



Bank Polski

**Condensed interim financial statements
of PKO Bank Polski SA
for the six-month period ended
30 June 2016**

SELECTED FINANCIAL DATA DERIVED FROM THE FINANCIAL STATEMENTS

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	period from 01.01.2016 to 30.06.2016	period from 01.01.2015 to 30.06.2015	period from 01.01.2016 to 30.06.2016	period from 01.01.2015 to 30.06.2015
Net interest income	3 594 419	3 255 018	820 550	787 358
Net fee and commission income	1 184 868	1 310 228	270 487	316 932
Operating profit	1 970 117	1 695 015	449 747	410 008
Profit before income tax	1 970 117	1 695 015	449 747	410 008
Net profit	1 572 477	1 382 003	358 972	334 294
Earnings per share for the period – basic (in PLN/EUR)	1,26	1,11	0,29	0,27
Earnings per share for the period – diluted (in PLN/EUR)	1,26	1,11	0,29	0,27
Total net comprehensive income	1 403 306	1 171 212	320 353	283 305
Net cash flows used in operating activities	4 911 950	5 875 718	1 121 322	1 421 281
Net cash flows used in investing activities	(5 181 918)	(3 140 436)	(1 182 951)	(759 642)
Net cash flows generated from/used in financing activities	(229 388)	(1 727 172)	(52 366)	(417 787)
Net cash flows	(499 356)	1 008 110	(113 995)	243 852

SELECTED STAND-ALONE FINANCIAL DATA	PLN thousand		EUR thousand	
	as at 30.06.2016	as at 31.12.2015	as at 30.06.2016	as at 31.12.2015
Total assets	266 323 849	262 380 030	60 179 381	61 569 877
Total equity	31 621 193	30 217 887	7 145 225	7 090 904
Share capital	1 250 000	1 250 000	282 454	293 324
Number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Book value per share (in PLN/EUR)	25.30	24.17	5.72	5.67
Diluted number of shares (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Diluted book value per share (in PLN/EUR)	25.30	24.17	5.72	5.67
Capital adequacy ratio	16.11%	15.28%	16.11%	15.28%
Basic funds (Tier 1)	25 979 486	24 820 848	5 870 407	5 824 439
Supplementary funds (Tier 2)	2 448 180	2 428 511	553 199	569 872

The selected stand-alone financial statements items were translated into EUR using the following exchange rates:

- income statement, statement of comprehensive income and statement of cash flows – the rate is calculated as the average of NBP exchange rates prevailing as at the last day of each month of the six-month period ended 30 June 2016 and 30 June 2015: 1 EUR = 4.3805 PLN and 1 EUR = 4.1341 PLN,
- statement of financial position items – the average NBP exchange rate as at 30 June 2016: 1 EUR = 4.4255 PLN, as at 31 December 2015: 1 EUR = 4.2615 PLN.



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INCOME STATEMENT

	Note	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Continuing operations					
Interest and similar income	4	2 337 027	4 647 792	2 277 851	4 654 376
Interest expense and similar charges	4	(531 392)	(1 053 373)	(649 389)	(1 399 358)
Net interest income		1 805 635	3 594 419	1 628 462	3 255 018
Fee and commission income	5	835 594	1 610 905	867 357	1 670 062
Fee and commission expense	5	(229 295)	(426 037)	(174 028)	(359 834)
Net fee and commission income		606 299	1 184 868	693 329	1 310 228
Dividend income		89 953	149 434	96 230	110 001
Net income from financial instruments measured at fair value	6	(3 464)	(18 187)	(10 435)	1 206
Gains less losses from investment securities	7	426 216	476 514	23 027	76 949
Net foreign exchange gains (losses)		109 219	210 197	86 938	206 426
Other operating income	8	29 635	52 105	19 977	80 963
Other operating expense	8	(37 045)	(60 776)	(24 218)	(47 410)
Net other operating income and expense		(7 410)	(8 671)	(4 241)	33 553
Net impairment allowance and write-downs	9	(381 995)	(752 819)	(382 764)	(749 155)
Administrative expenses	10	(1 260 834)	(2 497 895)	(1 252 900)	(2 549 211)
Tax on certain financial institutions	11	(219 974)	(367 743)	-	-
Operating profit		1 163 645	1 970 117	877 646	1 695 015
Profit before income tax		1 163 645	1 970 117	877 646	1 695 015
Income tax expense	12	(251 306)	(397 640)	(142 469)	(313 012)
Net profit		912 339	1 572 477	735 177	1 382 003

Earnings per share

– basic earnings per share for the period (PLN)	0,73	1,26	0,59	1,11
– diluted earnings per share for the period (PLN)	0,73	1,26	0,59	1,11
Weighted average number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000
Weighted average diluted number of ordinary shares during the period (in thousand)	1 250 000	1 250 000	1 250 000	1 250 000

Discontinued operations

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

STATEMENT OF COMPREHENSIVE INCOME

	Note	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Net profit		912 339	1 572 477	735 177	1 382 003
Other comprehensive income		(312 366)	(169 171)	(245 601)	(210 791)
Items that may be reclassified to the income statement		(312 366)	(169 171)	(245 601)	(210 791)
Cash flow hedges (gross)	18	77 197	213 867	(73 566)	(118 860)
Deferred tax on cash flow hedges	18	(14 667)	(40 635)	13 978	22 584
Cash flow hedges (net)	18	62 530	173 232	(59 588)	(96 276)
Unrealised net gains on financial assets available for sale (gross)		(462 816)	(422 694)	(229 646)	(141 377)
Deferred tax on unrealised net gains on financial assets available for sale		87 934	80 311	43 633	26 862
Unrealised net gains on financial assets available for sale (net)		(374 882)	(342 383)	(186 013)	(114 515)
Currency translation differences from foreign operations		(14)	(20)	-	-
Total net comprehensive income		599 973	1 403 306	489 576	1 171 212



STATEMENT OF FINANCIAL POSITION

	Note	30.06.2016	31.12.2015
ASSETS			
Cash and balances with the central bank	14	12 087 587	13 707 730
Amounts due from banks	15	7 051 449	5 021 876
Trading assets	16	2 913 189	793 213
Derivative financial instruments	17	3 036 571	4 348 034
Financial assets designated upon initial recognition at fair value through profit and loss	19	11 366 327	12 796 036
Loans and advances to customers	20	186 124 522	188 552 440
Investment securities available for sale	21	33 150 828	27 859 727
Investments in subsidiaries, joint ventures and associates	22	2 263 542	2 037 987
Non-current assets held for sale	23	227 266	422 676
Intangible assets	24	2 832 477	2 797 791
Tangible fixed assets, of which:	24	2 365 928	2 276 322
Investment properties		8 165	8 239
Current income tax receivables		-	40 762
Deferred income tax asset		804 989	644 611
Other assets	25	2 099 174	1 080 825
TOTAL ASSETS		266 323 849	262 380 030
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the central bank		4 935	4 219
Amounts due to banks	26	18 404 616	18 249 857
Derivative financial instruments	17	3 584 047	4 627 189
Amounts due to customers	27	205 160 806	201 809 202
Debt securities in issue	28	1 876 308	1 717 661
Subordinated liabilities	29	2 527 579	2 499 163
Other liabilities	30	2 798 525	3 009 074
Current income tax liabilities		114 184	-
Provisions	31	231 656	245 778
TOTAL LIABILITIES		234 702 656	232 162 143
Equity			
Share capital		1 250 000	1 250 000
Other capital		27 548 736	25 146 745
Undistributed profits		1 250 000	1 250 000
Currency translation differences from foreign operations		(20)	-
Net profit for the year		1 572 477	2 571 142
TOTAL EQUITY		31 621 193	30 217 887
TOTAL LIABILITIES AND EQUITY		266 323 849	262 380 030
Total capital ratio	41	16.11%	15.28%
Book value (in PLN thousand)		31 621 193	30 217 887
Number of shares (in thousand)	32	1 250 000	1 250 000
Book value per share (in PLN)		25.30	24.17
Diluted number of shares (in thousand)		1 250 000	1 250 000

STATEMENT OF CHANGES IN EQUITY

For the period ended 30 June 2016	Share capital	Other capital						Total other capital	Currency translation differences from foreign operations	Undistributed profits*	Net profit for the period	Total equity
		Reserves			Other comprehensive income							
		Reserve capital	General capital	Other capital	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses					
As at 1 January 2016	1 250 000	20 518 111	1 070 000	3 484 177	144 673	(57 657)	(12 559)	25 146 745	-	1 250 000	2 571 142	30 217 887
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	-	2 571 142	(2 571 142)	-
Total comprehensive income, of which:	-	-	-	-	(342 383)	173 232	-	(169 151)	(20)	-	1 572 477	1 403 306
Net profit	-	-	-	-	-	-	-	-	-	-	1 572 477	1 572 477
Other comprehensive income	-	-	-	-	(342 383)	173 232	-	(169 151)	(20)	-	-	(169 171)
Transfer from undistributed profits	-	2 500 000	-	71 142	-	-	-	2 571 142	-	(2 571 142)	-	-
As at 30 June 2016	1 250 000	23 018 111	1 070 000	3 555 319	(197 710)	115 575	(12 559)	27 548 736	(20)	1 250 000	1 572 477	31 621 193

* A detailed description of Undistributed profits is presented in the note 13 'Dividends declared divided by shares'

For the period ended 30 June 2015	Share capital	Other capital						Total other capital	Undistributed profits	Net profit for the period	Total equity
		Reserves			Other comprehensive income						
		Reserve capital	General capital	Other capital	Financial assets available for sale	Cash flow hedges	Actuarial gains and losses				
As at 1 January 2015	1 250 000	18 618 111	1 070 000	3 421 913	33 640	5 204	(8 976)	23 139 892	132 793	3 079 471	27 602 156
Transfer of net profit from previous years	-	-	-	-	-	-	-	-	3 079 471	(3 079 471)	-
Total comprehensive income, of which:	-	-	-	-	(114 515)	(96 276)	-	(210 791)	-	1 382 003	1 171 212
Net profit	-	-	-	-	-	-	-	-	-	1 382 003	1 382 003
Other comprehensive income	-	-	-	-	(114 515)	(96 276)	-	(210 791)	-	-	(210 791)
Transfer from undistributed profits	-	1 900 000	-	62 264	-	-	-	1 962 264	(1 962 264)	-	-
As at 30 June 2015	1 250 000	20 518 111	1 070 000	3 484 177	(80 875)	(91 072)	(8 976)	24 891 365	1 250 000	1 382 003	28 773 368

STATEMENT OF CASH FLOWS

	01.01- 30.06.2016	01.01- 30.06.2015
Net cash flow from operating activities		
Profit before income tax	1 970 117	1 695 015
Adjustments:	2 941 833	4 180 703
Amortisation and depreciation	357 937	372 163
(Gains) losses from investing activities	759	(13 413)
Interest and dividends	(250 320)	(204 073)
Change in amounts due from banks	(909 149)	(407 595)
Change in trading assets and financial assets designated upon initial recognition of fair value through profit and loss	(690 267)	2 626 078
Change in derivative financial instruments (asset)	1 311 463	1 507 577
Change in loans and advances to customers	2 242 016	(6 780 963)
Change in other assets and non-current assets held for sale	(824 270)	(360 771)
Change in amounts due to banks	155 475	2 878 651
Change in derivative financial instruments (liability)	(1 043 142)	(445 942)
Change in amounts due to customers	3 482 409	5 256 256
Change in provisions and impairment allowances	173 474	382 300
Change in other liabilities and subordinated liabilities	(182 133)	(32 539)
Income tax paid	(363 182)	(194 456)
Other adjustments	(519 237)	(402 570)
Net cash used in operating activities	4 911 950	5 875 718
Net cash flow from investing activities		
Inflows from investing activities	42 995 999	10 963 425
Proceeds from redemption of subsidiary's equity	49 832	-
Proceeds from sale and interest on investment securities	42 813 081	10 848 527
Proceeds from sale of intangible assets and tangible fixed assets	-	29 780
Other investing inflows (dividends)	133 086	85 118
Outflows from investing activities	(48 177 917)	(14 103 861)
Increase in equity of subsidiary	(222 000)	(101 000)
Increase in equity of an associate	(1 148)	(48 000)
Purchase of investment securities	(47 615 741)	(13 807 316)
Purchase of intangible assets and tangible fixed assets	(339 028)	(147 545)
Net cash used in investing activities	(5 181 918)	(3 140 436)
Net cash flows from financing activities		
Proceeds from debt securities in issue	1 873 828	1 986 252
Redemption of debt securities	(1 744 700)	(1 752 585)
Repayment of interest from issued debt securities and subordinated loans	(42 644)	(41 903)
Repayment of long-term borrowings	(315 872)	(1 918 936)
Net cash generated from/used in financing activities	(229 388)	(1 727 172)
Net cash flows	(499 356)	1 008 110
of which currency translation differences on cash and cash equivalents	109 057	65 576
Cash and cash equivalents at the beginning of the period	17 189 740	14 052 760
Cash and cash equivalents at the end of the period	16 690 384	15 060 870
of which restricted	10 251	10 468

Cash and equivalents	30.06.2016	31.12.2015	30.06.2015
Cash and balances with the central bank	12 087 587	13 707 730	11 894 988
Current amounts due from banks	4 602 797	3 482 010	3 165 882
Total	16 690 384	17 189 740	15 060 870



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NOTES TO THE FINANCIAL STATEMENTS

1. General information

The condensed interim financial statements of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ('PKO Bank Polski SA', 'the Bank') have been prepared for the six-month period ended 30 June 2016 and include comparative information for the six-month period ended 30 June 2015 (as regards income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity) and comparative information as at 31 December 2015 (as regards statement of financial position). The financial information have been presented in thousands of Polish zloty (PLN), unless indicated otherwise.

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

On 12 April 2000 Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Register of Companies by the District Court 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'.

Business activities of Bank

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

Statement as to whether the Bank is a parent company or a significant investor and whether it prepares consolidated financial statements.

PKO Bank Polski SA is the parent company of the PKO Bank Polski SA Group and a significant investor for associates and joint ventures, whose owner is the Bank. Accordingly, PKO Bank Polski SA prepares consolidated financial statements for the Group, which include the financial data of these entities.

Approval of financial statements

These condensed interim financial statements, reviewed by the Bank's Supervisory Board's Audit Committee on 25 August 2016, have been approved for issuance by the Bank's Management Board on 17 August 2016.

