



Bank Polski

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



SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2017 to 30.06.2017	period from 01.01.2016 to 30.06.2016	period from 01.01.2017 to 30.06.2017	period from 01.01.2016 to 30.06.2016
Net interest income	4 160	3 762	979	859
Net fee and commission income	1 443	1 302	340	297
Operating profit	1 916	1 923	451	439
Profit before income tax	1 927	1 934	454	442
Net profit (including non-controlling shareholders)	1 386	1 509	326	344
Net profit attributable to equity holders of the parent company	1 382	1 512	325	345
Earnings per share for the period – basic (in PLN/EUR)	1.11	1.21	0.26	0.28
Earnings per share for the period – diluted (in PLN/EUR)	1.11	1.21	0.26	0.28
Total net comprehensive income	1 771	1 324	417	302
Net cash flows generated from operating activities	1 769	4 060	416	927
Net cash flows used in investing activities	(2 100)	(5 305)	(494)	(1 211)
Net cash flows used in/generated from financing activities	(671)	771	(158)	176
Net cash flows	(1 002)	(474)	(236)	(108)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	as at 30.06.2017	as at 31.12.2016	as at 30.06.2017	as at 31.12.2016
Total assets	286 389	285 573	67 760	64 551
Total equity	34 340	32 569	8 125	7 362
Capital and reserves attributable to equity holders of the parent company	34 352	32 585	8 128	7 366
Share capital	1 250	1 250	296	283
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	27.47	26.05	6.50	5.89
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	27.47	26.05	6.50	5.89
Capital adequacy ratio	16.85%	15.81%	16.85%	15.81%
Tier 1	30 276	28 350	7 163	6 408
Tier 2	1 601	2 523	379	570

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



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



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CONSOLIDATED INCOME STATEMENT

	Note	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Interest and similar income	6	2 693	5 313	2 461	4 852
Interest expense and similar charges	6	(579)	(1 153)	(552)	(1 090)
Net interest income		2 114	4 160	1 909	3 762
Fee and commission income	7	961	1 890	912	1 755
Fee and commission expense	7	(228)	(447)	(245)	(453)
Net fee and commission income		733	1 443	667	1 302
Dividend income	8	11	11	9	9
Net income from financial instruments measured at fair value	9	(6)	13	(6)	(14)
Gains less losses from investment securities	10	(4)	1	425	476
Net foreign exchange gains (losses)	11	107	223	109	203
Other operating income	12	273	388	185	309
Other operating expense	12	(99)	(138)	(152)	(216)
Net other operating income and expense		174	250	33	93
Net impairment allowance and write-downs	13	(392)	(783)	(400)	(782)
Administrative expenses	14	(1 375)	(2 938)	(1 397)	(2 757)
Tax on certain financial institutions	15	(231)	(464)	(221)	(369)
Operating profit		1 131	1 916	1 128	1 923
Share in profit (loss) of associates and joint ventures		6	11	8	11
Profit before income tax		1 137	1 927	1 136	1 934
Income tax expense	16	(279)	(541)	(265)	(425)
Net profit (including non-controlling shareholders)		858	1 386	871	1 509
Profit (loss) attributable to non-controlling shareholders		1	4	(2)	(3)
Net profit attributable to equity holders of the parent company		857	1 382	873	1 512
Earnings per share	17				
- basic earnings per share for the period (in PLN)		0.69	1.11	0.70	1.21
- diluted earnings per share for the period (in PLN)		0.69	1.11	0.70	1.21
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



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Net profit (including non-controlling shareholders)		858	1 386	871	1 509
Other comprehensive income		146	385	(317)	(185)
Items that may be reclassified to the income statement		146	385	(317)	(185)
Cash flow hedges (gross)	22	(1)	20	77	214
Deferred tax on cash flow hedges	16; 22	1	(4)	(15)	(41)
Cash flow hedges (net)	22	-	16	62	173
Unrealized net gains on financial assets available for sale (gross)		185	470	(477)	(444)
Deferred tax on unrealized net gains on financial assets available for sale	16	(37)	(88)	88	82
Unrealized net gains on financial assets available for sale (net)		148	382	(389)	(362)
Currency translation differences from foreign operations		(3)	(12)	10	1
Share in other comprehensive income of associates and joint ventures		1	(1)	-	3
Total net comprehensive income		1 004	1 771	554	1 324
Total net comprehensive income, of which attributable to:		1 004	1 771	554	1 324
equity holders of PKO Bank Polski SA		1 003	1 767	556	1 327
non-controlling shareholders		1	4	(2)	(3)



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2017	31.12.2016
ASSETS			
Cash and balances with the Central Bank	18	13 637	13 325
Amounts due from banks	19	3 339	5 345
Trading assets excluding derivative financial instruments	20	1 499	326
Derivative financial instruments	21	2 138	2 901
Financial assets designated upon initial recognition at fair value through profit and loss	23	9 045	13 937
Loans and advances to customers	24	204 620	200 606
Investment securities available for sale	25	39 106	36 676
Investment securities held to maturity	26	1 184	466
Investments in associates and joint ventures	40	380	386
Non-current assets held for sale	27	27	14
Inventories	28	290	260
Intangible assets	29	3 285	3 422
Tangible fixed assets	29	3 004	3 086
Current income tax receivables		1	10
Deferred income tax assets	16	1 723	1 779
Other assets	30	3 111	3 034
TOTAL ASSETS		286 389	285 573
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		4	4
Amounts due to banks	31	16 703	19 208
Derivative financial instruments	21	3 023	4 198
Amounts due to customers	32	207 248	205 066
Liabilities due to insurance operations	33	3 031	2 944
Debt securities in issue	34	16 256	14 493
Subordinated liabilities	35	1 617	2 539
Other liabilities	36	3 674	3 987
Current income tax liabilities		238	305
Deferred income tax liabilities	16	47	31
Provisions	37	208	229
TOTAL LIABILITIES		252 049	253 004
Equity			
Share capital	38	1 250	1 250
Other capital	38	32 019	28 701
Currency translation differences from foreign operations	38	(233)	(221)
Undistributed profits	38	(66)	(19)
Net profit for the year	38	1 382	2 874
Capital and reserves attributable to equity holders of the parent company	38	34 352	32 585
Non-controlling interest	38	(12)	(16)
TOTAL EQUITY		34 340	32 569
TOTAL LIABILITIES AND EQUITY		286 389	285 573
Capital adequacy ratio	63	16.85%	15.81%
Book value (in PLN million)		34 340	32 569
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		27.47	26.05
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		27.47	26.05

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA
GROUP FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six-month period ended 30 June 2017	Share capital	Other capital			Other comprehensive income					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													
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital						
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)	382	16	-	397	(12)	-	1 382	1 767	4	1 771
Net profit	-	-	-	-	-	-	-	-	-	-	-	1 382	1 382	4	1 386
Other comprehensive income	-	-	-	-	(1)	382	16	-	397	(12)	-	-	385	-	385
Transfer from undistributed profits	-	2 883	-	38	-	-	-	-	2 921	-	(2 921)	-	-	-	-
As at 30 June 2017	1 250	27 374	1 070	3 646	(2)	35	(93)	(11)	32 019	(233)	(66)	1 382	34 352	(12)	34 340

For the six-month period ended 30 June 2016	Share capital	Other capital			Other comprehensive income					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													
		Reserve capital	General banking risk fund	Other reserves	Share in other comprehensive income of an associate and joint venture	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses	Total other capital						
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:	-	-	-	-	3	(362)	173	-	(186)	1	-	1 512	1 327	(3)	1 324
Net profit	-	-	-	-	-	-	-	-	-	-	-	1 512	1 512	(3)	1 509
Other comprehensive income	-	-	-	-	3	(362)	173	-	(186)	1	-	-	(185)	-	(185)
Transfer from undistributed profits	-	2 530	-	71	-	-	-	-	2 601	-	(2 601)	-	-	-	-
As at 30 June 2016	1 250	23 241	1 070	3 607	3	(191)	115	(12)	27 833	(216)	1 231	1 512	31 610	(21)	31 589



CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01- 30.06.2017	01.01- 30.06.2016
Net cash flows from operating activities			
Profit before income tax		1 927	1 934
Adjustments:		(158)	2 126
Amortization and depreciation		420	394
(Gains) losses from investing activities		(49)	(1)
Interest and dividends		(170)	(107)
Change in:			
amounts due from banks		694	1 291
financial assets designated upon initial recognition of fair value through profit and loss		3 719	(727)
derivative financial instruments		(412)	260
loans and advances to customers		(4 131)	(1 291)
other assets, inventories and non-current assets held for sale		(125)	(955)
amounts due to banks		(832)	182
amounts due to customers		2 707	3 740
debt securities in issue		(902)	226
provisions and impairment allowances		46	177
other liabilities and liabilities due to insurance operations		(226)	(53)
Income tax paid		(618)	(417)
Other adjustments		(279)	(593)
Net cash generated from operating activities		1 769	4 060
Net cash flows from investing activities			
Inflows from investing activities		29 576	42 105
Proceeds from sale and interest of investment securities		29 529	42 096
Proceeds from sale of intangible assets, tangible fixed assets and assets held for sale		43	8
Other investing inflows (dividends)		4	1
Outflows from investing activities		(31 676)	(47 410)
Purchase of a subsidiary, net of cash acquired		(14)	-
Increase in equity of a subsidiary		-	(1)
Purchase of investment securities		(31 440)	(47 046)
Purchase of intangible assets and tangible fixed assets		(222)	(363)
Net cash used in investing activities		(2 100)	(5 305)
Net cash flows from financing activities			
Proceeds from debt securities in issue		6 197	2 955
Redemption of debt securities		(3 532)	(1 807)
Repayment of subordinated loans		(880)	-
Taking loans and advances		88	131
Repayment loans and advances		(2 287)	(279)
Repayment of interest from long-term borrowings		(257)	(229)
Net cash used in/generated from financing activities		(671)	771
Net cash flow		(1 002)	(474)
of which currency translation differences on cash and cash equivalents		(233)	110
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	16 964	16 791
of which restricted		11	10



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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The Powszechna Kasa Oszczędnościowa Bank Polski Spółka Akcyjna Group (the 'PKO Bank Polski SA Group', 'the Bank's Group', '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'.

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INFORMATION ON MEMBERS OF THE SUPERVISORY AND MANAGEMENT BOARD

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

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

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



Bank Polski

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

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

On 14 June 2017, the Supervisory Board appointed Mr Rafał Antczak as Vice-President of the Management Board for a joint term of office of the Management Board, which commenced on 2 July 2017.

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

2. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of the Group have been prepared for the six-month period ended 30 June 2017 and include comparative data for the six-month period ended 30 June 2016 (as regards 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.

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

The accounting policies and the calculation methods used in the preparation of these condensed interim 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 six months period of 2017 do not include all information and disclosures required to be presented in the annual consolidated financial statements and they should be read jointly with the annual 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 FROM 1 JANUARY 2017

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

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

4.2. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS, THAT WERE PUBLISHED AND ADOPTED BY THE EUROPEAN UNION, BUT DID NOT COME INTO FORCE YET AND WERE NOT INTRODUCED BY THE GROUP

The Management Board does not expect the adoption of the new standards, their changes and interpretations to have a significant impact on the accounting policies applied by the 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 from 1 January 2021). The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

Classification and measurement

IFRS 9 defines 3 measurement categories of financial assets:

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

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

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

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

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

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

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



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

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

In the case of equity instruments, instruments as held for trading or instruments representing payment in a business combination are classified as FVP&L, and in the case of the remaining assets, the 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.

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;
- IFRS 9 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 – POCI.

Impairment

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



In line with the general principle, impairment will be measured as 12-month expected credit losses or lifetime expected credit losses. The measurement basis will depend on whether credit risk increased significantly from the moment of initial recognition. Loans will be allocated to 3 categories (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 a significant increase in credit risk,
- a dispute in progress with a customer,
- an assessment by an analyst as part of the individualized analysis process,
- no credit risk assessment available for an exposure as at the date of initial recognition, preventing from assessing whether credit risk has increased.

The loss expected both during the entire life of an exposure and in a 12-month period is the total of the losses expected in the individual periods, discounted using the effective interest rate. The Group assumes one month to be the base period. In order to determine 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.

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

Disclosures and comparative data

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



As far as impairment is concerned, the Group's activities are focused on adjusting the applications dedicated to impairment measurement to the expected changes, in particular modifying the scope of input and output data, implementing impairment measurement algorithms in accordance with the IFRS 9 requirements and optimizing the IT infrastructure to achieve efficiency of applications that is adequate to the scope of the calculations, which is significantly greater than under IAS 39. Bearing in mind the significance of this issue, the 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 reports are prepared. The completion of implementing changes in respect of IFRS 9 is planned for the 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 and the lack of information on the directions of change in tax regulations (including mainly the recognition of deferred tax due to impairment allowances on loan exposures) in the 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.

