NEPTUN – a closed-ended investment fund of non-public assets**

On 25 April 2017, the Bank purchased 2 000 000 of E series investment certificates issued by NEPTUN – fizan.

- **regarding 'Inter-Risk Ukraina' Additional Liability Company**

On 28 April 2017, the Bank conducted an intra-PKO Bank Polski SA Group disposal of 100% of shares in the share capital of the company, including 99.9% of the share capital – to Bankowe Towarzystwo Kapitałowe SA and 0.1% of the share – to Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o.

On 28 April 2017, an amendment to the Articles of Association of the company taking into account the said changes in the ownership structure was entered in the United State Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine.

REGARDING EVENTS WHICH WILL RESULT IN CHANGES IN THE BANK'S GROUP IN THE FOLLOWING QUARTERS

- **Bankowe Towarzystwo Kapitałowe SA**

On 31 May 2017, the Extraordinary General Shareholders' Meeting of Bankowe Towarzystwo Kapitałowe SA adopted a resolution increasing the company's share capital by PLN 30 000 000, i.e. to PLN 63 243 900, by issuing new shares. The shares of the new issue were taken up by the existing sole shareholder, i.e. by NEPTUN – fizan. The change was registered in the National Court Register on 18 July 2017.

- **PKO Finance AB**

On 9 June 2017, the Ordinary General Shareholders' Meeting of PKO Finance AB adopted a resolution increasing the company's share capital by EUR 5 491 884.42, i.e. to EUR 5 547 358.00, by issuing new shares. The newly issued shares are to be taken up by the existing sole shareholder. On 20 June 2017, the Bank transferred the respective funds to the company. The above change has been registered in the Swedish business register on 1 August 2017.

- **mergers of selected subsidiaries within the Qualia Development Sp. z o.o. Group**

On 26 June 2017, a merger plan was announced in Monitor Sądowy i Gospodarczy (the Court and Economic Monitor) for the combination of Qualia sp. z o.o. – Sopot Sp. k. and Giełda Nieruchomości Wartościowych Sp. z o.o. (as the acquirees) with Qualia Sp. z o.o. (as the acquirer) by way of transferring all of the assets of the acquirees to the acquirer. The merger plan includes an increase in the capital of the acquiring company and an exchange of shares.

- **PKO Bank Hipoteczny SA**

On 28 June 2017 the Extraordinary General Shareholders' Meeting of PKO Bank Hipoteczny SA passed a resolution regarding an increase in the company's share capital of PLN 150 000 000 i.e. to PLN 1 100 000 000 by issuing new shares. The new issue of shares was earmarked to be taken up by the then sole shareholder, i.e. PKO Bank Polski SA. On 30 June 2017, the Bank subscribed to the said shares and on 3 July 2017 transferred the respective funds to the company.

EVENTS WHICH HAD AN IMPACT ON THE STRUCTURE OF OTHER SUBORDINATED ENTITIES

In the first half of 2017 the following events took place which had an impact on the structure of other subordinated entities:

- **related to the FERRUM SA Group**

On 8 February 2017 changes regarding Walcownia Blach Grubych Batory Sp. z o.o. were registered with the National Court Register, including the following:

✓ a change in the company's name: the current name is Walcownia Rur FERRUM Sp. z o.o,
✓ a change in the company's shareholders: currently, 100% of the company's shares are held by FERRUM SA (before the changes Zakład Konstrukcji Spawanych FERRUM SA – a subsidiary of FERRUM SA was the company's sole shareholder),
✓ a change in the company's core operations: currently it manufactures pipes, cables, closed steel sections and steel connectors.

- **related to the Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group**

In the first half of 2017 (on 11 January 2017 and 1 March 2017) an increase in the share capital of EVO Payments International Sp. z o.o. of PLN 364 400 was registered with the National Court Register. All the shares in the increased capital were taken up in 2016 by sole shareholder – Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.

(IN PLN MILLION)

OTHER NOTES

39. DIVIDENDS PER SHARE AND PROFIT DISTRIBUTION

On 9 March 2017 PKO Bank Polski SA received an individual recommendation from the Polish Financial Supervision Authority to retain the total profit generated in the period from 1 January 2016 to 31 December 2016.

On 22 June 2017, the Ordinary General Shareholders' Meeting of PKO Bank Polski SA passed a resolution (No. 7/2017, Resolution on profit distribution) on the distribution of the net profit of PKO Bank Polski SA earned in 2016, in accordance with which the total profit in the amount of PLN 2 888 million was recognized in equity in the following manner:

- reserve capital: PLN 2 850 million,
- other reserves: PLN 38 million.

Retaining the profit for 2016 in the amount of PLN 2 888 million effectively caused an increase in equity of PLN 1 299 million, since a part of the profit earned in the period from January 2016 to September 2016 of PLN 1 589 million was already recognized in equity with the PFSA approval in 2016.

In accordance with the dividend policy of PKO Bank Polski SA, profit distributions are executed in the long term taking into account the principle of prudent management of the Bank and the Bank's Group and the financial standing of the Bank and its Group, in line with the PFSA requirements and recommendations concerning dividend policy. The applicable dividend policy provides a possibility of making payments from the excess of capital above the minimum Tier 1 ratio of 14.62%, which has been set by the PFSA for the purposes of dividend distribution by the Bank (current report 3/2017).

40. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED

SECURITIES COVERED WITH UNDERWRITING AGREEMENTS (MAXIMUM LIABILITY OF THE BANK TO ACQUIRE SECURITIES)

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 30 June 2017			
Company A	corporate bonds	1 055	31.07.2020
Company B	corporate bonds	1 032	31.12.2020
Company C	corporate bonds	443	15.06.2022
Company D	corporate bonds	64	31.12.2022
Company E	corporate bonds	4	31.12.2026
Total		**2 598**	

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 December 2016			
Company B	corporate bonds	1 126	31.12.2020
Company A	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	512	15.06.2022
Company D	corporate bonds	69	31.12.2022
Company E	corporate bonds	9	31.12.2026
Total		**2 771**	

All contracts relate to the Agreement for Organization, Conducting and Servicing of the Bond Issuance Programme. All securities of the Bank under the underwriting programme have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

(IN PLN MILLION)

LOAN COMMITMENTS GRANTED

Nominal value of loan commitments granted	30.06.2017	31.12.2016
Credit lines and limits		
to financial entities	5 495	7 607
to non-financial entities	34 715	37 899
to public entities	4 325	3 856
Total	**44 535**	**49 362**
of which: irrevocable loan commitments	27 412	31 078

GUARANTEE LIABILITIES GRANTED

Guarantees and pledges granted	30.06.2017	31.12.2016
Guarantees granted in domestic and foreign trading	7 187	7 780
Guarantees and pledges granted – domestic corporate bonds	5 508	4 769
Letters of credit granted	1 489	1 600
Guarantees and pledges granted - payment guarantee	150	151
Guarantees and pledges granted - domestic municipal bonds	576	351
Total	**14 910**	**14 651**
of which: performance guarantees granted	2 533	2 447

LIABILITIES GRANTED BY MATURITY

Off-balance sheet liabilities granted by maturity - 30.06.2017	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	10 379	2 583	12 335	12 659	6 579	44 535
Guarantee liabilities granted	236	833	3 683	7 490	2 668	14 910
Total	**10 615**	**3 416**	**16 018**	**20 149**	**9 247**	**59 445**

Off-balance sheet liabilities granted by maturity - 31.12.2016	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	12 669	5 749	13 408	11 104	6 432	49 362
Guarantee liabilities granted	263	569	3 700	8 583	1 536	14 651
Total	**12 932**	**6 318**	**17 108**	**19 687**	**7 968**	**64 013**

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES RECEIVED

Off-balance sheet liabilities received by nominal value	30.06.2017	31.12.2016
financial	87	81
guarantees	9 276	7 385
Total	**9 363**	**7 466**

CONTRACTUAL COMMITMENTS

Value of contractual commitments concerning:	30.06.2017	31.12.2016
intangible assets	26	34
tangible fixed assets	70	9
Total	96	43

41. LEGAL CLAIMS

As at 30 June 2017, the total amount in litigation where the Bank is defendants (suits) was PLN 321 million, (as at 31 December 2016 the total amount of the said litigations was PLN 383 million), and the total amount of litigations (suits) as at 30 June 2017 where the Bank are plaintiffs was PLN 956 million (as at 31 December 2016 the total amount under the said litigations was PLN 1 027 million).

The Bank has 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.

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

a) UNFAIR COMPETITION PROCEEDING

PROCEEDING AGAINST PRACTICES THAT LIMIT COMPETITION IN THE PAYMENTS MARKET USING PAYMENT CARDS 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 Visa and Europay/Eurocard/Mastercard banking 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, i.a., the Bank, in the amount of PLN 16.6 million.

The Bank appealed against the decision of the President of UOKiK to Court for the Competition and Consumer Protection (CCCP) / Sąd Ochrony Konkurencji i Konsumentów (SOKiK) and on 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and scheduled the date of the next meeting for 9 February 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 10.4 million. 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 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 Ltd., Bank Pocztowy SA, Bank Gospodarki Żywnościowej SA, mBank SA, Deutsche Bank PBC SA, HSBC Bank Polska SA (appeals aimed at imposing more strict fines on participants to the agreement). The Court of Appeal in Warsaw in its verdict of 6 October 2015, dismissed the appeal of banks and Visa Europe Ltd., while 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 16.6 million – penalty imposed on PKO Bank Polski and the penalty in the amount of PLN 4.8 million (penalty imposed on Nordea Bank Polska SA). The penalties were paid by the Bank in October 2015. On 28 April 2016, the Bank filed a cassation complaint along with the other participants in the proceedings. On 28 November 2016, the Bank's plenipotentiary filed an application for filing a pleading with a respective statement of grounds and a pleading. By decision dated 5 December 2016, the Supreme Court allowed the Bank to file the pleading. The Supreme Court scheduled the date on 4 April 2017 for the hearing in camera with reference to accepting the banks' cassation complaints for investigation (the so-called preliminary acceptance). On 4 April 2017 the Supreme Court decided to investigate the cassation complaint of, among other things, the Bank, at the hearing, but refused to accept the complaints filed by DNB Bank Polska SA, Bank Ochrony Środowiska SA, Getin Noble Bank SA, and HSBC Bank Polska SA for investigation. The hearing before the Supreme Court has not been scheduled.