**CONDENSED INTERIM FINANCIAL STATEMENTS
OF PKO BANK POLSKI SA FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2016
(IN PLN THOUSAND)**



Bank Polski

Structure of the PKO Bank Polski SA Group

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

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			30.06.2016	31.12.2015
PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	investment funds management	100.00	100.00
PKO BP BANKOWY PTE SA	Warsaw	pension funds management	100.00	100.00
PKO Leasing SA	Łódź	leasing services	100.00	100.00
PKO Bankowy Leasing Sp. z o.o.	Łódź	leasing services	100.00	100.00
PKO Leasing Sverige AB	Stockholm, Sweden	leasing services	100.00	100.00
PKO BP Faktoring SA	Warsaw	factoring services	100.00	100.00
PKO BP Finat Sp. z o.o.	Warsaw	services, including transfer agent services and outsourcing of IT specialists	100.00	100.00
PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	life insurance	100.00	100.00
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	services	100.00	100.00
PKO Towarzystwo Ubezpieczeń SA	Warsaw	other personal and property insurance	100.00	100.00
PKO Bank Hipoteczny SA	Gdynia	banking activities	100.00	100.00
PKO Finance AB	Stockholm, Sweden	financial services	100.00	100.00
KREDOBANK SA	Lviv, Ukraine	banking activities	99.6293	99.5655
Finansowa Kompania „Idea Kapitał” Sp. z o.o.	Lviv, Ukraine	financial services	100.00	100.00
„Inter-Risk Ukraina” Spółka z dodatkową odpowiedzialnością ¹	Kiev, Ukraine	debt collection services	100.00	100.00
Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o. ²	Kiev, Ukraine	financial services	95.4676	95.4676
Qualia Development Sp. z o.o. ³	Warsaw	real estate development	100.00	100.00
Qualia 3 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	100.00	100.00
Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.	Warsaw	real estate development	99.9975	99.9975
Qualia 2 Sp. z o.o.	Warsaw	general partner in limited partnerships of the Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp. k.	100.00	100.00
Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wianów Sp. k.	Warsaw	real estate development	99.9750	99.9750
Qualia Sp. z o.o.	Warsaw	general partner in limited partnerships of other entities of the Qualia Development Group	100.00	100.00
Qualia sp. z o.o. – Sopot Sp. k.	Warsaw		99.9902	99.9902
Qualia spółka z ograniczoną odpowiedzialnością – Jurata Sp. k.	Warsaw		99.9770	99.9770
Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.	Warsaw		99.9123	99.9123
Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k. ⁴	Warsaw		-	99.8951
Qualia spółka z ograniczoną odpowiedzialnością – Projekt 1 Sp. k.	Warsaw	real estate development	50.00	50.00
Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k.	Warsaw		50.00	50.00
Qualia – Rezydencja Flotylla Sp. z o.o. ⁴	Warsaw		-	100.00
Qualia - Residence Sp. z o.o.	Warsaw		100.00	100.00
Sarnia Dolina Sp. z o.o.	Warsaw		100.00	100.00
Giełda Nieruchomości Wartościowych Sp. z o.o.	Warsaw	intermediation in the sale of real estate	100.00	100.00
„Fort Mokotów Inwestycje” Sp. z o.o. ⁵	Warsaw	real estate development	99.9987	100.00
Qualia Hotel Management Sp. z o.o.	Warsaw	real estate development	100.00	100.00
FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	in liquidation	51.00	51.00
Merkury - fiz an ⁶	Warsaw	placement of funds collected from fund members	100.00	100.00
„Zarząd Majątkiem Górczewska” Sp. z o.o.	Warsaw	real estate management	100.00	100.00
Molina Sp. z o.o.	Warsaw	general partner in limited joint-stock partnership entities of the Fund	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw		100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw		100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	purchase and sale of real estate for own account,	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	real estate management	100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw		100.00	100.00
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw		100.00	100.00
NEPTUN - fiz an ⁶	Warsaw	placement of funds collected from fund members	100.00	100.00
Bankowe Towarzystwo Kapitałowe SA	Warsaw	services	100.00	100.00
„CENTRUM HAFFNERA” Sp. z o.o.	Sopot	subsidiaries' real estate management	72.9766	72.9766
„Sopot Zdrój” Sp. z o.o.	Sopot	real estate management	100.00	100.00
„Promenada Sopotcka” Sp. z o.o.	Sopot	rental services and real estate management	100.00	100.00

* Share in equity of direct parent entity

- The share in the entity is recognised as non-current assets held for sale
- The second shareholder of the Entity is 'Inter-Risk Ukraina' Additional Liability Company.; The share in the entity is recognised as non-current assets held for sale
- The share in the entity is recognised as non-current assets held for sale; For limited partnership entities of Qualia Development Group the total contribution made by the limited partner - Qualia Development Sp. z o.o. is presented in the position 'Share in equity'.
- On 29 February 2016 an acquisition was registered in National Court Register. All assets of Qualia Sp. z o.o. – Pomeranka Sp. k. and Qualia – Rezydencja Flotylla Sp. z o.o. (acquired companies) were transferred to Qualia Hotel Management Sp. z o.o. (acquiring company).
- The second shareholder of the Entity is Qualia Sp. z o.o.
- PKO Bank Polski SA has investment certificates of the Fund; the share of possessed investment certificates of the Fund is presented in the position 'Share in equity'

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

NAME OF ENTITY	HEAD OFFICE	RANGE OF ACTIVITY	% SHARE IN EQUITY *	
			30.06.2016	31.12.2015
Join ventures of PKO Bank Polski SA				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	activities supporting financial services, including servicing transactions made by using payment instruments	34.00	34.00
EVO Payments International Sp. z o.o.	Warsaw	activities supporting financial services	100.00	100.00
EVO Payments International s.r.o.	Praque, Czech Republic	activities supporting financial services	100.00	100.00
Join ventures of NEPTUN - fizan				
„Centrum Obsługi Biznesu” Sp. z o.o.	Poznań	hotel management	41.44	41.44
Associates of PKO Bank Polski SA				
Bank Pocztowy SA	Bydgoszcz	banking activities	25.0001	25.0001
Centrum Operacyjne Sp. z o.o.	Bydgoszcz	activities supporting financial services	100.00	100.00
Spółka Dystrybucyjna Banku Poczтового Sp. z o.o.	Warsaw	intermediary financial services	100.00	100.00
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	Poznań	guarantees	33.33	33.33
FERRUM SA	Katowice	production of welded steel pipes, production of structural hollow section and delivering coating services	22.14	20.97
Zakład Konstrukcji Spawanych FERRUM SA	Katowice	production of steel structures and their parts	100.00	100.00
FERRUM MARKETING Sp. z o.o.	Katowice	marketing services	100.00	100.00

* Share in equity of direct parent entity.

Information on changes in the share in equity of the subsidiaries is set out in the note 22 ‘Investments in subsidiaries, joint ventures and associates and description of changes to the entities of the Group’.

Information on members of the Supervisory and Management Board of the Bank

As at 30 June 2016, the Bank’s Supervisory Board consisted of:

- | | |
|---------------------------------|--|
| • Piotr Sadownik | Chairman of the Supervisory Board |
| • Grażyna Ciużyńska | Deputy-Chairman of the Supervisory Board |
| • Mirosław Barszcz | Member of the Supervisory Board |
| • Adam Budnikowski | Member of the Supervisory Board |
| • Zbigniew Hajłasz | Member of the Supervisory Board |
| • Wojciech Jasiński | Member of the Supervisory Board |
| • Andrzej Kisielewicz | Member of the Supervisory Board |
| • Elżbieta Mączyńska – Ziemacka | Member of the Supervisory Board |
| • Janusz Ostaszewski | Member of the Supervisory Board |

On 25 February 2016 the Extraordinary General Shareholders’ Meeting of the Bank dismissed from the Supervisory Board of the Bank: Mr Jerzy Góra, Mr Mirosław Czekaj, Mr Piotr Marczak, Mr Marek Mroczkowski, Mr Krzysztof Kilian and Mrs Zofia Dzik, and appointed: Mr Mirosław Barszcz, Mr Adam Budnikowski, Mr Wojciech Jasiński, Mr Andrzej Kisielewicz, Mr Janusz Ostaszewski, Mr Piotr Sadownik and Mrs Agnieszka Winnik – Kalembe as Members of the Supervisory Board of the Bank. The State Treasury, as the Eligible Shareholder, appointed Mr Piotr Sadownik as Chairman of the Supervisory Board of the Bank and Mrs Agnieszka Winnik – Kalembe as Deputy-Chairman of the Supervisory Board of the Bank.

On 30 June 2016 Ordinary General Shareholders’ Meeting of the Bank dismissed from the Supervisory Board of the Bank Mrs Agnieszka Winnik-Kalembe and Mrs Małgorzata Dec-Kruczkowska, and appointed Mrs Grażyna Ciużyńska and MR Zbigniew Hajłasz as Members of the Supervisory Board of the Bank. The State Treasury, as the Eligible Shareholder, appointed Mrs Grażyna Ciużyńska as the Deputy-Chairman of Supervisory Board of the Bank.

On 14 July 2016 the Supervisory Board of the Bank appointed Mr Zbigniew Hajłasz as for the position of the Secretary of the Supervisory Board of PKO Bank Polski SA as of 14 July 2016.

As at 30 June 2016, the Bank’s Management Board consisted of:

- | | |
|-----------------------|--|
| • Zbigniew Jagiełło | President of the Management Board |
| • Piotr Alicki | Vice-President of the Management Board |
| • Bartosz Drabikowski | Vice-President of the Management Board |
| • Mieczysław Król | Vice-President of the Management Board |
| • Piotr Mazur | Vice-President of the Management Board |
| • Jakub Papierski | Vice-President of the Management Board |

On 21 March 2016 Jacek Obłękowski resigned from the position of the Vice - President of PKO Bank Polski SA Management Board as of 21 March 2016. On 22 March 2016 Jarosław Myjak resigned from the position of the Vice - President of PKO Bank Polski SA Management Board as of 22 March 2016. On 2 June 2016 Mieczysław Król was appointed as Vice-President of the Management Board as of 6 June 2016.

On 30 June 2016 Supervisory Board of the Bank appointed Mr Maks Kraczkowski as Vice-President of the Management Board of PKO Bank Polski SA as of 4 July 2016 for the current joint term of office of the Bank's Management Board.

On 14 July 2016 Supervisory Board of PKO Bank Polski appointed Mr Jan Emeryk Rościszewski for the position of the Vice-President of the Bank's Management Board as of 18 July 2016, for the current joint term of office of the Bank's Management Board.

2. Summary of significant accounting policies, estimates and judgments

Statement of Compliance

These condensed interim financial statements of the PKO Bank Polski SA have been prepared in accordance with requirements of the International Accounting Standard 34 'Interim Financial Reporting', as approved by the European Commission. The accounting policies and calculations applied in these condensed interim financial statements are consistent with those applied in preparation of the annual financial statements of the PKO Bank Polski SA for the year ended 31 December 2015 as well as standards and interpretations approved by the European Union with effective date for annual periods beginning on or after 1 January 2016.

1) Amendments to published Standards and Interpretations as adopted by the EU that are effective from 1 January 2016 and have been adopted by the Bank

Standard/ interpretation	Potential changes:
Amendments to IAS 1 Presentation of Financial Statements	Introduced improvements clarify that the principle of materiality applies to both the primary part of the financial statement and explanatory notes, also it is required to disclosure only significant information. The Bank has reviewed its financial statements for significance and relevance of disclosures in the notes.
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of the Accepted Methods of Depreciation and Amortization	The Amendments influence on depreciation methods, in particular different than linear and based on taking benefits from asset in time. Depreciation with revenue flows generated directly or indirectly from asset is explicitly forbidden, due to the fact that except of depreciation revenue is influenced by many more factors. The Amendments have no impact on the Bank.
IAS 19 Employee Benefits	The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Amendments are not applicable to the Bank.
Amendments to IAS 27 Separate Financial Statements	The Amendments introduce an option to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements, in addition to the existing cost and fair value options. The Bank continues attitude towards valuation of investments in subsidiaries, associates and joint ventures in separate financial statements.
Amendments to IFRS 11 Joint Arrangements	The Amendments provide guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The Amendments are not applicable to the Bank.
Improvements to IFRS 2010-2012	The Improvements to IFRSs (2010-2012) contains amendments to 7 standards and consist in changes applied in presentation, recognition, valuation, including terminology and editorial changes (IFRS 2, IFRS 3, IFRS 8, IAS 16, IAS 38, IAS 24, IAS 37). The Amendments are not applicable to the Bank.
Improvements to IFRS 2012-2014	The improvements to IFRSs (2012-2014) concern IFRS 5, IFRS 7, IAS 19, IAS 34. The Amendments are not applicable to the Bank.

Standards and interpretation, that have been published, but have not as yet been adopted by the European Union or that have been adopted by the EU, but have not as yet been applied by the Bank, were presented in annual financial statements for the year 2015. In the first half of 2016, the following standards and amendments to standards have been published:

Standard/ interpretation	Implementation date:	Potential changes:
IFRS 16 Leases	Fiscal year starting 01.01.2019 or later	IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for finance and operating lessees. The recognition of operating leases in the statement of financial position will result in the recognition of a new asset, the right to use the underlying asset, and a new liability, the obligation to make lease payments. The right-of-use asset will be depreciated and the liability will accrue interest. This will result in a front-loaded pattern of expense for most leases, even with constant annual rentals. Exceptions are short-term lease agreements for periods up to 12 months and lease agreements for low value assets. Impact on the Bank have not been estimated yet.
IAS 12 Income Tax	Fiscal year starting 01.01.2017 or later.	The amendments concern the clarification to deferred tax assets presentation due to debt instruments amounted at fair value. Impact on the Bank have not been estimated yet.
IAS 7 Cash flow statement	Fiscal year starting 01.01.2017 or later.	The amendments were the result of the IASB's works to improve the quality of disclosures in financial statements and relate to the requirement to enable users of financial statements to evaluate changes in liabilities from financial activities, including both changes resulting from cash and non-cash flows. Change in presentation.

In conclusion, the Management Board does not expect that the adoption of the above-mentioned standards and interpretations will have a significant impact on the accounting policies applied by the Bank, excluding IFRS 9. The Bank intends to apply these amendments in accordance with the periods indicated in the relevant standards and interpretations (without early adoption), subject to adoption by the EU.

Critical estimates and judgments

Description of estimates and assumptions that are used by the Bank in determining the value of assets and liabilities as well as revenues and costs is presented in Financial Statements of PKO Bank Polski SA for the year ended 31 December 2015. The methods of preparing estimates and assumptions have not changed in relation to financial statements for the year ended 31 December 2015.

Impairment of loans and advances

Estimated change in impairment of loans and advances resulting from (in PLN million):	30.06.2016		31.12.2015	
	+10% scenario	-10% scenario	+10% scenario	-10% scenario
change in the present value of estimated cash flows for the Bank's loans and advances portfolio assessed on an individual basis (individually determined to be impaired)	(223)	362	(204)	364
change in probability of default	58	(58)	60	60
change in recovery rates	(402)	402	(435)	435

Valuation of derivatives and unlisted debt securities available for sale

As at 30 June 2016 the value of adjustments for the contractor's and Bank's credit risk amounts to PLN -1,8 million (Net).

The outcomes of simulation of estimated changes in valuation of non-option derivative instruments for parallel movements of yield curves are presented below:

a) for the whole portfolio of non-option derivative instruments (in PLN million):

Estimated change in non-option derivative valuation due to parallel movement of yield curve by (in PLN millions):	30.06.2016		31.12.2015	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(19)	18	(35)	35
CIRS	(97)	100	(95)	99
other derivatives	2	(2)	(1)	1
Total	(114)	116	(131)	135

b) for derivative instruments that are designated to hedge accounting (in PLN million):

Estimated change in valuation of derivative instruments that are designated to hedge accounting due to parallel movement of yield curve by (in PLN millions):	30.06.2016		31.12.2015	
	+50 b.p. scenario	-50 b.p. scenario	+50 b.p. scenario	-50 b.p. scenario
IRS	(64)	65	(61)	63
CIRS	(97)	101	(95)	99
Total	(161)	166	(156)	162

Useful lives of tangible fixed assets, intangible assets and investment properties

Change in useful economic lives of assets being subject to depreciation and classified as land and buildings (in PLN millions)	30.06.2016		31.12.2015	
	+10 years scenario	-10 years scenario	+10 years scenario	-10 years scenario
Depreciation costs	(20)	246	(37)	232

3. Explanation of differences between previously published financial statements and current financial statements

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

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

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

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

NOTES TO THE INCOME STATEMENT

4. Interest income and expense

Interest and similar income	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Income from loans and advances to customers, of which:	1 946 966	3 878 067	1 901 933	3 901 984
from impaired loans	68 221	137 239	78 240	159 181
Income from investment securities available for sale	192 705	375 364	170 372	337 110
Income from placements with banks	25 406	49 329	22 439	50 568
Income from loans to banks	3 140	5 367	2 435	3 300
Other	9 268	13 411	293	1 258
Other income, of which:	159 542	326 254	180 379	360 156
Income from derivative hedging instruments	87 442	182 460	116 752	212 235
Income from financial assets designated upon initial recognition at fair value through profit and loss	55 957	108 570	49 292	120 862
Income from trading assets	16 143	35 224	14 335	27 059
Total	2 337 027	4 647 792	2 277 851	4 654 376
of which, the amount of interest income reduction due to negative LIBOR	(69)	(161)	(202)	(203)

Interest expense and similar charges	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Interest expense on amounts due to customers	(455 947)	(913 756)	(597 966)	(1 280 260)
Interest expense on loans from banks	(25 676)	(38 206)	(10 655)	(32 442)
Interest expense on debt securities in issue and subordinated liabilities	(18 060)	(36 095)	(17 810)	(37 921)
Premium expense on debt securities available for sale	(17 150)	(31 661)	(14 870)	(29 782)
Expense on trading assets	(5 925)	(15 433)	(3 793)	(8 021)
Expense on financial assets designated upon initial recognition at fair value through profit and loss	(6 408)	(13 043)	(3 819)	(8 168)
Interest expense on deposits from banks	(2 226)	(5 179)	(476)	(2 764)
Total	(531 392)	(1 053 373)	(649 389)	(1 399 358)

