Bank Polski

Report of the PKO Bank Polski SA Group for the third quarter of 2017

Report publication date:
13 November 2017

SELECTED CONSOLIDATED FINANCIAL DATA	in PLN million		in EUR million	
	period from 01.01.2017 to 30.09.2017	period from 01.01.2016 to 30.09.2016	period from 01.01.2017 to 30.09.2017	period from 01.01.2016 to 30.09.2016
Net interest income	6 357	5 734	1 493	1 312
Net fee and commission income	2 209	1 988	519	455
Operating profit	3 109	2 943	730	674
Profit before income tax	**3 129**	**2 968**	**735**	**679**
Net profit (including non-controlling shareholders)	**2 288**	**2 281**	**538**	**522**
Net profit attributable to equity holders of the parent company	**2 284**	**2 281**	**537**	**522**
Earnings per share for the period – basic (in PLN/EUR)	**1.83**	**1.82**	**0.43**	**0.42**
Earnings per share for the period – diluted (in PLN/EUR)	**1.83**	**1.82**	**0.43**	**0.42**
Net comprehensive income	**2 771**	2 054	651	470
Cash flows from operating activities	**5 586**	5 434	1 312	1 244
Cash flows from investing activities	**(2 495)**	(5 387)	(586)	(1 233)
Cash flows from financing activities	**(532)**	723	(125)	165
Net cash flows	2 559	770	601	176

SELECTED CONSOLIDATED FINANCIAL DATA	in PLN million		in EUR million	
	as at 30.09.2017	as at 31.12.2016	as at 30.09.2017	as at 31.12.2016
Total assets	289 961	285 573	67 290	64 551
Total equity	35 340	32 569	8 201	7 362
Capital and reserves attributable to equity holders of the parent company	35 352	32 585	8 204	7 366
Share capital	1 250	1 250	290	283
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	28.27	26.05	6.56	5.89
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	28.27	26.05	6.56	5.89
Capital adequacy ratio	17.68%	15.81%	17.68%	15.81%
Tier 1	31 497	28 350	7 309	6 408
Tier 2	1 700	2 523	395	570

SELECTED STANDALONE FINANCIAL DATA	in PLN million		in EUR million	
	period from 01.01.2017 to 30.09.2017	period from 01.01.2016 to 30.09.2016	period from 01.01.2017 to 30.09.2017	period from 01.01.2016 to 30.09.2016
Net interest income	5 899	5 469	1 386	1 252
Net fee and commission income	2 008	1 801	472	412
Operating profit	2 782	2 805	654	642
Profit before income tax	**2 782**	**2 805**	**654**	**642**
Net profit	**2 039**	**2 171**	**479**	**497**
Earnings per share for the period – basic (in PLN/EUR)	**1.63**	**1.74**	**0.38**	**0.40**
Earnings per share for the period – diluted (in PLN/EUR)	**1.63**	**1.74**	**0.38**	**0.40**
Net comprehensive income	2 550	1 980	599	453
Cash flows from operating activities	10 815	7 487	2 541	1 714
Cash flows from investing activities	(2 416)	(5 364)	(568)	(1 228)
Cash flows from financing activities	(5 917)	(1 467)	(1 390)	(336)
Net cash flows	2 482	656	583	150

SELECTED STANDALONE FINANCIAL DATA	in PLN million		in EUR million	
	as at 30.09.2017	as at 31.12.2016	as at 30.09.2017	as at 31.12.2016
Total assets	271 987	272 957	63 119	61 699
Total equity	35 139	32 589	8 155	7 366
Share capital	1 250	1 250	290	283
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	28.11	26.07	6.52	5.89
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	28.11	26.07	6.52	5.89
Capital adequacy ratio	19.71%	17.19%	19.71%	17.19%
Tier 1	31 729	28 673	7 363	6 481
Tier 2	1 634	2 456	379	555

Selected financial statements items translated into EUR using the following rates	30.09.2017	31.12.2016	30.09.2016
average NBP rates as at the last day of each month of the period	4.2566	4.3757	4.3688
mid NBP rate as at the last day of the period	4.3091	4.4240	4.3120

Bank Polski

Directors' Commentary to the financial results of the PKO Bank Polski SA Group for the third quarter of 2017

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1. SUMMARY OF THE THIRD QUARTER OF 2017

In the third quarter of 2017, as in the previous quarters, the banking sector operated in conditions of historically low levels of interest rates and high regulatory burdens, while the macroeconomic situation was favourable. The continued economic revival created favourable conditions for the stable development of operations in the banking sector. Good economic activity both globally and in Poland, resulted mainly from increasingly stronger recovery in investments and growth in private consumption. The situation on the loan-deposit market was shaped by the advantageous situation on the labour market, which was characterized by a record low unemployment level and acceleration of salary growth.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (the PKO Bank Polski SA Group, the Bank's Group or the Group) continued sustainable development, focused on improving the quality of service and increasing the innovativeness of products and distribution channels, in particular in the field of mobile banking and applying leading edge technology in branches.

The Group has progressed to the second year of 'Wspieramy rozwój Polski i Polaków' ('We support the development of Poland and the Poles') strategy realization. The new strategy is an answer to the changing market environment and the need to adjust to new challenges facing the banking sector and the Polish economy. The direction of the transformation of the Bank's business model will remain closely connected with the growing digitization of social life and the strategy for economic development of Poland.

THE PKO BANK POLSKI SA GROUP WILL INCREASE THE SCALE OF ITS OPERATIONS AS A RESULT OF THE ACQUISITION OF KBC TFI SA

In the third quarter of 2017, the Group signed a contract for the acquisition of 100% shares in KBC TFI SA from KBC Asset Management NV through a subsidiary of PKO Bank Polski SA – PKO BP Finat Sp. z o.o. The announced transaction is contingent in its nature. Its finalization, which is planned for the first quarter of 2018, requires obtaining approval from the President of the Office of Competition and Consumer Protection (received on 26 October 2017) and no objections on the side of the Polish Financial Supervision Authority.

According to plans, the investment fund companies operating as part of the Group will be merged. The planned merger with KBC TFI SA will accelerate the current dynamic development of PKO TFI SA, which is already the largest investment fund company in Poland in the segment of retail funds, with a market share of nearly 15%. The number of its customers is also growing fast and in the first nine months of 2017 it went up by over 39 thousand and now amounts to nearly 487 thousand, which makes PKO TFI SA the largest investment fund company in Poland in terms of the number of customers.

THE GROUP SYSTEMATICALLY DEVELOPS MOBILE BANKING CHANNELS AND INNOVATIVENESS OF BRANCHES

- PKO Bank Polski SA (the Bank) maintains the leader's position in mobile banking in Poland. The IKO application is ranked first among mobile banking applications in three largest application stores: Google Play, App Store and Windows Phone Store and for more than 2 years now the number of stars awarded to IKO has not dropped below 4.5 out of 5.
- PKO Bank Polski SA is introducing the first self-service points in its branches. The self-service desks can be used by all individual and corporate customers holding cards to their bank accounts. In the third quarter of 2017, the first self-service points were made available to customers for their convenience: two in Warsaw and two in Jelenia Góra. The points have been equipped with touchscreens and additional software which enables executing more complex transactions other than depositing and withdrawing cash.
- For the first time in Poland, tests of the digital pen are being launched in banking branches thanks to which, a form signed by a customer can arrive in the banking system in real time. PKO Bank Polski SA together with the start-up IC Solutions is starting the pilot programme of the IC Pen. The shorter service time, reducing the amount of paper used and automatic digital archiving are just some of the benefits of the innovative solution.
- Since August 2017, the Bank has introduced a service called PKO Masowe Wypłaty which allows disbursements of benefits in cash form. So far, such transactions were only possible in the Bank's branch or agency. This function was introduced in three thousand of the Bank's own ATM machines. PKO Masowe Wypłaty is a service addressed to firms or institutions which make many one-off cash disbursements and who have decided to outsource this process from internal operations. The service is also offered to customers who make repeated disbursements on behalf of beneficiaries who do not have bank accounts or who prefer to receive payments in cash.

- The ZenCard loyalty platform has been integrated with the systems of Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o., a clearing agent linked by capital with the Bank, which provided the possibility of offering an added service to retail chains. The first joint project of ZenCard Sp. z o.o. and eService was the promotional campaign for the customers of MAKRO network paying with a VISA card.

THE BANK'S GROUP EXPANDS ITS PRODUCT OFFER AND REACHES TO NEW CUSTOMERS

The Group offers comprehensive solutions which respond to the individual needs not only of the individual customers but also businesses taking into account their size, industry and stage of development. The Group provides its business customers with professional tools, which facilitate conducting business activities. The Group adjusts its current product offer based on analyses of customer expectations in order to be able to match the increasing competition and to satisfy its customers demand for loans and other banking products. As part of the activities undertaken in the third quarter of 2017:

- PKO Bank Polski SA prepared an attractive offer for customers running small- and medium-sized enterprises. Since 11 September of this year, entrepreneurs opening an account may receive 10 GB of Internet access for 12 months. Having permanent access to the web, entrepreneurs are able to manage their firms from any place and at any time, hence the slogan '*Moja firma jest tam gdzie ja*' ('*My firm is where I am*').
- On 14 August 2017, PKO Bank Polski SA launched a new campaign of a cash loan with the slogan *JEJ WYGODNOŚĆ MINI RATKA*. In response to the expectations of the customers seeking convenient, modern and instant access to additional funds with a necessary minimum of formalities, the Bank offers its star lending product. The customers may apply for a cash loan of up to PLN 24 000, including lending costs, available without a certificate of employment or a salary certificate (it is sufficient to provide a personal identity card and a bank account statement for the last three months) at the Bank's branches, by telephone or through the Internet.
- PKO Leasing SA introduced PKO Turboleasing to its offer, which is an innovative product enabling the leasing of equipment and plant available in Internet stores to entrepreneurs. In response to the changing market needs, the Group developed a dedicated physical and Internet process which enables prompt and effective execution of lease transactions, also of lower value. This solution provides the possibility of applying for a lease online.
- In August 2017, PKO Bank Polski SA together with PKO Leasing SA has launched as the first on the market the new model of insurance distribution of leased items. As a result, even during one visit, customers may conclude a leasing contract and accompanying insurance products at one of their bank offices.
- PKN ORLEN SA and PKO Bank Polski SA signed a contract for maintaining a cash pool system the overriding objective of which is to centralize financial liquidity in the international ORLEN Group. As a first step, PKO Bank Polski SA will ensure the centralization of cash of companies from Poland, Germany, the Czech Republic, Lithuania, Latvia, Estonia and Sweden. The cash pool system will include the ongoing consolidation of positive and negative balances in the main currencies used by the Group. By signing this major contract, the Bank strengthened its leader's position in banking services to large capital groups.
- Since 3 August 2017, PKO Bank Polski SA has serviced the bank accounts of the budget of the Górnośląsko-Zagłębiowska Metropolis. The Górnośląsko-Zagłębiowska Metropolis exists since 1 July 2017 and comprises 41 communes, including all the main cities and towns of the Śląskie Voivodeship, such as: Bytom, Chorzów, Dąbrowa Górnicza, Gliwice, Katowice, Mysłowice, Piekary Śląskie, Ruda Śląska, Siemianowice Śląskie, Sosnowiec, Świętochłowice, Tychy and Zabrze.
- In September 2017, PKO Bank Polski SA signed a contract for servicing the budget of the Pomorskie Voivodeship. It is the eighth voivodeship served by the Bank alongside Kujawsko-Pomorskie, Lubelskie, Mazowieckie, Podkarpackie, Świętokrzyskie, Wielkopolskie and Zachodniopomorskie. In this way, the Bank confirmed its position as an unquestioned leader in the sector of services to local governments.

Actions taken by the PKO Bank Polski SA Group in the third quarter of 2017, made it possible to achieve high financial results and strengthen its position among the largest financial institutions in Poland.

	3 quarters of 2017	3 quarters of 2016	Change y/y
Net profit	2 284 PLN mn	2 281 PLN mn	0.1% (y/y)
Net interest income	6 357 PLN mn	5 734 PLN mn	10.9% (y/y)
Net fee and commission income	2 209 PLN mn	1 988 PLN mn	11.1% (y/y)
Result on business activities*	9 289 PLN mn	8 873 PLN mn	4.7% (y/y)
Administrative expenses	-4 310 PLN mn	-4 134 PLN mn	4.3% (y/y)
Tax on certain financial institutions	-698 PLN mn	-595 PLN mn	17.3% (y/y)
Net impairment allowance	-1 172 PLN mn	-1 201 PLN mn	-2.4% (y/y)
Total assets	290 PLN bn	276 PLN bn	5.2% (y/y)
Equity	35 PLN bn	32 PLN bn	9.3% (y/y)
ROA net	1,0%	1.0%	0.0 p.p.
ROE net	8.6%	8.8%	-0.2 p.p.
C/I (cost to income ratio)**	47.2%	51.9%	-4.7 p.p.
Net interest margin	3.3%	3.2%	0.1 p.p.
Share of impaired loans	5.6%	6.2%	-0.6 p.p.
Cost of risk	-0,74%	-0.73%	-0.01 p.p.
Capital adequacy ratio	17.68%	16.00%	1.68 p.p.
Tier 1 capital ratio	16.77%	14.65%	2.12 p.p.

* Result on business activities defined as operating profit before administrative expenses, tax on certain financial institutions and net impairment allowance

**Administrative expenses to result on business activities

The net profit of the PKO Bank Polski SA Group generated in three quarters of 2017 amounted to PLN 2 284 million, which represents an increase of PLN 3 million in comparison to the result of the previous year. The achieved net profit was determined by:

1) the result on business activity of the PKO Bank Polski SA Group, which reached the level of PLN 9 289 million (+4.7% y/y), mainly due to:
- the improvement of the net interest income of PLN 623 million y/y, realized mainly thanks to increased level of income generated on assets,
- an increase in net fee and commission income of PLN 221 million y/y,
- a decrease in gains less losses from investment securities of PLN 486 million y/y, related to accounting for the acquisition of Visa Europe Limited by Visa Inc. in June 2016,
2) an increase in administrative expenses of PLN 176 million y/y, mainly determined by an increase in the costs of employee benefits,
3) an increase in tax charge on certain financial institutions ('the bank tax') of PLN 103 million.

As a result of actions taken in the third quarter of 2017 the PKO Bank Polski SA Group:

- since the beginning of the year the value of assets have increased by over PLN 4.4 billion up to PLN 290 billion,
- maintained a leading market share in loans and deposits market at 17.7% and 17.2% respectively,
- maintained the first position in the housing loans to individuals[1] market with 30.4% share,
- was the largest lender to small and medium sized enterprises of loans with de minimis guarantees with 20.8% market share[2],
- since the beginning of the year increased the number of individual customer accounts by 213 thousand, reinforced its leading position in this regard.

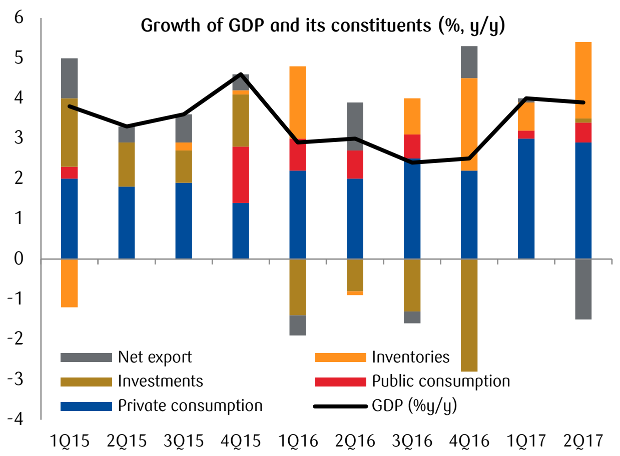
[1] The data of the Polish Bank Association.
[2] According to the data provided by the Centre of Sureties and Guarantees of Bank Gospodarstwa Krajowego.

2. EXTERNAL BUSINESS ENVIRONMENT

MACROECONOMIC ENVIRONMENT

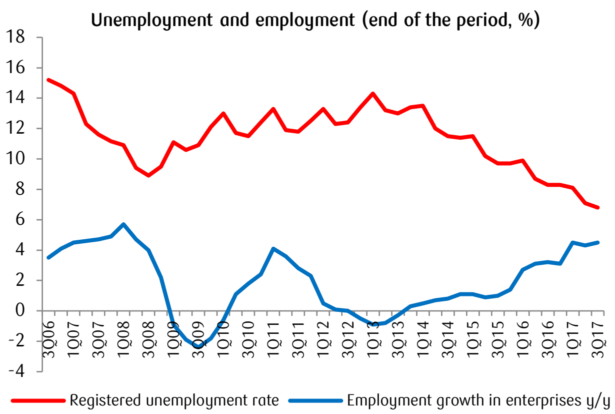
Macroeconomic factors influencing domestic economy in the third quarter of 2017:

- **ACCELERATION OF ECONOMIC GROWTH.**



Based on the monthly indicators of economic activity, GDP growth in the third quarter of 2017 may be estimated at 4.5% y/y (vs 3.9% y/y in the second quarter of 2017) and therefore has been the fastest since the fourth quarter of 2015. Private consumption stimulated by the continuing revival on the labour market was still the leading factor in the GDP growth. The monthly ratios indicate that the dynamic growth of consumption was maintained in the third quarter of this year, despite the negative base effects related to introducing the 500+ programme in April 2016. After a steep decline in 2016, investments show a continually stronger symptoms of recovery which is shown by, among other things, a high growth dynamics of construction and assembly production (on average 21.6% y/y in July-August period) and a continually high projected value of new investments.

- **IMPROVED LABOUR MARKET CONDITIONS**



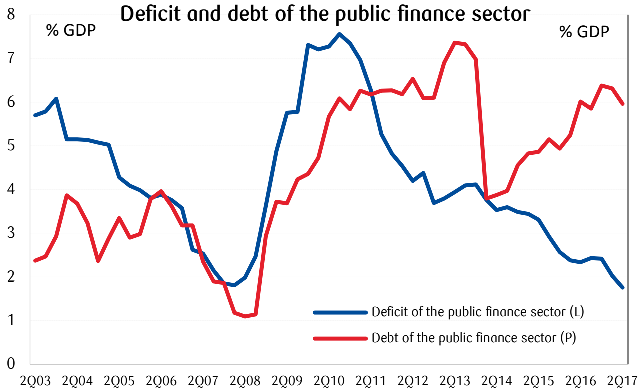
The registered unemployment rate at the end of September 2017 decreased to 6.8%, with a slight slow-down of the decline trend (to -1.5 p.p. y/y), which can be linked to the growing shortages of an effective labour force. The record low unemployment and record high number of vacancies result in the gradually growing pace of wage increases (in the business sector, it amounted to 5.1% y/y in January-August 2017, compared with 4.1% for the entire year of 2016), which improves the financial standing of households. According to research on the economic situation, the significance of staff deficiency as a barrier to enterprise development is increasing, which should translate into further growth in salaries in subsequent quarters.

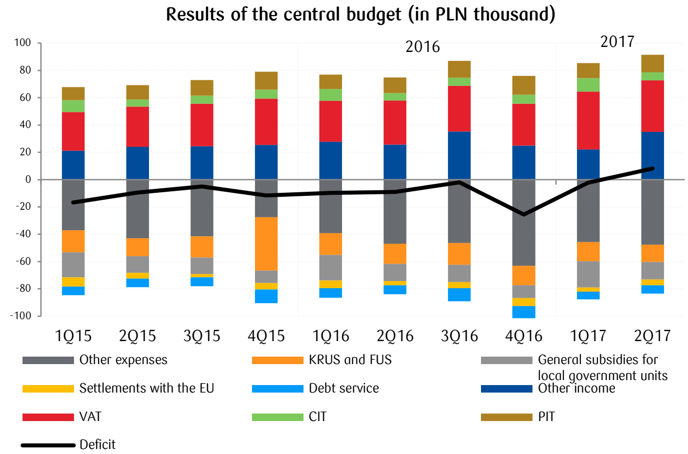
- **INFLATION WITHIN THE RANGE OF THE NBP'S GOAL**

After a significant peak at the turn of the year (to 2.2% y/y in February), the CPI inflation rate slowed down to 1.5% y/y in June 2017 to return to the level of 2.2% y/y in September. Therefore, throughout three quarters of 2017, inflation remained within the admissible range of the NBP's goal. Exogenous factors in the form of prices of goods and fuels were the main drivers of changes in the CPI inflation rate. At the same time, the base inflation rate was in a moderately increasing trend, which slowed down at the turn of the second and third quarters of this year. In September 2017, the base inflation returned to the growth trend and reached 1.0% y/y (compared with 0.0% y/y in December 2016). The return of inflation to the admissible range of the goal and the growth of base inflation have so far not resulted in a clear growth in the market's expectations of NBP interest rate increases within the next 12 months.

- **GOOD CONDITION OF PUBLIC FINANCE**

At the end of August of this year, the State Budget recorded a surplus of PLN 4.9 billion, which is the best result in history for the first eight months of the year. The contributing factors included: a cyclical increase in incomes, better collection of taxes, changes/postponements in tax payments schedules, low spending dynamics, and record distribution of the NBP profit. The fiscal deficit (according to ESA) in the second quarter of 2017 went down to 1.8% of the GDP from 2.1% of the GDP in the first quarter of 2017 and was the lowest in history. In the same period, public debt (according to ESA) went down to 53.4% of the GDP from 54.0% of the GDP as at the end of the first quarter of 2017.





- **MONETARY POLICY STABILIZATION**

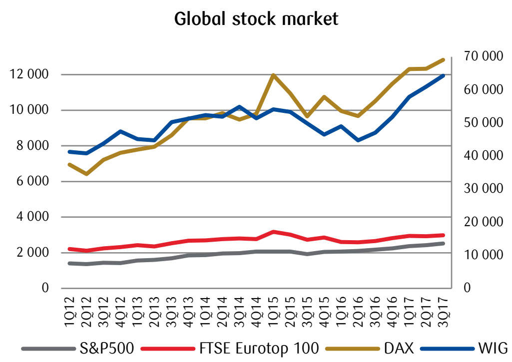
NBP interest rates:

- reference – 1.50%
- rediscount of bills – 1.75%
- lombard – 2.50%
- deposit – 0.50%

In the first three quarters of 2017 the Monetary Policy Council ('MPC') did not change the NBP's key interest rates. Given inflation on a level of over 1.5% y/y during the period, it means that the real interest rates remained negative. The tone of messages from majority of members of the MPC, including the President of the NBP, indicates that interest rates will remain at an unchanged level not only until the end of 2017, but also over the major part of 2018.

THE SITUATION ON THE FINANCIAL MARKET

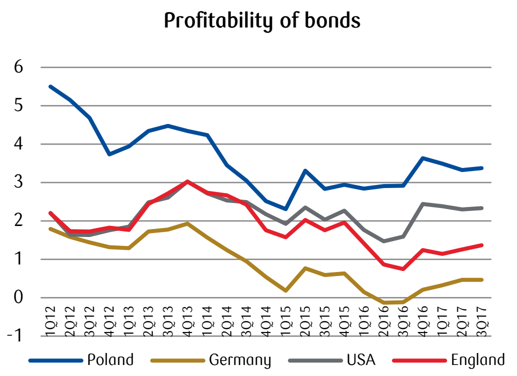
STOCK MARKET



In the third quarter of 2017, the upturn on the Warsaw Stock Exchange continued. The main WIG index went up by nearly 5%, thus increasing this year's profits to 24%. The investors enjoyed the advantages of the situation on the international financial markets and optimistic economic data from Poland. The global revival of economic activity became more and more noticeable, which was followed by the improved financial results of companies. At the same time, the inflation pressure has remained moderate, which has enabled the central banks to maintain mild monetary conditions, in particular low interest rates. The robust economic growth combined with mild monetary policy and growing company profits created favourable conditions for maintaining the market boom. The information on the Polish economy flowing in the summer months was very optimistic and resulted in revising the forecasts upwards, both the macroeconomic ones and those concerning individual companies. At the same time, the President of the National Bank of Poland and Chairman of the Monetary Policy Council kept up the position concerning maintaining interest rates on an unchanged level at least until the end of the next year. These circumstances have encouraged domestic and foreign investors to purchase shares and lifted indices to higher levels.

INTEREST RATE MARKET

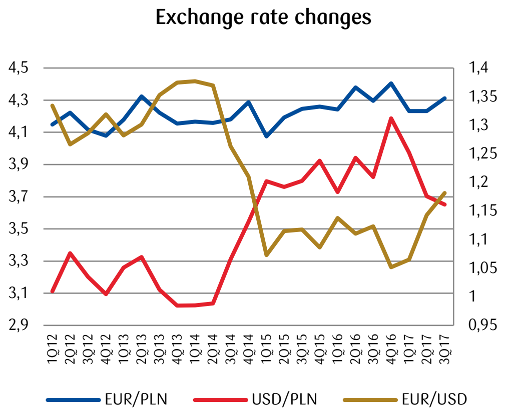
In the third quarter of 2017, the expectations concerning the monetary policy in Poland did not change significantly. Throughout the period the market priced the stabilization of the NBP interest rates until at least the fourth quarter of 2018, which resulted in the stabilization of WIBOR 3M rates at 1.73%. The summer months were also characterized by the low volatility of quotations of Treasury bonds, both on the short and long end of the yield curve. The



steepness of the curve was also slightly enhanced, which was noticeable both in the case of the 2Y5Y and 2Y10Y spread. Despite the surprisingly good data flowing in from the Polish economy, the profitability of short-term Treasury bonds remained low because the ratings were strengthened by messages from the Central Bank representatives suggesting that the monetary policy would remain unchanged over the long term. The very good realization of the State Budget also had a favourable effect on the debt market, which resulted in a drop in value of the supply of bonds on the primary market. In the case of securities with longer terms to maturity, the ratings were negatively affected by a slight global pressure towards increasing the profitability of Treasury bonds.

In the third quarter of 2017, on the Polish market of Treasury bonds, profitability in the 2-year sector went down by 15 b.p. to 1.76% and profitability in the 5-year sector went up by 4 b.p. to 2.70% and in the 10-year sector up by 5 b.p. to 3.38%.

FOREIGN EXCHANGE MARKET



The third quarter of 2017 was characterized by high volatility, both on the EUR/USD and the EUR/PLN market. EUR/USD fluctuated between 1.13 and 1.21, and EUR/PLN between 4.19 and 4.33. The eurodollar started the quarter at 1.14 and gradually went up until nearly the end of the period. This was due to, among other things, poor inflation readings in the USA, which soon dissuaded the Fed from raising the interest rates in the third quarter, and growing expectations of gradually closing the process of buying up assets in the Eurozone. As a result, the EUR/USD rate went up to approx. 1.21 by the middle of September. The last two weeks of the quarter were dominated by the EUR/USD adjustment which was mainly caused by the Fed's return to the hawk approach to further interest rate increases in 2017. As a result, the eurodollar dropped to 1.18. The eurozloty started the third quarter of 2017 at around 4.23 and gradually grew until the end of the quarter. In the second half of the quarter, a change in the policy of the Central Bank of China as regards removing restrictions on buying foreign currencies for the domestic currency resulted in a strong weakening of the Yuan's exchange rate against the US dollar which caused a deterioration in investment moods towards the entire basket of emerging market currencies, including the Polish zloty. The more hawkish approach of the Fed as to further perspectives of increasing the interest rates in 2017 and in subsequent years additionally strengthened the Polish zloty's depreciation trend. As a result, the EUR/PLN closed the third quarter of 2017 at around 4.30.

SITUATION OF THE POLISH BANKING SECTOR

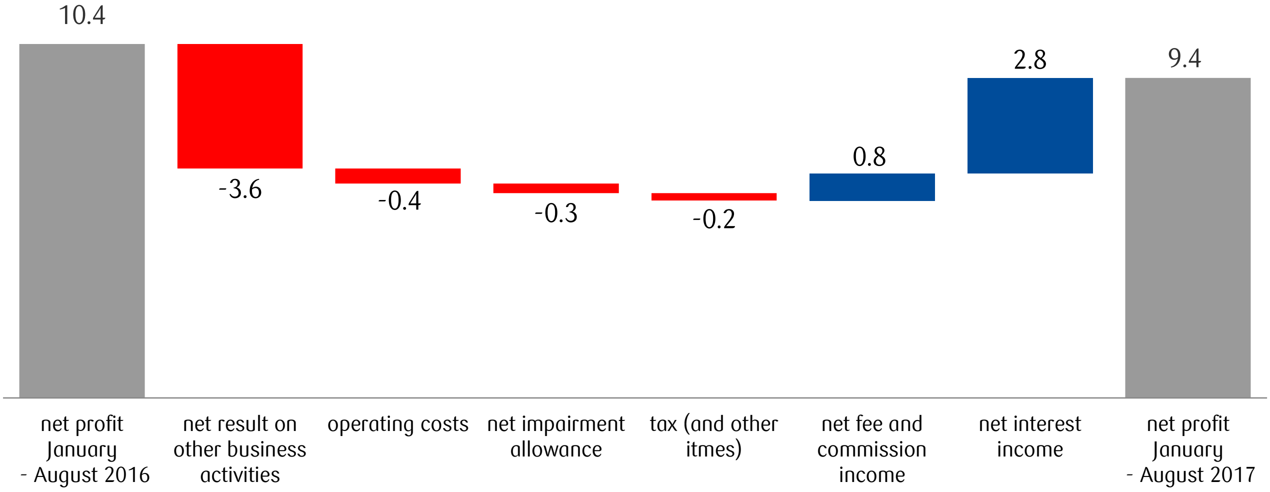
FINANCIAL RESULT

In the period from January to August 2017, the financial results in the banking sector were supported by a favourable macroeconomic environment, including the acceleration of economic growth and good situation on the labour market. The banking sector generated a net profit of PLN 9.4 billion in this period, i.e. 9.7% lower than the net profit realized in a similar period of 2016 (PLN 10.4 billion).

The considerable drop in the net profit resulted mainly from a high reference level – in June 2016, banks generated revenue from Visa transactions whose impact on the net profit amounted to approximately PLN +2.0 billion (PLN 2.5 billion, gross). Other negative effects on the level of the net profit included regulatory factors, such as the one-off charges levied on banks in respect of the Mandatory Restructuring Fund in the first quarter of 2017 (in 2016, all contributions to BGF were settled on a straight-line basis) and an increase in the cost of the bank tax (which was implemented in February 2016). A strong increase in net interest income (+11.1% y/y) and net fee and commission income (+9.5% y/y) which increased in aggregate by PLN 3.6 billion y/y had a positive impact on the net profit generated.

Despite the favourable macroeconomic environment, return on equity (ROE) of the banking sector was at a relatively low level and amounted to 6.9% at the end of August 2017.

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



Source: PFSA, the calculation of PKO Bank Polski SA

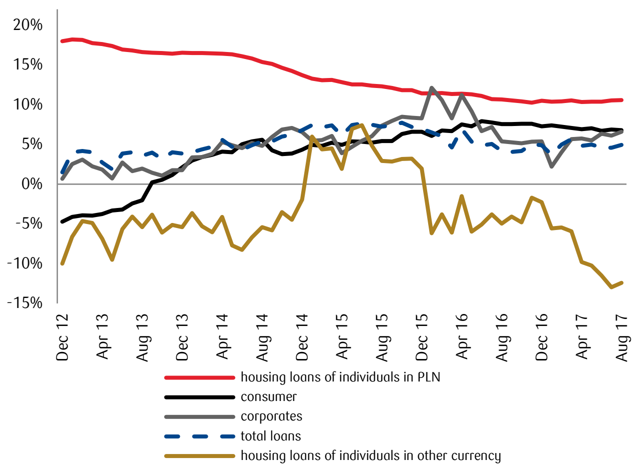
STATEMENT OF FINANCIAL POSITION

Total assets of the banking sector at the end of August 2017 surged to PLN 1 748 billion (+5.4% y/y compared with +7.0% y/y at the end of 2016), which was accompanied by a gradual acceleration of the annual growth rate of the volume of loans (after eliminating the foreign exchange rate impact) and the slowing pace in the growth of deposits.

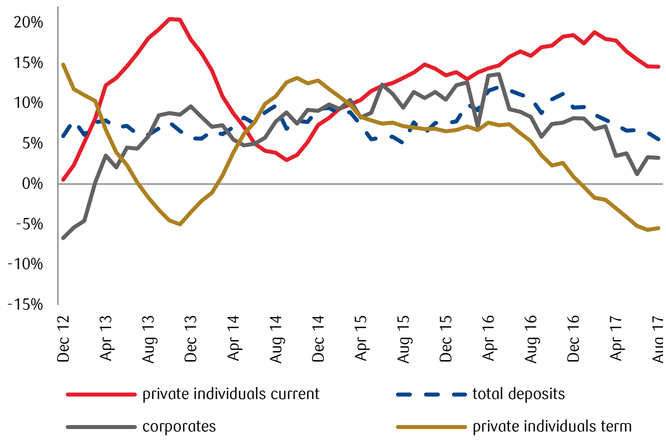
The good financial standing of households and low interest rates supported the volume of consumer loans (+6.8% y/y at the end of August 2017 compared with 7.3% y/y at the end of 2016), as well as housing loans denominated in PLN (+10.6% y/y compared with +10.5% y/y at the end of 2016). The increase in the volume of consumer loans was additionally supported by the continuing focus of banks on the sale of the most profitable products in the face of high regulatory burdens. The slow-down of the growth rate of total housing loans for individual customers (1.1% y/y compared with 4.9% y/y at the end of 2016) resulted from a decrease in the volume of foreign currency housing loans for individual customers (-12.4% y/y compared with -2.3% y/y at the end of 2016).

The annual growth rate of corporate loans was gradually speeding up since February 2017 and amounted to 6.6% at the end of August (5.4% y/y at the end of 2016), which may be related, among other things, to growing investments in the economy.

The rate of change of loans in the banking sector (y/y)



The rate of change of deposits in the banking sector (y/y)



Under conditions of high growth rate of private consumption and the continued low interest rates on bank deposits, the annual growth dynamics of current deposits of individuals began to slow down from the end of March 2017 but still remained on a high two-digit level (14.5% as at the end of August 2017 compared with 18.5% as at the end of December 2016) and the downward dynamics of the term deposits of individuals strengthened in the following months of 2017 and reached -5.5% at the end of August. The situation on the market of deposits from individual customers was accompanied by the growing interest from individual customers in alternative forms of investing one's savings (investment funds, shares, purchase of real properties for cash).

The increase in investment activity of corporate entities and the deteriorating profitability of the corporate sector were accompanied by a slowdown in the annual growth rate of deposits of businesses to 3.2% at the end of August 2017 (8.2% y/y at the end of 2016).

In spite of the fact that the loans to deposits ratio went up to 99.0% at the end of August 2017 (+ 0.2 p.p. compared with the end of 2016), in the period from January to August 2017, the liquidity of the banking sector remained good and the ratio of loans to deposits was below 100% as at the end of the individual months of the period. This ratio was affected by the growing interest of banks in alternative forms of financing (e.g. covered bonds) rather than deposits.

SITUATION OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUNDS MARKET	In the period of three quarters of 2017 the assets of domestic investment funds grew by PLN 14.4 billion (+5.5 %) to PLN 273.4 billion. The situation on the investment fund market was shaped by favourable conditions on the local stock market on the Warsaw Stock Exchange ('WSE'), a drop in profitability on the market of Polish Treasury bonds, historically low rates of return from bank deposits, and changes in the regulatory environment. In the same period, WIG the broad market index went up by 24.2%, which resulted in a significant increase in annual rates of return achieved by investment funds with significant exposure to Polish stock. The majority of the main segments of the market of retail funds realized 12M return rates which were higher than average interest rates on new term bank deposits of households. This affected attractiveness of the investment fund market as an alternative to depositing savings on the bank market and therefore an increase in the share of investment funds in the structure of household savings. The increase in assets of investment funds in the period of three quarters of 2017 resulted mainly from a still increasing net inflow of funds from individual customers (PLN +12.2 billion compared with PLN +3.9 billion in the period of three quarters of 2016), a net outflow of funds of other investors (PLN -4.9 billion, which was largely due to regulatory changes) and the positive result of management (PLN +6.8 billion). The high net inflow of new funds from individual customers resulted in an increase in the share of their assets in the structure of total assets of investment funds from 50.6% as at the end of 2016 to 54.8% as at the end of September 2017.
OPEN PENSION FUNDS MARKET	In the period of three quarters of 2017 assets of the Open Pension Funds ('OPF') increased by PLN 27.6 billion (+18.0%) to PLN 181.1 billion, vs. significantly lower growth in the period of three quarters of 2016 (+1.7%). OPF market was influenced by: the improvement in labour market conditions, regulatory changes (change in the structure of the OPF investment portfolio) and improved conditions on the Warsaw Stock Exchange (the WIG index went up by 24.2%). Polish shares were still dominant (78.3%) in the structure of the OPF assets. In the period of three quarters of 2017 the number of the OPF participants continued to decline (by -107 thousand, to 16.3 million members).
LEASING MARKET	In the period of three quarters of 2017 leasing market continued dynamic development. According to data of the Polish Leasing Association, leasing sector financed assets for the total amount of PLN 47.9 billion. The annual growth rate overcame the downward trend observed for more than a year and accelerated to 12.9% y/y (compared with 11.6% y/y at the end of the first half of 2017). The largest positive impact on the double-digit growth rate of the leasing market had leasing of cars, commercial and heavy-duty vehicles to 3.5 tonnes (so-called light vehicles). In the period of three quarters of 2017 the value of financed assets in this segment amounted to PLN 21.1 billion (+18.5% y/y), which accounted for ca. 44% of total funding granted by leasing companies. The lease of machinery and equipment was the second rapidly developing segment with a high, double-digit growth (19.6% y/y) with the total value of new contracts at a level of PLN 12.7 billion. The high growth rate of this segment resulted, among other things, from a low reference level from the previous

year, connected with limited investments of companies in view of the low absorption of EU funds from the perspective of the period 2014-2020.

The acceleration of the annual growth rate of the lease market was positively affected by a slowdown in the downward trend of the leasing of heavy vehicles to -0.1% y/y compared with -2.4% y/y as at the end of the first half of 2017. The value of financed assets in this segment was PLN 12.8 billion, representing approx. 27% of the total financing granted by the lease firms. The continued revival in the economy and launching of projects from the new financial perspective help increase the demand for transport of goods. At the same time, there are first signs of investment revival in the transport sector, which gives optimistic prospects for the development of this lease market segment in the upcoming quarters.

INSURANCE MARKET

As at the end of the first half of 2017, the net profit of insurance companies increased by 67.8% y/y to PLN 3.8 billion. This was mainly a result of a strong improvement in the results of non-life insurance companies (PLN 2.6 billion compared with PLN 1.1 billion as at the end of the first half of 2016). The increase in net profit generated in the life insurance sector was considerably lower (+PLN 52 million y/y to PLN 1.2 billion). The improvement in the results of the insurance sector was due to the improved profitability of motor insurance and a drop y/y of the level of claims resulting from natural disasters.