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.
- 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 IAS 12, IAS 28 and IFRS 10 to be material. The impact of the amendments to IFRS 4 (connected with IFRS 9) on the insurance activities within the Group has not yet been estimated.
- 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 Group entities. The segment note below is included in internal reporting system, i.e. information presented to the Management Board of the Bank, used to assess achieved results and to allocate resources. The segment report below presents an internal organizational structure of the Group.



The 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 SA Group to retail and private banking customers. 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 Ubezpieczeniowe 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 clients and financial institutions. This segment comprises, i.a., the following products and services: current accounts, term deposits, depositary services, currency and derivative products, corporate loans, leases and factoring offered by the PKO Leasing SA Group to corporate customers and financial institutions. Within this segment, the Bank 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 (transaction concerns the comparable period).

The 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 4 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.

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The following tables present data on revenues, expenses and results of individual operating segments of the Group for the 6 month period ended 30 June 2017 and 30 June 2016, as well as assets and liabilities as at 30 June 2017, and as at 31 December 2016.

For the period ended 30 June 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	3 401	665	94	4 160
Net fee and commission income	1 144	295	4	1 443
Other net income	207	279	12	498
Net result from financial operations	(2)	27	(11)	14
Net foreign exchange gains (losses)	100	102	21	223
Dividend income	-	11	-	11
Net other operating income and expense	96	152	2	250
Income/expenses relating to internal customers	13	(13)	-	-
Net impairment allowance and write-downs	(605)	(178)	-	(783)
Administrative expenses, of which:	(2 399)	(484)	(55)	(2 938)
amortization and depreciation	(362)	(58)	-	(420)
Tax on certain financial institutions	(348)	(127)	11	(464)
Share of profit (loss) of associates and joint ventures	-	-	-	11
Segment gross profit	1 400	450	66	1 927
Income tax expense (tax burden)	-	-	-	(541)
Profit (loss) attributable to non-controlling shareholders	-	-	-	4
Net profit attributable to equity holders of the parent company	1 400	450	66	1 382

As at 30 June 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	159 335	120 570	4 760	284 665
Unallocated assets	-	-	-	1 724
Total assets	159 335	120 570	4 760	286 389
Liabilities	169 398	48 496	33 870	251 764
Unallocated liabilities	-	-	-	285
Total liabilities	169 398	48 496	33 870	252 049

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For the year ended 30 June 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	3 247	585	(70)	3 762
Net fee and commission income	1 053	250	(1)	1 302
Other net income	131	176	460	767
Net result from financial operations	7	57	398	462
Net foreign exchange gains (losses)	83	58	62	203
Dividend income	-	9	-	9
Net other operating income and expense	28	65	-	93
Income/expenses relating to internal customers	13	(13)	-	-
Net impairment allowance and write-downs	(493)	(289)	-	(782)
Administrative expenses, of which:	(2 314)	(443)	-	(2 757)
amortization and depreciation	(342)	(52)	-	(394)
Tax on certain financial institutions	(267)	(102)	-	(369)
Share of profit (loss) of associates and joint ventures	-	-	-	11
Segment gross profit	1 357	177	389	1 934
Income tax expense (tax burden)	-	-	-	(425)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(3)
Net profit attributable to equity holders of the parent company	1 357	177	389	1 512

* The data for the first half of 2016 was restated to ensure comparability due to a presentation change resulting from the allocation of subsidiaries 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 Group applies geographical areas distribution. The 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 and in the Czech Republic by the corporate branch. For presentation purposes, the results of companies operating in Sweden and in 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.

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For the period ended 30 June 2017	Poland	Ukraine	Total
Net interest income	4 084	76	4 160
Net fee and commission income	1 417	26	1 443
Other net income	490	8	498
Administrative expenses	(2 879)	(59)	(2 938)
Net impairment allowance and write-downs	(772)	(11)	(783)
Tax on certain financial institutions	(464)	-	(464)
Share of profit (loss) of associates and joint ventures	-	-	11
Profit before income tax	1 876	40	1 927
Income tax expense	-	-	(541)
Profit (loss) attributable to non-controlling shareholders	-	-	4
Net profit attributable to equity holders of the parent company	1 876	40	1 382

As at 30 June 2017	Poland	Ukraine	Total
Assets of which:	284 611	1 778	286 389
non-financial fixed assets	6 487	92	6 579
deferred tax assets and current income tax receivable	1 717	7	1 724
Liabilities	250 446	1 603	252 049

For the period ended 30 June 2016	Poland	Ukraine	Total
Net interest income	3 695	67	3 762
Net fee and commission income	1 283	19	1 302
Other net income	766	1	767
Administrative expenses	(2 710)	(47)	(2 757)
Net impairment allowance and write-downs	(767)	(15)	(782)
Tax on certain financial institutions	(369)	-	(369)
Share of profit (loss) of associates and joint ventures	-	-	11
Profit before income tax	1 898	25	1 934
Income tax expense	-	-	(425)
Profit (loss) attributable to non-controlling shareholders	-	-	(3)
Net profit attributable to equity holders of the parent company	1 898	25	1 512

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



NOTES TO THE CONSOLIDATED INCOME STATEMENT

6. INTEREST INCOME AND EXPENSE

INTEREST AND SIMILAR INCOME ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
loans and other advances to banks	27	63	23	54
loans and advances to customers, of which:	2 248	4 446	2 071	4 068
on impaired loans	67	132	71	145
investment securities	282	527	206	401
derivative hedging instruments	74	143	87	182
financial assets designated upon initial recognition at fair value through profit and loss	50	111	56	109
trading financial assets excluding derivative financial instruments	12	23	16	35
other	-	-	2	3
Total	2 693	5 313	2 461	4 852

INTEREST EXPENSE AND SIMILAR CHARGES ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
amounts due to banks	(42)	(79)	(23)	(39)
amounts due to customers	(413)	(810)	(398)	(795)
debt securities in issue and subordinated liabilities	(100)	(215)	(100)	(195)
debt securities available for sale	(18)	(38)	(18)	(32)
trading financial assets excluding derivative financial instruments	(3)	(5)	(7)	(16)
financial assets designated upon initial recognition at fair value through profit and loss	(3)	(6)	(6)	(13)
Total	(579)	(1 153)	(552)	(1 090)

7. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
payment and credit cards	272	521	272	503
maintenance of bank accounts	217	434	220	438
loans and advances granted	155	306	163	306
maintenance of investment and open pension funds (including management fees)	143	274	106	216
cash transactions	25	50	26	50
servicing foreign mass transactions	25	50	22	41
brokerage activities and issue arrangement	53	100	33	66
offering insurance products	23	44	2	5
sale and distribution of court fee stamps	2	3	2	5
investment and insurance products	17	39	27	51
customer orders	10	21	11	21
fiduciary services	2	3	1	2
other	17	45	27	51
Total	961	1 890	912	1 755

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FEE AND COMMISSION EXPENSE ON:	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
card activities	(152)	(284)	(156)	(285)
commission paid to external entities for sales of products	(21)	(37)	(17)	(33)
cost of construction investment supervision and property valuation	(10)	(21)	(11)	(20)
settlement services	(7)	(17)	(9)	(18)
fee and commissions for operating services provided by banks	(5)	(10)	(5)	(9)
sending text messages (SMS)	(5)	(10)	(4)	(7)
asset management	(4)	(8)	(3)	(8)
fees incurred by the Brokerage House	(5)	(11)	(3)	(7)
other	(19)	(49)	(37)	(66)
Total	(228)	(447)	(245)	(453)

8. DIVIDEND INCOME

DIVIDEND INCOME	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Investment securities available for sale	10	10	9	9
Trading assets	1	1	-	-
Total	11	11	9	9

9. NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

NET INCOME FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Debt securities	4	5	6	8
Equity instruments	(1)	(1)	(2)	-
Derivative instruments (of which an ineffective portion related to cash flow hedges)	(9)	9	(11)	(28)
Other	-	-	1	6
Total	(6)	13	(6)	(14)

10. GAINS LESS LOSSES FROM INVESTMENT SECURITIES

GAINS LESS LOSSES FROM INVESTMENT SECURITIES	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Equity securities*	(4)	2	418	418
Debt securities	-	(1)	7	58
Total	(4)	1	425	476

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



11. FOREIGN EXCHANGE GAINS (LOSSES)

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

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

12. OTHER OPERATING INCOME AND EXPENSE

OTHER OPERATING INCOME	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
gain on sale of products and services*	209	260	116	171
gain on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	14	22	29	51
damages, penalties and fines received	4	16	17	29
sundry income	7	13	7	13
recovery of expired and written-off receivables	1	2	1	2
other	38	75	15	43
Total	273	388	185	309

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

OTHER OPERATING EXPENSE	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
costs of sale of products and services*	(80)	(90)	(83)	(96)
losse on sale and disposal of tangible fixed assets, intangible assets and assets held for sale	(1)	(11)	(29)	(50)
donations	(4)	(13)	(13)	(14)
sundry expenses	(4)	(9)	(4)	(8)
other	(10)	(15)	(23)	(48)
Total	(99)	(138)	(152)	(216)

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

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13. NET IMPAIRMENT ALLOWANCE AND WRITE-DOWNS

NET IMPAIRMENT ALLOWANCE AND WRITE DOWNS	Note	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Investment securities available for sale	25	13	24	(8)	(40)
Amounts due from banks		-	-	1	-
Loans and advances to customers	24	(373)	(750)	(376)	(721)
Tangible fixed assets		-	-	2	4
Intangible assets		-	-	(3)	(3)
Investments in associates and joint ventures	40	(1)	(13)	1	(2)
Inventories		-	-	(1)	(3)
Other receivables (other assets)		(22)	(36)	(8)	(13)
Provision for legal claims, loan commitments and guarantees granted	37	(9)	(8)	(9)	(5)
Provision for future liabilities (Other provisions)	37	-	-	1	1
Total		(392)	(783)	(400)	(782)

14. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Employee benefits	(747)	(1 482)	(711)	(1 400)
Overheads	(347)	(691)	(355)	(709)
Amortization and depreciation	(211)	(420)	(203)	(394)
Contribution to the Bank Guarantee Fund (BGF)	(49)	(305)	(109)	(219)
Taxes and other charges	(21)	(40)	(19)	(35)
Total	(1 375)	(2 938)	(1 397)	(2 757)

According to IFRIC 21 'Levies', fees paid by the Group to the Bank Guarantee Fund are recognized in profit or loss 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	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Wages and salaries, of which:	(623)	(1 230)	(587)	(1 154)
expenses on employee pension programme	(11)	(24)	(11)	(23)
Social insurance, of which:	(104)	(214)	(100)	(203)
contributions to retirement pay and pensions	(86)	(182)	(82)	(172)
Other employee benefits	(20)	(38)	(24)	(43)
Total	(747)	(1 482)	(711)	(1 400)

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

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the tax basis, i.a. by the value of own funds and the value of Treasury securities. Additionally, banks reduce the tax basis by the value of assets acquired from the NBP, constituting collateral of a refinancing loan granted by the NBP. The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th of the month following the month to which it relates. The tax was paid for the first time for February 2016. The tax paid is not tax-deductible for the purpose of corporate income tax.

