Bank Polski

Report of PKO Bank Polski SA Group for the first quarter of 2018

Report publication date:
22 May 2018

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2018 to 31.03.2018	period from 01.01.2017 to 31.03.2017	period from 01.01.2018 to 31.03.2018	period from 01.01.2017 to 31.03.2017
Net interest income/(expense)	2 218	2 046	531	477
Net fee and commission income/(expense)	737	710	176	166
Operating profit/(loss)	1 070	785	256	183
Profit before tax	**1 076**	**790**	**258**	**184**
Net profit (including non-controlling shareholders)	**756**	**528**	**181**	**123**
Net profit attributable to equity holders of the parent company	**757**	**525**	**181**	**122**
Earnings per share for the period - basic (in PLN/EUR)	**0,61**	**0,42**	**0,14**	**0,10**
Earnings per share for the period - diluted (in PLN/EUR)	**0,61**	**0,42**	**0,14**	**0,10**
Total net comprehensive income	946	767	226	179
Net cash flows from operating activities	(5 861)	1 821	(1 403)	425
Net cash flows from investing activities	2 455	(2 621)	588	(611)
Cash flows from /used in financing activities	393	2 219	94	517
Total net cash flows	(3 013)	1 419	(721)	331

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	As at 31.03.2018	As at 31.12.2017	As at 31.03.2018	As at 31.12.2017
Total assets	295 095	296 912	70 119	71 187
Total equity	36 557	36 256	8 686	8 693
Capital and reserves attributable to equity holders of the parent company	36 569	36 267	8 689	8 695
Share capital	1 250	1 250	297	300
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	29,25	29,00	6,95	6,95
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	29,25	29,00	6,95	6,95
Total capital adequacy ratio	17,78%	17,37%	17,78%	17,37%
Tier 1	32 759	32 326	7 784	7 750
Tier 2	2 700	1 700	642	408

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2018 to 31.03.2018	period from 01.01.2017 to 31.03.2017	period from 01.01.2018 to 31.03.2018	period from 01.01.2017 to 31.03.2017
Net interest income/(expense)	2 026	1 894	485	442
Net fee and commission income/(expense)	610	642	146	150
Operating profit/(loss)	893	639	214	149
Profit before tax	**893**	**639**	**214**	**149**
Net profit for the year	**614**	**410**	**147**	**96**
Earnings per share for the period - basic (in PLN/EUR)	**0,49**	**0,33**	**0,12**	**0,08**
Earnings per share for the period - diluted (in PLN/EUR)	**0,49**	**0,33**	**0,12**	**0,08**
Total net comprehensive income	813	625	195	146
Net cash flows from operating activities	(3 717)	4 446	(890)	1 037
Net cash flows from investing activities	2 430	(2 379)	582	(555)
Cash flows from /used in financing activities	(1 800)	(303)	(431)	(71)
Total net cash flows	(3 087)	1 764	(739)	411

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	As at 31.03.2018	As at 31.12.2017	As at 31.03.2018	As at 31.12.2017
Total assets	273 647	277 784	65 022	66 600
Total equity	36 101	35 987	8 578	8 628
Share capital	1 250	1 250	297	300
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	28,88	28,79	6,86	6,90
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	28,88	28,79	6,86	6,90
Total capital adequacy ratio	20,03%	19,59%	20,03%	19,59%
Tier 1	32 929	32 597	7 824	7 815
Tier 2	2 700	1 700	642	408

SELECTED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	31.03.2018	31.12.2017	31.03.2017
average NBP exchange rates at the end of a month	4,1784	4,2447	4,2891
mid NBP exchange rates as at	4,2085	4,1709	4,2198

Bank Polski

Directors' Commentary to the financial results of the PKO Bank Polski SA Group in the first quarter of 2018

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1. SUMMARY OF THE FIRST QUARTER OF 2018

The Powszechna Kasa Oszczędności Bank Polski SA Group (the PKO Bank Polski SA Group, the Bank's Group) is one of the largest financial institutions in Poland, and one of the largest financial groups in Central and Eastern Europe. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank), the Bank Group's parent company, is the largest commercial bank in Poland and the leading bank in Central and Eastern Europe in terms of the scale of its operations, equity, loans, deposits, number of customers and the size of the distribution network.

In 2018, the Bank's Group progressed to the third year of executing its "Wspieramy rozwój Polski i Polaków" ("We support the development of Poland and the Poles") strategy which is in response to the changing market environment and the need to adapt to the new challenges faced by the banking sector and the Polish economy. The direction of the transformation of the Bank's business model remains closely connected with the growing digitization of social life and the strategy for the economic development of Poland.

In the first quarter of 2018, the PKO Bank Polski SA Group continued sustainable development focused on improving the quality of its services and increasing the innovativeness of its products and distribution channels, in particular in the field of mobile banking and the use of modern technologies.

THE BEST MOBILE BANKING IN THE WORLD

PKO Bank Polski SA delivers the most developed mobile banking system in the world to its customers – its IKO application in which the total number of activations exceeded 2.3 million as at the end of March 2018.

In March 2018, IKO took first place in the ranking of mobile applications offered by the 100 largest banks in the world, published by Retail Banker International. The ranking is based on the scores given by the customers of application stores on iOS and Android. Having scored 4.8/5 based on nearly 150,000 opinions, IKO left the other banks from all parts of the world behind. In addition, it was the only Polish mobile banking application included in the ranking.

THE BANK'S GROUP FOCUSES ON INNOVATION AND TECHNOLOGY

- PKO Bank Polski SA and a start-up company Coinfirm signed a cooperation agreement whereby the Bank, as the first financial institution in Poland, started implementing blockchain technology solutions. The Trudatum blockchain platform improves the solutions relating to saving and storing data while, at the same time, ensuring the effective and cryptographically secured digital compliance of a document. The said technology, which the Bank decided to implement in its own systems, is a breakthrough in collecting and publishing documents and files. The first stage of the implementation focuses on integration with the banking systems and on providing a solution which enables authentication of the banking documents. The implementation of this new technology is another step in the execution of the Bank's digital strategy.
- In the first quarter of 2018, as part of the Digital Transformation Programme, PKO Bank Polski SA commenced the implementation of the New Model of Work, which is based on agile project management methods. The purpose of the new model is to accelerate the implementation of changes and make it more productive, which will increase customer satisfaction and help achieve medium- and long-term business objectives.

PKO BANK POLSKI SA SUPPORTS POLES IN MAKING CRUCIAL DECISIONS

For many years, PKO Bank Polski SA has supported Poles in making crucial decisions. The Bank advises its customers and offers them valuable solutions based on its experience as the oldest bank in Poland. In the first quarter of 2018, PKO Bank Polski SA launched a new marketing communication platform. To mark its opening, the film *Key decisions* directed by Tomasz Bagiński was presented. As part of the new approach, the first product campaign with the slogan "With Mini Ratka, decision-making speeds up" was developed informing about a new promotion for a cash loan.

The new communication formula is part of the Bank's strategy, the aim of which is to combine the product campaign with the image campaign. In its image advertising, the Bank will refer to the history of Poland in the context of this year's 100th anniversary of regaining independence and the preparations for the 100th anniversary of PKO Bank Polski SA.

The Bank's Group is extending its offer of products and services

The Bank's Group offers comprehensive solutions. It responds to the needs of both retail and corporate customers, taking into account their size, industry and stage of development. It provides its customers with professional tools, which make it easier to undertake business activities. It analyses customer expectations and adjusts its product offer on an on-going basis so as to gain a competitive advantage and satisfy the customers' borrowing and other needs.

The actions taken by PKO Bank Polski SA in the first quarter of 2018 include:

- the launch of a new cash loan promotion with the slogan "With Mini Ratka, decision-making speeds up", addressed to customers with no previous relationships with the Bank or those who intend to transfer the repayment of their loans to PKO Bank Polski SA. The Bank offered such customers a loan with a real annual interest rate of 3.46%, repayable in 9 instalments;
- introducing the possibility of purchasing participation units in a new open-ended umbrella fund, PKO Portfele Inwestycyjne with the following separate sub-funds: PKO Bursztynowy, PKO Szafirowy, PKO Rubinowy, PKO Szmaragdowy and PKO Diamentowy. The purpose of this offer is to provide customers with ready-to-use, highly diversified investment solutions, so that they do not have to build their portfolios or select funds or various financial market segments on their own. The new offer allows customers to choose solutions that are consistent with their investment profile, taking into account their preferred profit and risk levels and investment horizon. Therefore, it complies with the requirements of the new MiFID II regulations;
- providing an online currency exchange service on the transaction platform. Customers may exchange currencies in real time, and such transactions are settled immediately, so the funds are available within a very short time. Customers may buy and sell currencies at attractive rates, at no charge for access to the service. Retail customers may effect transactions on 28 currency pairs;
- offering the possibility of registering a business in the Central Registration and Information on Business through the iPKO e-banking platform. This is the first solution of this type on the market, developed in cooperation with the Ministry of Entrepreneurship and Technology. The whole process is remote and it takes just a few minutes to complete an application. The firm's registration is confirmed and the account is opened through a Trusted Profile;
- providing corporate customers with an innovative tool for creating loyalty programmes ZenCard – a technology for organizing promotional and discount campaigns at sales and service outlets with the use of a bank card and a point of sales terminal only. The platform developed by ZenCard Sp. z o.o. is integrated with a point of sales terminal and it allows replacing multiple loyalty cards and applications installed on a mobile telephone with a single virtual card connected with any of the customer's bank cards;
- the launch of the Cashless Poland Programme (Program Polska Bezgotówkowa), as part of which small retailers, who have not accepted card payments before, will receive a 12-month card approval service for free. This programme is the joint initiative of the participants of the Polish payment services market: card issuers, clearing agents and Mastercard and Visa organizations, as well as the Polish Bank Association. The Ministry of Entrepreneurship and Technology supports the initiative.

The actions taken by the PKO Bank Polski SA Group in the first quarter of 2018 allowed it to achieve good financial results and strengthen its position among the biggest financial institutions in Poland.