Insurance companies recorded an increase in gross written premium to PLN 31.6 billion (+15.2% y/y). This was a result of an increase in gross written premium in both parts of the market: by 25.0% in the segment of non-life insurance and by 2.4% y/y in the segment of life insurance. At the same time, insurance companies paid out 13.2% more of the total claims and benefits than in the first half of 2016. The y/y increase in value of claims in the segment of non-life insurance amounted to 13.6% and in the life insurance segment to 12.8%.

The increase in the costs of insurance activities y/y of 1.8% was a result of an increase in costs in the segment of non-life insurance (+6.4% y/y) and a decrease in costs in the sector of life insurance (-4.3% y/y).

In the first half of 2017, the total assets of insurance companies went up by 5.5% to PLN 195.4 billion, which was a result of a 10.3% increase in assets of non-life insurance companies and a 1.8% increase in assets of life insurance companies.

FACTORING MARKET

In the period of three quarters of 2017, the factoring market showed a double-digit upward trend. This is confirmed by data from 22 factoring companies which report to the Polish Factors Association. Their turnover reached PLN 132.1 billion, at the rate of growth of 17.3% y/y.

Customers of factoring companies primarily used full domestic factoring (without recourse). In this segment, the turnover grew by 29% y/y to PLN 61.3 billion, which accounted for approx. 46% of the total turnover. The high share in trading of factoring firms was also related to domestic recourse factoring which increased by +4% y/y to PLN 43 billion.

The increased demand was also outstanding in export factoring with the trading volume amounting to PLN 26 billion (+16% y/y). On the other hand, the share of import factoring in the market structure remained on a marginal level (1.0%).

The share of non-recourse factoring in the structure of factoring increased to 58.5% (53.8% as at the end of the third quarter of 2016), which may point to the higher risk appetite of factoring firms in the conditions of economic upturn and the good economic situation of corporate entities.

The high growth rate on the factoring market can be attributed, among other things, to the growing number of customers of factoring firms, which exceeded 8.5 thousand as at the end of the third quarter of 2017 (7.5 thousand as at the end of the third quarter of 2016).

THE UKRAINIAN MARKET

ECONOMIC SITUATION

In the second quarter of 2017, the Ukraine GDP growth rate slowed down slightly to 2.3% y/y from 2.5% y/y in the first quarter. The growth of industrial production was still affected by the trade blockade of Donbas (formally on 15 March 2017). In the period from July to August 2017, industrial production went down on average by 0.7% y/y (compared with a decrease of 0.4% y/y in the second quarter). On the other hand, there is a clearly noticeable revival of retail sales (8.2% y/y on average in July and August compared with 8.6% y/y in the second quarter). The revival of consumption resulted primarily from the real wage growth due to an increase in the minimum pay (from UAH 1 500 to UAH 3 200) from January 2017, and lower inflation. The growth of real wages slowed down in the period from July to August of this year to 17.8% y/y from 20.5% y/y in the second quarter.

The continuing clear increase in the growth of taxable income translates into a record high budget surplus managed both on the central and local government level. The surplus in the public finance sector after August 2017 is 2.6% of the GDP and its achievement, together with the strengthening of the UAH exchange rate, led to a decrease in public debt to 63.1% of the GDP (74.4% of the GDP with guarantees) from 69.8% of GDP (81.0% of GDP) at the end of 2016. At the same time, the share of the Central Bank in the structure of Treasury securities is going down – to the benefit of commercial banks.

The CPI inflation rate stabilized within the range of 12-16% y/y (16.4% in September 2017), whereas the increased price volatility still resulted from regulatory activities. The base inflation rate remained stable, within the range of 6-8% y/y. After a decline in January 2017, the USD/UAH exchange rate grew until August, however, weakened in September and closed the quarter at the level of 26.64 (compared with 26.08 at the end of June). The interest rates remained stable (main: 12.5%).

The Ukrainian banking sector

According to the National Bank of Ukraine (NBU) data, the number of banks operating in Ukraine fell to 88 in August 2017 (compared with 90 in June 2017 and 100 in September 2016).

Since the beginning of the year the value of total assets in the Ukrainian banking sector remained relatively stable at the level of approx. UAH 1.25 trillion. Equity has risen to UAH 167.7 billion from UAH 123.8 billion (in December), acting at the end of August 2017 13.4% of total assets compared to 11.3% in June and 9.9% at the end of December 2016.

In the period July-August 2017 volume of loans increased (by UAH 5.5 billion to UAH 1 000.5 billion). During analysed period corporate loans decreased (UAH -0.5 billion). There was an increase in the volume of loans for households (UAH 2.3 billion), as well as non-residents. During analysed period value of bank deposits decreased by UAH 5.8 billion to UAH 872.9 billion, combined with the decline in foreign currency loans volumes by UAH 1.2 billion. The main engine of deposits decline was households sector. The Loans to Deposits ratio amounted to 114.6% at the end of August 2017, which represents an increase since June from 113.2% and a decrease since December 2016 from 120.3%.

In the first two months of the quarter return ratios improved: ROA (0.41% vs -0.27% as at the end of the first half of 2017) and ROE (3.51% vs -2.33%). The capital adequacy ratio of the sector amounted to 15.4% as at the end of August 2017 (10% is the required level) vs 12.4% as at the end of June 2017 and 12.7% as at the end of December 2016.

Regulatory environment

Financial and organizational situation of the PKO Bank Polski SA Group and financial sector was affected by the new legal and regulatory solutions which entered into force in the third quarter of 2017, including:

Housing loans	
The Act of 23 March 2017 on mortgage loans (Journal of Laws of 2017, item 819) which introduced changes to granting mortgage loans as of 22 July 2017 (including a ban on bundle sales, free early repayment option by the customer in the course of the contract and solutions aimed at restructuring customer debt in justified instances).	Impact on the level of lending activities, interest income and fee and commission income of banks
Financing of agricultural activities	
Regulation of the Minister of Justice dated 5 July 2017 which determines which assets belonging to a farmer who runs a farm cannot be subjected to enforcement procedures (Journal of Laws of 2017, item 1385) entered into force on 2 August 2017.	Impact on the level of lending activities and lease activities on behalf of farmers

The activity and results of the PKO Bank Polski SA Group influenced in the third quarter of 2017 new legislation introduced in the Ukraine (where operates, among others, a subsidiary KREDOBANK SA), including:

FOREIGN CURRENCY MANAGEMENT	
- Decision of the NBU No. 61/2017 permitting, as of 10 July 2017, the early repayment of bank loans by non-residents - Decision of the NBU No. 65/2017, 67/2017, 74/2017, 81/2017, among other, liberalizing the rules for trade in foreign currencies	Impact on business activity of banks, foreign currency position management and the level of risk
CREDIT RISK	
Decision of the NBU No. 75/2017 introducing, as of 4 August 2017, changes concerning the determination of credit risk	Impact on the credit risk level

FACTORS THAT WILL AFFECT THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE FOURTH QUARTER OF 2017

The operations of the Bank's Group in the fourth quarter of 2017 will be influenced by the following external factors:

- continuation of favourable conditions in the global economy in particular in the Euro zone and in Germany,
- further tightening of the monetary policy in the USA and expected start of the normalization of the monetary policy by the European Central Bank,
- uncertainty as to the final form of Brexit,
- political uncertainty in Europe (the upcoming elections in Italy in view of strong Eurosceptical movements, separatist movements in Spain),
- implementation of the scenario of soft landing in China,
- increasing absorption of EU funds and revival of investment activities in the private sector,
- good consumer moods and further (although slower than in the period 2016 – first half of 2017) growth of real disposable incomes of households,
- increase of tension on the labour market resulting from strong demand for labour and growing supply limitations (demographic factors, reduced retirement age), leading to reinforcement of the wage growth (and therefore growing costs of labour) and the risk of shortages of staff in some sectors,
- stabilization of the CPI inflation rate around a lower range of variation from the inflation goal,
- stabilization of the NBP interest rates, at least by mid-2018,
- decline in deposits growth and maintenance of a relatively strong demand for loans, in particular corporate loans,
- political and economic situation in Ukraine,
- regulatory risk, in particular resulting from the resolution of the issue of currency loans, implementation of the Act on mortgage loan and supervision of mortgage loan intermediaries and agents effective from 22 July 2017, regulations concerning mortgage loans in foreign currencies (also in CHF), which will have an impact on increased capital requirements for banks which have such loans due to the increased risk parameters,
- potential changes to the bank tax.

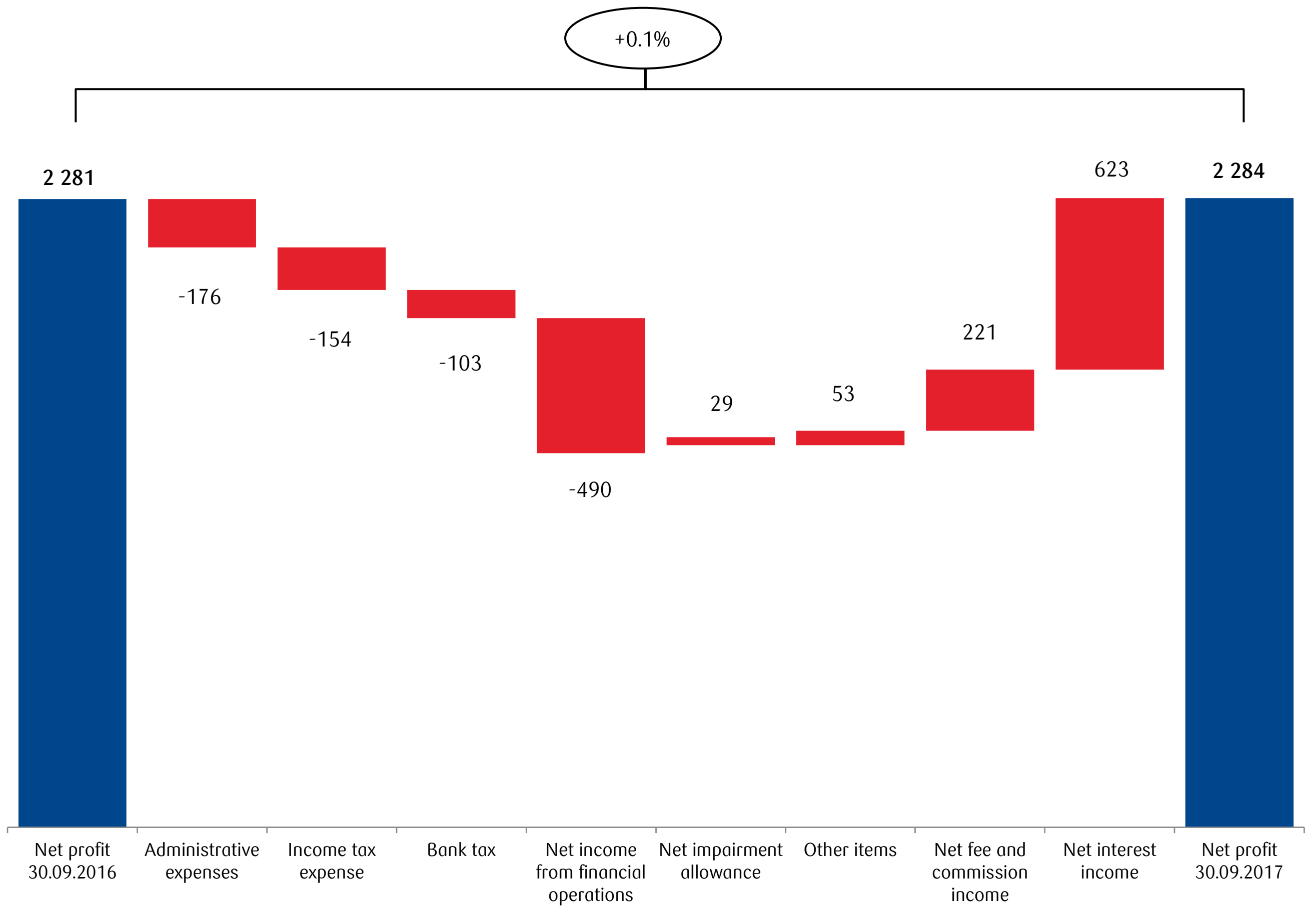
3. FINANCIAL RESULTS FOR THE THIRD QUARTER OF 2017

3.1. COMMENTARY TO THE FINANCIAL RESULTS OF THE PKO BANK POLSKI SA GROUP

FINANCIAL RESULTS

After three quarters of 2017, the net profit of the PKO Bank Polski SA Group amounted to PLN 2 284 million and was PLN 3 million higher than in the corresponding period of 2016 (+0.1% y/y). This was mainly due to the following factors: an increase in the result on business activities (mainly an increase in net interest income and net fee and commission income and a decrease in net income from financial transactions), an increase in administrative expenses (mainly costs of employee benefits) and corporate income tax expense and tax on certain financial institutions.

Chart 2. Changes in the income statement items of the PKO Bank Polski SA Group (in PLN million)



The consolidated items of the income statement were as follows:

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

	01.07-30.09.2017	01.01-30.09.2017	01.07-30.09.2016	01.01-30.09.2016	Change y/y	Change y/y (in %)
Interest and similar income	2 781	8 094	2 518	7 370	724	9.8%
Interest expense and similar charges	-584	-1 737	-546	-1 636	-101	6.2%
Net interest income	**2 197**	**6 357**	**1 972**	**5 734**	**623**	**10.9%**
Fee and commission income	1 018	2 908	897	2 652	256	9.7%
Fee and commission expense	-252	-699	-211	-664	-35	5.3%
Net fee and commission income	**766**	**2 209**	**686**	**1 988**	**221**	**11.1%**
Dividend income	1	12	1	10	2	20.0%
Net income from financial instruments measured at fair value	-2	11	30	15	-4	-26.7%
Gains less losses from investment securities	16	17	27	503	-486	-96.6%
Net foreign exchange gains (losses)	101	324	148	351	-27	-7.7%
Net other operating income and expense	109	359	178	272	87	32.0%
Net impairment allowance and write-downs	-389	-1 172	-419	-1 201	29	-2.4%
Administrative expenses	-1 372	-4 310	-1 377	-4 134	-176	4.3%
Tax on certain financial institutions	-234	-698	-226	-595	-103	17.3%
Operating profit	**1 193**	**3 109**	**1 020**	**2 943**	**166**	**5.6%**
Share in profit and loss of associates and joint ventures	9	20	14	25	-5	-20.0%
Profit before income tax	**1 202**	**3 129**	**1 034**	**2 968**	**161**	**5.4%**
Income tax expense	-300	-841	-262	-687	-154	22.4%
Net profit (including non-controlling shareholders)	**902**	**2 288**	**772**	**2 281**	**7**	**0.3%**
Profit and loss attributable to non-controlling shareholders	0	4	3	0	4	x
Net profit	**902**	**2 284**	**769**	**2 281**	**3**	**0.1%**

After three quarters of 2017, the sum of income-generating items in the income statement of the PKO Bank Polski SA Group amounted to PLN 9 289 million and was higher by PLN 416 million, i.e. 4.7% than in the corresponding period of 2016.

NET INTEREST INCOME

Net interest income generated in three quarters of 2017 amounted to PLN 6 357 million and was PLN 623 million higher than in the prior year. The main reason for the increase in net interest income y/y was an increase in the portfolio of loans and securities combined with a decrease in the average cost of financing.

After three quarters of 2017, interest income amounted to PLN 8 094 million and was PLN 724 million higher than in the corresponding period of 2016, mainly due to:

- an increase in income on loans and advances to customers (PLN +607 million y/y), mainly due to an increase in the loan portfolio, combined with a small increase in average interest rates resulted from an increase in the share of the most profitable consumer loans and lease receivables,
- an increase in income on securities of PLN 166 million y/y as a result of an increase in the average volume of the portfolio.

The increase in interest expense of PLN 101 million (i.e. 6.2%) y/y was mainly due to:

- an increase in amounts due to customers of PLN 41 million y/y resulting mainly from an increase in the deposit base, combined with a decrease in the average interest rate due to changes in the maturity structure (an increase in the share of current deposits in total deposits);
- an increase in expenses relating to debt securities in issue and subordinated liabilities of PLN 44 million y/y connected with an increased level of issuance.

The interest margin increased by 0.1 p.p. y/y to 3.3% at the end of the third quarter of 2017.

NET FEE AND COMMISSION INCOME

Net fee and commission income generated in three quarters of 2017 amounted to PLN 2 209 million and was PLN 221 million higher than in the corresponding period of the prior year. This was due to an increase in commission income of PLN 256 million, with an increase of PLN 35 million in commission expense. The level of the net commission income was driven mainly by the increase in:

- income from handling investment funds and pension funds of PLN 91 million y/y, resulting from the increased interest of the customers in this form of saving as an alternative to low interest rates, which translated in particular into an increase in commission for the sale and repurchase of IF and management commission, with a 20% y/y growth in the value of IF's assets,
- income from offering insurance products of PLN 52 million y/y, mainly as a result of an increase in sales of insurance products and lease receivables portfolio,
- net income on debit and credit cards of PLN 82 million y/y, mainly due to a higher number of cards and the higher non-cash transactions rate,
- income on brokerage activities and issue arrangement of PLN 58 million y/y, caused by an increase in commission on exchange trading as a result of improved situation on the WSE and the customers being more active. Moreover, there was an increase in commission for acting as an issuing agent of Treasury bonds as a result of increased interest of customers in this form of investing.

OTHER NET INCOME

Net other income generated after three quarters of 2017 amounted to PLN 723 million and was PLN 428 million lower than in the corresponding period of the previous year. The decrease was related to a decrease in gains less losses from investment securities of PLN 486 million y/y, which was due to the base effect – in June 2016, the acquisition of *Visa Europe Limited* by *Visa Inc*. was settled, which affected the income in the amount of PLN 418 million.

Net other operating income and expense improved in annual terms (+PLN 87 million y/y), mainly due to completion of a development project and start of handing over premises to customers in one of the Group companies, development insurance companies activities (PKO Życie Towarzystwo Ubezpieczeń SA and PKO Towarzystwo Ubezpieczeń SA) and a higher contribution from lease activities.

ADMINISTRATIVE EXPENSES

Administrative expenses amounted to PLN 4 310 million for the third quarter of 2017 and increased by 4.3% compared with the same period of the prior year.

Their level was mainly related to an increase in the costs of employee benefits of PLN 118 million, i.e. 5.6%, contributions and payments to the BGF of PLN 24 million y/y, i.e. 7.3% (the result of recognizing the annual fee related to the mandatory restructuring of banks in the first quarter of 2017) and amortization and depreciation of PLN 39 million, i.e. 6.6% accompanied by a decrease in overheads and taxes of PLN 5 million, i.e. of 0.5%.

As at 30 September 2017, the number of employees in the PKO Bank Polski SA Group amounted to 28 678 FTE, which constituted a decrease of 213 FTE y/y.

As at the end of September 2017, the effectiveness of the operations of the PKO Bank Polski SA Group measured with the annual C/I ratio amounted to 47.2% compared with 51.9% at the end of September 2016. The quarterly C/I ratio amounted to 43.0% compared with 45.3% in the third quarter of 2016.

TAX ON CERTAIN FINANCIAL INSTITUTIONS

Since the first quarter of 2016, banks and other financial institutions are obliged to pay a tax on certain financial institutions (the bank tax, the tax on assets). Tax burden on the Bank's Group for three quarters of 2017 amounted to PLN 698 million, of which the majority was attributable to PKO Bank Polski SA (PLN 673 million). An increase in the burden compared with the same period of the prior year results from the bank tax being introduced in February 2016.

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

Net impairment allowance and write-downs reflect the Bank Group's conservative approach to the recognition and measurement of credit risk. After three quarters of 2017 it amounted to PLN 1 172 million. The improvement in the net impairment allowance and write-downs (PLN 29 million y/y) was mainly due to the more favourable result on the allowances of depreciation of securities and off-balance sheet liabilities.

The share of impaired loans and coverage of impaired loans as at the end of the third quarter of 2017 amounted to, respectively, 5.6% (a decrease of 0.6 p.p. compared with the end of the third quarter of 2016) and 68.6% (an increase of 3.3 p.p. compared with the end of the third quarter of 2016). The improvement in the loan portfolio quality indicators, accompanied by a 6.3% increase y/y in the gross loan portfolio, is a result of continuing the existing credit risk management policy of the Group and strict monitoring of the loan portfolio.

The cost of risk[3] as at the end of the third quarter of 2017 amounted to 0.74% and was at the comparable level with that at the end of the third quarter of 2016.

Income tax expense

Income tax expense increased by PLN 154 million y/y to PLN 841 million, i.a. as a result of a change in the qualification of contributions to BGF for tax purposes (starting from 2017, payments to BGF are not tax-deductible) and a quarterly increase in the said contributions.

Statement of financial position

The statement of financial position of the parent entity has the greatest impact on the statement of financial position of the PKO Bank Polski SA Group. It determines both the size of total assets and the structure of assets and equity and liabilities.

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

	30.09.2017	Structure 30.09.2017	31.12.2016	Structure 31.12.2016	Change (in PLN million)	Change (in %)
Cash and balances with the Central Bank	16 880	6%	13 325	5%	3 555	26.7%
Amounts due from banks	3 651	1%	5 345	2%	-1 694	-31.7%
Loans and advances to customers	205 809	71%	200 606	70%	5 203	2.6%
Securities	49 507	17%	51 405	18%	-1 898	-3.7%
Other assets	14 114	5%	14 892	5%	-778	-5.2%
Total assets	**289 961**	**100%**	**285 573**	**100%**	**4 388**	**1.5%**
Amounts due to banks	11 103	4%	19 212	7%	-8 109	-42.2%
Amount due to customers	209 683	72%	205 066	72%	4 617	2.3%
Debt securities in issue and subordinated liabilities	23 675	8%	17 032	6%	6 643	39.0%
Liabilities due to insurance operations	3 064	1%	2 944	1%	120	4.1%
Other liabilities	7 096	2%	8 750	3%	-1 654	-18.9%
Total liabilities	**254 621**	**88%**	**253 004**	**89%**	**1 617**	**0.6%**
Equity	**35 340**	**12%**	**32 569**	**11%**	**2 771**	**8.5%**
Total liabilities and equity	**289 961**	**100%**	**285 573**	**100%**	**4 388**	**1.5%**
Loans/Amounts due to customers	98.2%	x	97.8%	x		0.3 p.p.
Loans/Stable sources of financing*	84.7%	x	83.7%	x		1.0 p.p.
Interest bearing assets/Assets	89.3%	x	90.1%	x		-0.8 p.p.
Interest paying liabilities and equity	84.3%	x	84.5%	x		-0.2 p.p.
Capital adequacy ratio	17.7%	x	15.8%	x		1.9 p.p.

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

As at the end of September 2017, total assets of the PKO Bank Polski SA Group amounted to PLN 290 billion, which represents an increase of PLN 4.4 billion compared with the end of 2016. Therefore, the PKO Bank Polski SA Group strengthened its position of the largest institution in the Polish banking sector.

[3] Calculated by dividing the net impairment allowance on loans and advances to customers for the 12 months ended 30 September 2016 and 2017 by the average balance of gross loans and advances to customers at the beginning and end of the reporting period and intermediate quarterly periods.

The increase in total assets recorded from the beginning of the year was related to the increase in the portfolio of loans and advances to customers. In the structure of liabilities in the period under analysis, there was an increase in the most stable liabilities, i.e. deposits from individuals and issues of securities, including covered bonds.

The loans to deposits ratio (amounts due to customers) amounted to 98.2% as at the end of the third quarter of 2017, and the ratio of loans to stable sources of funding[4] amounted to 84.7%, which proves the good liquidity position of the PKO Bank Polski SA Group.

Significant reinforcement of the capital base (an increase in the average equity of 9.1% y/y) as a result of regulatory requirements, combined with the growth rate of annualized profit or loss at the level of 7.4% y/y translated to a decrease in the return on equity (ROE) of 0.2 p.p. per annum to 8.6%. The return on assets (ROA) remained at an unchanged level compared with the third quarter of 2016, i.e. at 1.0%.

LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are the largest portion of the assets of the PKO Bank Polski SA Group. Compared with the end of 2016, the portfolio of net loans and advances to customers increased by PLN 5.2 billion and amounted to PLN 205.8 billion. In the period under analysis, the increase was recorded in all categories and segments of loans (PLN +5.4 billion, gross), in particular in corporate business loans (PLN +2.5 billion) and private and retail banking loans (PLN +1.6 billion). The increase in the portfolio of PLN housing loans (PLN +5.3 billion) was considerably set off by the exchange rate effect visible in the portfolio of housing loans in foreign currencies.

Detailed information on loans and advances to customers is provided in note 24 to the Group's condensed interim consolidated financial statements.

SECURITIES

In the third quarter of 2017, the carrying value of the securities portfolio amounted to PLN 49.5 billion, which represents a decrease of approx. PLN 1.9 billion compared with the end of 2016, representing 17.1% of the Group's assets. A change in the level of securities portfolio is related to the process of on-going liquidity management in the PKO Bank Polski SA Group. The structure of the portfolio by type was dominated by debt securities issued by the State Treasury, the volume of which went up by PLN 6.5 billion since the beginning of the year.

Detailed information on securities held in the Group's portfolio is provided in notes 20, 25, 26 and 27 to the Group's condensed interim consolidated financial statements.

AMOUNTS DUE TO CUSTOMERS

Amounts due to customers have remained the main source of funding the PKO Bank Polski SA Group's operations and amounted to PLN 209.7 billion as at the end of September 2017, representing 72.3% of total equity and liabilities. The main items in the structure of amounts due to customers include amounts due to retail customers which increased by PLN 1.7 billion since the beginning of the year and amounted to PLN 149.8 billion. At the same time, compared with the end of 2016, there was a decrease in amounts due to corporate customers of PLN 1.6 billion, partly offset by an increase in amounts due to State Budget entities of PLN 1.2 billion.

The structure of amounts due to customers is dominated by current accounts and term deposits which accounted for 58.1% and 39.4%, respectively, of total amounts due to customers as at the end of September of 2017. Since the beginning of 2017, funds placed in the customers' current accounts increased by nearly PLN 10.3 billion, while the level of term deposits decreased by PLN 4.9 billion.

Detailed information on amounts due to customers is provided in note 32 to the Group's condensed interim consolidated financial statements.

EXTERNAL FINANCING

The PKO Bank Polski SA Group is an active participant of the debt securities issuance market, both domestic and international. This activity is aimed at diversifying the sources of financing and to adapt them to regulatory requirements. As at the end of the third quarter of 2017, issues of securities and subordinated liabilities accounted for 8.2% of total assets and increased by PLN 6.6 billion from the beginning of the year. The change in the level of liabilities

[4] Stable sources of financing include amounts due to customers and external financing in the form of: subordinated liabilities, issue of own debt securities and amounts due to financial institutions.

resulting from debt securities issued compared with the end of 2016 was due to the issue of covered bonds in EUR and PLN and own bonds in PLN by PKO Bank Hipoteczny SA. This was accompanied by the issuance of bonds by PKO Bank Polski SA under the EMTN programme in the amount of EUR 750 million.

Detailed information on issues conducted by the PKO Bank Polski SA Group and on subordinated liabilities is provided in notes 34 and 35 to the Group's condensed interim consolidated financial statements.

EQUITY AND CAPITAL ADEQUACY MEASURES

In the third quarter of 2017, the PKO Bank Polski SA Group continued its activities aimed at ensuring an appropriate capital buffer, and strengthened its capital position.

As at the end of the third quarter of 2017, equity amounted to PLN 35.3 billion and was PLN 2.8 billion higher than at the end of December 2016. Equity accounted for 12.2% of the PKO Bank Polski SA Group's total equity and liabilities (an increase in the share of 0.8 p.p. compared with the end of 2016).

As at the end of the third quarter of 2017, the Tier 1 capital adequacy ratio of the PKO Bank Polski SA Group amounted to 16.8% and increased by 2.3 p.p. compared with the end of 2016 as a result of an increase in basic capital of PLN 3.1 billion, which mainly resulted from:

- retaining the profit for 2016 of PLN 2.9 billion, which resulted in an increase in own funds of PLN 1.3 billion because a part of the profit generated in the period from January 2016 to September 2016 of PLN 1.6 billion was already classified to own funds based on approval obtained from the PFSA in 2016.
- classifying a part of the profit generated in the first half of 2017 of PLN 1.1 billion to own funds, upon being granted the consent of the PFSA,
- higher valuation of the portfolio of available-for-sale securities of approx. PLN 0.4 billion.

As at the end of the third quarter of 2017, the capital adequacy ratio of the PKO Bank Polski SA Group amounted to 17.7% which means an increase of 1.9 p.p. compared with the end of 2016. A smaller increase in the capital adequacy ratio compared with the Tier 1 capital ratio was mainly due to the reduction in supplementary funds of PLN 0.9 billion in connection with permission from the Polish Financial Supervision Authority received on 24 March 2017 to repay a subordinated loan in CHF in accordance with a call option.

The capital adequacy level of the PKO Bank Polski SA Group as at the end of the third quarter of 2017 remained on a safe level, considerably above the supervisory limits.

As at 30 September 2017, the capital adequacy measures of the Group were calculated based on the provisions of the CRR Regulation taking account of prudential consolidation.

KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group led to the key financial performance indicators presented in the table below.

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

	30.09.2017	30.09.2016	Change
ROA net* (net profit/average total assets)	1.0%	1.0%	0.0
ROE net* (net profit/average total equity)	8.6%	8.8%	-0.2
C/I (cost to income ratio)*	47.2%	51.9%	-4.7
Net interest margin* (net interest income/average interest-bearing assets)	3.3%	3.2%	0.1
Share of impaired loans**	5.6%	6.2%	-0.6
Cost of risk***	-0.74%	-0.73%	-0.01
Capital adequacy ratio (own funds/total capital requirement*12.5)	17.68%	16.00%	1.68
Tier 1 capital ratio	16.77%	14.65%	2.12

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities and equity.

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

*** Calculated by dividing the net impairment allowance on loans and advances to customers over period of 12 months by average gross balance of loans and advances granted to customers at the beginning and end of reporting period and intermediate quarterly periods.

3.2. COMMENTARY TO THE FINANCIAL RESULTS OF PKO BANK POLSKI SA

Financial results
Key financial indicators

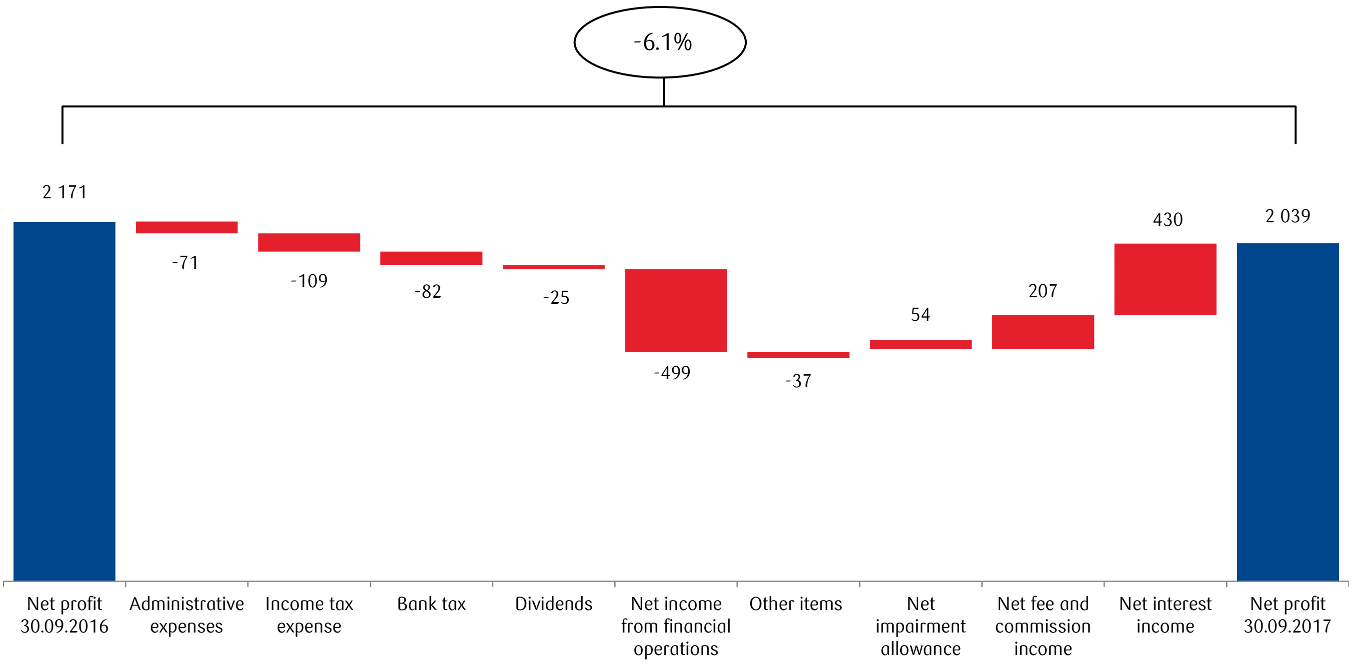
FINANCIAL RESULTS

The net profit of PKO Bank Polski SA earned after three quarters of 2017 amounted to PLN 2 039 million and was PLN 132 million lower than in the corresponding period of 2016 (-6.1% y/y), which was mainly due to:

- a decrease in gains less losses from investment securities of PLN 485 million y/y, related to accounting for the acquisition of *Visa Europe Limited* by *Visa Inc.*,
- an increase in the income tax charge of PLN 109 million y/y,
- an increase in tax on certain financial institutions charge of PLN 82 million y/y,
- a decrease in net foreign exchange gains/losses of PLN 45 million y/y,
- an increase in general administrative expenses of PLN 71 million y/y,
- a decrease in dividend income of PLN 25 million y/y.

At the same time, net interest income was PLN 430 million higher y/y and net fee and commission income was PLN 207 million higher y/y.

Chart 3. Movements in the income statement items of PKO Bank Polski SA (in PLN million)



The income statement items of the Bank were as follows:

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

	01.07-30.09.2017	01.01-30.09.2017	01.07-30.09.2016	01.01-30.09.2016	Change y/y	Change y/y (in %)
Interest and similar income	2 562	7 486	2 397	7 045	441	6.3%
Interest expense and similar charges	-530	-1 587	-523	-1 576	-11	0.7%
Net interest income	**2 032**	**5 899**	**1 874**	**5 469**	**430**	**7.9%**
Fee and commission income	933	2 686	810	2 421	265	10.9%
Fee and commission expense	-241	-678	-194	-620	-58	9.4%
Net fee and commission income	**692**	**2 008**	**616**	**1 801**	**207**	**11.5%**
Dividend income	5	129	5	154	-25	-16.2%
Net income from financial instruments measured at fair value	-5	-3	29	11	-14	x
Gains less losses from investment securities	18	17	25	502	-485	-96.6%
Net foreign exchange gains (losses)	103	307	142	352	-45	-12.8%
Net other operating income and expense	0	12	13	4	8	3x
Net impairment allowance and write-downs	-363	-1 108	-409	-1 162	54	-4.6%
Administrative expenses	-1 202	-3 806	-1 237	-3 735	-71	1.9%
Tax on certain financial institutions	-223	-673	-223	-591	-82	13.9%
Operating profit	**1 057**	**2 782**	**835**	**2 805**	**-23**	**-0.8%**
Profit before income tax	**1 057**	**2 782**	**835**	**2 805**	**-23**	**-0.8%**
Income tax expense	-269	-743	-237	-634	-109	17.2%
Net profit	**788**	**2 039**	**598**	**2 171**	**-132**	**-6.1%**

Due to the Bank's dominant position in the Group, the main trends of changes in the profit and loss items are the same as discussed in chapter 3.1 of this Directors' Commentary.

KEY FINANCIAL INDICATORS

The results achieved by PKO Bank Polski SA are reflected in the key financial indicators, which are presented in the following table.

Table 5. Key financial indicators of PKO Bank Polski SA

	30.09.2017	30.09.2016	Change
ROA net* (net profit/average total assets)	1.0%	1.0%	0 p.p.
ROE net* (net profit/average total equity)	8.2%	8.3%	-0.1 p.p.
C/I (cost to income ratio)*	46.2%	50.5%	-4.3 p.p.
Net interest margin* (net interest income/average interest-bearing assets)	3.2%	3.1%	0.1 p.p.
Share of impaired loans**	5.7%	6.2%	-0.5 p.p.
Cost of risk***	-0.74%	-0.72%	-0.02 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	19.71%	17.03%	2.68 p.p.
Tier 1 capital ratio	18.75%	15.63%	3.12 p.p.

* Income statement items used in calculating indicators capture the period of the last four quarters (annual recognition), while the statement of financial position items capture the average of the last five quarterly values of the respective assets and liabilities and equity.

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

*** Calculated by dividing the net impairment allowance on loans and advances to customers over period of 12 months by average gross balance of loans and advances granted to customers at the beginning and end of reporting period and intermediate quarterly periods.

4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP[5]

4.1. SEGMENTS OF THE GROUP'S ACTIVITY

Retail segment Corporate and investment segment

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

RETAIL SEGMENT

The retail segment offers a full range of banking products and services for individuals as part of retail and private banking. Moreover, it comprises transactions conducted with small and medium enterprises, developers, housing associations and property managers. The products and services offered to customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services, consumer and housing loans, corporate loans, leases.

NUMBER OF CUSTOMERS: 9.4 MN

LOANS VOLUME: 149 BN

DEPOSITS VOLUME: 165 BN

CORPORATE AND INVESTMENT SEGMENT

The corporate and investment segment comprises transactions with large corporate customers and financial institutions. This segment offers the following products and services: maintaining current accounts and term deposits, safekeeping of securities, currency products and derivatives, corporate loans, leasing and factoring. In this segment, PKO Bank Polski SA also concludes, on its own or as part of consortiums with other banks, agreements for the financing of large projects in the form of loans and issues of non-treasury securities. Moreover, the segment comprises own operations, i.e. investing activities, brokerage activities, interbank transactions, transactions in derivatives and debt securities.

NUMBER OF CUSTOMERS: 15 THD

LOANS VOLUME: 45 BN

DEPOSITS VOLUME: 41 BN

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

4.1.1. RETAIL SEGMENT

In the first three quarters of 2017 PKO Bank Polski SA continued sustainable development in the area of retail segment and focused on identifying and satisfying consumers' needs, with whom the Bank builds strong, long-term relationship. Efforts has been made to improve the quality of service by i.a., increasing innovation in the new financial solutions, not only in the products but also the distribution channels, in particular in the field of electronic banking and mobile payments.

At the end of September 2017 number of serviced customers in the retail segment reached 9.4 million, in which 9.0 million were individuals.

THE LOAN OFFER IN THE RETAIL SEGMENT

The PKO Bank Polski SA Group's offer covers a wide range of loan products. Individuals can benefit from the financing, including:

- consumer loans available in the form of cash loans, mortgage-backed loans, revolving loans and credit cards,
- funding available in the form of housing loans,

Offer for small and medium-sized enterprises includes:

- SME loans,
- investment and working capital loans,
- leasing transaction.