	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Tax on certain financial institutions, of which:				
PKO Bank Polski SA	(223)	(450)	(220)	(368)
PKO Życie Towarzystwo Ubezpieczeń SA	(1)	(2)	(1)	(1)
PKO Bank Hipoteczny SA	(6)	(11)	-	-
PKO Towarzystwo Ubezpieczeń SA	(1)	(1)	-	-
Total	(231)	(464)	(221)	(369)

16. INCOME TAX

	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Current income tax expense	(307)	(561)	(341)	(573)
Deferred income tax related to temporary differences	28	20	76	148
Income tax expense recognized in the income statement	(279)	(541)	(265)	(425)
Income tax expense recognized in other comprehensive income related to temporary differences	(36)	(92)	73	41
Total	(315)	(633)	(192)	(384)

	01.01-30.06.2017	01.01.-30.06.2016
Profit before income tax	1 927	1 934
Tax calculated using the enacted tax rate (19%) in force in Poland	(366)	(367)
Permanent differences between profit before income tax and taxable income, of which:	(185)	(87)
Recognizing a non-tax-deductible impairment allowance on investments in subsidiaries associates and joint ventures	(3)	2
Impairment allowances on loan exposures not constituting tax-deductible expense	(17)	(13)
Contribution to the BGF	(58)	(13)
Tax on certain financial institutions	(87)	(70)
Other permanent differences	(20)	7
Other differences between profit before income tax and taxable income, including new technologies tax relief and donations	10	29
Income tax expense recognized in the income statement	(541)	(425)
Effective tax rate	28.1%	22.0%

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DEFERRED TAX LIABILITY	31.12.2016	Income statement	Other comprehensive income	30.06.2017
Interest accrued on receivables (loans)	239	(7)	-	232
Capitalized interest on performing housing loans	118	(5)	-	113
Interest on securities	43	14	-	57
Valuation of securities	5	-	2	7
Valuation of derivative financial instruments	2	3	-	5
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets	351	2	-	353
Prepayments	70	40	-	110
Remaining value of taxable temporary differences	2	1	-	3
Gross deferred tax liability	830	48	2	880
DEFERRED TAX ASSET				
Interest accrued on liabilities	110	(12)	-	98
Valuation of derivative financial instruments	184	(25)	(5)	154
Valuation of securities	135	(4)	(85)	46
Provision for employee benefits	91	(7)	-	84
Impairment allowances on loan exposures	720	(20)	-	700
Adjustment of straight-line valuation method and effective interest rate	667	80	-	747
Other temporary negative differences	22	34	-	56
Provision for costs incurred	45	(12)	-	33
Tax loss	15	(3)	-	12
Currency translation differences	14	(22)	-	(8)
Difference between carrying amount and tax value of tangible fixed assets and intangible fixed assets, including lease item	575	59	-	634
Gross deferred income tax asset	2 578	68	(90)	2 556
Total deferred tax impact	1 748	20	(92)	1 676
Deferred tax liability (presented in the statement of financial position)	31			47
Deferred income tax asset (presented in the statement of financial position)	1 779			1 723

As a result of the unfavourable ruling of the Supreme Administrative Court (SAC) of August 2016 and reversing, on its basis, all the complaints of PKO Leasing SA (legal successor of PKO Bankowy Leasing Sp. z o.o.) by the Regional Administrative Court in Łódź (RAC), in its rulings dated 10 January, 13 January and 8 February 2017, in respect of the recognition of excessive tax payments and tax refunds on account of the arrears in payment of VAT, as at 30 June 2017 the PKO Leasing SA Group recognizes a full impairment allowance in respect of the interest receivables on VAT arrears totalling PLN 21.1 million.

The interest receivables on VAT arrears, claimed before administrative courts, result from the decision of the Tax Office in Łódź relating to the method of settlement of excessive tax payments and tax refunds on account of tax arrears for the periods from January 2011 to June 2013, where the excessive VAT payments and refunds were settled against the VAT arrears on the date of filing the corrected returns (in December 2014), and not on the date of payment of the tax in an amount higher than was due, as the Company argued.

In 2017 PKO Leasing SA is planning to continue appealing against the decision of the tax authorities. On 7 April 2017 the Company filed a cassation complaint against the RAC ruling on the settlement of VAT refunds of PLN 20.8 million resulting from the return for February 2011 against the VAT arrears for January 2011. The Company is also undertaking other appeal actions within the limits stipulated in the law, such as the adjustment of the return for January and February 2011.

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17. EARNINGS PER SHARE

Earnings per share	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Net profit attributable to equity holders of the parent company	857	1 382	873	1 512
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)	0.69	1.11	0.70	1.21

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

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

18. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	30.06.2017	31.12.2016
Current account in the Central Bank	9 318	7 460
Cash on hand	4 319	4 185
Deposits with the Central Bank	-	1 680
Total	13 637	13 325

19. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2017	31.12.2016
Deposits with banks	2 171	3 846
Current accounts	1 146	784
Loans and advances granted	16	50
Receivables due from repurchase agreements	-	661
Cash in transit	6	4
Gross total	3 339	5 345
Net total	3 339	5 345

Amounts due from banks - the Group's exposure to credit risk	Exposure	
	30.06.2017	31.12.2016
Amounts due from banks not impaired, not past due	3 339	5 345
Gross total	3 339	5 345
Net total by carrying amount	3 339	5 345



20. TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS

TRADING ASSETS EXCLUDING DERIVATIVE FINANCIAL INSTRUMENTS	30.06.2017	31.12.2016
Debt securities	1 469	312
Treasury bonds PLN	1 313	186
foreign currency Treasury bonds	47	6
municipal bonds PLN	32	42
corporate bonds PLN	77	76
foreign currency corporate bonds	-	2
Shares in other entities - listed on stock exchange	26	11
Investment certificates, rights to shares, pre-emptive rights	4	3
Total	1 499	326

21. DERIVATIVE FINANCIAL INSTRUMENTS

DERIVATIVE FINANCIAL INSTRUMENTS	30.06.2017		31.12.2016		
	Assets	Liabilities	Assets	Liabilities	
Hedging instruments		328	603	382	1 135
Other derivative instruments	1 810	2 420	2 519	3 063	
Total	2 138	3 023	2 901	4 198	

TYPE OF CONTRACT	30.06.2017		31.12.2016	
	Assets	Liabilities	Assets	Liabilities
IRS	1 163	1 533	1 387	2 098
CIRS	288	632	570	1 391
FX Swap	185	207	205	164
Options	379	356	547	437
FRA	2	2	2	2
Forward	119	293	177	106
Other	2	-	13	-
Total	2 138	3 023	2 901	4 198



22. DERIVATIVE HEDGING INSTRUMENTS

The Group applies the following hedging strategies:

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in foreign exchange rates CHF/PLN using CIRS transactions during the hedged period
HEDGED RISK	currency risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the 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: July 2017 – October 2026
STRATEGY 2	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the 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: July 2017 – December 2021



STRATEGY 3		HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge	
HEDGED RISK	interest rate risk	
HEDGING INSTRUMENT	IRS transactions, where the 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: July 2017 – February 2024	
STRATEGY 4		HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations of floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of cash flow fluctuations of fixed interest rate financial liability in foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the period covered by the hedge	
HEDGED RISK	currency risk and interest rate risk	
HEDGING INSTRUMENT	CIRS transactions, where the 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: July 2017 – January 2023	



STRATEGY 5		HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF HEDGE RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in convertible currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates, and changes in foreign exchange rates using CIRS transactions in the period covered by the hedge	
HEDGED RISK	currency risk and interest rate risk	
HEDGING INSTRUMENT	CIRS transactions where the 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: July 2017 – March 2021	

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: July 2017 - July 2023	

Carrying amount/fair value of derivative hedging instruments	30.06.2017		31.12.2016		
	Assets	Liabilities	Assets	Liabilities	
IRS		111	35	90	32
CIRS		217	568	292	1 103
Total		328	603	382	1 135

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	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017	second quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016
Change in other comprehensive income related to cash flow hedges and an ineffective portion of cash flow hedges				
Other comprehensive income at the beginning of the period, gross	(113)	(134)	66	(71)
Gains/losses transferred to other comprehensive income in the period	112	723	(159)	49
Amount transferred from other comprehensive income to the income statement, of which:	(113)	(703)	236	165
- interest income	(74)	(143)	(87)	(182)
- net foreign exchange gains	(39)	(560)	323	347
Accumulated other comprehensive income at the end of the period, gross	(114)	(114)	143	143
Tax effect	21	21	(27)	(27)
Accumulated other comprehensive income at the end of the period, net	(93)	(93)	116	116
Impact on other comprehensive income in the period, gross	(1)	20	77	214
Tax effect	1	(4)	(15)	(41)
Impact on other comprehensive income in the period, net	-	16	62	173
An ineffective portion related to cash flow hedges recognized in the income statement, of which the amount related to:	4	5	(2)	(2)
Net foreign exchange gains (losses)	4	5	-	-
Net income from financial instruments measured at fair value	-	-	(2)	(2)

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	30.06.2017	31.12.2016
Debt securities	7 416	12 204
NBP money bills	3 499	9 079
Treasury bonds PLN	2 721	1 812
foreign currency Treasury bonds	972	1 075
municipal bonds PLN	106	111
foreign currency municipal bonds	118	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	1 629	1 733
Total	9 045	13 937

24. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers by product type	30.06.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
Loans	195 064	(7 593)	187 471	189 736	(7 478)	182 258
housing	108 045	(2 105)	105 940	108 321	(2 200)	106 121
corporate	61 460	(3 860)	57 600	56 722	(3 807)	52 915
consumer	25 559	(1 628)	23 931	24 693	(1 471)	23 222
Debt securities	4 951	(76)	4 875	4 948	(77)	4 871
debt securities (corporate)	2 422	(70)	2 352	2 352	(69)	2 283
debt securities (municipal)	2 529	(6)	2 523	2 596	(8)	2 588
Receivables due from repurchase agreements	155	-	155	1 339	-	1 339
Finance lease receivables	12 568	(449)	12 119	12 586	(448)	12 138
Total	212 738	(8 118)	204 620	208 609	(8 003)	200 606

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Loans and advances to customers by method of calculating impairment allowances	30.06.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
individual basis, of which:	5 692	(2 419)	3 273	6 551	(2 608)	3 943
impaired	4 575	(2 412)	2 163	5 049	(2 594)	2 455
not impaired	1 117	(7)	1 110	1 502	(14)	1 488
portfolio basis, of which:	7 538	(5 013)	2 525	7 183	(4 766)	2 417
impaired	7 528	(5 013)	2 515	7 171	(4 766)	2 405
not impaired	10	-	10	12	-	12
group basis (IBNR)	199 508	(686)	198 822	194 875	(629)	194 246
Total	212 738	(8 118)	204 620	208 609	(8 003)	200 606

Loans and advances to customers - the Group's exposure to credit risk	30.06.2017			31.12.2016		
	Gross	Impairment allowances	Net	Gross	Impairment allowances	Net
impaired, of which:	12 103	(7 425)	4 678	12 220	(7 360)	4 860
assessed on an individual basis	4 575	(2 412)	2 163	5 049	(2 594)	2 455
not impaired, of which:	200 635	(693)	199 942	196 389	(643)	195 746
with recognized individual impairment trigger	1 127	(7)	1 120	1 452	(14)	1 438
not past due	898	(6)	892	1 199	(13)	1 186
past due	229	(1)	228	253	(1)	252
without recognized individual impairment trigger/IBNR, of which:	199 508	(686)	198 822	194 937	(629)	194 308
not past due	195 153	(486)	194 667	190 628	(436)	190 192
past due	4 355	(200)	4 155	4 309	(193)	4 116
Total	212 738	(8 118)	204 620	208 609	(8 003)	200 606

Loans and advances to customers by client segment	30.06.2017	31.12.2016
Loans and advances to customers, gross, of which:	212 738	208 609
mortgage banking	101 443	101 389
corporate (receivables due from repurchase agreements)	57 273	54 522
retail and private banking	25 568	24 701
small and medium enterprises	28 454	27 997
Impairment allowances on loans and advances	(8 118)	(8 003)
Loans and advances to customers, net	204 620	200 606

Loan quality ratios	30.06.2017	31.12.2016
Share of impaired loans	5.7%	5.9%
Coverage ratio of impaired loans*	67.1%	65.5%
Share of loans overdue more than 90 days in relation to the gross amount of loans and advances to customers	4.4%	4.4%

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

Impairment allowances on loans and advances to customers - reconciliation of movements in the first half of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Recoveries from written-off exposures*	Net - impact on the income statement
housing loans	2 200	418	(294)	(148)	(71)	2 105	5	(119)
corporate loans	3 807	1 112	(747)	(245)	(67)	3 860	16	(349)
consumer loans	1 471	661	(410)	(82)	(12)	1 628	2	(249)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
finance lease receivables	448	127	(93)	(31)	(2)	449	-	(34)
Total	8 003	2 319	(1 546)	(506)	(152)	8 118	23	(750)

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

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Impairment allowances on loans and advances to customers – reconciliation of movements in the first half of 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlement	Other	Value at the end of the period	Recoveries from written-off exposures*	Net - impact on the income statement
housing loans	2 337	638	(457)	(219)	-	2 299	2	(179)
corporate loans	4 107	938	(549)	(268)	(17)	4 211	34	(355)
consumer loans	1 569	552	(377)	(59)	2	1 687	1	(174)
debt securities (corporate)	69	4	-	-	-	73	-	(4)
debt securities (municipal)	3	5	-	-	-	8	-	(5)
finance lease receivables	202	54	(50)	(7)	-	199	-	(4)
Total	8 287	2 191	(1 433)	(553)	(15)	8 477	37	(721)

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

RECLASSIFICATION OF SECURITIES

In 2012 due to the change of intention as regards holding of the selected portfolio of non-treasury securities classified upon initial recognition as available for sale, the 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	30.06.2017		31.12.2016		
	fair value	carrying amount	fair value	carrying amount	
Municipal bonds		600	606	623	628
Corporate bonds		8	8	8	8
Total		608	614	631	636