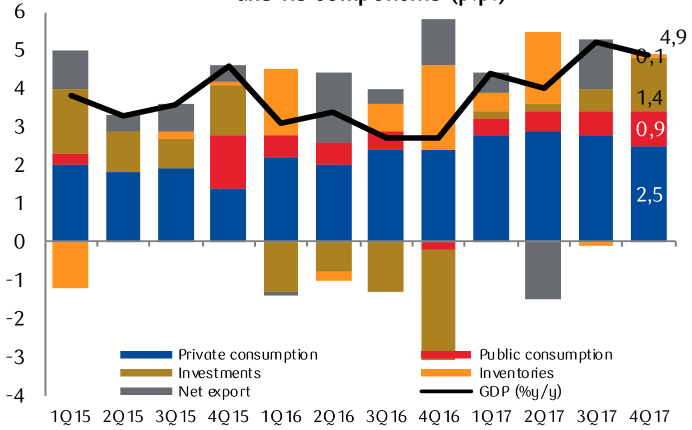
2. EXTERNAL BUSINESS ENVIRONMENT

MACROECONOMIC ENVIRONMENT

Macroeconomic factors affecting the national economy in the first quarter of 2018:

- **STABILIZATION OF ECONOMIC GROWTH**

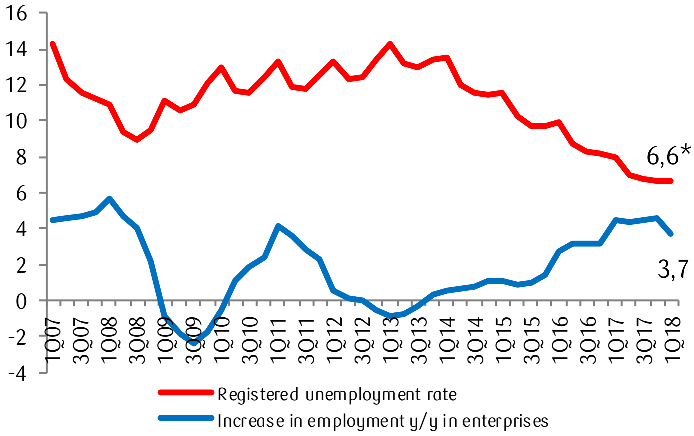
GDP growth rate and structure (%, y/y) and its components (p.p.)



In the first quarter of 2018, the economic growth rate remained at a level of around 5%, similar to that recorded in the fourth quarter of the previous year. Private consumption continued to play an important part in the GDP growth. It was stimulated by the continued upturn on the labour market and the historically high levels of optimism among households. The share of investments in GDP increased, which was a positive sign, as evidenced by the strong growth in construction and assembly output (on average 33% y/y in January-February) and the good results in the manufacture of investment goods' segment. The net export had a smaller effect on GDP growth. Strong increase in the export of goods and service was neutralised by upturn on import.

- **IMPROVED LABOUR MARKET CONDITIONS**

Unemployment and employment (end of period, %)



*estimates of the Ministry of Family, Labour and Social Policy

The registered unemployment rate as at the end of 2017 was 6.6% (1.6 p.p. lower than in 2016). After eliminating the seasonal factors, the downward trend was maintained in the first months of the current year, and the unemployment rate reached a historic low of 6.2% (according to the preliminary data of the Ministry of Family, Labour and Social Policy). Despite the lowest unemployment ever, a high level of vacancies and the growing adverse effect of labour market limitations on the operations of enterprises, the growth in wages and salaries in the enterprise sector stabilized at approx. 7% y/y (on average, 7.1% in January-February; no change in relation to the fourth quarter of 2017). Despite the shrinking workforce reserves, the employment growth in the enterprise sector remained relatively high (on average, 3.7% y/y in January-February compared to an average of 4.5% y/y in the fourth quarter of 2017). The limited workforce supply is more visible in the BAEL (Survey of the Economic Activity of the Population) data, according to which the employment growth slowed down to 0.5% y/y in the fourth quarter of 2017 from an average of 1.7% y/y for the first three quarters of 2017.

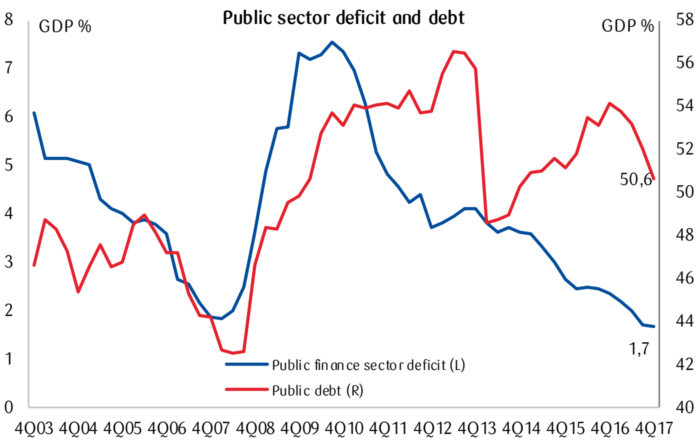
- **INFLATION SLOWS DOWN AGAIN**

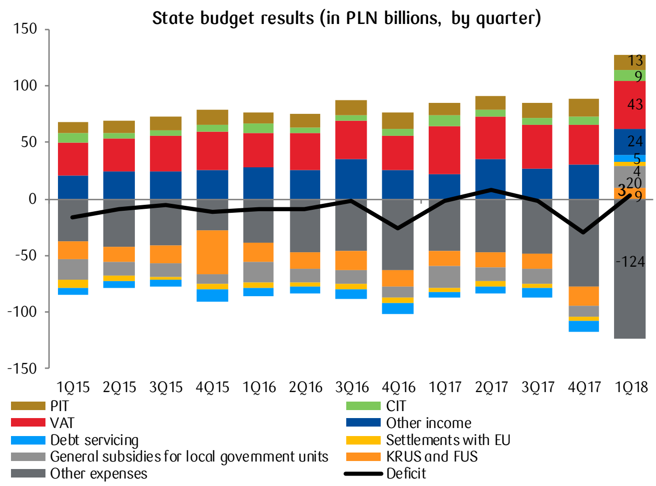
The price growth in the economy slowed down significantly at the beginning of 2018. Inflation measured on the CPI basis decreased from 2.1% y/y at the end of 2017 to 1.3% y/y in March 2018. In January and February, the inflation decrease was mainly associated with food and energy prices. In March, inflation reached a level not recorded since

June 2017 (1.3% y/y), which was partly the result of lower core inflation, which amounted to 0.7% y/y compared to 0.8% y/y in February. It should be noted, however, that the decrease in core inflation could be temporary. According to the base scenario for the following months, core inflation will continue to gradually increase due to certain cost factors (increased growth of the costs of labour) and demand factors (growing positive GDP gap). The higher core inflation will, however, be largely neutralized by the relatively stable food and energy prices and the still low imported inflation. Consequently, in 2018 inflation is rather unlikely to exceed the inflation target set by the NBP (2.5% y/y).

- **HISTORICALLY GOOD RESULTS OF THE PUBLIC FINANCE SECTOR**

According to preliminary data, the fiscal deficit (according to the European methodology ESA2010) decreased from 2.3% of the GDP in 2016 to 1.7% of GDP in 2017 (the lowest ever). Such a good result was due to the fact that the state budget results were better than the forecasts (as a result of better tax collection, among other things), the result of the local government sector was close to balance and the situation in the social insurance sector was good. The year 2017 also brought a decrease in public debt (ESA2010), both in nominal terms (for the first time ever, of PLN 3.2 billion) and in relation to GDP (from 54.2% to 50.6% of GDP). The available data confirms that the condition of the state budget is still good. After the first quarter of 2018, the state budget recorded a surplus of PLN 3.1 billion (compared with the projected annual deficit of PLN 41.5 billion).





- **STABILIZATION OF THE MONETARY POLICY**

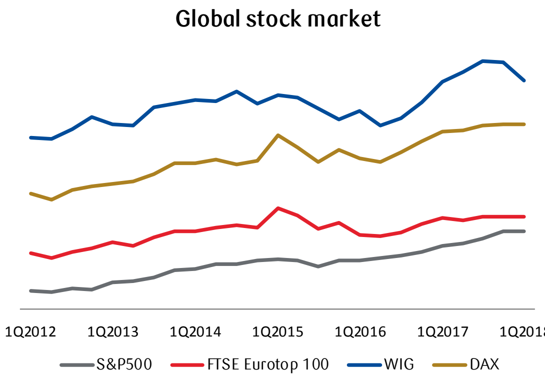
NBP's interest rates:

- reference rate – 1.50%
- bill rediscounting rate – 1.75%
- Lombard rate - 2.50%
- deposit rate – 0.50%

The NBP interest rates did not change in the first quarter of 2018. The belief of the Monetary Policy Council that the interest rates should be stabilized, even in the perspective of the next two years, was mainly based on the decrease in inflation and the fact that the tension on the labour market had no adverse effect on prices.

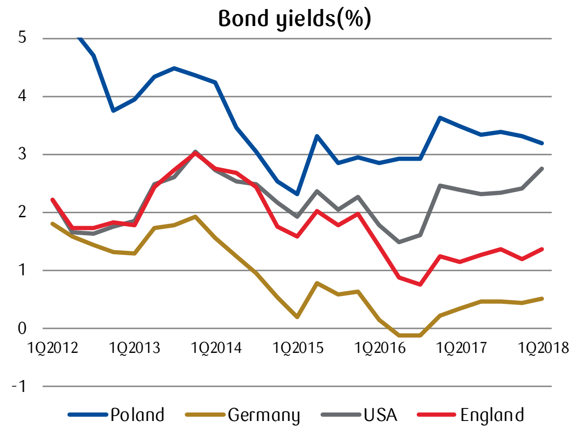
SITUATION ON THE FINANCIAL MARKET

- **STOCK MARKET**



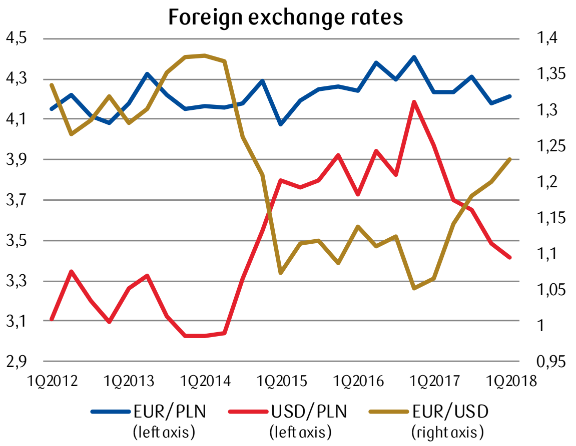
In the first quarter of 2018, investments on the stock exchange usually brought losses. The WIG index decreased by more than 8% (the first quarterly decrease in one and a half years). The decline in optimism was due to a combination of bad political and economic news. Investors were concerned with the growing tension between the USA and China over the rules of trade, the interest rate increases in the USA, as well as the macroeconomic data, which could indicate that the global economy is already past its most dynamic growth phase. The increasingly complex geopolitical situation, mainly associated with the conflicts in the Middle East and the relations between the West and Russia, did not help the markets, either.

- **INTEREST RATE MARKET**



The bond prices increased in the first quarter, which means that the Ministry of Finance is able to offer lower interest rates to investors. The very good performance of the state budget, which resulted in a significant drop in borrowing needs, was one of the reasons. The fact that the Monetary Policy Council announced its intention not to increase the interest rates for at least a few quarters also had a positive effect on bonds.