As at the end of September 2017, the aggregate financing of the retail segment customers amounted to PLN 157.0 billion and went up by nearly PLN 3 billion (i.e. 1.9%) since the beginning of the year. This was mainly due to an increase in the portfolio of retail and private banking loans and an increase in the portfolio of PLN mortgage banking loans, accompanied by a decrease in foreign currencies mortgage loans, as a result of exchange rate fluctuations (the CHF/PLN exchange rate as at the end of September 2017 was PLN 3.76 compared with PLN 4.12 as at the end of 2016).

Table 6. Financing of retail segment customers of the PKO Bank Polski SA Group (in PLN million)

	30.09.2017	31.12.2016	30.09.2016	Change since:	
				31.12.2016	30.09.2016
Gross loans and lease receivables from:					
retail and private banking	26 250	24 581	24 439	6.8%	7.4%
mortgage banking	102 090	101 389	99 166	0.7%	2.9%
PLN	72 551	67 301	65 563	7.8%	10.7%
foreign currency	29 540	34 088	33 602	-13.3%	-12.1%
small and medium enterprises, of which:	28 660	28 117	23 728	1.9%	20.8%
loans	20 579	20 779	21 230	-1.0%	-3.1%
leasing	8 081	7 338	2 498	10.1%	223.5%
Total financing	**157 000**	**154 087**	**147 333**	**1.9%**	**6.6%**

RETAIL AND PRIVATE BANKING LOANS

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

In the period under discussion, PKO Bank Polski SA continued its activity to support sales of consumer loans as part of a marketing campaign under the slogan 'Jej wygodność Mini Ratka', which promotes the option to maintain a loan of up to PLN 24 000 without the need to present employment and income certificates – an identity card and bank statement from the last three months suffices.

PKO Bank Polski SA systematically takes measures to increase effective access to credit offer for retail and private banking customers, regardless of distribution channel. Within the loan offer for retail banking customers:

- regular customers of the Bank can obtain the expected amount of the loan to an account even within 30 minutes through access to personalized credit offer,
- it is possible for a person who does not have his/her files at PKO Bank Polski SA to submit a full application for a cash advance,
- a solution was implemented for newly concluded cash advance agreements thereby making the interest rate dependent on the changes in the NBP reference rate,
- in respect of revolving loans of the Personal and Private Banking customers the amount of the Bank exposure which can be obtained without the consent of a spouse was increased from PLN 50 thousand to PLN 80 thousand.

In the third quarter of 2017, PKO Bank Polski SA applied preferential loan and advance repayment terms in respect of those retail borrowers who incurred losses as a result of the hurricane, consisting of the option to suspend the repayment of principal and interest instalments for a period of 12 months of the date of concluding the respective annexe to the loan or advance contract.

MORTGAGE BANKING LOANS

For many years PKO Bank Polski SA has been the leader in financing the housing needs of Poles. According to the data presented by the Polish Bank Association it shows that at the end of September 2017 the PKO Bank Polski SA Group was the first on the market with 30.4% share in sales of housing loans for individuals. Since the beginning of the year a total amount of granted loans equalled to approx. PLN 10.0 billion.

Retail banking customers can use the Bank's flagship mortgage products known as 'WŁASNY KĄT' available in 'Mieszkanie dla Młodych' programme as well.

In the period from January to September 2017 the Bank granted, under the 'Mieszkanie dla Młodych' programme, over 4.7 thousand loans for a total amount of PLN 0.8 billion. The programme consists of subsidies from the State Budget to own contribution and additional financial support in the form of repayment of part of the loan.

Until 31 August 2020 a special offer available for holders of Large Family Card is valid, which states that provision for granting the 'Własny Kąt Hipoteczny' housing loan is reduced to 50% of standard provision for granting the loan.

LOANS FOR SMALL AND MEDIUM ENTERPRISES

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

After three quarters of 2017 PKO Bank Polski SA is still the largest lender of the twenty-one banks providing loans with de minimis guarantees and holds 20.8% of market share (according to the data provided by the Centre of Sureties and Guarantees of BGK as at 30 September 2017).
The value of loans granted under the 'Portfelowa Linia Gwarancyjna COSME' as of 30 September 2017 amounted to over PLN 229 million, and the amount of granted guarantees amounted to over PLN 183 million.

In the third quarter of 2017 the lending period for the Biznes Partner current account overdraft facility granted to farmers was extended from 12 to 24 months, on condition that in-kind collateral be set up at a level of 60% of the amount.

In respect of working capital loans for small and medium sized enterprises available to customers in the form of a loan for completing a contract, the possibility of applying an individual repayment schedule was introduced, adapted to the inflows obtained from the completion of the said contract.

LEASING FOR SMALL AND MEDIUM ENTERPRISES

PKO Bank Polski SA with the members of its Group ensures a comprehensive offer of various forms of financing. Lease is the second (after loans) main source of financing for businesses.

Depending on the customer needs, the following items are, among other things, financed through lease:

- vehicles, plant and machinery,
- investment projects (e.g. processing lines),
- office equipment and furniture,
- computer hardware,
- medical equipment,
- agricultural plant and machinery,
- real estate.

Beside standard products, the offer includes fleet leasing services and cooperation with suppliers.

In the third quarter of 2017, PKO Turboleasing was introduced to the offer – an innovative product enabling the leasing of equipment and plant available in Internet stores to entrepreneurs. This solution enables submitting a lease application on-line. The whole process ensures the safety and freedom of transaction without the need to leave home. The lending decision is immediate, within even 15 minutes from submitting the application. The place of signing the contract is selected by the customer, at the partner's store or via courier. The lease offer covers any selected asset in respect of orders worth more than PLN 2 000 net.

As at the end of September 2017, lease receivables in the retail segment amounted to PLN 8.1 billion.

DEPOSIT AND INVESTMENT OFFER

The Group promotes long-term savings among its customers, by both varied product offering (among other things, Treasury bonds, investment products of PKO Towarzystwo Funduszy Inwestycyjnych SA, term deposits, or regular saving products), as well as educational and informational activities.

In the described period of 2017 PKO Bank Polski SA continued activities aimed at offering more attractive deposits for retail segment customers, taking into account current market conditions and competitive position. At the same time, activities aimed at diversifying sources of financing were carried out.

As of 30 September 2017 deposits of PKO Bank Polski SA of the retail segment amounted to PLN 165.2 billion and from the beginning of the year increased by PLN 2.5 billion (i.e. by 1.5%). The increase in deposits of retail and private banking contributed to this, due to growth of current deposits volume, with a decrease in term deposits.

Table 7. Deposits of the retail segment customers of the PKO Bank Polski SA Group (in PLN million)

	30.09.2017	31.12.2016	30.09.2016	Change since:	
				31.12.2016	30.09.2016
Customer deposits, of which:					
retail and private banking	141 879	140 021	135 241	1.3%	4.9%
small and medium enterprises	23 351	22 734	21 706	2.7%	7.6%
Total deposits	**165 230**	**162 755**	**156 948**	**1.5%**	**5.3%**

CURRENT AND SAVING ACCOUNTS

PKO Bank Polski SA remains the market leader in terms of the number of current accounts, which as of 30 September 2017 exceeded 7 million. The constantly increasing number of accounts stems from the varied offer in terms of customer preferences. The offer consists of, among others, products such as: PKO Konto bez Granic, PKO Konto za Zero, PKO Konto dla Młodych and PKO Junior.

PKO Bank Polski SA adjusted its offer to beneficiaries of 'Rodzina 500+' programme introducing dedicated 'Konto za Zero Rodzina 500+'. Since the beginning of 2016 over 22 thousand accounts of this type were sold, including over 4.8 thousand new accounts in 2017.

Under the PKO 'Konta dla Młodych' campaign, PKO Bank Polski SA prepared a promotion 'Serce na talerzu' ('Heart on a platter'), which enabled obtaining an invitation to a selected restaurant during the Restaurant Week Festival, and up to PLN 50 refund each month for six months in respect of payments made by card in restaurants and catering places, including Internet ones. To avail themselves of the promotion, customers had to open an account PKO Konto dla Młodych with a debit card at a PKO Bank Polski SA outlet, or remotely, between 21 August and 30 September 2017, grant marketing consent and register the will to participate in the promotion on the pkobp.pl/serce na talerzu website. In total, the Bank prepared 2 000 double invitations to restaurants.

For those customers, who had not yet used the PKO Junior offer, the Bank conducted a promotional campaign 'Konto na nowy rok szkolny' ('An account for the new school year'). Parents who in the period from 5 to 18 September 2017 opened an account PKO Konto Dziecka (at a branch or remotely), granted appropriate marketing consent and paid at least PLN 50 into the account could obtain one of the 1 600 e-cards of PLN 50 to be used at the Internet store empik.com.

To small and medium enterprises interested in complex, modern and price attractive services PKO Bank Polski SA offers two packages:

- PKO Konto Firmowe for individuals running one-man business, freelancers and professional farmers who appreciate support of their finances with modern banking services, as well as with individual advisor in the Bank branch,
- PKO Rachunek dla Biznesu for enterprises with higher requirements, who anticipate an offer to be perfectly suited to their needs and appreciate the cooperation with individual bank advisor. The Bank offers to PKO Rachunek dla Biznesu owners' access to advanced online banking iPKO business, all cash-management services, low costs of Internet transactions and many more modern banking products and services including the cheapest on the market SEPA online transfers or even access to simple currency exchange thanks to free iPKO dealer platform.

Fees for maintenance of accounts depend on a customer's activity and the amount of inflows to the accounts.

In the third quarter of 2017 the Bank prepared an attractive offer for customers who run small and medium sized enterprises. Entrepreneurs who opened their accounts between 11 September and 31 October 2017 will receive free-of-charge Internet access for 12 months. Having constant access to the web, an entrepreneur may manage the enterprise from any place and at any time, in accordance with the slogan of the campaign 'Moja firma jest tam, gdzie ja' ('My firm is where I am').

Term deposits and regular saving products

The dominant share of deposits in the retail segment are deposits of retail and private banking customers. The Bank offers to individual customers, among others, deposits with progressive and standard interest rate and structured deposits.

The most popular term deposits among customers in the Bank's retail and private banking offer were:

- the products added to the offer in 2017: a 12M online deposit, a 12M deposit for new funds and a 12M deposit with threshold-based interest rate,
- 6M deposit.

In the period under discussion, the following products were included in the Bank's offer:

- an account of saving and investment term deposits 'Sumoinwestycja' – which combines a 12-month term deposit opened in connection with the acquisition of participation units – 50% of funds is allocated to a selected subfund: debt (PKO Skarbowy, PKO Papierów Dłużnych Plus) or equity (PKO Stabilnego Wzrostu, PKO Akcji Plus); interest rate on the deposit part of the product depends on the fund option and customer segment,
- a saving term deposit available in the following tenors: 1M, 3M, 6M, 12M. The product is offered in all distribution channels: in branches, agencies, iPKO, IKO, Inteligo and via Contact Centre,
- a term deposit for active ones ('dla przedsiębiorczych') with a fixed interest rate, on the condition of making non-cash transactions with a debit card issued to the current account in the total amount of PLN 6 thousand in the period when the deposit is opened – a product dedicated to customers in the small and medium-sized enterprises sector, sold via iPKO, Contact Centre and Remote Banking Office.

Structured instruments are part of the standard offer of the Bank dedicated to individual customers. Since the beginning of 2017 the Bank has conducted 17 subscriptions of structured deposits, including:

- deposits based on the USD/PLN exchange rate (18-month with 1% guaranteed interest and 36-month with 2.0% guaranteed interest throughout the product's life, 18-month with 0.9% guaranteed interest and 36-month with 1.8% guaranteed interest throughout the product's life) and
- deposits based on the EUR/PLN exchange rate (18-month with 0.9% guaranteed interest, 18-month with 1% guaranteed interest, 36-month with 1.8% guaranteed interest and 36-month with 2.0% guaranteed interest throughout the product's life).

In the period under discussion, the offer of long-term saving products was revitalized. As a result, in the second quarter of 2017, the existing term saving deposits (Kapitał na Marzenia, Kapitał na Emeryturę, Kapitał na Własny Kąt, Kapitał dla Dziecka) were replaced with a new product: term saving deposit account 'Program Budowania Kapitału' ('Capital Building Programme'). The change in this product group resulted from observations of the market and the needs of customers who used the Bank's previous offer for making regular savings.

INVESTMENT FUNDS

As a result of cooperation with PKO Towarzystwo Funduszy Inwestycyjnych SA ('TFI SA') customers of retail and private banking are offered 41 non-dedicated funds, with total assets of PLN 23.0 billion[6].

The Group constantly extends its offer in the area of investment funds. Since the beginning of 2017 issuance of investment certificates of closed-end non-public investment funds was conducted among customers, including PKO Globalnej Strategii Series I, PKO Absolutnej Stopy Zwrotu Europa Wschód – Zachód Series D, PKO Strategii Obligacyjnych Series H.

SALES OF STATE TREASURY BONDS

PKO Bank Polski SA is the only bank to sell and service retail bonds issued by the State Treasury, under an agreement concluded with the Minister of Finance. Treasury bonds are sold through the extensive sales network of PKO Bank Polski SA, which is a significant convenience for all persons who wish to invest in those instruments. In the period of three quarters of 2017, over 45 million of bonds were sold.

OTHER PRODUCTS AND SERVICES IN THE RETAIL SEGMENT

BANKING CARDS

As at 30 September 2017 the number of PKO Bank Polski SA bank cards amounted to approx. 8.2 million, including 0.9 million credit cards. Therefore, PKO Bank Polski SA remains the leader in the Polish bank sector in respect of payment cards issued.

A multi-currency MasterCard card for Personal Banking and Private Banking customers is available in the Bank's offer. The card can be linked to foreign currency accounts in EUR, USD, and GBP. Funds for covering card transactions are automatically drawn from an account in the currency of the transaction, as a result of which the customer does not incur currency exchange costs. The Bank also made it possible to request a new card at a branch and in remote access channels such as iPKO and the PKO Bank Polski SA Contact Centre (CC), as well as the replacement of a 'single-currency' card with a multi-currency card via iPKO and CC, and to manage the multi-currency option (attaching foreign currency accounts in USD, EUR, GBP to the card) via iPKO, CC and in the Bank's branch.

Additionally, the Bank offers *cashback* transactions for Inteligo cards – the possibility of cash withdrawal while paying with the card at a POS.

Moreover, small and medium sized enterprises gained the possibility of independently ordering credit cards, changing card limits on cards already held (increasing or decreasing it) and renewing the assigned iPKO limit every 12 months without the need to visit a branch office.

In the period from 15 July to 11 September 2017 the promotion 'Szerokiej drogi z PKO Bankiem Polskim' ('Good trip with PKO Bank Polski') was in force, addressed to all new customers from the small- and medium-sized enterprise segment who after opening Konto Firmowe (Business Account) and conducting non-cash transactions using the MasterCard debit card issued to the account, for a total amount of at least PLN 200, received gift vouchers with a value of PLN 150 to be used on fuel or other goods or services available at Orlen fuel stations throughout Poland.

INSURANCE PRODUCTS FOR RETAIL SEGMENT

The Group continuously develops an offer of insurance products increasing attractiveness of banking products combined with them and giving customers opportunity to secure their debts, assets and to receive help in case of an random accident. Insurance products are offered to retail and private banking as well as to the small and medium enterprises segment connected with banking products such as:

[6] *source: report of the Chamber of Fund and Asset Managers, as at 30 September 2017.*

- consumer and mortgage loans (life and loss of income source insurance, insurance of the walls of a building and low contribution insurance and bridge insurance, as well as insurance for customers in the SME segment),
- current accounts (ROR) (i.a. life and accident insurance, assistance insurance),
- bank cards (i.a. security package to credit cards, travel insurance, loan repayment insurance).

The offer include an insurance products such as:

- loss of income source or hospital treatment due to accident insurance for credit card holders,
- individual insurance:
  - loss of income source insurance and life insurance for 'Pożyczka Gotówkowa', addressed to customers of the Primary Customer and Private Banking segment,
  - property insurance for loans or mortgages loans (i.e. insurance of real properties, movables, third-party liability (OC), assistance),
  - loss of income source insurance for loans or mortgage loans,
  - insurance of repayment of SME advances in the event of the temporary inability to repay or downtime in business activities,
  - insurance of short-term receivables – KUKE 'Polisa na świat',
- insurance not related to banking products available in the remote channel (iPKO), as well as in the mobile channel (IKO):
  - life insurance Moje Życie24,
  - property insurance Mój Dom24,
  - travel insurance Moje Podróże24
- leasing insurance

In the third quarter of 2017, the distribution model of lease insurance was changed, and the Bank became the insurance sale agent. At present, the offer includes insurance to Customers of PKO Leasing in the event of a financial loss (GAP), insurance of the property being the subject of the financing agreement and vehicle insurance of the subject of the lease of PKO Leasing SA. This insurance is delivered by PKO TU SA and PZU SA.

PRIVATE BANKING

PKO Bank Polski SA is consistently developing Private Banking, focusing on close cooperation within the Group, allowing customers access to a wide range of products and financial instruments.

Private Banking offices are located in 9 major cities in Poland: Warsaw, Gdańsk, Kraków, Katowice, Poznań, Wrocław, Łódź, Szczecin and Bydgoszcz (opened as part of Private Banking Office in Gdańsk). Private Banking Centre of PKO Bank Polski SA manages assets portfolio worth PLN 21.4 billion.

DISTRIBUTION NETWORK AND ACCESS CHANNELS

As at 30 September 2017, the retail distribution network of PKO Bank Polski SA consisted of 1 148 branches and 8 private banking offices. Compared with the end of 2016 the total number of branches decreased by 31. Optimization of the branch network takes place in a continuous manner, however the final decision not to close the certain branch located a certain micro-market is taken on a basis of economic assessment with regard to the potential development of the micro-market. The improvements are a multidimensional process, which covers activities such as changing of the nature of branches and reducing their number. The process of reducing large branches is carried out with the simultaneous universalization of smaller branches and transformation small branches into agencies in explanatory situations. At the same time, in an effort to best utilize the potential of the Bank's chain, initiatives are in progress aimed at developing new competencies of the advisors, for example, in the area of insurance distribution. As a result, at the end of September 2017, 16 501 employees and co-workers of the Bank had an insurance sale licence.

As part of the projects of the Bank and as a result of gained experience, universally applicable branch format is constantly evolving in the direction of the best operating conditions, tailored to the changing technology. At the same time, work is being carried out to determine the future of branches, taking into account the needs of customers, changes on the bank services market and the social role of PKO Bank Polski SA. One of the main challenges is to balance the proportion between aiming at a modern image through introducing electronic and self-service devices, and the customer needs to ensure the desired effectiveness.

Table 8. Branches and ATMs of PKO Bank Polski SA

	30.09.2017	31.12.2016	30.09.2016	Change since: 31.12.2016	Change since: 30.09.2016
Number of branches in the retail segment	**1 167**	**1 198**	**1 216**	**-31**	**-49**
regional retail branches	11	11	11	0	0
retail branches	1 148	1 179	1 197	-31	-49
private banking branches	8	8	8	0	0
Number of ATMs	**3 208**	**3 206**	**3 178**	**2**	**30**
Number of agencies	**769**	**837**	**851**	**-68**	**-82**

BRANCH NETWORK AND AGENCIES

The Bank is constantly improving conditions for customers in the branch network. These activities focus on the modernization of the branches and moving them to the new attractive locations. Essential complement to the network of branches and ATMs is a network of agencies. As at 30 September 2017 PKO Bank Polski SA collaborated with 769 agencies and in comparison to 31 December 2016 the number of agencies has decreased by 68. The decrease in the number of agencies is a result of efforts to increase network's efficiency.

ELECTRONIC BANKING

Customers of the iPKO retail service can benefit from a package of electronic banking services. Moreover, for small and medium enterprises there is a possibility of using electronic banking services under the name iPKO Biznes. These services provide customers with access to information about accounts and products, as well as allow them to make transactions through: Internet, self-service terminals and telephone.

Bank systematically promotes the remote use of the Internet account, separate account management and other banking products in the transaction service, which allows customers faster and easier access to their products, as well as lowering the cost of using banking services.

New possibilities features implemented to the offer during 2017:

- adding a new iPKO functionality of complete remote process of opening and managing the First Savings Account, which is dedicated to children and adolescents (aged 0–18) and their parents,
- the possibility of ordering from iPKO a new debit card with a city function (for Warsaw and Wrocław), replacing the existing traditional card with a new card with a city function, or opening a new account on the Bank's webpage for which a debit card with a city function can be ordered at the same time,
- the launch of a new function which allows indicating a credit card as the source of money in the 'Płacę z iPKO' or 'Płacę z Inteligo' service, to make online shopping faster, more convenient and safer,
- adding a new insurance product, 'Moje Życie24', to the Bank's offer; the insurance is available on iPKO only and it is addressed to holders of current accounts (ROR),
- managing independently the daily limit of electronic transactions performed through the Inteligo online service, the mobile service and telephone service,
- a possibility to set up 'Profil Zaufany' ('Trusted Profile') account, through iPKO electronic banking and Inteligo account and thus using it for additional services, i.e. for e-service 'Sprawdź swoje punkty karne' ('Check your penalty points'),
- temporarily blocking debit and credit cards.

IKO MOBILE BANKING

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

On the basis of IKO, Polish standard of mobile payments, BLIK, was created. As at 30 September 2017, the network of mobile payments acceptance (IKO, BLIK) included more than 210 thousand devices (eService, First Data and PayTel, IT Card terminals) throughout the country. In connection with the implementation of the BLIK system, IKO application now enables cash withdrawal from more than 16 thousand of PKO Bank Polski SA ATMs and Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA, Euronet ATMs (about 7 thousand) and IT Card (about 1.8 thousand).

PKO Bank Polski SA provides an option available for customers: 'Płacę z iPKO' payment method – transaction authorization through entering BLIK code generated in IKO application. Thanks to this service payments can be performed in most of online shops in Poland, which use the services of Dotpay, eCard, PayU, Przelewy24, Tpay.com, First Data and CashBill and Blue Media. 'Płacę z iPKO' is also available on the biggest Polish e-commerce bidding platform - Allegro.

The IKO mobile application offers convenient access to a bank account and funds with the use of a telephone, including:

- fast view of the account balance and history,
- transfers to other persons and firms and between own accounts,
- transfers to telephones between applications operating in the BLIK system,
- payments in shops and on the Internet using BLIK code (instead of a card),
- cash withdrawals from ATMs using BLIK code (instead of a card),
- cash deposits in ATMs using BLIK code (instead of a card),
- contactless payments with the use of telephones with Android and NFC systems,
- viewing information on the products held and managing them,
- topping up telephones,
- opening deposits,
- saving in money boxes,
- card operations: repayment, assigning PIN, changing limits,
- map of branches, ATMs and locations where you can pay with BLIK,
- transfers using QR Code data, creating QR Code with transfer details.

PKO Bank Polski SA allowed its youngest customers under 13, access the bank account through PKO Junior mobile application. Application is not only handy but safe as well, additionally is enriched with financial education and development of entrepreneurial attitudes functions. Mobile equivalent of PKO Junior service is modern and intuitive.

The promotion on interbank BLIK mobile transfers regarding no commission charges has been extended for the year 2017.

PKO Masowe Wypłaty (PKO mass disbursements) available from the PKO Bank Polski SA ATMs

PKO Masowe Wypłaty allows disbursements of benefits in cash form. So far, such transactions were only possible at the Bank's branch office or agency. Since August 2017, 3 thousand PKO Bank Polski SA proprietary ATMs were equipped with this function.

PKO Masowe Wypłaty is a service addressed to firms or institutions which make many one-off cash disbursements and who have decided to outsource this process from internal operations. The service is also offered to customers who make repeated disbursements on behalf of beneficiaries who do not have bank accounts or who prefer to receive payments in cash.

After getting the respective order, the Bank, using SMS messaging informs the beneficiary of the possibility of paying out cash, the deadline for doing it, the amount, and sends a unique advice code 'Kod Awizo'. At the ATM the customer has to select the option: wypłata PKO Awizo (pay-out according to PKO Awizo). During the performance of the service, the customer also receives a one-off PIN number by SMS, which is the element needed to authorize the transaction. Disbursement from an ATM is possible exclusively for PLN orders which constitute a multiple of PLN 50, up to a maximum amount of PLN 4 thousand. The service is free-of-charge for recipients of the disbursements, and the necessary condition for paying out the cash is for the payer to provide the telephone number of the beneficiary of the payment.

PKO Bank Polski SA provides comprehensive banking services to companies and local authorities. Mass payments from ATMs is a service which had not been available on the market before and which is an added benefit both for the Bank's customers and for their beneficiaries, among others, the beneficiaries of the 500+ programme.

Self-service points

In the third quarter of 2017 the first self-service points were made available to customers, for their convenience: two in Warsaw and two in Jelenia Góra.

The self-service desks can be used by all individual and corporate customers holding cards to their bank accounts. The points have been equipped with touchscreens and additional software which enables executing more complex transactions other than depositing and withdrawing cash. The pilot programme is realized in two stages. At the beginning, the customer may use the function of payment of cash to their own accounts, cash disbursements, transfers between own accounts, transfer to a random account, making a deposit, checking or printing out the account balance and other transactions currently available in ATMs. At the next stage, customers will be able to obtain a cash loan, pay in cash to other holders' accounts, make transfers to tax offices or ZUS, or set up a savings account. The list of available transactions will be gradually increased. The customer logs in using a debit card, using a PIN number. Documents relating to the transactions performed are transferred to the email address indicated by the customer. The device is equipped with the option to obtain only short transaction confirmations, identically as is currently available in ATMs.

THE PKO BANK POLSKI SA CONTACT CENTER

The PKO Bank Polski SA Contact Center (CC) plays an important role in the retail segment customer's service. The aim of this unit is to conduct the sale of products offered by the Bank during incoming and outgoing calls and to provide efficient and effective customer service, using remote communication.

In the PKO Bank Polski SA's call centre works several hundreds of consultants who are at the customers' disposal 24 hours a day. In addition to taking calls, consultants answer the customers' questions and applications in an electronic format - by e-mail and through the webpage. Customers may also send messages in the iPKO or Inteligo transaction service and via a special section on Facebook.

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

4.1.2. CORPORATE AND INVESTMENT SEGMENT

Customers of the segment
Lending activity and structured financing
Deposit activity and transaction banking
Financial institutions
International banking
Brokerage activities
Treasury products
Interbank market
Fiduciary services
Sales network

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

The Bank, having analysed market expectations, systematically adjusts its extensive offer of products and services in order to meet customer expectations. As a result based on new solutions, a broad range of transaction products and products mitigating financial risks (liquidity, settlement, interest rate, currency and commodity price risks) were being developed, and financing structure needs were addressed in a flexible manner.

An international trade financing offer has been parallelly developed. The Bank became a strategic partner of Grupa Polskiego Funduszu Rozwoju in respect of providing export support. The value of support offered by PFR under the International Expansion of Polish Enterprises Programme which is supported by PKO Bank Polski SA, totals approx. PLN 60 billion.

CUSTOMERS OF THE SEGMENT

At the end of the third quarter of 2017 Corporate and Investment Segment was servicing ca. 15 thousand customers, including over 1 thousand of strategic customers, nearly 1 thousand of foreign customers and more than 4 thousand units of local government and central government institutions together with budget-related and related entities.

The Bank held its position as an undisputed leader in providing services for local governments, by participating in local projects with custom character and by winning in tenders for providing services to the local governments units of all levels. In total, the Bank provides services for 8 from 16 voivodeships in Poland. In September of this year Pomorskie Voivodeship was added to this list.

LENDING ACTIVITY AND STRUCTURED FINANCING

As at the end of September 2017 total financing provided to corporate customers, including bonds issued and lease receivables amounted to nearly PLN 65 billion.

Table 9. Financing of corporate segment customers of the PKO Bank Polski SA Group (in PLN million)

	30.09.2017	31.12.2016	30.09.2016	Change since:	
				31.12.2016	30.09.2016
Gross corporate loans	45 039	41 630	42 889	8.2%	5.0%
Lease receivables	6 765	6 591	4 745	2.6%	42.6%
Debt securities*	12 914	13 331	13 227	-3.1%	-2.4%
municipal	7 041	7 148	7 117	-1.5%	-1.1%
corporate	5 873	6 183	6 110	-5.0%	-3.9%
Total financing	**64 718**	**61 552**	**60 861**	**5.1%**	**6.3%**

* Data presented including securities classified to the category loans and advances to customers.

PKO Bank Polski SA supports their customers' strategic investment projects realization through advisory regarding financing form choice as well as flexible terms of financing and repayment. The Bank is working closely with local government units and finances investment projects contributing to the local community.

PKO Bank Polski SA offers wide access to funds for financing even the most complex investment projects, as well as the services of advisors focused on selecting the optimum form of financing and terms of repayment. In the third quarter of 2017, the Bank signed, i.a.:

- 2 corporate bond issue programme agreements without a closure guarantee with a value of PLN 0.4 billion,
- 47 municipal bond issue programme agreements with a value of PLN 348 million.

As part of the Group's product offer, its corporate customers can use products and services under leases. Virtually all fixed assets are financed with leases, depending on customer needs. Apart from standard products, the offer also includes the services of renting a car fleet and cooperation with suppliers.

DEPOSIT ACTIVITIES AND TRANSACTION BANKING

The volume of corporate customers' deposits at the end of the third quarter of 2017 amounted to PLN 40.6 billion and increased by PLN 3.0 billion since the beginning of the year.

Table 10. Corporate segment customers' deposits of the PKO Bank Polski SA Group (in PLN million)

	30.09.2017	31.12.2016	30.09.2016	Change since:	
				31.12.2016	30.09.2016
Corporate deposits	40 612	37 639	39 384	7.9%	3.1%

PKO Bank Polski SA is constantly enhancing the quality of its transaction banking services. Services are dedicated to entities characterized by extensive organizational structure (e.g. capital groups) continuously developed, allowing customers to use various kinds of products and services to facilitate settlement of transactions with domestic and foreign partners. As part of providing electronic services, the leading product for the segment is the iPKO biznes electronic banking system. The iPKO biznes application has been expanded with new functionalities to improve the comfort of use, including among others simplified and redesigned possibilities of key operations on the site, so they were even more user-friendly and intuitive. Currently iPKO biznes application allows customers to monitor and manage accounts, payment cards and loans and to submit orders for all kinds of transfers. New functionalities are also being implemented with the aim of making it easier for customers to manage funds in complex organizational structures.

At the same time, the Bank is extending its offer by developing dedicated products based on cash pooling solutions. In particular, due to the fact that the Bank has a branch in the Federal Republic of Germany and a newly opened branch in the Czech Republic, the cross-border and multi-currency versions of this cash management tool have been made available.

FINANCIAL INSTITUTIONS

PKO Bank Polski SA has extensive network of nostro accounts in foreign banks, over 1 400 SWIFT established relationships with banks in different countries and markets, provides more than 200 loro accounts for foreign banks, which are utilized to settle transactions of banks, both in Poland and in other markets.

In addition to settlement services, PKO Bank Polski SA also provides services to foreign banks, their Polish branches, and domestic banks, offering them modern corporate solutions supporting their own operations and liquidity management. The Bank actively supports the operations of its corporate and retail customers on foreign markets and regularly extends the range of currencies that are available to the Bank's customers.

PKO Bank Polski SA works also with more than 650 domestic and foreign non-banking financial institutions, including investment funds, pension funds, insurance companies, payment companies, currency brokers and brokerage houses. For such entities the Bank mainly maintains current accounts and deposit accounts and offers them a wide range of treasury products.

INTERNATIONAL BANKING

PKO Bank Polski SA actively participates in the development of the international expansion of its customers, offering them support in foreign markets. Initiatives are taken to facilitate financial support for Polish companies operating on the international markets, with respect to support in the identification of opportunities and winning contracts and directly in the area of international settlements. To facilitate such activities, the Bank follows in the steps of its customers: it has already opened branches in Federal Republic of Germany and in the Czech Republic. Other directions of expansion are being considered. In the offer of foreign entities is a full range of services and products for corporate customers comprising i.a.:

- transaction banking (including international cash pooling),
- electronic banking,
- treasury products,
- trade finance,
- corporate loans.

On the basis of strong relations with the majority of leading Polish groups, the Bank supports their activities and investments abroad on particularly favourable terms compared with local competitors, and therefore effectively participates in the development of the international expansion of its customers.

For the entities operating in the territory of Ukraine banking services are being provided by KREDOBANK SA which is a part of the PKO Bank Polski SA Group.

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

BROKERAGE ACTIVITY

The Brokerage House of PKO Bank Polski SA ('BH', 'the Brokerage House') thanks to a high level of activity both on the secondary and primary market, became the unquestioned leader of the capital market in Poland.

In the third quarter of 2017, the BH's turnover on the secondary stock market amounted to approx. PLN 17 billion, which represented more than 14% of the market and gave the Brokerage House first place.

Transactions on the primary market performed with BH comprise:

- initial public offering of PLAY Communications SA with a value of over PLN 4.3 billion, in which BH was the Joint Bookrunner and Co-Offeror,
- Co-Lead Manager in accelerated bookbuilding (ABB) of CCC SA shares, the offering exceeded PLN 0.5 billion,
- The Offeror in a public issue of E- and F-series bonds of Echo Investment S.A. with a total value of PLN 225 million and a public issue of A-series bonds of Polski Koncern Naftowy ORLEN SA. with a value of PLN 200 million,
- the intermediary in the mandatory squeeze-out of shares in Macrologic S.A. announced by Asseco Business Solutions SA and in the buy-out of own shares announced by BENEFIT SYSTEMS SA.

The Brokerage House was an active participant of the NewConnect market (with market participation at the level of 7.2%, which ranks it fifth on the market) and serviced participation units of 458 funds and sub-funds managed by 18 investment fund companies.

At the end of September of 2017 BH provided 147 thousand security accounts and cash accounts and had 181 thousand of registry accounts. BH, in terms of securities accounts, ranks in the fourth position among 39 participants in the market (by data from KDPW).

TREASURY PRODUCTS

PKO Bank Polski SA has an extensive offer of Treasury products for retail and corporate customers, such as deposit and foreign exchange instruments, hedging instruments against foreign exchange risk, interest rate risk and risk of commodity prices. Every product can be adjusted to the individual needs of the Customers and entered into through any distribution channel the customer considers convenient.

The Bank's highest turnover is on forex transactions, it also notes good results on sales of derivatives. In the third quarter of 2017 as part of customer services, the Bank conducted intensive works related to the implementation of the MIFID II directive.

INTERBANK MARKET

The Bank is the Treasury Securities Dealer and Money Market Dealer, which acts as a market maker on the domestic interest rate and foreign exchange market. In the competition for the selection of Treasury Securities Dealer 2018, the Bank took fourth place in the fourth assessment and the fourth in the general ranking.
The Bank holds a significant portfolio of securities, which represents approximately 17% of total assets. The portfolio is financed from funds not used for the purposes of lending activity and comprises mainly Treasury Securities denominated in PLN. The function of portfolio is related to the current liquidity management and the function of the investment portfolio.

FIDUCIARY SERVICES

The Bank maintains security accounts and facilitates for customers, domestic and foreign market transactions and acts as a depositary for pension and investment funds. As at the end of the September of 2017 assets held by the customers on fiduciary accounts maintained by the Bank amounted to PLN 75.8 billion and were higher by approx. 12% as compared to the value noted in the corresponding period of the previous year.

SALES NETWORK

The sales network of the corporate segment includes 32 Regional Corporate Centres covering seven Corporate Macro-regions and the Branches in the Federal Republic of Germany and Czech Republic.

Table 11. PKO Bank Polski SA branches

	30.09.2017	31.12.2016	30.09.2016	Change since:	
				31.12.2016	30.09.2016
Number of branches in the corporate and investment segment:	**41**	**40**	**40**	**1**	**1**
regional corporate branches	7	7	7	0	0
regional corporate centres	32	32	32	0	0
foreign branches	2	1	1	1	1

4.2. Market position of the PKO Bank Polski SA Group

At the end of September 2017 the Bank maintained its leading position of the loan market and the deposit market (in terms of market share). The Group companies also occupy leading positions in various sectors of the financial services market.

The market share of PKO Bank Polski SA (together with PKO Bank Hipoteczny SA) in the area of loans was 17.7% and it decreased slightly compared with the end of 2016. At the same time, the Bank recorded an increased share in the more profitable segment of consumer loans.

As regards deposits, the market share amounted to 17.2%, representing a decrease of 0.1 p.p. compared with the end of 2016, which was due to a lower share in the deposits of individuals.

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

	30.09.2017	31.12.2016	30.09.2016	Change since:	
				31.12.2016	30.09.2016
Loans for:*	**17.7%**	**17.8%**	**17.6%**	**-0.1 p.p.**	**0.1 p.p.**
private individuals, of which:	23.0%	22.8%	22.8%	0.2 p.p.	0.2 p.p.
housing	26.0%	25.7%	25.6%	0.3 p.p.	0.4 p.p.
PLN	28.6%	28.6%	28.6%	0 p.p.	0 p.p.
foreign currency	21.2%	21.4%	21.4%	-0.2 p.p.	-0.2 p.p.
consumer and other	16.1%	15.8%	15.9%	0.3 p.p.	0.2 p.p.
institutional entities	12.8%	12.9%	12.5%	-0.1 p.p.	0.3 p.p.
Deposits for:	**17.2%**	**17.3%**	**17.3%**	**-0.1 p.p.**	**-0.1 p.p.**
private individuals	20.6%	20.7%	20.6%	-0.1 p.p.	0 p.p.
institutional entities	12.6%	12.4%	12.7%	0.2 p.p.	-0.1 p.p.
Leasing**	**12.5%**	**7.5%**	**7.0%**	**5.0 p.p.**	**5.5 p.p.**
IFC assets	**8.5%**	**7.6%**	**7.3%**	**0.9 p.p.**	**1.2 p.p.**
Non-Treasury debt securities (indebtedness)	**28.6%**	**29.1%**	**28.6%**	**-0.5 p.p.**	**0 p.p.**
Brokerage activities					
turnover on the secondary market***	15.6%	9.4%	8.5%	6.2 p.p.	7.1 p.p.

Source: NBP, WSE, Polish Leasing Association

* Data according to MONREP, the NBP's reporting system (till May 2017 – Webis).
** Share as at 31.12.2016 includes 1 month of sale of Raiffeisen – Leasing Polska SA.
*** Taking into account the effect of brokering the sale of Pekao SA. After eliminating this effect, the share of brokerage activity in the secondary market would amount to 11.1%.