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

Estimated change in impairment allowances on loans and advances resulting from implementation of scenarios of worsening or improving risk parameters, of which:*	30.06.2017		31.12.2016		
	+10% scenario	-10% scenario	+10% scenario	-10% scenario	
change in the present value of estimated future cash flows for the Bank's loans and advances portfolio assessed on an individual basis (individually determined to be impaired)		(173)	269	(196)	320
change in probability of default		47	(47)	49	(49)
change in recovery rates		(346)	346	(353)	353

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



25. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale	30.06.2017	31.12.2016
Debt securities, gross	38 857	36 419
Treasury bonds PLN	29 255	25 744
foreign currency Treasury bonds	187	678
municipal bonds PLN	4 527	4 552
corporate bonds PLN	4 330	4 800
foreign currency corporate bonds	558	645
Impairment allowances	(246)	(277)
corporate bonds PLN	(243)	(210)
foreign currency corporate bonds	(3)	(67)
Total net debt securities	38 611	36 142
Equity securities available for sale, gross	253	285
not admitted to public trading	130	129
admitted to public trading	123	156
Impairment allowances	(32)	(67)
Total net equity securities	221	218
Participation units in investment funds and shares in joint investment institutions	274	316
Total net investment securities available for sale	39 106	36 676

Investment debt securities available for sale - the Group's exposure to credit risk	Exposure	
	30.06.2017	31.12.2016
impaired, assessed on an individual basis	820	1 297
not impaired, not past due	38 037	35 122
with external rating	33 366	30 034
with internal rating	4 671	5 088
Gross total	38 857	36 419
Impairment allowances	(246)	(277)
Net total	38 611	36 142

Impairment allowances - reconciliation of movements in the first half of 2017	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net- impact on the income statement
Debt securities	277	77	(66)	(42)	246	(11)
Equity securities	67	-	(35)	-	32	35
Total	344	77	(101)	(42)	278	24

Impairment allowances - reconciliation of movements in the first half of 2016	Value at the beginning of the period	Recognized during the period	Reversed during the period	Other	Value at the end of the period	Net- impact on the income statement
Debt securities	57	40	-	1	98	(40)
Equity securities	76	-	-	-	76	-
Total	133	40	-	1	174	(40)



26. INVESTMENT SECURITIES HELD TO MATURITY

Investment securities held to maturity	30.06.2017	31.12.2016
Debt securities, of which:		
Treasury bonds PLN	948	199
foreign currency Treasury bonds	236	267
Total	1 184	466

27. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale	30.06.2017	31.12.2016
Land and buildings	27	14
Total	27	14

28. INVENTORIES

Inventories	30.06.2017	31.12.2016
Goods	284	190
Finished goods	23	29
Building investments for sale	-	55
Materials	8	11
Impairment allowances on inventories	(25)	(25)
Total	290	260

29. INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS

INTANGIBLE ASSETS

Intangible assets	30.06.2017	31.12.2016
Software	1 568	1 612
Goodwill	1 264	1 252
Future profits on concluded insurance contracts	74	81
Customer relationships	92	98
Other, including capital expenditure	287	379
Total	3 285	3 422

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GOODWILL

Net goodwill	30.06.2017	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	30.06.2017	31.12.2016
Land and buildings	1 805	1 864
Machinery and equipment	485	488
Assets under construction	36	103
Other	678	631
Total	3 004	3 086

OPERATING LEASE – LESSOR

Total value of future lease payments under irrevocable operating lease	30.06.2017	31.12.2016
For the period:		
up to 1 year	50	50
from 1 year to 5 years	109	106
over 5 years	-	10
Total	159	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	30.06.2017	31.12.2016
Means of transport	269	208
Properties	19	70
Machinery and equipment	6	6
Total	294	284

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30. OTHER ASSETS

OTHER ASSETS	30.06.2017	31.12.2016
Settlements of payment cards transactions	1 180	1 236
Settlements of financial instruments (including unpaid option premium)	363	382
Cash settlement receivables	94	125
Receivables and settlements of securities turnover	51	80
Receivables from dividends to be received	9	-
Receivables due to discharge of excess currency	62	26
Assets for sale	156	178
Prepayments	340	291
Trade receivables	207	173
VAT receivables	133	102
Reinsurance receivables	448	377
Other	68	64
Total	3 111	3 034
of which financial assets	2 281	2 247

31. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2017	31.12.2016
Loans and advances received*	15 025	17 567
Bank deposits	691	800
Amounts due from repurchase agreements	408	206
Current accounts	545	593
Other money market deposits	34	42
Total	16 703	19 208

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

32. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.06.2017	31.12.2016
Amounts due to retail clients	149 930	148 000
Current accounts and overnight deposits	79 666	72 365
Term deposits	69 838	75 304
Other liabilities	426	331
Amounts due to corporate entities	47 950	48 657
Current accounts and overnight deposits	30 195	30 987
Term deposits	12 953	11 947
Loans and advances received	3 939	4 662
Other liabilities	863	1 061
Amounts due to budget entities	9 368	8 409
Current accounts and overnight deposits	8 263	8 163
Term deposits	1 083	187
Other liabilities	22	59
Total	207 248	205 066

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AMOUNTS DUE TO CUSTOMERS BY CLIENT SEGMENT	30.06.2017	31.12.2016
Amounts due to customers, of which:		
retail and private banking	142 273	140 021
corporate	38 722	37 639
small and medium enterprises	22 307	22 734
loans and advances received	3 939	4 662
other liabilities	7	10
Total	207 248	205 066

33. LIABILITIES DUE TO INSURANCE OPERATIONS

LIABILITIES DUE TO INSURANCE OPERATIONS	30.06.2017	31.12.2016
Technical provisions	763	543
Liabilities due to insurer's investment contracts divided into:	2 268	2 401
Unit-linked insurance financial products	1 987	2 130
'Safe Capital' product	266	268
other	15	3
Total	3 031	2 944

34. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	30.06.2017	31.12.2016
Financial instruments measured at amortized cost	16 256	14 493
bonds issued by PKO Finance AB	6 097	6 705
bonds issued by PKO Bank Polski SA	665	1 693
bonds issued by the PKO Leasing SA Group*	1 556	1 742
bonds issued by PKO Bank Hipoteczny SA	1 861	1 151
covered bonds issued by PKO Bank Hipoteczny SA	6 077	3 202
Total	16 256	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 CAPITAL SECURITIES

In the first half of 2017 in the PKO Bank Polski SA Group the following issues, repurchases and redemptions of securities took place:

REGARDING COVERED BONDS

PKO Bank Hipoteczny SA conducted four issues of covered bonds, including:

- a foreign issue in the form of a private placement, denominated in EUR, addressed to institutional investors, with nominal value totalling EUR 25 million and period to redemption of 7 years from the issue date; the bonds bore a fixed interest rate of 0.82% in the period of issuance and a yield at the price fixing date of 0.82%; the covered bonds were purchased by the investors at a price equal to their nominal value and are quoted on the Luxembourg stock exchange;
- a foreign issue denominated in EUR, addressed to institutional investors, with nominal value totalling EUR 500 million and period to redemption of 5 years and 10 months from the issue date; the bonds bore a fixed interest rate of 0.625% and a yield of 0.63% as at the date of setting the price; the covered bonds were purchased by the investors at a price equal to 99.972% of their nominal value and are quoted on the Luxembourg and Warsaw stock exchanges;

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- a domestic issue denominated in PLN, addressed to institutional investors, with nominal value totalling PLN 500 million and period to redemption of 5 years and 20 days from the issue date; variable interest was set at 3 M WIBOR + a margin of 0.69 p.p.; the covered bonds were purchased by investors at a price equal to their nominal value and are listed on the Warsaw Stock Exchange;
- a domestic issue denominated in PLN, addressed to institutional investors, with nominal value totalling PLN 265 million and a period to redemption of 4 years and 3 months from the issue date; the fixed interest rate during the issue period is 2.69%; the covered bonds were purchased by investors at a price equal to their nominal value and are listed on the Warsaw Stock Exchange.

Covered bonds issued by PKO Bank Hipoteczny SA

Issuance date	Nominal value	Currency	Maturity date	Carrying amount as at 30.06.2017	Carrying amount as at 31.12.2016
11.12.2015	30	PLN	11.12.2020	17	16
27.04.2016	500	PLN	28.04.2021	486	486
17.06.2016	500	PLN	18.06.2021	498	498
24.10.2016	500	EUR	24.06.2022	2 103	2 202
02.02.2017	25	EUR	02.02.2024	106	-
30.03.2017	500	EUR	24.01.2023	2 111	-
28.04.2017	500	PLN	18.05.2022	496	
22.06.2017	265	PLN	10.09.2021	260	
Total				6 077	3 202

REGARDING BONDS

- In the first half of 2017 the Bank issued 6 700 bank bonds with a nominal value of PLN 670 million, at the same time redeemed bank bonds in the amount of EUR 200 million and bank bonds in the amount of PLN 815 million (in the first half of 2016 the Bank issued bank bonds in EUR with a nominal value of PLN 886 million (EUR 200 million) measured by amortized cost. In the first half of 2016 redemption of investment securities and bank bonds in PLN with a nominal value of PLN 860 million and bank bonds in EUR with a nominal value of PLN 858 million (EUR 200 million).
- PKO Bank Hipoteczny SA issued 26 276 bonds with a total nominal value of PLN 2 628 million and redeemed 18 629 bonds with a total nominal value of PLN 1 863 million. Bond issues are regulated by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. At the same time, pursuant to the Underwriting Agreement PKO Bank Polski SA underwrites the issues of bonds up to a total amount of PLN 2 billion. In the first half of 2016, PKO Bank Hipoteczny SA issued the bonds with a nominal value of PLN 309 million and redeemed the bonds with a nominal value of PLN 62 million. At the same time, in the first half of 2016 PKO Bank Hipoteczny SA issued covered bonds with a nominal value of PLN 1 000 million.
- PKO Leasing SA issued 491 751 bonds with a total nominal value of PLN 492 million and redeemed 450 225 bonds with a total nominal value of PLN 450 million. The Company's bond issues are regulated by the Bond Issue Agreement concluded with PKO Bank Polski SA. Bond issues are not underwritten by the Bank. In the first half of 2016, PKO Leasing SA issued the bonds with a nominal value of PLN 927 million and redeemed the bonds with a nominal value of PLN 1 130 million.
- PKO Leasing SA (legal successor of Raiffeisen-Leasing Polska SA) repurchased 2 270 bonds before they matured at the request of Raiffeisen Bank Polska SA, with a total nominal value of PLN 227 million. The repurchase was financed with the funds received from the PKO Bank Polski SA as a loan, based on the agreement signed in December 2016.

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Bonds issued by PKO Finance AB

Issuance date	Nominal value	Currency	Maturity date	Carrying amount as at 30.06.2017	Carrying amount as at 31.12.2016
25.07.2012	50	EUR	25.07.2022	217	222
26.09.2012	1 000	USD	26.09.2022	3 746	4 224
23.01.2014	500	EUR	23.01.2019	2 134	2 259
Total				6 097	6 705

35. SUBORDINATED LIABILITIES

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

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

36. OTHER LIABILITIES

	30.06.2017	31.12.2016
Accounts payable	558	573
Deferred income	493	589
Liability due to tax on certain financial institutions	75	77
Interbank settlements	423	813
Liabilities relating to investment activities and internal operations	167	350
Liabilities due to suppliers	284	206
Liabilities and settlements due to securities turnover	376	210
Financial instruments settlements (of which unpaid option premium)	302	355
Liabilities due to the contribution to the Bank Guarantee Fund	238	-
Social and legal settlements	136	99
Liabilities from foreign currency activities	192	217
Liabilities related to payment cards	45	111
Liabilities due to insurance companies	125	146
Other	260	241
Total	3 674	3 987
of which financial liabilities	2 785	3 058

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

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37. PROVISIONS

For the period ended 30 June 2017	Provisions for legal claims	Provisions for retirement benefits	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2017, of which:	24	46	67	92	229
Short term provision	24	7	51	92	174
Long term provision	-	39	16	-	55
Increase/reassessment of provision	11	-	113	1	125
Release of provision	(16)	(1)	(100)	(1)	(118)
Use of provision	(6)	-	-	(21)	(27)
Other changes and reclassifications	-	-	(1)	-	(1)
As at 30 June 2017, of which:	13	45	79	71	208
Short term provision	13	6	64	71	154
Long term provision	-	39	15	-	54

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

For the period ended 30 June 2016	Provisions for legal claims	Provisions for retirement benefits	Provisions 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	18	-	142	3	163
Release of provision	(7)	-	(148)	(4)	(159)
Use of provision	(6)	(1)	-	(13)	(20)
Other changes and reclassifications	-	-	1	-	1
As at 30 June 2016, of which:	27	45	78	87	237
Short term provision	27	3	56	87	173
Long term provision	-	42	22	-	64

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

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



38. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

Equity	30.06.2017	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:	(71)	(468)
Share in other comprehensive income of associates and joint ventures	(2)	(1)
Financial assets available for sale	35	(347)
Cash flow hedges	(93)	(109)
Actuarial gains and losses	(11)	(11)
Currency translation differences on foreign operations	(233)	(221)
Undistributed profits	(66)	(19)
Net profit for the period	1 382	2 874
Non-controlling interests	(12)	(16)
Total	34 340	32 569

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

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

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

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

- 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),
- shareholders who have the rights from A-series registered shares (the State Treasury),
- 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%.