- **FOREIGN EXCHANGE MARKET**

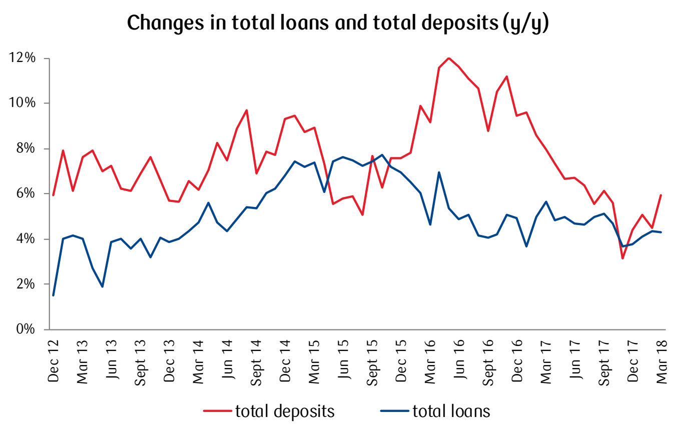


In the first quarter of 2018, the EUR/USD rate varied from 1.19 to 1.26, and the EUR/PLN rate varied from 4.13 to 4.24. The words of the US Secretary of the Treasury, S. Mnuchin, on the advantages of a "weak dollar" resulted in the depreciation of American currency, however, the strong Fed rhetoric announcing interest rate increases reduced its scale. In Poland, the mild approach of the MPC to interest rates prevented the appreciation of Polish currency. The EUR/PLN exchange rate as at the end of March 2018 was 1.21.

SITUATION IN THE POLISH BANKING SECTOR

As at the end of the first quarter of 2018, the value of loans of the banking sector increased to PLN 1,190 billion. The loan market was affected by the favourable economic environment. The rate of growth of total loans increased to 4.3% y/y (3.7% y/y as at the end of 2017) due to the following circumstances:

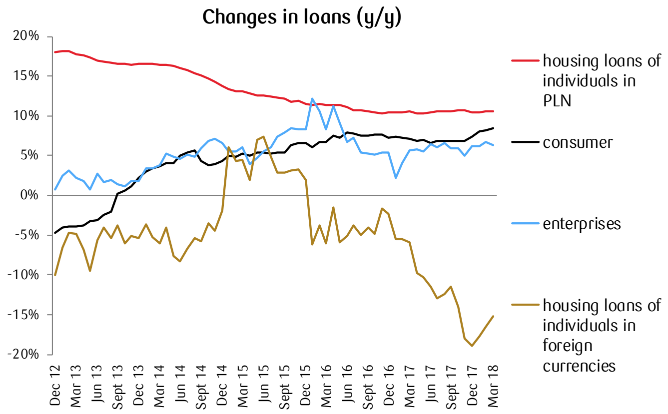
- The annual rate of consumer loans growth was 8.5% (7.4% as at the end of 2017), and the annual growth rate of housing loans in PLN remained at a high, two-digit level of 10.5% (10.4% as at the end of 2017), which may be associated with the persistent optimism among consumers;
- The rate of corporate loans growth remained stable at 6.3% y/y (6.2% y/y as at the end of 2017).

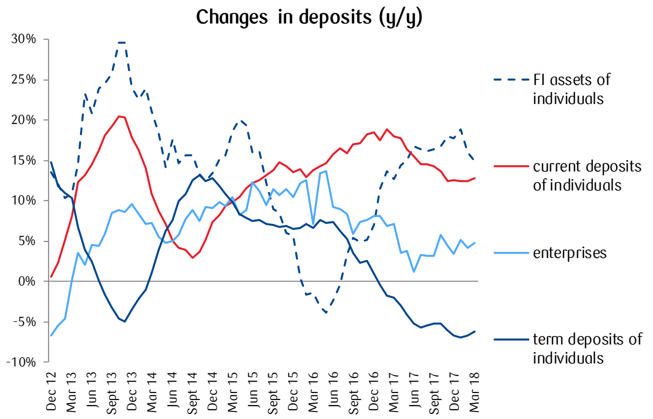


In the first quarter of 2018, the annual growth of deposits in the banking sector accelerated to 5.9% in relation to December 2017 (4.4%), and the volume of deposits increased to PLN 1,234 billion. The development of the deposit base remained affected by low interest rates, which contributed to a decline in the interest in saving at banks and encouraged deposit holders to seek alternative savings and investments. The annual growth rate of deposits of individuals was 4.2% (3.6% as at the end of 2017). The volume of current deposits of individuals was still growing at a double-digit rate (+12.8% y/y), and the volume of term deposits continued to decline (-6.1%). As at the end of the first quarter of 2018, the rate of growth of corporate deposits accelerated to 4.8% y/y

(3.4% y/y as at the end of 2017). The increase in corporate deposits could have been partly due to the tendency among enterprises to accumulate funds for the future financing of investments from their own funds (including cash at bank).

Given the fact that the increase in deposits remained stronger than the increase in loans in the banking sector, as at the end of the first quarter of 2018 the loan-to-deposit ratio decreased to 96.4% (98.1% as at the end of 2017).

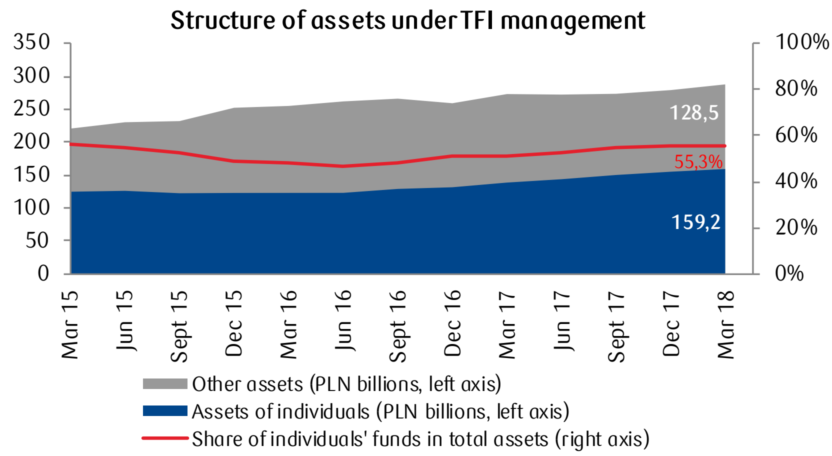




SITUATION IN THE POLISH NON-BANKING SECTOR

INVESTMENT FUND MARKET

In the first quarter of 2018, the assets of domestic investment funds increased by PLN 9.1 billion (+3.1% y/y) to PLN 287.7 billion. The situation on the investment fund market was affected by the following factors: a downturn on the local stock market, a decrease in average yields of Polish Treasury bonds and the persistent low interest rates on bank deposits.

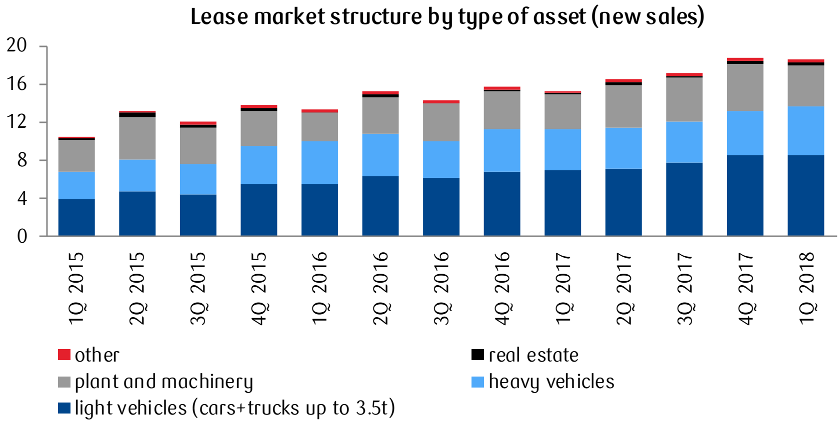


As at the end of the quarter, the majority of the main segments of the retail fund market, which are strongly associated with the local stock market, experienced a decline in the average annual rates of return below the level of the mid interest rate on new term deposits of households. The average annual rates of return on funds with a lower risk profile, which are the most popular among individual investors, remained higher than the mid interest rate on deposits.

The increase in the investment funds' assets in the first quarter of 2018 was mainly due to a strong net inflow of funds from institutional investors (+PLN 6.5 billion) resulting from a one-off inflow from one of the non-public asset funds, as well as a continued strong net inflow of funds from individuals (+PLN 5.4 billion). At the same time, the quarterly rate of asset growth was adversely affected by the negative result of management (-PLN 1.8 billion).

The share of the net assets of individuals in the total assets of investment funds amounted to 55.3% as at the end of the quarter (-0.2 p.p. q/q).

LEASE MARKET



In the first quarter of 2018, the lease market continued a dynamic, double-digit growth under generally favourable economic conditions. According to the data of the Polish Leasing Association, the lease sector financed assets amounting to PLN 18.6 billion. As a result, the rate of growth of the lease market was 20.9% y/y compared with 15.7% y/y as at the end of 2017.

The lease of light vehicles, i.e. cars, vans and trucks up to 3.5 tonnes had the biggest positive effect on the development of the lease market. The value of financed assets in this segment increased to PLN 8.6 billion (+23.1% y/y) and represented approx. 47% of the total financing provided by lease companies.

In the first quarter of 2018, the second largest segment of the lease market, i.e. the lease of heavy vehicles, recorded a growth in the value of leased assets of 18.1% y/y (to PLN 5 billion). In this category, the lease of tractors and semi-trailers was a growth driver. The development of this segment was positively affected by the good economic situation in the euro zone, the regulatory solutions requiring replacement of used vehicles with new Euro 6 - compliant ones, as well as the execution of projects financed with the European funds, which increased demand for transport of goods.

The lease of plant and machinery also experienced dynamic growth. The total value of plant and machinery leased in this segment increased by 18.3% y/y (to PLN 4.3 billion). In this segment, the lease of construction equipment grew the most (+72% y/y) due to a visible upturn in the output of construction and assembly.

The financing of real estate also increased in the first quarter of 2018 (+45.8% y/y); however, this segment continued to play a marginal role in the financing of investments by the lease sector (1.1% of the total financing provided by lease companies).

THE UKRAINIAN MARKET

ECONOMIC SITUATION

The first months of 2018 brought an upturn in economic activity, which, combined with the expiry of the effect of the embargo imposed on Donbas in the previous year, should result in a faster GDP growth. Consumption had a significant effect on GDP, supported by a growth in wages and salaries, which was partly a result of a minimum wage increase from UAH 3,200 in 2017 to UAH 3,720.

The increase in retail sales, tightening of the tax system and growing wages and salaries contributed to a significant increase in the revenues of the public finance sector. At the same time, the debt of the public finance sector decreased to 59.7% of the GDP in February (or 69.3% of the GDP, if government guarantees are taken into account), which is the lowest level since the end of 2014. Almost half of the debt is financed by the central bank.