4.3. ACTIVITIES OF ENTITIES OF THE PKO BANK POLSKI SA GROUP

PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core of the company business comprises establishing, representation towards third parties and management of open and closed investment funds and management of customers' portfolio, which include one or more financial instruments. The company also offers specialized investment programmes and conducts employee pension plans (EPP). The value of net fund assets under management of the company as at the end of September 2017 amounted to PLN 23.3 billion, which represents an 18.4% increase in comparison to the end of 2016. The increase in the net value of assets is an effect of positive net income from sales and the result from assets management. PKO Towarzystwo Funduszy Inwestycyjnych SA is ranked second in terms of the net value of assets, with a 8.5% share in the market of investment funds, and first in terms of the value of non-dedicated fund assets managed with a 14.9% market share*. As at 30 September 2017, the company managed 42 investment funds and sub-funds. In the period from January to September 2017 the PKO Obligacji Wysokodochodowych Globalny – closed investment fund was added to the company's offer and two sub-funds isolated under the PKO Parasolowy – open investment fund, i.e. PKO Skarbowy (the acquirer sub-fund) and PKO Rynku Pieniężnego (the acquiree sub-fund) merged. In 2017, until the end of September, the company carried out 22 issues of closed-ended investment certificates, in which it raised assets with a total gross value of PLN 591 million. * Source: The Chamber of Fund and Asset Managers (IZFA).
PKO BP BANKOWY PTE SA	The company's business comprises establishing and managing an open and voluntary pension fund and representing them vis-à-vis third parties. The company manages PKO BP Bankowy Otwarty Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), which offers individual pension accounts – Indywidualne Konto Emerytalne (IKE) and individual pension insurance accounts – Indywidualne Konto Zabezpieczenia Emerytalnego (IKZE). **The results of the Open Pension Fund (OPF)*:** As at the end of September 2017 net assets value of PKO BP Bankowy OFE amounted to PLN 8.2 billion, which represents a 16.8% increase in comparison to the end of 2016. The increase of net assets value is mostly a result of the rate of return on fund's assets. As at the end of September 2017 PKO BP Bankowy OFE had over 933 thousand members. PKO BP Bankowy OFE ranks eight on the pension fund market in terms of OPF net asset value and ninth in terms of the number of OPF members. According to the Polish Financial Supervision Authority ranking, PKO BP Bankowy OFE achieved a rate of return of 21.660% for the period from 30 September 2014 to 29 September 2017, (compared with the weighted average rate of 19.128%) thus taking third place in the OPF ranking for the said period. * Source: www.knf.gov.pl
PKO LEASING SA GROUP	PKO Leasing SA and its subsidiaries – PKO Leasing Sverige AB and PKO Leasing Nieruchomości Sp. z o.o. provide lease services. The companies offer finance and operating leases: of passenger cars, delivery vans, trucks, machines, devices, processing lines, medical equipment, properties, IT hardware and software, ships, airplanes and rolling stock. The offer also includes fleet management services. The PKO Leasing SA Group also includes PKO Faktoring SA, which provides domestic and export factoring services without recourse and with recourse, reverse factoring and factoring schemes for suppliers. **Leasing activities:** In the January-September period of 2017, the lease companies of the PKO Leasing SA Group financed fixed assets with a total value of PLN 6.0 billion, which represents a 5.7% increase compared with the same period of 2016 (data for 2016 calculated taking into account the present structure of the PKO Leasing SA Group). The change is mainly due to an increase in funding of commercial vehicles and plant and machinery segment. As at the end of September 2017 the combined carrying value of amounts due from customers for financing of fixed assets (mature and not-mature) and the carrying value of fixed assets leased by the PKO Leasing SA Group under operating lease agreements was PLN 14.7 billion.

	In terms of the value of funds provided in the January-September period of 2017 for the financing of fixed assets, the PKO Leasing SA Group occupied first position on the lease services market with a market share of 12.5%*. * Source: Polish Leasing Association **Factoring activity:** In the January-September period of 2017 the value of factoring turnover amounted to PLN 8.4 billion (for the corresponding period of 2016 the company's turnover was PLN 6.9 billion); at the end of September 2017 the number of customers amounted to 489. As at 30 September 2017, PKO Faktoring SA was ranked ninth among factoring firms belonging to the Polish Factors Association, with a market share of 6.4%.
PKO Życie Towarzystwo Ubezpieczeń SA Group	The company's business activities comprise life insurance (type I of insurance). PKO Życie Towarzystwo Ubezpieczeń SA offers a wide range of insurance products. The Company focuses on insuring the lives and health of its customers, it offers independent products and products linked to the banking products offered by PKO Bank Polski SA. The value of gross written premiums from insurance contracts in the January-September period of 2017 amounted to PLN 370.4 million and the number of insured persons as at 30 September of this year was 710 thousand.
PKO Towarzystwo Ubezpieczeń SA	The company's business activities comprise non-life insurance (type II of insurance). PKO Towarzystwo Ubezpieczeń SA focuses on insuring risk of loss of income, effects of accidents and sickness, and on insuring properties for borrowers and people taking out mortgage loans. The company offers a wide range of insurance products addressed to the Bank's customers and other entities belonging to the Bank's Group. In the second and third quarter of 2017, the company introduced to its offer insurance of property constituting the subject matter of lease contracts for PKO Leasing SA customers and Individual and Group GAP Insurance in the event of a financial loss related to total damage to the leased vehicle. It also launched sales of travel insurance Moje Podróże24 in the IPKO e-banking service and the IKO mobile application. Gross written premiums under the contracts concluded by the company in the January-September period of 2017 amounted to PLN 350.4 million, and the number of insured persons as at 30 September of this year was 534 thousand.
PKO Bank Hipoteczny SA	PKO Bank Hipoteczny SA started its operational activity in April 2015. The principal purpose of the PKO Bank Hipoteczny SA is to issue covered bonds, which serve as the main source of long-term financing of mortgage loans. It specializes in granting housing mortgage loans for individuals. It also purchases receivables under such loans from PKO Bank Polski SA. It acquires loans for its portfolio on the basis of strategic cooperation with PKO Bank Polski SA. In the January-September period of 2017, under the Framework Agreement for the Sale of Receivables signed in 2015 with PKO Bank Polski SA, PKO Bank Hipoteczny SA acquired another housing loans portfolios secured with mortgages totalling PLN 3.2 billion. The total value of the gross loan portfolio of PKO Bank Hipoteczny SA as at 30 September 2017 amounted to PLN 13.1 billion, including housing loans secured with mortgages acquired under the agreement with PKO Bank Polski SA amounting to PLN 8.9 billion. In the January-September period of 2017, the company carried out five issues of covered bonds: a) three foreign issues addressed to institutional investors with a nominal value of EUR 1 025 million, b) two domestic issues addressed to institutional investors with a nominal value of PLN 765 million. Foreign issues are executed under the International Covered Bond Issue Programme, which is addressed to the European market and launched on the basis of the Base Prospectus, the update of which was approved in September 2017 by *Commission de Surveillance du Secteur Financier (CSSF)* in Luxembourg. Domestic issues are executed under the Domestic Covered Bond Issue Programme, which is addressed to the domestic market and launched on the basis of the Base Prospectus approved in November 2015 by the PFSA.

	PKO Bank Hipoteczny SA became the leader on the Polish mortgage bank market in terms of total assets and the balance of mortgage loans. The company is also the largest and most active Polish issuer of covered bonds on the domestic and foreign markets. The total value of covered bonds issued and outstanding (at the nominal value) as at the end of the September 2017 amounted to PLN 8.3 billion.
KREDOBANK SA Group **(data according to IFRS binding for the PKO Bank Polski SA Group)**	KREDOBANK SA is a universal bank, focused on customer service of retail customers and small and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time it 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. Loan portfolio of the KREDOBANK SA Group (gross) in the January-September period of 2017 increased by UAH 1 744 million, i.e. by 26.6% and amounted to UAH 8 296 million as at 30 September 2017 (loan portfolio gross expressed in PLN as at 30 September 2017 was equal to PLN 1 139 million). Increase of the loan portfolio value in UAH was mainly a result of the increase of new loans sales. In the January-September period of 2017, term deposits of the KREDOBANK SA the Group customers increased by UAH 606 million, i.e. by 15.1%, and amounted to UAH 4 626 million as at 30 September 2017 (term deposits expressed in PLN as at 30 September 2017 amounted to PLN 635 million). The increase in UAH deposits is the consequence of engaging new customers – individuals and enterprises. As at 30 September 2017, the network of KREDOBANK SA branches comprised the Head Office in Lviv and 103 branches in 22 out of 24 Ukrainian districts. In the period from January to September 2017, the location of three branches was changed, two new branches were created and ten were closed.
Qualia Development Sp. z o.o. Group	The business of the Qualia Development Sp. z o.o. Group companies is development activities, in particular conducting construction projects, making building installations and building finishing works. Moreover, the Group engages in conducting hotel activities operations and intermediation in real estate trading. In 2017 the Group continued operations related to completing the projects to-date, and selling selected real estate and companies. In the January-September period of 2017, the Group's activities were focused on: • executing the fourth (final) stage of the Neptun Park investment in Gdańsk, including obtaining a permit for use and handing over the premises to buyers, • selling premises in investments completed in Warsaw (Nowy Wilanów - Royal Park) and in Gdańsk (Neptun Park, fourth stage), • running hotel business on the basis of projects completed in Gdańsk and in Międzyzdroje under Golden Tulip brand, • selling process of the selected properties and companies of the Qualia Development Sp. z o.o. Group.

4.4. PRIZES AND AWARDS

In the third quarter of 2017, the PKO Bank Polski SA Group received many prizes and awards, which the most important are:

SOLID EMPLOYER OF THE YEAR (SOLIDNY PRACODAWCA ROKU)	PKO Bank Polski SA was awarded the title Solidny Pracodawca Roku 2017 (Solid Employer of the Year) in the banking industry. The jury of the 15th edition of the programme mainly appreciated the work conditions offered by the Bank, its training policy, development capacity and non-salary benefits. The incentive system, corporate social responsibility and employer branding were also appreciated. The Solidny Pracodawca Roku programme is a prestigious nationwide research programme in the HR area, aimed at honouring best employees, fair in terms of employment policy, employment solutions and human resources management. The jury also takes into account the external and internal opinions about the institution and its organizational culture.
BOOK OF LISTS	According to the Book of Lists 2017/2018 ranking prepared by the Warsaw Business Journal magazine, PKO Bank Polski SA once again became the leader in the 'banks in Poland' category. The Book of Lists is the largest and most long-lasting (over 20 years) business publication on the Polish publishing market which presents the best companies from various business sectors in Poland in the form of rankings. Each year it awards the best, largest and most dynamic enterprises.
IKO NUMBER 1 IN POLAND	The application of IKO of PKO Bank Polski SA in three largest stores: Google Play, App Store and Windows Phone Store gained over 100 thousand assessments from users – customers of PKO Bank Polski and Inteligo – and ranks first among mobile banking applications. For nearly two years the number of stars earned by IKO does not fall below 4.5 out of 5. The high rating of the application is all the more measurable in that it is calculated as the average of over 100 000 opinions of customers from the whole of Poland.
SAM CERTIFICATE	PKO Bank Polski SA obtained a Microsoft certificate which confirms the positive end of the Software Asset Management (SAM) process which was aimed at a detailed review of the implemented procedures and licence documents, as well as the systems used to manage IT resources. The multi-stage analysis confirmed the organizational efficiency of the Bank and security of operation of the Bank's IT infrastructure. The report in which, among other things, the level of advancement of procedures in particular areas of software management is an element of the SAM process. In many areas the Bank earned the maximum points.
PKO BANK POLSKI SA AWARDED IN BAI GLOBAL INNOVATION AWARDS CONTEST	In the international competition for financial institutions BAI Global Innovation Awards, PKO Bank Polski SA was awarded in the crucial cooperation category. The project for making available e-administration services on e-banking sites, an innovative approach thanks to which customers have access to entirely new services (they may, among other things, quickly and easily use e-administration services) gained the jury's recognition. The BAI Global Innovation Award is one of the most prestigious international competitions for financial sector companies. It is organized by the Bank Administration Institute (BAI), association of financial institutions. PKO Bank Polski SA received the award for the project for making e-administration services available on e-banking sites together with Bank Millennium.
LEADER OF TRADING ON WSE	In July and August 2017 the Brokerage House of PKO Bank Polski SA was a leader in terms of the market share (over 9%) and the average value of monthly transactions (nearly PLN 3.5 billion). According to the data presented by the WSE, the advantage of the BH of PKO Bank Polski over the second best broker reached nearly PLN 400 million in August. From January to August 2017 the Brokerage House of PKO Bank Polski was four times the acknowledged leader in terms of monthly trade on the share market.
BEST BROKER IN THE CEE REGION	The Brokerage House of PKO Bank Polski won in the category Top Broker for CEE in the CEE Capital Markets Awards competition. The international jury appreciated the offer addressed to investors and contribution to the development of capital markets in the Central-Eastern Europe region. CEE Capital Markets Awards have been awarded for the third time. Their purpose is to draw the attention of global investors to dynamically developing firms and the economy of the Central-Eastern Europe region, and to appreciate institutional investors.

PKO Bank Polski SA awarded twice by JP Morgan	The American Bank JP Morgan awarded two prestigious Quality Recognition Awards to PKO Bank Polski. The Bank gained the award for the highest quality of interbank dollar transactions. The Quality Recognition Award has been awarded since 1997 to the key customers of JP Morgan, who achieve the highest level of operating services. The high number of finalized inter banking transactions is an additional criterion. PKO Bank Polski SA backs the development of international banking. The group of banks with which it settles transactions already exceeds 1 400 institutions.
Laur Pośredników Finansowych	In the second edition of the Konkurs o Laur Pośredników Finansowych competition the Bank was awarded in the category of mortgage banks. The award is an acknowledgment of the financial intermediaries associated in Konferencja Przedsiębiorstw Finansowych (Conference of Financial Enterprises) in respect of their offer and the cooperation standards used by the Bank, as well as the efficiency and transparency of the mortgage loan selling processes.
Two first places in Agape contest	The publications of PKO Bank Polski: the educational quarterly for the youngest Brawo Bank in the augmented reality (AR) version and the printed magazine for employees *Nasz Bank* with the special edition Strategia 2020 – were ranked first in their categories (best external electronic bulletin and one-off project, printed bulletin) in this year's competition for company bulletins of the Agape agency. In assessing the submissions, the jury took into consideration the purposes, the addressees and the image. Also the language, edition of the texts, visual attractiveness and use of innovative solutions.
The Best Annual Report	For the fifth time the Annual Report of PKO Bank Polski SA was honoured with the special award 'The Best of The Best' in the competition for The Best Annual Report organized by the Institute of Accounting and Taxation. The jury awarded the highest number of points to the Bank (91.88 points out of 100) in the category banks and financial institutions. The Bank was also awarded for the Group Directors' Report.
High scores from research centre Analizy Online for subfunds managed by PKO TFI SA	In the third quarter of 2017, the independent research centre Analizy Online maintained a high score (five stars) for the sub-funds PKO Akcji Małych i Średnich Spółek and PKO Technologii i Innowacji Globalny, as well as the rating in the form of four stars for the sub-funds PKO Stabilnego Wzrostu and PKO Zrównoważony. According to Analizy Online, the products with four or five stars are funds that should be included in the investors' portfolios.
MasterCard prize for KREDOBANK SA	KREDOBANK SA was awarded the Bank 2017 prize: for innovations from the MasterCard payments system as one of the annual awards for the banks of Ukraine – the MasterCard partners that achieved various successes in developing payment services. The prize was awarded to KREDOBANK SA for implementing the mobile portfolio for smartphones from NFC KredoPay which introduced KREDOBANK SA to the MDES platform.

Bank Polski

Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the nine-month period ended 30 September 2017

Report publication date:
13 November 2017

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CONSOLIDATED INCOME STATEMENT

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Interest and similar income	6	2 781	8 094	2 518	7 370
Interest expense and similar charges	6	(584)	(1 737)	(546)	(1 636)
Net interest income		**2 197**	**6 357**	**1 972**	**5 734**
Fee and commission income	7	1 018	2 908	897	2 652
Fee and commission expense	7	(252)	(699)	(211)	(664)
Net fee and commission income		**766**	**2 209**	**686**	**1 988**
Dividend income	8	1	12	1	10
Net income/expense from financial instruments measured at fair value	9	(2)	11	30	15
Gains less losses from investment securities	10	16	17	27	503
Net foreign exchange gains (losses)	11	101	324	148	351
Other operating income	12	147	535	272	547
Other operating expense	12	(38)	(176)	(94)	(275)
Net other operating income and expense		**109**	**359**	**178**	**272**
Net impairment allowance and write-downs	13	(389)	(1 172)	(419)	(1 201)
Administrative expenses	14	(1 372)	(4 310)	(1 377)	(4 134)
Tax on certain financial institutions	15	(234)	(698)	(226)	(595)
Operating profit		**1 193**	**3 109**	**1 020**	**2 943**
Share in profit (loss) of associates and joint ventures		9	20	14	25
Profit before income tax		**1 202**	**3 129**	**1 034**	**2 968**
Income tax expense	16	(300)	(841)	(262)	(687)
Net profit (including non-controlling shareholders)		902	2 288	772	2 281
Profit (loss) attributable to non-controlling shareholders		-	4	3	-
Net profit attributable to equity holders of the parent company		**902**	**2 284**	**769**	**2 281**
Earnings per share	17				
– basic earnings per share for the period (in PLN)		0.72	1.83	0.61	1.82
– diluted earnings per share for the period (in PLN)		0.72	1.83	0.61	1.82
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

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Net profit (including non-controlling shareholders)		**902**	**2 288**	**772**	**2 281**
Other comprehensive income		**98**	**483**	**(42)**	**(227)**
Items that may be reclassified to the income statement		**98**	**483**	**(42)**	**(227)**
Cash flow hedges (gross)	22	45	65	(88)	126
Deferred tax on cash flow hedges	16; 22	(8)	(12)	17	(24)
Cash flow hedges (net)	22	37	53	(71)	102
Unrealized net gains on financial assets available for sale (gross)		77	547	53	(391)
Deferred tax on unrealized net gains on financial assets available for sale	16	(12)	(100)	(10)	72
Unrealized net gains on financial assets available for sale (net)		65	447	43	(319)
Currency translation differences from foreign operations		(6)	(18)	(11)	(10)
Share in other comprehensive income of associates and joint ventures		2	1	(3)	-
Total net comprehensive income		**1 000**	**2 771**	**730**	**2 054**
Total net comprehensive income, of which attributable to:		1 000	2 771	730	2 054
equity holders of PKO Bank Polski SA		1 000	2 767	727	2 054
non-controlling shareholders		-	4	3	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.09.2017	31.12.2016
ASSETS			
Cash and balances with the Central Bank	18	16 880	13 325
Amounts due from banks	19	3 651	5 345
Trading assets excluding derivative financial instruments	20	1 838	326
Derivative financial instruments	21	2 572	2 901
Financial assets designated upon initial recognition at fair value through profit and loss	23	6 395	13 937
Loans and advances to customers	24	205 809	200 606
Investment securities available for sale	25	40 176	36 676
Investment securities held to maturity	26	1 098	466
Investments in associates and joint ventures	40	375	386
Non-current assets held for sale	27	29	14
Inventories	28	183	260
Intangible assets	29	3 228	3 422
Tangible fixed assets	29	2 975	3 086
Current income tax receivables		4	10
Deferred income tax assets	16	1 693	1 779
Other assets	30	3 055	3 034
TOTAL ASSETS		**289 961**	**285 573**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		5	4
Amounts due to banks	31	11 098	19 208
Derivative financial instruments	21	2 554	4 198
Amounts due to customers	32	209 683	205 066
Liabilities due to insurance operations	33	3 064	2 944
Debt securities in issue	34	21 970	14 493
Subordinated liabilities	35	1 705	2 539
Other liabilities	36	3 942	3 987
Current income tax liabilities		374	305
Deferred income tax liabilities	16	36	31
Provisions	37	190	229
TOTAL LIABILITIES		**254 621**	**253 004**
Equity			
Share capital	38	1 250	1 250
Other capital	38	32 123	28 701
Currency translation differences from foreign operations	38	(239)	(221)
Undistributed profits	38	(66)	(19)
Net profit for the period	38	2 284	2 874
Capital and reserves attributable to equity holders of the parent company	38	35 352	32 585
Non-controlling interest	38	(12)	(16)
TOTAL EQUITY		**35 340**	**32 569**
TOTAL LIABILITIES AND EQUITY		**289 961**	**285 573**
Capital adequacy ratio	62	17.68%	15.81%
Book value (in PLN million)		35 340	32 569
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		28.27	26.05
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		28.27	26.05

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Share capital	Other capital									Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of associates and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
As at 1 January 2017	1 250	24 491	1 070	3 608	(1)	(347)	(109)	(11)	28 701		(221)	(19)	2 874	32 585	(16)	32 569
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-		-	2 874	(2 874)	-	-	-
Total comprehensive income, of which:	-	-	-	-	1	447	53	-	501		(18)	-	2 284	2 767	4	2 771
Net profit	-	-	-	-	-	-	-	-	-		-	-	2 284	2 284	4	2 288
Other comprehensive income	-	-	-	-	1	447	53	-	501		(18)	-	-	483	-	483
Transfer from undistributed profits	-	2 883	-	38	-	-	-	-	2 921		-	(2 921)	-	-	-	-
As at 30 September 2017	1 250	27 374	1 070	3 646	-	100	(56)	(11)	32 123		(239)	(66)	2 284	35 352	(12)	35 340

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2016	Share capital	Other capital									Currency translation differences from foreign operations	Undistributed profits	Net profit for the period	Total capital and reserves attributable to equity holders of the parent company	Non-controlling interest	Total equity
		Reserves			Other comprehensive income				Total other capital							
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of associates and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses								
As at 1 January 2016	1 250	20 711	1 070	3 536	-	171	(58)	(12)	25 418		(217)	1 222	2 610	30 283	(18)	30 265
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-		-	2 610	(2 610)	-	-	-
Total comprehensive income, of which:	-	-	-	-	-	(319)	102	-	(217)		(10)	-	2 281	2 054	-	2 054
Net profit	-	-	-	-	-	-	-	-	-		-	-	2 281	2 281	-	2 281
Other comprehensive income	-	-	-	-	-	(319)	102	-	(217)		(10)	-	-	(227)	-	(227)
Transfer from undistributed profits	-	2 530	-	71	-	-	-	-	2 601		-	(2 601)	-	-	-	-
As at 30 September 2016	1 250	23 241	1 070	3 607	-	(148)	44	(12)	27 802		(227)	1 231	2 281	32 337	(18)	32 319

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01-30.09.2017	01.01-30.09.2016
Cash flows from operating activities			
Profit before income tax		**3 129**	**2 968**
Adjustments:		**2 457**	**2 466**
Amortization and depreciation		631	592
(Gains) losses from investing activities		(21)	(133)
Interest and dividends		(349)	(132)
Change in:			
amounts due from banks		703	998
financial instruments designated upon initial recognition at fair value through profit and loss and trading assets		6 030	(860)
derivative financial instruments		(1 315)	487
loans and advances to customers		(5 444)	(2 631)
other assets, inventories and non-current assets held for sale		37	(889)
amounts due to banks		(1 284)	879
amounts due to customers		5 332	5 405
debt securities in issue		(810)	(146)
provisions and impairment allowances		156	(128)
other liabilities and liabilities due to insurance operations		75	346
Income tax paid		(788)	(660)
Other adjustments		(496)	(662)
Net cash generated from operating activities		**5 586**	**5 434**
Cash flows from investing activities			
Inflows from investing activities		**43 483**	**48 275**
Proceeds from sale and interest of investment securities		43 383	48 023
Proceeds from sale of subsidiaries		-	134
Proceeds from sale of intangible assets, tangible fixed assets and assets held for sale		85	106
Other investing inflows (dividends)		15	12
Outflows from investing activities		**(45 978)**	**(53 662)**
Purchase of a subsidiary, net of cash acquired		(14)	-
Increase in equity of an associate		-	(1)
Purchase of investment securities		(45 647)	(53 176)
Purchase of intangible assets and tangible fixed assets		(317)	(485)
Net cash used in investing activities		**(2 495)**	**(5 387)**
Cash flows from financing activities			
Proceeds from debt securities in issue		13 357	4 208
Proceeds from subordinated bonds in issue		1 700	-
Redemption of debt securities		(5 068)	(3 075)
Repayment of liabilities from a subordinated loan		(880)	-
Repayment of liabilities from subordinated bonds in issue		(1 656)	-
Taking loans and advances		88	371
Repayment of loans and advances		(7 646)	(358)
Repayment of interest from long-term borrowings		(427)	(423)
Net cash used in/generated from financing activities		**(532)**	**723**
Net cash flows		**2 559**	**770**
of which currency translation differences on cash and cash equivalents		(186)	3
Cash and cash equivalents at the beginning of the period		17 966	17 265
Cash and cash equivalents at the end of the period	46	20 525	18 035
of which restricted		8	13

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General information on the Group and the Bank

Business activities of the Group and 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, 15 Puławska 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'.

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group (the PKO Bank Polski SA Group, the Bank's Group or the Group) conducts its operations within the territory of the Republic of Poland and through subsidiaries: in the territory of Ukraine, Sweden and Ireland, and as a Branch in the Federal Republic of Germany (the Branch in Germany) and a Branch in the Czech Republic (the Branch in the Czech Republic).

PKO Bank Polski SA as the parent company 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.

The Group offers mortgage loans, provides financial services related to leases, factoring, investment funds, pension funds, insurance and debt collection services, transfer agent services, IT outsourcing and business outsourcing services, conducts development and real estate management operations.

Composition of the Group and the scope of operations of its entities are presented in the note 'Structure of the PKO Bank Polski SA Group and the scope of activities of the PKO Bank Polski SA Group entities'.

(IN PLN MILLION)

INFORMATION ON MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

As at 30 September 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	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 September 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 of PKO Bank Polski SA for the previous joint term of the Management Board. Appointed on 14 June 2017 again to the position of President of the Management Board of PKO Bank Polski SA for the next joint term of the Management Board, which commenced on 2 July 2017.
2.	Rafał Antczak	Vice-President of the Management Board	appointed on 3 November 2016 to the position of Vice-President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board as at 1 December 2016. Appointed on 14 June 2017 again to the position of Vice-President of the Management Board of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA 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 of PKO Bank Polski SA for the next joint term of the Management Board, which commenced on 2 July 2017.

On 9 August 2017 Mr Janusz Derda resigned from his position on the Management Board of PKO Bank Polski SA as of the end of the day on 9 August 2017.
On 21 September 2017 the Supervisory Board appointed Mr Adam Marciniak to the position of Vice-President of the Management Board as of 1 October 2017 for the current joint term of the Management Board.

CHANGES IN THE NUMBER AND RIGHTS TO PKO BANK POLSKI SA'S SHARES HELD BY MANAGEMENT AND SUPERVISORY BOARD MEMBERS

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

No.	Name and surname	Number of shares as at 30.09.2017	Acquisition	Disposal	Number of shares as at 30.06.2017
I.	**Management Board of the Bank**				
1.	Zbigniew Jagiełło, President of the Management Board	11 000	0	0	11 000
2.	Rafał Antczak, Vice-President of the Management Board	0	0	0	0
3.	Bartosz Drabikowski, Vice-President of the Management Board	0	0	0	0
4.	Maks Kraczkowski, Vice-President of the Management Board	0	0	0	0
5.	Mieczysław Król, Vice-President of the Management Board	5 000	0	0	5 000
6.	Adam Marciniak, Vice-President of the Management Board	0	0	0	0
7.	Piotr Mazur, Vice-President of the Management Board	4 500	0	0	4 500
8.	Jakub Papierski, Vice-President of the Management Board	3 000	0	0	3 000
9.	Jan Emeryk Rościszewski, Vice-President of the Management Board	0	0	0	0
II.	**Supervisory Board of the Bank**				
1.	Piotr Sadownik, Chairman of the Bank's Supervisory Board	0	0	0	0
2.	Grażyna Ciurzyńska, Vice-Chairman of the Bank's Supervisory Board	0	0	0	0
3.	Zbigniew Hajłasz, Secretary of the Bank's Supervisory Board	0	0	0	0
4.	Mariusz Andrzejewski, Member of the Bank's Supervisory Board				
5.	Mirosław Barszcz, Member of the Bank's Supervisory Board	0	0	0	0
6.	Adam Budnikowski, Member of the Bank's Supervisory Board	0	0	0	0
7.	Wojciech Jasiński, Member of the Bank's Supervisory Board	0	0	0	0
8.	Andrzej Kisielewicz, Member of the Bank's Supervisory Board	0	0	0	0
9.	Elżbieta Mączyńska-Ziemacka, Member of the Bank's Supervisory Board	0	0	0	0
10.	Janusz Ostaszewski, Member of the Bank's Supervisory Board	0	0	0	0
11.	Jerzy Paluchniak, Member of the Bank's Supervisory Board	0	0	0	0

2. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements, reviewed by the Audit Committee of the Supervisory Board on 9 November 2017, were approved for publication by the Bank's Management Board on 31 October 2017.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial data has been presented in the financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2016 in PLN million with one decimal place, and in the interim condensed consolidated financial statements of the PKO Bank Polski SA Group for the nine-month period ended 30 September 2016, in PLN thousand, unless otherwise stated. In these financial statements the comparatives have been rounded to PLN million and any differences from the previously published data may arise from these roundings.

These condensed interim consolidated financial statements of PKO Bank Polski SA Group 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 consolidated 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 consolidated financial statements of the PKO Bank Polski SA Group for 2016.

The presented condensed interim consolidated financial statements for the nine-month 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 consolidated financial statements of the PKO Bank Polski SA Group 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 SINCE 1 JANUARY 2017

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group 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 condensed interim consolidated 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 THE GROUP

The Management Board does not expect the adoption of the new standards, their and interpretations' changes to have a significant impact on the accounting policies applied by the Group with the exception of IFRS 9. The Group 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 since 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').

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.

As part of the implementation of IFRS 9 with regard to debt instruments the following business models were identified:

- held to maturity (hold to collect, hereinafter H2C),
- held to maturity and sales (held to collect and sell, hereinafter H2C&S),
- sales (sale, hereinafter S).

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 (hereinafter 'SPPI').

Debt financial assets classified as model H2C and having met the SPPI test are classified as measured at amortized cost.

The category of fair value through other comprehensive income which include debt instruments used under a business model H2C&S. 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.

In the case of instruments classified under a business model it is possible to classify them to H2C and H2C&S if such valuation eliminates the accounting mismatch.

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 or modification 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 Group 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.

In consequence:

- measurement at amortized cost calculated using the effective interest rate covers the H2C model,
- fair value through other comprehensive income covers the H2C&S model and equity instruments without using the fair value measurement option,
- fair value through profit or loss covers the sales model S, the H2C model for exposures which fail the SPPI test, derivative instruments and equity instruments using the fair value measurement option.

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 Group 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 Group'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 Group,
- Change of the measurement category for exposures subsidized by the State Budget from amortized cost to FVP&L due to the specific nature of the interest rate based on the multiplication of the base rate in excess of 1,
- Change of the category for foreign currency loans for which there is a mismatch between the reset frequency and the interest rate, from amortized cost to FVP&L,
- Change of the category for debt instruments which meet the non-recourse criterion 'debtor's incomplete liability' from the FVOCI category to FVP&L.

It will change the method of disclosure of modification of cash flows from the Group'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 – *purchased or originated credit-impaired asset,* hereinafter POCI.

The Group will disclose the exposures acquired as a result of mergers and acquisitions at the time of the merger/acquisitions as the main POCI category.

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 (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 Group 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 Group makes use of the full quantitative and qualitative information available, including:

- restructuring measures involving granting concessions to the debtor due to its financial difficulties – 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. In order to determinate the value of an asset as at the default date in a given period, the Group 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 Group 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 Group 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.

Having completed the analysis of the risks and rewards relating to the adoption of the hedge accounting solutions introduced by IFRS 9 the Group decided to continue following the provisions of IAS 39 with regard to hedge accounting regulations and to continue the hedge relationships.

Disclosures and comparative data

In the Group'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 Group 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 Group 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 Group'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 Group's IT solutions to the requirements of IFRS 9 in the area of classification and measurement, the Group has developed and implemented as a test solutions for the integrated IT system supporting credit products and prepared assumptions for changes in the systems supporting treasury transactions (securities). Categories of financial assets will be modified in the source systems to reflect IFRS 9 requirements and solutions regarding the modification/derecognition of financial assets will be provided. The Group has developed methodologies for conducting business model, SPPI (cash flows) and benchmarking tests (quantitative tests) as well as a methodology for measuring financial assets at fair value. The Group has also completed the work related to determining changes in business, accounting and other processes of an operating nature. The Group is extending the existing applications to enable the calculation of fair value adjustments for credit exposures, for which there was derecognition or classified as measured at fair value and the identification of POCI exposures.

As far as impairment is concerned, the Group's activities are focused on adjusting the applications used 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 Group is introducing the changes with support of an external advisor.

At the same time, work is pending on changes in the Group's data warehouse and reporting extracts on the basis of which financial statements are prepared. The completion of implementing changes in respect of IFRS 9 is planned at the end of fourth quarter 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 as well as pending legislative work on changes in the tax regulations (mainly affecting the issue of the recognition of deferred tax due to impairment allowances on loan exposures) in the Group'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 Group presented qualitative information which enables assessing the impact of IFRS 9 on the Group's financial position and equity management.

The Group 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 Group 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 Group 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 currently used 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.

The scope of the standard does not include financial instruments (IAS 39), insurance contracts (IFRS 4) and lease transactions (IAS 17), and therefore the Group estimates that the impact of this standard on its financial statements should not be material.

4.3. 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 Group 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 Group's financial statements where the Group 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. The Group does not expect the impact of the amendments to IAS 12 to be material.
- Amendments to IFRS 10 and IAS 28 concern the sale or contribution of assets between an investor and its joint venture or associate. The Group does not expect the impact of the amendments to IFRS 10 and IAS 28 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 Group.
- 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 Group 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 Group 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 Group believes that the interpretation will not have a material impact on the financial statements in the initial period of its application.

5. INFORMATION ON THE SEGMENTS OF ACTIVITIES AND ON GEOGRAPHICAL AREAS

INFORMATION ON THE SEGMENTS OF ACTIVITIES

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

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

1. **THE RETAIL SEGMENT** offers a full range of services for individuals as part of retail and private banking as well as mortgage banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services. With regard to financing, it covers consumer loans, mortgage loans, including those offered by PKO Bank Hipoteczny SA, as well as business loans to small and medium-sized enterprises, developers, cooperatives and property managers, and leases and factoring offered by the PKO Leasing Group. In addition, the results of the retail segment comprise the results of the following companies: PKO TFI SA, PKO BP BANKOWY PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO BP Finat Sp. z o.o. and ZenCard Sp. z o.o.

2. **THE CORPORATE AND INVESTMENT SEGMENT** includes transactions concluded with large corporate customers and financial institutions. This segment comprises, i.a., the following products and services: current accounts, term deposits, depositary services, currency and derivative products, corporate loans, leases and factoring offered by the PKO Leasing Group. Within this segment, PKO Bank Polski SA also enters, individually or in a syndicate with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. This segment also comprises the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities. The results of the corporate and investment segments also comprise the results of the companies operating in Ukraine, mainly KREDOBANK SA and the companies which conduct real estate development and real estate management activities.

3. **THE TRANSFER CENTRE** comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependent on market rates. The transactions between business segments are conducted at arms' length. Long-term external financing includes the issuance of securities, including the issuance of covered bonds, subordinated liabilities and loans received from financial institutions. As part of this segment, the results of PKO Finance AB are presented. Moreover, the total results achieved by PKO Bank Polski SA on the acquisition of Visa Europe Ltd. by Visa Inc. were presented in the transfer Centre in comparative data for 2016.

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

Accounting policies applied in the segment report are consistent with accounting policies described in Note 3 of these financial statements.

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

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

The following tables present data on revenues and results of individual operating segments of the PKO Bank Polski SA Group for the nine-month period ended 30 September 2017 and 30 September 2016, as well as assets and liabilities as at 30 September 2017, and as at 31 December 2016.

(IN PLN MILLION)

FOR THE PERIOD ENDED 30 SEPTEMBER 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	5 199	995	163	6 357
Net fee and commission income	1 761	453	(5)	2 209
Other net income	321	373	29	723
Net result from financial operations	(1)	35	(6)	28
Net foreign exchange gains (losses)	155	135	34	324
Dividend income	-	12	-	12
Net other operating income and expense	147	211	1	359
Income/expenses relating to internal customers	20	(20)	-	-
Net impairment allowance and write-downs	(859)	(313)	-	(1 172)
Administrative expenses, of which:	(3 560)	(695)	(55)	(4 310)
amortization and depreciation	(552)	(79)	-	(631)
Tax on certain financial institutions	(528)	(187)	17	(698)
Share of profit (loss) of associates and joint ventures	-	-	-	20
Segment gross profit	2 334	626	149	3 129
Income tax expense (tax burden)	-	-	-	(841)
Profit (loss) attributable to non-controlling shareholders	-	-	-	4
Net profit attributable to equity holders of the parent company	2 334	626	149	2 284

AS AT 30 SEPTEMBER 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	160 482	122 588	5 194	288 264
Unallocated assets	-	-	-	1 697
Total assets	160 482	122 588	5 194	289 961
Liabilities	170 275	49 839	34 097	254 211
Unallocated liabilities	-	-	-	410
Total liabilities	170 275	49 839	34 097	254 621

(IN PLN MILLION)

FOR THE PERIOD ENDED 30 SEPTEMBER 2016	Continuing operations*			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	4 855	898	(19)	5 734
Net fee and commission income	1 598	393	(3)	1 988
Other net income	255	455	441	1 151
Net result from financial operations	6	109	403	518
Net foreign exchange gains (losses)	179	134	38	351
Dividend income	-	10	-	10
Net other operating income and expense	51	221	-	272
Income/expenses relating to internal customers	19	(19)	-	-
Net impairment allowance and write-downs	(767)	(434)	-	(1 201)
Administrative expenses, of which:	(3 464)	(670)	-	(4 134)
amortization and depreciation	(516)	(76)	-	(592)
Tax on certain financial institutions	(434)	(164)	3	(595)
Share of profit (loss) of associates and joint ventures	-	-	-	25
Segment gross profit	2 043	478	422	2 968
Income tax expense (tax burden)	-	-	-	(687)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-
Net profit attributable to equity holders of the parent company	**2 043**	**478**	**422**	**2 281**

* The data for the three quarters of 2016 was restated to ensure comparability due to a presentation change resulting from the allocation of entities to individual segments.

AS AT 31 DECEMBER 2016	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	157 417	122 296	4 071	283 784
Unallocated assets	-	-	-	1 789
Total assets	157 417	122 296	4 071	285 573
Liabilities	168 476	48 899	35 293	252 668
Unallocated liabilities	-	-	-	336
Total liabilities	168 476	48 899	35 293	253 004

INFORMATION ON GEOGRAPHICAL AREAS

Complementary, the PKO Bank Polski SA Group applies geographical areas distribution. The PKO Bank Polski SA Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, 'Inter-Risk Ukraina' Additional Liability Company and Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., in Sweden through subsidiaries: PKO Finance AB, PKO Leasing Sverige AB, in Ireland: ROOF Poland Leasing 2014 DAC, in Federal Republic of Germany by the corporate branch of PKO Bank Polski SA (PKO Bank Polski Niederlassung Deutschland) and by the corporate branch in the Czech Republic. For presentation purposes, the results of companies operating in Sweden, Ireland and results of the Branches operating in the Germany and in the Czech Republic, which from the point of view of the scale of operations of the PKO Bank Polski SA Group are not significant, are included in the segment of Poland.