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

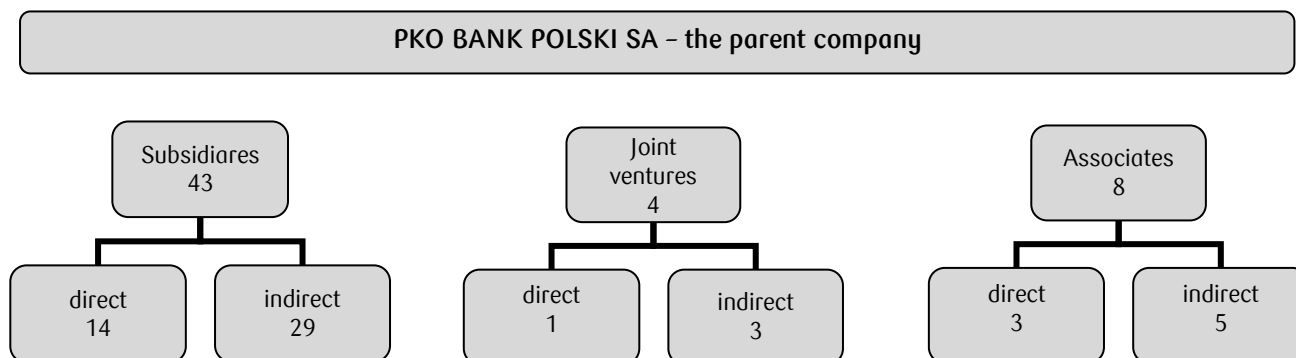
The Bank's shares are listed on the Warsaw Stock Exchange.

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

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



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	
			30.06.2017	31.12.2016
DIRECT SUBSIDIARIES				
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'.

No.	NAME OF ENTITY	HEADQUARTERS	% SHARE IN EQUITY *	
			30.06.2017	31.12.2016
INDIRECT SUBSIDIARIES				
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

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The Qualia Development Sp. z o.o. GROUP ⁶				
8	Qualia 3 Sp. z o.o.	Warsaw	100	100
9	Qualia 2 Sp. z o.o.	Warsaw	100	100
10	Qualia Sp. z o.o.	Warsaw	100	100
11	Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	99.9975	99.9975
12	Qualia sp. z o.o. – Sopot Sp. k.	Warsaw	99.9546	99.9787
13	Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.	Warsaw	99.9750	99.9750
14	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw	99.9123	99.9123
15	Qualia Hotel Management Sp. z o.o.	Warsaw	100	100
16	Qualia - Residence Sp. z o.o.	Warsaw	100	100
17	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
18	Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	100	100
19	FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	51	51
	Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k. ⁷	Warsaw	-	50
Merkury - fiz an				
20	'Zarząd Majątkiem Górczewska' Sp. z o.o.	Warsaw	100	100
21	Molina Sp. z o.o.	Warsaw	100	100
22	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
23	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
24	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
25	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
26	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
27	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
NEPTUN - fiz an				
28	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	'Inter-Risk Ukraina' Additional Liability Company ⁸	Kiev, Ukraine	99.90	-
29	'CENTRUM HAFFNERA' Sp. z o.o.	Sopot	72.9766	72.9766
	'Sopot Zdrój' Sp. z o.o.	Sopot	100	100
	'Promenada Sopocka' Sp. z o.o.	Sopot	100	100

* share in share capital of direct parent entity

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



NAME OF THE SUBSIDIARY	THE CORE BUSINESS
<p>PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA</p>	<p>The core business of the company is the creation, representation towards third parties and the management of open and closed investment funds and management of clients portfolio, which include one or more financial instruments. The company also offers specialized investment programmes and conducts employee pension programmes (PPE).</p>
<p>PKO BP BANKOWY PTE SA</p>	<p>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.</p>
<p>PKO BANK HIPOTECZNY SA</p>	<p>The core business of the company is issuance of coverage bonds, which constitute the main source of long-term financing of loans secured with mortgage. The company specializes in granting mortgage housing loans to individual clients and it also purchases receivables relating to such loans from the Bank.</p>
<p>PKO LEASING SA</p>	<p>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.</p> <p>Moreover the subsidiary PKO Leasing Finanse Sp. z o.o. deals with keeping, preparation and active selling of post-debt-collection, post-contract objects and PKO Agencja Ubezpieczeniowa Sp. z o.o. provides specialist services within the scope of creating insurance products and programmes for clients of financial institutions. The Group also includes a special purpose company with its registered office in Ireland, formed for the purpose of securitization of lease receivables.</p> <p>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.</p>
<p>PKO BP FINAT SP. Z O.O.</p>	<p>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 clients 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 dedicated to the products offered by the Bank.</p>
<p>PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA</p>	<p>The scope of the company's operations comprises insurance activities in the area of section I of insurance - life insurance. The factual scope of the company's operations comprises policies in all categories of insurance covered by the PFSA licence (groups 1, 2, 3, 4, 5 of section I). The Company offers a wide range of insurance products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.</p>
<p>PKO TOWARZYSTWO UBEZPIECZEŃ SA</p>	<p>The business of the company is an insurance activity within the scope of section II of insurance - other personal insurance and property insurance. The factual scope of the company's operations comprises policies in all categories of insurance covered by the PFSA licence (groups 1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 of section II).</p> <p>PKO TU SA focuses on insuring the risks of income loss, accidents, sickness and on insuring real properties for borrowers and holders of mortgage loans. The company offers a wide range of insurance products addressed to the clients of PKO Bank Polski SA and to other entities in the Bank's Group.</p>



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.	<p>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.</p> <p>In the first half of 2017, the Group continued activities related to ended the execution of current projects and selling selected property and companies.</p>
KREDOBANK SA	<p>KREDOBANK SA is a universal bank, focused on customer service of retail clients and small and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time company strives to attract corporate customers with high creditworthiness.</p> <p>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.</p> <p>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.</p>
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.	<p>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.</p> <p>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.</p> <p>CEUP eService Sp. z o.o., one of the largest clearing agents in Poland, is the company's strategic partner.</p>
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.

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The Group holds the following associates and joint ventures:

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

* share in share capital of direct parent entity

NAME OF JOINT VENTURES AND ASSOCIATES	THE CORE BUSINESS
CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.	<p>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.</p> <p>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.</p> <p>Both entities participate jointly in tenders and the cooperation is governed by agreements on, i.a.:</p> <ul style="list-style-type: none"> 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. <p>The company has two direct subsidiaries and exerts full control over these subsidiaries.</p>
'CENTRUM OBSŁUGI BIZNESU' SP. Z O.O.	<p>The company is the joint project of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. PKO Bank Polski SA 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.</p> <p>Since June 2015, the company's shares are included in the portfolio of a Bank's subsidiary, NEPTUN - fizan.</p>



BANK POCZTOWY SA	<p>Bank Pocztyowy SA specializes in standard banking products offered to retail clients and a supplementary offer for micro-businesses and institutional clients. The bank also operates in the segment of settlements and treasury. As part of the strategic partnership with Poczta Polska SA (shareholder with 75% minus 10 shares of the Company) uses a potential of a shareholder and develops a range of products in collaboration with stakeholders across the Poczta Polska SA Group.</p> <p>The company has two direct subsidiaries and exerts full control over these subsidiaries.</p>
'POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH' SP. Z O.O.	<p>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 (<i>Joint European Resources for Micro to Medium Enterprises</i>), which are re-underwritten mutually at 70% or 80% from the Wielkopolski Regionalny Program Operacyjny, managed by Bank Gospodarstwa Krajowego.</p> <p>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.</p>
FERRUM SA	<p>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 subsidiaries¹.</p> <p>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.</p>

40. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Joint ventures	30.06.2017	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)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	237	227
Value of shares as at the date of obtaining joint control	197	197
Change in share of net assets	40	30
Total	237	227

¹ Data consistent with the extended consolidated report of the FERRUM SA Group for the first quarter of 2017.

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Associates	30.06.2017	31.12.2016
The Bank Pocztowy SA Group	117	133
Purchase price	162	162
Change in share of net assets	80	84
Impairment allowance	(125)	(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	26	26
Purchase price	25	25
Change in share of net assets	1	1
Total	143	159

Change in investments in joint ventures	01.01- 30.06.2017	01.01- 30.06.2016
Investments in joint ventures as at the beginning of the period	227	206
Share in profits and losses	14	11
Net impairment allowance	(1)	1
Dividend	(3)	-
Investments in joint ventures as at the end of the period	237	218

Change in investments in associates	01.01- 30.06.2017	01.01- 30.06.2016
Investments in associates as at the beginning of the period	159	186
Net impairment allowance	(12)	(3)
Share in profits and losses	(3)	-
Share in other comprehensive income of an associate	(1)	3
Increase in equity interest in an associate	-	1
Investments in associates as at the end of the period	143	187

Impairment allowances – reconciliation of movements	01.01- 30.06.2017	01.01- 30.06.2016
Value at the beginning of the period	120	90
Recognized during the period	13	3
Reversed during the period	-	(1)
Value at the end of the period	133	92
Net impact in the income statement	(13)	(2)

A summary of the financial data separately for each joint venture and each associate of the PKO Bank Polski SA Group was presented below. The amounts presented are derived from the financial statements of the specific entities prepared in accordance with IFRS or Polish Accounting Standards (PAS).

Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group (in accordance with IFRS)	30.06.2017	31.12.2016
Current assets	178	140
Non-current assets	194	199
Short-term liabilities	123	118
Long-term liabilities	29	32
	01.01- 30.06.2017	01.01- 30.06.2016
Revenues	229	240
Profit (loss) for the period	41	41
Total comprehensive income	41	41
Dividends received from an entity classified as joint venture	3	-

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'Centrum Obsługi Biznesu' Sp. z o.o. (in accordance with PAS)	30.06.2017	31.12.2016
Current assets	10	11
Non-current assets	83	85
Short-term liabilities	21	18
Long-term liabilities	65	74
	01.01- 30.06.2017	01.01- 30.06.2016
Revenues	15	11
Profit (loss) for the period	3	(2)
Bank Pocztowy SA Group (in accordance with IFRS, data published by the Company)	31.12.2016	31.12.2015
Total assets	6 937	7 213
Total liabilities	6 413	6 671
	01.01- 31.12.2016	01.01- 31.12.2015
Revenues	469	473
Profit (loss) for the period	2	34
Other comprehensive income	(21)	9
Total comprehensive income	(19)	43
'Poznański Fundusz Poręczeń Kredytowych' Sp. z o.o. (in accordance with PAS)	30.06.2017	31.12.2016
Current assets	24	23
Short-term liabilities	4	3
Long-term liabilities	2	3
	01.01- 30.06.2017	01.01- 30.06.2016
Revenues	1	2
Profit (loss) for the period	-	1
FERRUM SA Group (in accordance with IFRS, data published by the Company)	31.03.2017	31.12.2016
Current assets	106	97
Non-current assets	166	168
Short-term liabilities	207	201
Long-term liabilities	15	15
	01.01- 31.03.2017	01.01- 31.03.2016
Revenues	76	62
Profit (loss) for the period	1	(2)
Total comprehensive income	1	(2)

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

DESCRIPTION OF THE TRANSACTION

On 2 November 2016, PKO Bank Polski SA (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.

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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 3 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 June 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.

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

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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
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 first half of 2017 the following events affecting the structure of the Group took place:

REGARDING THE PURCHASE AND INCREASING THE CAPITAL OF ZENCARD SP. Z O.O.