5. Fee and commission income and expense

Fee and commission income	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
payment cards	269 700	498 736	246 771	457 020
maintenance of bank accounts	217 383	437 887	230 666	457 261
income from loans and advances granted	160 258	305 530	162 794	310 740
maintenance of investment and open pension funds (including management fees)	64 583	129 492	79 218	144 888
cash transactions	23 441	45 621	22 667	46 261
servicing foreign mass transactions	21 550	40 865	15 846	33 622
securities transactions	16 736	31 326	20 970	54 371
loans insurance	11 318	24 205	19 388	50 890
providing services of an agent for the issue of Treasury bonds	5 595	14 310	3 670	8 188
commissions of the Brokerage House for servicing Initial Public Offering issuances	8 804	11 293	5 560	10 847
investment and insurance products	3 672	7 347	5 343	9 462
sale and distribution of court fee stamps	2 086	5 461	3 245	5 503
guarantees and letters of credit	1 579	3 300	1 235	3 229
fiduciary activities	1 062	2 178	930	2 002
commissions for servicing indebtedness of borrower against the State budget	749	1 527	703	1 525
commissions of the Brokerage House for acting as the market maker	634	1 244	603	1 219
other	26 444	50 583	47 748	73 034
Total	835 594	1 610 905	867 357	1 670 062

Fee and commission expense	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
payment cards	(154 489)	(282 081)	(102 718)	(223 315)
acquisition services	(16 467)	(32 666)	(17 306)	(34 962)
cost of construction investments control and real estate appraisals	(11 225)	(20 404)	(7 898)	(15 918)
settlement services	(6 101)	(15 331)	(6 575)	(15 629)
fee and commissions for operating services provided by banks	(4 118)	(8 116)	(4 135)	(11 518)
SMS sending	(4 000)	(7 437)	(6 901)	(12 834)
amounts paid by the Brokerage House to GPW, KDPW and KDPW_CCP	(2 736)	(5 876)	(3 395)	(7 369)
servicing foreign mass transactions	(1 604)	(3 089)	(1 147)	(1 849)
commission paid to Poczta Polska	(1 178)	(2 362)	(811)	(2 389)
other	(27 377)	(48 675)	(23 142)	(34 051)
Total	(229 295)	(426 037)	(174 028)	(359 834)

6. Net income from financial instruments measured at fair value

Net income from financial instruments measured at fair value	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Derivative instruments. of which:	(7 582)	(30 817)	29 726	40 429
an ineffective portion related to cash flow hedges	(2 599)	(2 257)	708	3 412
Structured bank securities measured at fair value through profit and loss	-	5 480	192	(7 179)
Debt securities	5 579	7 176	(37 288)	(29 931)
Equity instruments	(1 461)	(26)	(3 065)	(2 113)
Total	(3 464)	(18 187)	(10 435)	1 206

7. Gains less losses from investment securities

Gains from investment securities available for sale	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Equity instruments	418 434	418 434	9 287	9 287
issued by other financial institutions*	417 580	417 580	-	-
other	854	854	9 287	9 287
Debt securities	9 512	64 249	16 340	73 869
Treasury bonds PLN	8 498	55 965	15 160	71 606
other	1 014	8 284	1 180	2 263
Total	427 946	482 683	25 627	83 156

* Information relating to the settlement of Visa transactions are described in the note 21 'Investment securities available for sale'

Losses from investment securities available for sale	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Equity securities	-	-	(2 357)	(2 357)
Debt securities	(1 730)	(6 169)	(243)	(3 850)
Treasury bonds PLN	(1 721)	(6 129)	(212)	(3 781)
other	(9)	(40)	(31)	(69)
Total	(1 730)	(6 169)	(2 600)	(6 207)
Result on investment securities available for sale	426 216	476 514	23 027	76 949

8. Other operating income and expense

Other operating income	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Sale, disposal of tangible fixed assets, intangible assets and assets held for sale	9 422	13 580	2 806	29 780
Sundry income	6 652	12 860	5 463	10 535
Recovery of expired and written-off receivables	507	1 746	3 504	12 955
Other	13 054	23 919	8 204	27 693
Total	29 635	52 105	19 977	80 963

Other operating costs	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Cost of sale, disposal of tangible fixed assets, intangible assets and assets held for sale	(10 129)	(14 339)	(3 544)	(16 367)
Donations	(12 805)	(13 700)	(1 743)	(2 032)
Sundry expense	(3 861)	(7 996)	(1 580)	(2 905)
Other	(10 250)	(24 741)	(17 351)	(26 106)
Total	(37 045)	(60 776)	(24 218)	(47 410)

9. Net impairment allowance and write-downs

For the period ended 30 June 2016	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net- impact on the income statement
			Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	21	53 253	40 027	602	-	-	-	93 882	(40 027)
Debt securities available for sale		53 153	40 027	602	-	-	-	93 782	(40 027)
Equity securities		100	-	-	-	-	-	100	-
Amounts due from banks	15	260	3 146	-	-	2 783	-	623	(363)
Loans and advances to customers measured at amortised cost	20	7 890 237	2 109 671	87 890	542 877	1 408 179	60 603	8 076 139	(701 492)
Non-financial sector		7 829 927	2 104 414	87 030	542 384	1 400 348	60 475	8 018 164	(704 066)
corporate loans		3 929 033	930 763	48 977	266 002	569 328	28 806	4 044 637	(361 435)
housing loans		2 291 382	624 733	34 137	217 723	456 205	30 845	2 245 479	(168 528)
consumer loans		1 540 528	545 365	3 840	58 659	374 815	824	1 655 435	(170 550)
debt securities		68 984	3 553	76	-	-	-	72 613	(3 553)
Financial sector		25 710	-	860	489	2 537	128	23 416	2 537
corporate loans		25 710	-	860	489	2 537	128	23 416	2 537
Public sector		34 600	5 257	-	4	5 294	-	34 559	37
corporate loans		31 905	-	-	4	5 294	-	26 607	5 294
debt securities		2 695	5 257	-	-	-	-	7 952	(5 257)
Non-current assets held for sale		427 058	5 647	-	-	-	1 123	431 582	(5 647)
Tangible fixed assets	24	20 202	-	1 361	-	1 369	817	19 377	1 369
Intangible assets	24	15 373	-	-	-	-	-	15 373	-
Investments in subsidiaries, joint ventures and associates	22	795 141	-	-	-	-	-	795 141	-
Other receivables		204 947	35 497	59	1 304	32 921	-	206 278	(2 576)
Provision for legal claims, loan commitments and guarantees granted	31	102 204	153 756	1 025	5 928	149 189	-	101 868	(4 567)
Provisions for future liabilities		2 076	1 283	-	15	1 767	-	1 577	484
Total		9 510 751	2 349 027	90 937	550 124	1 596 208	62 543	9 741 840	(752 819)

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For the period ended 30 June 2015	Note	Value at the beginning of the period	Increases		Decreases			Value at the end of the period	Net- impact on the income statement
			Recognised during the period	Other	Derecognition of assets and settlement	Reversed during the period	Other		
Investment securities available for sale	21	127 747	2 227	-	102 282	-	-	27 692	(2 227)
Equity securities		127 747	2 227	-	102 282	-	-	27 692	(2 227)
Amounts due from banks	15	11 596	725	1 931	-	3 403	-	10 849	2 678
Loans and advances to customers measured at amortised cost	20	7 527 200	2 710 228	262 673	583 660	1 913 267	52 890	7 950 284	(796 961)
Non-financial sector		7 504 886	2 581 638	260 942	520 124	1 862 075	51 963	7 913 304	(719 563)
corporate loans		3 869 710	1 335 803	34 637	182 912	970 458	9 752	4 077 028	(365 345)
housing loans		2 247 418	646 842	180 726	150 751	472 208	41 544	2 410 483	(174 634)
consumer loans		1 295 876	598 212	45 502	186 461	419 409	667	1 333 053	(178 803)
debt securities		91 882	781	77	-	-	-	92 740	(781)
Financial sector		6 854	123 382	928	61 905	49 585	861	18 813	(73 797)
corporate loans		6 854	123 382	928	61 905	49 585	861	18 813	(73 797)
Public sector		15 460	5 208	803	1 631	1 607	66	18 167	(3 601)
corporate loans		12 638	5 127	803	1 631	1 607	-	15 330	(3 520)
debt securities		2 822	81	-	-	-	66	2 837	(81)
Non-current assets held for sale		155 934	-	267 003	-	-	-	422 937	-
Tangible fixed assets	24	18	-	-	-	-	-	18	-
Intangible assets	24	15 373	-	-	-	-	-	15 373	-
Investments in subsidiaries, joint ventures and associates	22	1 120 101	2 399	-	62 062	32 419	265 878	762 141	30 020
Other receivables		145 672	21 412	171	3 595	14 240	-	149 420	(7 172)
Provision for legal claims, loan commitments and guarantees granted	31	133 078	159 342	-	-	182 833	2 448	107 139	23 491
Provisions for future liabilities		9 250	1 025	-	399	2 041	-	7 835	1 016
Total		9 245 969	2 897 358	531 778	751 998	2 148 203	321 216	9 453 688	(749 155)

10. Administrative expenses

Administrative expenses	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Employee benefits	(650 171)	(1 281 336)	(619 390)	(1 257 532)
Overheads	(304 050)	(615 568)	(327 383)	(673 303)
Amortisation and depreciation, of which:	(184 931)	(357 937)	(182 858)	(372 163)
intangible assets	(112 628)	(220 959)	(108 147)	(213 045)
tangible fixed assets	(72 266)	(136 904)	(74 710)	(159 116)
investments properties	(37)	(74)	(1)	(2)
Taxes and other charges*	(13 024)	(24 700)	(12 055)	(23 785)
Contribution and payments to the Bank Guarantee Fund	(108 658)	(218 354)	(111 214)	(222 428)
Total	(1 260 834)	(2 497 895)	(1 252 900)	(2 549 211)

*The item does not include tax on certain financial institutions presented in another note.

According to the Act of 11 March 2016 about the change in Bank Guarantee Fund Act and Act on the operations of Cooperative Banks, their affiliation and affiliated banks (Journal of Laws of 2016, item 381), the Bank pays Bank Guarantee Fund fees quarterly. Tax liability and tax expense are recognized at the beginning of each quarter.

Employee benefits

Employee benefits	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Wages and salaries, of which:	(536 436)	(1 056 114)	(513 299)	(1 039 221)
expenses on employee pension programme	(11 213)	(23 113)	(11 047)	(22 822)
Social insurance, of which:	(92 657)	(186 620)	(87 162)	(182 373)
contributions for retirement pay and pensions	(74 824)	(158 365)	(74 043)	(156 962)
Other employee benefits	(21 078)	(38 602)	(18 929)	(35 938)
Total	(650 171)	(1 281 336)	(619 390)	(1 257 532)

11. Tax on certain financial institutions

On 1 February 2016 the Act of 15 January 2016 on tax on certain financial institutions (Journal of Laws of 2016, item 68) entered into force. Branches of foreign banks, branches of credit institutions, credit unions (SKOK), national insurance companies, national reinsurance companies, branches of foreign insurance companies and foreign reinsurance companies, main branches of foreign insurance companies and foreign reinsurance companies, as well as lending institutions are covered by the taxes. The tax base represents the excess of the total assets of the entity (over PLN 4 billion in the case of banks, more than PLN 2 billion for insurance companies) resulting from the trial balance at the end of each month. Banks and credit unions are entitled to a reduction of the tax base, for the value of own funds, and the value of Treasury securities. In addition, banks will reduce the tax base by the value of assets acquired from the NBP acting as collateral for refinancing loan granted by the NBP. The tax rate for all taxpayers amounts to 0.0366%, and the tax is paid per month until the 25th day of the month following the month to which it relates.

	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Tax on certain financial institutions	(219 974)	(367 743)	-	-

12. Income tax expense

	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Current income tax expense	(307 671)	(518 341)	(130 195)	(344 965)
Deferred income tax related to creating and reversal of temporary differences	56 365	120 701	(12 274)	31 953
Tax expenses in the income statement	(251 306)	(397 640)	(142 469)	(313 012)
Tax expense in other comprehensive income related to creating and reversal of temporary differences	73 267	39 676	57 611	49 446
Total	(178 039)	(357 964)	(84 858)	(263 566)

13. Dividends declared divided by shares

On 22 March 2016, the Bank's Management Board adopted the resolution on new wording of 'Principles for managing the capital adequacy and internal equity in PKO Bank Polski SA and in the PKO Bank Polski SA Capital Group' including, inter alia, the dividend policy.

The general assumption of the Bank's dividend policy is to maintain a stable level of dividend payments in the long term, in compliance with the principle of prudent management of the Bank and the Bank's Capital Group and with consideration of the financial capacity of the Bank and the Bank's Capital Group as determined on the basis of the adopted criteria.

The aim of the dividend policy is an optimization of the structure of the Bank's and the Capital Group's own funds, taking into account the return on capital and its cost, capital needs for development, while ensuring an appropriate level of capital adequacy ratios. The dividend policy assumes the possibility of the Bank's net profit distribution to shareholders in the long-term perspective in the amount of the surplus of capital above minimal capital adequacy ratios considering the additional capital buffer.

The dividend policy takes into account factors related to the operations of the Bank and the Capital Group entities, in particular, the requirements and supervisory recommendations concerning capital adequacy. The rules have changed due to the issuance by the Financial Supervision Authority on 15 December 2015 the position regarding to the dividend policy of banks in 2016 for 2015, recommending higher minimum capital adequacy measures to enable the payment of dividends and introducing a new condition for the payment of dividends - leverage. Therefore, in compliance with the Principles, capital adequacy ratios specifying the criteria dividend are at the level entitling to the dividend payment up to 50% of the profit and they are as follows:

- total capital ratio above 14.01%,
- basic capital ratio Tier 1 above 13.82% and
- leverage ratio above 5%.

These principles were approved by the Supervisory Board on 30 June 2016.

On 30 June 2016 the Ordinary General Shareholders' Meeting of the Bank adopted resolution on distribution of the net profit for the period from 1 January 2015 to 31 December 2015 (PLN 2 571 142 thousand) and retained earnings from previous years (PLN 1 250 000 thousand), in the total amount of PLN 3 821 142 thousand as follows:

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

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

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



If there is no fulfilment of these two conditions, the net profit of the Bank for the year 2015 and retain earnings from previous years in the total amount of PLN 3 821 142 thousand, will be distributed for the reserve capital in the amount of PLN 3 750 000 thousand, and for the other reserve in the amount of PLN 71 142 thousand.

The Management Board of the Bank is obliged to adopt a resolution on the establishment of the fulfillment of these two conditions or the lack of the fulfillment of these two conditions not later than on 9 December 2016 (inclusive). If both conditions are met, the dividend is to be paid in an amount of PLN gross 1.00 per one share.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

14. Cash and balances with the central bank

	30.06.2016	31.12.2015
Current account in the central bank	8 466 638	9 854 133
Cash	3 620 945	3 853 596
Other funds	4	1
Total	12 087 587	13 707 730

15. Amounts due from banks

	30.06.2016	31.12.2015
Deposits with banks	3 652 537	2 484 552
Current accounts	658 585	858 326
Loans and advances granted	364 062	269 027
Receivables due from repurchase agreements	-	980 630
Cash in transit	278	85
Amount due from PKO Bank Hipoteczny on account of mortgage-backed housing loans sold by PKO Bank Polski	2 376 610	429 516
Total	7 052 072	5 022 136
Impairment allowances on receivables	(623)	(260)
Net total	7 051 449	5 021 876

Amounts due from banks - the Bank's exposure to credit risk	Exposure	
	30.06.2016	31.12.2015
Amounts due from banks impaired, of which:	380	375
Amounts due from banks not impaired, of which:	7 051 692	5 021 761
not past due	7 051 692	5 021 761
Gross total	7 052 072	5 022 136
Impairment allowances	(623)	(260)
Net total by carrying amount	7 051 449	5 021 876

16. Trading assets

At carrying amounts	30.06.2016	31.12.2015
Debt securities	2 893 415	776 655
issued by the State Treasury, of which:	2 736 413	648 695
Treasury bonds PLN	1 752 912	640 009
Treasury bonds EUR	9 518	8 686
Treasury bills PLN	973 983	-
issued by local government bodies, municipal bonds PLN	45 142	48 596
issued by non-financial institutions, of which:	60 545	46 122
corporate bonds PLN	60 456	46 052
corporate bonds EUR	89	70
issued by other financial institutions, of which:	2 843	5 344
bonds issued by the WSE PLN	2 833	5 238
corporate bonds PLN	10	106
issued by banks	48 472	27 898
corporate bonds PLN	11 336	17 884
mortgage-backed securities	37 136	10 014
Shares in other entities – listed on stock exchange	15 729	9 910
Investment certificates, Allotment certificates, Subscription rights	4 045	6 648
Total	2 913 189	793 213

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

17. Derivative financial instruments

Type of derivative instruments	30.06.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
Hedging instruments	433 499	996 467	508 665	998 527
Other derivative instruments	2 603 072	2 587 580	3 839 369	3 628 662
Total	3 036 571	3 584 047	4 348 034	4 627 189