(IN PLN MILLION)

FOR THE PERIOD ENDED 30 SEPTEMBER 2017	Poland	Ukraine	Total
Net interest income	6 242	115	6 357
Net fee and commission income	2 169	40	2 209
Other net income	712	11	723
Administrative expenses	(4 221)	(89)	(4 310)
Net impairment allowance and write-downs	(1 154)	(18)	(1 172)
Tax on certain financial institutions	(698)	-	(698)
Share of profit (loss) of associates and joint ventures	-	-	20
Profit before income tax	3 050	59	3 129
Income tax expense	-	-	(841)
Profit (loss) attributable to non-controlling shareholders	-	-	4
Net profit (loss) attributable to equity holders of the parent company	**3 050**	**59**	**2 284**

AS AT 30 SEPTEMBER 2017	Poland	Ukraine	Total
Assets of which:	288 181	1 780	289 961
non-financial fixed assets	6 292	94	6 386
deferred tax assets and current income tax receivable	1 691	6	1 697
Liabilities	253 028	1 593	254 621

FOR THE PERIOD ENDED 30 SEPTEMBER 2016	Poland	Ukraine	Total
Net interest income	5 632	102	5 734
Net fee and commission income	1 957	31	1 988
Other net income	1 152	(1)	1 151
Administrative expenses	(4 060)	(74)	(4 134)
Net impairment allowance and write-downs	(1 180)	(21)	(1 201)
Tax on certain financial institutions	(595)	-	(595)
Share of profit (loss) of associates and joint ventures	-	-	25
Profit before income tax	2 906	37	2 968
Income tax expense	-	-	(687)
Profit (loss) attributable to non-controlling shareholders	-	-	-
Net profit (loss) attributable to equity holders of the parent company	**2 906**	**37**	**2 281**

AS AT 31 DECEMBER 2016	Poland	Ukraine	Total
Assets of which:	283 861	1 712	285 573
non-financial fixed assets	6 685	83	6 768
deferred tax assets and current income tax receivable	1 780	9	1 789
Liabilities	251 444	1 560	253 004

(IN PLN MILLION)

NOTES TO THE INCOME STATEMENT

6. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
loans and other advances to banks	36	99	28	82
loans and advances to customers, of which:	2 348	6 794	2 119	6 187
on impaired loans	70	202	71	216
investment securities	258	785	218	619
derivative hedging instruments	87	230	78	260
financial assets designated upon initial recognition at fair value through profit and loss	42	153	54	163
trading assets excluding derivative financial instruments	10	33	20	55
other	-	-	1	4
Total	**2 781**	**8 094**	**2 518**	**7 370**

INTEREST EXPENSE AND SIMILAR CHARGES ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
amounts due to banks	(41)	(112)	(25)	(64)
amounts due to customers	(401)	(1 219)	(383)	(1 178)
debt securities in issue and subordinated liabilities	(117)	(332)	(93)	(288)
debt securities available for sale	(19)	(57)	(24)	(56)
trading assets excluding derivative financial instruments	(3)	(8)	(13)	(29)
financial assets designated upon initial recognition at fair value through profit and loss	(3)	(9)	(8)	(21)
Total	**(584)**	**(1 737)**	**(546)**	**(1 636)**

7. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
payment and credit cards	312	833	248	751
maintenance of bank accounts	211	645	222	660
loans and advances granted	154	460	151	457
maintenance of investment and OPF (including management fees)	148	422	115	331
cash transactions	24	74	26	76
servicing foreign mass transactions	25	75	22	63
brokerage activities and issue arrangement	55	155	31	97
offering insurance products	25	69	12	17
sale and distribution of court fee stamps	1	4	4	9
investment and insurance products	17	56	31	82
customer orders	11	32	11	32
fiduciary services	2	5	1	3
other	33	78	23	74
Total	**1 018**	**2 908**	**897**	**2 652**

(IN PLN MILLION)

FEE AND COMMISSION EXPENSE ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
card activities	(166)	(450)	(119)	(404)
commission paid to external entities for sales of products	(9)	(46)	(25)	(66)
cost of construction investment supervision and property valuation	(11)	(32)	(10)	(30)
settlement services	(6)	(23)	(4)	(22)
fee and commissions for operating services provided by banks	(3)	(13)	(5)	(14)
sending text messages (SMS)	(5)	(15)	(4)	(11)
asset management	(3)	(11)	(4)	(12)
fees incurred by the Brokerage House	(4)	(15)	(4)	(11)
other	(45)	(94)	(36)	(94)
Total	**(252)**	**(699)**	**(211)**	**(664)**

8. DIVIDEND INCOME

DIVIDEND INCOME:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Investment securities available for sale	1	11	-	9
Trading assets	-	1	1	1
Total	**1**	**12**	**1**	**10**

9. NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Debt instruments	(5)	-	14	22
Equity instruments	4	3	(1)	(1)
Derivative instruments (including an ineffective portion related to cash flow hedges)	(1)	8	17	(11)
Other	-	-	-	5
Total	**(2)**	**11**	**30**	**15**

10. GAINS LESS LOSSES FROM INVESTMENT SECURITIES AVAILABLE FOR SALE

GAINS LESS LOSSES FROM INVESTMENT SECURITIES	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Equity securities*	(1)	1	-	418
Debt securities	17	16	27	85
Total	**16**	**17**	**27**	**503**

* In the second quarter of 2016, the Group 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' in the consolidated financial statements of the PKO Bank Polski SA Group for 2016).

(IN PLN MILLION)

11. NET FOREIGN EXCHANGE GAINS (LOSSES)

Net 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 portion of the cash flow hedge, where CIRS contracts are the hedging instruments.

Impairment allowances on loan and advance 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).

NET FOREIGN EXCHANGE GAINS (LOSSES)	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Net foreign exchange gains (losses)	101	324	148	351
Total	**101**	**324**	**148**	**351**

12. OTHER OPERATING INCOME AND EXPENSE

OTHER OPERATING INCOME	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
gains on sale of products and services*	94	354	93	264
gains on sale of subsidiaries	-	-	77	77
gains on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	12	34	61	77
damages, penalties and fines received	4	20	21	50
sundry income	8	21	5	18
recovery of expired and written-off receivables	1	3	4	6
other	28	103	11	55
Total	**147**	**535**	**272**	**547**

* Including income related to the investment of Neptun Park completed in the second quarter of 2017.

OTHER OPERATING EXPENSE	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
costs of sale of products and services*	(19)	(109)	(31)	(127)
losses on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(2)	(13)	(6)	(21)
donations	(6)	(19)	-	(14)
sundry expense	(4)	(13)	(4)	(12)
other	(7)	(22)	(53)	(101)
Total	**(38)**	**(176)**	**(94)**	**(275)**

* Including expenses related to the investment of Neptun Park completed in the second quarter of 2017.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

13. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS	Note	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Investment securities available for sale	25	4	28	-	(40)
Loans and advances to customers	24	(395)	(1 145)	(371)	(1 092)
Tangible fixed assets		-	-	-	4
Intangible assets		-	-	(1)	(4)
Investments in associates and joint ventures	40	(12)	(25)	(15)	(17)
Inventories		-	-	-	(3)
Other receivables (other assets)		(1)	(37)	(9)	(22)
Provision for legal claims, loan commitments and guarantees granted	37	15	7	(22)	(27)
Provision for future liabilities (Other provisions)	37	-	-	(1)	-
Total		**(389)**	**(1 172)**	**(419)**	**(1 201)**

14. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Employee benefits	(745)	(2 227)	(709)	(2 109)
Overheads	(352)	(1 043)	(342)	(1 051)
Amortization and depreciation	(211)	(631)	(198)	(592)
Contribution to the Bank Guarantee Fund (BGF)	(48)	(353)	(110)	(329)
Taxes and other charges	(16)	(56)	(18)	(53)
Total	**(1 372)**	**(4 310)**	**(1 377)**	**(4 134)**

According to IFRIC 21 'Levies', fees paid by the Group to the Bank Guarantee Fund are recognized in income statement on occurrence of the obligating event.
In 2016 the Group 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 Group 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	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Wages and salaries, of which:	(628)	(1 858)	(599)	(1 753)
expenses on employee pension programme	(12)	(36)	(12)	(35)
Social insurance, of which:	(100)	(314)	(92)	(295)
contributions to retirement pay and pensions	(80)	(262)	(76)	(248)
Other employee benefits	(17)	(55)	(18)	(61)
Total	**(745)**	**(2 227)**	**(709)**	**(2 109)**

(IN PLN MILLION)

15. 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.

	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Tax on certain financial institutions, of which:				
PKO Bank Polski SA	(223)	(673)	(223)	(591)
PKO Życie Towarzystwo Ubezpieczeń SA	(2)	(4)	(2)	(3)
PKO Bank Hipoteczny SA	(9)	(20)	(1)	(1)
PKO Towarzystwo Ubezpieczeń SA	-	(1)	-	-
Total	**(234)**	**(698)**	**(226)**	**(595)**

16. INCOME TAX

	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Current income tax expense	(301)	(862)	(334)	(907)
Deferred income tax related to temporary differences	1	21	72	220
Income tax expense recognized in the income statement	**(300)**	**(841)**	**(262)**	**(687)**
Income tax expense recognized in other comprehensive income related to temporary differences	(20)	(112)	7	48
Total	**(320)**	**(953)**	**(255)**	**(639)**

	01.01-30.09.2017	01.01-30.09.2016
Profit before income tax	3 129	2 968
Tax calculated using the enacted tax rate (19%) in force in Poland	(595)	(564)
Effect of other tax rates of foreign entities	1	-
Permanent differences between profit before income tax and taxable income, of which:	(257)	(164)
Recognizing a non-tax-deductible impairment allowance on investments in subsidiaries, associates and joint ventures	(5)	(3)
Impairment allowances on loan exposures not constituting tax-deductible expense	(19)	(16)
Contribution to the BGF	(67)	(20)
Tax on certain financial institutions	(133)	(113)
Other permanent differences	(33)	(12)
Other differences between profit before income tax and taxable income, including new technologies tax relief and donations	10	41
Income tax expense recognized in the income statement	**(841)**	**(687)**
Effective tax rate	**26.9%**	**23.1%**

DEFERRED TAX LIABILITY	31.12.2016	Income statement	Other comprehensive income	30.09.2017
Interest accrued on receivables (loans)	239	3	-	242
Capitalized interest on performing housing loans	118	(8)	-	110
Interest on securities	43	2	-	45
Valuation of securities	5	6	(2)	9
Valuation of derivative financial instruments	2	1	-	3
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	351	(2)	-	349
Prepayments	70	44	-	114
Remaining value of taxable temporary differences	2	13	-	15
Gross deferred tax liability	**830**	**59**	**(2)**	**887**
DEFERRED TAX ASSET				
Interest accrued on liabilities	110	(10)	-	100
Valuation of derivative financial instruments	184	(83)	(13)	88
Valuation of securities	135	(7)	(101)	27
Provision for employee benefits	91	(3)	-	88
Impairment allowances on loan exposures	720	11	-	731
Adjustment of straight-line valuation method and effective interest rate	667	28	-	695
Other temporary negative differences	22	24	-	46
Provision for costs incurred	45	8	-	53
Tax loss	15	(1)	-	14
Currency translation differences	14	(10)	-	4
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets, including lease item	575	123	-	698
Gross deferred tax asset	**2 578**	**80**	**(114)**	**2 544**
Total deferred tax impact	**1 748**	**21**	**(112)**	**1 657**
Deferred tax liability (presented in the statement of financial position)	31			36
Deferred tax asset (presented in the statement of financial position)	1 779			1 693

17. Earnings per share

EARNINGS PER SHARE	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Net profit attributable to equity holders of the parent company	902	2 284	769	2 281
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)	0.72	1.83	0.61	1.82

During the nine-month period of 2017 as well as during the nine-month period of 2016 there were no dilutive instruments per share. 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

18. Cash and balances with the Central Bank

CASH AND BALANCES WITH THE CENTRAL BANK	30.09.2017	31.12.2016
Current account in the Central Bank	11 524	7 460
Cash on hand	4 386	4 185
Deposits with the Central Bank	970	1 680
Total	**16 880**	**13 325**

19. Amounts due from banks

AMOUNTS DUE FROM BANKS	30.09.2017	31.12.2016
Deposits with banks	2 444	3 846
Current accounts	1 194	784
Loans and advances granted	10	50
Receivables due from repurchase agreements	-	661
Cash in transit	3	4
Gross total	**3 651**	**5 345**
Net total	**3 651**	**5 345**

AMOUNTS DUE FROM BANKS - THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure	
	30.09.2017	31.12.2016
Amounts due from banks not impaired, not past due	3 651	5 345
Gross total	**3 651**	**5 345**
Net total	**3 651**	**5 345**

20. Trading assets excluding derivative financial instruments

TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	30.09.2017	31.12.2016
Debt securities	1 815	312
Treasury bonds PLN	1 601	186
foreign currency Treasury bonds	74	6
municipal bonds PLN	31	42
corporate bonds PLN	108	76
foreign currency corporate bonds	1	2
Shares in other entities – listed on stock exchange	20	11
Investment certificates, rights to shares, pre-emptive rights	3	3
Total	**1 838**	**326**

(IN PLN MILLION)

21. Derivative financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	676	465	382	1 135
Other derivative instruments	1 896	2 089	2 519	3 063
Total	**2 572**	**2 554**	**2 901**	**4 198**

TYPES OF CONTRACT	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	1 128	1 257	1 387	2 098
CIRS	600	507	570	1 391
FX Swap	275	163	205	164
Options	361	294	450	341
Commodity swap	115	114	97	96
FRA	2	1	2	2
Forward	90	218	177	106
Other	1	-	13	-
Total	**2 572**	**2 554**	**2 901**	**4 198**

22. Derivative hedging instruments

The Group applies hedge accounting when all the terms and conditions below have been met:

1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity as well as the hedging strategy, were officially established and documented,
2) a hedge is expected to be highly effective,
3) the planned hedged transaction must be highly probable and must be exposed to variability of cash flows risk which may, as a result, have an impact on the income statement,
4) the effectiveness of a hedge may be reliably assessed,
5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is confirmed.

As at 30 September 2017 and as at 31 December 2016, the Group did not use fair value hedges.

Discontinuing hedge accounting

- A HEDGE INSTRUMENT EXPIRES, IS SOLD, RELEASED OR EXERCISED - accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs,
- THE HEDGE CEASES TO MEET THE HEDGE ACCOUNTING CRITERIA - accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs,
- THE PLANNED TRANSACTION IS NO LONGER CONSIDERED PROBABLE - all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the income statement,

CASH FLOW HEDGES

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized in the income statement in the item 'Net income/expense from financial instruments designated at fair value' in respect of IRS instruments or under 'Net foreign exchange gains/losses' in respect of CIRS instruments.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement. Interest and foreign exchange differences are shown in the income statement, in 'Net interest income' and 'Net foreign exchange gains (losses)', respectively.

All types of hedging relationships applied by the Group are cash flow hedge accounting (macro cash flow hedge).

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions (in case of CIRS transactions).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed on a monthly basis.

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

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 Group 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 Group 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: October 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 Group 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: October 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 Group 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
	Period in which cash flows are expected and in which they should have an impact on the financial result: October 2017 – February 2024

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN CONVERTIBLE 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 CONVERTIBLE 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 convertible 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 convertible 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 Group pays coupons based on floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD or EUR 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 or EUR
	Period in which cash flows are expected and in which they should have an impact on the financial result: October 2017 – August 2024

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE 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 Group 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 Group 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: October 2017 – March 2021

(IN PLN MILLION)

STRATEGY 6	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 Group 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: October 2017 - July 2023

CARRYING AMOUNT (FAIR VALUE) OF DERIVATIVE HEDGING INSTRUMENTS	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	133	32	90	32
CIRS	543	433	292	1 103
Total	**676**	**465**	**382**	**1 135**

CHANGE IN OTHER COMPREHENSIVE INCOME RELATED TO CASH FLOW HEDGES AND INEFFECTIVE PORTION OF CASH FLOW HEDGES	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Other comprehensive income at the beginning of the period, gross	**(114)**	**(134)**	**143**	**(71)**
Gains/losses transferred to other comprehensive income in the period	529	1 252	158	207
Amount transferred in the period from other comprehensive income to the income statement, of which:	(484)	(1 187)	(246)	(81)
- interest income	(87)	(230)	(78)	(260)
- net foreign exchange gains/(losses)	(397)	(957)	(168)	179
Accumulated other comprehensive income at the end of the period, gross	**(69)**	**(69)**	**55**	**55**
Tax effect	13	13	(10)	(10)
Accumulated other comprehensive income at the end of the period, net	**(56)**	**(56)**	**45**	**45**
Impact on other comprehensive income in the period, gross	**45**	**65**	**(88)**	**126**
Tax effect	(8)	(12)	17	(24)
Impact on other comprehensive income in the period, net	**37**	**53**	**(71)**	**102**
Ineffective portion related to cash flow hedges recognized in the income statement, of which the amount related to:	**6**	**11**	**(6)**	**(8)**
Net foreign exchange gains (losses)	5	10	-	-
Net income/expense from financial instruments measured at fair value	1	1	(6)	(8)

(IN PLN MILLION)

23. 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	30.09.2017	31.12.2016
Debt securities	4 827	12 204
NBP money bills	1 968	9 079
Treasury bonds PLN	1 689	1 812
foreign currency Treasury bonds	944	1 075
municipal bonds PLN	106	111
foreign currency municipal bonds	120	127
Participation units in ICF (insurance capital funds) related to insurance products belonging to the group of investment products where the risk is borne by the policyholder	1 568	1 733
Total	**6 395**	**13 937**

24. Loans and advances to customers

LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT TYPE	30.09.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
Loans	**195 808**	**(7 708)**	**188 100**	**189 736**	**(7 478)**	**182 258**
housing	108 730	(2 109)	106 621	108 321	(2 200)	106 121
corporate	60 828	(3 852)	56 976	56 722	(3 807)	52 915
consumer	26 250	(1 747)	24 503	24 693	(1 471)	23 222
Debt securities	**4 804**	**(76)**	**4 728**	**4 948**	**(77)**	**4 871**
debt securities (corporate)	2 296	(70)	2 226	2 352	(69)	2 283
debt securities (municipal)	2 508	(6)	2 502	2 596	(8)	2 588
Receivables due from repurchase agreements	**432**	**-**	**432**	**1 339**	**-**	**1 339**
Finance lease receivables	**13 004**	**(455)**	**12 549**	**12 586**	**(448)**	**12 138**
Total	**214 048**	**(8 239)**	**205 809**	**208 609**	**(8 003)**	**200 606**

LOANS AND ADVANCES TO CUSTOMERS BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES	30.09.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	5 486	(2 246)	3 240	6 551	(2 608)	3 943
impaired	4 313	(2 238)	2 075	5 049	(2 594)	2 455
not impaired	1 173	(8)	1 165	1 502	(14)	1 488
portfolio basis, of which:	7 725	(5 221)	2 504	7 183	(4 766)	2 417
impaired	7 699	(5 219)	2 480	7 171	(4 766)	2 405
not impaired	26	(2)	24	12	-	12
group basis (IBNR)	200 837	(772)	200 065	194 875	(629)	194 246
Total	**214 048**	**(8 239)**	**205 809**	**208 609**	**(8 003)**	**200 606**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS – THE GROUP'S EXPOSURE TO CREDIT RISK	30.09.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which	12 012	(7 457)	4 555	12 220	(7 360)	4 860
assessed on an individual basis	4 313	(2 238)	2 075	5 049	(2 594)	2 455
not impaired, of which	202 036	(782)	201 254	196 389	(643)	195 746
with recognized individual impairment trigger	1 197	(10)	1 187	1 452	(14)	1 438
not past due	900	(7)	893	1 199	(13)	1 186
past due	297	(3)	294	253	(1)	252
without recognized individual impairment trigger/IBNR	200 839	(772)	200 067	194 937	(629)	194 308
not past due	195 160	(578)	194 582	190 628	(436)	190 192
past due	5 679	(194)	5 485	4 309	(193)	4 116
Total	**214 048**	**(8 239)**	**205 809**	**208 609**	**(8 003)**	**200 606**

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT	30.09.2017	31.12.2016
Loans and advances to customers, gross, of which:	**214 048**	**208 609**
mortgage banking	102 090	101 389
corporate (including receivables due from repurchase agreements)	57 048	54 522
retail and private banking	26 260	24 701
small and medium enterprises	28 650	27 997
Impairment allowances on loans and advances	(8 239)	(8 003)
Loans and advances to customers, net	**205 809**	**200 606**

LOAN QUALITY RATIOS	30.09.2017	31.12.2016
Share of impaired loans	5.6%	5.9%
Coverage ratio of impaired loans*	68.6%	65.5%
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 (both on impaired loans and advances to customers and IBNR) to the total exposure gross of impaired loans and advances to customers.

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS 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	2 200	558	(392)	(161)	(96)	2 109	6	(160)
corporate loans	3 807	1 560	(994)	(435)	(86)	3 852	24	(542)
consumer loans	1 471	955	(561)	(101)	(17)	1 747	3	(391)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
finance lease receivables	448	129	(76)	(44)	(2)	455	-	(53)
Total	**8 003**	**3 203**	**(2 025)**	**(741)**	**(201)**	**8 239**	**33**	**(1 145)**

* This item relates to recoveries from customers repayments and loan sales.

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS 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	2 337	912	(639)	(350)	(33)	2 227	5	(268)
corporate loans	4 107	1 441	(856)	(467)	(87)	4 138	41	(544)
consumer loans	1 569	827	(560)	(271)	(52)	1 513	2	(265)
debt securities (corporate)	69	-	-	-	-	69	-	-
debt securities (municipal)	3	5	-	-	-	8	-	(5)
finance lease receivables	202	75	(65)	(10)	-	202	-	(10)
Total	**8 287**	**3 260**	**(2 120)**	**(1 098)**	**(172)**	**8 157**	**48**	**(1 092)**

* This item relates to recoveries from customers repayments and loan sales.

(IN PLN MILLION)

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 Group 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	30.09.2017		31.12.2016	
	fair value	carrying amount	fair value	carrying amount
Municipal bonds	593	599	623	628
Corporate bonds	8	8	8	8
Total	**601**	**607**	**631**	**636**

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:*	30.09.2017		31.12.2016	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated future cash flows for the Group's loans and advances portfolio assessed on an individual basis (individually determined to be impaired)	(169)	269	(196)	320
change in probability of default	47	(47)	49	(49)
change in recovery rates	(333)	334	(353)	353

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

(IN PLN MILLION)

25. INVESTMENT SECURITIES AVAILABLE FOR SALE

INVESTMENT SECURITIES AVAILABLE FOR SALE	30.09.2017	31.12.2016
Debt securities, gross	39 886	36 419
Treasury bonds PLN	30 893	25 744
foreign currency Treasury bonds	215	678
municipal bonds PLN	4 533	4 552
corporate bonds PLN	3 740	4 800
foreign currency corporate bonds	505	645
Impairment allowances	(248)	(277)
corporate bonds PLN	(245)	(210)
foreign currency corporate bonds	(3)	(67)
Total net debt securities	**39 638**	**36 142**
Equity securities available for sale, gross	259	285
not admitted to public trading	142	129
admitted to public trading	117	156
Impairment allowances	(26)	(67)
Total net equity securities	**233**	**218**
Participation units in investment funds and shares in joint investment institutions	305	316
Total net investment securities available for sale	**40 176**	**36 676**

INVESTMENT SECURITIES AVAILABLE FOR SALE – THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure	
	30.09.2017	31.12.2016
impaired, assessed on an individual basis	821	1 297
not impaired, not past due	39 065	35 122
with external rating	34 361	30 034
with internal rating	4 704	5 088
Gross total	**39 886**	**36 419**
Impairment allowances	(248)	(277)
Net total	**39 638**	**36 142**

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS OF 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net- impact on the income statement
Debt securities	277	82	(70)	(41)	248	(12)
Equity securities	67	-	(40)	(1)	26	40
Total	344	82	(110)	(42)	274	28

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS OF 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net- impact on the income statement
Debt securities	57	40	-	31	128	(40)
Equity securities	76	-	-	-	76	-
Total	**133**	**40**	**-**	**31**	**204**	**(40)**

26. Investment securities held to maturity

INVESTMENTS SECURITIES HELD TO MATURITY	30.09.2017	31.12.2016
Debt securities, of which		
Treasury bonds PLN	944	199
foreign currency Treasury bonds	154	267
Total	**1 098**	**466**

27. Non-current assets held for sale

NON-CURRENT ASSETS HELD FOR SALE	30.09.2017	31.12.2016
Land and buildings	29	14
Total	**29**	**14**

28. Inventories

INVENTORIES	30.09.2017	31.12.2016
Goods	187	190
Finished goods	13	29
Building investments for sale	-	55
Materials	7	11
Impairment allowances on inventories	(24)	(25)
Total	**183**	**260**

29. Intangible assets and Tangible fixed assets

INTANGIBLE ASSETS

INTANGIBLE ASSETS	30.09.2017	31.12.2016
Software	1 505	1 612
Goodwill	1 264	1 252
Future profits on concluded insurance contracts	70	81
Customer relationships	89	98
Other, including capital expenditure	300	379
Total	**3 228**	**3 422**

(IN PLN MILLION)

Goodwill

NET GOODWILL	30.09.2017	31.12.2016
Nordea Polska entities	985	985
Raiffeisen - Leasing Polska SA and its subsidiaries	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	51	51
Qualia 2 spółka z o.o. - Nowy Wilanów Sp.k.	1	1
Assets taken over from CFP Sp. z o.o.	8	8
ZenCard Sp. z o.o.	12	-
Total	**1 264**	**1 252**

TANGIBLE FIXED ASSETS

TANGIBLE FIXED ASSETS	30.09.2017	31.12.2016
Land and buildings	1 788	1 864
Machinery and equipment	466	488
Assets under construction	18	103
Other	703	631
Total	**2 975**	**3 086**

Operating lease – lessor

TOTAL VALUE OF FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASE	30.09.2017	31.12.2016
For the period:		
up to 1 year	67	50
from 1 year to 5 years	132	106
over 5 years	15	10
Total	**214**	**166**

The average agreement period for operating lease agreements where the Group is a lessor is usually 36 months. The lessee bears service and insurance costs.

ASSETS UNDER OPERATING LEASE	30.09.2017	31.12.2016
Means of transport	290	208
Properties	69	70
Machinery and equipment	6	6
Total	**365**	**284**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

30. Other assets

OTHER ASSETS	30.09.2017	31.12.2016
Settlements of payment cards transactions	1 263	1 236
Settlements of financial instruments (including unpaid option premium)	300	382
Cash settlement receivables	129	125
Receivables and settlements of securities turnover	50	80
Receivables from dividends to be received	4	-
Receivables due to discharge of excess currency	1	26
Assets for sale	127	178
Prepayments	324	291
Trade receivables	216	173
VAT receivables	78	102
Reinsurance receivables	490	377
Other	73	64
Total	**3 055**	**3 034**
of which financial assets	2 482	2 247

31. Amounts due to banks

AMOUNTS DUE TO BANKS	30.09.2017	31.12.2016
Loans and advances received*	9 621	17 567
Bank deposits	806	800
Amounts due from repurchase agreements	-	206
Current accounts	634	593
Other money market deposits	37	42
Total	**11 098**	**19 208**

* Financing of the loan portfolio acquired in acquisition of Nordea Bank Polska

In the nine-month period ended 30 September 2017, the Group partially repaid a loan from Nordea Bank AB (publ), including: CHF 1 580 million (PLN 6 081 million), EUR 72 million (PLN 305 million) and USD 4 million (PLN 13 million).

(IN PLN MILLION)

32. Amounts due to customers

AMOUNTS DUE TO CUSTOMERS BY PRODUCT TYPE	30.09.2017	31.12.2016
Amounts due to retail customers	149 755	148 000
Current accounts and overnight deposits	81 507	72 365
Term deposits	67 804	75 304
Other liabilities	444	331
Amounts due to corporate entities	50 278	48 657
Current accounts and overnight deposits	31 775	30 987
Term deposits	13 638	11 947
Loans and advances received	3 735	4 662
Amounts due from repurchase agreements	98	-
Other liabilities	1 032	1 061
Amounts due to budget entities	9 650	8 409
Current accounts and overnight deposits	8 497	8 163
Term deposits	1 069	187
Other liabilities	84	59
Total	**209 683**	**205 066**

AMOUNTS DUE TO CUSTOMERS BY CUSTOMER SEGMENT	30.09.2017	31.12.2016
Amounts due to customers, of which:		
retail and private banking	141 879	140 021
corporate	40 612	37 639
small and medium enterprises	23 351	22 734
loans and advances received	3 735	4 662
amounts due from repurchase agreements	98	-
other liabilities	8	10
Total	**209 683**	**205 066**

33. Liabilities due to insurance operations

LIABILITIES DUE TO INSURANCE OPERATIONS	30.09.2017	31.12.2016
Technical provisions	857	543
Liabilities due to insurer's investment contracts divided into:	2 207	2 401
Unit-linked insurance financial products	1 917	2 130
'Safe Capital' product	275	268
other	15	3
Total	**3 064**	**2 944**

(IN PLN MILLION)

34. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	30.09.2017	31.12.2016
Financial instruments measured at amortized cost	21 970	14 493
bonds issued by PKO Finance AB	6 052	6 705
bonds issued by PKO Bank Polski SA	3 895	1 693
bonds issued by the PKO Leasing SA Group*	1 586	1 742
bonds issued by PKO Bank Hipoteczny SA	2 123	1 151
covered bonds issued by PKO Bank Hipoteczny SA	8 314	3 202
Total	**21 970**	**14 493**

* including the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen - Leasing Polska SA.

INFORMATION ON ISSUES, REPURCHASES AND REDEMPTIONS OF NON-EQUITY AND EQUITY SECURITIES

In the nine-month period ended 30 September 2017 in the PKO Bank Polski SA Group the following issues, repurchases and redemptions of securities took place:

REGARDING BONDS ISSUE BY PKO BANK POLSKI SA:

- The Bank issued bank bonds with 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.
- On 18 July 2017, PKO Bank Polski SA issued eurobonds with a value of EUR 750 million, four-year maturity and valuation at 65 basis points above the average swap rate. The bonds will be quoted on the Luxembourg Stock Exchange and at the same time on the Warsaw Stock Exchange. This is the first issue as part of the new EMTN programme launched in May 2017 for a total amount of EUR 3 billion. Under the programme it is possible to issue non-secured senior eurobonds and subordinated bonds in Euro, US dollars, Swiss francs and Polish zlotys. The funds obtained from the issue will be designated for purposes related to the general business activities of the Bank. On 20 July 2017, the Moody's Investors Service rating agency assigned an A3 rating with a stable perspective for the above-mentioned bonds.

REGARDING COVERED BONDS ISSUE BY PKO BANK POLSKI SA:

PKO Bank Hipoteczny SA issued covered bonds, including:

- two domestic issues denominated in PLN, addressed to institutional investors with nominal value totalling PLN 765 million; the covered bonds were purchased by investors at a price equal to their nominal value and are listed on the Warsaw Stock Exchange;
- two foreign issues denominated in EUR, addressed to institutional investors with nominal value totalling EUR 1 000 million. The covered bonds were purchased by the investors at a price lower than their nominal value and are quoted on the Luxembourg Stock Exchange. The first issue, which was carried out in the first half of 2017, is also quoted on the Warsaw Stock Exchange. The second issue was carried out in the third quarter of 2017 and a request was made to introduce it to trading on the Warsaw Stock Exchange;
- a foreign issue in the form of a private placement, denominated in EUR, addressed to institutional investors, with nominal value totalling EUR 25 million. The covered bonds were purchased by the investors at a price equal to their nominal value and are quoted on the Luxembourg Stock Exchange.

REGARDING BONDS ISSUE BY THE ENTITIES OF THE PKO BANK POLSKI SA GROUP

- PKO Bank Hipoteczny SA issued 44 596 bonds with a nominal value of PLN 4 460 million and redeemed 33 993 bonds with nominal value totalling PLN 3 399 million. Bond issues are regulated by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA.
- PKO Leasing SA issued 750 271 bonds with a nominal value of PLN 751 million and redeemed 673 071 bonds with nominal value totalling PLN 673 million. Bond issues are regulated by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA.

(IN PLN MILLION)

- At the request of Raiffeisen Bank Polska SA, PKO Leasing SA (the legal successor of Raiffeisen-Leasing Polska SA) redeemed 2 270 bonds with nominal value totalling PLN 227 million before their maturity. The payment was financed from the funds received from PKO Bank Polski SA under a loan agreement signed in December 2016.

35. SUBORDINATED LIABILITIES

	Nominal value in currency	Currency	Period	Special terms	Balance in PLN	
					30.09.2017	31.12.2016
Subordinated bonds	1 700	PLN	28.08.2017-28.08.2027	right of early redemption within 5 years from the issue date	1 705	-
Subordinated bonds	1 601	PLN	14.09.2012-14.09.2022	right of early redemption within 5 years from the issue date	-	1 617
Subordinated loan from Nordea Bank AB (publ)	224	CHF	24.04.2012 - 24.04.2022		-	922
Total					**1 705**	**2 539**

On 25 April 2017, there was a repayment of a subordinated loan from Nordea Bank AB (publ) in nominal value of CHF 224 million.

On 23 August 2017, the Bank made a placement of subordinated bonds in a total nominal value of PLN 1 700 million and an issue price of one bond equal to the nominal value of PLN 0.1 million. The bonds bear interest in bi-annual interest periods. The interest will be calculated on the basis of the nominal value using a variable interest rate equal to 6M WIBOR, plus a margin of 155 b.p. over the entire issue period. The issue will be settled on 28 August 2017. The maturity of the issued bonds is 10 years, however upon the approval of PFSA, the Bank has the right to 5 years after the issue date. On 30 August 2017, the PFSA agreed to designating the funds obtained from the issue of subordinated bonds for increasing the Bank's ancillary funds. Since 27 September of this year, the bonds have been quoted on the Catalyst market.

On 30 August 2017, the Bank obtained authorization of the Polish Financial Supervision Authority to exercise the right of early redemption of subordinated bonds (the call option). On 14 September 2017, the Bank redeemed all OP0922 series subordinated bonds with a total nominal value of PLN 1 600.7 million, issued by the Bank on 14 September 2012. The early redemption was based on the terms of issue of the OP0922 series subordinated bonds, which enabled the Bank to exercise the right of early redemption of all OP0922 series subordinated bonds after 5 years from their issue date.

(IN PLN MILLION)

36. Other liabilities

	30.09.2017	31.12.2016
Accounts payable	586	573
Deferred income	475	589
Liability due to tax on certain financial institutions	76	77
Interbank settlements	542	813
Liabilities relating to investment activities and internal operations	148	324
Liabilities due to suppliers	196	206
Liabilities and settlements due to securities turnover	636	210
Financial instruments settlements (including unpaid option premium)	232	355
Liabilities due to the contribution to the Bank Guarantee Fund*	106	-
Social and legal settlements	113	99
Liabilities from foreign currency activities	227	217
Liabilities related to payment cards	143	111
Liabilities due to insurance companies	114	146
Settlements due to purchase of currency	14	26
Other**	334	241
Total	**3 942**	**3 987**
of which financial liabilities	3 020	3 058

* The item 'Liabilities due to the contribution to the Bank Guarantee Fund' includes payables in respect of the contribution to the mandatory deposit guarantee system for three quarters totalling PLN 43 million and payables in respect of the contribution to mandatory bank restructuring for 2017 of PLN 63 million.

** As at 30 September 2017, the item 'Other' comprises, i.a. Liabilities in respect of the funds transferred by the BGF towards payments to SKOK 'Wybrzeże' in Gdańsk depositors in the amount of PLN 52 million (no balance as at 31 December 2016).

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

37. Provisions

FOR THE PERIOD ENDED 30 SEPTEMBER 2017	Provision for legal claims	Provision for retirement benefits	Provision for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2017, of which:	24	46	67	92	229
Short term provision	24	7	51	92	174
Long term provision	-	39	16	-	55
Increase/reassessment of provision	13	-	161	1	175
Release of provision	(20)	(2)	(161)	(2)	(185)
Use of provision	(4)	-	-	(32)	(36)
Other changes and reclassifications	-	-	-	7	7
As at 30 September 2017, of which:	**13**	**44**	**67**	**66**	**190**
Short term provision	13	5	53	66	137
Long term provision	-	39	14	-	53

* The item 'Other provisions' comprises, i.a. a restructuring provision of PLN 27 million and a provision for potential claims related to sale of receivables in the amount of PLN 2 million.

(IN PLN MILLION)

FOR THE PERIOD ENDED 30 SEPTEMBER 2016	Provision for legal claims	Provision for retirement benefits	Provision for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	22	46	83	101	252
Short term provision	22	4	64	101	191
Long term provision	-	42	19	-	61
Increase/reassessment of provision	24	-	226	4	254
Release of provision	(14)	-	(209)	(5)	(228)
Use of provision	(7)	(1)	-	(16)	(24)
Other changes and reclassifications	-	-	1	-	1
As at 30 September 2016, of which:	**25**	**45**	**101**	**84**	**255**
Short term provision	25	2	85	84	196
Long term provision	-	43	16	-	59

* The item 'Other provisions' comprises, i.a. restructuring provision of PLN 52 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.

38. Equity and shareholding structure of the Bank

EQUITY	30.09.2017	31.12.2016
Share capital	1 250	1 250
Reserve capital	27 374	24 491
General banking risk fund	1 070	1 070
Other reserves	3 646	3 608
Other comprehensive income, of which:	33	(468)
Share in other comprehensive income of associates and joint ventures	-	(1)
Financial assets available for sale	100	(347)
Cash flow hedges	(56)	(109)
Actuarial gains and losses	(11)	(11)
Currency translation differences on foreign operations	(239)	(221)
Undistributed profits	(66)	(19)
Net profit for the period	2 284	2 874
Non-controlling interests	(12)	(16)
Total	**35 340**	**32 569**

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

(IN PLN MILLION)

NAME OF THE ENTITY	Number of shares	Number of votes %	Nominal value of 1 share	Share in share capital %
As at 30 September 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 ING OFE (currently 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 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.