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

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

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

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

REGARDING THE QUALIA DEVELOPMENT SP. Z O.O. GROUP

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

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



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

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

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

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

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

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

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

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

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

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

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

REGARDING OTHER COMPANIES

- **PKO Bank Hipoteczny SA**

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

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

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

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

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

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

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



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

• **Bankowe Towarzystwo Kapitałowe SA**

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

• **PKO Finance AB**

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

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

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

• **PKO Bank Hipoteczny SA**

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

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

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

• **related to the FERRUM SA Group**

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

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

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

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



OTHER NOTES

43. DIVIDENDS PER SHARE AND PROFIT DISTRIBUTION

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

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

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

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

In accordance with the dividend policy of PKO Bank Polski SA, profit distributions are executed in the long term taking into account the principle of prudent management of the Bank and the 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 June 2017			
Company A	corporate bonds	1 055	31.07.2020
Company B	corporate bonds	1 032	31.12.2020
Company C	corporate bonds	443	15.06.2022
Company D	corporate bonds	64	31.12.2022
Company E	corporate bonds	4	31.12.2026
Total		2 598	

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

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

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LOAN COMMITMENTS GRANTED

Nominal value of loan commitments granted	30.06.2017	31.12.2016
Credit lines and limits		
to financial entities	2 957	2 764
to non-financial entities	36 618	39 525
to public entities	4 325	3 856
Total	43 900	46 145
of which: irrevocable loan commitments	27 412	31 078

GUARANTEE LIABILITIES GRANTED

Guarantees and pledges granted	30.06.2017	31.12.2016
Guarantees granted in domestic and foreign trading	5 551	6 060
Guarantees and pledges granted - domestic corporate bonds	3 596	3 769
Letters of credit granted	1 468	1 600
Guarantees and pledges granted - payment guarantee	150	151
Guarantees and pledges granted - domestic municipal bonds	576	351
Total	11 341	11 931
of which performance guarantees granted	2 533	2 447

LIABILITIES GRANTED BY MATURITY

Off-balance sheet liabilities granted by maturity - 30.06.2017	up to 1 month	from 1 month to 3 months	from 3 months to 1 year	from 1 year to 5 years	over 5 years	Total
Loan commitments granted	11 704	2 736	11 410	11 477	6 573	43 900
Guarantee liabilities granted	236	835	3 707	4 696	1 867	11 341
Total	11 940	3 571	15 117	16 173	8 440	55 241

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	30.06.2017	31.12.2016
Financial	87	304
Guarantees	9 856	7 972
Total	9 943	8 276



CONTRACTUAL COMMITMENTS

Value of contractual commitments concerning:	30.06.2017	31.12.2016
intangible assets	30	36
tangible fixed assets	145	24
Total	175	60

45. LEGAL CLAIMS

As at 30 June 2017, the total amount in litigation where the Bank and other Group companies are defendants (suits) was PLN 373 million, including PLN 19 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 June 2017 where the Bank and other Group Companies are plaintiffs was PLN 1 165 million, including PLN 31 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 Bank and other Group Companies have not conducted any proceedings pending before court, arbitration tribunal or a public administration authority concerning liabilities or receivables, the value of which constitutes at least 10% of the equity of the Group.

The most significant legal claims of the Bank 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 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The Court obligated MasterCard to submit explanations concerning the issue and scheduled the date of the next meeting for 9 February 2012 and next SOKiK postponed announcing the court's decision on request for suspension until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including the Bank, 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 Competition and Consumer Protection Office (UOKiK) and of the Polish Trade and Distribution Organization (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Ltd., Bank Pocztowy SA, Bank Gospodarki Żywnościowej SA, mBank SA, Deutsche Bank PBC SA, HSBC Bank Polska SA (appeals aimed at imposing more strict fines on participants to the agreement). The Court of Appeal in Warsaw in its verdict of 6 October 2015, dismissed the appeal of banks and Visa Europe Ltd, while the appeal of the UOKiK. The Court restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. the penalty in the



amount of PLN 16.6 million – penalty imposed on PKO Bank Polski and the penalty in the amount of PLN 4.8 million (penalty imposed on Nordea Bank Polska SA). The penalties were paid by the Bank in October 2015. On 28 April 2016, the Bank filed a cassation complaint along with the other participants in the proceedings. On 28 November 2016, the Bank's plenipotentiary filed an application for filing a pleading with a respective statement of grounds and a pleading. By decision dated 5 December 2016, the Supreme Court allowed the Bank to file the pleading. The Supreme Court scheduled the date on 4 April 2017 for the hearing in camera with reference to accepting the banks' cassation complaints for investigation (the so-called preliminary acceptance). On 4 April 2017 the Supreme Court decided to investigate the cassation complaint of, among other things, the Bank, at the hearing, but refused to accept the complaints filed by DNB Bank Polska, Bank Ochrony Środowiska SA, Getin Noble Bank SA, and HSBC Bank Polska SA for investigation. The hearing before the Supreme Court has not been scheduled.

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

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

By decision of 31 December 2013, by the President of UOKiK, the Bank's activities were considered as practices violating collective interests of consumers and a fine in the amount of PLN 29 million was imposed on the Bank. The Bank appealed against this decision to SOKiK. By judgment of 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK. On 21 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank responded to the appeal rejecting the allegations of the President of the UOKiK. By judgement of 31 May 2017, the Court of Appeal in Warsaw maintained the verdict of the SOKiK with regard to revoking item I of the Decision, i.e. the acknowledgement that the Bank violated the collective interest of consumers by applying the so-called variable interest clauses (which according to the UOKiK are equivalent to clauses entered in the register of abusive clauses). The Court of Appeal shared the view presented in the appeal against the Decision and in a subsequent resolution of the Supreme Court (III CZP 17/15) that entering a clause in the register is only effective with respect to the entrepreneur whose decision has been entered in the register (and not with respect to other entrepreneurs). Consequently, the Court of Appeal maintained the decision to cancel the penalty in the total amount of PLN 17 million. With regard to the other alleged malpractice (one-day information form), the Court of Appeal considered the appeal of the UOKiK to be justified, however, only in part. The Court ruled out that using a form with a one-day period of 'validity' contradicted the purpose of Directive 2008/48/EC and made it impossible for consumers to understand the terms and conditions of a loan and compare the offers of different banks. However, the Court of Appeal reduced the penalty imposed by the UOKiK from PLN 12 million to PLN 6 million. The Court of Appeal took into account the fact that the explanatory proceedings in the case were initiated 3 months after the regulations concerning the form entered into force and that the Bank's revenues from the operations relating to products affected by the above-mentioned practice in question represented only a part (20%) of the Bank's total revenue, and therefore it reduced the base amount initially used by the UOKiK by 40%. The total penalty imposed on the Bank in connection with this case was reduced to PLN 6 million. The Bank will make a decision on whether or not to file a cassation complaint to the Supreme Court after receiving a written justification for the verdict. In July 2017 the penalty was paid.

- **INITIATED BY BANK – AT THE CONCLUSION OF THE APPEAL PROCEEDING BROUGHT BY THE BANK TO SOKiK AGAINST THE DECISION OF THE PRESIDENT OF UOKiK IN CONNECTION WITH THE USE OF UNFAIR CONTRACTUAL TERMS IN TEMPLATES OF INDIVIDUAL CONTRACTS (IKE)**

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

- 1) PLN 7.1 million for not indicating in the IKE agreements responsibilities of the Bank for timely and proper carrying out the monetary settlements and compensation for the delay in execution of a holder instruction;
- 2) PLN 4.7 million for application in the form of IKE agreements, an open list of termination conditions;
- 3) PLN 2.9 million for application a clause, entered in the register, defining for disputes with customers a court with jurisdiction over the seat of PKO Bank Polski SA's branch, carrying the IKE deposit account.

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

- the practice described in the point 1 above - it reduced the penalty to the amount of PLN 2.5 million,
- the practice described in the point 2 above - it reduced the penalty to the amount of PLN 1.5 million,
- the practice described in the point 3 above - the penalty was repealed, as the Court considered that the practice of the Bank did not violate collective interests of consumers.



In January 2015 both the Bank and the President of the UOKiK appealed against the judgment. The Court of Appeal in its judgment of 10 February 2016 dismissed the appeal of the Bank and the appeal of the President of UOKiK. Since the judgment is final, the Bank paid a fine in the amount of PLN 4 million on 23 February 2016. On 26 September 2016 bank appealed a cassation complaint to the Supreme Court. On 20 April 2017 the Supreme Court decided to accept the Bank's cassation complaint for investigation. The case is pending.

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

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

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

• **BEFORE THE PRESIDENT OF UOKiK**

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

- 1) proceedings instigated ex officio by the President of UOKiK on applying practices which violate collective consumers' interests by the Bank. The practices consisted of informing in marketing communications and conditioning the exemption of consumers from paying monthly fees for servicing debit cards on settling cashless transactions using the card (a quota or number limit) in the period for which the monthly fee for the card is collected, when the settlement of the cashless transactions in the said period does not depend on the consumer, but on receiving the settlement of the transactions by the Bank from the settlement agent. The decision to instigate proceedings against the Bank was delivered to the Bank on 4 January 2017. By a letter dated 13 March 2017 the Bank's plenipotentiary filed a request for issuing a consent decree, referred to in Article 28 of the Law on Competition and Consumer Protection together with proposed actions aimed at ending the violation and removing its effects;
- 2) the proceedings instigated ex officio by the President of UOKiK in respect of the alleged practices applied by PKO Bank Polski SA which violate the collective interests of consumers who are party to an agreement for payment services and have access to the electronic banking system, by informing of the proposed changes to the conditions of the agreement for the payment services during its performance exclusively using electronic communications sent through electronic banking channels, which do not constitute a permanent information carrier, and not including in the information appendices in the form of electronic documents (regulations and banking fee and commission tariffs for individuals) sent to consumers on changes introduced to PKO Bank Polski SA and Inteligo products, i.e.: bank accounts and debit cards, credit cards, payment cards, and thus making the verification of admissibility of changing the conditions of an agreement by consumers impossible. The decision to instigate proceedings against the Bank was delivered to the Bank on 17 October 2016. By a letter dated 13 October 2016 the President of UOKiK called the Bank to take a stance on the charges included in the decision to instigate proceedings, which the Bank did in its letter of 22 February 2017. By a letter of 14 March 2017 the President of UOKiK informed the Bank of extending the period for settling the case until 12 August 2017. By letter of 6 April 2017, the President of UOKiK asked the Bank to submit further explanations and documentation in the case. The Bank provided them in a letter of 30 June 2017;
- 3) the proceedings initiated ex officio by the President of the UOKiK for considering certain clauses contained in an agreement template to be prohibited due to the fact that the Bank's agreement templates, annexes to mortgage loan agreements valorized/indexed to/denominated in foreign currencies and appendices thereto contain contractual clauses which could be considered abusive under Article 385 § 1 of the Civil Code. The decision to initiate the proceedings was delivered to the Bank on 4 July 2017. In a letter of 28 June 2017, the President of the



UOKiK notified the Bank of the possibility of expressing an opinion on the allegations contained in the decision to initiate the proceedings. The Bank is preparing a statement concerning this case.

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

GROUP COMPANIES:

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

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

In all cases the Company responded to the lawsuit and applied for its dismissal due to bringing legal action after 6 months since the day of giving up their application; in 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.

At the same time, in the first half of 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 June 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) eight administrative proceedings, of which three are suspended, in relation to properties owned by the Bank, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, giving the property under management and on acquisition in accordance with law the perpetual usufruct of land and ownership title to the building, the return of the property, remuneration for property usage without contractual basis 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 and judgments 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.



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	30.06.2017	31.12.2016	30.06.2016
Cash and balances with the Central Bank	13 637	11 645	12 153
Deposits with the Central Bank	-	1 680	-
Current amounts due from banks	3 316	4 628	4 628
Cash and cash equivalents with restricted availability for use	11	13	10
Total	16 964	17 966	16 791

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 treasury in respect of redemption interest receivable on housing loans.

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

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees was passed on 29 November 2000 and came into force on 1 January 2001. In execution of the provisions of the Act, on 3 August 2001 PKO Bank Polski SA signed an agreement with the Minister of Finance acting on behalf of the State Treasury under which the Bank was granted a pledge of repayment of debt arising from housing loans in the so-called 'old' portfolio. On 29 December 2011, the validity period of the agreement (originally until 31 December 2011) was extended until 31 December 2017. The coverage of the so-called 'old' portfolio housing loan receivables by the guarantees of the State Treasury results in the neutralization of the default risk on these loans.

The State Treasury guarantees are executed when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the 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 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 treasury on housing loans in the period of six month ended 30 June 2017 and in the same period in 2016 the commission amounted to PLN 1 million.

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

The Brokerage House of PKO Bank Polski SA performs the role of an agent for the issue of retail treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, the Brokerage House of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds – PLN 24 million in the period of six month ended 30 June 2017 and PLN 14 million in the same period in 2016.

SIGNIFICANT TRANSACTIONS OF THE PKO BANK POLSKI SA GROUP WITH THE STATE TREASURY'S RELATED ENTITIES

The transactions were concluded at arm's length terms.