As at 30 June 2017 the Bank is also a party to i.a. following proceedings:

- **BEFORE THE COURT OF APPEL – 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.**

  By decision of 31 December 2013, by the President of UOKiK, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 29 million was imposed on the Bank. The Bank appealed against this decision to SOKiK. By judgment of 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK. On 21 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. By judgement of 31 May 2017, the Court of Appeal in Warsaw maintained the verdict of the SOKiK with regard to revoking item I of the Decision, i.e. the acknowledgement that the Bank violated the collective interest of consumers by applying the so-called variable interest clauses (which according to the UOKiK are equivalent to clauses entered in the register of abusive clauses). The Court of Appeal shared the view presented in the appeal against the Decision and in a subsequent resolution of the Supreme Court (III CZP 17/15) that entering a clause in the register is only effective with respect to the entrepreneur whose decision has been entered in the register (and not with respect to other entrepreneurs). Consequently, the Court of Appeal maintained the decision to cancel the penalty in the total amount of PLN 17 million. With regard to the other alleged malpractice (one-day information form), the Court of Appeal considered the appeal of the UOKiK to be justified, however, only in part. The Court ruled out that using a form with a one-day period of 'validity' contradicted the purpose of Directive 2008/48/EC and made it impossible for consumers to understand the terms and conditions of a loan and compare the offers of different banks. However, the Court of Appeal reduced the penalty imposed by the UOKiK from PLN 12 million to PLN 6 million. The Court of Appeal took into account the fact that the explanatory proceedings in the case were initiated 3 months after the regulations concerning the form entered into force and that the Bank's revenues from the operations relating to products affected by the above-mentioned practice in question represented only a part (approx. 20%) of the Bank's total revenue, and therefore it reduced the base amount initially used by the UOKiK by 40%. The total penalty imposed on the Bank in connection with this case was reduced to PLN 6 million. The Bank will make a decision on whether or not to file a cassation complaint to the Supreme Court after receiving a written justification for the verdict. In July 2017 the penalty was paid.

- **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 TEMPLATES OF INDIVIDUAL CONTRACTS (IKE)**

  On 19 December 2012, the President of UOKiK imposed a fine on the Bank in a total amount of PLN 14.7 million, of which:

  1) PLN 7.1 million 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 4.7 million for application in the form of IKE agreements, an open list of termination conditions;
  3) PLN 2.9 million 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 to SOKiK 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 million by the court judgement of 25 November 2014, as regards to:

  - the practice described in the point 1 above, it reduced the penalty to the amount of PLN 2.5 million,
  - the practice described in the point 2 above, it reduced the penalty to the amount of PLN 1.5 million,
  - 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 the 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 million on 23 February 2016. On 26 September 2016 bank appealed a cassation complaint to the Supreme Court. On 20 April 2017 the Supreme Court decided to accept the Bank's cassation complaint for investigation.

- **BEFORE SOKIK (COURT OF COMPETITION AND CONSUMER PROTECTION) FIVE PROCEEDINGS INSTITUTED BY INDIVIDUALS:**

1) on the recognition as abusive and prohibiting the Bank 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 instalments as well as decisions concerning the amount of interest rate were against good practice and highly violated consumer interest (proceeding suspended),
2) to establish invalidity of the clauses contained in the mortgage loan agreement by regarding them as illegal (non-existent) and prohibiting the Bank 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 loan agreement 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 by 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 hipoteczny.

As at 30 June 2017 the Bank had no provisions for above-mentioned proceeding due to the fact, that the justify probability of unfavourable result of these proceedings is assessed as remote.

- **BEFORE THE PRESIDENT OF UOKIK**

Three proceedings are in progress before the President of UOKiK on the Bank's practices which allegedly violated the consumers' collective interests:

1) proceedings instigated ex officio by the President of UOKiK on applying practices which violate collective consumers' interests by the Bank. The practices consisted of informing in marketing communications and conditioning the exemption of consumers from paying monthly fees for servicing debit cards on settling cashless transactions using the card (a quota or number limit) in the period for which the monthly fee for the card is collected, when the settlement of the cashless transactions in the said period does not depend on the consumer, but on receiving the settlement of the transactions by the Bank from the settlement agent. The decision to instigate proceedings against the Bank was delivered to the Bank on 4 January 2017. By a letter dated 13 March 2017 the

(IN PLN MILLION)

Bank's plenipotentiary filed a request for issuing a consent decree, referred to in art. 28 of the Law on Competition and Consumer Protection together with proposed actions aimed at ending the violation and removing its effects,

2) the proceedings instigated ex officio by the President of UOKiK in respect of the alleged practices applied by the Bank which violate the collective interests of consumers who are party to an agreement for payment services and have access to the electronic banking system, by informing of the proposed changes to the conditions of the agreement for the payment services during its performance exclusively using electronic communications sent through electronic banking channels, which do not constitute a permanent information carrier, and not including in the information appendices in the form of electronic documents (regulations and banking fee and commission tariffs for individuals) sent to consumers on changes introduced to PKO Bank Polski SA and Inteligo products, i.e.: bank accounts and debit cards, credit cards, payment cards, and thus making the verification of admissibility of changing the conditions of an agreement by consumers impossible. The decision to instigate proceedings against the Bank was delivered to the Bank on 17 October 2016. By a letter dated 13 October 2016 the President of UOKiK called the Bank to take a stance on the charges included in the decision to instigate proceedings, which the Bank did in its letter of 22 February 2017. By a letter of 14 March 2017 the President of UOKiK informed the Bank of extending the period for settling the case until 12 August 2017. By letter of 6 April 2017, the President of UOKiK asked the Bank to submit further explanations and documentation in the case. The Bank provided them in a letter of 30 June 2017.

3) the proceedings initiated ex officio by the President of the UOKiK for considering certain clauses contained in an agreement template to be prohibited due to the fact that the Bank's agreement templates, annexes to mortgage loan agreements valorized/indexed to/denominated in foreign currencies and appendices thereto contain contractual clauses which could be considered abusive under Article 385 § 1 of the Civil Code. The decision to initiate the proceedings was delivered to the Bank on 4 July 2017. In a letter of 28 June 2017, the President of the UOKiK notified the Bank of the possibility of expressing an opinion on the allegations contained in the decision to initiate the proceedings. The Bank is preparing a statement concerning this case.

Moreover, there are fifteen investigation procedures pending before the President of UOKiK, relating to the Bank's activities and three contact by the President of UOKiK without instituting proceedings (in accordance with Article 49a of the Act on Competition and Consumer Protection).

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

As at the date of these financial statements there are eight administrative proceedings, of which three are suspended, in relation to properties owned by the Bank, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, giving the property under management and on acquisition in accordance with law the perpetual usufruct of land and ownership title to the building, the return of the property as well as regulation of legal status of the properties.

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

42. Supplementary information to the statement of cash flows

Cash and cash equivalents consist of cash on hand, cash on nostro accounts and deposit with the National Bank of Poland, current amounts due from banks, as well as other cash equivalents with maturities up to three months from the date of acquisition.

Cash and cash equivalents	30.06.2017	31.12.2016	30.06.2016
Cash and balances with the Central Bank	13 568	11 597	12 087
Deposits with the Central Bank	-	1 680	-
Current amounts due from banks	2 957	4 278	4 593
Cash and cash equivalents with restricted availability for use	11	13	10
Total	**16 536**	**17 568**	**16 690**

(IN PLN MILLION)

43. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Parent Company of the Group 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 statement of financial position.

In accordance with the 30 November 1995 Act in relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts, PKO Bank Polski SA receives payments from the State Treasury in respect of redemption interest receivable on housing loans.

Income due to temporary redemption by the State Treasury of interest on housing loans from the 'old' portfolio	01.01-30.06.2017	01.01-30.06.2016
Income recognized for this period	56	63
Income received in cash	13	13
Difference – 'Loans and advances to customers'	43	50

The Act on the coverage of repayment of certain housing loans by State Treasury 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.

The State Treasury guarantees are executed 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.

The Bank receives commission for settlements relating to redemption of interest by the State Treasury on housing loans in the period of six month ended 30 June 2017 and in the same period in 2016 the commission amounted to PLN 1 million.

As of 1 January 1996 the Bank is the general distributor of court fee stamps. The Bank receives commissions in this respect from the State Treasury – PLN 3 million in the period of six month ended 30 June 2017, PLN 5 million in the same period in 2016.

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 - PLN 24 million in the period of six month ended 30 June 2017 and PLN 14 million in the same period in 2016.

(IN PLN MILLION)

SIGNIFICANT TRANSACTIONS OF THE BANK WITH THE STATE TREASURY'S RELATED ENTITIES

The transactions were concluded at arm's length terms.

	Balance sheet exposure, including the exposure due to loans and debt instruments		Off-balance sheet exposure		Liabilities due to deposits	
	30.06.2017	31.12.2016	30.06.2017	31.12.2016	30.06.2017	31.12.2016
counterparty 1*	3 139	-	-	-	-	-
counterparty 2	-	-	2 450	2 450	-	-
counterparty 3	1 442	1 327	1 321	1 529	1	3
counterparty 4	1 571	1 503	750	869	43	126
counterparty 5	242	386	1 578	1 677	288	271
counterparty 6	332	332	1 238	1 206	-	534
counterparty 7	49	46	1 358	1 521	1 330	350
counterparty 8	2	-	1 078	1 069	-	1 085
counterparty 9	302	261	495	621	400	394
counterparty 10	574	648	81	80	289	-

* In December 2016, the Bank issued a commitment letter to a customer, in which the Bank promised to grant a loan to the customer in the amount of up to PLN 3 200 million for financing the customer's investment activities. The transaction was described in the financial statements of PKO Bank Polski for the year ended 31 December 2016.

In the first half of 2017 interest and commission income on the transactions with the 10 counterparties referred to above amounted to PLN 13 million (in 2016: PLN 7 million), and the respective interest expense amounted to PLN 6 million (in 2016: PLN 11 million). As at 30 June 2017 and as at 31 December 2016 respectively, no impairment allowances were recognized on an individual basis for the above-mentioned receivables.