Inflation (CPI) decreased slightly in the first quarter of 2018 (13.8% y/y vs. 14.0% y/y in the fourth quarter of 2017). Food prices were the main inflation growth driver, although its effect should decrease from the second quarter of 2018 due to the trends on the global markets and statistical effects. As a result, the main inflation index may go down. High inflation was the basis for interest rate increases by the National Bank of Ukraine (NBU) (from 14.50% to 16.00% on 25 January and to 17.00% on 1 March). The interest rate increase resulted in the appreciation of the hryvnia to the dollar (from 28.07 at the end of December to 26.43 at the end of March).

According to the NBU data, the PLN/UAH exchange rate as at the end of March 2018 was 7.77, compared to 8.02 as at the end of 2017, and the USD/UAH exchange rate was 26.54 compared to 28.07 as at the end of 2017.

UKRAINIAN BANKING SECTOR

According to the NBU data, the number of banks operating in Ukraine is stable. As at the end of February 2018, 82 banks were registered, compared to 82 in December 2017 and 93 in February 2017.

The amount of total assets of the Ukrainian banking system decreased at the beginning of the year to approx. UAH 1.29 trillion from UAH 1.34 trillion, and their equity decreased to UAH 157.6 billion from UAH 163.6 billion.

The volume of loans continued to increase in the first two months of the year (by UAH 14 billion to UAH 1,077.1 billion at the end of February), despite the negative effect of hryvnia appreciation. The corporate sector contributed the most to this increase. At the same time, the total deposit volume decreased by UAH 17.6 billion due to the decrease in the value of foreign currency deposits of UAH 46.6 billion.

ROA (1.83% vs 1.94% in 2017) and ROE (15.13% vs 15.96%) improved in the first two months of the quarter. Despite a decrease in the amount of equity, the capital adequacy ratio increased (to 16.91% at the end of February from 16.10% at the end of December, the regulatory requirement being 10%).

REGULATORY ENVIRONMENT

The financial and organizational situation of the PKO Bank Polski SA Group and other financial sector entities was affected by new legal and regulatory solutions implemented in the first quarter of 2018, including:

PRUDENTIAL AND CAPITAL REQUIREMENTS	
- The Act on macroprudential supervision over the financial system and crisis management (Journal of Laws of 2015, item 1513 as amended) in particular, increasing the capital conservation buffer to 1.875% from 1 January 2018; - Regulation of the Minister of Development and Finance of 1 September 2017 on the systemic risk buffer (Journal of Laws of 2017, item 1776) implementing a 3% systemic risk buffer from 1 January 2018; - Regulation (EU) No. 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, the EBA technical standards and the recommendations of the Polish Financial Supervision Authority, e.g. increasing the short-term liquidity ratio (LCR) for 2018 to 100% from 80% in 2017.	Impact on the capital requirements for banks on the separate and consolidated level
THE NEW ACCOUNTING STANDARD IFRS 9	
The new accounting standard IFRS 9 Financial instruments, adopted by the European Union for application in November 2016, which changes, among other things, the method of calculating and recording impairment write-downs and the classification of financial instruments, and introduces new requirements in the area of hedge accounting	Impact on the financial result, equity
INVESTORS PROTECTION	
- the Regulation (EU) of the European Parliament and of the Council No. 600/2014 (MiFIR) and Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID2), introducing new requirements for the provision of investment services relating to financial instruments by banks and investment companies. The Regulation is applicable from 3 January 2018. MiFID2 was implemented into the Polish law by the Act on amending the act on trading in financial instruments and certain other acts of 1 March 2018 (Journal of Laws of 2018, item 685); - the Regulation (EU) No. 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs), which as of 1 January 2018 introduces guidelines for the preparation of documents containing key information on packaged retail and insurance-based products.	Impact on the investment products distribution model, net commission income, operating costs
PREVENTING TAX FRAUD WITH THE PARTICIPATION OF BANKS	
The Act of 24 November 2017 amending certain acts in order to prevent the abuse of the financial sector for the purposes of committing tax fraud; the Act e.g. imposes on banks new obligations to report information to the Clearing House Data Communication System (STIR) and to block customers' accounts	Impact on operating costs

TAX CHANGES	
The Act of 27 October 2017 amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on lump-sum income tax on certain types of income of individuals (Journal of Laws of 2017, item 2175), which introduced solutions increasing CIT obligations and solutions concerning: a division of sources of income from capital gains and from other sources, general limitation of debt financing costs in place of thin capitalization regulations, restrictions concerning the treatment of costs of intangible services as tax-deductible, and changes adjusting the regulations to IFRS 9 requirements	Impact on the financial result
MANDATORY RESERVE	
Resolution of the Monetary Policy Council on the interest rate on the mandatory reserve, setting the interest rate on the mandatory reserve at 0.50% as of 1 January 2018 compared to 1.35% in the previous period	Impact on net interest income

In the first quarter of 2018, the operations and results of the PKO Bank Polski SA Group were affected by the new legal solutions introduced in Ukraine (where the subsidiary KREDOBANK SA operates), including:

DECREASE IN BASIC INTEREST RATES	
Resolutions of the Management Board of the National Bank of Ukraine (NBU) no. 43/2018 and 133/2018 increasing the discount rate (which was decreased in 2017): by 1.5 p.p. to 16% as of 26 January 2018, and by 1 p.p. to 17% as of 2 March	Impact on the net interest income of banks and their profitability
THE NEW ACCOUNTING STANDARD IFRS 9	
NBU decision no. 1/2018, introducing the new accounting standard IFRS 9 Financial instruments, which defines, among other things, the method of calculating and recording impairment write-downs and the classification of financial instruments, and introduces new requirements in the area of hedge accounting	Impact on the financial result, equity
LOAN VALUE	
NBU decision no. 15/2018, which changes the principles for determining the total value of a consumer loan and the real interest rate as of 2 March 2018	Impact on interest income and other income
FOREIGN CURRENCY MANAGEMENT	
NBU decision no. 19/2018, which introduces more flexible rules for foreign currency management as of 3 March 2018	Impact on business activities of banks, foreign currency position management and risk level

FACTORS THAT WILL AFFECT THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE SECOND QUARTER OF 2018

The operations of the Bank's Group in the second quarter of 2018 will be affected by the following external conditions:

- in the global economy:
  - gradual slowing down of global economic growth, in particular in the euro zone and Germany;
  - further tightening of the US monetary policy and expected changes in the communication policy of the European Central Bank;
  - possible further increase in geopolitical tension (the conflict in Syria, uncertainty as to the possibility of easing the dispute between the USA and North Korea);
  - potential trade tensions (possible escalation of US protectionist actions and potential retaliatory actions of other countries against the USA);
  - uncertainty as to the ultimate form of Brexit;
  - execution of the "soft landing" scenario in China;
  - political and economic situation in Ukraine;

- in the Polish economy:
  - growing absorption of European funds and strengthening of investment activity in the private sector;
  - good moods among consumers and a further increase in the disposable income of households;
  - growing tension on the labour market resulting from the large demand for labour and growing supply limitations (due to demographic factors and the younger retirement age), which leads to the faster growth of wages and salaries (and, consequently, growing costs of labour) and a risk of employee shortages in some industries;
  - gradual domestic CPI increase to around 2.0% in the middle of the year;
  - stabilization of NBP interest rates, growing expectations that the NBP interest rates would remain unchanged for at least two years;
  - gradual increase in the growth rate of deposits and continued relatively strong demand for loans (especially corporate loans);
  - possible changes in bank tax;
- new regulatory solutions, in particular resulting from:
  - IDD, which was implemented into the national law based on the Act on insurance distribution of 15 December 2017, which, among other things, introduced new obligations of insurance companies towards customers;
  - the Payment Services Directive (PSD2), which introduces a new category of providers of the payment initiation service (PIS) and the account information service (AIS); the implementing act is pending;
  - Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC, which, as of 25 May 2018, introduces a number of rights and obligations of data administrators and processors; amendments to the Personal Data Protection Act are pending;
  - the Act on preventing money laundering and financing of terrorism of 1 March 2018 (Journal of Laws of 2018, item 723);
  - persistent uncertainty as to the ultimate regulatory solutions concerning housing loans in foreign currencies;
  - a draft act amending certain acts with the aim of simplifying tax and economic laws to the benefit of entrepreneurs, e.g. by introducing an alternative method for taxing bond issues.

3. FINANCIAL RESULTS IN THE FIRST QUARTER OF 2018

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

A new accounting standard IFRS 9 Financial instruments, which replaced IAS 39, Financial Instruments: Recognition and Measurement, entered into force on 1 January 2018. The amendments relate to the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting. Data for the previous periods has not been restated, which affects the comparability of selected items of the income statement and balance sheet.

The impact of the implementation of IFRS 9 Financial instruments is described in detail in note 4 to the condensed interim consolidated financial statements of the Group.

For analytical purposes, the data presented in this section is grouped into relatively homogeneous items, in particular the portfolio of municipal and corporate bonds was reclassified from loans and advances granted to customers to securities.

FINANCIAL RESULTS

The net profit of the PKO Bank Polski SA Group in the first quarter of 2018 amounted to PLN 757 million and was PLN 232 million higher than in the corresponding period of 2017 (+44.2% y/y), which was mainly due to: an increase in the result on business activity (mainly resulting from an increase in the net interest income and the net fee and commission income), a decrease in impairment write-downs and an increase in administrative expenses.

The consolidated items of the income statement were as follows:

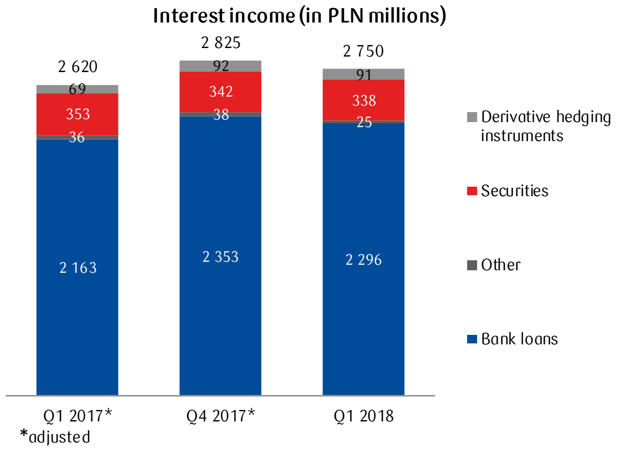
Table 1. Income statement of the PKO Bank Polski SA Group (in PLN million)

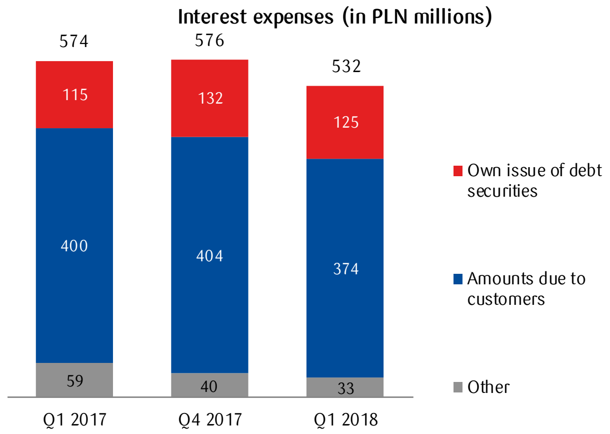
	01.01-31.03.2018	01.01-31.03.2017	Change (in PLN millions)	Change (in %)
Net interest income	2 218	2 046	172	8,4%
Net fee and commission income	737	710	27	3,8%
Net result from other operations	258	216	42	19,4%
Net result on business actvities	**3 213**	**2 972**	**241**	**8,1%**
Administrative expenses	-1 579	-1 563	-16	1,0%
Tax on certain financial institutions	-228	-233	5	-2,1%
Net operating result	**1 406**	**1 176**	**230**	**19,6%**
Net impairment write-downs and provisions	-336	-391	55	-14,1%
Share in profits and losses of associates and joint ventures	6	5	1	20,0%
Profit before tax	**1 076**	**790**	**286**	**36,2%**
Income tax expense	-320	-262	-58	22,1%
Net profit (including non-controlling interests)	**756**	**528**	**228**	**43,2%**
Profits (losses) attributable to non-controlling shareholders	-1	3	-4	-133,3%
Net profit	**757**	**525**	**232**	**44,2%**

The result on business activity of the PKO Bank Polski SA Group after the first quarter of 2018 amounted to PLN 3,213 million and was PLN 241 million, or 8.1%, higher than in the corresponding period of 2017.