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

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

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

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

EQUITY RELATED PARTY TRANSACTIONS

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

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

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For the period ended 30 June 2017 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	129	126	50	50
Total joint ventures and associates	129	126	50	50

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

PERSONAL RELATED PARTY TRANSACTIONS

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

REMUNERATION OF PKO BANK POLSKI SA KEY MANAGEMENT

Remuneration received by members of the Supervisory Board from the Bank

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

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

	Total short-term employee benefits of which variable remuneration in cash – not deferred (in PLN thousand)		Other long-term benefits - variable remuneration in cash – deferred (in PLN thousand)		Total share-based payments settled in cash (in PLN thousand)		
	remuneration 01.01-30.06.2017	other received 01.01-30.06.2017	other received 01.01-30.06.2017	potentially due as at 30.06.2017	received in the period of 1.01-30.06.2017	due as at 30.06.2017	potentially due as at 30.06.2017
Management Board of the Bank	6 060	1 762	815	2 099	1 692	2 569	2 099
Management Board Members who ceased their functions in 2016	-	393	495	766	1 076	883	766
Total	6 060	2 156	1 310	2 865	2 768	3 452	2 865

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

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

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

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

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

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

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

Remuneration for members of the Management Boards and Supervisory Boards of the Group's subsidiaries

Remuneration for members of the Management Boards and Supervisory Boards of the PKO Bank Polski SA Group's subsidiaries	01.01-30.06.2017	01.01-30.06.2016
Supervisory Board	213	170
Management Board	14 181	8 956
Total	14 394	9 126

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

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

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48. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value as at 30.06.2017	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets held for trading excluding derivatives	20	1 499	1 499	-	-
Debt securities		1 469	1 469	-	-
Shares in other entities		26	26	-	-
Investment certificates, shares rights and pre-emptive rights		4	4	-	-
Derivative financial instruments	21	2 138	3	2 135	-
Hedging instruments		328	-	328	-
Trading instruments		1 810	3	1 807	-
Financial instruments designated upon initial recognition at fair value through profit and loss	23	9 045	5 322	3 723	-
Debt securities		7 416	3 693	3 723	-
Participation units		1 629	1 629	-	-
Investment securities available for sale	25	39 085	30 414	5 750	2 921
Debt securities		38 611	30 300	5 750	2 561
Equity securities		200	95	-	105
Participation units in investment funds and shares in joint investment institutions		274	19	-	255
Financial assets measured at fair value - total		51 767	37 238	11 608	2 921
Derivative financial instruments	21	3 023	1	3 022	-
Hedging instruments		603	-	603	-
Trading instruments		2 420	1	2 419	-
Financial liabilities measured at fair value - total		3 023	1	3 022	-

Assets and liabilities measured at fair value as at 31.12.2016	Note	Carrying amount	Level 1 Prices quoted on the active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Trading assets held for trading excluding derivatives	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	-

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

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

Reconciliation of changes in the period in fair value of financial instruments at level 3	01.01-30.06.2017	01.01-30.06.2016
Opening balance at the beginning of the period	3 374	3 635
Total gains or losses	19	(29)
in financial result	(24)	(30)
in other comprehensive income	43	1
Taking up a new share issue in the Fund	10	68
Taking up of shares in Visa Inc.	-	81
Sale of Visa Europe Limited shares	-	(337)
Other issues and redemptions (including settlements)	(443)	(118)
Reduction of capital involvement in the Fund	(39)	-
Total	2 921	3 300

49. FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	level of fair value hierarchy	valuation method	30.06.2017	
			carrying amount	fair value
Cash and balances with the Central Bank	n/a	value at cost to pay	13 637	13 637
Amounts due from banks	2	discounted cash flows	3 339	3 339
Loans and advances to customers			204 620	202 065
housing loans	3	discounted cash flows	105 940	101 964
corporate loans	3	discounted cash flows	57 600	57 214
consumer loans	3	discounted cash flows	23 931	25 724
debt securities (corporate)	3	discounted cash flows	2 352	2 277
debt securities (municipal)	3	discounted cash flows	2 523	2 523
receivables due from repurchase agreements	3	discounted cash flows	155	155
finance lease receivables	3	discounted cash flows	12 119	12 207
Investment securities held to maturity	1	market quotation	1 184	1 187
Other financial assets	3	value at cost to pay less impairment allowance	2 281	2 281
Amounts due to the Central Bank	2	value at cost to pay	4	4
Amounts due to banks	2	discounted cash flows	16 703	16 703
Amounts due to customers			207 248	207 182
due to corporate entities	3	discounted cash flows	47 950	47 948
due to public entities	3	discounted cash flows	9 368	9 368
due to retail clients	3	discounted cash flows	149 930	149 866
Debt securities in issue	1, 2	market quotations / discounted cash flows	16 256	16 622
Subordinated debt	2	discounted cash flows	1 617	1 603
Other financial liabilities	3	value at cost to pay	2 785	2 785

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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	13 325	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
receivables due from repurchase agreements	3	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 clients	3	discounted cash flows	148 000	147 946
Debt securities in issue	1, 2	market quotations / discounted cash flows	14 493	14 752
Subordinated debt	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).

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

RECEIVABLES COVERED BY LEASE RECEIVABLES SECURITIZATION

As at 30 June 2017, receivables covered by lease receivables securitization amounted to PLN 1 376 million. They are pledged as collateral for the liabilities in respect of debt securities issued by the special 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	30.06.2017	31.12.2016
Debt securities	409	182
Amounts due from repurchase agreements	408	206
Net balance	1	(24)

LIABILITIES FROM NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS

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

PRELIMINARY SETTLEMENT DEPOSIT OF THE NATIONAL DEPOSITORY FOR SECURITIES (KDPW)

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

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

BANK DEPOSIT GUARANTEE FUND

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

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

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

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



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

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

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

LEGAL LIMITATIONS RELATING TO THE GROUP LEGAL TITLE

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

TRANSFERRED FINANCIAL ASSETS

As at 30 June 2017 and as at 31 December 2016 the 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

The Bank is a direct participant in the Central Securities Depository of Poland (Krajowy Depozyt Papierów Wartościowych) and the Securities Register (at the National Bank of Poland). The 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 criteria of an asset.



OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

53. 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*.

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 ¹	YES

* 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.

¹ 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 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**

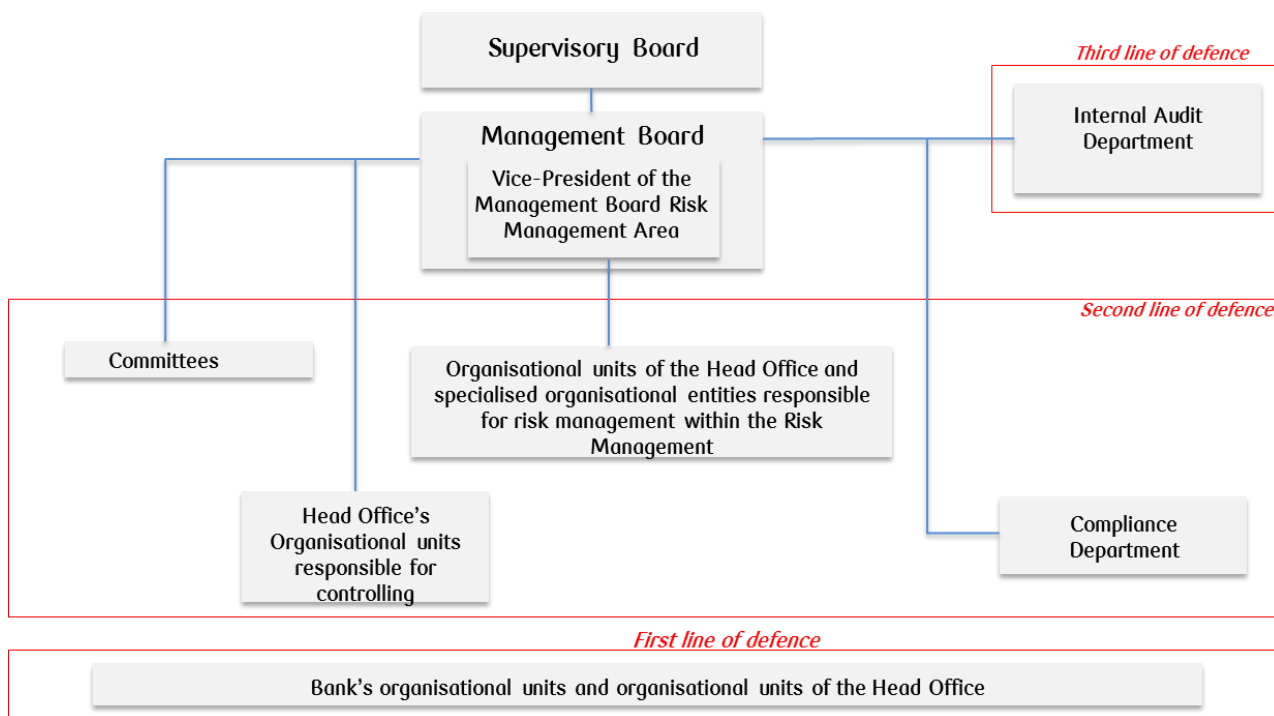
Management actions consist particularly issuing internal regulations affecting the management process of different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management.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



THE ORGANIZATION OF RISK MANAGEMENT IN THE GROUP

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

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



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

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

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



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

- 1) the first line of defence comprises the organizational structures which sell products and service customers, and other Bank's structures which perform operational tasks which generate risk and operate based on the Bank's internal regulations,
- 2) the second line of defence comprises operations of the compliance unit and identification, measurement or assessment, controlling, monitoring and reporting risks material to the Bank and threats and irregularities identified – those tasks are performed by specialized organizational structures operating based on the binding regulations, methodologies and procedures; their purpose is to ensure that the actions performed on the first line of defence are properly designed and effectively mitigate risks, support risk measurement and analysis, and effectiveness of operations;
- 3) the third line of defence is internal audit which performs independent audits of components of the Bank's management system, including risk management, and the internal control system with the exception of audit; internal audit operates in isolation from the first and second line of defence and may support the actions performed at those two levels through consultations, but without having any influence on the decisions taken.

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

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

The Bank's 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.

RISK MANAGEMENT OF 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.

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 organisational 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 determine 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.



SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT IN THE GROUP UNDERTAKEN IN THE FIRST HALF 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 first half of 2017 the Group took the following action:

- 1) PKO Bank Hipoteczny SA, issued covered bonds totalling EUR 525 million and PLN 765 million.
- 2) PKO Bank Polski SA exchanged own maturing short-term bonds of PLN 815 million to bonds maturing in 6 months of PLN 670 million,
- 3) On 22 June 2017, the Ordinary General Shareholders' Meeting of the Bank decided to appropriate the Bank's profit for financial year 2016, allocating it (in line with Management Board recommendation) for the reserve capital and other reserves, without any amount for the dividend payment. The Polish Financial Supervision Authority ('the PFSA') recommended increase the own funds of the PKO Bank Polski SA by retaining the whole net profit for the period from 1 January 2016 to 31 December 2016. The resolution of the Ordinary General Shareholders' Meeting of the Bank on the distribution of the profit for 2016, is comprehensive with the recommendation of the PFSA.
- 4) The Bank conducted preparatory work for starting operating from the new branch in the Czech Republic, which commenced operations on 3 April 2017. As part of that work, in February 2017, the Bank obtained the consent of the Polish Financial Supervision Authority for the joint application of the advanced measurement approach (AMA) and the base indicator approach (BIA) to calculate the own funds requirement in respect of operational risk using BIA in respect of the operations of the Branch in Germany and the Branch in the Czech Republic, and using AMA for the Bank's other operations.

54. CREDIT RISK MANAGEMENT

Exposure to credit risk - Items of the statement of financial position	30.06.2017	31.12.2016
Current account in the Central Bank	9 318	7 460
Amounts due from banks	3 339	5 345
Trading assets - debt securities	1 469	312
Derivative financial instruments	2 138	2 901
Financial assets designated upon initial recognition at fair value through profit and loss - debt securities	7 416	12 204
Loans and advances to customers	204 620	200 606
corporate	57 600	52 915
housing	105 940	106 121
consumer	23 931	23 222
debt securities (corporate)	2 352	2 283
debt securities (municipal)	2 523	2 588
receivables due from repurchase agreements	155	1 339
finance lease receivables	12 119	12 138
Investment securities - debt securities	38 611	36 142
Investment securities held to maturity	1 184	466
Other assets - other financial assets	2 281	2 247
Total	270 376	267 683

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Exposure to credit risk - Off-balance sheet items	30.06.2017	31.12.2016
Irrevocable liabilities granted	27 412	31 078
Guarantees issued	5 701	6 630
Underwriting of securities	4 172	3 701
Letters of credit issued	1 468	1 600
Total	38 753	43 009

Financial assets gross, which are past due, but not impaired	30.06.2017			
	up to 1 month	1 - 3 months	over 3 months	Total
Loans and advances to customers	3 450	967	167	4 584
Total	3 450	967	167	4 584

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 carrying amount gross	30.06.2017	31.12.2016
Loans and advances to customers	4 575	5 049
corporate loans	3 662	3 963
housing loans	621	789
consumer loans	217	224
debt securities	75	73
Investment securities available for sale	820	1 297
Total	5 395	6 346

Loans and advances to customers were secured by the following collaterals established for the 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 credit and leasing debts into consideration, the most important portfolios are managed by the Bank and PKO Leasing SA.