Type of contract	30.06.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	1 816 251	1 875 389	3 208 234	3 053 133
CIRS	629 549	1 280 241	472 355	1 212 581
FX Swap	146 566	177 125	309 928	85 953
Options	296 364	187 943	236 757	177 513
FRA	5 686	4 949	16 226	22 192
Forward	141 560	55 593	104 534	72 588
Other	595	2 807	-	3 229
Total	3 036 571	3 584 047	4 348 034	4 627 189

18. Derivative hedging instruments

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

Carrying amount/fair value of derivative instruments constituting cash flow hedges related to the interest rate and/or exchange rate	30.06.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
IRS	93 330	1 392	269 122	-
CIRS	340 169	995 075	239 543	998 527
Total	433 499	996 467	508 665	998 527

The impact of hedging instruments on other comprehensive income	II quarter period from 01.04.2016 to 30.06.2016	2 quarters cumulative period from 01.01.2016 to 30.06.2016	II quarter period from 01.04.2015 to 30.06.2015	2 quarters cumulative period from 01.01.2015 to 30.06.2015
Other comprehensive income at the beginning of the period, gross	65 488	(71 182)	(38 870)	6 425
Gains/losses transferred to other comprehensive income in the period	(157 823)	49 471	(435 232)	(1 406 305)
Amount transferred from other comprehensive income to income statement, of which:	235 020	164 396	361 667	1 287 445
- interest income	(87 442)	(182 460)	(116 752)	(212 235)
- net foreign exchange gains	322 462	346 856	478 419	1 499 680
Accumulated other comprehensive income at the end of the period, gross	142 685	142 685	(112 435)	(112 435)
Tax effect	(27 110)	(27 110)	21 363	21 363
Accumulated other comprehensive income at the end of the period, net	115 575	115 575	(91 072)	(91 072)
Effect on other comprehensive income in the period, gross	77 197	213 867	(73 566)	(118 860)
Deferred tax on cash flow hedges	(14 667)	(40 635)	13 978	22 584
Effect on other comprehensive income in the period, net	62 530	173 232	(59 588)	(96 276)

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

At carrying amount	30.06.2016	31.12.2015
Debt securities	11 366 327	12 796 036
issued by central banks, NBP money market bills	7 999 728	9 996 910
issued by the State Treasury, of which:	3 122 466	2 551 863
Treasury bonds PLN	1 922 366	1 466 614
Treasury bonds EUR	177 572	91 634
Treasury bonds CHF	1 022 528	993 615
issued by local government bodies, of which:	244 133	247 263
municipal bonds EUR	131 964	131 341
municipal bonds PLN	112 169	115 922
Total	11 366 327	12 796 036

20. Loans and advances to customers

Loans and advances to customers by sector and product type	30.06.2016	31.12.2015
Loans and advances to customers, gross, of which:	194 200 661	196 442 677
financial sector	7 502 787	9 901 760
corporate, of which:	6 476 222	5 458 869
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee Fund and initial deposit	10 351	10 217
receivables due from repurchase agreements	1 009 530	4 432 239
international financial organizations	17 035	10 652
non-financial sector	177 286 466	176 609 803
housing	101 441 282	102 162 396
corporate	49 329 009	48 446 610
repurchase agreements	10 126	-
consumer	24 021 996	23 339 924
debt securities (corporate)	2 484 053	2 660 873
public sector	9 411 408	9 931 114
corporate	6 760 549	7 235 743
debt securities (municipal)	2 650 859	2 695 371
Impairment allowances on loans and advances	(8 076 139)	(7 890 237)
Loans and advances to customers, net	186 124 522	188 552 440

Loans and advances to customers by customer segment	30.06.2016	31.12.2015
Loans and advances granted, gross, of which:	194 200 661	196 442 677
mortgage banking	94 509 689	95 217 252
corporate	53 320 471	52 119 477
retail and private banking	24 021 996	23 339 924
small and medium enterprises	21 301 463	21 312 916
International financial organisations	17 035	10 652
receivables due from repurchase agreements	1 019 656	4 432 239
deposits of the Brokerage House of PKO Bank Polski SA in the Stock Exchange Guarantee	10 351	10 217
Impairment allowances on loans and advances	(8 076 139)	(7 890 237)
Loans and advances granted, net	186 124 522	188 552 440

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Bank Polski

Loans and advances to customers - Bank exposure to credit risk	Exposure	
	30.06.2016	31.12.2015
Loans and advances impaired, of which:	12 623 338	12 524 491
assessed on individual basis	4 984 580	4 972 235
Loans and advances not impaired, of which:	181 577 323	183 918 186
with recognised individual impairment trigger	1 567 207	1 746 700
not past due	1 255 599	1 423 097
past due	311 608	323 603
without recognised individual impairment trigger	180 010 116	182 171 486
not past due	177 444 112	179 521 234
past due	2 566 004	2 650 252
Gross total	194 200 661	196 442 677
Impairment allowances, of which:	(8 076 139)	(7 890 237)
for impaired exposures	(7 517 384)	(7 330 852)
for not impaired exposures, of which:	(558 755)	(559 385)
with recognised impairment trigger	(10 441)	(12 646)
without recognised impairment trigger	(548 314)	(546 739)
Total net carrying amount	186 124 522	188 552 440

Loans and advances to customers by method of calculating impairment allowances	30.06.2016	31.12.2015
Assessed on an individual basis, of which:	7 641 803	6 799 156
impaired	4 984 580	4 972 235
not impaired	2 657 223	1 826 921
Assessed on a portfolio basis, impaired	7 638 758	7 552 256
Assessed on a group basis (IBNR)	178 920 100	182 091 265
Loans and advances to customers, gross	194 200 661	196 442 677
Impairment allowances on exposures assessed on an individual basis, of which:	(2 527 669)	(2 630 480)
impaired	(2 517 202)	(2 617 808)
Impairment allowances on exposures assessed on a portfolio basis	(5 000 182)	(4 713 044)
Impairment allowances on exposures assessed on a group basis (IBNR)	(548 288)	(546 713)
Impairment allowances - total	(8 076 139)	(7 890 237)
Loans and advances to customers, net	186 124 522	188 552 440

A detailed description of the changes in impairment losses are presented in note 9 'Net impairment allowance and write-downs'.

Credit ratios (in %)	30.06.2016	31.12.2015
the share of impaired loans	6,5%	6,4%
the coverage ratio of impaired loans*	64,0%	63,0%
the share of loans overdue more than 90 days in relation to the value of gross loans and advances	5,0%	4,8%

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

Debt securities reclassified from financial assets available for sale to loans and advances to customers (reclassified in the third and fourth quarter of 2012), as at the date:

30 June 2016	nominal value	fair value	carrying amount
Municipal bonds	723 952	722 188	728 246
Corporate bonds	51 489	72 014	8 456
Total	775 441	794 202	736 702

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

21. Investment securities available for sale

At carrying amount	30.06.2016	31.12.2015
Debt securities available for sale, gross	32 820 743	27 312 620
issued by the State Treasury, of which:	23 466 775	18 021 339
Treasury Bonds PLN	22 905 971	17 710 719
Treasury Bonds EUR	262 059	310 620
Treasury bills PLN	298 745	-
issued by local government bodies, municipal bonds PLN	4 506 954	4 613 726
issued by non-financial institutions, of which:	3 224 001	3 161 994
corporate bonds PLN	2 616 226	2 617 664
corporate bonds EUR	332 241	320 712
corporate bonds USD	275 534	223 618
issued by other financial institutions, corporate bonds PLN	155 558	239
issued by banks, of which:	1 467 455	1 515 322
corporate bonds PLN	1 467 455	1 470 753
corporate bonds EUR	-	44 569
Impairment allowances on debt securities available for sale, of which	(93 782)	(53 153)
corporate bonds PLN	(50 318)	(22 959)
corporate bonds USD	(43 464)	(30 194)
Total net debt securities available for sale	32 726 961	27 259 467
Equity securities available for sale, gross	141 248	403 717
Equity securities not admitted to public trading	100 701	346 893
Equity securities admitted to public trading	40 547	56 824
Impairment allowances on equity securities available for sale	(100)	(100)
Total net equity securities available for sale	141 148	403 617
Participation units in joint investment institution	282 719	196 643
Total net investment securities available for sale	33 150 828	27 859 727

Investment securities available for sale - debt securities - Bank exposure to credit risk	Exposure	
	30.06.2016	31.12.2015
Debt securities impaired, of which:	572 680	393 662
assessed on an individual basis	572 680	393 662
Debt securities not impaired, of which:	32 248 063	26 918 958
not past due	32 248 063	26 918 958
with external rating	25 082 290	21 380 292
with internal rating	7 165 773	5 538 666
Gross total	32 820 743	27 312 620
Impairment allowances	(93 782)	(53 153)
Net total by carrying amount	32 726 961	27 259 467

On 29 January 2016 the Management Board of the PKO Bank Polski SA approved the terms of Bank's participation in the transactions of acquisition of Visa Europe Limited shares by Visa Inc., proposed to the Bank by Visa Europe Limited. According to these terms, the total pre-estimated Bank's share in revenues from the transaction (excluding the potential deferred 'earn out' payment) was expected to amount EUR 88 875 thousand, which is equivalent to PLN 394 650 thousand (according to NBP average exchange rate of 29 January 2016), including EUR 66 167 thousand that will be paid in advance in cash (equivalent to PLN 293 816 thousand) and EUR 22 708 thousand with shares of Visa Inc. (equivalent to PLN 100 834 thousand). The terms were approved, with the clause, that the amounts may not be final.

The final amounts due to the Bank were approved on 16 June 2016. However, the deferred 'earn out' payment has been replaced by the increase of the amount paid in advance in cash by the day of the completion of transaction and deferred amount paid in cash in II quarter of 2019. On 21 June 2016 the Bank received from Visa Europe Limited the information on the completion of acquisition of Visa Europe Limited by Visa Inc.

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

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

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

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

Preference shares of Visa Inc. have been classified to the portfolio of securities available for sale and they are measured at its fair value based on the market price of quoted ordinary shares, taking into consideration discount due to the limited liquidity of the preference shares and the conditions of shares conversions (adjustments resulting from court proceedings). The fair value of mentioned above shares as at 30 June 2016 was estimated at USD 20 045 thousand (equivalent to PLN 79 784 thousand according to NBP average exchange rate of 30 June 2016).

22. Investments in subsidiaries, joint ventures and associates and a description of changes to the entities of the Group

22.1. Investments in subsidiaries, joint ventures and associates

As at 30 June 2016	Gross value	Impairment	Carrying amount
Subsidiaries			
KREDOBANK SA	1 070 308	(793 641)	276 667
PKO Bank Hipoteczny SA	500 000	-	500 000
PKO Życie Towarzystwo Ubezpieczeń SA	240 636	-	240 636
PKO Towarzystwo Funduszy Inwestycyjnych SA	186 989	-	186 989
PKO Leasing SA	178 000	-	178 000
PKO BP BANKOWY PTE SA	150 841	-	150 841
Merkury - fiz an ¹	120 000	-	120 000
NEPTUN - fizan ¹	94 663	-	94 663
PKO Towarzystwo Ubezpieczeń SA	110 000	-	110 000
PKO BP Finat Sp. z o.o.	21 463	-	21 463
PKO Finance AB	172	-	172
Joint ventures			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197 320	-	197 320
Associates			
Bank Pocztowy SA	161 500	-	161 500
FERRUM SA	25 291	-	25 291
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	1 500	(1 500)	-
Total	3 058 683	(795 141)	2 263 542

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

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

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

22.2. Changes to the entities of the PKO Bank Polski Group

In the first half of 2016, the following events affecting the structure of the PKO Bank Polski SA Capital Group and the other subsidiaries occurred:

1. Concerning PKO BP Finat Sp. z o.o.

On 29 January 2016 the National Court Register recorded a decrease of the share capital of PKO BP Finat Sp. z o.o. from the amount of PLN 107 302 500 to PLN 32 302 500 through the redemption of 750 000 shares with a nominal value of PLN 100 each, belonging to the sole shareholder – PKO Bank Polski SA.

As at 30 June 2016 the share capital of PKO BP Finat Sp. z o.o amounts to PLN 32 302 500 and is divided into 323 025 shares with a nominal value of PLN 100 each.

2. Concerning PKO Towarzystwo Ubezpieczeń SA

On 19 April 2016 the National Court Register recorded an increase of the share capital of PKO Towarzystwo Ubezpieczeń SA by PLN 5 000 thousand. Within the above-mentioned increase PKO Bank Polski SA acquired 5 000 shares (i.e. all newly issued shares) with a nominal value of PLN 1 000 each and an issue price amounting to PLN 4 400 each, i.e. for a total amount equal to PLN 22 000 thousand, remaining sole shareholder of the Company.

As at 30 June 2016 the share capital of the Company amounts to PLN 25 000 thousand and is divided into 25 000 shares with a nominal value of PLN 1 000 each.

3. Concerning PKO Bank Hipoteczny SA

On 22 April 2016 the National Court Register recorded an increase of the share capital of PKO Bank Hipoteczny SA by PLN 200 000 thousand. All shares in the increased capital were acquired by PKO Bank Polski SA.

As at 30 June 2016 the share capital of the Company amounts to PLN 500 000 thousand and is divided into 500 000 000 shares with a nominal value of PLN 1 each. The sole shareholder of the Company is PKO Bank Polski SA.

4. Concerning KREDOBANK SA

On 24 May 2016 in the Uniform National Register of Legal Entities, Individual Entrepreneurs and Public Organizations of Ukraine was recorded a change of the Statute of KREDOBANK SA taking into account, inter alia, an increase of the share capital by UAH 330 000 thousand. All shares in the increased capital were acquired and paid in November 2015 by PKO Bank Polski SA.

As at 30 June 2016 the share capital of the Company amounts to UAH 2 248 969 469.16 and is divided into 224 896 946 916 shares with a nominal value of UAH 0.01 each. The share of PKO Bank Polski SA in the share capital of KREDOBANK SA and share in voting rights at the General Shareholders' Meeting of the Company is 99.6293%.

5. Concerning entities of the Qualia Development Sp. z o.o. Group

On 3 February 2016, the Extraordinary General Meeting of Shareholders of Qualia Hotel Management Sp. z o.o. and Qualia – Rezydencja Flotylla Sp. z o.o. and shareholders of a limited liability company Qualia Sp. z o.o.-Pomeranka Sp. K. adopted resolutions concerning merger of the above mentioned companies. The merger was accomplished through the transfer of all assets of the company Qualia-Residence Flotylla Sp. z o.o. and Qualia Sp. z o.o. – Pomeranka Sp. k (as the acquired companies) to the company Qualia Hotel Management Sp. z o.o. (the acquiring company). The above mentioned merger was registered with the National Court Register relevant for the acquiring company on 29 February 2016.

On 13 April 2016, Qualia Sp. z o.o. sold 3 shares of the Qualia Hotel Management Sp. z o.o. to Qualia Development Sp. z o.o. As at 30 June 2016 the share capital of Qualia Hotel Management Sp. z o.o. amounts to PLN 261 800 and is divided into 5 236 shares with a nominal value of PLN 50 each. All shares of the above mentioned Company are held by Qualia Development Sp. z o.o.

On 17 February 2016, Qualia Development Sp. z o.o. sold 1 share of the Fort Mokotów Inwestycje Sp. z o.o. with a nominal value of PLN 1 000 to Qualia Sp. z o.o. As at 30 June 2016 the share capital of Fort Mokotów Inwestycje Sp. z o.o. amounts to PLN 77 483 thousand and is divided into 77 483 shares with nominal value of PLN 1 000 each. Shares with the nominal value of PLN 77 482 thousand, representing 99.9987% share in share capital and entitling to 99.9987% of votes at the General Shareholders' Meeting are held by Qualia Development Sp. z o.o. and one share is held by Qualia Sp. z o.o.

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

On 4 May 2016, the Court and Commercial Gazette (Monitor Sądowy i Gospodarczy) recorded a merger of PKO Leasing SA (as acquiring company) and PKO Bankowy Leasing Sp. z o.o. (as acquired company).

The planned merger is going to be effected by the transfer of all assets of PKO Bankowy Leasing Sp. z o.o. to the PKO Leasing SA (merger by acquisition), without increasing the share capital of PKO Leasing SA and without exchange of the shares of PKO Bankowy Leasing Sp. z o.o. for shares of PKO Leasing SA.

7. Concerning FERRUM SA

On 18 January 2016, PKO Bank Polski SA took part in debt collection activities (transfer of ownership of the collateral) and obtained another block of FERRUM SA shares, increasing its stake in the share capital and votes at the General Meeting of the company from 20.97% to 22.14%. The company is an associate of the Bank.