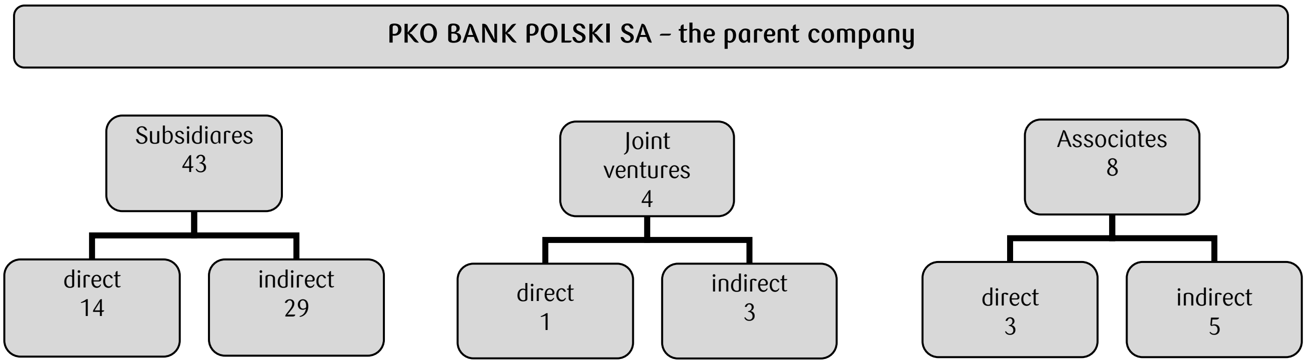
The Bank's shares are listed on the Warsaw Stock Exchange.

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 third quarter 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



39. Structure of the PKO Bank Polski SA Group and the scope of activities of the PKO Bank Polski SA Group entities

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

No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN SHARE CAPITAL	
	DIRECT SUBSIDIARIES		30.09.2017	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.	Warsaw	100	100
12	ZenCard Sp. z o.o.[2]	Warsaw	100	-
13	Merkury - fiz an[3]	Warsaw	100	100
14	NEPTUN - fizan[3]	Warsaw	100	100

1) The second shareholder of the entity is 'Inter-Risk Ukraina' Additional Liability Company.
2) The Company was acquired on 26 January 2017.
3) 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 SHARE CAPITAL * 30.09.2017	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. in liquidation	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 company; 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 customers portfolio, which include one or more financial instruments. The company also offers specialized investment programmes and conducts employee pension plans (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 customers 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 customers of financial institutions. The Group also includes a special purpose vehicle 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 PSFA'), the company also provides services as a national payment institution. Its customers are both companies of the PKO Bank Polski SA Group, as well as companies outside the Group. In 2016, the company began to handle group insurance 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 customers. 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 – non-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, 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 customers 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 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 customers and small and medium 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.
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.

(IN PLN MILLION)

The Group holds the following associates and joint ventures:

No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN SHARE CAPITAL* 30.09.2017	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. in liquidation[1]	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. in liquidation[2]	Katowice	100	-

* share in share capital of direct parent entity

1) On 5 July 2017 the Extraordinary General Shareholders' Meeting of the company passed a resolution to dissolve the company.
2) On 29 June 2017 the General Shareholders' Meeting of the company passed a resolution to dissolve the company.

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 investment 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. The repayment schedule is valid until 30 June 2018.

(IN PLN MILLION)

	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 customers and a supplementary offer for micro-businesses and institutional customers. It 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, one of the subsidiaries was put in liquidation.
'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, one of the subsidiaries was put in liquidation[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.

40. Investments in associates and joint ventures

JOINT VENTURES	30.09.2017	31.12.2016
'Centrum Obsługi Biznesu' Sp. z o.o.	-	-
Purchase price	17	17
Change in share of net assets	(15)	(16)
Impairment allowance	(2)	(1)
The Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	247	227
Value of shares as at the date of obtaining joint control	197	197
Change in share of net assets	50	30
Total	**247**	**227**

[1] Data consistent with the consolidated finacial statements of the FERRUM SA Group for the first half of 2017.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

ASSOCIATES	30.09.2017	31.12.2016
The Bank Pocztowy SA Group	107	133
Purchase price	162	162
Change in share of net assets	82	84
Impairment allowance	(137)	(113)
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-
Purchase price	2	2
Change in share of net assets	4	4
Impairment allowance	(6)	(6)
The FERRUM SA Group	21	26
Purchase price	25	25
Change in share of net assets	(4)	1
Total	**128**	**159**

CHANGE IN INVESTMENTS IN JOINT VENTURES	01.01-30.09.2017	01.01-30.09.2016
Investments in joint ventures as at the beginning of the period	227	206
Share in profits and losses	28	22
Net impairment allowance	(1)	-
Dividend	(7)	(3)
Investments in joint ventures as at the end of the period	**247**	**225**

CHANGE IN INVESTMENTS IN ASSOCIATES	01.01-30.09.2017	01.01-30.09.2016
Investments in associates as at the beginning of the period	159	186
Net impairment allowance	(24)	(17)
Share in profits and losses	(8)	3
Share in other comprehensive income of an associate	1	-
Increase in equity interest in associates	-	1
Investments in associates as at the end of the period	**128**	**173**

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01-30.09.2017	01.01-30.09.2016
Value at the beginning of the period	120	90
Recognized during the period	25	17
Reversed during the period	-	-
Value at the end of the period	**145**	**107**
Net impact in the income statement	(25)	(17)

41. ACQUISITION OF RAIFFEISEN-LEASING POLSKA SA BY PKO LEASING SA

DESCRIPTION OF THE TRANSACTION

On 2 November 2016, the Bank (as the guarantor), Raiffeisen Bank International AG (as the seller) and PKO Leasing SA (as the acquirer) signed an agreement on the sale of 100% of shares in Raiffeisen-Leasing Polska SA (RLPL) by Raiffeisen Bank International AG (RBI AG) to PKO Leasing SA. The transaction was closed on 1 December 2016 after the conditions precedent had been met, including, i.a., gaining the required anti-monopoly consents in Poland and Ukraine.

As a result of the aforementioned transaction, PKO Leasing SA purchased 1 500 038 ordinary shares in RLPL with a nominal value of PLN 100 each, representing 100% of the RLPL's share capital and entitling to 100% of the voting rights at the General Shareholders' Meeting of the company. The purchase price amounted to PLN 850 million. The purchase of the shares was financed entirely with a loan granted by the Bank. The business operations of the acquired company consist of conducting leasing activities and granting loans.

Due to the purchase of RLPL by the PKO Leasing SA Group, its subsidiaries in accordance with International Financial Reporting Standards joined the PKO Leasing SA Group: Raiffeisen-Leasing Real Estate Sp. z o.o. (financing the real estate), 'Raiffeisen Insurance Agency' Sp. z o.o. (insurance brokerage), Raiffeisen-Leasing Service Sp. z o.o. (storing and sale of post-leasing items) and ROOF Poland Leasing 2014 DAC, with its registered office in Ireland (a special purpose vehicle established to service the securitization of lease receivables).

On 28 April 2017 the merger between PKO Leasing SA (the acquirer) and RLPL (the acquiree) was registered with the National Court Register (KRS) 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.

SETTLEMENT OF THE ACQUISITION TRANSACTION

The transaction was settled under the acquisition method in accordance with IFRS 3.

The acquisition price of RLPL has been determined provisionally at the amount of the cash paid (PLN 850 million), due to the fact that PKO Leasing SA had the right to bring, within three months of the acquisition date, claims against RBI AG with regard to financial and other transactions stipulated in the agreement for the purchase of shares in RLPL SA which may result in an outflow of cash and conducted within the RLPL Group between 1 July 2016 and the acquisition date. As at the date of these financial statements, the identification of these transactions has been completed and the amount of claims affecting the final acquisition price is currently negotiated with RBI AG.

As at the date of preparing consolidated financial statements of the Group for 2016, an initial, provisional valuation and purchase price allocation was performed, especially with respect to the portfolio of lease receivables and loans granted, and the identification and valuation of contingent liabilities. As at 30 September 2017 these values have not changed. The final settlement may differ from the initial settlement described in these financial statements. In accordance with IFRS 3.45, the Group has to determine the final amounts within 12 months, i.e. by 30 November 2017.

(IN PLN MILLION)

Statement of the financial position - ASSETS	Data of the RLPL Group as at the acquisition date 01.12.2016 (amounts derived from the financial statements)	Adjustments due to fair value measurement and customer relationships	Fair value of assets acquired
Amounts due from banks	279		279
Loans and advances to customers	6 059	25	6 084
Inventories	78	-	78
Intangible assets	14	64	78
Tangible fixed assets	159	-	159
Current income tax receivables	17		17
Deferred income tax assets	433	(17)	416
Other assets	59	-	59
TOTAL ASSETS	**7 098**	**72**	**7 170**

Statement of the financial position - LIABILITIES AND NET ASSETS	Data of the RLPL Group as at the acquisition date 01.12.2016 (amounts derived from the financial statements)	Adjustments due to fair value measurement and customer relationships	Fair value of liabilities assumed and net assets
Amounts due to other banks	4 006	-	4 006
Amounts due to customers	696	-	696
Debt securities in issue	1 557	-	1 557
Other liabilities	113	-	113
Current income tax liabilities	4	-	4
Provisions	1	-	1
TOTAL LIABILITIES	**6 377**	**-**	**6 377**
NET ASSETS	**721**	**72**	**793**

Information on assumptions and valuation methods adopted for identified assets acquired and liabilities assumed as at 1 December 2016 were disclosed in the Group's consolidated financial statements for 2016.

Goodwill	Total RLPL Group companies
Consideration paid	850
Net amount of identifiable acquired assets and liabilities assumed	793
Goodwill	**57**
of which attributable to the following segments:	
corporate segment	16
retail segment	41

42. Other changes to the entities of the Group

In the third quarter of 2017 the following events described below, including capital increases[2], which have an impact on the structure of the PKO Bank Polski SA Group and relate to associates, took place:

REGARDING SUBSIDIARIES

- PKO Finance AB

On 1 August 2017, an increase in the share capital of PKO Finance AB in the amount of EUR 5 491 884.42 was registered with the Swedish Business Register (Bolagsverket). All the shares in the increased share capital were taken up by the current sole shareholder – PKO Bank Polski SA. As at 30 September 2017 the share capital of PKO Finance AB amounted to EUR 5 547 358 and comprised 500 000 shares with a nominal value of EUR 11.094716 each.

- PKO Bank Hipoteczny SA

On 11 September 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 share capital were taken up by the current sole shareholder – PKO Bank Polski SA.

As at 30 September 2017 the share capital of PKO Bank Hipoteczny SA amounted to PLN 1 100 000 000 and comprised 1 100 000 000 shares with a nominal value of PLN 1 each.

- Bankowe Towarzystwo Kapitałowe SA

On 18 July 2017, an increase in the share capital of Bankowe Towarzystwo Kapitałowe SA of PLN 30 000 000 was registered with the National Court Register. All the shares in the increased share capital were taken up by the current sole shareholder – NEPTUN – fundusz inwestycyjny zamknięty aktywów niepublicznych, an investment fund of non-public assets, whose 100% investment certificates were held by PKO Bank Polski SA.

As at 30 September 2017 the share capital of Bankowe Towarzystwo Kapitałowe SA amounted to PLN 63 243 900 and comprised 632 439 shares with a nominal value of PLN 100 each.

REGARDING THE EVENTS WHICH WILL RESULT IN CHANGES IN THE FOLLOWING QUARTERS

✓ *merger of selected subsidiaries within the Qualia Development Sp. z o.o. Group*

In the third quarter of 2017 work related to the merger of Qualia sp. z o.o. – Sopot Sp. k. and Giełda Nieruchomości Wartościowych Sp. z o.o. (the acquirees) with Qualia Sp. z o.o. (the acquirer) was in progress. It consisted of transferring all the assets of the acquirees to the acquirer. The merger plan published on 26 June 2017 in Monitor Sądowy
i Gospodarczy (the Court and Economic Monitor) accounts for the increase in the share capital of the acquirer and for share exchange. On 13 October 2017 the merger of the companies referred to above was registered with the National Court Register.

✓ *acquisition of KBC Towarzystwo Funduszy Inwestycyjnych SA*

On 8 September 2017, PKO Bank Polski SA and its subsidiary – PKO BP Finat Sp. z o.o. (as the acquirer) signed a preliminary agreement for the acquisition of 100% of the shares in KBC Towarzystwo Funduszy Inwestycyjnych SA (KBC TFI SA) with KBC Asset Management NV with its registered office in Belgium (as the seller). The transaction is conditional and depends on obtaining the consent of the President of the Competition and Consumer Protection Office and the absence of objection on the part of the Polish Financial Supervision Authority. The finalization of the transaction is planned for the first quarter of 2018. Ultimately, KBC TFI SA is to be merged with PKO TFI SA.

On 26 October 2017, the President of the Competition and Consumer Protection Office granted his approval of concentration arising from PKO BP Finat Sp. z o.o. acquiring control over KBC TFI SA.

[2] The respective information for the period from January to June 2017 has been presented in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2017 and in the condensed interim financial statements of PKO Bank Polski SA for the six-month period ended 30 June 2017.

✓ *increase in the share capital of Bank Pocztowy SA*

On 29 September 2017, the Extraordinary General Shareholders' Meeting of Bank Pocztowy SA (an associate of PKO Bank Polski SA) passed a resolution on increasing the company's share capital by PLN 18 145 200, i.e. from PLN 110 132 880 to PLN 128 278 080, by way of issuing 1 814 520 new registered ordinary shares with a nominal value of PLN 10 each. The issue price of one share was set at PLN 49.60. The new shares will be taken up by the current shareholders of the company, by way of a private subscription; after the capital increase they will retain their current shareholdings: 75% of the share capital minus 10 shares - Poczta Polska SA, and 25% of the share capital plus 10 shares – PKO Bank Polski SA.

On 16 October 2017, PKO Bank Polski SA signed an agreement to take up 453 630 of the new issue shares in Bank Pocztowy SA in the total issue value of PLN 22 500 048.

REGARDING THE DISSOLUTION OF COMPANIES

Putting Centrum Operacyjne Sp. z o.o. into liquidation was registered with the National Court Register. The company is a subsidiary of Bank Pocztowy SA – an associate of PKO Bank Polski SA.

Putting Walcownia Rur FERRUM Sp. z o.o. into liquidation was registered with the National Court Register. The company is a subsidiary of FERRUM SA – an associate of PKO Bank Polski SA.

(IN PLN MILLION)

OTHER NOTES

43. DIVIDENDS PER SHARE

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 since 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:

- on reserve capital: PLN 2 850 million,
- on 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 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).

44. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES RECEIVED

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

ISSUER OF UNDERWRITTEN SECURITIES	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 30 September 2017			
Company A	corporate bonds	1 157	31.12.2022
Company B	corporate bonds	889	31.07.2020
Company C	corporate bonds	443	15.06.2022
Company D	corporate bonds	61	31.12.2022
Company E	corporate bonds	4	31.12.2026
Total		**2 554**	

ISSUER OF UNDERWRITTEN SECURITIES	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 December 2016			
Company A	corporate bonds	1 126	31.12.2020
Company B	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 Group under the underwriting programme have an unlimited transferability, are not listed on the stock exchange and are not traded on a regulated over-the-counter market.

(IN PLN MILLION)

LOAN COMMITMENTS GRANTED

NOMINAL VALUE OF LOAN COMMITMENTS GRANTED	30.09.2017	31.12.2016
Credit lines and limits		
to financial entities	3 589	2 764
to non-financial entities	36 602	39 525
to public entities	4 337	3 856
Total	**44 528**	**46 145**
of which: irrevocable loan commitments	30 725	31 078

GUARANTEE LIABILITIES GRANTED

GUARANTEES AND PLEDGES GRANTED	30.09.2017	31.12.2016
Guarantees granted in domestic and foreign trading	5 447	6 060
Guarantees and pledges granted – domestic corporate bonds	3 552	3 769
Letters of credit granted	1 522	1 600
Guarantees and pledges granted - payment guarantee	191	151
Guarantees and pledges granted - domestic municipal bonds	793	351
Total	**11 505**	**11 931**
of which performance guarantees granted	2 613	2 447

LIABILITIES GRANTED BY MATURITY

OFF-BALANCE SHEET LIABILITIES GRANTED BY MATURITY - 30.09.2017	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	12 404	4 031	11 678	10 095	6 320	44 528
Guarantee liabilities granted	145	1 812	3 226	4 237	2 085	11 505
Total	**12 549**	**5 843**	**14 904**	**14 332**	**8 405**	**56 033**

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	13 810	2 543	12 354	10 993	6 445	46 145
Guarantee liabilities granted	266	576	3 722	6 668	699	11 931
Total	**14 076**	**3 119**	**16 076**	**17 661**	**7 144**	**58 076**

OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.09.2017	31.12.2016
Financial	94	304
Guarantees	9 794	7 972
Total	**9 888**	**8 276**

(IN PLN MILLION)

CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	30.09.2017	31.12.2016
intangible assets	30	36
tangible fixed assets	68	24
Total	**98**	**60**

45. LEGAL CLAIMS

As at 30 September 2017, the total amount in litigation where the Bank is a defendant (suits) and court proceedings in which other the PKO Bank Polski SA Group companies are defendants (suits) was PLN 1 622 million, including PLN 20 million in respect of litigation in Ukraine (as at 31 December 2016 the total amount of the said litigations was PLN 449 million), and the total amount of litigations (suits) as at 30 September 2017 where the Bank and the other PKO Bank Polski SA Group companies are plaintiffs was PLN 1 255 million, including PLN 28 million in respect of litigations in Ukraine (as at 31 December 2016 the total amount under the said litigations was PLN 1 232 million).

The most significant legal claims of PKO Bank Polski SA and the Group companies 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). 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 SA) 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 (the cost of creating the provision was incurred in previous periods and the amount of the provision was updated depending on the current situation).

On 28 April 2016, the Bank filed a cassation complaint along with the other participants in the proceedings. 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. On 11 October 2017, the case was heard by the Supreme Court. The Supreme Court closed the hearing and deferred the announcement of the judgement until 25 October 2017. By judgment of 25 October 2017 the Supreme Court annulled the appealed judgment by the Court of Appeal in Warsaw and referred the case for reconsideration by the Court of Appeal.

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

- **BEFORE THE COURT OF APPEAL – AS A RESULT OF AN APPEAL FROM THE VERDICT OF SOKIK ISSUED IN RESULT OF THE COMPLAINT FROM THE PRESIDENT OF UOKIK DUE TO SUSPICION OF USING OF UNFAIR CONTRACTUAL PROVISIONS IN FORMS OF CONSUMER LOAN AGREEMENTS, WITH THE EXCLUSION OF CREDIT CARD AGREEMENTS.**

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 three 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. A motion for the delivery of a copy of the judgement with the justification was filed in the case. The copy of the judgement with the justification was delivered on 22 August 2017. On 23 October 2017, the Bank filed a cassation motion with the Court of Appeals. In July 2017 the penalty was paid (and the cost was incurred in the second quarter of 2017).

- **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. The date for the cassation hearing has not yet been set.

- **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 September 2017 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**

Four 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 Bank's plenipotentiary filed a request for issuing a consent decree, referred to in art. 28 of the act on competition protection together with proposed actions aimed at ending the violation and removing its effects. On 9 October 2017, the notice dated 29 September 2017 on extending the term for finalizing the proceedings to 30 November 2017 was received.
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. In its letter dated 22 February 2017 the Bank presented its position on the charges of the President of UOKiK and filed a motion for issuing a consent decree, as referred to in art. 28 of the act on competition protection, with proposed actions aimed at terminating the violation and removing its effects. 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. In the letter dated 26 July 2017 the President of UOKiK obliged the Bank to complete the table in which the Bank is to include all the changes in fees and commissions introduced by the Bank to agreements concluded using electronic banking. The deadline for completing the table expires on 30 November 2017. In the letter dated 7 September 2017 UOKiK informed that at the current stage of proceedings it does not stipulate taking into consideration the Bank's liabilities, and that the detailed grounds for the position of UOKiK in this respect will be presented in the administrative decision which will conclude the proceedings. At the same time, the President of UOKiK indicated that the decision issued on 10 May 2017 versus Credit Agricole Bank Polska S.A. should be an indication for the Bank as to, among other things, the manner of removing the effects of practices which violate the collective interests of consumers, forms of consumer gains, or the position of the President of UOKiK related to the permanent information carrier in e-banking. The President of UOKiK reserved that the letter described above is of an informative nature only, and does not constitute a resolution by the President of UOKiK.

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 art. 385 § 1 of the Civil Code. The decision to initiate the proceedings was delivered to the Bank on 4 July 2017. By 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. In the letter dated 9 August 2017, the Bank took a position on the charges of the President of UOKiK.

4) the proceedings instigated *ex officio* by the President of UOKiK in respect of the Bank's applying practices which violate the collective interests of consumers, 'consisting of determining the principal and interest instalments in mortgage loans and advances denominated in foreign currencies, and collecting those instalments from customers, in amounts exceeding the costs of servicing the credit exposures, presented to the consumers on the assumption that the PLN value of the principal amount of credit exposure increases as a result of the appreciation of the foreign currency vis-à-vis the Polish zloty, the level of which was presented to consumers upon the conclusion of the loan/advance agreements as an element of information on currency risk and was described as the level of potential increase, which follows from the initial (i.e. prevailing as at the date of conclusion of the agreement) transfer of the potential currency risk to the consumer, which at the same time may violate good practices and thus distort market behaviours of the borrowers of those loans and advances by forcing the consumers to repay loan instalments in unjustified amounts, and by actually preventing the option of early repayment, translation of the loans/advances into other currencies, or terminating the agreements in respect of the mortgage loans/advances described above, due to the repricing of the borrowers' liabilities to amounts which exceed the level of the potential increase in the costs of credit exposure which had been presented upon the conclusion of the agreement, which may constitute an unfair market practice, as referred to in art. 4 section 1 of the act of 23 August 2007 on counteracting unfair market practices and at the same time be harmful to collective interests of consumers.' The resolution on instigating the proceedings was delivered to the Bank on 31 July 2017. In the said letter, the President of UOKiK called the Bank to take a position on the charges, and the Bank did so in its letter of 23 September 2017.

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 art. 49a of the Act on Competition and Consumer Protection).

GROUP COMPANIES:

1. As at 30 September 2017 PKO Życie Towarzystwo Ubezpieczeń SA – a subsidiary of the Bank – is a party to:

   ✓ four proceedings before SOKiK initiated by individuals to determine some of provisions in the forms of life insurance agreements to be illegal.

   In all cases the company responded to the lawsuit and applied for its dismiss due to bringing legal action after 6 months since the day of giving up their application; in these cases there is no risk of imposing financial penalty on the company.

   ✓ proceeding connected to the cassation complaint brought by PKO Życie Towarzystwo Ubezpieczeń SA against the judgment of the Court of Appeal in relation to the fine imposed on the company in 2010 by the President of UOKiK for the violation of the collective interests of consumers (fine was paid in 2013).

   The Supreme Court issued in 2015 the verdict repealing the appealed judgment concerning the amount of the fine and referred the case for reconsideration to the court of second instance. The second instance upheld its previous position not taking into account the guidelines of the Supreme Court. The Company made another cassation complaint to the Supreme Court, which the Supreme Court recognized, repealed the verdict under appeal and referred the case for reconsideration to the Court of Appeal.

At the same time, in the period from January to September 2017 PKO Życie Towarzystwo Ubezpieczeń SA conducted actions related to implementing the following:

a) the consent decree issued in October 2015 by the President of UOKiK regarding changes of insurance policies linked to capital funds;

b) the arrangement reached on 19 December 2016 with the President of UOKiK, under which the terms and conditions for the decision indicated in the point a) above were extended to the whole active (as at 1 December 2016) portfolio of products with insurance capital fund held by the company's customers and analogous solutions were applied to customers who had underwritten policies with insurance capital fund after 1 January 2008 and were at least 61 years old, and whose contracts were terminated after they turned 65.

As at 30 September 2017, PKO Życie Towarzystwo Ubezpieczeń SA does not have a provision for administrative penalties in respect of proceedings relating to insurance products with an insurance capital fund. At the same time, the company maintains an adequate (in respect of the consent decree and the agreement) level of claims provisions.
Moreover, there are three investigations procedures pending before the President of UOKiK, relating to the Group entities' activities.

b) RE-PRIVATIZATIONS CLAIMS RELATING TO PROPERTIES HELD BY THE GROUP

As at the date of these financial statements there are:

1) six administrative proceedings, of which four 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.
2) fourteen proceedings, of which one is suspended, in relation to properties of other Group entities, regarding the invalidation of administrative decisions or return of the property.

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

(IN PLN MILLION)

c) TAX LITIGATION

Following an unfavourable verdict of the Supreme Administrative Court (SAC) dated August 2016 based on which the Voivodship Administrative Court (VAC) in Łódź repealed, in the verdicts dated 10 January, 13 January and 8 February 2017, all complaints filed by PKO Leasing SA (the legal successor of PKO Bankowy Leasing Sp. z o.o.) concerning applying overpayments and reimbursements towards VAT tax arears, as at 30 September 2017, the PKO Leasing SA Group presents interest receivable on VAT tax arrears totalling PLN 21.1 million, which are covered by a full revaluation write-down. Interest receivables on VAT tax arrears, claimed before administrative courts, result from the decisions of the Tax Office in Łódź concerning applying overpayments and reimbursements of VAT for the settlement periods from January 2011 to June 2013 towards VAT tax arrears, where the VAT reimbursements and overpayments were applied towards VAT tax arrears as at the date of filing adjusting tax returns (in December 2014) and not as at the date of paying higher tax that due, as proposed by the Company. In 2017, PKO Leasing SA continues to appeal against the decisions of the tax authorities. On 7 April 2017, the company filed a cassation appeal against the verdict of the VAC regarding applying the reimbursement of VAT of PLN 20.8 million arising from the tax return for February 2011 towards VAT tax arrears for January 2011. Moreover, on 25 July 2017, the company filed a claim to the VAC against the decision of the Director of the Fiscal Administration Chamber in Łódź, issued as part of executing the aforementioned verdicts of the VAC and SAC and concerning the method of applying the payment made on 7 January 2015 towards tax arrears for the individual settlement periods from January 2011 to June 2013. The hearing before the Voivodship Administrative Court (VAC) took place on 25 October 2017. The court deferred the announcement of the verdict until 7 November 2017.

Moreover, the company is continuing other appeal procedures within the limits of the provisions of the law, for example: concerning the adjustment of the tax returns for January and February 2011. As regards the filed adjustments of the tax returns the company has a dispute with the Tax Office in Łódź concerning the Office's decision to consider the adjustments of the VAT tax returns for January and February 2011 ineffectual. On 23 August 2017, the VAC issued a verdict concerning the company's claim against the notification of the adjustments of the VAT tax returns for January and February 2011 being ineffectual, repealing the claim by concluding that the claim cannot be granted against this type of notification. On 23 October 2017, the company filed a cassation appeal against this verdict.

46. 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	30.09.2017	31.12.2016	30.09.2016
Cash and balances with the Central Bank	15 910	11 645	14 346
Deposits with the Central Bank	970	1 680	-
Current amounts due from banks	3 637	4 628	3 676
Cash and cash equivalents with restricted availability for use	8	13	13
Total	**20 525**	**17 966**	**18 035**

47. 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 Group's 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 Budget in respect of redemption interest receivable on housing loans.

(IN PLN MILLION)

INCOME DUE TO TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS FROM THE 'OLD' PORTFOLIO	01.01-30.09.2017	01.01-30.09.2016
Income recognized for this period	57	62
Income received in cash	21	21
Difference –'Loans and advances to customers'	**36**	**41**

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 Group is obliged to commence, before the Group 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's Group) 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 Budget on housing loans in the period of nine month ended 30 September 2017 and in the same period in 2016 the commission amounted to PLN 2 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 Budget – PLN 4 million in the period of nine month ended 30 September 2017, PLN 9 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 37 million in the period of nine month ended 30 September 2017 and PLN 21 million in the same period in 2016.

EQUITY RELATED PARTY TRANSACTIONS

All transactions with 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 SEPTEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	61	8	51	23
'Centrum Obsługi Biznesu' Sp z o.o.	26	26	9	-
Bank Pocztowy SA	-	-	-	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	15	-
Total joint ventures and associates	**87**	**34**	**75**	**24**

(IN PLN MILLION)

FOR THE PERIOD ENDED 30 SEPTEMBER 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.	217	211	92	91
Total joint ventures and associates	**217**	**211**	**92**	**91**

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**

FOR THE PERIOD ENDED 30 SEPTEMBER 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.	178	176	83	82
Total joint ventures and associates	**178**	**176**	**83**	**82**

48. FAIR VALUE HIERARCHY

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 30.09.2017	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 excluding derivatives	20	1 838	1 838	-	-
Debt securities		1 815	1 815	-	-
Shares in other entities		20	20	-	-
Investment certificates, shares rights and pre-emptive rights		3	3	-	-
Derivative financial instruments	21	2 572	2	2 570	-
Hedging instruments		676	-	676	-
Trading instruments		1 896	2	1 894	-
Financial instruments designated upon initial recognition at fair value through profit and loss	23	6 395	4 201	2 194	-
Debt securities		4 827	2 633	2 194	-
Participation units		1 568	1 568	-	-
Investment securities available for sale	25	40 176	31 982	6 097	2 097
Debt securities		39 638	31 847	6 097	1 694
Equity securities		233	116	-	117
Participation units in investment funds and shares in joint investment institutions		305	19	-	286
Financial assets measured at fair value - total		**50 981**	**38 023**	**10 861**	**2 097**
Derivative financial instruments	21	2 554	1	2 553	-
Hedging instruments		465	-	465	-
Trading instruments		2 089	1	2 088	-
Financial liabilities measured at fair value - total		**2 554**	**1**	**2 553**	**-**

(IN PLN MILLION)

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 excluding derivatives	20	326	326	-	-
Debt securities		312	312	-	-
Shares in other entities		11	11	-	-
Investment certificates, shares rights and pre-emptive rights		3	3	-	-
Derivative financial instruments	21	2 901	3	2 898	-
Hedging instruments		382	-	382	-
Trading instruments		2 519	3	2 516	-
Financial instruments designated upon initial recognition at fair value through profit and loss	23	13 937	4 620	9 317	-
Debt securities		12 204	2 887	9 317	-
Participation units		1 733	1 733	-	-
Investment securities available for sale	25	36 641	27 344	5 922	3 374
Debt securities		36 142	27 236	5 922	2 984
Equity securities		183	91	-	92
Participation units in investment funds and shares in joint investment institutions		316	18	-	298
Financial assets measured at fair value - total		**53 804**	**32 293**	**18 137**	**3 374**
Derivative financial instruments	21	4 198	1	4 197	-
Hedging instruments		1 135	-	1 135	-
Trading instruments		3 063	1	3 062	-
Financial liabilities measured at fair value - total		**4 198**	**1**	**4 197**	-

IMPACT OF ESTIMATED PARAMETERS ON FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS AT LEVEL 3	30.09.2017		31.12.2016	
	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions	300	272	313	283
Equity securities (Shares of Visa Inc.)	124	92	100	70
Corporate bonds	1 702	1 686	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	01.01-30.09.2017	01.01-30.09.2016
Opening balance at the beginning of the period	3 374	3 635
Total gains or losses	**43**	**(29)**
in financial result	(20)	(71)
in other comprehensive income	63	42
Taking up a new share issue in the Fund	11	68
Taking up of shares in Visa Inc.	-	81
Sale of Visa Europe Limited	-	(337)
Other issues and redemptions (including settlements)	(1 310)	(26)
Reduction of capital involvement in the Fund	(21)	-
Total	**2 097**	**3 392**

(IN PLN MILLION)

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

	level of fair value hierarchy	valuation method	30.09.2017 carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	16 880	16 880
Amounts due from banks	2	discounted cash flows	3 651	3 651
Loans and advances to customers			**205 809**	**202 062**
housing loans	3	discounted cash flows	106 621	102 160
corporate loans	3	discounted cash flows	56 976	55 832
consumer loans	3	discounted cash flows	24 503	26 323
debt securities (corporate)	3	discounted cash flows	2 226	2 150
debt securities (municipal)	3	discounted cash flows	2 502	2 502
amounts due from repurchase agreements	2	discounted cash flows	432	432
finance lease receivables	3	discounted cash flows	12 549	12 662
Investment securities held to maturity	1	market quotation	1 098	1 105
Other financial assets	3	value at cost to pay less impairment allowance	2 482	2 482
Amounts due to the Central Bank	2	value at cost to pay	5	5
Amounts due to banks	2	discounted cash flows	11 098	11 098
Amounts due to customers			**209 683**	**209 617**
due to corporate entities	3	discounted cash flows	50 278	50 276
due to public entities	3	discounted cash flows	9 650	9 650
due to retail customers	3	discounted cash flows	149 755	149 691
Debt securities in issue	1, 2	market quotations / discounted cash flows	21 970	22 309
Subordinated liabilities	2	discounted cash flows	1 705	1 705
Other financial liabilities	3	value at cost to pay	3 020	3 020

(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	13 325	13 325
Amounts due from banks	2	discounted cash flows	5 345	5 344
Loans and advances to customers			**200 606**	**199 126**
housing loans	3	discounted cash flows	106 121	102 351
corporate loans	3	discounted cash flows	52 915	53 731
consumer loans	3	discounted cash flows	23 222	24 701
debt securities (corporate)	3	discounted cash flows	2 283	2 210
debt securities (municipal)	3	discounted cash flows	2 588	2 588
amounts due from repurchase agreements	2	discounted cash flows	1 339	1 339
finance lease receivables	3	discounted cash flows	12 138	12 206
Investment securities held to maturity	1	market quotation	466	466
Other financial assets	3	value at cost to pay less impairment allowance	2 247	2 247
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	19 208	19 211
Amounts due to customers			**205 066**	**205 005**
due to corporate entities	3	discounted cash flows	48 657	48 650
due to public entities	3	discounted cash flows	8 409	8 409
due to retail customers	3	discounted cash flows	148 000	147 946
Debt securities in issue	1, 2	market quotations / discounted cash flows	14 493	14 752
Subordinated liabilities	2	discounted cash flows	2 539	2 526
Other financial liabilities	3	value at cost to pay	3 058	3 058

50. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The Group 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 Group 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)

51. ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS

RECEIVABLES COVERED BY LEASE RECEIVABLES SECURITIZATION

As at 30 September 2017, receivables covered by lease receivables securitization amounted to PLN 1 381 million. They are pledged as collateral for the liabilities in respect of debt securities issued by the special purpose vehicle ROOF Poland Leasing 2014 DAC. Securitized lease receivables are presented as the Group's assets because they do not meet the criteria for derecognition from the statement of financial position specified in IAS 39.19. In particular, the Group is not obliged to pay any amounts to final recipients until it has received the corresponding amounts from lessees. In addition, the criterion of an immediate transfer of cash flows from the securitized assets is not met.

LIABILITIES DUE TO SELL-BUY-BACK TRANSACTIONS

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

CARRYING AMOUNT	30.09.2017	31.12.2016
Debt securities	97	182
Amounts due from repurchase agreements	98	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 September 2017 amounted to PLN 665 million (as at 31 December 2016 amounted to 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/FAIR VALUE	30.09.2017	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

	30.09.2017	31.12.2016
Value of the fund	1 133	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	**1 175**	1 021

(IN PLN MILLION)

FUNDS SECURING CONTRIBUTIONS MADE IN THE FORM OF PAYABLES TO THE BANK GUARANTEE FUND

	30.09.2017
Value of the contribution made in the form of payables	106
Nominal value of the assets in which the funds corresponding to the payables were invested	155
Type of the collateral	Treasury bonds
Maturity of the collateral	25.01.2024
Carrying amount of the collateral	152

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 GROUP LEGAL TITLE

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

TRANSFERRED FINANCIAL ASSETS

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

52. FIDUCIARY ACTIVITIES

Parent Company 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 Bank 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 Bank's and Group criteria of an asset.

53. Other Information

Authority to sell or pledge security set up on behalf of the Group

As at 30 September 2017 and as at 31 December 2016 no security was set up on behalf of the Bank's Group which the Bank's Group would be entitled to sell or further pledge, in the course of exercising its duties of security holder.

Seasonality or cyclic nature of operations in the reporting period

PKO Bank Polski SA is a universal bank operating throughout the country and its operations are subject to the same seasonal changes as the whole Polish economy. The operations of the other PKO Bank Polski SA Group companies also do not show any material traits of seasonality or cyclicity.

Loans drawn and advances, guarantees and warranties agreements not related to operating activities

In the third quarter of 2017 PKO Bank Polski SA and its subsidiaries did not draw loans or advances and did not receive any warranties or guarantees relating to their operating activities.

Significant agreements and material contracts with the Central Bank or the Regulators

In the third quarter of 2017, neither PKO Bank Polski SA nor the subsidiaries of PKO Bank Polski SA concluded any significant agreements or material contracts concerning the granting of guarantees or pledges against any loans or advances.

Position of the Management Board concerning the realization of previously published forecasts concerning the results for the year

PKO Bank Polski SA did not publish its results forecasts for 2017.

Other information which is material for assessing the human resources, asset, financial position of the issuer, its results and respective changes

In the third quarter of 2017, there were no other significant events material for assessing the human resource, asset or financial position and the results of operations of either PKO Bank Polski SA or its subsidiaries.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

54. Risk Management in the Group

Risk management is one the most important internal processes also in PKO Bank Polski SA and in other PKO Bank Polski SA Group entities. 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 and the Group, 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 PKO Bank Polski SA Group, the following types of risk have been identified, which are subject to management and some of them are considered significant[3]

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
INSURANCE[4]	YES

[3] The significance of the individual types of risk is established at the Group's level. When determining criteria of classifying a given type of risk as significant, an influence of the significance of the risk on the Group's activities is taken into account, whereas the following risk types are distinguished: risk considered as significant a priori – being managed actively, potentially significant – for which significance monitoring is performed periodically, other non-defined or non-occurring in the Group types of risk (insignificant and non-monitored). Based on quantitative and qualitative information, an assessment of significance of given types of risk is performed in the Group periodically. As a result of assessment, a given type of risk is being classified as significant/insignificant. In particular, monitoring is conducted if significant change in activities took place or the profile of the Group changed.

[4] The risk is significant only in insurance companies.

In the consolidated financial statements of the PKO Bank Polski SA Group for 2016 and in the report on capital adequacy and other information to be published by the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group as at 31 December 2016, the following elements have been described in details: 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.

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 Group 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.

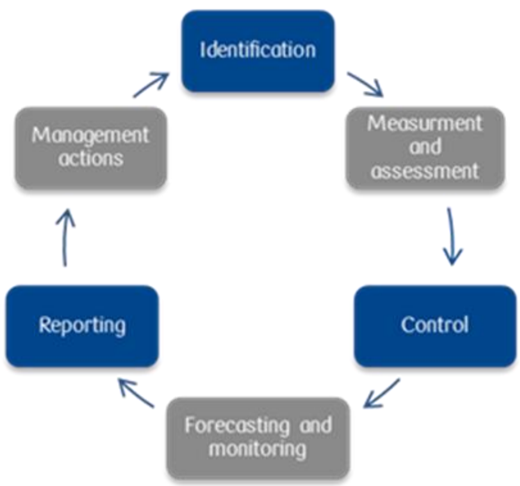
MAIN PRINCIPLES OF RISK MANAGEMENT

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

1) the Group 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 Group's activity and environment in which the Group 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 Group'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 the Group 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 Group. Within the risk identification process, types of risk perceived as material in the Bank's, particular Group companies or the entire Group activity 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 Group (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 Group's operations on its financial position.