Other transactions with entities related to the State Treasury comprised loans and advances granted, credit lines, guarantees granted and deposits placed.

EQUITY RELATED PARTY TRANSACTIONS

All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range from one month to seventeen years.

As of 30 June 2017 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	174	77	9	111
Merkury - fiz an and its subsidiaries	-	-	16	-
Neptun - fizan and its subsidiaries	229	229	74	-
PKO Bank Hipoteczny SA	3 026	1 145	8	2 670
PKO BP BANKOWY PTE SA	5	-	12	-
PKO BP Finat Sp. z o.o.	-	-	46	1
PKO Finance AB	23	-	6 097	-
PKO Leasing SA and its subsidiaries	12 028	12 027	39	3 374
PKO Towarzystwo Funduszy Inwestycyjnych SA	82	-	86	-
PKO Towarzystwo Ubezpieczeń SA	-	-	18	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	399	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	229	-
ZenCard Sp. z o.o.	-	-	3	-
Total subsidiaries	**15 567**	**13 478**	**7 036**	**6 157**

As of 30 June 2017 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	66	17	58	13
'Centrum Obsługi Biznesu' Sp z o.o.	26	26	8	-
Bank Pocztowy SA	-	-	-	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	20	-
Total joint ventures and associates	**92**	**43**	**86**	**14**

(IN PLN MILLION)

As of 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	194	98	6	134
Merkury - fiz an and its subsidiaries	-	-	13	-
Neptun - fizan and its subsidiaries	243	243	44	-
PKO Bank Hipoteczny SA	3 468	394	13	1 506
PKO BP BANKOWY PTE SA	-	-	1	-
PKO BP Finat Sp. z o.o.	-	-	71	1
PKO Finance AB	-	-	6 704	-
PKO Leasing SA and its subsidiaries	10 710	10 709	67	6 112
PKO Towarzystwo Funduszy Inwestycyjnych SA	19	-	57	-
PKO Towarzystwo Ubezpieczeń SA	-	-	14	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	352	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	130	-
Total subsidiaries	**14 634**	**11 444**	**7 472**	**7 754**

As of 31 December 2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	10	10	18	21
'Centrum Obsługi Biznesu' Sp z o.o.	28	28	10	-
Bank Pocztowy SA	-	-	1	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	8	-
Walcownia Rur Ferrum Sp. z o.o.	-	-	2	-
Total joint ventures and associates	**38**	**38**	**39**	**22**

6 month ended 30 June 2017 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
KREDOBANK SA and its subsidiaries	5	5	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	42	37	-	-
PKO BP BANKOWY PTE SA	6	-	-	-
PKO BP Finat Sp. z o.o.	47	-	9	-
PKO Finance AB	-	-	115	114
PKO Leasing SA and its subsidiaries	139	133	7	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	126	1	1
PKO Towarzystwo Ubezpieczeń SA	31	-	9	-
PKO Życie Towarzystwo Ubezpieczeń SA	8	-	7	4
Qualia Development Sp. z o.o. and its subsidiaries	-	-	1	2
Total subsidiaries	**466**	**302**	**149**	**121**

6 month ended 30 June 2017 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	129	126	50	50
Total joint ventures and associates	**129**	**126**	**50**	**50**

6 month ended 30 June 2016 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
KREDOBANK SA and its subsidiaries	4	3	-	-
PKO Bank Hipoteczny SA	29	11	-	-
PKO BP BANKOWY PTE SA	9	-	-	-
PKO BP Finat Sp. z o.o.	77	-	3	-
PKO Finance AB	1	-	140	140
PKO Leasing SA and its subsidiaries	62	58	10	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	169	112	1	1
PKO Życie Towarzystwo Ubezpieczeń SA	90	1	138	1
Qualia Development Sp. z o.o. and its subsidiaries	4	4	1	-
NEPTUN - fizan and its subsidiaries	2	2	-	-
Total subsidiaries	**447**	**191**	**293**	**142**

6 month ended 30 June 2016 / Entity	Total income	of which interest and fee and commission	Total expenses	of which interest and fee and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	107	106	44	43
Total joint ventures and associates	**107**	**106**	**44**	**43**

Personal related party transactions

As at 30 June 2017 two entities (one entity as at 31 December 2016) were related to the Bank through the key management personnel of PKO Bank Polski SA or close family members of the key management personnel. In the first half of 2017 and in the first half of 2016 no transactions were conducted between the Bank and these entities.

REMUNERATION OF PKO BANK POLSKI SA KEY MANAGEMENT

Remuneration received by members of the Supervisory Board from the Bank

Remuneration received form the PKO Bank Polski SA (in PLN thousand)	01.01-30.06.2017	01.01-30.06.2016
Supervisory Board of the Bank	603	333
Remuneration of the Supervisory Board Members who ceased their functions in 2016	-	264
Total	**603**	**597**

Employee benefits for members of the Management Board due or potentially due from the Bank

	Total short-term employee benefits (in PLN thousand)		Other long-term benefits - variable remuneration in cash (in PLN thousand)		Total share-based payments settled in cash (in PLN thousand)		
	remuneration 01.01-30.06.2017	other received 01.01-30.06.2017	other received 01.01-30.06.2017	potentially due as at 30.06.2017	received in the period of 1.01-30.06.2017	due as at 30.06.2017	potentially due as at 30.06.2017
Management Board of the Bank	6 060	1 762	815	2 099	1 692	2 569	2 099
Management Board Members who ceased their functions in 2016	-	393	495	766	1 076	883	766
Total	**6 060**	**2 156**	**1 310**	**2 865**	**2 768**	**3 452**	**2 865**

	Total short-term employee benefits of which variable remuneration in cash – not deferred (in PLN thousand)		Other long-term benefits - variable remuneration in cash - deferred (in PLN thousand)		Total share-based payments settled in cash (in PLN thousand)		
	remuneration 01.01-30.06.2016	due as at 01.01-30.06.2016	due as at 01.01-30.06.2016	potentially due as at 30.06.2016	received in the period of 1.01-30.06.2016	due as at 30.06.2016	potentially due as at 30.06.2016
Management Board of the Bank	3 552	1 276	701	1 640	1 151	1 786	1 640
Management Board Members who ceased their functions in 2016	1 577	785	480	994	802	1 137	994
Total	**5 129**	**2 061**	**1 181**	**2 634**	**1 953**	**2 923**	**2 634**

On 13 March 2017, the Extraordinary General Shareholders' Meeting (EGSM) passed a resolution on the principles of calculating the remuneration of Management Board and Supervisory Board members, proposed by the State Treasury represented by the Minister of Development and Finance exercising the rights carried by the Bank shares held by the State Treasury. In accordance with the resolution, the principles of remunerating the members of the Management Board and Supervisory Board of PKO Bank Polski SA must be adjusted to the provisions of the Act on the principles of remunerating the managers of certain companies. On the basis of the said resolution, the Supervisory Board introduced new principles for hiring and remunerating Management Board members, which are consistent with the provisions of the Act on the principles of remunerating the managers of certain companies.

These principles entered into force on 22 June 2017. Service contracts were signed with the Management Board members to replace their previous employment contracts and the benefits paid due to changes in the employment are presented in the table below.

Post-employment benefits (in PLN thousand)	**30.06.2017**	**30.06.2016**
Management Board	1 794	-
Members of the Management Board who ceased to performed their duties in 2016	59	725
Total benefits	**1 853**	725

Termination benefits for Management Board Members who ceased to perform their function in 2016 (in PLN thousand)	**30.06.2017**	**30.06.2016**
Total	**488**	**2 216**

Remuneration of members of the Bank's Management Board received from related entities (other than the State Treasury and entities related to the State Treasury)

Remuneration from subordinate entities (in PLN thousand)	**01.01-30.06.2017**	**01.01-30.06.2016**
Management Board	-	22
Total short-term benefits	**-**	**22**

Loans, advances, guarantees and other advances granted by the Bank to the management

Loans and advances granted to management members by the Bank (in PLN thousand)	**30.06.2017**	**31.12.2016**
Supervisory Board of the Bank	803	608
Management Board	110	930
Total	**913**	**1 538**

(IN PLN MILLION)

44. Fair value hierarchy

Assets and liabilities measured at fair value as at 30.06.2017	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets held for trading excluding derivatives	19	1 542	1 542	-	-
Debt securities		1 512	1 512	-	-
Shares in other entities		26	26	-	-
Investment certificates, shares rights and pre-emptive rights		4	4	-	-
Derivative financial instruments	20	2 221	3	2 218	-
Hedging instruments		430	-	430	-
Trading instruments		1 791	3	1 788	-
Financial instruments designated upon initial recognition at fair value through profit and loss	22	7 102	3 379	3 723	-
Investment securities available for sale	24	37 842	29 316	5 605	2 921
Debt securities		37 433	29 267	5 605	2 561
Equity securities		154	49	-	105
Participation units in investment funds		255	-	-	255
Financial assets measured at fair value – total		**48 707**	**34 240**	**11 546**	**2 921**
Derivative financial instruments	20	3 024	1	3 023	-
Hedging instruments		602	-	602	-
Trading instruments		2 422	1	2 421	-
Financial liabilities measured at fair value - total		**3 024**	**1**	**3 023**	**-**

Assets and liabilities measured at fair value as at 31.12.2016	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets held for trading excluding derivatives	19	358	358	-	-
Debt securities		344	344	-	-
Shares in other entities		11	11	-	-
Investment certificates, shares rights, pre-emptive rights		3	3	-	-
Derivative financial instruments	20	2 895	3	2 892	-
Hedging instruments		382	-	382	-
Trading instruments		2 513	3	2 510	-
Financial instruments designated upon initial recognition at fair value through profit and loss	22	11 744	2 507	9 237	-
Investment securities available for sale	24	35 739	26 674	5 691	3 374
Debt securities		35 314	26 639	5 691	2 984
Equity securities		127	35	-	92
Participation units in investment funds		298	-	-	298
Financial assets measured at fair value – total		**50 736**	**29 542**	**17 820**	**3 374**
Derivative financial instruments	20	4 230	1	4 229	-
Hedging instruments		1 163	-	1 163	-
Trading instruments		3 067	1	3 066	-
Financial liabilities measured at fair value - total		**4 230**	**1**	**4 229**	**-**