23. Non-current assets held for sale

	30.06.2016	31.12.2015
Fixed assets available for sale reclassified from subsidiaries	197 562	203 210
Land and buildings*	29 502	217 359
Other	202	2 107
Total	227 266	422 676

* In the 2nd quarter of 2016 due to decision to withdraw certain Bank's properties from sale, their carrying amount of PLN 154 005 thousand was reclassified from the position 'Non-current assets held for sale' to position 'Tangible fixed assets'.

24. Intangible assets and tangible fixed assets

Intangible assets	30.06.2016	31.12.2015
Software	1 712 412	1 672 434
Goodwill	871 047	871 047
Relations with customers	41 165	48 114
Other, including capital expenditure	207 853	206 196
Total	2 832 477	2 797 791

**CONDENSED INTERIM FINANCIAL STATEMENTS
OF PKO BANK POLSKI SA FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 2016
(IN PLN THOUSAND)**



Bank Polski

	30.06.2016	31.12.2015
Tangible fixed assets		
Land and buildings	1 641 111	1 453 499
Machinery and equipment	390 323	386 270
Means of transport	2	2
Assets under construction	155 122	265 101
Investment properties	8 165	8 239
Other	171 205	163 211
Total	2 365 928	2 276 322

In the six-month periods ended 30 June 2016 and 30 June 2015 there were no significant purchase and sale transactions of tangible fixed assets, as well as significant liabilities arising from the purchase of tangible fixed assets.

	01.01- 30.06.2016	01.01- 30.06.2015
Received compensation from third parties for the impairment or loss of tangible fixed assets	126	31

25. Other assets

	30.06.2016	31.12.2015
Settlements of payment cards transactions	1 286 170	384 236
Settlements of financial instruments	245 133	178 687
Receivables and settlements of securities turnover	139 335	140 369
Assets for sale	87 797	69 479
Accruals and prepayments	81 167	59 213
Trade receivables	76 263	64 991
Inventories related to utilisation, auxiliary operations and investment	15 200	20 247
Receivables from other transactions with financial and non-financial institutions	11 366	6 767
Receivables from security deposits and bid bonds	10 483	11 020
Receivables from the State budget due to court fee stamps' distribution carried out by the Bank	10 396	10 191
Receivables from internal operations	3 708	15 470
Settlements of substitutive services with Poczta Polska	1 474	1 487
Receivables from unsettled transactions related to derivatives	1 095	2 040
Other	129 587	116 628
Total	2 099 174	1 080 825
of which financial assets*	1 769 758	787 281

* Financial assets include all items of 'Other assets', with the exception of 'Accruals and prepayments', 'Assets for sale', 'Receivables from security deposits and bid bonds', 'Receivables from internal operations', 'Settlements of substitutive services with Poczta Polska' and 'Other'.

26. Amounts due to banks

	30.06.2016	31.12.2015
Loans and advances received, of which:	16 927 445	16 371 687
Nordea Bank AB (publ)	16 927 445	16 371 687
Bank deposits	726 940	1 177 407
Amounts due from repurchase agreements	227 110	197 023
Current accounts	454 079	472 193
Other money market deposits	69 042	31 547
Total	18 404 616	18 249 857

27. Amounts due to customers

	30.06.2016	31.12.2015
Amounts due to retail clients	140 783 621	134 967 428
Term deposits	72 436 776	70 756 674
Current accounts and overnight deposits	68 015 124	63 926 647
Other liabilities	331 721	284 107
Amounts due to corporate entities	56 136 108	57 707 408
Term deposits	19 497 539	23 185 159
Current accounts and overnight deposits	24 525 219	22 276 890
Loans and advances received, of which:	10 599 648	10 435 617
- received from PKO Finance AB	7 535 377	7 332 263
- from international financial organisations	3 064 271	3 103 354
Other liabilities	1 059 050	980 628
Amounts due from repurchase agreements	454 652	829 114
Amounts due to public entities	8 241 077	9 134 366
Current accounts and overnight deposits	6 720 806	5 679 394
Term deposits	1 505 446	3 435 443
Other liabilities	14 825	19 529
Total	205 160 806	201 809 202

By client segment	30.06.2016	31.12.2015
Amounts due to customers, of which:		
retail and private banking	133 866 011	127 833 147
corporate	40 139 657	42 908 352
loans and advances received, of which:	10 599 648	10 435 617
- from PKO Finance AB	7 535 377	7 332 263
- from international financial organisations	3 064 271	3 103 354
small and medium enterprises	20 100 838	19 802 972
amounts due from repurchase agreements	454 652	829 114
Total	205 160 806	201 809 202

Loans received from PKO Finance AB:

Date of receiving loan by the Bank	Nominal amount	Currency	Maturity date	Carrying value as at 30.06.2016	Carrying value as at 31.12.2015
07.07.2011	250 000	CHF	07.07.2016	1 054 786	1 003 047
25.07.2012	50 000	EUR	25.07.2022	227 942	214 573
26.09.2012	1 000 000	USD	26.09.2022	4 018 429	3 938 519
23.01.2014	500 000	EUR	23.01.2019	2 234 220	2 176 124
Total				7 535 377	7 332 263

28. Debt securities in issue

	30.06.2016	31.12.2015
Financial instruments designated at fair value through profit and loss - bank securities	-	71 744
Financial instruments measured at amortised cost – bank bonds	1 876 308	1 645 917
Total	1 876 308	1 717 661

In the first half of 2016, PKO Bank Polski SA issued bank bonds in PLN with a nominal value of PLN 1 000 000 thousand, as well as bank bonds in EUR with a nominal value of PLN 865 660 thousand (EUR 200 000 thousand), measured at amortised cost. In the first half of 2016, bank securities and bank bonds in PLN with a nominal value of PLN 859 600 thousand, as well as bank bonds in EUR with a nominal value of PLN 857 700 thousand (EUR 200 000 thousand) were redeemed.

29. Subordinated liabilities

As at 30 June 2016	Nominal Value in currency	Nominal value in PLN	Currency	Maturity date	Balance in PLN
Subordinated bonds	1 600 700	1 600 700	PLN	14.09.2022	1 616 355
Subordinated loan	224 000	911 165	CHF	24.04.2022	911 224
Total	x	2 511 865	x	x	2 527 579

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

30. Other liabilities

	30.06.2016	31.12.2015
Accounts payable	421 183	587 251
Deferred income	388 274	384 383
Liabilities related to tax on certain financial institutions	73 227	-
Other liabilities	1 915 841	2 037 440
Total	2 798 525	3 009 074
of which financial liabilities	2 210 538	2 151 795

As at 30 June 2016 and as at 31 December 2015, PKO Bank Polski SA had no overdue contractual liabilities.

31. Provisions

For the period ended 30 June 2016	Provision for legal claims	Provisions for retirement benefits	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2016, of which:	19 512	45 496	82 692	98 078	245 778
Short term provision	19 512	3 549	64 029	98 078	185 168
Long term provision	-	41 947	18 663	-	60 610
Increase/reassessment of provision	11 662	-	142 094	2 630	156 386
Use of provision	(5 928)	(654)	-	(10 798)	(17 380)
Release of provision	(565)	-	(148 624)	(4 964)	(154 153)
Other changes and reclassifications	-	-	1 025	-	1 025
As at 30 June 2016, of which:	24 681	44 842	77 187	84 946	231 656
Short term provision	24 681	2 895	55 751	84 946	168 273
Long term provision	-	41 947	21 436	-	63 383

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 55 234 thousand, provision of PLN 1 570 thousand for potential claims on impaired loan portfolio sold and provisions for litigation, including judicial, which are the subject of compensation in the amount of PLN 354 thousand.

For the period ended 30 June 2015	Provision for legal claims	Provisions for retirement benefits	Provisions for loan commitments and guarantees granted	Other provisions*	Total
As at 1 January 2015, of which:	29 457	39 363	103 621	130 725	303 166
Short term provision	29 457	3 117	73 484	130 725	236 783
Long term provision	-	36 246	30 137	-	66 383
Increase/reassessment of provision	-	-	159 342	1 331	160 673
Use of provision	-	-	-	(12 833)	(12 833)
Release of provision	(10 000)	-	(172 833)	(6 344)	(189 177)
Other changes and reclassifications	-	-	(2 448)	-	(2 448)
As at 30 June 2015, of which:	19 457	39 363	87 682	112 879	259 381
Short term provision	19 457	3 117	62 516	112 879	197 969
Long term provision	-	36 246	25 166	-	61 412

* Included in 'Other provisions' are i.a.: restructuring provision of PLN 77 599 thousand, provision of PLN 1 774 thousand for potential claims on impaired loan portfolio sold.

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

32. Equity and shareholding structure of the Bank

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

Name of the entity	Number of shares	Number of votes %	Nominal value of 1 share	Share in equity %
As at 30 June 2016				
The State Treasury	367 918 980	29,43	PLN 1	29,43
Aviva Otwarty Fundusz Emerytalny	83 952 447	6,72	PLN 1	6,72
Nationale Nederlanden Otwarty Fundusz Emerytalny ¹	64 594 448	5,17	PLN 1	5,17
Other shareholders ²	733 534 125	58,68	PLN 1	58,68
Total	1 250 000 000	100,00	---	100,00
As at 31 December 2015				
The State Treasury	367 918 980	29,43	PLN 1	29,43
Aviva Otwarty Fundusz Emerytalny	83 952 447	6,72	PLN 1	6,72
Nationale Nederlanden Otwarty Fundusz Emerytalny ¹	64 594 448	5,17	PLN 1	5,17
Other shareholders ²	733 534 125	58,68	PLN 1	58,68
Total	1 250 000 000	100,00	---	100,00

- Number of shares held as at 24 July 2012, reported by ING OFE (on 23 June 2015 the entity name was changed to Nationale Nederlanden OFE) after exceeding 5% of share in PKO Bank Polski SA's shareholding structure after settlement of the transaction of sale of 95 million of PKO Bank Polski SA's shares by the State Treasury,
- Including Bank Gospodarswa Krajowego, that at the reporting date, held 24,487,297 shares, which amounted to 1.96% share in voting rights at the General Shareholders' Meeting.

The Bank's shareholding structure:

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

OTHER NOTES

33. Contingent liabilities and off-balance sheet liabilities received

The underwriting agreements covered the following securities (maximum liability of the PKO Bank Polski SA to acquire securities):

Issuer of securities underwritten	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreement	Contract period
As at 30 June 2016			
Company A	corporate bonds	1 125 800	31.12.2020
Company B	corporate bonds	1 055 000	31.07.2020
Company C	corporate bonds	734 000	15.06.2022
Company D	corporate bonds	75 000	31.12.2022
Company E	corporate bonds	19 385	31.12.2029
Company F	corporate bonds	15 000	31.12.2026
Total		3 024 185	

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

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

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

Contractual commitments

Value of contractual commitments related to:	30.06.2016	31.12.2015
intangible assets	142 244	177 404
tangible fixed assets	13 583	20 399

Loan commitments granted by nominal value	30.06.2016	31.12.2015
Credit lines and limits		
to financial entities	4 067 980	3 313 918
to non-financial entities	34 889 396	35 057 214
to public entities	4 423 684	4 080 379
Total	43 381 060	42 451 511
of which: irrevocable loan commitments	27 518 108	30 513 878

Guarantees and pledges granted	30.06.2016	31.12.2015
Guarantees granted in domestic and foreign trading	7 597 218	8 836 503
to financial entities	1 501 790	1 374 964
to non-financial entities	6 084 685	7 454 243
to public entities	10 743	7 296
Guarantees and pledges granted – domestic corporates bonds	4 801 440	5 665 178
to financial entities	757 755	734 529
to non-financial entities	4 043 685	4 930 649
Letters of credit granted	1 420 543	1 838 101
to non-financial entities	1 420 438	1 838 000
to public entities	105	101
Guarantees and pledges granted – payment guarantee to financial entities	165 137	143 646
Guarantees and pledges granted – domestic municipal bonds to public entities	249 948	59 320
Total	14 234 286	16 542 748
of which: performance guarantees	2 464 020	2 378 395

Off-balance sheet liabilities received by nominal value	30.06.2016	31.12.2015
financial	83 045	48 365
guarantees	7 337 800	6 660 698
Total liabilities received	7 420 845	6 709 063

Moreover, the Group has a contingent liability in respect of contingent dividend, which was described in details in the note 13 'Dividends declared divided by shares'.

Right to sell or pledge collateral established for the Bank.

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

34. Legal claims

As at 30 June 2016, the total value of court proceedings in which the Bank is a defendant was PLN 478 031 thousand, while the total value of court proceedings in which the Bank is the plaintiff as at 30 June 2016 was PLN 1 181 193 thousand.

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

a) Unfair competition proceedings

• Proceeding against practices that restrict competition in the payments market using 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 cards, as well as limiting access to this market by external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, in the amount of PLN 16 597 thousand.

The Bank appealed against the decision of the President of UOKiK to Court for the Competition and Consumer Protection (Sąd Ochrony Konkurencji i Konsumentów - SOKiK) and on 20 December 2011 a hearing was held during which no factual resolution of the appeals was reached. The SOKiK obligated MasterCard to submit explanations concerning the issue and scheduled the date of the next meeting for 9 February 2012. The date was postponed for 24 April 2012, and next SOKiK postponed announcing the court's decision on request for suspension until 8 May 2012. On 8 May 2012, SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case MasterCard against the European Commission.

On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012 the participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of SOKiK dated 8 May 2012. In August 2012, the European Court of Justice received the appeal of MasterCard against the verdict of the EU Court of 24 May 2012 rejecting the appeal of mentioned above. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for suspending the proceedings. In January 2013 the Bank's attorney received the court's decision in this case and in February 2013, court files were transferred to the court of first instance.

The hearing was on 29 October 2013 and on 21 November 2013 the judgment was announced, by which SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10 359 thousand. On 7 February 2014 the judgment was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgment was also appealed by other participants of the proceedings, i.e. by the President of the Competition and Consumer Protection Office (UOKiK) and by the President of the Polish Trade and Distribution Organization (POHiD) (appeals aimed to impose on the participants of the agreements stricter financial penalties), and: Visa Europe Limited, Bank Pocztowy S.A., Bank Gospodarki Żywnościowej S.A., mBank S.A. (formerly: BRE Bank S.A.), Deutsche Bank PBC S.A., HSBC Bank Polska S.A. (appeals aimed primarily to change the courts' decision concerning the recognition agreements as violating the right to competition and aimed to impose more strict fines on participants to the agreement). Copies of these appeals have been delivered to the Bank's attorney, who responded to them. The court files was transferred from SOKiK to the Court of Appeal in Warsaw. After hearing the parties' attorneys and stakeholders at the hearing on 22 September 2015, the Court postponed pronouncing the judgment until 6 October 2015. In its verdict of 6 October 2015, the court dismissed the appeal of banks and Visa, and considered the appeal of the UOKiK. The Court restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. the penalty in the amount of PLN 16 597 thousand and the penalty in the amount of PLN 4 825 thousand (the penalty imposed on Nordea Bank Polska S.A.). The penalties were paid by the Bank in October 2015. The Bank has received the judgment with justification from the Court of Appeal. On 28 April 2016 the Bank filed cassation complaint together with other participants of the proceedings.

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

- **Before the Court of Appeal – as a result of an appeal from the verdict of SOKiK issued in result of the complaint from the President of UOKiK**
- 1) Due to suspicion of unfair proceedings violating collective interests of consumers in the presentation in advertising campaigns of consumer loan under the marketing name 'Max pożyczka Mini Ratka', information that might not be clear for an average consumer and mislead him as to the availability of loans on promoted conditions.

On 28 December 2012, the President of UOKiK imposed a fine on the Bank in the amount of PLN 2 845 thousand. The Bank appealed against the decision of the President of UOKiK on 16 January 2013. On 13 January 2015 SOKiK issued a verdict, which annulled in full the decision of the President of the UOKiK, i.e. cancelled also financial penalty imposed on the Bank. On 26 February 2015 the President of the UOKiK filed an appeal against the verdict. On 20 March 2015, the Bank answered the appeal seeking to dismiss the appeal in its entirety as unfounded. The appeal hearing took place on 15 April 2016. On 28 April 2016, the Court of Appeal in Warsaw dismissed an appeal filed by the President of the UOKiK against the judgment of the Regional Court in Warsaw. The President of the UOKiK has the right to file a cassation appeal with the Supreme Court. As at 30 June 2016 an appeal has not been submitted yet. As at 30 June 2016 the Bank has a provision in the same amount, which is PLN 2 845 thousand (the position 'Provisions' in the statement of financial position).