NET INTEREST INCOME

The net interest income generated in the first quarter of 2018 amounted to PLN 2,218 million, i.e. PLN 172 million more than in the same period of the previous year. The higher net interest income y/y resulted from an increase in the loan portfolio accompanied by a decrease in the costs of financing.





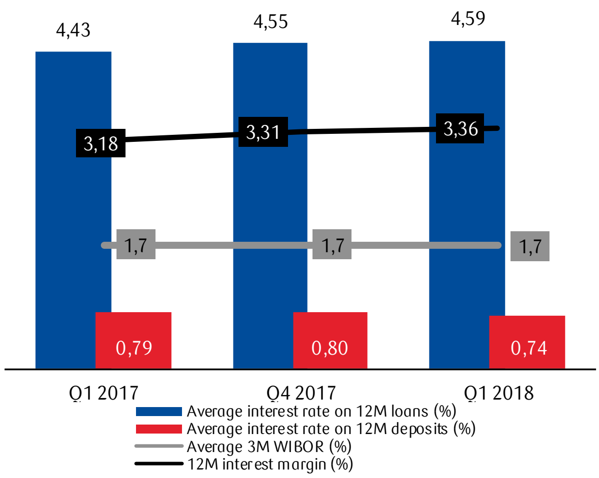
The interest income amounted to PLN 2,750 million and was PLN 130 million higher than in the corresponding period of 2017 mainly as a result of:

- an increase in income from loans and advances granted to customers (+ PLN 134 million y/y), resulting mainly from a 3.7% y/y increase in the loan portfolio and a change in its structure (an increase in the share of consumer loans and lease receivables);
- a decrease in interest income on the mandatory reserve of PLN 13 million due to a new interest rate on such funds introduced by the Monetary Policy Council in December 2017 and effective from the beginning of 2018.

The decrease in interest expenses was mainly due to:

- a decrease in the cost of the deposit base of PLN 26 million y/y - the mid interest rate on deposits decreased by 0.05 p.p. and amounted to 0.74%. The decrease was due to a change in the ageing structure vis-à-vis current deposits, whose share increased by 6 p.p. y/y to approx. 61% of amounts due to customers;
- a decrease in the costs of loans and advances received of PLN 21 million y/y resulting from regular overpayment of the financing received from Nordea AB - the total debt was repaid in the first quarter of 2018;
- at the same time, the costs of issue of debt securities and subordinated liabilities increased by PLN 10 million y/y due to an increase in the volume of the issue.

The interest margin as at the end of the first quarter of 2018 increased by 0.18 p.p. y/y to 3.36%. The increase in interest margin was mainly due to the decrease in the cost of the deposit base.

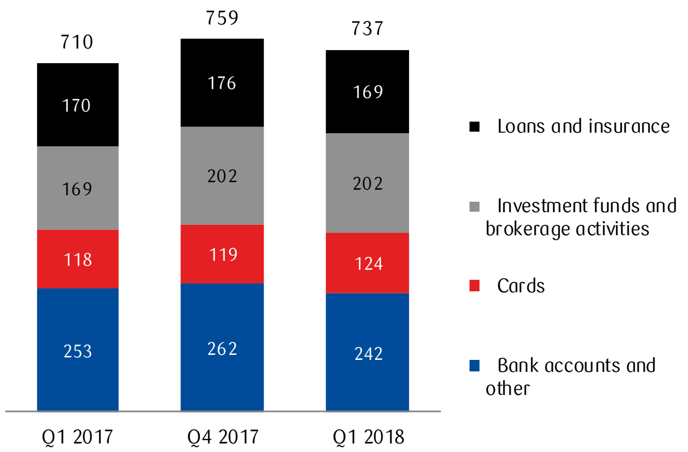


NET FEE AND COMMISSION INCOME

The net fee and commission income for the first quarter of 2018 amounted to PLN 737 million and was PLN 27 million higher than in the same period of the previous year. The level of net commission income was mainly driven by:

- an increase in the net income from investment fund servicing of PLN 24 million y/y, resulting from the greater interest of customers in this form of saving as an alternative to bank deposits and development of the funds' offer, which resulted in an increase in the value of assets under the management of PKO TFI SA of 33% y/y;
- an increase in the net income from brokerage activity of PLN 8 million y/y, resulting from an increase in the commission for performing the function of agent for the issue of Treasury bonds (in the first quarter of 2018, more than 29 million bonds were sold, compared to 14 million in the first quarter of 2017) and an increase in income from the servicing of transactions executed on the primary market (including the shares of the following companies: Novaturas AB, BZ WBK SA, Synthos SA, Zespół Elektrociepłowni Wrocławskich KOGENERACJA SA, Tarczyński SA, Best SA);
- a decrease in the net income from maintaining bank accounts and other income of PLN 11 million y/y, resulting from a change in the structure of commission income on banking activities.

Net fee and commission income (in PLN millions)

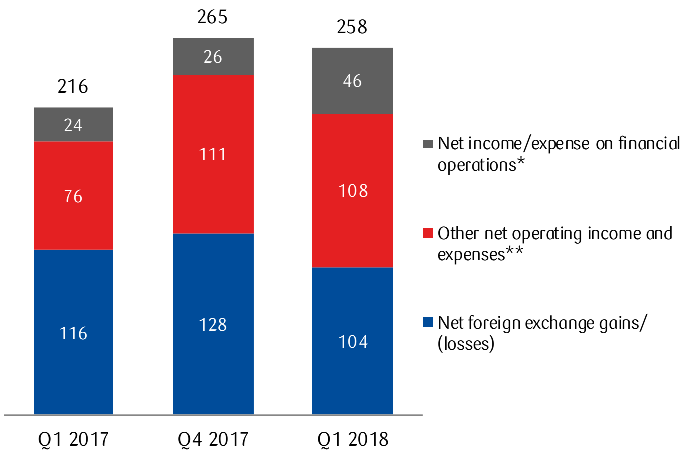


NET RESULT FROM OTHER OPERATIONS

The net result from other operations for the first quarter of 2018 amounted to PLN 258 million and was PLN 42 million higher than in the same period of the previous year. This increase was mainly driven by:

- a profit on the sales of investment securities (debt securities) of approx. PLN 29 million (with a low reference base of approx. PLN 5 million);
- an increase in net other operating income /(expenses) of PLN 32 million, resulting mainly from the reimbursement of a fine relating to interchange fees by the Office for the Protection of Competition and Consumers (UOKiK), which was recognized in the first quarter of 2018;
- a decrease in net foreign currency gains/(losses) of approx. PLN 12 million, which was mainly due to a decrease in the sales of structured products with an embedded currency option.

Net result from other operations (in PLN millions)



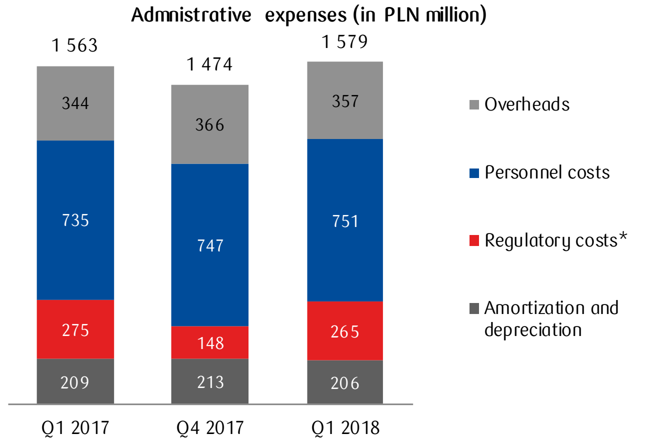
*since 2018 it includes the result on derecognizing financial assets and liablities measured at fair value through other comprehensive income
**since 2018 it includes the result on derecognizing assets and liabilities measured at amortized cost

ADMINISTRATIVE EXPENSES

In the first quarter of 2018, administrative expenses amounted to PLN 1,579 million and were 1.0% higher than in the same period of the previous year.

In the first quarter of 2018, the BGF costs amounted to PLN 233 million, of which PLN 167 million (71.7% of the BGF costs) represented the mandatory contribution for the purposes of restructuring of banks. In the same period of the previous year, the BGF costs amounted to PLN 256 million and the mandatory restructuring contribution amounted to PLN 209 million (81.6%).

Administrative expenses (in PLN million)



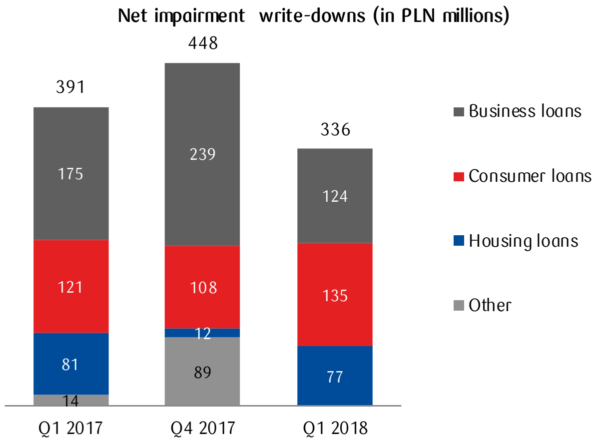
*includes BGF, PFSA, taxes and fees

As at 31 March 2018, the number of employees (FTEs) of the PKO Bank Polski SA Group was 28,574 (a decrease of 325 FTEs y/y).

As at the end of March 2018, the operating efficiency of the PKO Bank Polski SA Group measured with the annual C/I ratio was 45.3% (48.0% as at the end of March 2017). In quarterly terms, the C/I ratio was 49.1%, compared with 52.6% in the fourth quarter of 2017.