(IN PLN MILLION)

Impact of estimated parameters on fair value measurement of financial instruments at Level 3	30.06.2017 Fair value in positive scenario	30.06.2017 Fair value in negative scenario	31.12.2016 Fair value in positive scenario	31.12.2016 Fair value in negative scenario
Investment securities available for sale				
Participation units in investment fund	267	242	313	283
Shares of Visa Inc.	112	83	100	70
Corporate bonds	2 568	2 554	2 992	2 977

The table below presents the reconciliation of changes in the fair value of financial instruments at level 3

Reconciliation of changes in the period in fair value of financial instruments at level 3	01.01-30.06.2017	01.01-30.06.2016
Opening balance at the beginning of the period	3 374	3 635
Total gains or losses	19	(29)
in financial result	(24)	(30)
in other comprehensive income	43	1
Taking up a new share issue in the Fund	10	68
Taking up of shares in Visa Inc.	-	81
Sale of Visa Europe Limited shares	-	(337)
Other purchases and sales (including settlements)	(443)	(120)
Reduction of capital involvement in the Fund	(39)	-
Total	**2 921**	**3 298**

45. Financial assets and liabilities not presented at fair value in the statement of financial position

	level of fair value hierarchy	valuation method	30.06.2017 carrying amount	30.06.2017 fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 568	13 568
Amounts due from banks	2	discounted cash flows	5 977	5 977
Loans and advances to customers			190 556	187 851
housing	3	discounted cash flows	94 425	90 439
corporate	3	discounted cash flows	67 470	67 061
consumer	3	discounted cash flows	23 631	25 396
debt securities (corporate)	3	discounted cash flows	2 352	2 277
debt securities (municipal)	3	discounted cash flows	2 523	2 523
receivables due from repurchase agreements	3	discounted cash flows	155	155
Investment securities held to maturity	1	market quotation	911	911
Other financial assets	3	value at cost to pay less impairment allowance	1 806	1 806
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	16 497	16 497
Amounts due to customers			211 264	211 538
due to corporate entities	3	discounted cash flows	52 604	52 942
due to public entities	3	discounted cash flows	9 368	9 368
due to retail clients	3	discounted cash flows	149 292	149 228
Debt securities in issue	2	discounted cash flows	665	665
Subordinated debt	2	discounted cash flows	1 617	1 603
Other financial liabilities	3	value at cost to pay	2 360	2 360

(IN PLN MILLION)

	level of fair value hierarchy	valuation method	31.12.2016	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 277	13 277
Amounts due from banks	2	discounted cash flows	8 471	8 470
Loans and advances to customers			189 067	187 433
housing	3	discounted cash flows	97 866	94 091
corporate	3	discounted cash flows	62 143	62 941
consumer	3	discounted cash flows	22 848	24 265
debt securities (corporate)	3	discounted cash flows	2 283	2 209
debt securities (municipal)	3	discounted cash flows	2 588	2 588
receivables due from repurchase agreements	3	discounted cash flows	1 339	1 339
Investment securities held to maturity	1	market quotation	157	157
Other financial assets	3	value at cost to pay less impairment allowance	1 791	1 791
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	18 717	18 717
Amounts due to customers			209 371	209 559
due to corporate entities	3	discounted cash flows	53 570	53 813
due to public entities	3	discounted cash flows	8 409	8 409
due to retail clients	3	discounted cash flows	147 392	147 337
Debt securities in issue	2	discounted cash flows	1 693	1 695
Subordinated debt	2	discounted cash flows	2 539	2 526
Other financial liabilities	3	value at cost to pay	2 693	2 693

46. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The Bank offsets financial assets and liabilities and shows them in the statement of financial position in net amounts if there is a legally enforceable right to offset the recognized amounts and an intention to settle them on a net basis or to realize a given asset and settle the liability simultaneously. It follows from the provisions of paragraph 42 of IAS 32 that, amongst others, in order for offsetting to be possible, a legal right may not be conditioned on the occurrence of a specific future event.

The Bank enters into offsetting arrangements, i.e. International Swaps and Derivatives Association Master Agreements (ISDA) and Global Master Repurchase Agreements (GMRA), which make it possible to offset financial assets and liabilities (the so-called close out netting) in the event of an infringement with respect to one of the parties to the agreement. These agreements are of particular importance to mitigate the risk posed by derivative instruments, because they enable offsetting both matured liabilities (mitigating the settlement risk) and non-matured liabilities of the parties (mitigating the pre-settlement risk). However, these agreements do not meet the requirements set out in IAS 32 because the right to offset the amounts is conditioned on the occurrence of a specific future event (instances of infringement).

Additional collateral for exposures resulting from derivative instruments are collateral deposits escrowed by counterparties as a part of CSA agreements (Credit Support Annex).

(IN PLN MILLION)

47. Assets pledged as collateral for liabilities and transferred financial assets

Liabilities due to sell-buy-back transactions

Financial assets which the Bank does not derecognize from the financial statements include assets pledged as collateral for liabilities due to sell-buy-back transactions (treasury bonds).

Carrying amount	30.06.2017	31.12.2016
Debt securities	409	182
Amounts due from repurchase agreements	408	206
Net balance	1	(24)

Liabilities from negative valuation of derivative instruments

Cash deposits with banks include assets held as collateral for own liabilities, including settlements due to negative valuation of derivative instruments. The amount of these assets as at 30 June 2017 amounted to PLN 974 million (as at 31 December 2016 PLN 1 289 million).

Preliminary Settlement Deposit of the National Depository for Securities (KDPW)

The Brokerage House holds bonds in the National Depository for Securities as collateral for settlement of transactions with the Clearing House.

Carrying amount	30.06.2017	31.12.2016
Value of the deposit	8	8
Nominal value of the collateral	8	8
Type of the collateral	Treasury bonds	Treasury bonds
Carrying amount of the collateral	8	8

Bank Deposit Guarantee Fund

	30.06.2017	31.12.2016
Value of the fund	1 081	1 005
Nominal value of the collateral	1 200	1 060
Type of the collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	1 173	1 021

Funds securing contributions made in the form of payables to the bank guarantee fund

	30.06.2017
Value of the contribution made in the form of payables	29
Nominal value of the assets in which the funds corresponding to the payables were invested	50
Type of the collateral	Treasury bonds
Maturity of the collateral	25.01.2024
Carrying amount of the collateral	49

The value of the contributions made in the form of payables constitutes 30% of the contributions on behalf of the Bank Guarantee Fund ('BGF') to the deposit guarantee fund or the mandatory bank restructuring fund. The liabilities are secured with assets – Treasury bonds – which are frozen on behalf of BGF, in an amount ensuring maintaining the proportion of property rights securing the payables to the amount of the payables at a level no lower than 110%.

The value of the property rights securing the payables for the purpose of determining the minimum proportion of the value of the assets to the payables is determined according to the value determined based on the last fixing rate on the given date on the electronic Treasury securities market organized by the Minister responsible for budget issues, and the value is increased by the interest due as at the valuation date, unless the value of the interest was included in the said rate.

These funds are treated as assets securing originated liabilities and cannot be pledged, encumbered in any way, subject to court or administrative enforcement and cannot be part of the bankruptcy estate.

The value of funds securing the BGF contribution payables will be increased in periods when the contributions to the deposit guarantee fund are made (on a quarterly basis) and to the mandatory bank restructuring fund (in the third quarter of a given year) in an amount no higher than 30% of the value of the contribution determined by BGF. The value of the funds may be reduced in the event of the Bank receiving a call from BGF to submit the payable contributions in cash.

Legal limitations relating to the PKO Bank Polski SA legal title

In the years ended 30 June 2017 and 30 June 2016, there were no intangible assets and tangible fixed assets which ownership by the Bank were subject to restrictions and pledged as collateral for liabilities.

Transferred financial assets

As at 30 June 2017 and as at 31 December 2016 the Bank did not have transferred financial assets, which are derecognized from the financial statements in their entirety, for which the Bank continues involvement in those assets.

48. Fiduciary activities

The Bank is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The parent entity maintains securities accounts, services transactions on the domestic and foreign markets, and provides fiduciary services and performs depository role for pension and investment funds. Assets held in the Bank within fiduciary services are not included in these financial statements as they do not meet the criteria of an asset.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

49. Risk Management in PKO Bank Polski SA

Risk management is one the most important internal processes in PKO Bank Polski SA. It aims at ensuring profitability of business activity, with ensuring adequate level of capital adequacy measures, 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 system supports the execution of the Bank's Strategy in compliance with the Risk Management Strategy. It includes the achievement of the desired capital targets, the level of risk tolerance and the process of capital planning, including the policy for obtaining sources of capital.

At the Bank, the following types of risk have been identified, which are subject to management and some of them are considered significant[1].

TYPE OF RISK	CONSIDERED TO BE SIGNIFICANT
CREDIT	YES
CONCENTRATION	YES
RISK OF FOREIGN CURRENCY MORTGAGE LOANS	YES
INTEREST RATE	YES
CURRENCY	YES
LIQUIDITY, INCLUDING FINANCING RISK	YES
COMMODITY PRICE	
PRICE OF EQUITY SECURITIES	
OTHER PRICE RISK	
DERIVATIVE	YES
OPERATIONAL	YES
COMPLIANCE AND CONDUCT	YES
BUSINESS	YES
LOSS OF REPUTATION	YES
MODELS	YES
MACROECONOMIC CHANGES	YES
CAPITAL	YES
EXCESSIVE LEVERAGE	YES

In the separate financial statements of PKO Bank Polski SA for 2016 and in the report on capital adequacy and other information to be published by Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna as at 31 December 2016, the following elements have been described in detail: risk definition, purpose of specific risks management, risk identification, measurement and assessment, risk controlling, forecasting and monitoring, management reporting and actions for significant risks identified by the Bank.

[1] Based on quantitative and qualitative information, a periodical assessment of the materiality of specific risks is conducted. The assessment results in assigning a level material/immaterial to each type of risk.

PURPOSE OF RISK MANAGEMENT

The purpose of risk management by striving to maintain the risk level within the adopted risk tolerance is to:

- protect shareholder value,
- protect customer deposits,
- support the Bank in conducting effective operations.