- 2) Proceedings due to suspicion of use of unfair contractual provisions in forms of consumer loan agreements, excluding credit cards agreements.

By a decision of 31 December 2013, the Bank's activities were deemed to be practices violating the collective interests of consumers and fines in the amount of PLN 29 064 thousand. The Bank has appealed against this decision. By judgment of 9 July 2015 SOKiK finally dismissed the decision of the President of the UOKiK. On 28 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank responded to the appeal rejecting the allegations of the President of the UOKiK. No trial date has been set. The appeal proceeding is pending. As at 30 June 2016 the Bank had no provision in this respect.

- **initiated by Bank - at the conclusion of the appeal proceeding brought by the Bank to SOKiK against the decision of the president of UOKiK in connection with the use of unfair contractual terms in 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 14 697 thousand, of which:

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

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

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

In January 2015 both the Bank and the President of UOKiK appealed against the judgment. The Court of Appeal in its judgment of 10 February 2016 dismissed the appeal of the Bank and the appeal of the President of UOKiK. Since the judgment is final, the Bank paid a fine in the amount of PLN 4 000 thousand on 23 February 2016. On 26 July 2016 the Bank has received the judgment with justification.

- **before SOKiK five proceedings initiated by individuals:**

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

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

- **before the President of UOKiK- thirteen preliminary proceedings concerning Bank's activities.**

b) Re-privatisation claims regarding properties held by the Bank

As at the date of these financial statements the Bank is a party to thirteen proceedings, six of which are suspended, in relation to Bank's seven properties regarding the invalidation of administrative decisions refusing to grant the right to temporary ownership, rendering the properties into the management, as well as acquiring by operation of law the perpetual usufruct right to the land and proprietorship, the release or return of the premises or properties, the remuneration for non-contractual use of the properties, regulation of legal status of properties;

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

35. Transactions with the State Treasury and related parties

The State Treasury has control over the Bank as it holds a 29.43% interest in the Bank's share capital. 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 Bank's statement of financial position.

In accordance with the Act of 30 November 1995 in relation to State support in the repayment of certain housing loans, reimbursement of guarantee premium paid and amendments of several acts (Journal of Laws of 2013, item 763 with subsequent amendments) PKO Bank Polski SA receives payments from the State budget in respect of redemption of interest receivable on housing loans.

	01.01- 30.06.2016	01.01- 30.06.2015
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio recognised for this period	63 281	52 035
Income due to temporary redemption by the State budget of interest on housing loans from the 'old' portfolio received in cash	13 525	14 006
Difference between income recognised for this period and income received in cash – 'Loans and advances to customers'	49 756	38 029

The Act on the coverage of repayment of certain housing loans by State Treasury guarantees (Journal of Laws, 2000, No. 122 item 1310 with subsequent amendments) 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 realized when a borrower fails to repay the loan on the dates specified in the loan agreement. The responsibility of the State Treasury is of an auxiliary nature and is effective if the recovery of the unpaid part of principal and interest which the Bank is obliged to commence, before the Bank lays claims to the State Treasury, becomes ineffective. The above-mentioned law covers 90% of unpaid loans taken out by housing cooperatives. As a consequence of the realization of the State Treasury's responsibilities as guarantor, the State Treasury itself enters into the rights of the satisfied creditor (the Bank) and thus becomes a creditor towards the borrower, in line with the concept of guarantee.

PKO Bank Polski SA receives commission for settlements relating to redemption of interest by the State budget on housing loans.

	01.01- 30.06.2016	01.01- 30.06.2015
Fee and commission income	766	1 516

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

	01.01- 30.06.2016	01.01- 30.06.2015
Fee and commission income	5 461	5 503

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

	01.01- 30.06.2016	01.01- 30.06.2015
Fee and commission income	14 310	8 188

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

The transactions were concluded at arm's length terms.

Entity	30.06.2016			01.01-30.06.2016		
	Total loans and advances granted	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest and similar income	Fee and commission income	Interest expense and similar charges
Entity 1	-	-	2 450 000	-	-	-
Entity 2	350 679	265 957	1 440 869	3 080	1 183	(2 425)
Entity 3	279 981	486 280	573 132	5 267	704	(2 742)
Entity 4	215 137	26 740	410 555	2 960	444	(30)
Entity 5	123 204	26 216	50 000	1 854	59	(377)
Entity 6	108 356	37 603	683 504	1 921	452	(2 564)
Entity 7	100 540	29 993	10 000	2 905	29	(58)
Entity 8	94 588	219	3 000	1 572	48	-
Entity 9	70 652	208	100 000	1 226	13	(13)
Entity 10	64 417	42 553	59 635	802	701	(343)
Entity 11	52 072	12 397	19 853	665	149	(101)
Entity 12	35 165	11 809	205 243	180	89	(52)
Entity 13	31 991	480	-	641	3	-
Entity 14	24 854	811	10 174	363	2	(1)
Entity 15	19 074	1 820	951	217	36	-
Other entities	128 131	5 354 374	4 057 009	5 003	3 455	(33 447)
Total	1 698 841	6 297 460	10 073 925	28 656	7 367	(42 153)

Entity	31.12.2015			01.01-30.06.2015		
	Total loans and advances granted	Total liabilities	Off-balance sheet liabilities granted – guarantee and financial	Interest and similar income	Fee and commission income	Interest expense and similar charges
Entity 1	-	-	2 450 000	-	-	-
Entity 30	8	1 046 516	1 500 000	-	677	(6 133)
Entity 76	-	931 422	-	2 133	378	(1 125)
Entity 52	-	606 343	350 000	-	207	(2 512)
Entity 83	-	501 001	715 852	-	18	(178)
Entity 3	472 602	380 543	386 854	1 327	265	(1 798)
Entity 114	-	264 443	-	-	498	(658)
Entity 2	250 057	240 524	2 407 840	-	-	(195)
Entity 63	-	219 506	-	-	-	-
Entity 61	-	214 989	-	1 513	102	(46)
Entity 6	113 467	196 961	574 780	2 302	1 452	(397)
Entity 91	220	156 451	-	8	792	(1 385)
Entity 37	-	118 217	-	-	4	(2 716)
Entity 5	163 275	99 099	50 000	-	-	-
Entity 16	-	73 188	354 500	-	152	(480)
Other entities	903 202	587 016	2 355 363	21 120	3 076	(39 871)
Total	1 902 831	5 636 219	11 145 189	28 403	7 621	(57 494)

As at 30 June 2016 and as at 31 December 2015 respectively, no significant impairment allowances were recognized for the above-mentioned loans and advances.

36. Related party transactions

In the first half of 2016, PKO Bank Polski SA did not conclude significant transactions with related parties not on arm's length. All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Margins on loan transactions are within a range of 0.28% - 3.0%. Repayment terms are within a range from one month to fifteen years.

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30.06.2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
PKO Bank Hipoteczny SA	2 628 460	199 801	12 894	390 199
KREDOBANK SA	288 467	135 862	8 832	69 456
Merkury - fiz an	39 200	39 200	1 345	-
PKO BP BANKOWY PTE SA	76 682	-	12 139	-
PKO BP Finat Sp. z o.o.	818	-	37 975	593
PKO Finance AB	1 175	-	7 535 377	-
PKO Leasing SA	2 533 672	2 532 756	9 017	1 827 850
PKO Towarzystwo Funduszy Inwestycyjnych SA	18 190	-	32 495	-
PKO Towarzystwo Ubezpieczeniowe SA	-	-	15 261	-
PKO Życie Towarzystwo Ubezpieczeń SA	40 111	40 071	115 752	15 938
Qualia Development Sp. z o.o.	2	-	4 242	445
Indirect subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	1	-	10 997	-
„CENTRUM HAFFNERA” Sp. z o.o.	-	-	2 233	-
Finansowa Kompania „Idea Kapital” Sp. z o.o.	20 627	20 627	-	-
„Fort Mokotów” Sp. z o.o. w likwidacji	-	-	1 945	-
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	-	-	3 254	-
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	-	-	9 795	-
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	-	-	8 092	-
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	-	-	3 193	-
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	-	-	2 788	-
PKO BP Faktoring SA	515 679	515 671	1 237	334 329
PKO Bankowy Leasing Sp. z o.o.	2 885 788	2 883 746	3 178	33 929
PKO Leasing Sverige AB	105 198	105 198	602	6 892
„Promenada Sopotka” Sp. z o.o.	43 056	43 056	5 026	-
Qualia Hotel Management Sp. z o.o.	130 987	130 987	14 531	-
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	-	-	35 665	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	-	-	8 307	-
„Sopot Zdrój” Sp. z o.o.	200 317	200 317	21 432	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	-	-	1 366	-
„Zarząd Majątkiem Górczewska” Sp. z o.o.	-	-	1 831	-
Other indirect subsidiaries	-	-	800	-
Total Subsidiaries	9 528 430	6 847 292	7 921 601	2 679 631

30.06.2016 / Entity	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	39 811	-	32 949	20 909
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp. z o.o.	27 842	27 842	8 699	-
Direct associates				
Bank Pocztowy SA	64	-	402	1 137
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2 866	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	-	-	46	-
Total joint ventures and associates	67 717	27 842	44 962	22 046

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31.12.2015 / Entities	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Direct subsidiaries				
KREDOBANK SA	312 081	205 420	9 189	74 589
Merkury - fizan	39 200	39 200	1 336	-
PKO Bank Hipoteczny SA	481 088	39 782	15 254	160 218
PKO BP BANKOWY PTE SA	69 710	-	2 857	-
PKO BP Finat Sp. z o.o.	192	-	151 263	593
PKO Finance AB	-	-	7 332 263	-
PKO Leasing SA	1 730 988	1 730 354	104 909	1 396 657
PKO Towarzystwo Funduszy Inwestycyjnych SA	19 031	-	60 239	-
PKO Towarzystwo Ubezpieczeniowe SA	-	-	7 140	-
PKO Życie Towarzystwo Ubezpieczeń SA	35 082	35 067	133 735	55 000
Qualia Development Sp. z o.o.	-	-	6 203	428
Indirect subsidiaries				
Bankowe Towarzystwo Kapitałowe SA	1	-	11 637	-
„CENTRUM HAFFNERA” Sp. z o.o.	-	-	2 338	-
Finansowa Kompania „Idea Kapital” Sp. z o.o.	22 321	22 321	-	-
„Fort Mokotów” Sp. z o.o. w likwidacji	-	-	3 008	-
Molina Sp. z o.o.	-	-	18 583	-
PKO BP Faktoring SA	329 612	329 610	990	522 307
PKO Bankowy Leasing Sp. z o.o.	2 827 053	2 825 105	1 084	84 120
PKO Leasing Sverige AB	109 849	109 849	226	7 294
„Promenada Sopotka” Sp. z o.o.	42 762	42 762	4 380	-
Qualia - Rezydencja Flotylla Sp. z o.o.	55 124	55 124	1 193	-
Qualia Hotel Management Sp. z o.o.	-	-	4 222	-
Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.	-	-	15 598	-
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	76 798	76 798	1 147	-
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.	-	-	3 663	-
„Sopot Zdrój” Sp. z o.o.	194 228	194 228	19 479	-
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	-	-	1 454	-
Zarząd Majątkiem Górczewska” Sp. z o.o.	-	-	2 521	-
Other indirect subsidiaries	-	-	1 158	-
Total Subsidiaries	6 345 120	5 705 620	7 917 069	2 301 206
31.12.2015 / Entity				
Direct joint ventures				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	5 964	-	31 072	2 011
Indirect joint ventures				
„Centrum Obsługi Biznesu” Sp z o.o.	27 414	27 414	8 623	-
Direct associates				
Bank Pocztowy SA	14 057	-	949	1 086
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	-	-	2 788	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	-	-	5	-
Total joint ventures and associates	47 435	27 414	43 437	3 097

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For the six-month period ended 30.06.2016 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
KREDOBANK SA	3 773	3 190	-	-
PKO Bank Hipoteczny SA	29 583	11 184	96	-
PKO BP BANKOWY PTE SA	8 662	4	37	37
PKO BP Finat Sp. z o.o.	76 657	20	3 163	395
PKO Finance AB	1 196	21	140 472	139 745
PKO Leasing SA	24 635	21 319	9 546	34
PKO Towarzystwo Funduszy Inwestycyjnych SA	169 050	111 451	569	569
PKO Życie Towarzystwo Ubezpieczeń SA	89 908	665	138 167	713
Other	1 095	885	70	70
Indirect subsidiaries				
PKO BP Faktoring SA	3 543	3 413	-	-
PKO Bankowy Leasing Sp. z o.o.	33 632	33 473	37	-
PKO Leasing Sverige AB	1 009	1 009	-	-
Qualia Hotel Management Sp. z o.o.	2 180	2 180	46	46
„Sopot Zdrój” Sp. z o.o.	1 619	1 619	73	73
Other	741	694	344	344
Total Subsidiaries	447 283	191 127	292 620	142 026

For the six-month period ended 30.06.2016 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint venture				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	107 240	106 088	43 696	43 289
Indirect joint venture				
„Centrum Obsługi Biznesu” Sp z o.o.	259	254	19	19
Direct associates				
Bank Pocztowy SA	18	18	53	-
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	1	1	36	36
FERRUM SA	1	1	-	-
Indirect associate				
Centrum Operacyjne Sp. z o.o.	1	1	-	-
Total joint ventures and associates	107 520	106 363	43 804	43 344

For the six-month period ended 30.06.2015 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct subsidiaries				
PKO Bank Hipoteczny SA	1 734	442	1 535	1 535
Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o.	-	-	30 683	-
KREDOBANK SA	4 152	4 020	-	-
Merkury - fizan	1 311	1 311	12	12
PKO Finance AB	42	42	227 010	226 453
PKO BP Finat Sp. o.o.	988	20	3 115	1 255
PKO Leasing SA	15 389	12 811	11 845	1 143
PKO Towarzystwo Funduszy Inwestycyjnych SA	121 967	121 188	625	625
PKO Życie Towarzystwo Ubezpieczeń SA	82 716	82 605	67 068	67 068
Other	453	45	312	312
Indirect subsidiaries				
Finansowa Kompania „Idea Kapital” Sp. z o.o.	964	964	31 218	-
PKO BP Faktoring SA	3 386	3 248	15	15
PKO Bankowy Leasing Sp. z o.o.	31 001	30 934	66	8
PKO Leasing Sverige AB	1 103	1 103	-	-
Qualia - Rezydencja Flotylla Sp. z o.o.	1 919	1 919	6	6
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.	1 943	1 943	5	5
„Sopot Zdrój” Sp. z o.o.	1 752	1 752	105	105
Other	583	564	372	372
Total Subsidiaries	271 403	264 911	373 992	298 914

For the six-month period ended 30.06.2015 / Entity	Total income	of which interest and fee and commission	Total expense	of which interest and fee and commission
Direct joint venture				
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	71 274	70 957	47 074	46 416
Indirect joint venture				
„Centrum Obsługi Biznesu” Sp z o.o.	584	584	52	52
Direct associates				
Bank Pocztowy SA	314	13	554	-
„Poznański Fundusz Poręczeń Kredytowych” Sp. z o.o.	1	1	14	14
Indirect associate				
Centrum Operacyjne Sp. z o.o.	1	1	-	-
Total joint ventures and associates	72 174	71 556	47 694	46 482

37. Personally related party transactions

As at 30 June 2016 and as at 31 December 2015 one entity was related to the Bank through the key management personnel of PKO Bank Polski SA or the close family members of the key management.

In the first half of 2016 and in the first half of 2015, no intercompany transactions were concluded with this entity in the Bank.

38. Remuneration – PKO Bank Polski SA key management

a) Remuneration received by members of the Supervisory Board from PKO Bank Polski SA

	01.01-30.06.2016	01.01-30.06.2015
The Supervisory Board of the Bank	333	60
Remuneration of the Supervisory Board Members who ceased performing their functions in 2016	264	555
Total short-term benefits for the Supervisory Board of the Bank	597	615

b) Employee benefits for members of Management Board due or potentially due from PKO Bank Polski SA

	For the 6 months of 2016						
	Short-term employee benefits*		Other long-term benefits			Share-based payments settled in cash	
	Remuneration 1.01-30.06.2016*	Due as at 30.06.2016	Due as at 30.06.2016	Potential as at 30.06.2016	Received during 1.01-30.06.2016	Due as at 30.06.2016	Potential as at 30.06.2016
The Management Board of the Bank	4 337	1 574	867	2 001	1 429	2 206	2 001
Remuneration of the Management Board Members who ceased performing their functions in 2016	792	487	314	633	524	717	633
The Management Board benefits in total:	5 129	2 061	1 181	2 634	1 953	2 923	2 634

* Includes basic remuneration, additions in regards to employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFSS).