- **RISK CONTROL**

Risk control involves determination of tools used for measuring or reducing the level of risk in specific areas of the Group's activity. This includes determination of control mechanisms adjusted to the scale and complexity of the Bank and Group'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**

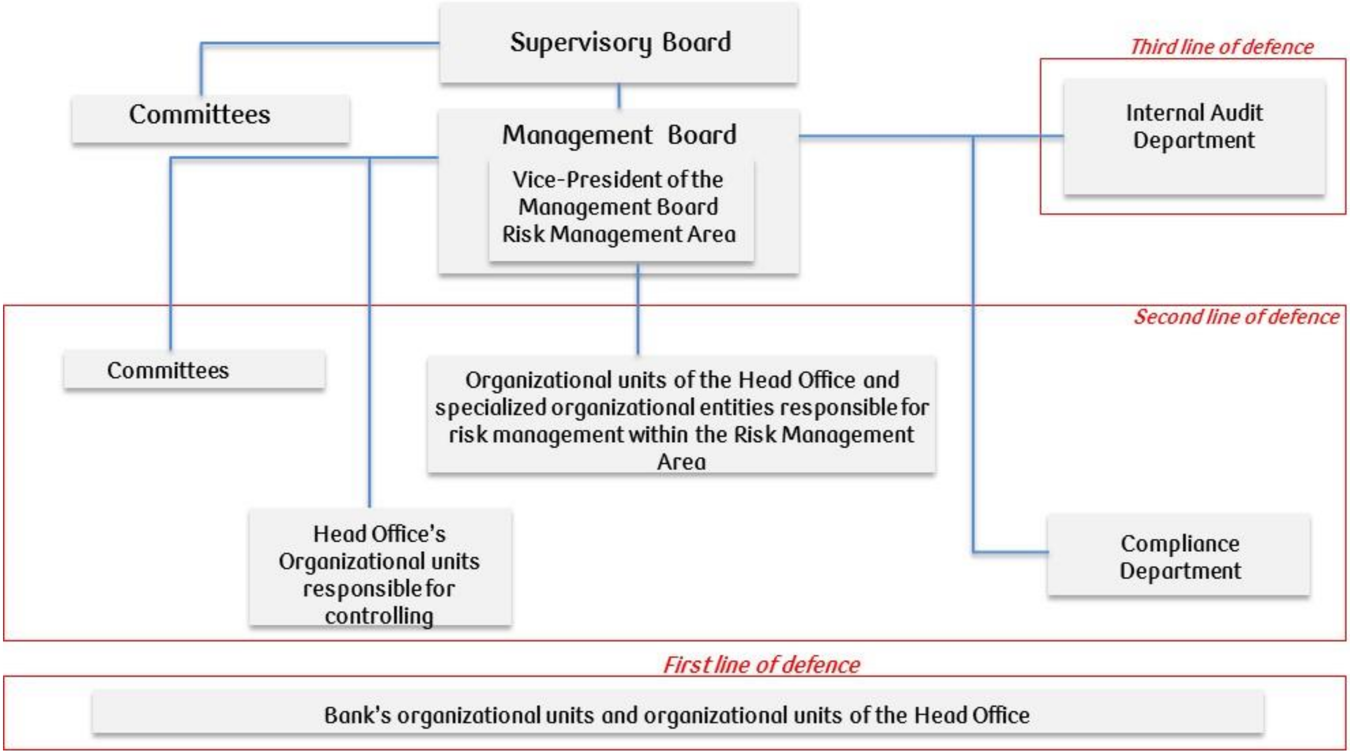
Management actions consist particularly issuing internal regulations affecting the management process of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management.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

THE ORGANIZATION OF RISK MANAGEMENT IN THE GROUP

The Bank supervises activities of the individual subsidiaries of the PKO Bank Polski SA Group. As part of this supervision, the Bank supervises the entities' risk management systems and provides support in the development of these systems. Additionally, it reflects business risk level of the particular entities in the risk reporting and monitoring system of the entire Group.

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 Supervisory Board Remuneration Committee, 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 organizational 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.

The internal regulations concerning management of certain types of risk in the entities of the Group are defined by internal regulations implemented by those entities, after consulting the Bank's opinion and having taken into account the recommendations issued to the entities by the Bank. The internal regulations of the entities concerning risk management allow for consistent and comparable assessment of particular types of risk within the Bank and entities of the Group, as well as reflect the extent and nature of the relationship of entities included in the Group, the nature and scale of the entity's activity and the market on which it operates.

Supervision over risk management in Group companies is effected mainly by involving the organizational units of the Head Office and specialized organizational units or relevant committees operating within the Bank in giving their opinions on Group transactions in accordance with the Bank's separate internal regulations. At least once a year a list of companies which have a material impact on the Group's risk profile is prepared. For those companies it is determined an approach specifying the minimum quantitative strategic risk tolerance limits specific for the given company and the manner of reporting it, in accordance with the Bank's separate internal regulations.

(IN PLN MILLION)

Specific activities in the area of risk management in the Group undertaken in the third quarter of 2017

The Group and PKO Bank Polski SA'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 third quarter of 2017 the Group took the following action:

1) on 25 July 2017, as part of the EMTN programme, the Bank issued own bonds amounting to EUR 750 million with 4-years maturity,
2) on 23 August 2017, the Bank has placed an issuance of 10-year subordinated bonds with a total nominal value of PLN 1 700 million where the Bank has the right to early redemption of all the bonds 5 years after the issue date (28 August 2017) on approval by the PFSA,
3) on 27 September 2017, PKO Bank Hipoteczny SA issued covered bonds of EUR 500 million with the maturity date set at 27 August 2024.

55. Credit risk management

EXPOSURE TO CREDIT RISK - ITEMS OF THE STATEMENT OF FINANCIAL POSITION	30.09.2017	31.12.2016
Current account in the Central Bank	11 524	7 460
Amounts due from banks	3 651	5 345
Trading assets – debt securities	1 815	312
Derivative financial instruments	2 572	2 901
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	4 827	12 204
Loans and advances to customers	205 809	200 606
corporate	56 976	52 915
housing	106 621	106 121
consumer	24 503	23 222
debt securities (corporate)	2 226	2 283
debt securities (municipal)	2 502	2 588
receivables due from repurchase agreements	432	1 339
finance lease receivables	12 549	12 138
Investment securities available for sale - debt securities	39 638	36 142
Investment securities held to maturity	1 098	466
Other assets - other financial assets	2 482	2 247
Total	**273 416**	**267 683**

EXPOSURE TO CREDIT RISK - OFF-BALANCE SHEET ITEMS	30.09.2017	31.12.2016
Irrevocable liabilities granted	30 725	31 078
Guarantees issued	5 638	6 630
Underwriting of securities	4 345	3 701
Letters of credit issued	1 522	1 600
Total	**42 230**	**43 009**

(IN PLN MILLION)

FINANCIAL ASSETS GROSS, WHICH ARE PAST DUE, BUT NOT IMPAIRED	30.09.2017			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	4 629	1 043	304	5 976
Total	**4 629**	**1 043**	**304**	**5 976**

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	3 535	849	178	4 562
Total	**3 535**	**849**	**178**	**4 562**

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.

FINANCIAL ASSETS ASSESSED ON AN INDIVIDUAL BASIS FOR WHICH INDIVIDUAL IMPAIRMENT HAS BEEN RECOGNIZED BY GROSS CARRYING AMOUNT	30.09.2017	31.12.2016
Loans and advances to customers	4 313	5 049
corporate loans	3 447	3 963
housing loans	573	789
consumer loans	218	224
debt securities	75	73
Investment securities available for sale	821	1 297
Total	**5 134**	**6 346**

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

INTERNAL RATING CLASSES

Taking the type of the Group's business activity and the amount of loans and leasing debts into consideration, the most important portfolios are managed by the Bank and PKO Leasing SA.

Exposures to corporate customers 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.

56. Concentration of credit risk at the Group

The Group defines credit concentration risk as one of arising from a considerable exposure to single entities or to group of entities whose repayment capacity depends on a common risk factor. The Group analyses concentration risk in respect of:

1) the largest entities
2) the largest capital groups
3) industries
4) geographical regions
5) currency
6) mortgage secured exposures.

57. Forbearance practices

The Group 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.

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 an exposure with forbearance status to the portfolio of performing loans (conditional period),
- at the end of the conditional period, discussed above, customer does not have a debt overdue more than 30 days,
- timely repayment of at least 12 consecutive instalments.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS

EXPOSURES SUBJECT TO FORBEARANCE IN THE LOAN PORTFOLIO	30.09.2017	31.12.2016
Loans and advances to customers gross, of which:	214 048	208 609
subject to forbearance	4 413	4 132
Impairment allowances on loans and advances to customers, of which:	(8 239)	(8 003)
subject to forbearance	(1 088)	(988)
Loans and advances to customers net, of which:	**205 809**	**200 606**
subject to forbearance	**3 325**	**3 144**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY PRODUCT TYPE	Carrying value	
	30.09.2017	31.12.2016
Loans and advances to customers gross subject to forbearance	**4 413**	**4 132**
corporate loans	2 674	2 262
housing loans	1 454	1 563
consumer loans	285	307
Impairment allowances on loans and advances to customers subject to forbearance	**(1 088)**	**(988)**
Loans and advances to customers net subject to forbearance	**3 325**	**3 144**

INVESTMENT SECURITIES AVAILABLE FOR SALE

EXPOSURES SUBJECT TO FORBEARANCE IN THE PORTFOLIO OF INVESTMENT SECURITIES AVAILABLE FOR SALE	30.09.2017	31.12.2016
Debt securities available for sale gross, of which:	39 886	36 419
subject to forbearance	1 072	1 303
Impairment allowances on investment securities available for sale, of which:	(248)	(277)
subject to forbearance	(245)	(274)
Investment securities available for sale net, of which:	**39 638**	**36 142**
subject to forbearance	**827**	**1 029**

INVESTMENT SECURITIES AVAILABLE FOR SALE SUBJECT TO FORBEARANCE - THE BANK'S EXPOSURE TO CREDIT RISK	Exposure by gross carrying amount	
	30.09.2017	31.12.2016
Investment securities available for sale, impaired	1 072	1 303
Total gross	**1 072**	**1 303**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

58. RISK MANAGEMENT OF FOREIGN CURRENCY MORTGAGE LOANS FOR HOUSEHOLDS

The Group analyses its portfolio of foreign currency mortgage loans to households in a specific manner. The Group 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 Group 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 second 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.

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 = 3.7619)	30.09.2017			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	124	110	234
impaired	-	115	99	214
Assessed on a portfolio basis, impaired	-	21	1 135	1 156
Assessed on a group basis (IBNR)	2	301	25 140	25 443
Loans and advances to customers gross	**2**	**446**	**26 385**	**26 833**
Impairment allowances on exposures assessed on an individual basis, of which:	-	(54)	(48)	(102)
impaired	-	(54)	(48)	(102)
Impairment allowances on exposures assessed on a portfolio basis	-	(16)	(810)	(826)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(3)	(60)	(63)
Impairment allowances - total	**-**	**(73)**	**(918)**	**(991)**
Loans and advances to customers net	**2**	**373**	**25 467**	**25 842**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY IMPAIRMENT CALCULATION METHOD (translated into PLN at the exchange rate as at 1 CHF = 4.1173)	31.12.2016			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	247	166	413
impaired	-	220	137	357
Assessed on a portfolio basis, impaired	-	26	1 184	1 210
Assessed on a group basis (IBNR)	5	361	29 361	29 727
Loans and advances to customers gross	**5**	**634**	**30 711**	**31 350**
Impairment allowances on exposures assessed on an individual basis, of which:	-	(90)	(64)	(154)
impaired	-	(63)	(64)	(127)
Impairment allowances on exposures assessed on a portfolio basis	-	(19)	(793)	(812)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(2)	(70)	(72)
Impairment allowances - total	-	**(111)**	**(927)**	**(1 038)**
Loans and advances to customers net	**5**	**523**	**29 784**	**30 312**

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR)	30.09.2017		
	PLN	CHF	Other currencies
Loans and advances to customers gross	159 333	25 443	16 061
past due	4 038	603	1 038
not past due	155 295	24 840	15 023
Impairment allowances on exposures assessed on a group basis (IBNR)	(535)	(63)	(174)
past due	(146)	(31)	(17)
not past due	(389)	(32)	(157)
Loans and advances to customers net	**158 798**	**25 380**	**15 887**

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR)	31.12.2016		
	PLN	CHF	Other currencies
Loans and advances to customers gross	147 632	29 727	17 516
past due	3 149	658	510
not past due	144 483	29 069	17 006
Impairment allowances on exposures assessed on a group basis (IBNR)	(457)	(72)	(100)
past due	(147)	(35)	(11)
not past due	(310)	(37)	(89)
Loans and advances to customers net	**147 175**	**29 655**	**17 416**

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR) SUBJECT TO FORBEARANCE BY CURRENCIES	30.09.2017		
	PLN	CHF	Other currencies
Gross loans and advances to customers subject to forbearance	1 139	486	293
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(60)	(17)	(10)
Loans and advances to customers net subject to forbearance	**1 079**	**469**	**283**

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 subject to forbearance	941	557	162
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(33)	(21)	(7)
Loans and advances to customers net subject to forbearance	**908**	**536**	**155**

As at 30 September 2017, the average LTV for loan portfolio in CHF amounted to 72.44% (as at 31 December 2016: 82.7%) - compared to the average LTV for the whole portfolio amounting to 64.52% (as at 31 December 2016: 69.5%).

59. 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 third quarter of 2017 and 2016, the Group had a positive cumulative gap in PLN in all the time horizons.

SENSITIVITY MEASURES

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

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

NAME OF SENSITIVITY MEASURE	30.09.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)*	354	269
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)**	2 053	2 059

* Due to the nature of the activities carried out by the other Group entities generating interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 10.7 million as at 30 September 2017 and PLN 8.9 million as at 31 December 2016.

** 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.

60. 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	30.09.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)*	3	10
Change in CUR/PLN by 20% (in PLN million) (stress-test)**	176	25

* Due to the nature of the activities carried out by the other Group entities generating significant currency risk as well as a the specific nature of the market on which they operate, the Parent company does not calculate consolidated VaR. These companies apply their own risk measures in the currency risk management. KREDOBANK SA uses the 10-day VaR, which amounted to approx. PLN 0.07 million as at 30 September 2017 and PLN 0.35 million as at 31 December 2016.

** 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 Group's currency positions is a key factor determining the level of currency risk on which the Group is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Group, both in the statement of financial position and off-balance sheet transactions. The Bank's exposure to currency risk is low (with regard to own funds, VaR for a 10-day time horizon for the Bank's foreign position as at 30 September 2017 amounted to approx. 0.01% and as at 31 December 2016 0.03%).

CURRENCY POSITION	30.09.2017	31.12.2016
EUR	(239)	(170)
USD	(41)	30
CHF	(17)	(36)
GBP	4	9
Other (Global Net)	73	89

61. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAPS

Liquidity gaps presented below include the sum of Bank's adjusted liquidity gap (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) and contractual liquidity gap of the other Group entities.

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
30.09.2017								
The Group - adjusted periodic gap in real terms	20 011	24 475	(347)	2 026	8 308	7 942	26 200	(88 615)
The Group - adjusted cumulative periodic gap in real terms	20 011	44 486	44 139	46 165	54 473	62 415	88 615	-

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
31.12.2016								
The Group - adjusted periodic gap in real terms	11 983	28 501	493	579	6 582	11 193	24 592	(83 923)
The Group - adjusted cumulative periodic gap in real terms	11 983	40 484	40 977	41 556	48 138	59 331	83 923	-

In all time horizons, the Group's cumulative adjusted liquidity gap in real terms, which has been determined as a sum of adjusted liquidity gap in real terms of the Bank and contractual liquidity gaps of the remaining Group entities, as at 30 September 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	30.09.2017	31.12.2016
Liquidity reserve up to 1 month* (in PLN billion)	30	31
Liquidity surplus in a horizon of up to 30 days** (in PLN billion)	10	13

* Liquidity reserve – gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.
** Liquidity surplus – 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	30.09.2017	31.12.2016
M1 - short-term liquidity gap	16 776	24 464
M2 - short-term liquidity ratio	1.53	1.89
M3 - coverage ratio of non-liquid assets by own funds	13.38	11.63
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.17	1.19
LCR - liquidity coverage ratio	133.7%	136.3%

In the period ended 30 September 2017 and 2016 supervisory measures ratios remained above the supervisory limits. LCR indicator shows the value for the Group in the table above.

Permanent balances on deposits

As at 30 September 2017 the level of permanent balances on deposits constituted approx. 94.3% of all deposits in the Bank (excluding interbank market), which means an increase by approximately 0.4 p.p. as compared to the end of 2016.

62. Capital Adequacy

The management of capital adequacy is a process whose objective is to ensure that the level of risk which the Bank and the Group 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 Group and the capital planning process, including the policy concerning the sources of acquisition of capital.

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

The process of managing the Group's capital adequacy comprises:
- specifying and pursuing the Group'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 Group's own funds,
- capital emergency action,
- allocating own funds and internal capital requirements to business areas and customer segments in the Bank as well as the individual Group companies,
- assessing the profitability of the individual business areas and customer segments.

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 Group and the Bank amounts to:

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

At the same time, the Group and the Bank are obliged to abide by additional requirements imposed by the PFSA and requirements following from the Act on macroprudential supervision. The Group and the Bank maintained capital adequacy at a safe level, above the supervisory and regulatory limits. As at 30 September 2017 the Group's TCR was 17.68%, and CET1 was 16.77%.

Pursuant to CRR, for prudential consolidation purposes the Group comprises: PKO Bank Polski SA, the PKO Leasing SA Group, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, the KREDOBANK SA Group, PKO Finance AB, Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., PKO BP Finat Sp. z o.o., PKO Bank Hipoteczny SA, Bankowe Towarzystwo Kapitałowe SA and 'Inter-Risk Ukraina' Additional Liability Company.

OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

The PKO Bank Polski Group maintained a safe capital base, above the supervisory and regulatory limits.

The increase in own funds between 31 December 2016 and 30 September 2017 resulted from:

- a decision made on 22 June 2017 by the Ordinary General Shareholders' Meeting of the Bank on distributing the Bank's profit for 2016 between reserve capital and reserves, without designating any amount for payment of dividend (PLN 2 888 million already recognized in own funds as at 30 June 2017);
- authorization obtained by the Bank on 21 September 2017 to include the net profit of PKO Bank Polski SA for the first half of 2017, less anticipated charges, (PLN 1 118 million) in Tier 1 basic capital;
- and approval of the new issue of the Bank's subordinated bonds in the amount of PLN 1 700 million, obtained on 30 August 2017.

At the same time, after obtaining the required approvals from the PFSA, the Bank exercised the call option concerning subordinated bonds in an amount of PLN 1 600 million and made an early repayment of a subordinated loan with a value of CHF 224 million (the equivalent of PLN 884 million). Both these instruments were included in Tier 2 capital as at 31 December 2016. They are not included in the Group's own funds from the moment of obtaining the said approvals.

Requirements as regard own funds (Pillar I)

The Group'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 foreign branches in Germany and in the Czech Republic, • in accordance with the BIA approach – with respect to the activities of the Branch in Germany and Branch in the Czech Republic and activities of the Group's entities included in prudential consolidation.
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 in the CRR Regulation, • exceeding a large exposure limit – calculated under the approach set out 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 the CRR Regulation).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

	30.09.2017	31.12.2016
Total own funds	**33 197**	**30 873**
Tier 1 capital	**31 497**	**28 350**
Tier 1 capital before regulatory adjustments and reductions, of which:	34 566	32 060
Share capital	1 250	1 250
Other reserves	30 891	27 970
General risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings	1 355	1 770
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 636)	(1 821)
Accumulated other comprehensive income	(208)	(709)
Deferred income tax assets, dependent on future profitability, not derived from temporary differences	-	(1)
Adjustments in Tier 1 basic capital due to prudential filters	(1)	30
Other adjustments in transitional period in Tier 1 basic capital	(65)	(49)
Tier 2 capital	**1 700**	**2 523**
Equity instruments and subordinated loans eligible as Tier 2 capital	1 700	2 523
Requirements as regard own funds	**15 023**	**15 626**
Credit risk	13 843	14 271
Operational risk	649	657
Market risk	500	651
Credit valuation adjustment risk	31	47
Total capital adequacy ratio	**17.68%**	**15.81%**
Tier 1 capital ratio	**16.77%**	**14.51%**

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 each entity of the Group is the sum of internal capital amount necessary to cover all of the significant risks for the entity. The total internal capital of the Group is the sum of internal capital amount of the Bank and all Group entities. The Bank adopts a prudent approach to the aggregation of risks and does not rely on the diversification effect.

In the third quarter of 2017, the relation of the Group'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.

63. INFORMATION ON SECURITISATION OF LEASE PORTFOLIO AND RECEIVABLE PACKAGE SALE

In connection with the acquisition of Raiffeisen-Leasing Polska SA and its subsidiaries (for details, see note Acquisition of Raiffeisen-Leasing Polska SA by PKO Leasing SA), the Group consolidated a special purpose vehicle ROOF Poland Leasing 2014 DAC with its registered office in Ireland. The SPV (Special Purpose Vehicle) is buying securitized receivables resulting from lease agreements sold by Raiffeisen-Leasing Polska SA (since 28 April 2017 – by PKO Leasing SA) under the securitization plan which was initiated in December 2014. The receivables acquired by the SPV were financed by an issue of securities. The objective and benefit of selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

Moreover, in the period of nine months of 2017 the Group conducted package sales of more than 6.7 thousand balance sheet and off-balance sheet receivables from retail and business customers whose total debt amounted to approx. PLN 555 million. The total carrying amount of provisions for potential claims in respect of the sale of receivables as at 30 September 2017 amounted to PLN 2.1 million (as at 31 December 2016: PLN 2.9 million). All risks and benefits were transferred upon the sale of the receivables; therefore, the Group ceased to recognize these assets. The Group did not receive any securities as a result of the above-mentioned transactions.

STANDALONE FINANCIAL DATA

INCOME STATEMENT

	Note	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Interest and similar income	1	2 562	7 486	2 397	7 045
Interest expense and similar charges	1	(530)	(1 587)	(523)	(1 576)
Net interest income		**2 032**	**5 899**	**1 874**	**5 469**
Fee and commission income	2	933	2 686	810	2 421
Fee and commission expense	2	(241)	(678)	(194)	(620)
Net fee and commission income		**692**	**2 008**	**616**	**1 801**
Dividend income	3	5	129	5	154
Net income/expense from financial instruments measured at fair value	4	(5)	(3)	29	11
Gains less losses from investment securities	5	18	17	25	502
Net foreign exchange gains (losses)	6	103	307	142	352
Other operating income	7	22	80	35	87
Other operating expense	7	(22)	(68)	(22)	(83)
Net other operating income and expense		-	**12**	**13**	**4**
Net impairment allowance and write-downs	8	(363)	(1 108)	(409)	(1 162)
Administrative expenses	9	(1 202)	(3 806)	(1 237)	(3 735)
Tax on certain financial institutions	10	(223)	(673)	(223)	(591)
Operating profit		**1 057**	**2 782**	**835**	**2 805**
Profit before income tax		**1 057**	**2 782**	**835**	**2 805**
Income tax expense	11	(269)	(743)	(237)	(634)
Net profit		**788**	**2 039**	**598**	**2 171**
Earnings per share	12				
– basic earnings per share for the period (in PLN)		0.63	1.63	0.48	1.74
– diluted earnings per share for the period (in PLN)		0.63	1.63	0.48	1.74
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	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Net profit		**788**	**2 039**	**598**	**2 171**
Other comprehensive income		**128**	**511**	**(22)**	**(191)**
Items that may be reclassified to the income statement		**128**	**511**	**(22)**	**(191)**
Cash flow hedges (gross)	17	78	104	(88)	126
Deferred tax	11; 17	(15)	(20)	17	(24)
Cash flow hedges (net)		63	84	(71)	102
Unrealized net gains on financial assets available for sale (gross)		81	527	60	(362)
Deferred tax	11	(16)	(100)	(11)	69
Unrealized net gains on financial assets available for sale (net)		65	427	49	(293)
Total net comprehensive income		**916**	**2 550**	**576**	**1 980**

STATEMENT OF FINANCIAL POSITION

	Note	30.09.2017	31.12.2016
ASSETS			
Cash and balances with the Central Bank	13	16 823	13 277
Amounts due from banks	14	5 287	8 471
Trading assets excluding derivative financial instruments	15	1 881	358
Derivative financial instruments	16	2 598	2 895
Financial assets designated upon initial recognition at fair value through profit and loss	18	4 513	11 744
Loans and advances to customers	19	190 132	189 067
Investment securities available for sale	20	38 882	35 773
Investment securities held to maturity	21	908	157
Investments in subsidiaries, joint ventures and associates	32	2 889	2 535
Non-current assets held for sale	22	370	361
Intangible assets	23	2 609	2 817
Tangible fixed assets	23	2 138	2 325
Deferred income tax assets	11	895	1 034
Other assets	24	2 062	2 143
TOTAL ASSETS		**271 987**	**272 957**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		5	4
Amounts due to banks	25	10 895	18 717
Derivative financial instruments	16	2 576	4 230
Amounts due to customers	26	213 780	209 371
Debt securities in issue	27	3 895	1 693
Subordinated liabilities	28	1 705	2 539
Other liabilities	29	3 504	3 340
Current income tax liabilities		302	251
Provisions	30	186	223
TOTAL LIABILITIES		**236 848**	**240 368**
Equity			
Share capital	31	1 250	1 250
Other capital	31	31 850	28 451
Net profit for the period	31	2 039	2 888
TOTAL EQUITY		**35 139**	**32 589**
TOTAL LIABILITIES AND EQUITY		**271 987**	**272 957**
Capital adequacy ratio	44	19.71%	17.19%
Book value (in PLN million)		35 139	32 589
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		28.11	26.07
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		28.11	26.07

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

STATEMENT OF CHANGES IN EQUITY

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 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:	-	-	-	-	427	84	-	511	-	2 039	2 550
Net profit	-	-	-	-	-	-	-	-	-	2 039	2 039
Other comprehensive income	-	-	-	-	427	84	-	511	-	-	511
Transfer from undistributed profits	-	2 850	-	38	-	-	-	2 888	(2 888)	-	-
As at 30 September 2017	1 250	27 118	1 070	3 593	85	(5)	(11)	31 850	-	2 039	35 139

FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 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:	-	-	-	-	(293)	102	-	(191)	-	2 171	1 980
Net profit	-	-	-	-	-	-	-	-	-	2 171	2 171
Other comprehensive income	-	-	-	-	(293)	102	-	(191)	-	-	(191)
Transfer from undistributed profits	-	2 500	-	71	-	-	-	2 571	(2 571)	-	-
As at 30 September 2016	1 250	23 018	1 070	3 555	(148)	45	(13)	27 527	1 250	2 171	32 198

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017 (IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	01.01-30.09.2017	01.01-30.09.2016
Cash flows from operating activities			
Profit before income tax		**2 782**	**2 805**
Adjustments:		**8 033**	**4 682**
Amortization and depreciation		545	537
(Gains) losses from investing activities		(11)	(8)
Interest and dividends		(477)	(275)
Change in:			
amounts due from banks		2 125	(2 149)
financial instruments designated upon initial recognition at fair value through profit and loss and trading assets		5 708	(1 004)
derivative financial instruments		(1 357)	494
loans and advances to customers		(1 310)	2 996
other assets and non-current assets held for sale		64	(772)
amounts due to banks		(1 421)	861
amounts due to customers		4 829	5 281
provisions and impairment allowances		203	(112)
other liabilities		164	8
Income tax paid		(672)	(586)
Other adjustments		(357)	(589)
Net cash generated from operating activities		**10 815**	**7 487**
Cash flows from investing activities			
Inflows from investing activities		**43 820**	**49 011**
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		43 656	48 759
Proceeds from sale of intangible assets and tangible fixed assets		35	49
Other investing inflows (dividends)		125	153
Outflows from investing activities		**(46 236)**	**(54 375)**
Purchase of a subsidiary		(14)	-
Increase in equity of a subsidiary		(365)	(422)
Increase in equity of associates		-	(1)
Purchase of investment securities		(45 668)	(53 518)
Purchase of intangible assets and tangible fixed assets		(189)	(434)
Net cash used in investing activities		**(2 416)**	**(5 364)**
Cash flows from financing activities			
Proceeds from debt securities in issue		3 810	1 854
Proceeds from subordinated bonds in issue		1 700	-
Redemption of debt securities		(1 669)	(1 741)
Repayment of liabilities from a subordinated loan		(880)	-
Repayment of liabilities from subordinated bonds in issue		(1 656)	-
Repayment of loans and advances		(6 820)	(1 157)
Repayment of interest from long-term borrowings		(402)	(423)
Net cash used in financing activities		**(5 917)**	**(1 467)**
Net cash flows		**2 482**	**656**
of which currency translation differences on cash and cash equivalents		(170)	10
Cash and cash equivalents at the beginning of the period		17 568	17 190
Cash and cash equivalents at the end of the period	34	20 050	17 846
of which restricted		8	13

(IN PLN MILLION)

NOTES TO THE INCOME STATEMENT

1. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
loans and other advances to banks	54	150	44	110
loans and advances to customers, of which:	2 103	6 125	1 996	5 874
on impaired loans	61	178	66	203
investment securities	244	742	205	580
derivative hedging instruments	109	285	78	260
financial assets designated upon initial recognition at fair value through profit and loss	42	151	53	162
trading assets excluding derivative financial instruments	10	33	20	55
other	-	-	1	4
Total	**2 562**	**7 486**	**2 397**	**7 045**

INTEREST EXPENSE AND SIMILAR CHARGES ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
amounts due to banks	(38)	(103)	(28)	(71)
amounts due to customers	(442)	(1 343)	(424)	(1 327)
debt securities in issue and subordinated liabilities	(25)	(67)	(25)	(72)
debt securities available for sale	(19)	(57)	(24)	(56)
trading assets excluding derivative financial instruments	(3)	(8)	(14)	(29)
financial assets designated upon initial recognition at fair value through profit and loss	(3)	(9)	(8)	(21)
Total	**(530)**	**(1 587)**	**(523)**	**(1 576)**

2. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
payment and credit cards	307	821	244	743
maintenance of bank accounts	206	630	217	648
loans and advances granted	156	478	150	456
offering insurance products	30	76	16	40
maintenance of investment funds and OPF (including management fees)	99	279	73	202
cash transactions	22	66	23	69
servicing foreign mass transactions	25	75	23	64
brokerage activities and issue arrangement	55	157	31	99
investment and insurance products	3	11	4	11
sale and distribution of court fee stamps	1	4	4	9
customer orders	11	32	11	32
fiduciary services	2	5	1	3
other	16	52	13	45
Total	**933**	**2 686**	**810**	**2 421**

(IN PLN MILLION)

FEE AND COMMISSION EXPENSE ON:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
card activities	(164)	(444)	(118)	(400)
commission paid to external entities for sales of product	(23)	(67)	(25)	(66)
cost of construction investment supervision and property valuation	(11)	(32)	(10)	(30)
settlement services	(6)	(23)	(4)	(22)
fee and commissions for operating services provided by banks	(3)	(12)	(4)	(12)
sending text messages (SMS)	(5)	(15)	(4)	(11)
fees incurred by the Brokerage House	(4)	(15)	(4)	(11)
other	(25)	(70)	(25)	(68)
Total	**(241)**	**(678)**	**(194)**	**(620)**

3. Dividend income

DIVIDEND INCOME	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
from the issuers not related to the Bank, of which:	1	12	1	10
investment securities available for sale	1	11	-	9
trading assets	-	1	1	1
from subsidiaries, joint ventures and associates, of which:	4	117	4	144
PKO Towarzystwa Funduszy Inwestycyjnych SA	-	60	-	56
CEUP eService Sp. z o.o.	4	7	4	4
PKO BP Bankowy PTE SA	-	5	-	7
PKO BP Finat Sp. z o.o.	-	45	-	76
PKO Finance AB	-	-	-	1
Total	**5**	**129**	**5**	**154**

4. Net income/expense from financial instruments measured at fair value

NET INCOME/EXPENSE FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE:	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Debt instruments	(5)	1	14	21
Equity instruments	3	2	(2)	(2)
Derivative instruments (including an ineffective portion related to cash flow hedges)	(3)	(6)	17	(13)
Other	-	-	-	5
Total	**(5)**	**(3)**	**29**	**11**

(IN PLN MILLION)

5. Gains less losses from investment securities available for sale

GAINS LESS LOSSES FROM INVESTMENT SECURITIES	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Equity securities*	1	1	-	419
Debt securities	17	16	25	83
Total	**18**	**17**	**25**	**502**

* 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' in the consolidated financial statements of the PKO Bank Polski SA Group for 2016).

6. Net foreign exchange gains (losses)

Net 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 portion of the cash flow hedge, where CIRS contracts are the hedging instruments.

Impairment allowances on loan and advance 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).

NET FOREIGN EXCHANGE GAINS (LOSSES)	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Net foreign exchange gains (losses)	103	307	142	352
Total	**103**	**307**	**142**	**352**

7. Other operating income and expense

OTHER OPERATING INCOME	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
gains on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	7	23	15	28
sundry income	7	20	6	19
recovery of expired and written-off receivables	-	2	4	6
other	8	35	10	34
Total	**22**	**80**	**35**	**87**

(IN PLN MILLION)

OTHER OPERATING EXPENSE	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
losses on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(1)	(12)	(6)	(20)
donations	(6)	(19)	-	(14)
sundry expense	(3)	(12)	(4)	(12)
other	(12)	(25)	(12)	(37)
Total	**(22)**	**(68)**	**(22)**	**(83)**

8. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS	Note	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Investment securities available for sale	20	(1)	(12)	-	(40)
Loans and advances to customers	19	(364)	(1 057)	(367)	(1 069)
Non-current assets held for sale		(2)	(5)	(1)	(7)
Tangible fixed assets		-	(1)	1	1
Investments in subsidiaries, associates and joint ventures		(10)	(25)	(14)	(14)
Other receivables (other assets)		(1)	(13)	(5)	(7)
Provision for legal claims, loan commitments and guarantees granted	30	15	5	(22)	(26)
Provision for future liabilities (Other provisions)	30	-	-	(1)	-
Total		**(363)**	**(1 108)**	**(409)**	**(1 162)**

9. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Employee benefits	(664)	(1 980)	(646)	(1 927)
Overheads	(296)	(890)	(290)	(906)
Amortization and depreciation	(182)	(545)	(179)	(537)
Contributions to the Bank Guarantee Fund (BGF)	(48)	(353)	(109)	(327)
Taxes and other charges	(12)	(38)	(13)	(38)
Total	**(1 202)**	**(3 806)**	**(1 237)**	**(3 735)**

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).

(IN PLN MILLION)

EMPLOYEE BENEFITS	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Wages and salaries, of which:	(558)	(1 650)	(546)	(1 602)
expenses on employee pension programme	(12)	(36)	(12)	(35)
Social insurance, of which:	(90)	(282)	(83)	(270)
contributions to retirement pay and pensions	(71)	(234)	(71)	(229)
Other employee benefits	(16)	(48)	(17)	(55)
Total	**(664)**	**(1 980)**	**(646)**	**(1 927)**

10. Tax on certain financial institutions

The tax on certain financial institutions was paid for the first time for February 2016.

	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Tax on certain financial institutions	(223)	(673)	(223)	(591)

11. Income tax

INCOME TAX EXPENSE

	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Current income tax expense	(248)	(724)	(295)	(813)
Deferred income tax related to temporary differences	(21)	(19)	58	179
Income tax expense recognized in the income statement	**(269)**	**(743)**	**(237)**	**(634)**
Income tax expense recognized in other comprehensive income related to temporary differences	(31)	(120)	6	45
Total	**(300)**	**(863)**	**(231)**	**(589)**

	01.01-30.09.2017	01.01-30.09.2016
Profit before income tax	2 782	2 805
Tax calculated using the enacted tax rate (19%) in force in Poland	(529)	(533)
Permanent differences between profit before income tax and taxable income, of which:	(219)	(142)
Tax on certain financial institutions	(128)	(112)
Contribution to the BGF	(67)	(20)
Non-tax-deductible impairment allowances on loans and advances	(19)	(16)
Recognizing a non-tax-deductible impairment allowance on investments in subsidiaries, associates and joint ventures	(5)	(3)
Dividend income	25	29
Other permanent differences	(25)	(20)
Other differences between profit before income tax and taxable income, including new technologies tax relief and donations	5	41
Income tax expense recognized in the income statement	**(743)**	**(634)**
Effective tax rate	**26.7%**	**22.6%**

DEFERRED TAX LIABILITIES	31.12.2016	Income statement	Other comprehensive income	30.09.2017
Interest accrued on receivables (loans)	237	(1)	-	236
Capitalized interest on performing housing loans	118	(8)	-	110
Interest on securities	43	1	-	44
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets and other differences	329	14	-	343
Gross deferred tax liability	**727**	**6**	**-**	**733**
DEFERRED TAX ASSETS				
Interest accrued on liabilities	105	(13)	-	92
Valuation of derivative financial instruments	186	(102)	(20)	64
Valuation of securities	134	(10)	(100)	24
Provision for employee benefits	84	(3)	-	81
Impairment allowances on loan exposures	596	71	-	667
Adjustment of straight-line valuation method and effective interest rate	572	41	-	613
Other temporary negative differences	84	3	-	87
Gross deferred tax assets	**1 761**	**(13)**	**(120)**	**1 628**
DEFERRED TAX ASSETS (presented in the statement of financial position)	**1 034**	**(19)**	**(120)**	**895**

12. Earnings per share

EARNINGS PER SHARE	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Net profit	788	2 039	598	2 171
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)	0.63	1.63	0.48	1.74

During the nine-month period of 2017 as well as during the nine-month period of 2016 there were no dilutive instruments per share. 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

13. Cash and balances with the Central Bank

CASH AND BALANCES WITH THE CENTRAL BANK	30.09.2017	31.12.2016
Current account in the Central Bank	11 523	7 444
Cash on hand	4 330	4 153
Deposits with the Central Bank	970	1 680
Total	**16 823**	**13 277**

14. Amounts due from banks

AMOUNTS DUE FROM BANKS	30.09.2017	31.12.2016
Deposits with banks	2 424	3 851
Amount due from PKO Bank Hipoteczny SA for the sale of mortgage secured housing loans by the Bank	970	3 038
Current accounts	795	429
Loans and advances granted	1 098	492
Receivables due from repurchase agreements	-	661
Gross total	**5 287**	**8 471**
Net total	**5 287**	**8 471**

AMOUNTS DUE FROM BANKS - EXPOSURE TO CREDIT RISK	Exposure	
	30.09.2017	31.12.2016
Amounts due from banks not impaired, not past due	5 287	8 471
Gross total	**5 287**	**8 471**
Net total	**5 287**	**8 471**

15. Trading assets excluding derivative financial instruments

TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	30.09.2017	31.12.2016
Debt securities	1 858	344
Treasury bonds PLN	1 601	186
foreign currency Treasury bonds	74	6
municipal bonds PLN	31	42
corporate bonds PLN	108	76
foreign currency corporate bonds	1	2
covered bonds	43	32
Shares in other entities – listed on stock exchange	20	11
Investment certificates, rights to shares, pre-emptive rights	3	3
Total	**1 881**	**358**

(IN PLN MILLION)

16. Derivative financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	720	485	382	1 163
Other derivative instruments	1 878	2 091	2 513	3 067
Total	**2 598**	**2 576**	**2 895**	**4 230**

TYPES OF CONTRACT	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	1 128	1 255	1 388	2 098
CIRS	644	530	570	1 423
FX Swap	275	164	205	164
Options	343	294	443	341
Commodity swap	115	114	97	96
FRA	2	1	2	2
Forward	90	218	177	106
Other	1	-	13	-
Total	**2 598**	**2 576**	**2 895**	**4 230**

17. Derivative hedging instruments

The Bank applies hedge accounting when all the terms and conditions below have been met:

1) upon setting up the hedge, a hedge relationship, the purpose of risk management by the entity as well as the hedging strategy were officially established and documented,
2) a hedge is expected to be highly effective,
3) the planned hedged transaction must be highly probable and must be exposed to variability of cash flows risk which may, as a result, have an impact on the income statement,
4) the effectiveness of a hedge may be reliably assessed,
5) the hedge is assessed on a current basis and its high effectiveness in all reporting periods for which the hedge had been established is confirmed.