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

The following portfolios are covered by the rating system:

- corporate market customers,
- small and medium enterprises (excluding certain product groups which are assessed in a simplified manner).

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



55. CONCENTRATION OF CREDIT RISK AT THE GROUP

The Group defines credit concentration risk as a risk of incurring significant losses or a significant change in the Group's risk profile due to the excessive concentration of exposures to individual customer or groups of related customers, customers operating in the same business sector or geographical region, or due to excessive concentration caused by other factors.

CONCENTRATION OF THE LARGEST ENTITIES

As at 30 June 2017 and as at 31 December 2016, concentration limits had not been exceeded. As at 30 June 2017, the level of concentration risk in the Group due to individual exposures was low remote – the largest exposure to a single entity was equal to 9.9% of the recognized consolidated capital (as at 31 December 2016 it amounted to 10.4%). Among the 20 largest borrowers of the Group are the only clients of PKO Bank Polski SA.

CONCENTRATION OF THE LARGEST CAPITAL GROUPS

The largest concentration of the PKO Bank Polski SA Group's exposures to a group of borrowers amounts to 1.13% of the Bank's loan portfolio (1.14% as at 31 December 2016). Only the clients of PKO Bank Polski SA are included in the five largest groups.

As at 30 June 2017 and as at 31 December 2016, the concentration risk level by the capital groups was low - the largest exposure of the Group amounted to 9.6% and 10.2% of the recognized Group's capital respectively.

CONCENTRATION OF INDUSTRIES

The total exposure in the four largest industry groups: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and public defense' amounted to 49% of the total loan portfolio covered by an analysis of the sector (as at 31 December 2016: 54%).

CONCENTRATION OF GEOGRAPHICAL REGIONS

The Group's loan portfolio is diversified in terms of geographical concentration.

The structure of the loan portfolio by geographic regions is identified in the Group due to:

- the place of conducting business activities – the Group carries out 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 Germany and in the Czech Republic,
- the area of the Bank customer – a separate area for the retail client (ORD) a separate area for the corporate and investment banking (OKI). 11 geographical regions and the headquarters are distinguished within ORD. As at 30 June 2017, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (ca. 26% of the ORD portfolio). As at 31 December 2016, the largest concentration of the ORD loan portfolio occurs in region of Warsaw and Katowice (ca. 25% of the ORD portfolio). Within OKI, the Bank distinguish 7 macro-regions, the headquarters. As at 30 June 2017, the largest concentration of the OKI loan portfolio occurs in the central macro-region – 41% of portfolio OKI. As at 31 December 2016, the largest concentration of the OKI loan portfolio occurs in the central macro-region – 44% of portfolio OKI.

CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 30 June 2017, the share of exposure in convertible currencies, other than PLN, in the total portfolio of the Group amounted to 21.6% (as at 31 December 2016: 24.2%). The largest part of currency exposures of the Group are those denominated in CHF and relating to the Bank's loan portfolio. This is different in the case of Group companies, i.e. the largest part of the foreign currency portfolio of the PKO Leasing SA Group is denominated in EUR (91% of the foreign currency portfolio). In the KREDOBANK SA Group and in Finansowa Kompania 'Prywatne Inwestycje' Sp. z o.o., loans granted in USD represent the largest part of foreign currency exposures (55% and 83% of their foreign currency portfolios, respectively).



OTHER TYPES OF CONCENTRATION

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

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

56. 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 forbore exposition to the portfolio of performing loans (conditional period),
- at the end of the conditional period, discussed above, client does not have a debt overdue more than 30 days,
- timely repayment of at least 12 consecutive instalments.



LOANS AND ADVANCES TO CUSTOMERS

Exposures subject to forbearance in the loan portfolio	30.06.2017	31.12.2016
Loans and advances to customers gross, of which:	212 738	208 609
subject to forbearance	4 488	4 132
Impairment allowances on loans and advances to customers, of which:	(8 118)	(8 003)
subject to forbearance	(1 057)	(988)
Loans and advances to customers net, of which:	204 620	200 606
subject to forbearance	3 431	3 144

Loans and advances to customers subject to forbearance by product type	Carrying amount	
	30.06.2017	31.12.2016
Loans and advances to customers gross subject to forbearance	4 488	4 132
corporate loans	2 754	2 262
housing loans	1 450	1 563
consumer loans	284	307
Impairment allowances on loans and advances to customers subject to forbearance	(1 057)	(988)
Loans and advances to customers net subject to forbearance	3 431	3 144

INVESTMENT SECURITIES AVAILABLE FOR SALE

Exposures subject to forbearance in the portfolio of investment securities available for sale	30.06.2017	31.12.2016
Debt securities available for sale, of which:	38 857	36 419
subject to forbearance	1 159	1 303
Impairment allowances on investment securities available for sale, of which:	(246)	(277)
subject to forbearance	(243)	(274)
Investment securities available for sale net, of which:	38 611	36 142
subject to forbearance	916	1 029

57. RISK MANAGEMENT OF FOREIGN CURRENCY MORTGAGE LOANS FOR INDIVIDUALS

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.

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- 2) To the Polish Financial Supervision Authority:
- updating the Regulatory Review and Assessment (BION) Methodology and extending it by adding principles that allow assigning a relevant capital charge,
 - supplementing the capital requirements associated with operating, market and credit risk that are currently applied as part of the 2nd pillar,
 - issuing a regulatory recommendation concerning good practices for restructuring of housing loan portfolios in foreign currencies.
- 3) To the Bank Guarantee Fund: taking into account the risk associated with foreign currency housing loans in the method of determining contributions to the bank guarantee fund.

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

Loans and advances to customers in CHF by impairment calculation method (translated into PLN at the exchange rate as at 1 CHF = 3.8667)	30.06.2017			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	141	117	258
impaired	-	130	105	235
Assessed on a portfolio basis, impaired	-	20	1 172	1 192
Assessed on a group basis (IBNR)	3	325	26 393	26 721
Loans and advances to customers gross	3	486	27 682	28 171
Impairment allowances on exposures assessed on an individual basis, of which:	-	(66)	(45)	(111)
impaired	-	(66)	(45)	(111)
Impairment allowances on exposures assessed on a portfolio basis	-	(16)	(804)	(820)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(2)	(60)	(62)
Impairment allowances - total	-	(84)	(909)	(993)
Loans and advances to customers net	3	402	26 773	27 178

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

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Loans and advances to customers assessed on a group basis (IBNR)	30.06.2017		
	PLN	CHF	Other currencies
Loans and advances to customers gross	156 288	26 721	16 499
past due	3 081	546	728
not past due	153 207	26 175	15 771
Impairment allowances on exposures assessed on a group basis (IBNR)	(467)	(62)	(157)
past due	(151)	(30)	(19)
not past due	(316)	(32)	(138)
Loans and advances to customers net	155 821	26 659	16 342

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	30.06.2017		
	PLN	CHF	Other currencies
Gross loans and advances to customers subject to forbearance	1 108	466	298
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(33)	(16)	(10)
Net loans and advances to customers subject to forbearance	1 075	450	288

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)
Net loans and advances to customers subject to forbearance	908	536	155

As at 30 June 2017, the average LTV for loan portfolio in CHF amounted to 75.1% (as at 31 December 2016: 82.7%) - compared to the average LTV for the whole portfolio amounting to 65.6% (as at 31 December 2016: 69.5%).



58. INTEREST RATE RISK MANAGEMENT

THE REPRICING GAP

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

At the end of the first half of 2017 and 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 June 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	30.06.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)*	361	269
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)**	2 020	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 10.0 million as at 30 June 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.

59. CURRENCY RISK MANAGEMENT

SENSITIVITY MEASURES

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

Name of sensitivity measure	30.06.2017	31.12.2016
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)*	4	10
Change in CUR/PLN by 20% (in PLN million) (stress-test)**	63	25

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate 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 interest rate risk management. KREDOBANK SA uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 0.16 million as at 30 June 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 June 2017 amounted to approx. 0.01% and as at 31 December 2016 0.03%).

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Currency position	30.06.2017	31.12.2016
EUR	(371)	(170)
USD	(93)	40
CHF	(7)	(36)
GBP	2	9
Other (Global Net)	84	89

60. 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 months	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
30.06.2017								
The Group - adjusted periodic gap in real terms	16 606	15 270	(1 142)	1 514	7 543	10 663	29 995	(80 449)
The Group - adjusted cumulative periodic gap in real terms	16 606	31 876	30 734	32 248	39 791	50 454	80 449	-
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 June 2017 and as at 31 December 2016 was positive. This means a surplus of assets receivable over liabilities payable.

LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

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

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

** Excess liquidity - excess liquidity determines the Bank's ability to maintain liquidity on each day during the period called the 'horizon of survival' if predefined stress-test scenarios occur.

SUPERVISORY LIQUIDITY MEASURES

Supervisory liquidity measures	30.06.2017	31.12.2016
M1 - short-term liquidity gap	16 616	24 464
M2 - short-term liquidity ratio	1.49	1.89
M3 - coverage ratio of assets not illuminated by own funds	12.72	11.63
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.16	1.19
LCR - liquidity coverage ratio	118.0%	136.3%



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

61. OTHER RISKS

Detailed information on the managing of the following risks: operational, commodity prices, equity securities prices, other price risks, derivatives, compliance, reputation, macroeconomic changes, model, business, capital and excessive leverage is included in the consolidated 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.

62. COMPLEX STRESS-TESTS

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

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

63. 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 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),

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- 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 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 maintained capital adequacy at a safe level, above the supervisory and regulatory limits. As at 30 June 2017 the Group's TCR was 16.85%, and CET1 was 16.00%. Both the Group and the Bank maintained a safe capital base, above the supervisory and regulatory limits.

Pursuant to CRR, for 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

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

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



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	<p>under the standard approach, using the following formulas with regard to:</p> <p>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),</p> <p>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),</p> <p>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).</p>
OPERATIONAL RISK	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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).

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	30.06.2017	31.12.2016
Total own funds	31 877	30 873
Tier 1 capital	30 276	28 350
Tier 1 capital before regulatory adjustments and reductions, of which:	33 448	32 060
Share capital	1 250	1 250
Other reserves	30 891	27 970
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings	237	1 770
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 683)	(1 821)
Accumulated other comprehensive income	(305)	(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	36	30
Other adjustments in transitional period in Tier 1 basic capital	(60)	(49)
Tier 2 capital	1 601	2 523
Equity instruments and subordinated loans eligible as Tier 2 capital	1 601	2 523
Requirements as regard own funds	15 134	15 626
Credit risk	14 008	14 271
Operational risk	619	657
Market risk	486	651
Credit valuation adjustment risk	21	47
Total capital adequacy ratio	16.85%	15.81%
Tier 1 capital ratio	16.00%	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 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 first half of 2017 and 2016, 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.

64. INFORMATION ON SECURITISATION AND OF LEASE PORTFOLIO

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 is buying securitized receivables resulting from lease agreements sold by Raiffeisen-Leasing Polska SA (from 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 first half of 2017 the Group conducted package sales of more than 6.7 thousand balance sheet and off-balance sheet receivables from retail and business clients 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 June 2017



amounted to PLN 3.3 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.

SUBSEQUENT EVENTS

65. SUBSEQUENT EVENTS

1. In the period from 1 July 2017 to 7 August 2017, PKO Bank Hipoteczny SA acquired portfolios of receivables in respect of mortgage-secured housing loans in the amount of PLN 967.6 million under the Framework Agreement for Sale of Receivables signed on 17 November 2015 with PKO Bank Polski SA.
2. In the period from 1 July 2017 to 7 August 2017, PKO Bank Hipoteczny SA carried out several issues of bonds with a total value of PLN 772.9 million and at the same time redeemed bonds with a total value of PLN 658.9 million.
3. On 18 July 2017 the Bank issued within EMTN Programme eurobonds of the following parameters:
 - aggregate principal amount: EUR 750 000 000,
 - maturity: 4 years,
 - interest periods: annual,
 - coupon: 0.75% (Mid Swap +65 bps),
 - issue price: 99.792% of the principal amount.

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

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

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

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

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

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

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



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

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD ON THE BANK

24.08.2017	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	RAFAŁ ANT CZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	BARTOSZ DRABIKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	MIECZY SŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
24.08.2017	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)

SIGNATURE OF PERSON RESPONSIBLE FOR
MAINTAINING THE BOOKS OF ACCOUNT

24.08.2017

DANUTA SZYMAŃSKA
DIRECTOR OF THE ACCOUNTING DIVISION

.....
(SIGNATURE)