NET IMPAIRMENT WRITE-DOWNS AND PROVISIONS

The amount of net impairment write-downs and provisions reflects the conservative approach of the PKO Bank Polski SA Group to recognizing and measuring credit risk. In the first quarter of 2018, the net impairment write-downs and provisions amounted to PLN 336 million. The result on write-downs improved (by PLN 55 million y/y) mainly due to a better result on write-downs on the exposure to the corporate loans portfolio.



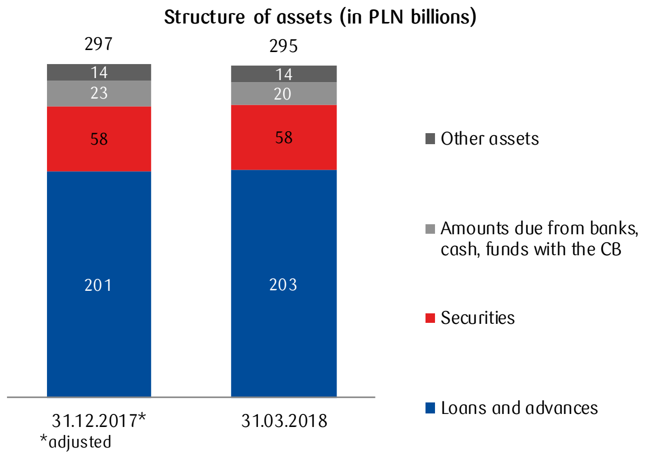
The share of loans with recognized impairment[1] as at the end of the first quarter of 2018 amounted to 5.4% (a decrease of 0.5 p.p. in relation to the end of the first quarter of 2017).

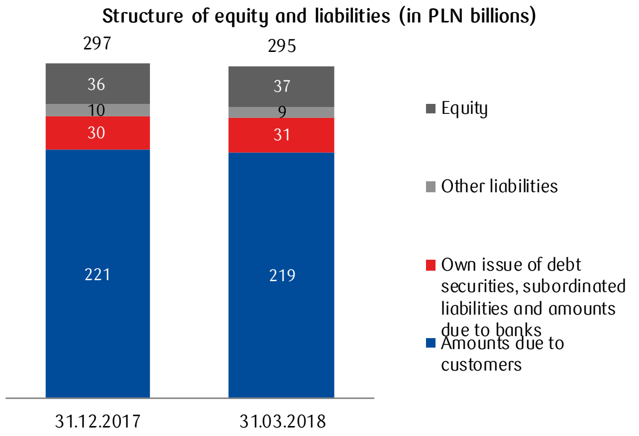
The cost of risk[2] as at the end of the first quarter of 2018 amounted to 0.69%, i.e. it improved by approx. 0.07 p.p. compared to the end of 2017.

The improvement in the risk indicators, accompanied by an increase in the gross loan portfolio of 5.4% y/y, is a result of the continuation of the credit risk management policy of the Bank's Group and careful monitoring of the portfolio of receivables.

STATEMENT OF FINANCIAL POSITION

Total assets of the PKO Bank Polski SA Group as at the end of March 2018 exceeded PLN 295 billion. Therefore, the PKO Bank Polski SA Group maintained its position as the largest institution in the Polish banking sector.





As far as the structure of liabilities is concerned, the most stable liabilities increased in the analysed period, i.e. the liabilities in respect of issues of securities and subordinated liabilities. At the same time, the amounts due to banks (the financing received from Nordea AB, which was repaid in the total amount) and customer deposits decreased.

The ratio of loans to deposits (amounts due to customers) as at the end of the first quarter of 2018 amounted to 92.7%, and the ratio of loans to stable sources of financing[3] amounted to 81.9%.

[1] The share of loans with recognized impairment is defined for portfolio of exposures measured at amortized cost and loans measured at fair value through other comprehensive income minus non-working interests (interests not included in calculation of interest income).
[2] Calculated by dividing the net impairment write-downs on loans and advances granted to customers for the 12 months ended 31 March 2018 by the average balance of gross loans and advances granted to customers as at the beginning and end of the reporting period and the interim quarterly periods.

As at the end of March 2018, operating efficiency measured in terms of return on equity (ROE) improved by 0.9 p.p. y/y to 9.5%, and return on assets (ROA) improved by 0.1 p.p. y/y to 1.1%.

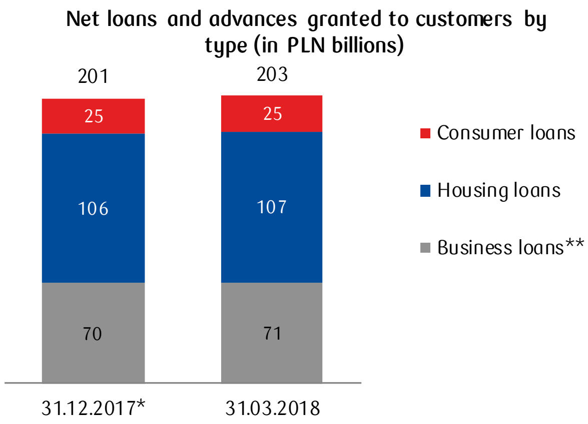
LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are the largest portion of the assets of the PKO Bank Polski SA Group. Compared to the end of 2017, the portfolio of net loans and advances to customers increased by PLN 1.5 billion and amounted to PLN 202.8 billion.

In the analysed period, business loans and housing loans increased (+PLN 1.8 billion and +PLN 0.5 billion, respectively), while the balance of repo transactions decreased (-PLN 0.9 billion).

Due to the implementation of IFRS 9, write-downs for expected credit losses increased by approx. PLN 0.8 billion.

Detailed information on loans and advances to customers is provided in note 27 to the Group's condensed interim consolidated financial statements.



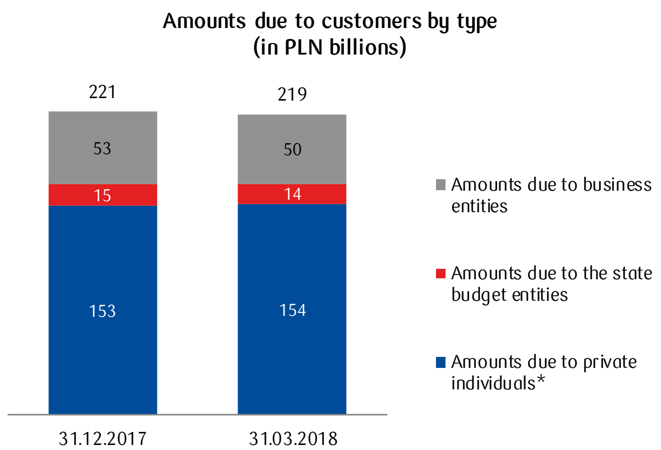
*adjusted
**including repo transactions and lease receivables

SECURITIES

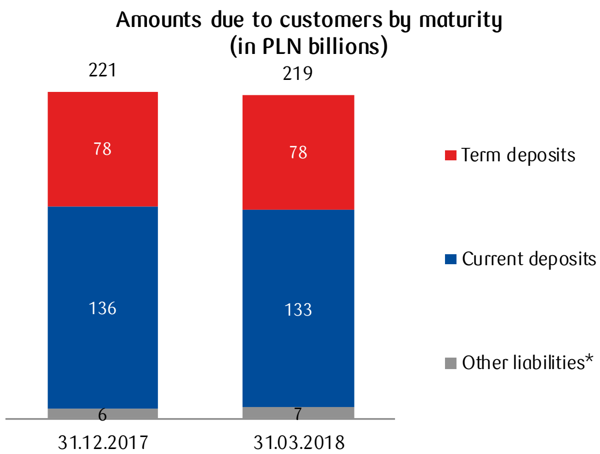
The carrying value of the securities portfolio as at the end of the first quarter of 2018 amounted to PLN 57.8 billion and was approx. PLN 0.6 billion lower than as at the end of 2017. The change in the balance of the securities portfolio is related to the process of on-going liquidity management in the Bank's Group. Debt securities issued by the State Treasury prevailed in the portfolio structure. Their volume increased by PLN 1.7 billion since the beginning of the year.

Detailed information on securities held in the Group's portfolio is provided in note 26 to the Group's condensed interim consolidated financial statements.

AMOUNTS DUE TO CUSTOMERS



*including amounts due in respect of insurance products



*Other liabilities include repo transactions, loans and advances received and insurance products

Amounts due to customers remain the main source of funding of the PKO Bank Polski SA Group's operations. As at the end of March 2018, they amounted to PLN 218.7 billion and represented 74.1% of total equity and liabilities. The amounts due to retail customers, which increased by PLN 1.1 billion in the first quarter of 2018 and amounted to PLN 154.1 billion, constituted the main item in the structure of amounts due to customers. At the same time, the amounts due to corporate customers decreased by PLN 2.5 billion in relation to the end of 2017, and the amounts due to state budget entities decreased by PLN 0.6 billion.

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

The structure of amounts due to customers includes mainly cash on current accounts and term deposits, which as at the end of March 2018 represented 60.8% and 35.7% of the amounts due to customers, respectively. From the beginning of 2018, the balance of cash on the customers' current accounts decreased by nearly PLN 3.5 billion, while repo transactions increased by PLN 1.2 billion and term deposits remained stable.

Detailed information on amounts due to customers is provided in note 34 to the Group's condensed interim consolidated financial statements.

EXTERNAL FINANCING

The PKO Bank Polski SA Group is an active participant in the market of issues of debt securities, both domestic and foreign. Such actions are aimed at diversifying the sources of financing of the operations and adjusting them to regulatory requirements. In the first quarter of 2018, wholesale financing increased by PLN 0.6 billion. This increase was due to:

- the issues of securities and subordinated liabilities, which increased by PLN 3.3 billion since the beginning of the year. This change was a result of an issue of covered bonds by PKO Bank Hipoteczny SA (EUR 500 million) and an issue of subordinated bonds by PKO Bank Polski SA (PLN 1 billion);
- a decrease of PLN 2.7 billion in amounts due to banks due to the repayment of the financing provided by Nordea AB in the total amount.

Detailed information on issues of securities conducted by the PKO Bank Polski SA Group and on subordinated liabilities is provided in notes 37 and 38 to the Group's condensed interim consolidated financial statements.

EQUITY AND CAPITAL ADEQUACY MEASURES

In the first quarter of 2018, the PKO Bank Polski SA Group continued actions aimed at providing an adequate capital buffer and strengthening its capital position. As at the end of the first quarter of 2018, equity amounted to PLN 36.6 billion (PLN 0.3 billion more than in December 2017) and represented 12.4% of the equity and liabilities of the PKO Bank Polski SA Group (an increase of 0.2 p.p. since the end of 2017).

The total capital ratio of the PKO Bank Polski SA Group as at the end of the first quarter of 2018 amounted to 17.8%, representing an increase of 0.4 p.p. in relation to the end of 2017. The reasons for this increase include the issue of subordinated debt in the amount of PLN 1 billion.