Risk management goals are achieved in particular by providing appropriate information on risk so as to ensure that the decisions are taken in full awareness of the particular risks involved.

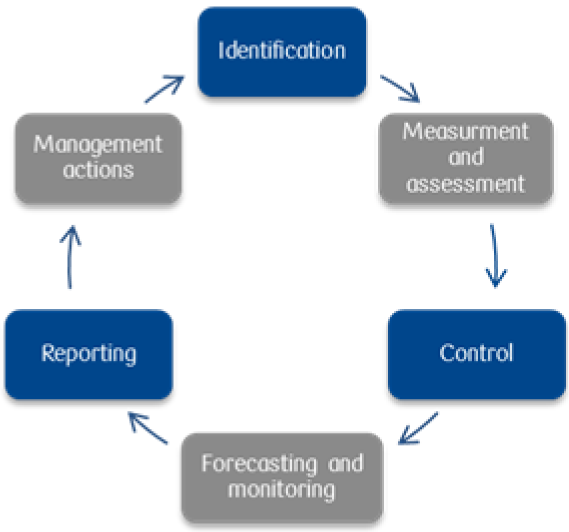
MAIN PRINCIPLES OF RISK MANAGEMENT

Risk management in the Bank is based especially on the following principles:

1) the Bank manages all of the identified types of risk,
2) the risk management system is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to new risk factors and sources on a current basis,
3) the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk, current and envisaged Bank's activity and environment in which the Bank operates, and are also verified and validated on a periodical basis,
4) the area of risk management and debt collection remains organizationally independent from business activities,
5) risk management is integrated with the planning and controlling systems,
6) the risk level is monitored on a current basis,
7) the risk management system supports the implementation of the Bank's strategy in compliance with the risk management strategy, in particular with regard to the level of tolerance of the risk.

THE RISK MANAGEMENT PROCESS

Risk management in PKO Bank Polski SA consists of the following stages:



- **RISK IDENTIFICATION**

Identification of risk is to recognize actual and potential sources of risk and estimation of the significance of the potential influence on the financial situation of the Bank. Within the risk identification process, types of risk perceived as material in the Bank's are identified.

- **RISK MEASUREMENT AND ASSESSMENT**

Risk measurement covering determination of risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement, valuation of the risks for the purpose of pricing policy and stress-test are being conducted on the basis of assumptions providing a fair risk assessment. Stress-test scenarios cover, i.a. the requirements following from the recommendations of the Polish Financial Supervision Authority. Additionally, complex stress-tests are performed in the Bank (CST), which constitute an integral element of risk management and supplementary stress-tests specific for particular risks. CST also cover an analysis of the impact of changes in the environment (in particular the macroeconomic conditions) and the Bank's operations on the financial position.

- **RISK CONTROL**

Risk control involves determination of tools used for measuring or reducing the level of risk in specific areas of the Bank's activity. This includes determination of control mechanisms adjusted to the scale and complexity of the Bank's activities especially in the form of strategic tolerance limits for the individual types of risk. The operation of risk control mechanisms ensures that properly designed control mechanisms are applied, e.g. monitoring cases of exceeding strategic risk tolerance limits.

- **RISK FORECASTING AND MONITORING**

Forecasting and monitoring risk consists of preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measurements from the previous period, recommendations and suggestions issued by the supervisory and control authority) and also carrying out stress-test (specific and complex). Forecasts of the level of risk shall be reviewed. Risk monitoring is performed with the frequency adequate to the significance and volatility of a specific risk type.

- **RISK REPORTING**

Risk reporting consists of periodic informing the authorities of the Bank about the results of risk measurement or risk assessment, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the managing level of the recipients.

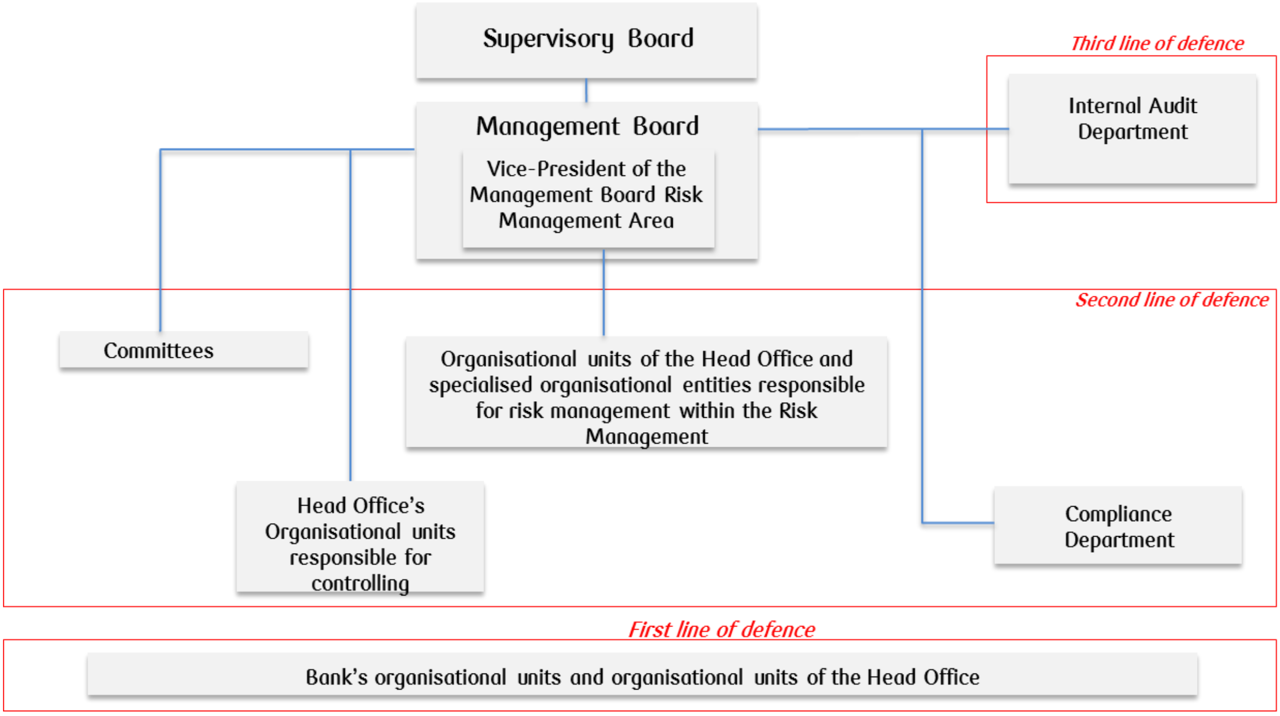
- **MANAGEMENT ACTIONS**

Management actions consist particularly issuing internal regulations affecting the management process of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to form the risk management and the risk level.

THE ORGANIZATION OF RISK MANAGEMENT IN PKO BANK POLSKI SA

Risk management in the Bank takes place in all of the organizational units of the Bank.

The organization of risk management in PKO Bank Polski SA is presented in the chart below:



The risk management system is supervised by the Supervisory Board which controls and assesses its adequacy and effectiveness. The Supervisory Board assesses whether particular components of the risk management system ensure the correctness of the process of designating and pursuing the Bank's detailed objectives. In particular it verifies whether the system uses formalized principles of determining the risk appetite and risk management principles, as well as formalized procedures to identify, measure or assess and monitor the risks inherent to a bank's operations, also taking into consideration the expected future level of risk. It verifies whether formalized limits are applied in the risk management system and whether actions are defined in the event of exceeding those limits and whether the adopted management reporting system enables monitoring the risk level. It assesses whether the risk management system is adapted to new risk factors and sources on an on-going basis. The Supervisory Board is supported, among other things, by the following committees: the Remuneration Committee of Supervisory Board, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising, controlling and monitoring actions taken by the Bank in respect of risk management. The Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management. The Management Board is supported by the following committees operating at the Bank:

1) the Risk Committee,
2) the Assets & Liabilities Management Committee,
3) the Bank's Credit Committee,
4) the Operating Risk Committee.

The risk management process is carried out on three mutually independent lines of defence:

1) the first line of defence comprises the organizational structures which sell products and service customers, and other Bank's structures which perform operational tasks which generate risk and operate based on the Bank's internal regulations,

2) the second line of defence comprises operations of the compliance unit and identification, measurement or assessment, controlling, monitoring and reporting risks material to the Bank and threats and irregularities identified – those tasks are performed by specialized organizational structures operating based on the binding regulations, methodologies and procedures; their purpose is to ensure that the actions performed on the first line of defence are properly designed and effectively mitigate risks, support risk measurement and analysis, and effectiveness of operations,

3) the third line of defence is internal audit which performs independent audits of components of the Bank's management system, including risk management, and the internal control system with the exception of audit; internal audit operates in isolation from the first and second line of defence and may support the actions performed at those two levels through consultations, but without having any influence on the decisions taken.

On all three lines of defence employees apply appropriate controls adapted to the nature of the Bank's operations, or independently monitor compliance.

Information on actions taken within the risk management and internal control systems and on the results of those actions is periodically reported to the Management and Supervisory Boards.

The Bank's internal structure is adapted to the size and profile of the risk incurred and ensures effectiveness of managing those risks and avoiding conflicts of interests, in particular through: isolating organizational structures which manage particular risks; independence of organizational structures responsible for identification, measurement or assessment, controlling, monitoring and reporting risk from the structures whose operations generate risks, and full independence of internal audit structures and the compliance unit in this respect; independence of organizational structures which monitor security of the Bank's IT system and protect information from the structures which perform operating activities in the Bank. Materiality and the level of the Bank's inherent risks have an impact on the scope of responsibility and level of independence of the organizational structures, with the exception of the internal audit and compliance units.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT IN PKO BANK POLSKI ARE UNDERTAKEN IN THE FIRST HALF OF 2017

The Bank's top priority is to maintain its strong capital position and to further increase in its stable sources of financing underlying the stable development of business activity, while maintaining the priorities of efficiency and effective cost control, appropriate risk assessment and effective management of capital adequacy, and counteracting cyber threats.