As at 30 September 2017 and as at 31 December 2016 the Bank did not use fair value hedges.

DISCONTINUING HEDGE ACCOUNTING:

- **A HEDGE INSTRUMENT EXPIRES, IS SOLD, RELEASED OR EXERCISED –** accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs,

- **THE HEDGE CEASES TO MEET THE HEDGE ACCOUNTING CRITERIA -** accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective are recognized in a separate item in other comprehensive income until the planned transaction occurs,

- **THE PLANNED TRANSACTION IS NO LONGER CONSIDERED PROBABLE -** all the accumulated gains or losses related to the hedging instrument which were recognized directly in other comprehensive income over the period in which the hedge was effective, are recognized in the income statement,

Cash flow hedges

Changes in the fair value of a derivative financial instrument designated as a cash flow hedge are recognized directly in other comprehensive income in respect of the portion constituting the effective portion of the hedge. The ineffective portion of a hedge is recognized in the income statement in the item 'Net income/expense from financial instruments designated at fair value' in respect of IRS instruments or under 'Net foreign exchange gains/losses' in respect of CIRS instruments.

Amounts transferred directly to other comprehensive income are transferred to the income statement in the same period or periods in which the hedged planned transaction affects the income statement. Interest and foreign exchange differences are shown in the income statement, in 'Net interest income' and 'Net foreign exchange gains (losses)', respectively.

All types of hedging relationships applied by the Bank are cash flow hedge accounting (macro cash flow hedge).

The effectiveness tests comprise the valuation of hedging transactions, net of interest accrued and currency translation differences on the nominal value of the hedging transactions (in case of CIRS transactions).

Hedge effectiveness is verified through the use of prospective and retrospective effectiveness tests. Tests are performed on a monthly basis.

Types of hedging strategies applied by the Bank

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: October 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: October 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 September 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 CONVERTIBLE 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 CONVERTIBLE CURRENCY, RESULTING FROM CONVERTIBLE EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations of floating interest rate loans in convertible 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 convertible currency, resulting from convertible 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 or fixed EUR 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: October 2017 – September 2022

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE 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: October 2017 – March 2021

STRATEGY 6	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, 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, for which they were concluded 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: October 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: October 2017 – January 2023

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: October 2017 – July 2023

STRATEGY 9	HEDGING CASH FLOW FLUCTUATIONS ON MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVINGS BANKING PRODUCTS DENOMINATED IN PLN, RESULTING FROM THE RISK OF INTEREST RATE FLUCTUATIONS AND FOREIGN EXCHANGE RATE RISK, USING TWO HEDGING INSTRUMENTS: CIRS AND CIRS-EP.
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of risk of cash flows fluctuations in cash flows generated by mortgage loans denominated in convertible currencies and regular savings banking products denominated in PLN, with a fluctuating interest rate, resulting from fluctuations in the reference interest rates and in foreign exchange rates, using two hedging instruments: CIRS and CIRS-EP, in the period covered by the hedge.
HEDGED RISK	currency 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 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: October 2017 – August 2024

(IN PLN MILLION)

CARRYING AMOUNT (FAIR VALUE) OF DERIVATIVE HEDGING INSTRUMENTS	30.09.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	133	30	90	32
CIRS	587	455	292	1 131
Total	**720**	**485**	**382**	**1 163**

CHANGE IN OTHER COMPREHENSIVE INCOME RELATED TO CASH FLOW HEDGES AND INEFFECTIVE PORTION OF CASH FLOW HEDGES	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017	third quarter period from 01.07.2016 to 30.09.2016	3 quarters cumulative period from 01.01.2016 to 30.09.2016
Other comprehensive income at the beginning of the period, gross	**(83)**	**(109)**	**143**	**(71)**
Gains/losses transferred to other comprehensive income in the period	465	1 360	158	207
Amount transferred from other comprehensive income to the income statement, of which:	(387)	(1 256)	(246)	(81)
- interest income	(109)	(285)	(78)	(260)
- net foreign exchange gains (losses)	(278)	(971)	(168)	179
Accumulated other comprehensive income at the end of the period, gross	**(5)**	**(5)**	**55**	**55**
Tax effect	-	-	(10)	(10)
Accumulated other comprehensive income at the end of the period, net	**(5)**	**(5)**	**45**	**45**
Impact on other comprehensive income in the period, gross	**78**	**104**	**(88)**	**126**
Tax effect	(15)	(20)	17	(24)
Impact on other comprehensive income in the period, net	**63**	**84**	**(71)**	**102**
An ineffective portion related to cash flow hedges recognized in the income statement, of which the amount related to:	**1**	**5**	**(6)**	**(8)**
Net foreign exchange gains (losses)	1	4	-	-
Net income/expense from financial instruments measured at fair value	-	1	(6)	(8)

18. 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	30.09.2017	31.12.2016
Debt securities		
NBP money bills	1 968	8 999
Treasury bonds PLN	1 375	1 432
foreign currency Treasury bonds	944	1 075
municipal bonds PLN	106	111
foreign currency municipal bonds	120	127
Total	**4 513**	**11 744**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS BY PRODUCT TYPE	30.09.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
Loans	**192 456**	**(7 484)**	**184 972**	**190 100**	**(7 243)**	**182 857**
housing	95 556	(2 058)	93 498	100 010	(2 144)	97 866
corporate	71 019	(3 716)	67 303	65 810	(3 667)	62 143
consumer	25 881	(1 710)	24 171	24 280	(1 432)	22 848
Debt securities	**4 804**	**(76)**	**4 728**	**4 948**	**(77)**	**4 871**
debt securities (corporate)	2 296	(70)	2 226	2 352	(69)	2 283
debt securities (municipal)	2 508	(6)	2 502	2 596	(8)	2 588
Receivables due from repurchase agreements	**432**	**-**	**432**	**1 339**	**-**	**1 339**
Total	**197 692**	**(7 560)**	**190 132**	**196 387**	**(7 320)**	**189 067**

LOANS AND ADVANCES TO CUSTOMERS BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES	30.09.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	4 856	(1 805)	3 051	5 714	(2 159)	3 555
impaired	3 733	(1 799)	1 934	4 420	(2 150)	2 270
not impaired	1 123	(6)	1 117	1 294	(9)	1 285
portfolio basis	7 492	(5 107)	2 385	7 022	(4 656)	2 366
group basis (IBNR)	185 344	(648)	184 696	183 651	(505)	183 146
Total	**197 692**	**(7 560)**	**190 132**	**196 387**	**(7 320)**	**189 067**

LOANS AND ADVANCES TO CUSTOMERS - EXPOSURE TO CREDIT RISK	30.09.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which:	11 225	(6 906)	4 319	11 442	(6 806)	4 636
assessed on an individual basis	3 733	(1 799)	1 934	4 420	(2 150)	2 270
not impaired, of which:	186 467	(654)	185 813	184 945	(514)	184 431
with recognized individual impairment trigger	1 123	(6)	1 117	1 234	(9)	1 225
not past due	872	(5)	867	1 022	(8)	1 014
past due	251	(1)	250	212	(1)	211
without recognized individual impairment trigger/IBNR	185 344	(648)	184 696	183 711	(505)	183 206
not past due	182 566	(501)	182 065	180 830	(348)	180 482
past due	2 778	(147)	2 631	2 881	(157)	2 724
Total	**197 692**	**(7 560)**	**190 132**	**196 387**	**(7 320)**	**189 067**

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT	30.09.2017	31.12.2016
Loans and advances to customers gross, of which:	**197 692**	**196 387**
mortgage banking	88 916	93 078
corporate (including receivables due from repurchase agreements)	62 593	58 458
retail and private banking	25 881	24 280
small and medium enterprises	20 302	20 571
Impairment allowances on loans and advances	(7 560)	(7 320)
Loans and advances to customers, net	**190 132**	**189 067**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

LOAN QUALITY RATIOS	30.09.2017	31.12.2016
Share of impaired loans	5.7%	5.8%
Coverage ratio of impaired loans*	67.3%	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 (both on impaired loans and advances to customers and IBNR) to the total gross exposure of impaired loans and advances to customers.

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS 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	547	(385)	(158)	(90)	2 058	6	(156)
corporate loans	3 667	1 526	(982)	(428)	(67)	3 716	24	(520)
consumer loans	1 432	937	(552)	(94)	(13)	1 710	3	(382)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
Total	**7 320**	**3 011**	**(1 921)**	**(680)**	**(170)**	**7 560**	**33**	**(1 057)**

* this item relates to recoveries from customers repayments and loan sales

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS 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	898	(636)	(349)	(29)	2 175	5	(257)
corporate loans	3 987	1 438	(848)	(465)	(70)	4 042	41	(549)
consumer loans	1 540	815	(555)	(270)	(50)	1 480	2	(258)
debt securities (corporate)	69	-	-	-	-	69	-	-
debt securities (municipal)	3	5	-	-	-	8	-	(5)
Total	**7 890**	**3 156**	**(2 039)**	**(1 084)**	**(149)**	**7 774**	**48**	**(1 069)**

* this item relates to recoveries from customers repayments and loan sales

RECLASSIFICATION OF SECURITIES

PORTFOLIO RECLASSIFIED IN 2012	30.09.2017		31.12.2016	
	fair value	carrying amount	fair value	carrying amount
Municipal bonds	593	599	623	628
Corporate bonds	8	8	8	8
Total	**601**	**607**	**631**	**636**

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**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

20. INVESTMENT SECURITIES AVAILABLE FOR SALE

INVESTMENT SECURITIES AVAILABLE FOR SALE	30.09.2017	31.12.2016
Debt securities, gross	38 642	35 588
Treasury bonds PLN	29 787	25 147
foreign currency Treasury bonds	-	457
municipal bonds PLN	4 533	4 552
corporate bonds PLN	3 820	4 791
foreign currency corporate bonds	502	641
Impairment allowances	(245)	(274)
corporate bonds PLN	(245)	(210)
foreign currency corporate bonds	-	(64)
Total net debt securities	**38 397**	**35 314**
Equity securities, gross	200	162
not admitted to public trading	141	128
admitted to public trading	59	34
Impairment allowances	(1)	(1)
Total net equity securities	**199**	**161**
Shares in joint investment institutions	286	298
Total net investment securities available for sale	**38 882**	**35 773**

INVESTMENT SECURITIES AVAILABLE FOR SALE - THE BANK'S EXPOSURE TO CREDIT RISK	Exposure	
	30.09.2017	31.12.2016
impaired, assessed on an individual basis	818	1 293
not impaired, not past due	37 824	34 295
with external rating	33 114	29 207
with internal rating	4 710	5 088
Gross total	**38 642**	**35 588**
Impairment allowances	(245)	(274)
Net total by carrying amount	**38 397**	**35 314**

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS OF 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net impact on the income statement
Debt securities	274	82	(70)	(41)	245	(12)
Equity securities	1	-	-	-	1	-
Total	**275**	**82**	**(70)**	**(41)**	**246**	**(12)**

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS IN THREE QUARTERS OF 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net impact on the income statement
Debt securities	53	40	-	31	124	(40)
Total	**53**	**40**	**-**	**31**	**124**	**(40)**

(IN PLN MILLION)

21. INVESTMENT SECURITIES HELD TO MATURITY

INVESTMENTS SECURITIES HELD TO MATURITY	30.09.2017	31.12.2016
Debt securities, of which:	908	157
Treasury bonds PLN	908	157
Total	**908**	**157**

22. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	30.09.2017	31.12.2016
Investments in subsidiaries	342	351
Finansowa Kompania 'Prywatne Inwestycje' Sp. z o. o.	24	29
'Inter-Risk Ukraina' Additional Liability Company	-	4
Qualia Development Sp. z o. o.	318	318
Land and buildings	28	10
Total	**370**	**361**

23. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

INTANGIBLE ASSETS	30.09.2017	31.12.2016
Software	1 465	1 583
Goodwill	871	871
Customer relationships	27	34
Other, including capital expenditure	246	329
Total	**2 609**	**2 817**

NET GOODWILL	30.09.2017	31.12.2016
Nordea Bank Polska SA	863	863
Centrum Finansowe Puławska Sp. z o.o.	8	8
Total	**871**	**871**

TANGIBLE FIXED ASSETS	30.09.2017	31.12.2016
Land and buildings	1 523	1 602
Machinery and equipment	407	428
Assets under construction	21	104
Other	187	191
Total	**2 138**	**2 325**

(IN PLN MILLION)

24. Other assets

OTHER ASSETS	30.09.2017	31.12.2016
Settlements of payment cards transactions	1 262	1 235
Settlements of financial instruments (including unpaid option premiums)	300	382
Receivables in respect of cash settlements	129	125
Receivables and settlements of securities turnover	49	80
Receivables from dividends to be received and payments to subsidiaries	4	-
Receivables due to discharge of excess currency	1	26
Assets for sale	59	78
Prepayments	70	54
Trade receivables	107	77
Other	81	86
Total	**2 062**	**2 143**
of which financial assets	1 865	1 791

25. Amounts due to banks

AMOUNTS DUE TO BANKS	30.09.2017	31.12.2016
Loans and advances received*	9 488	17 109
Bank deposits	803	793
Amounts due from repurchase agreements	-	206
Current accounts	567	567
Other money market deposits	37	42
Total	**10 895**	**18 717**

* Financing of the loan portfolio acquired in acquisition of Nordea Bank Polska

26. Amounts due to customers

AMOUNTS DUE TO CUSTOMERS BY PRODUCT TYPE	30.09.2017	31.12.2016
Amounts due to retail customers	149 118	147 392
Current accounts and overnight deposits	81 303	72 196
Term deposits	67 380	74 876
Other liabilities	435	320
Amounts due to corporate entities	55 012	53 570
Current accounts and overnight deposits	31 391	30 661
Term deposits	14 051	12 168
Loans and advances received	8 427	9 680
Other liabilities	1 031	1 061
Amounts due from repurchase agreements	112	-
Amounts due to budget entities	9 650	8 409
Current accounts and overnight deposits	8 497	8 163
Term deposits	1 069	187
Other liabilities	84	59
Total	**213 780**	**209 371**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS BY CUSTOMER SEGMENT	30.09.2017	31.12.2016
Amounts due to customers, of which:		
retail and private banking	141 251	139 423
corporate	41 147	38 025
loans and advances received	8 427	9 680
small and medium enterprises	22 843	22 243
amounts due from repurchase agreements	112	-
Total	**213 780**	**209 371**

27. Debt securities in issue

DEBT SECURITIES IN ISSUE	30.09.2017	31.12.2016
bank bonds	3 895	1 693
Total	**3 895**	**1 693**

28. Subordinated liabilities

	Nominal value in currency	Currency	Period	Special terms	Balance in PLN	
					30.09.2017	31.12.2016
Subordinated bonds	1 700	PLN	28.08.2017-28.08.2027	right of early redemption within 5 years from the issue date	1 705	-
Subordinated bonds	1 601	PLN	14.09.2012-14.09.2022	right of early redemption within 5 years from the issue date	-	1 617
Subordinated loan from Nordea Bank AB (publ)	224	CHF	24.04.2012 - 24.04.2022		-	922
Total					**1 705**	2 539

(IN PLN MILLION)

29. Other liabilities

	30.09.2017	31.12.2016
Accounts payable	484	463
Deferred income	469	406
Liability due to tax on certain financial institutions	75	76
Interbank settlements	542	813
Liabilities relating to investment activities and internal operations	147	324
Liabilities due to suppliers	57	61
Liabilities and settlements due to securities turnover	635	209
Financial instruments settlements (of which unpaid option premiums)	232	356
Liabilities due to the contribution to the Bank Guarantee Fund*	106	-
Social and legal settlements	91	83
Liabilities from foreign currency activities	227	217
Liabilities related to payment cards	143	111
Settlements due to purchase of currency	14	26
Other**	282	195
Total	**3 504**	**3 340**
of which financial liabilities	2 697	2 693

*The item 'Liabilities due to the contribution to the Bank Guarantee Fund' includes payables in respect of the contribution to the mandatory deposit guarantee system for three quarters totalling PLN 43 million and payables in respect of the contribution to mandatory bank restructuring for 2017 of PLN 63 million.

**As at 30 September 2017 the item 'Other' comprises, i.a Liabilities in respect of the funds transferred by the BGF towards payments to SKOK 'Wybrzeże' in Gdańsk depositors in the amount of PLN 52 million (no balance as at 31 December 2016).

30. Provisions

FOR THE PERIOD ENDED 30 SEPTEMBER 2017	Provision for legal claims	Provision for retirement benefits	Provision 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	3	-	161	1	165
Use of provision	(4)	-	-	(32)	(36)
Release of provision	(8)	(2)	(161)	(2)	(173)
Other changes and reclassifications	-	-	-	7	7
As at 30 September 2017, of which:	**11**	**43**	**67**	**65**	**186**
Short-term provision	11	5	53	65	134
Long-term provision	-	38	14	-	52

* The item 'Other provisions' comprises, i.a. a restructuring provision of PLN 27 million and a provision for potential claims related to sale of receivables in the amount of PLN 2 million.

(IN PLN MILLION)

FOR THE PERIOD ENDED 30 SEPTEMBER 2016	Provision 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	12	-	226	4	242
Use of provision	(6)	(1)	-	(15)	(22)
Release of provision	(3)	-	(209)	(5)	(217)
As at 30 September 2016, of which:	**23**	**44**	**100**	**82**	**249**
Short-term provision	23	2	85	82	192
Long-term provision	-	42	15	-	57

* The item 'Other provisions' comprises, i.a. restructuring provision of PLN 52 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.

31. Equity and shareholding structure of the Bank

EQUITY	30.09.2017	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:	69	(442)
Financial assets available for sale	85	(342)
Cash flow hedges	(5)	(89)
Actuarial gains and losses	(11)	(11)
Net profit for the period	2 039	2 888
Total	**35 139**	**32 589**

(IN PLN MILLION)

32. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

AS AT 30 SEPTEMBER 2017	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 100	-	1 100
KREDOBANK SA	1 070	(793)	277
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 Finance AB	24	-	24
PKO BP Finat Sp. z o.o.	22	-	22
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	(54)	107
FERRUM SA	25	-	25
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	2	(2)	-
Total	**3 738**	**(849)**	**2 889**

1) PKO Bank Polski SA has investment certificates of the fund allowing, in accordance with IFRS, exercising control over the fund.

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, in accordance with IFRS, exercising control over the fund.

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES - RECONCILIATION OF MOVEMENTS	01.01-30.09.2017	01.01-30.09.2016
Value at the beginning of the period	824	795
Recognized during the period	25	14
Value at the end of the period	849	809
Net increase - impact on the income statement	**(25)**	**(14)**

OTHER NOTES

33. 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 September 2017			
Company A	corporate bonds	1 157	31.12.2022
Company B	corporate bonds	889	31.07.2020
Company C	corporate bonds	443	15.06.2022
Company D	corporate bonds	61	31.12.2022
Company E	corporate bonds	4	31.12.2026
Total		**2 554**	

ISSUER OF UNDERWRITTEN SECURITIES	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 31 December 2016			
Company A	corporate bonds	1 126	31.12.2020
Company B	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 over-the-counter market.

Loan commitments granted

NOMINAL VALUE OF LOAN COMMITMENTS GRANTED	30.09.2017	31.12.2016
Credit lines and limits		
to financial entities	6 009	7 607
to non-financial entities	34 652	37 899
to public entities	4 337	3 856
Total	**44 998**	**49 362**
of which: irrevocable loan commitments	30 725	31 078

(IN PLN MILLION)

Guarantee liabilities granted

GUARANTEES AND PLEDGES GRANTED	30.09.2017	31.12.2016
Guarantees granted in domestic and foreign trading	7 152	7 780
Guarantees and pledges granted – domestic corporate bonds	5 468	4 769
Letters of credit granted	1 544	1 600
Guarantees and pledges granted - payment guarantee	151	151
Guarantees and pledges granted - domestic municipal bonds	793	351
Total	**15 108**	**14 651**
of which: performance guarantees granted	2 613	2 447

Liabilities granted by maturity

OFF-BALANCE SHEET LIABILITIES GRANTED BY MATURITY - 30.09.2017	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	11 037	4 267	11 375	11 999	6 320	44 998
Guarantee liabilities granted	143	1 810	3 207	7 046	2 902	15 108
Total	**11 180**	**6 077**	**14 582**	**19 045**	**9 222**	**60 106**

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**

Off-balance sheet liabilities received

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.09.2017	31.12.2016
financial	94	81
guarantees	9 639	7 385
Total	**9 733**	**7 466**

Contractual commitments

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	30.09.2017	31.12.2016
intangible assets	21	34
tangible fixed assets	64	9
Total	**85**	**43**

(IN PLN MILLION)

34. SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS

CASH AND CASH EQUIVALENTS	30.09.2017	31.12.2016	30.09.2016
Cash and balances with the Central Bank	15 853	11 597	14 281
Deposits with the Central Bank	970	1 680	-
Current amounts due from banks	3 219	4 278	3 552
Cash and cash equivalents with restricted availability for use	8	13	13
Total	**20 050**	**17 568**	**17 846**

35. EQUITY RELATED PARTY TRANSACTIONS

In the third quarter of 2017 and in 2016 the Bank did not conclude significant transactions with related parties not on arm's length. Repayment terms are within a range from one month to fifteen years.

AS OF 30 SEPTEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiaries	108	76	12	110
Merkury - fiz an and its subsidiaries	-	-	20	-
NEPTUN - fizan and its subsidiaries	227	227	73	-
PKO Bank Hipoteczny SA	2 122	1 022	4	3 298
PKO BP BANKOWY PTE SA	-	-	8	-
PKO BP Finat Sp. z o.o.	-	-	61	1
PKO Finance AB	-	-	6 052	-
PKO Leasing SA and its subsidiaries	12 495	12 488	50	2 644
PKO Towarzystwo Funduszy Inwestycyjnych SA	24	-	41	-
PKO Towarzystwo Ubezpieczeń SA	-	-	20	-
PKO Życie Towarzystwo Ubezpieczeń SA	1	-	408	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	238	-
ZenCard Sp. z o.o.	-	-	1	-
Total subsidiaries	**14 977**	**13 813**	**6 988**	**6 054**

AS OF 30 SEPTEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	61	8	51	23
'Centrum Obsługi Biznesu' Sp. z o.o.	26	26	9	-
Bank Pocztowy SA	-	-	-	1
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o.	-	-	15	-
Total joint ventures and associates	**87**	**34**	**75**	**24**

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**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2017 (IN PLN MILLION)

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**

FOR THE PERIOD ENDED 30 SEPTEMBER 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	4	3	-	-
Merkury - fizan and its subsidiaries	-	-	-	-
NEPTUN - fizan and its subsidiaries	3	2	-	-
PKO Bank Hipoteczny SA	63	54	1	-
PKO BP BANKOWY PTE SA	6	-	-	-
PKO BP Finat Sp. z o.o.	47	-	15	-
PKO Finance AB	-	-	171	171
PKO Leasing SA and its subsidiaries	205	198	12	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	259	198	1	1
PKO Towarzystwo Ubezpieczeń SA	47	47	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	43	43	9	7
Qualia Development Sp. z o.o. and its subsidiaries	1	-	3	3
Total subsidiaries	**678**	**545**	**212**	**182**

FOR THE PERIOD ENDED 30 SEPTEMBER 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.	219	211	92	91
Total joint ventures and associates	**219**	**211**	**92**	**91**

FOR THE PERIOD ENDED 30 SEPTEMBER 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	7	6	-	-
PKO Bank Hipoteczny SA	71	61	-	-
PKO BP BANKOWY PTE SA	9	-	-	-
PKO BP Finat Sp. z o.o.	77	-	3	1
PKO Finance AB	1	-	200	199
PKO Leasing SA and its subsidiaries	98	93	14	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	227	169	1	1
PKO Towarzystwo Ubezpieczeń SA	30	30	1	-
PKO Życie Towarzystwo Ubezpieczeń SA	39	39	-	1
Qualia Development Sp. z o.o. and its subsidiaries	5	5	1	1
NEPTUN - fizan and its subsidiaries	2	2	-	-
Total subsidiaries	**566**	**375**	**220**	**203**

FOR THE PERIOD ENDED 30 SEPTEMBER 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.	182	176	83	82
Total joint ventures and associates	**182**	**176**	**83**	**82**

(IN PLN MILLION)

36. FAIR VALUE HIERARCHY

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 30.09.2017	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 excluding derivatives	15	1 881	1 875	6	-
Debt securities		1 858	1 852	6	-
Shares in other entities		20	20	-	-
Investment certificates, shares rights and pre-emptive rights		3	3	-	-
Derivative financial instruments	16	2 598	2	2 596	-
Hedging instruments		720	-	720	-
Trading instruments		1 878	2	1 876	-
Financial instruments designated upon initial recognition at fair value through profit and loss	18	4 513	2 319	2 194	-
Investment securities available for sale	20	38 859	30 890	5 872	2 097
Debt securities		38 397	30 831	5 872	1 694
Equity securities		176	59	-	117
Participation units in investment funds		286	-	-	286
Financial assets measured at fair value – total		**47 851**	**35 086**	**10 668**	**2 097**
Derivative financial instruments	16	2 576	1	2 575	-
Hedging instruments		485	-	485	-
Trading instruments		2 091	1	2 090	-
Financial liabilities measured at fair value - total		**2 576**	**1**	**2 575**	-

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 excluding derivatives	15	358	358	-	-
Debt securities		344	344	-	-
Shares in other entities		11	11	-	-
Investment certificates, shares rights, pre-emptive rights		3	3	-	-
Derivative financial instruments	16	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	18	11 744	2 507	9 237	-
Investment securities available for sale	20	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	16	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	30.09.2017		31.12.2016	
	Fair value in		Fair value in	
	positive scenario	negative scenario	positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions	300	272	313	283
Equity securities (Shares of Visa Inc.)	124	92	100	70
Corporate bonds	1 702	1 686	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	01.01-30.09.2017	01.01-30.09.2016
Opening balance at the beginning of the period	3 374	3 635
Total gains or losses	43	(29)
in financial result	(20)	(71)
in other comprehensive income	63	42
Taking up a new share issue in the Fund	11	68
Taking up of shares in Visa Inc.	-	81
Sale of Visa Europe Limited	-	(337)
Other issues and redemptions (including settlements)	(1 310)	(28)
Reduction of capital involvement in the Fund	(21)	-
Total	**2 097**	**3 390**

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

	level of fair value hierarchy	valuation method	30.09.2017	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	16 823	16 823
Amounts due from banks	2	discounted cash flows	5 287	5 287
Loans and advances to customers			190 132	186 254
housing	3	discounted cash flows	93 498	89 028
corporate	3	discounted cash flows	67 303	66 142
consumer	3	discounted cash flows	24 171	26 000
debt securities (corporate)	3	discounted cash flows	2 226	2 150
debt securities (municipal)	3	discounted cash flows	2 502	2 502
receivables due from repurchase agreements	2	discounted cash flows	432	432
Investment securities held to maturity	1	market quotation	908	908
Other financial assets	3	value at cost to pay less impairment allowance	1 865	1 865
Amounts due to the Central Bank	2	value at cost to pay	5	5
Amounts due to banks	2	discounted cash flows	10 895	10 895
Amounts due to customers			213 780	214 060
due to corporate entities	3	discounted cash flows	55 012	55 356
due to public entities	3	discounted cash flows	9 650	9 650
due to retail customers	3	discounted cash flows	149 118	149 054
Debt securities in issue	2	discounted cash flows	3 895	3 895
Subordinated liabilities	2	discounted cash flows	1 705	1 705
Other financial liabilities	3	value at cost to pay	2 697	2 697

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	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	2	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 customers	3	discounted cash flows	147 392	147 337
Debt securities in issue	2	discounted cash flows	1 693	1 695
Subordinated liabilities	2	discounted cash flows	2 539	2 526
Other financial liabilities	3	value at cost to pay	2 693	2 693

(IN PLN MILLION)

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

38. 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.

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 the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group as at 31 December 2016, the following elements have been described in detail i.e.: 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.

39. Credit risk – financial information

EXPOSURE TO CREDIT RISK - ITEMS OF THE STATEMENT OF FINANCIAL POSITION	30.09.2017	31.12.2016
Current account in the Central Bank	11 523	7 444
Amounts due from banks	5 287	8 471
Trading assets – debt securities	1 858	344
Derivative financial instruments	2 598	2 895
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	4 513	11 744
Loans and advances to customers	190 132	189 067
housing	93 498	97 866
corporate	67 303	62 143
consumer	24 171	22 848
debt securities (corporate)	2 226	2 283
debt securities (municipal)	2 502	2 588
receivables due from repurchase agreements	432	1 339
Investment securities available for sale - debt securities	38 397	35 314
Investment securities held to maturity	908	157
Other assets - other financial assets	1 865	1 791
Total	**257 081**	**257 227**

EXPOSURE TO CREDIT RISK - OFF-BALANCE SHEET ITEMS	30.09.2017	31.12.2016
Irrevocable liabilities granted	30 725	31 078
Guarantees issued	7 303	7 931
Letters of credit issued	1 544	1 600
Underwriting of securities	6 261	5 120
Total	**45 833**	**45 729**

(IN PLN MILLION)

FINANCIAL ASSETS GROSS, WHICH ARE PAST DUE, BUT NOT IMPAIRED	30.09.2017			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	2 388	518	123	3 029
Total	**2 388**	**518**	**123**	**3 029**

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.

FINANCIAL ASSETS ASSESSED ON AN INDIVIDUAL BASIS FOR WHICH INDIVIDUAL IMPAIRMENT HAS BEEN RECOGNIZED BY GROSS CARRYING AMOUNT	30.09.2017	31.12.2016
Loans and advances to customers	3 733	4 420
housing loans	533	739
consumer loans	214	218
corporate loans	2 911	3 389
debt securities	75	74
Investment debt securities available for sale	818	1 293
Total	**4 551**	**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.

40. Forbearance practices

EXPOSURES SUBJECT TO FORBEARANCE IN THE LOAN PORTFOLIO	30.09.2017	31.12.2016
Loans and advances to customers gross, of which	**197 692**	**196 387**
subject to forbearance	4 188	3 852
Impairment allowances on loans and advances to customers, of which:	(7 560)	(7 320)
subject to forbearance	(994)	(899)
Loans and advances to customers net, of which:	**190 132**	**189 067**
subject to forbearance	**3 194**	**2 953**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY PRODUCT TYPE	30.09.2017	31.12.2016
Loans and advances to customers gross subject to forbearance	**4 188**	**3 852**
housing loans	1 440	1 546
corporate loans	2 464	1 999
consumer loans	284	307
Impairment allowances on loans and advances to customers subject to forbearance	**(994)**	**(899)**
Loans and advances to customers net subject to forbearance	**3 194**	**2 953**

INVESTMENT SECURITIES AVAILABLE FOR SALE

EXPOSURES SUBJECT TO FORBEARANCE IN THE PORTFOLIO OF INVESTMENT SECURITIES AVAILABLE FOR SALE	30.09.2017	31.12.2016
Debt securities available for sale gross, of which:	38 642	35 588
subject to forbearance	1 072	1 293
Impairment allowances on investment securities available for sale, of which:	(245)	(274)
subject to forbearance	(245)	(274)
Investment securities available for sale net, of which:	**38 397**	**35 314**
subject to forbearance	**827**	**1 019**

INVESTMENT SECURITIES AVAILABLE FOR SALE SUBJECT TO FORBEARANCE - THE BANK'S EXPOSURE TO CREDIT RISK	Exposure by gross carrying amount	
	30.09.2017	31.12.2016
Investment securities available for sale, impaired	1 072	1 293
Total gross	**1 072**	**1 293**

41. INTEREST RATE RISK MANAGEMENT

NAME OF SENSITIVITY MEASURE	30.09.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	354	269
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)*	2 020	2 131

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

42. CURRENCY RISK MANAGEMENT

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

NAME OF SENSITIVITY MEASURE	30.09.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	3	9
Change in CUR/PLN by 20% (in PLN million) (stress-test)*	124	78

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

The level of currency risk was low both as at 30 September 2017 and as at 31 December 2016.

43. 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
30.09.2017								
Adjusted gap in real terms	20 160	16 872	5	2 271	7 706	9 637	29 034	(85 685)
Adjusted cumulative periodic gap in real terms	20 160	37 032	37 037	39 308	47 014	56 651	85 685	-
31.12.2016								
Adjusted gap in real terms	12 018	20 185	641	(223)	8 593	9 101	23 850	(74 165)
Adjusted cumulative periodic gap in real terms	12 018	32 203	32 844	32 621	41 214	50 315	74 165	-

LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

The liquidity reserve of the Bank as at 30 September 2017 and as at 31 December 2016 are stated in the table below:

LIQUIDITY RISK MEASURE	30.09.2017	31.12.2016
Liquidity reserve up to 1 month* (in PLN billion)	30	31
Liquidity surplus in a horizon of up to 30 days** (in PLN billion)	10	13

* Liquidity reserve – gap between the most liquid assets and expected and potential liabilities which mature in a given period of time.
** Liquidity surplus – 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	30.09.2017	31.12.2016
M1 - short-term liquidity gap	16 776	24 464
M2 - short-term liquidity ratio	1.53	1.89
M3 - coverage ratio of non-liquid assets by own funds	13.38	11.63
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.17	1.19
LCR - liquidity coverage ratio	130.3%	134.2%

In the period ended 30 September 2017 and in the period ended 31 December 2016 supervisory measures ratios remained above the supervisory limits.

44. CAPITAL ADEQUACY

PKO Bank Polski maintained a secure capital base in excess of the supervisory and regulatory limits. As at 30 September 2017 the Bank's equity calculated for capital adequacy purposes decreased due to the Resolution of the General Shareholders' Meeting on distributing the Bank's profit for 2016, obtaining consent for including the net profit of PKO Bank Polski SA for the first half of 2017 in Tier I capital and obtaining consent for the new issue of subordinated bonds by the Bank. At the same time the Bank, after obtaining the necessary PFSA consents, engaged in a call option in subordinated bonds of PLN 1 600 million and made an early repayment of a subordinated loan of CHF 224 million (the equivalent of PLN 884 million). As at 31 December 2016 both those instruments were classified as Tier II capital. From the moment the respective consent was obtained, the instruments are not recognized in the Bank's own funds.

(IN PLN MILLION)

	30.09.2017	31.12.2016
Total own funds	**33 363**	**31 129**
Tier 1 capital	**31 729**	**28 673**
Tier 1 capital before regulatory adjustments and reductions, of which:	34 150	31 733
Share capital	1 250	1 250
Other reserves	30 712	27 824
General risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings	1 118	1 589
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 496)	(1 694)
Accumulated other comprehensive income	69	(442)
Adjustments to Tier 1 basic capital due to prudential filters	(54)	11
Other adjustments in the transitional period in Tier 1 basis capital	(69)	(64)
Tier 2 capital	**1 634**	**2 456**
Equity instruments and subordinated loans eligible as Tier 2 capital	1 700	2 523
(-) Equity exposures deducted from own funds	(66)	(67)
Requirements as regard own funds	**13 539**	**14 489**
Credit risk	12 536	13 299
Operational risk	451	482
Market risk	521	661
Credit valuation adjustment risk	31	47
Total capital adequacy ratio	**19.71%**	**17.19%**
Tier 1 capital ratio	**18.75%**	**15.83%**

SUBSEQUENT EVENTS

45. Subsequent events which may affect future financial results

1. In October 2017, PKO Bank Hipoteczny SA acquired, under the Framework Receivables Sales Agreement signed with PKO Bank Polski SA on 17 November 2015, portfolios of housing loan receivables secured with mortgages of PLN 1 887.6 million.

2. In October 2017, PKO Bank Hipoteczny SA carried out consecutive issues of bonds in the total amount of PLN 1 492.5 million, and at the same time redeemed bonds in the total amount of PLN 888.5 million. In October 2017, PKO Bank Hipoteczny SA also offered covered bonds to institutional investors, issued as part of a foreign programme as a private placement, with a total nominal value of EUR 54 million.

3. On 18 October 2017, the Extraordinary General Shareholders' Meeting of PKO Bank Hipoteczny SA passed a resolution on increasing the company's share capital by PLN 100 million, i.e. to PLN 1 200 million by issuing 100 000 000 new ordinary registered G-series shares with a nominal value of PLN 1 (one) each. The shares were taken up and paid up by PKO Bank Polski SA.

4. On 19 October 2017, PKO Bank Polski SA has priced eurobonds, issued within EMTN Programme. Issuance will be held on the following conditions:

   - settlement date (Issue Date): 2 November 2017,
   - aggregate principal amount: CHF 400 million,
   - maturity: 4 years,
   - interest periods: annual,
   - coupon: 0.300% (Mid Swap +58 b.p.).

(IN PLN MILLION)

The Bank applied for admission of eurobonds to trading on the regulated market of the SIX Swiss Exchange. After this admission the Bank will consider application for dual listing of eurobonds in organized trading in Poland. The funds obtained from the issue of eurobonds will be used for purposes related to the general business operations of the Bank. On 24 October 2017 the Moody's Investors Service granted the rating of A3 with a stable outlook for mentioned above eurobonds.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE BANK

31.10.2017	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	MIECZYSŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
31.10.2017	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)

SIGNATURE OF PERSON RESPONSIBLE FOR
MAINTAINING THE BOOKS OF ACCOUNT

31.10.2017

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION

....
(SIGNATURE)