The Tier 1 ratio of the PKO Bank Polski SA Group as at the end of the first quarter of 2018 amounted to 16.4% and was 0.1 p.p. lower than as at the end of 2017. The change in this ratio was due to an increase in the credit risk requirements of PLN 0.3 billion accompanied by an increase in the share capital of PLN 0.4 billion.

The capital adequacy of the PKO Bank Polski SA Group as at the end of the first quarter of 2018 was maintained at a safe level, significantly above the regulatory limits.

The capital adequacy measures of the Group as at 31 March 2018 were calculated based on the CRR provisions, taking into account prudential consolidation.

KEY FINANCIAL INDICATORS

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

Table 2. Key financial indicators of the PKO Bank Polski SA Group

	31.03.2018	31.03.2017	Change
Net ROA* (net profit/(loss)/average total assets)	1,1%	1,0%	0,1 p.p.
Net ROE* (net profit/(loss)/average total equity)	9,5%	8,6%	0,9 p.p.
C/I (cost to income ratio)*	45,3%	48,0%	-2,7 p.p.
Interest margin* (net interest income/average interest-bearing assets)	3,36%	3,18%	0,18 p.p.
Cost of risk**	-0,69%	-0,76%	0,07 p.p.
Capital adequacy ratio (own funds/total capital requirement*12.5)	17,78%	15,60%	2,18 p.p.
Tier 1 capital ratio	16,43%	14,77%	1,66 p.p.

* Income statement items used in the calculation of the indicators cover the last 4 quarters (in annual terms), and statement of financial position items are based on the average of the last 5 quarterly amounts of the respective assets and liabilities.

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

4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP

4.1. OPERATING SEGMENTS OF THE GROUP

Retail segment Corporate and investment segment

The PKO Bank Polski SA Group conducts business activities within segments offering specific products and services addressed to specific groups of customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers customers a comprehensive product mix comprising both traditional banking products and more complex investment products. The Bank's Group currently conducts its business activities in two segments: the retail segment and the corporate and investment segment.

RETAIL SEGMENT

The retail segment offers a full range of banking products and services to individuals using retail and private banking. It also comprises transactions with small and medium enterprises, developers, cooperatives and property managers. The products and services offered to the customers in this segment comprise: current and savings accounts, term deposits, private banking services, insurance and combined investment and insurance products, credit and debit cards, electronic banking services, consumer and housing loans, business loans, leasing and factoring.

NUMBER OF CUSTOMERS: 9.6 MILLION

VOLUME OF LOANS: 161 BILLION

VOLUME OF DEPOSITS: 168 BILLION

CORPORATE AND INVESTMENT SEGMENT

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

NUMBER OF CUSTOMERS: 15 THOUSAND

VOLUME OF LOANS: 66 BILLION

VOLUME OF DEPOSITS: 44 BILLION

4.1.1. RETAIL SEGMENT

The segment's customers Business volumes after the first quarter of 2018 Actions taken in the first quarter of 2018

In the first quarter of 2018, the PKO Bank Polski SA Group continued sustainable development in the retail segment, focusing on the identification and satisfaction of the customers' needs and building strong, long-term relationships with them. The Group took initiatives aimed at improving service quality through increasing innovation in the area of new financial solutions, concerning both products and distribution channels, especially e-banking and mobile payments.

THE SEGMENT'S CUSTOMERS

As at the end of March 2018, the retail segment provided services to nearly 9.6 million customers, including:

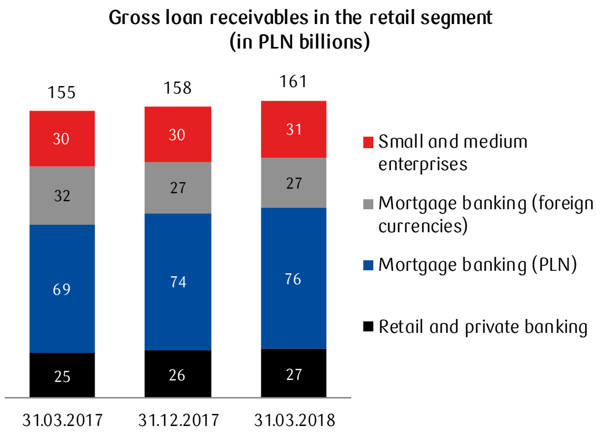
- 9.1 million individuals;
- 0.5 million small and medium enterprises.

Since the beginning of 2018, the number of the segment's customers increased by 80 thousand.

BUSINESS VOLUMES AFTER THE FIRST QUARTER OF 2018

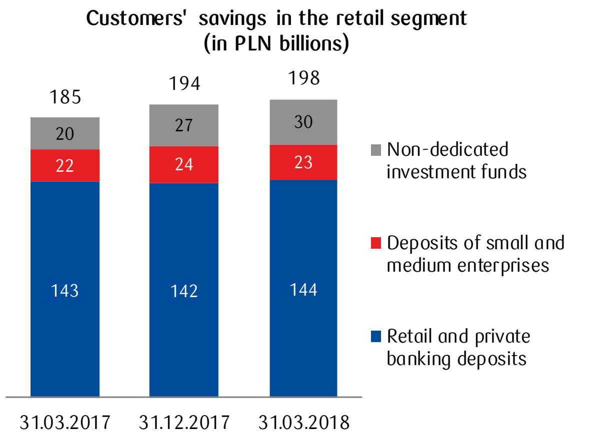
As at the end of March 2018, the total gross financing provided to retail segment customers amounted to PLN 161.3 billion and was nearly PLN 3.5 billion (or 2.2%) higher than as at the beginning of the year. After eliminating the effect of IFRS 9 implementation, the increase amounted to approx. PLN 2 billion (or 1.3%).

This was mainly due to an increase in the portfolio of mortgage loans in PLN and the portfolio of receivables of small and medium enterprises (mainly lease receivables). The lease receivables in the small and medium enterprises segment amounted to PLN 8.8 billion and they were approx. 4% higher than as at the beginning of the current year.



As at 31 March 2018, the savings of the retail segment customers amounted to PLN 198 billion and since the beginning of the year their volume increased by PLN 3.5 billion (or 1.8%). This increase was due to both an increase in the deposit volumes and an increase in the savings in investment funds.

As at the end of the first quarter of 2018, retail and private banking deposits amounted to PLN 168 billion and their balance was PLN 1.3 billion (or 0.8%) higher than as at the beginning of the year, which was due to an increase in current deposits, which was accompanied by a decrease in term deposits.



ACTIONS TAKEN IN THE FIRST QUARTER OF 2018

In the first quarter of 2018, the PKO Bank Polski SA Group:

- in the area of housing loans:
  - granted loans to individuals totalling approx. PLN 3.3 billion, which gave it first place in the market with a share of 26.5%;
  - granted more than 1.5 thousand loans totalling PLN 0.3 billion as part of the "Mieszkanie dla Młodych" programme;

  - offered Własny Kąt Hipoteczny loans on preferential terms (i.e. at a margin 0.50 pp lower than the standard rate) to customers who did not obtain financing under the "Mieszkanie dla Młodych" programme due to a shortage of funds;
- in the area of consumer loans:
  - launched the sales of a cash loan with a real annual interest rate of 3.46%, repayable in 9 instalments, addressed to customers with no previous relationship with the Bank or those who want to transfer the repayment of their loans and advances to PKO Bank Polski SA;
  - extended a special temporary offer of a cash loan dedicated to customers having no other cash loans with the Bank, characterized by a 0% commission for granting the loan;
  - provided a simplified form of documenting income for the purposes of receiving a cash loan (based on a PIT form);
- in the area of insurance products:
  - introduced an insurance package for Platinum and Infinite credit card holders;
  - introduced a package of accident insurance and concierge services for Platinium II account holders;
  - sold insurance policies totalling more than PLN 230 million to the Bank's customers;
- in the area of financing small and medium enterprises:
  - remained the largest lender among the 21 banks granting loans with de minimis guarantees with a market share of 20.3%;[4] it maintained its position of sales leader in each consecutive year. The guarantees granted by the Bank totalled approx. PLN 9.6 billion;
  - had granted loans as part of the "Portfelowa Linia Gwarancyjna COSME" (COSME Portfolio Guarantee Line) in excess of PLN 272 million and guarantees totalling PLN 217 million;
  - started selling guarantees under the Guarantee Fund of the "Inteligentny Rozwój" Operational Programme (FG POIR) for small- and medium-sized enterprises and corporate customers;
- in the area of transactions and savings:
  - strengthened its leading position on the market in terms of the number of current accounts maintained, which amounted to 7.2 million and increased by 279 thousand during the year;
  - provided the possibility of registering a business and opening a business account on the iPKO online platform. The firm's registration is confirmed and the account is opened through a Trusted Profile, and during the registration the customer applies for entry in the REGON register, files for the tax identification number (NIP) and registers as a payer of social insurance contributions with the ZUS;
  - on 3 January 2018, launched the sales of participation units in a new open-ended umbrella fund PKO Portfele Inwestycyjne with the following sub-funds: PKO Bursztynowy, PKO Szafirowy, PKO Rubinowy, PKO Szmaragdowy and PKO Diamentowy;
  - has sold more than 29 million Treasury bonds since the beginning of 2018;
  - launched a foreign exchange function within the iPKO online platform (eKANTOR) for retail customers. In less than two and a half months, more than 24 thousand agreements were signed and transactions totalling approx. PLN 200 million were executed. The online foreign exchange platform makes it possible to conclude transactions on 28 currency pairs consisting of the following currencies: American dollar, Swiss franc, euro, pound sterling, Swedish krona, Norwegian and Danish krone.

4.1.2. CORPORATE AND INVESTMENT SEGMENT

The segment's customers Business volumes after the first quarter of 2018 Actions taken in the first quarter of 2018

Due to the implementation of new management standards in the corporate sales network, the PKO Bank Polski SA Group consistently developed its cooperation with customers and extended its scope based on a wide range of products offered.

The Bank's customers interested in international expansion may use a wide range of products and services offered by the Bank's foreign branches, such as: transactional banking products (including international cash pooling), e-banking, treasury products, trade finance and corporate loans.

[5] According to data provided by the Sureties and Guarantees Centre of Bank Gospodarstwa Krajowego as at 31 March 2018.