Implementing risk management purposes, in the first half of 2017 the Bank took the following action:

1) exchanging own maturing short-term bonds amounting to PLN 815 million to bonds maturing in 6 months of PLN 670 million,

2) On 22 June 2017, the Ordinary General Shareholders' Meeting of the Bank decided to appropriate the Bank's profit for financial year 2016, allocating it (in line with Management Board recommendation) for the reserve capital and other reserves, without any amount for the dividend payment. The Polish Financial Supervision Authority ('the PFSA') recommended increase the own funds of the PKO Bank Polski SA by retaining the whole net profit for the period from 1 January 2016 to 31 December 2016. The resolution of the Ordinary General Shareholders' Meeting of the Bank on the distribution of the profit for 2016, is comprehensive with the recommendation of the PFSA,

3) the Bank conducted preparatory work for starting operating from the new branch in the Czech Republic, which commenced operations on 3 April 2017. As part of that work in February 2017 the Bank obtained the consent of the Polish Financial Supervision Authority for the joint application of the advanced measurement approach (AMA) and the base indicator approach (BIA) to calculate the own funds requirement in respect of operational risk using BIA in respect of the operations of the Branch in Germany and the Branch in the Czech Republic, and using AMA for the Bank's other operations.

(IN PLN MILLION)

50. Credit risk management

Exposure to credit risk - Items of the statement of financial position	30.06.2017	31.12.2016
Current account in the Central Bank	9 318	7 444
Amounts due from banks	5 977	8 471
Trading assets – debt securities	1 512	344
Derivative financial instruments	2 221	2 895
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	7 102	11 744
Loans and advances to customers	190 556	189 067
housing	94 425	97 866
corporate	67 470	62 143
consumer	23 631	22 848
debt securities (corporate)	2 352	2 283
debt securities (municipal)	2 523	2 588
receivables due from repurchase agreements	155	1 339
Investment securities available for sale - debt securities	37 433	35 314
Investment securities held to maturity	911	157
Other assets - other financial assets	1 806	1 791
Total	**256 836**	**257 227**

Exposure to credit risk - Off-balance sheet items	30.06.2017	31.12.2016
Irrevocable liabilities granted	27 412	31 078
Guarantees issued	7 337	7 931
Letters of credit issued	1 489	1 600
Underwriting of securities	6 084	5 120
Total	**42 322**	**45 729**

Financial assets gross, which are past due, but not impaired	30.06.2017			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	1 941	579	149	2 669
Total	**1 941**	**579**	**149**	**2 669**

Financial assets gross, which are past due, but not impaired	31.12.2016			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 317	609	167	3 093
Total	**2 317**	**609**	**167**	**3 093**

Collaterals for the above receivables include: mortgages, registered pledges, transfers of property rights, account lock-ups, loan exposure insurances, warranties and guarantees. The conducted assessment proved that for the above-mentioned financial assets the expected cash flows fully cover the carrying amount of these exposures.

(IN PLN MILLION)

Financial assets assessed on an individual basis for which individual impairment has been recognized by carrying amount gross	30.06.2017	31.12.2016
Loans and advances to customers	3 960	4 420
housing loans	577	739
consumer loans	212	218
corporate loans	3 096	3 389
debt securities	75	74
Investment debt securities available for sale	817	1 293
Total	**4 777**	**5 713**

Loans and advances to customers were secured by the following collaterals established for PKO Bank Polski SA: mortgage, registered pledge, the debtor's promissory note and transfer of receivables.

INTERNAL RATING CLASSES

Exposures to corporate clients which are not individually impaired are classified according to customer rating as part of the internal rating classes, from A to G (in respect of financial institutions from A to F).

The following portfolios are covered by the rating system:
- corporate market customers,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

Loans and advances which are not individually impaired and are not rated, are characterized with a satisfactory level of the credit risk. It concerns, in particular, retail loans (including housing loans) which do not have individually significant exposures and thus do not create significant credit risk.

51. CONCENTRATION OF CREDIT RISK AT THE BANK

The Bank defines credit concentration risk as a risk of incurring significant losses or a significant change in the Bank's risk profile due to the excessive concentration of exposures:

- to individual customers and groups of related customers,
- to customers operating in the same sector business,
- to customers operating in the same geographical region,
- to entities belonging to the Bank's Group (both cross-border and domestic),
- denominated in the same currency or indexed to the same currency,

or due to excessive concentration of applied credit risk mitigation techniques and large indirect credit exposures such as a single issuer of collateral.

CONCENTRATION OF THE LARGEST ENTITIES

As at 30 June 2017 and as at 31 December 2016, concentration limits had not been exceeded. As at 30 June 2017, the largest exposure by the Bank to a single entity was equal to 44.7% of the recognized capital of the Bank (as at 31 December 2016 the largest exposure by the Bank was equal to 37.3% of the recognized capital of the Bank), This commitment is excluded from the exposure concentration limit.

CONCENTRATION OF THE LARGEST CAPITAL GROUPS

The largest concentration of the Bank exposures to a group of borrowers amounts to 5.83% of the Bank's loan portfolio (6.35% as at 31 December 2016). As at 30 June 2017 and as at 31 December 2016, the concentration risk level of the Bank by the capital groups amounted to 48.6% and 55.2% of the Bank's recognized capital respectively. These engagements are excluded from the exposure concentration limit.

CONCENTRATION OF INDUSTRIES

As compared with 31 December 2016 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 2.7 billion. The total exposure in the four largest industry groups: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and public defense' amounted to 51% of the total loan portfolio covered by an analysis of the sector (as at 31 December 2016: 55%).

CONCENTRATION OF GEOGRAPHICAL REGIONS

PKO Bank Polski SA's loan portfolio is diversified in terms of geographical concentration. The structure of the loan portfolio by geographic regions is identified in the Bank due to the area – a separate area for the retail client (ORD) a separate area for the corporate and investment banking (OKI). 11 geographical regions and the headquarters are distinguished within ORD. As at 30 June 2017, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (ca. 25% of the ORD portfolio). As at 31 December 2016, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (ca. 25% of the ORD portfolio). Within OKI, the Bank distinguish 7 macro-regions, the headquarters and the foreign branches. As at 30 June 2017, the largest concentration of the OKI loan portfolio occurs in the central macro-region.

CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 30 June 2017, the share of exposure in convertible currencies, other than PLN, in the total portfolio of PKO Bank Polski SA amounted to 21.9% (as at 31 December 2016 amounted to 24.5%). The largest part of currency exposures of PKO Bank Polski SA are those denominated in CHF – 64.2% of the loan portfolio (as at 31 December 2016 amounted to 65.1%). Exposures in EUR represent 31.4% of the currency portfolio (as at 31 December 2016 amounted to 29.9%).

OTHER TYPES OF CONCENTRATION

In accordance with the Recommendation S, T and C of the Polish Financial Supervision Authority, the Bank applies internal limits on the Bank's customers credit exposures, defining the appetite for the credit and concentration risks. As at 30 June 2017 and as at 31 December 2016, these limits have not been exceeded.

At the beginning of the year 2017, the Bank implemented changes in the exposure concentration risk management process to comply with the requirements of the Polish Financial Supervision Authority resolution no. 351/2016 of 24 May 2016 on the issue of Recommendation C concerning concentration risk management. The said changes concerned, among other things, the concentration risk management objectives and process, implementation of new concentration risk tolerance measures (including internal limits mitigating the concentration risk) and the method of conducting concentration risk stress-tests.

52. FORBEARANCE PRACTICES

The Bank defines forbearance as actions aimed at changing contractual terms agreed with a debtor, caused by the debtor's difficult financial position (restructuring activities introducing concessions that otherwise would not be granted). The purpose of forbearance activities is to restore a debtor's ability to fulfil obligations to the Bank and to maximize the effectiveness of non-performing loan management, i.e. obtaining the highest recoveries while minimizing the costs of recoveries.

Forbearance measures represent a change in payment terms which are individually agreed for each contract. Such changes may include:

- spreading the overdue debt into instalments,
- changes to the repayment schedule (annuity instalments, decreasing instalments),
- extension of the lending period,
- change in interest rates,
- change in the credit margin,
- loans reduction.

(IN PLN MILLION)

As a result of concluding a forbearance agreement and the timely servicing thereof, the loans become undue. Evaluating the ability of a debtor to fulfil the conditions of the forbearance agreement (debt repayment according to the agreed schedule) is an element of the forbearance process. Forbearance agreements are monitored on an on-going basis. If, as regards to the credit exposure the impairment is recognized, the write-offs are created to balance identified loss.

Exposures with status forbearance are included to the portfolio of performing exposures if the following conditions are met simultaneously:

- a debt does not meet individual impairment trigger and there is no impairment recognized,
- at least 12 months have elapsed from the conclusion of a forbearance agreement,
- forbearance agreement has covered the whole debt,
- a debtor has demonstrated the ability to fulfil the terms of the forbearance agreement.

Exposures cease to be subject of reporting with the status of forbearance if the following conditions are met simultaneously:

- at least 24 months have elapsed from the date of including forborne exposition to the portfolio of performing loans (conditional period),
- at the end of the conditional period, discussed above, client does not have a debt overdue more than 30 days,
- timely repayment of at least 12 consecutive instalments.

LOANS AND ADVANCES TO CUSTOMERS

Exposures subject to forbearance in the loan portfolio	30.06.2017	31.12.2016
Loans and advances to customers gross, of which:	**197 995**	**196 387**
subject to forbearance	4 231	3 852
Impairment allowances on loans and advances to customers, of which:	(7 439)	(7 320)
subject to forbearance	(956)	(899)
Loans and advances to customers net, of which:	**190 556**	**189 067**
subject to forbearance	**3 275**	**2 953**

Loans and advances to customers subject to forbearance by product type (gross)	30.06.2017	31.12.2016
Loans and advances to customers gross subject to forbearance	**4 231**	**3 852**
housing loans	1 434	1 546
corporate loans	2 514	1 999
consumer loans	283	307
Impairment allowances on loans and advances to customers subject to forbearance	**(956)**	**(899)**
Loans and advances to customers net subject to forbearance	**3 275**	**2 953**

(IN PLN MILLION)

INVESTMENT SECURITIES AVAILABLE FOR SALE

Exposures subject to forbearance in the portfolio of investment securities available for sale	30.06.2017	31.12.2016
Debt securities available for sale gross, of which:	37 676	35 588
subject to forbearance	1 159	1 293
Impairment allowances on investment securities available for sale, of which:	(243)	(274)
subject to forbearance	(243)	(274)
Investment securities available for sale net, of which:	**37 433**	**35 314**
subject to forbearance	**916**	**1 019**

53. RISK MANAGEMENT OF FOREIGN CURRENCY MORTGAGE LOANS FOR INDIVIDUALS

The Bank analyses its portfolio of foreign currency mortgage loans to households in a specific manner. The Bank constantly monitors the quality of the portfolio on a current basis and analyses the risk of deterioration of the quality of the portfolio. Currently, the quality of the portfolio is at an acceptable level. The Bank takes into consideration the risk of foreign currency mortgage loans for households in the capital adequacy and equity management.