	2015						
	Short-term employee benefits*		Other long-term benefits			Share-based payments settled in cash	
	Remuneration 1.01-30.06.2015*	Due as at 30.06.2015	Due as at 30.06.2015	Potential as at 30.06.2015	Received during 1.01-30.06.2015	Due as at 30.06.2015	Potential as at 30.06.2015
The Management Board of the Bank	5 634	1 694	805	2 345	2 240	2 500	2 345
The Management Board benefits in total:	5 634	1 694	805	2 345	2 240	2 500	2 345

* Includes basic remuneration, additions in regards to employee pension programs (PPE), additional insurance, medical care and company social benefits fund (ZFSS).

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

	01.01-30.06.2016	01.01-30.06.2015
The Management Board of the Bank	22	20
Total short-term benefits	22	20

d) Post-employment benefits and benefits due to termination of employment for the key management

In the period ended 30 June 2016 benefits due to termination of employment were paid in the amount of PLN 2 216 thousand as well as post-employment benefits were paid in the amount of PLN 724 thousand. In the period ended 30 June 2015 no post-employment benefits or benefits due to termination of employment were paid.

e) loans, advances, guarantees and other advances provided by the Bank to the management

	30.06.2016	31.12.2015
The Supervisory Board of the Bank	639	1 093
The Management Board of the Bank	930	946
Total	1 569	2 039

Interest conditions and repayment periods of receivables neither differ from arm's length nor from repayment period set up for similar bank products.

39. Fair value of financial assets and liabilities

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

Assets and liabilities measured at fair value as at 30.06.2016	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	16	2 913 189	1 939 206	973 983	-
Debt securities		2 893 415	1 919 432	973 983	-
Shares in other entities		15 729	15 729	-	-
Investment certificates, allotment certificates, subscription rights		4 045	4 045	-	-
Derivative financial instruments	17	3 036 571	2 209	3 034 362	-
Hedging instruments		433 499	-	433 499	-
Trade instruments		2 603 072	2 209	2 600 863	-
Financial instruments designated upon initial recognition at fair value through profit and loss	19	11 366 327	3 122 466	8 243 861	-
Debt securities		11 366 327	3 122 466	8 243 861	-
Investment securities available for sale	21	33 131 107	24 239 345	5 593 346	3 298 416
Debt securities		32 726 961	24 197 874	5 593 346	2 935 741
Equity securities		121 427	41 471	-	79 956
Shares in joint investment institutions		282 719	-	-	282 719
Financial assets measured at fair value - total		50 447 194	29 303 226	17 845 552	3 298 416
Derivative financial instruments	17	3 584 047	459	3 583 588	-
Hedging instruments		996 467	-	996 467	-
Trade instruments		2 587 580	459	2 587 121	-
Financial liabilities measured at fair value - total		3 584 047	459	3 583 588	-

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Assets and liabilities measured at fair value as at 31.12.2015	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on the active markets	Valuation techniques based on observable market data	Other valuation techniques
Trading assets	16	793 213	793 213	-	-
Debt securities		776 655	776 655	-	-
Shares in other entities		9 910	9 910	-	-
Investment certificates		6 648	6 648	-	-
Derivative financial instruments	17	4 348 034	2 163	4 345 871	-
Hedging instruments		508 665	-	508 665	-
Trade instruments		3 839 369	2 163	3 837 206	-
Financial instruments designated upon initial recognition at fair value through profit and loss	19	12 796 036	2 551 863	10 244 173	-
Debt securities		12 796 036	2 551 863	10 244 173	-
Investment securities available for sale	21	27 841 564	18 941 736	5 264 964	3 634 864
Debt securities		27 259 467	18 883 905	5 264 964	3 110 598
Equity securities		385 454	57 831	-	327 623
Shares in joint investment institutions		196 643	-	-	196 643
Financial assets measured at fair value - total		45 778 847	22 288 975	19 855 008	3 634 864
Derivative financial instruments	17	4 627 189	1 476	4 625 713	-
Hedging instruments		998 527	-	998 527	-
Trade instruments		3 628 662	1 476	3 627 186	-
Debt securities in issue	28	71 744	-	71 744	-
Financial instruments designated at fair value through profit and loss		71 744	-	71 744	-
Financial liabilities measured at fair value - total		4 698 933	1 476	4 697 457	-

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

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

Financial instrument	Valuation technique	Unobservable factor	Fair value by	
			positive scenario	negative scenario
Investment securities available for sale				
Shares in joint investment institutions - Fund	Net Asset Value (NAV) method	price for a participation unit	296 855	268 583
Preferred series C Shares of Visa Europe Limited	estimate of fair value based on the current market value of listed ordinary shares of Visa Inc. including discounting taking into account the limited liquidity of C series shares and the conditions of C series shares conversion on ordinary shares	the final number and value ordinary Visa Inc shares which Bank's will receive as a result of conversion of C series shares	87 939	55 299
Corporate bonds	Credit index method	credit spread	2 947 706	2 923 928

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The table below presents the reconciliation of measurements at fair value at level 3 of fair value hierarchy during the periods:

Investment securities available for sale	01.01- 30.06.2016	01.01- 31.06.2015
Opening balance at the beginning of the period	3 634 864	198 302
Total gains or losses	(28 735)	11 172
recognized in financial result	(29 683)	(2 659)
recognized in other comprehensive income	948	13 831
Shares settlement of Visa Europe Limited	(336 713)	-
Take up of Visa Inc. shares	80 964	-
Take up of a new shares in the Fund	67 563	-
Other take ups and sales (including settlements)	(119 527)	(12 000)
Closing balance at the end of the period	3 298 416	197 474

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

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

	level of fair value hierarchy	valuation method	30.06.2016	
			carrying amount	fair value
Cash and balances with the central bank	n/a	value at cost to pay	12 087 587	12 087 587
Amounts due from banks	2	discounted cash flows	7 051 449	7 051 470
Loans and advances to customers			186 124 522	181 449 236
housing loans	3	discounted cash flows	99 195 803	94 311 904
corporate loans	3	discounted cash flows	58 471 120	58 177 349
consumer loans	3	discounted cash flows	22 366 561	22 941 250
receivables due from repurchase agreements	3	discounted cash flows	1 019 656	1 019 656
International financial organizations	3	discounted cash flows	17 035	17 035
debt securities	3	discounted cash flows	5 054 347	4 982 042
Other financial assets	3	value at cost to pay including impairment allowance	1 769 758	1 769 758
Amounts due to the central bank	2	value at cost to pay	4 935	4 935
Amounts due to other banks	2	discounted cash flows	18 404 616	18 404 834
Amounts due to customers			205 160 806	205 382 483
due to corporate entities	3	discounted cash flows	56 136 108	56 412 186
due to public entities	3	discounted cash flows	8 241 077	8 241 077
due to retail clients	3	discounted cash flows	140 783 621	140 729 220
Debt securities in issue	2	discounted cash flows	1 876 308	1 878 486
Subordinated debt	2	discounted cash flows	2 527 579	2 514 281
Other financial liabilities	3	value at cost to pay	2 210 538	2 210 538

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	level of fair value hierarchy	valuation method	31.12.2015	
			carrying amount	fair value
Cash and balances with the central bank	n/a	value at cost to pay	13 707 730	13 707 730
Amounts due from banks	2	discounted cash flows	5 021 876	5 021 875
Loans and advances to customers			188 552 440	181 648 571
housing loans	3	discounted cash flows	99 871 014	92 632 582
corporate loans	3	discounted cash flows	57 154 574	57 756 844
consumer loans	3	discounted cash flows	21 799 396	21 639 652
receivables due from repurchase agreements	3	discounted cash flows	4 432 239	4 432 239
International financial organisations	3	discounted cash flows	10 652	10 652
debt securities	3	discounted cash flows	5 284 565	5 176 602
Other financial assets	3	value at cost to pay including impairment allowance	787 281	787 281
Amounts due to the central bank	2	value at cost to pay	4 219	4 219
Amounts due to other banks	2	discounted cash flows	18 249 857	18 249 855
Amounts due to customers			201 809 202	202 043 766
due to corporate entities	3	discounted cash flows	57 707 408	57 982 333
due to public entities	3	discounted cash flows	9 134 366	9 134 366
due to retail clients	3	discounted cash flows	134 967 428	134 927 067
Debt securities in issue	2	discounted cash flows	1 645 917	1 647 575
Subordinated debt	2	discounted cash flows	2 499 163	2 486 132
Other financial liabilities	3	value at cost to pay	2 151 795	2 151 795

For loans and advances to customers with no impairment triggers, present value of discounted cash flow model was used that includes current interest rate with credit margin risk and real maturities that stem from loan agreements. The current level of margins was calculated based on financial instrument transactions with similar risk level which took place in the last quarter ended at the reporting date. For currency loans, the current loan margin for PLN loans was used and it was corrected with the cost of currency acquisition in basis-swap transaction. For loans for which impairment were recognized fair value is assumed to equal to the carrying value. The valuation does not take into consideration potential currency conversion of loans denominated in CHF in regards to the presidential draft law on foreign currency loans. For loans with recognized impairment, it is assumed that for them, the fair value equals their carrying value.

The other technics and methods of measurements were described in the financial statements of PKO Bank Polski SA for year 2015.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

40. Risk Management in PKO Bank Polski SA

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

In the Bank, the following types of risk have been identified, which are subject to management: credit risk, interest rate risk, currency risk, liquidity risk (including financing risk), commodity price risk, price risk of equity securities, derivative instruments risk, operational risk, compliance risk, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation, capital risk and excessive leverage. In the first half of 2016 the catalog of relevant risks to the Bank was extended by the risk of mortgages denominated in foreign currencies.

The elements of the risk management process, the most important risk management policies, organisation of risk management in the Bank, identification of significant kinds of the risk in the Bank and actions taken in the field of risk management in the Bank are described in details in the financial statements for the year ended 31 December 2015.

Additionally, there are described in details in the PKO Bank Polski SA financial statements for the year ended 31 December for particular, identified by the Bank kinds of the risk following elements: definition of risk, the aim of specified risk management, the identification of the risk, measurement and evaluation, supervision, prediction and monitoring, reporting and management actions.

In the Bank in the first half of 2016 the following actions have been taken:

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

In the first half of 2016 the Bank and PKO Bank Hipoteczny continued the application of „Recommendation W” issued by Polish Financial Supervision Authority, related to the risk management of bank models. All of the adjustment efforts have been concluded on time i.e. on 30th of June 2016.

PKO Bank Polski SA as a part of Capital Group, is successively transferring the mortgage portfolio to the PKO Bank Hipoteczny SA.

The risk of cybercrime in the financial sector can entail losses for both the clients and the Bank. The Bank prevents incidents of this kind by a number of internal and sector-wide initiatives and by cooperation with cybersecurity providers.

PKO Bank Polski, as the only Bank from Poland, directly took part in another edition of European-wide stress testing organized by EBA. Considering its uniform methodology, the testing have aimed at providing the supervision authorities and market participants with consistent data on UE banks' resilience in adverse market conditions. Test results confirmed the high resilience of PKO Bank Polski, also in case of negative macroeconomic scenarios. In shock-scenario, the Bank recorded a slight decline of the CET1 ratio by only 1.9 percentage points, which puts it in fourth place among the 51 European Banks participating in the test.

In the first half of 2016 Bank has implemented rules for the performance of specific reverse stress tests for the particular bank risks. The reverse stress tests consist in formulation of potential negative scenarios for the Bank, and finding events contributing to their materialization.

- **Credit risk management**

Information on risk monitoring and risk measurement in the period from 1 January to 30 June 2016 is also presented in the notes: amounts due from banks, loans and advances to customers, investment securities available for sale and investment securities held to maturity.

Maximum exposure to credit risk

Exposure to credit risk - Items of the statement of financial position	30.06.2016	31.12.2015
Current account in the central bank	8 466 638	9 854 133
Amounts due from banks	7 051 449	5 021 876
Trading assets – debt securities	2 893 415	776 655
issued by banks	48 472	27 898
issued by other financial institutions	2 843	5 344
issued by non-financial institutions	60 545	46 122
issued by the State Treasury	2 736 413	648 695
issued by local government bodies	45 142	48 596
Derivative financial instruments	3 036 571	4 348 034
Financial instruments designated upon initial recognition at fair value through profit and loss - debt securities	11 366 327	12 796 036
issued by the State Treasury	3 122 466	2 551 863
issued by central banks	7 999 728	9 996 910
issued by local government bodies	244 133	247 263
Loans and advances to customers	186 124 522	188 552 440
financial sector	7 479 371	9 876 050
corporate loans	6 452 806	5 433 159
receivables due from repurchase agreements	1 009 530	4 432 239
international financial organisations	17 035	10 652
non-financial sector	169 268 302	168 779 876
housing loans	99 195 803	99 871 014
corporate loans	45 284 372	44 517 577
consumer loans	22 366 561	21 799 396
repurchase agreements	10 126	-
debt securities	2 411 440	2 591 889
public sector	9 376 849	9 896 514
corporate loans	6 733 942	7 203 838
debt securities	2 642 907	2 692 676
Investment securities available for sale - debt securities	32 726 961	27 259 467
issued by the State Treasury	23 466 775	18 021 339
issued by banks	1 467 455	1 515 322
issued by other financial institutions	155 558	239
issued by non-financial institutions	3 130 219	3 108 841
issued by local government bodies	4 506 954	4 613 726
Other assets - other financial assets	1 769 758	787 281
Total	253 435 641	249 395 922

Exposure to credit risk - Off-balance sheet items	30.06.2016	31.12.2015
Irrevocable liabilities granted	27 518 108	30 513 878
Guarantees granted	7 762 355	8 980 149
Letters of credit granted	1 420 543	1 838 101
Guarantees of issue	5 051 388	5 724 498
Total	41 752 394	47 056 626

Financial assets assessed on an individual basis for which individual impairment has been recognised by carrying amount gross	30.06.2016	31.12.2015
Loans and advances to customers	4 984 580	4 972 235
Financial sector	41 201	43 219
corporate loans	41 201	43 219
Non-financial sector	4 927 003	4 912 546
corporate loans	3 723 973	3 456 214
housing loans	885 864	1 047 710
consumer loans	244 861	300 659
debt securities	72 305	107 963
Public sector	16 376	16 470
corporate loans	16 376	16 470
Investment debt securities available for sale issued by non-financial institutions	572 680	393 662
Total	5 557 260	5 365 897

- **Concentration of credit risk within the Bank**

Concentration by the largest business entities

As at 30 June 2016 and as at 31 December 2015, concentration limits had not been exceeded. As at 30 June 2016, the level of concentration risk in the Bank due to individual exposures was low – the largest exposure to a single entity was equal to 17.5% of the Bank's recognized capital (as at 31 December 2015 it amounted to 14.9%).

Concentration by the largest capital groups

The largest concentration of PKO Bank Polski SA's exposure into the capital group is 3.47% of the Bank's loan portfolio (as at 31 December 2015 it amounted to 2.94%).

As at 30 June 2016 and as at 31 December 2015, the Bank's concentration risk level by the capital groups was low - the largest exposure of PKO Bank Polski SA towards a capital group amounted to 32.43% and 11.1% of the Bank's recognized capital.

Concentration by industry

As compared with 31 December 2015 the exposure of PKO Bank Polski SA in industry sectors has increased by approx. PLN 1.4 billion. The total exposure in the four largest industry groups: 'Industrial processing', 'Maintenance of real estate', 'Wholesale and retail trade (...)', and 'Public administration and public defense' amounted to approx. 59% of the total loan portfolio covered by an analysis of the sector.

Concentration by geographical regions

The Bank's loan portfolio is diversified in terms of geographical concentration. The structure of the loan portfolio by geographic regions is identified in the Bank due to the area – a separate area for the retail client (ORD) a separate area for the corporate and investment banking (OKI). 11 geographical regions and the headquarters are distinguished within ORD. As at 30 June 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 and the headquarters. As at 30 June 2016, the largest concentration of the OKI loan portfolio occurs in the central macro-region and in the headquarters (22% and 21% of the OKI loan portfolio, respectively).

Concentration of credit risk by currency

As at 30 June 2016, the share of exposure in convertible currencies, other than PLN, in the total portfolio of PKO Bank Polski SA amounted to 24.8%. The largest part of currency exposures of PKO Bank Polski SA are those denominated in CHF (67% of the loan portfolio), which the share in portfolio systematically decreases.