On 13 January 2017, the Financial Stability Committee passed resolution no. 14/2017 on the recommendation concerning the restructuring of the foreign currency housing loans portfolio and recommended:

1) To the minister responsible for financial institutions:
   - increasing the risk weight to 150% for foreign currency exposures fully secured with a mortgage on residential real estate,
   - in the case of banks using IRB, increasing the minimum LGD value for foreign currency exposures secured with a mortgage on residential real estate,
   - changing the principles of operation of the Borrowers Support Fund,
   - neutralization of tax effects for borrowers and banks which decide to convert their housing loans,
   - imposing a 3% systemic risk buffer.
2) To the Polish Financial Supervision Authority:
   - updating the Regulatory Review and Assessment (BION) Methodology and extending it by adding principles that allow assigning a relevant capital charge,
   - supplementing the capital requirements associated with operating, market and credit risk that are currently applied as part of the 2nd pillar,
   - issuing a regulatory recommendation concerning good practices for restructuring of housing loan portfolios in foreign currencies.
3) To the Bank Guarantee Fund: taking into account the risk associated with foreign currency housing loans in the method of determining contributions to the bank guarantee fund.

(IN PLN MILLION)

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

Loans and advances to customers in CHF by impairment calculation method (translated into PLN at the exchange rate as at 1 CHF = 3.8667 PLN)	30.06.2017 Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	120	117	237
impaired	-	109	105	214
Assessed on a portfolio basis, impaired	-	17	1 172	1 189
Assessed on a group basis (IBNR)	3	311	26 393	26 707
Loans and advances to customers - gross	**3**	**448**	**27 682**	**28 133**
Impairment allowances on exposures assessed on an individual basis, of which:	-	(51)	(45)	(96)
impaired	-	(51)	(45)	(96)
Impairment allowances on exposures assessed on a portfolio basis	-	(13)	(804)	(817)
Impairment allowances on exposures assessed in a group basis (IBNR)	-	(2)	(60)	(62)
Impairment allowances on exposures - total	**-**	**(66)**	**(909)**	**(975)**
Loans and advances to customers net	**3**	**382**	**26 773**	**27 158**

Loans and advances to customers in CHF by impairment calculation method (translated into PLN at the exchange rate as at 1 CHF = 4.1173 PLN)	31.12.2016 Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	155	166	321
impaired	-	128	137	265
Assessed on a portfolio basis, impaired	-	23	1 184	1 207
Assessed on a group basis (IBNR)	5	346	29 361	29 712
Loans and advances to customers - gross	**5**	**524**	**30 711**	**31 240**
Impairment allowances on exposures assessed on an individual basis, of which:	-	(55)	(64)	(119)
impaired	-	(54)	(64)	(118)
Impairment allowances on exposures assessed on a portfolio basis,	-	(16)	(793)	(809)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(2)	(70)	(72)
Impairment allowances on exposures - total	**-**	**(73)**	**(927)**	**(1 000)**
Loans and advances to customers net	**5**	**451**	**29 784**	**30 240**

Loans and advances to customers assessed on a group basis (IBNR)	30.06.2017 PLN	CHF	Other currencies
Loans and advances to customers gross	144 226	26 707	14 671
past due	1 766	543	146
not past due	142 460	26 164	14 525
Impairment allowances on exposures assessed on a group basis (IBNR)	(405)	(62)	(102)
past due	(123)	(30)	(3)
not past due	(282)	(32)	(99)
Loans and advances to customers net	**143 821**	**26 645**	**14 569**

(IN PLN MILLION)

Loans and advances to customers assessed on a group basis (IBNR)	31.12.2016		
	PLN	CHF	Other currencies
Loans and advances to customers gross	138 160	29 712	15 779
past due	2 056	658	168
not past due	136 104	29 054	15 611
Impairment allowances on exposures assessed on a group basis (IBNR)	(388)	(72)	(45)
past due	(119)	(35)	(4)
not past due	(269)	(37)	(41)
Loans and advances to customers net	**137 772**	**29 640**	**15 734**

Loans and advances to customers assessed on a group basis (IBNR) subject to forbearance by currencies	30.06.2017		
	PLN	CHF	Other currencies
Gross loans and advances to customers	1 090	466	215
Impairment allowances on exposures assessed on a group basis (IBNR)	(33)	(16)	(5)
Net loans and advances to customers subject to forbearance	**1 057**	**450**	**210**

Loans and advances to customers assessed on a group basis (IBNR) subject to forbearance by currencies	31.12.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers	899	557	89
Impairment allowances on exposures assessed on a group basis (IBNR)	(33)	(21)	(1)
Net loans and advances to customers subject to forbearance	**866**	**536**	**88**

As at 30 June 2017, the average LTV for loan portfolio in CHF amounted to 75.1% (as at 31 December 2016; 82.7%) - compared to the average LTV for the whole portfolio amounting to 66.4% (as at 31 December 2016; 70.6%).

54. Interest rate risk management

The repricing gap

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk, subject to revaluation in a given time range, and these balances are recognized on the transaction date.

At the end of the first half of 2017 and at the end of 2016, the Bank had a positive cumulative gap in PLN in all the time horizons.

Sensitivity Measures

Exposure of the Bank to interest rate risk was within accepted limits as at 30 June 2017 and 31 December 2016. The Bank was mainly exposed to PLN interest rate risk. Among all applied stress-tests by the Bank involving a parallel shift of interest rate curves, the most unfavourable for the Bank was the scenario of a parallel shift of interest rate curves in PLN.

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

Name of sensitivity measure	30.06.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	361	269
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)*	1 905	2 131

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

55. Currency risk management

Sensitivity measures

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

Name of sensitivity measure	30.06.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	4	9
Change in CUR/PLN by 20% (in PLN million) (stress-test)*	12	78

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

Currency position

The currency positions is a key factor determining the level of currency risk on which the Bank 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 Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, in particular CIRS transactions). In accordance with the principles of currency risk management at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment of currency loan denominated in PLN by a client, conversion of currency loan) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated unclosed position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk, with regard to own funds, VaR for a 10-day time horizon for the Bank's foreign position as at 30 June 2017 amounted to approx. 0.07%.

Currency position	30.06.2017	31.12.2016
EUR	(114)	108
USD	(46)	69
CHF	(7)	(38)
GBP	2	9
Other (Global Net)	35	39

56. Liquidity risk management

Liquidity gaps

Liquidity gaps presented below include adjusted in terms of the following: permanent balances on deposits of non-financial sector and their maturity, permanent balances on loans in current accounts for 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
30.06.2017								
Adjusted gap in real terms	17 330	14 792	(450)	2 082	7 318	8 264	32 426	(81 762)
Cumulative adjusted gap in real terms	17 330	32 122	31 672	33 754	41 072	49 336	81 762	-
31.12.2016								
Adjusted gap in real terms	12 018	20 185	641	(223)	8 593	9 101	23 850	(74 165)
Cumulative adjusted gap in real terms	12 018	32 203	32 844	32 621	41 214	50 315	74 165	-

In all time horizons, the Bank's cumulative adjusted liquidity gap in real terms as at 30 June 2017 and as at 31 December 2016 was positive. This means a surplus of assets receivable over liabilities payable.

Liquidity reserve and liquidity surplus

Liquidity risk measure	30.06.2017	31.12.2016
Liquidity reserve up to 1 month* (in PLN billion)	25	31
Liquidity surplus in a horizon of up to 30 days** (in PLN billion)	12	13

* Liquidity reserve – gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.
** Excess liquidity – excess liquidity determines the Bank's ability to maintain liquidity on each day during the period called the 'horizon of survival' if predefined stress-test scenarios occur.

Supervisory liquidity measures

Supervisory liquidity measures	30.06.2017	31.12.2016
M1 – short-term liquidity gap	16 616	24 464
M2 – short-term liquidity ratio	1.49	1.89
M3 – coverage ratio of assets not illuminated by own funds	12.72	11.63
M4 – coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.16	1.19
LCR – liquidity coverage ratio	116.8%	134.2%

In the period ended 30 June 2017 and 2016 supervisory measures ratios remained above the supervisory limits.

Permanent balances on deposits

As at 30 June 2017 the level of permanent balances on deposits constituted approx. 93.9% of all deposits in the Bank (excluding interbank market), which means an increase by approximately 0.1 p.p. as compared to the end of 2016.

57. Other risks

Detailed information on the managing of the following risks: operational, commodity prices, equity securities prices, other price risks, derivatives, compliance, reputation, macroeconomic changes, model, business, capital and excessive leverage is included in the separate financial statements of PKO Bank Polski SA for 2016 and in the report on capital adequacy and other information to be published by Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna as at 31 December 2016.

58. Complex stress-tests

Complex stress-tests are an integral part of the Bank's risk management and are complementary for stress-tests specific to particular types of risks. They collectively include the types of risk considered by the Bank to be significant. They include an analysis of the impact of changes in the environment and the functioning of the Bank on the Bank's financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy and selected liquidity measures.

Complex stress-tests for use of the Bank are carried out every six months in the three-year horizon, taking into account changes in the value and structure of statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by the supervisory authorities.

59. Capital Adequacy

The management of capital adequacy is a process whose objective is to ensure that the level of risk which the Bank take in relation to the development of its business activities may be covered with its capital, taking into account a specific risk tolerance level and time horizon. The process of managing capital adequacy comprises, in particular, compliance with the applicable regulations of the supervisory and control authorities, as well as the risk tolerance level determined within the Bank and the capital planning process, including the policy concerning the sources of acquisition of capital.

The objective of capital adequacy management is to maintain own funds at a level that is adequate to the scale and profile of the risk relating to the Bank's activities continuously.

The process of managing the Bank's capital adequacy comprises:

- specifying and pursuing the Bank's capital objectives,
- identifying and monitoring significant types of risk,
- assessing internal capital to cover the individual risk types and total internal capital,
- establishing internal capital adequacy limits,
- forecasting, monitoring and reporting the level and structure of equity and capital adequacy,
- managing the structure of the statement of financial position paying attention to optimizing the quality of the Bank's own funds,
- capital emergency action,
- allocating own funds and internal capital requirements to business areas and customer segments in the Bank,
- assessing the profitability of the individual business areas and customer segments.

(IN PLN MILLION)

The capital adequacy measures are:

- Capital adequacy ratio (TCR),
- the relation of own funds to internal capital,
- Tier 1 core capital ratio (CET1),
- Tier 1 capital ratio (T1),
- leverage ratio.

Pursuant to Regulation of CRR, the minimum level of the capital ratios maintained by the Bank amounts to:

1) TCR – 8.0%,
2) T1 – 6.0%,
3) CET1 – 4.5%.

At the same time, PKO Bank Polski is obliged to abide by additional requirements imposed by the PFSA and requirements following from the Act on macroprudential supervision. The Bank Polski SA maintained capital adequacy at a safe level, above the supervisory and regulatory limits. As at 30 June 2017 TCR was 18.82%, and CET1 was 17.92%. PKO Bank Polski SA maintained a safe capital base which exceeds the regulatory and supervisory limits.

OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

As at 30 June 2017, the Bank's own funds calculated for capital adequacy purposes increased, mainly as a result of the decision adopted on 22 June 2017 by the Bank's Ordinary General Shareholders' Meeting on the appropriation of the profit for 2016, based on which the profit earned was transferred to reserve capital and other reserves, without any payment of dividend.

The respective increase in own funds amounted to PLN 1 299 million, with the remaining part of the profit (PLN 1 589 million) already included in own funds as at 31 December 2016 based on the relevant consents from the PFSA having been received by the Bank to include the Bank's net profit for three quarters of 2016, less the anticipated charges, in the Bank's Tier 1 core capital. At the same time own funds dropped due to the fact that on 24 March 2017, the Bank obtained permission for the early repayment of a subordinated loan of CHF 224 million (equivalent to PLN 884 million) which had been included in Tier 2 capital as at 31 December 2016. Since the receipt of the said permission, the loan has no longer been included in the Bank's own funds.

REQUIREMENTS AS REGARD OWN FUNDS (PILLAR I)

The Bank's total own funds requirement comprises the total of the capital requirements in respect of various risks listed below:

CREDIT RISK	under the standard approach, using the following formulas with regard to: STATEMENT OF FINANCIAL POSITION ITEMS - a product of a carrying amount (considering value of adjustments for specific credit risk), a risk weight of the exposure calculated according to the standardized method of credit risk requirement as regards own funds and 8% (considering recognized collaterals), OFF-BALANCE SHEET LIABILITIES GRANTED - a product of value of liability (considering value of adjustments for specific credit risk), a risk weight of the product, a risk weight of off-balance sheet exposure calculated according to the standardized method of credit risk requirement for own funds and 8% (considering recognized collaterals), OFF-BALANCE SHEET TRANSACTIONS (DERIVATIVE INSTRUMENTS) – a product of risk weight of the off-balance sheet transaction calculated according to the standardized method of credit risk requirement for own funds, equivalent in the statement of financial position of off-balance sheet transaction and 8% (the value of the equivalent in the statement of financial position is calculated in accordance with the mark-to-market method).
OPERATIONAL RISK	• in accordance with the AMA approach – with respect to the Bank's activities, excluding the Bank's foreign branches in Germany and in the Czech Republic, • in accordance with the BIA approach – with respect to the activities of the Branch in the Germany and Branch in the Czech Republic.

MARKET RISK	• currency risk – calculated under the core approach, • commodity risk – calculated under the simplified approach, • equity instruments risk – calculated under the simplified approach, • specific risk of debt instruments – calculated under the core approach, • general risk of debt instruments – calculated under the duration-based approach, • other types of risk, other than delta risk (non-delta risk) calculated under the scenario approach in the case of options for which the Bank uses its own valuation models and under the delta plus approach for other options,
OTHER RISK	• settlement risk and delivery risk – calculated under the approach specified in the CRR Regulation, • counterparty credit risk – calculated under the approach set out in the CRR Regulation. • credit valuation adjustment risk (CVA) – calculated under the approach set out the CRR Regulation, • exceeding a large exposure limit – calculated under the approach set out in the CRR Regulation, • for exposures to a central counterparty, a requirement for transactions and contributions made to the default fund of a qualifying central counterparty is calculated (calculated in accordance with the method specified in the CRR Regulation).

	30.06.2017	31.12.2016
Total own funds	**32 031**	**31 129**
Tier 1 capital	**30 497**	**28 673**
Tier 1 capital before regulatory adjustments and reductions, of which:	33 031	31 733
Share capital	1 250	1 250
Other reserves	30 711	27 824
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings	-	1 589
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 549)	(1 694)
Accumulated other comprehensive income	(59)	(442)
Adjustments to Tier 1 basic capital due to prudential filters	8	11
Other adjustments in transitional period in Tier 1 basic capital	(63)	(64)
Tier 2 capital	**1 534**	**2 456**
Equity instruments and subordinated loans eligible as Tier 2 capital	1 601	2 523
(-) Equity exposures deducted from own funds	(67)	(67)
Requirements as regard own funds	**13 616**	**14 489**
Credit risk	12 669	13 299
Operational risk	420	482
Market risk	506	661
Credit valuation adjustment risk	21	47
Total capital adequacy ratio	**18.82%**	**17.19%**
Tier 1 capital ratio	**17.92%**	**15.83%**

REQUIREMENTS FOR INTERNAL CAPITAL (PILLAR II)

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The total internal capital of the Bank is the sum of internal capital amount necessary to cover all of the significant risks for the Bank.

The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect. In the first half of 2017 and 2016, the relation of the Bank's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Bank's internal limits.

60. INFORMATION ON PORTFOLIO SALE OF RECEIVABLES

In the first half of 2017 the Bank performed portfolio sales of receivables (on and off-balance sheet loans) of over 6.7 thousand receivables due from retail customers and corporate entities with a total value of approx. PLN 555 million. The total carrying amount of the provision for potential claims on sale of impaired loan portfolios as at 30 June 2017 amounted to PLN 3.3 million (as at 31 December 2016 it was PLN 2.9 million). As a result of loan sale all risks and rewards were transferred, hence the Bank derecognized these assets.

The Bank did not receive any securities due to the above-mentioned transactions.

SUBSEQUENT EVENTS

61. SUBSEQUENT EVENTS

1. On 18 July 2017 the Bank issued within EMTN Programme eurobonds of the following parameters:
   - aggregate principal amount: EUR 750 000 000,
   - maturity: 4 years,
   - interest periods: annual,
   - coupon: 0.75% (Mid Swap +65 bps.),
   - issue price: 99.792% of the principal amount.

   The Bank applied for admission of eurobonds to trading on the regulated market of the Luxembourg Stock Exchange and after this admission the Bank will apply for dual listing of eurobonds on the Warsaw Stock Exchange.

   On 20 July 2017 the Moody's Investors Service granted the rating of A3 with a stable outlook for the above-mentioned tranche of bonds.

2. On 1 August 2017, the President of the Republic of Poland put forward a bill to the Marshal of the Parliament amending the Act of 9 October 2015 on supporting housing borrowers in financial hardship, which has been in force since February 2016. Under the Act, the liabilities of borrowers who have mortgage loans in PLN or in a foreign currency and who meet the conditions for receiving support may be repaid from the special Borrowers Support Fund managed by Bank Gospodarstwa Krajowego. The aid provided is repayable in interest-free instalments.

   Utilization of the Fund as at the end of 2016 amounted to approx. 2%. Therefore, the current bill provides much more attractive conditions for granting support, such as a higher minimum income threshold for applicants, a higher support limit, and an extended maximum period of using the support and repayment of the related liabilities. It also allows partial cancellation of liabilities in respect of the aid received and granting a one-off loan for repayment of liabilities in the event of the sale of the real property.

   The banks that decide to convert loans indexed to or denominated in foreign currencies to PLN will be entitled to receive a refund of the difference between the carrying amount of those loans before and after restructuring. Such refunds will be financed from the so-called Restructuring Fund created as part of the Support Fund. The funds will come from quarterly payments of creditors dependent on the size of their foreign currency loan portfolio. As an additional incentive for banks to actively perform restructuring, the bill provides a possibility of taking over the funds of the Restructuring Fund which have not been utilized by other banks.

   The potential amendment of the above-mentioned act in accordance with the proposed bill may cause a significant increase in the Bank's liabilities in respect of participation in the system of supporting borrowers in financial hardship.

3. Mr Janusz Derda, Vice-President of the Management Board supervising Field of IT and Service resigned from the membership of the Bank's Management Board as of the end of the day 9 August 2017.

(IN PLN MILLION)

4. On 23 August 2017, the Bank has placed an issuance of subordinated bonds with total nominal value amounting to PLN 1 700 million. The issue price of the bonds will be equal to its nominal value and amount to PLN 0.1 million. The bonds will have semi-annual interest period and the interests will be calculated on the basis of nominal value with variable interest rate equal to WIBOR 6M plus 155 b.p. margin during the entire issuance period.

   Settlement of the issuance will take place on 28 August 2017. Upon approval of the PFSA, the resources acquired as part of the issuance will be allocated to reserve capital of the Bank. The maturity of issued bonds equals 10 years, however upon the approval of PFSA, the Bank is entitled to early redemption of aforementioned bonds 5 years after the issue date.

   The Bank will attempt to introduce the bonds through the alternative trading system.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE BANK

24.08.2017	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	MIECZYSŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
24.08.2017	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)

SIGNATURE OF PERSON RESPONSIBLE FOR
MAINTAINING THE BOOKS OF ACCOUNT

24.08.2017

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION

....
(SIGNATURE)