Other types of concentration

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

• **Forbearance practices**

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

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

- spreading the overdue debt into instalments,
- changes to the repayment schedule (annuity instalments, decreasing instalments),
- extension of the lending period,
- change in interest rates,
- change in the credit margin,
- loans reduction,
- collateral release or replace,
- debtor change or accession to the debt of the third party.

As a result of concluding a forbearance agreement and the timely servicing thereof, the loans become current. 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 recognised,
- 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 fulfill 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 forboren 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.

Forbearance financial assets	30.06.2016	31.12.2015
Loans and advances to customers, gross	194 200 661	196 442 677
of which forbearance:	4 245 820	5 301 084
financial sector	3 272	3 269
corporate loans	3 272	3 269
non-financial sector	4 242 548	5 296 642
corporate loans	1 968 427	2 642 952
housing loans	1 875 464	2 124 512
consumer loans	398 657	529 178
public sector	-	1 173
corporate loans	-	1 173
Impairment allowances on loans and advances to forbearance customers	(908 299)	(911 172)
Loans and advances to customers, net forbearance	3 337 521	4 389 912

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Loans and advances to customers subjected to forbearance by geographical region (gross)	30.06.2016	31.12.2015
Poland		
mazowiecki	747 060	1 103 003
śląsko-opolski	598 079	723 992
wielkopolski	406 443	493 274
zachodnio-pomorski	386 759	441 864
łódzki	350 084	462 417
dolnośląski	336 248	380 675
podlaski	330 061	426 483
małopolsko-świętokrzyski	326 443	403 440
pomorski	289 586	332 547
kujawsko-pomorski	265 334	295 125
lubelsko-podkarpacki	184 920	211 231
warmińsko-mazurski	24 803	27 033
Total	4 245 820	5 301 084

Loans and advances to customers subjected to forbearance	Exposure by gross carrying amount	
	30.06.2016	31.12.2015
Loans and advances impaired	2 107 083	2 246 505
Loans and advances not impaired, of which:	2 138 737	3 054 579
not past due	1 640 124	2 439 148
past due	498 613	615 431
Total gross	4 245 820	5 301 084

Changes in balance of loans and advances to forbearance customers at the beginning and at the end of the period	01.01-30.06.2016	01.01-30.06.2015
Carrying amount at the beginning of the period, net	4 389 912	5 245 329
Impairment allowance (change in a period)	2 873	(128 519)
Loans and advances derecognised in the period, gross	(1 082 244)	(1 060 752)
Loans and advances recognised in the period, gross	340 285	710 559
Other changes/repayment	(313 305)	(241 196)
Carrying amount at the end of the period, net	3 337 521	4 525 421

The amount of recognized interest income related to loans and advances to customers, which are subject to forbearance amounted to PLN 81 345 thousand as at 30 June 2016.

• **Interest rate risk management**

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

Name of sensitivity measure	30.06.2016	31.12.2015
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	269 380	271 674
Parallel movement of interest rate curves by 200 b.p. (in PLN thousand) (stress-test)*	2 064 835	2 040 191

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

As at 30 June 2016, the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 269 380 thousand, which accounted for approximately 0.95% of the Bank's own funds. As at 31 December 2015, VaR for the Bank amounted to PLN 271 674 thousand, which accounted for approximately 1.00% of the Bank's own funds.

• **Currency risk management**

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	30.06.2016	31.12.2015
VaR for a 10-day time horizon with a confidence level of 99% threshold (in PLN thousand)	18 827	25 384
Change in CUR/PLN by 20% (in PLN thousand) (stress-test)*	28 872	62 244

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

The level of currency risk was low both as at 30 June 2016 and as at 31 December 2015.

The volume of currency positions for particular currencies is presented in the table below:

Currency position	30.06.2016	31.12.2015
EUR	53 851	388 754
USD	54 810	3 344
CHF	(41 549)	(50 352)
GBP	(289)	(1 839)
Other (Global Net)	99 947	84 687

The volume of currency positions is a key factor determining the level of currency risk on which the Bank is exposed (except for volatility of foreign exchange rates). The level of currency positions is determined by all foreign currency transactions, which are concluded by the Bank, both in the statement of financial position (such as loans) and off-balance sheet (such as derivatives, in particular CIRS transactions). In accordance with the principles of currency risk management at the Bank, the daily currency position opened by the Bank within the banking book (such as repayment of currency loan denominated in PLN by a client, conversion of currency loan) is closed every day, also using derivative instruments. This means that the currency position of the Bank at the end of the day may constitute only of generated unclosed position in banking book on this day and currency position in trading book within the limits, which results in a low exposure of the Bank to currency risk (with reference to own funds, VaR for a 10-day time horizon for the Bank's currency position as at 30 June 2016 amounted to approx. 0.07%).

- Liquidity risk management**

	a'vista	0 - 1 month	1 - 3 months	3 - 6 months	6 - 12 months	12 - 24 months	24 - 60 months	over 60 months
30.06.2016								
Adjusted gap in real terms	13 837 280	20 504 255	(1 617 497)	2 405 356	8 151 331	3 937 381	17 178 700	(64 396 806)
Cumulative adjusted gap in real terms	13 837 280	34 341 535	32 724 038	35 129 394	43 280 725	47 218 106	64 396 806	-
31.12.2015								
Adjusted gap in real terms	14 038 877	16 783 091	52 969	3 643 433	8 518 231	7 597 329	11 794 304	(62 428 234)
Cumulative adjusted gap in real terms	14 038 877	30 821 968	30 874 937	34 518 370	43 036 601	50 633 930	62 428 234	-

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

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

Name of sensitivity measure	30.06.2016	31.12.2015
Liquidity reserve up to 1 month* (in PLN million)	29 770	30 186

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

As at 30 June 2016 the level of permanent balances on deposits constituted approx. 92.9% of all deposits in the Bank (excluding interbank market), which means an decrease by approximately 0.8 pp. as compared to the end of 2015.

- Other price risks**

Taking into consideration other price risks, in the end of the first half of 2016, the Bank was exposed to price risk of investment fund participation units in collective investment funds.

The impact of this risk to the Bank's financial situation is immaterial. The capital requirement to cover the above-mentioned risk amounted to approx. PLN 1.2 million as at 30 June 2016. In relation to the requirement as at 31 December 2015, the decrease occurred, which resulted from the sold collective investment funds participation units.

- Operational risk management**

The decrease in own funds requirements for operational risk for the Bank of the amount of PLN 543 million (as at 31 December 2015) to PLN 516 million (as at 30 June 2016), is mainly due to the completion of the merger process of the Bank with Nordea Bank Polska SA and risk assessment after concluding the integration process.

- Risk management of foreign currency mortgage loans for individuals**

The Bank analyses foreign currency mortgage loans portfolio for households in a special way. The Bank constantly monitors quality of this portfolio and analyses the risk of worsening of the quality of this portfolio. Currently the level of quality portfolio is acceptable. The Bank constantly tracks legislative initiatives related to the support for borrowers holding mortgage loans. The Bank takes into consideration the risk of foreign currency mortgage loans for households, in the capital adequacy and own fund management.

- The Bank's policy in the area of CHF**

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

The influence of the external factors and regulations is being monitored constantly. The Bank currently tracks legislative initiatives related to the support for borrowers holding foreign currency mortgage loans, analyzing their impact on the Bank and its clients. In the fourth quarter of 2015 and in the first quarter of 2016, the Bank participated in analyses commissioned by Polish Financial Supervision Authority to research the impact of the presidential draft law "on possible measures to restore the equality of parties to some loan and advances agreements" ('Franc Act'). On 2 August 2016 the Office of the President of the Republic of Poland released a draft law on the principles of reimbursement of certain receivables arising from loans and advances agreements. The main draft law assumptions relate to bank spread settled by the banks for loan repayments.

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

Loans and advances to customers in impairment valuation method in CHF (translated into PLN)	30.06.2016			
	Financial institutions	Entities	Households	Total
Valuated on an individual basis, of which:	-	172 480	186 596	359 076
impaired	-	135 737	174 526	310 263
Valuated with portfolio method, impaired	1 905	27 847	1 216 015	1 245 767
Valuated with group method (IBNR)	3 910	364 377	30 172 220	30 540 507
Loans and advances to customers - gross	5 815	564 704	31 574 831	32 145 350
Allowances on exposures valuated on an individual basis, of which:	-	(49 997)	(73 389)	(123 386)
impaired	-	(49 617)	(73 349)	(122 966)
Allowances on exposures valuated with portfolio method	(563)	(18 144)	(786 507)	(805 214)
Allowances on exposures valuated with group method (IBNR)	(68)	(2 960)	(87 959)	(90 987)
Allowances - total	(631)	(71 101)	(947 855)	(1 019 587)
Loans and advances to customers - net	5 184	493 603	30 626 976	31 125 763

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

Loans and advances to customers valuated in the group method (IBNR)	30.06.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers	133 782 395	30 540 507	14 597 198
past due	1 796 678	675 489	93 837
not past due	131 985 717	29 865 018	14 503 361
Impairment on exposures valuated using the group method (IBNR)	(410 964)	(90 987)	(46 337)
past due	(139 824)	(44 193)	(6 594)
not past due	(271 140)	(46 794)	(39 743)
Net loans and advances to customers	133 371 431	30 449 520	14 550 861

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

Loans and advances to customers valuated in the group method (IBNR) covered by forbearance by currencies	30.06.2016		
	PLN	CHF	Other currencies
Gross loans and advances to customers forbearance	1 149 707	680 113	60 534
Impairment on exposures valuated using the group method (IBNR) forbearance	(39 919)	(30 144)	(1 912)
Net loans and advances to customers forbearance	1 109 788	649 969	58 622

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

As at 30 June 2016, the average LTV for loans portfolio in CHF amounted to 85.97% - compared to the average LTV for the whole portfolio amounting to 72.74%.

41. Capital adequacy

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

The level of capital adequacy of the Bank in the six-month period of 2016 remained on a safe level, significantly above the supervisory limits.

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

The Polish Financial Supervision Authority in its letter dated 10 May 2016 concerning additional requirement in terms of own funds related to foreign currency mortgages for households informed that expectations for the minimal capital ratios related to the separate Bank have not changed. Minimal value of capital ratios to payment of dividend up to 50% of the profit, after taking into consideration individual additional capital from foreign mortgages loan portfolio and additional capital buffer, amounts to 13.82% for T1 ratio and 14.01% for TCR ratio. Moreover PFSA recommended increasing of Bank's own funds through retention of at least 50% of the profit for the period from 1 January to 31 December 2015.

In addition, on 25 April 2016 EBA has released the O-SIIs list (Other Systemically Important Institutions) in the European Union, including notification with expectation of information regarding entities classified to this group from Bulgaria and Poland.

	30.06.2016	31.12.2015
Total own funds	28 427 666	27 249 359
Basic funds (Tier 1)	25 979 486	24 820 848
Tier I capital before regulatory adjustments and deductions, of which:	28 893 430	27 572 288
Share capital	1 250 000	1 250 000
Other reserves	26 573 430	24 002 288
General banking risk fund for unidentified banking risk	1 070 000	1 070 000
Retained earnings	-	1 250 000
(-) Goodwill	(871 047)	(871 047)
(-) Other intangible assets	(1 696 814)	(1 654 902)
Other accumulated comprehensive income	(94 714)	74 457
Adjustments to Tier I Capital in respect of prudential filters	(191 277)	(14 429)
Other adjustments to Tier I Capital during transitional period	(60 092)	(285 519)
Supplementary funds (Tier 2)	2 448 180	2 428 511
Capital instruments and subordinated loans eligible as Tier II Capital	2 511 865	2 483 126
(-) Capital exposures deducted from own funds	(63 685)	(54 615)
Requirements as regard own funds	14 116 278	14 269 355
Credit risk	12 932 766	13 176 070
Operational risk	516 105	543 163
Market risk	631 583	518 662
Credit valuation adjustment risk	35 824	31 460
Total capital adequacy ratio	16,11%	15,28%
Tier 1 Capital ratio	14,72%	13,92%



42. Information on loan package sale

The Bank did not enter into any securitization transactions, although in the first half of 2016 it performed sales of balance sheet and off-balance sheet receivables with a total nominal value of PLN 468 716 thousand (including capital in the amount of PLN 232 986 thousand), concerning debt of individuals as well as corporate entities (including loans secured by mortgage).

EVENTS AFTER THE REPORTING PERIOD

43. Events after the reporting period

1. On 1 July 2016 Extraordinary General Shareholders' Meeting of PKO Bank Hipoteczny SA adopted the resolution on increasing its share capital by PLN 200 000 thousand through the issuance of shares. On 8 July 2016 Polish Financial Supervision Authority approved the amendment to the Statute. PKO Bank Polski SA subscribed and paid for taking of the above discussed shares. On 28 July 2016 the increase in the share capital of the entity was registered with the National Court Register.
2. On 6 July 2016 PKO Bank Polski SA repaid the loan received from PKO Finance AB in the amount of CHF 250 000 thousand. On 7 July 2016 PKO Finance AB redeemed bonds with a total nominal value of CHF 250 000 thousand.
3. On 13 July 2016 the shareholders of Qualia spółka z ograniczoną odpowiedzialnością – Władysławowo Sp. k. adopted the resolution on dissolution of the Company without liquidation procedure.
4. On 28 July 2016 Qualia Development Sp. z o.o. repurchased 1 share of the Fort Mokotów Inwestycje Sp. z o.o. from Qualia Sp. z o.o. After that, it became the sole shareholder of the Fort Mokotów Inwestycje Sp. z o.o.
5. On 28 July 2016 Qualia Development Sp. z o.o. and Dom Development SA signed an agreement on sale 100% of shares of Fort Mokotów Inwestycje Sp. z o.o., which is the usufructuary of land located in the area of Żwirki i Wigury Street and Raławiska Street in Warsaw. The amount of the transaction including price of shares and loan repayment, which was provided to Fort Mokotów Inwestycje Sp. z o.o. by Qualia Development Sp. z o.o., equals to PLN 133 500 thousand. Since 28 July 2016 Fort Mokotów Inwestycje Sp. z o.o. has been no longer subsidiary of Qualia Development Sp. z o.o.
6. In July 2016 PKO Bank Hipoteczny SA purchased a portfolio of mortgage housing loans in the amount of PLN 1 029 009 thousand based on the Framework Agreement of Debt Sale with PKO Bank Polski SA signed in 2015.



7. On 5 August 2016, under the proceeding, conducted to identify the Bank as the other systemically important institution (O-SII), on the basis of the assessment of systemically importance of the Bank, the PFSA decided to refer to the Financial Stability Committee in order to issue an opinion on identification of the Bank as O-SII and imposition on the Bank obligation to fulfill the buffer in the amount of 0.75% of the total risk exposure calculated in accordance with art. 92 § 3 of the EU Regulation 575/2013. Until the date of this report, the Bank has received no information on the deadline for application O-SII buffer or its impact on minimal value of capital ratios.
8. On 24 August 2016 the company from the Group Qualia Development Sp. z o.o. concluded agreements under which: the company Qualia Residence Sp. z o.o. (the company in 100% subsidiary of Qualia Development Sp. z o.o.) sold two properties located in Jurata, Mestwina Street No. 32 and Mestwina Street No. 34 and No. 38, the company Qualia Sp. z o.o. (the company in 100% subsidiary of Qualia Development Sp. z o.o.) sold all the rights and obligations of the general partner of the company Qualia Spółka z ograniczoną odpowiedzialnością - Jurata Sp.k. and the company Qualia Development Sp. z o.o. sold all the rights and obligations of the limited partner in the company Qualia Spółka z ograniczoną odpowiedzialnością - Jurata Sp.k.. Additionally Qualia Development Sp. z o.o. guaranteed for the obligations of Qualia Sp. z o.o. and Qualia Residence Sp. z o.o. to buyers due to losses (defined in the sales contract as the actual losses, without opportunity costs), that buyers may incur as a result of signing sales contracts.

Signatures all of Members of the Management Board of the Bank:

17.08.2016	Zbigniew Jagiełło	President of the Management Board (signature)
17.08.2016	Piotr Alicki	Vice-President of the Management Board (signature)
17.08.2016	Bartosz Drabikowski	Vice-President of the Management Board (signature)
17.08.2016	Maks Kraczkowski	Vice-President of the Management Board (signature)
17.08.2016	Mieczysław Król	Vice-President of the Management Board (signature)
17.08.2016	Piotr Mazur	Vice-President of the Management Board (signature)
17.08.2016	Jakub Papierski	Vice-President of the Management Board (signature)
17.08.2016	Jan Emeryk Rościszewski	Vice-President of the Management Board (signature)

Signature of person responsible for maintaining the books of account

17.08.2016

Danuta Szymańska
Director of the Accounting Division

.....
(signature)