THE SEGMENT'S CUSTOMERS

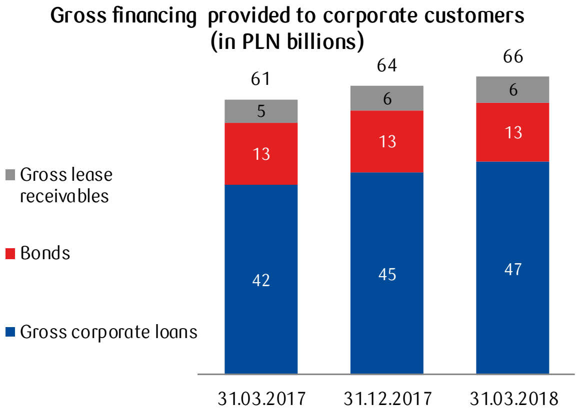
As at the end of March 2018, the Corporate and Investment Segment provided services to more than 15 thousand customers, including:

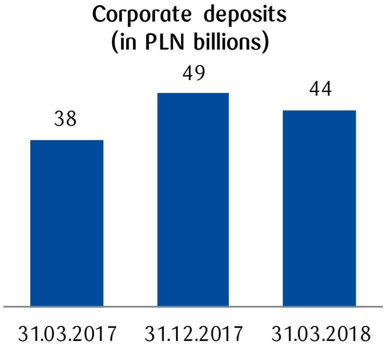
- 9.9 thousand corporate customers,
- more than 0.6 thousand foreign customers,
- more than 4.6 thousand local government entities and central government institutions, including other public entities and related entities.

Since the beginning of 2018, the number of the segment's customers increased by 0.3 thousand.

BUSINESS VOLUMES AFTER THE FIRST QUARTER OF 2018

As at 31 March 2018, total gross financing provided to corporate customers amounted to PLN 65.6 billion, which represents an increase of PLN 2.0 billion (or 3.1%) from the beginning of the year; after eliminating the effect of IFRS 9 implementation, the increase amounts to approx. PLN 1.3 billion (or 2.1%). The increase in the portfolio of amounts due from corporate customers in relation to the same period of the previous year amounted to 8.1%.





The balance of corporate customers' deposits as at the end of March 2018 exceeded PLN 44.4 billion (a decrease of PLN 4.1 billion, or 8.5%, since the beginning of the year in connection with current liquidity management). In relation to the same period of the previous year, corporate deposits increased by PLN 6.4 billion (or 16.9%).

ACTIONS TAKEN IN THE FIRST QUARTER OF 2018

In the first quarter of 2018, the PKO Bank Polski SA Group:

- in the area of customer service and transaction banking:
  - won a tender for providing services to the City of Olsztyn and continuing to provide services to the City of Gdynia, which confirmed its position of the unquestionable leader in providing services to local governments;
  - developed the Export Support Platform, which has been in operation since the fourth quarter of 2017 and enjoys growing interest among entrepreneurs. The Export Experts had a number of meetings with firms and informed them about the support offered by PKO Bank Polski SA for the development of their international operations, as part of its product and analytical offer;
  - held customers' assets amounting to PLN 119.9 billion on escrow accounts (this amount was approx. 62% higher than in the same period of the previous year);
  - provided corporate customers with an innovative tool for creating loyalty programmes ZenCard – a technology for organizing promotional and discount campaigns at sales and service outlets with the use of a bank card and a point of sales terminal only;
- in the area of providing financing to corporate customers – financed corporate customers, both on its own and as a significant participant in the consortia of banks. As part of its standard offer, the Bank provided the following loans acting as part of a consortium of banks and organized the following bond issues:
  - seven loan agreements provided by banking consortia totalling PLN 9.2 billion, with the Bank's share of PLN 2.3 billion, and two annexes to previously signed agreements totalling PLN 12.1 billion, with the Bank's share of PLN 1.8 billion;
  - two agreements for the organization of corporate bond issues without a guarantee of closing the issue amounting to PLN 1 billion and a limit for the acquisition of non-Treasury debt securities of PLN 0.2 billion;

  - eight agreements for municipal bond issues and annexes extending the period of availability of the programme totalling PLN 0.1 billion;
- in the area of brokerage activities (the PKO Bank Polski SA Brokerage House):
  - maintained its high level of activity on the secondary market of shares and bonds. The amount of turnover on shares amounted to nearly PLN 10 billion, which represented 8.6% of the total turnover on the market and gave the Brokerage House second place among brokerage houses;
  - in the area of option transactions, it took first place on the market with a share of 26%;
  - was active on the primary market and participated in the following transactions:
    - the initial public offering of the shares of Novaturas AB amounting to PLN 93 million;
    - the offer of sale of BZ WBK SA shares (under the accelerated book building procedure) amounting to PLN 456 million;
    - the purchase of Synthos SA shares – the transaction amounted to nearly PLN 400 million;
    - the sale of shares of Zespół Elektrociepłowni Wrocławskich KOGENERACJA SA (organization of calls) – the operation amounted to PLN 93 million;
    - the sale of shares of Tarczyński SA (organization of calls) – the transaction amount exceeded PLN 21 million;
    - organization of a bond issue for Best SA amounting to PLN 30 million;
  - maintained 133 thousand securities accounts and cash accounts, and 189 thousand registration accounts. In terms of the number of securities accounts (according to KDPW data) the Brokerage House ranks fourth on the market which has 40 participants.

4.2. Market position of the PKO Bank Polski SA Group

As at the end of March 2018, the Bank remained the leader of the loan market and the deposit market (in terms of the market share). The Group companies occupied leading and prominent positions in various sectors of the financial services market as well.

The share of PKO Bank Polski SA (together with PKO Bank Hipoteczny SA) in the loan market was 17.6% (slightly below the level recorded as at the end of 2017). The share in the deposit market was 17.1% (a decrease of 0.8 p.p. in relation to the end of 2017).

The PKO Bank Polski SA Group constantly increases its share in the market of non-dedicated investment funds, which as at the end of March 2018 amounted to 18% and was 0.8 p.p. higher than as at the end of 2017.

Table 3. Market shares

	31.03.2018	31.12.2017	31.03.2017	Change since:	
				31.12.2017	31.03.2017
Loans:*	**17,6%**	**17,7%**	**17,7%**	**-0,1 p.p.**	**-0,1 p.p.**
granted to private individuals, of which:	22,9%	23,0%	22,9%	-0,1 p.p.	0,0 p.p.
housing	26,0%	26,1%	25,8%	-0,1 p.p.	0,2 p.p.
PLN	28,4%	28,6%	28,6%	-0,2 p.p.	-0,2 p.p.
foreign currency	21,1%	21,2%	21,4%	-0,1 p.p.	-0,3 p.p.
consumer and other	15,8%	15,9%	15,8%	-0,1 p.p.	0,0 p.p.
overdrafts	31,3%	32,0%	31,7%	-0,7 p.p.	-0,4 p.p.
instalment and other	14,8%	14,9%	14,8%	-0,1 p.p.	0,0 p.p.
granted to institutional entities	12,8%	12,8%	12,7%	0,0 p.p.	0,1 p.p.
Deposits:	**17,1%**	**17,9%**	**17,3%**	**-0,8 p.p.**	**-0,2 p.p.**
of private individuals	20,2%	20,4%	20,8%	-0,2 p.p.	-0,6 p.p.
of institutional entities	12,9%	14,5%	12,4%	-1,6 p.p.	0,5 p.p.
Leasing	**11,9%**	**12,0%**	**12,8%**	**-0,1 p.p.**	**-0,9 p.p.**
TFI assets					
non-dedicated funds	**18,0%**	**17,2%**	**14,2%**	0,8 p.p.	3,8 p.p.
Non-Treasury debt securities (value of debt)	**29,9%**	**29,3%**	**29,3%**	**0,6 p.p.**	**0,6 p.p.**
Brokerage activities					
trading on the secondary market	8,6%	14,7%	9,9%	-6,1 p.p.	-1,3 p.p.

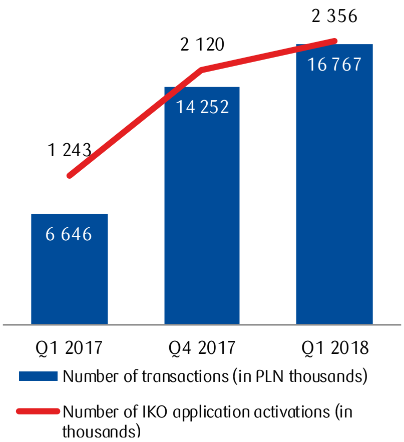
4.3. DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking Electronic banking Network of branches and agencies

IKO MOBILE BANKING

IKO is the most popular and most developed mobile payment system in Poland. it combines the mobile banking function with the mobile payment function. The number of IKO activations exceeded 2.3 million. New functionalities are constantly added to the application. The changes transformed IKO from a mobile payment and withdrawal application into a "bank in a telephone" and an important sales channel.

In March 2018, IKO took first place in a ranking of mobile applications of the 100 largest banks in the world, published by Retail Banker International. The ranking is based on the customers' opinions collected in the shops with applications on iOS and Android. With an overall score of 4.8/5 and nearly 150 thousand opinions, IKO left the other banks from all parts of the world behind. In addition, it was the only Polish mobile banking application included in the ranking.



The Polish mobile payment standard BLIK was based on the IKO payment function. BLIK is a universal form of payments and cash withdrawals from ATMs without using a cash or credit card, created together with partner banks and the NCH.

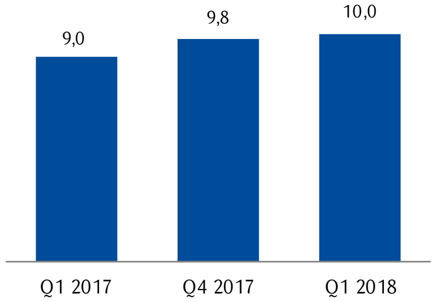
As part of mobile banking, PKO Bank Polski SA:

- provides the youngest customers (up to 13 years of age) with access to the account in the form of a mobile application PKO Junior;
- provides the customers using the Płacę z iPKO method with an option of authorizing transactions by entering a BLIK code generated in the IKO application.

ELECTRONIC BANKING

Retail customers may use a package of electronic banking services as part of the iPKO platform. The e-banking platform for small and medium enterprises is known as iPKO Biznes. Using such services gives the customers access to information about accounts and products and allows them to conclude transactions through the Internet, self-service terminals and telephone. As at the end of the first quarter of 2018, 10.0 million customers had access to iPKO, and 11.8 thousand customers used iPKO Biznes.

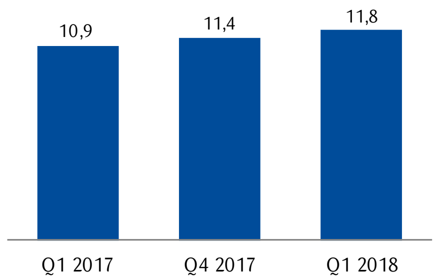
Number of retail segment customers with access to iPKO (in millions)



The Bank added the following new products and services to its offer in 2018:

- the possibility of requesting selected documents and downloading them from the iPKO platform, appointing and dismissing an attorney and making orders associated with a cash loan, concerning a partial early repayment, change of instalment repayment date or change of account for repayment purposes;
- the possibility of registering a business in the Central Registration and Information on Business with the use of e-banking;
- an online foreign exchange platform;
- a multi-linguistic online banking platform iPKO biznes for the customers of the foreign branches, replacing the previously offered eConnect e-banking platform.

Number of corporate segment customers with access to iPKO Biznes (in thousands)



NETWORK OF BRANCHES AND AGENCIES

As at 31 March 2018, the PKO Bank Polski SA retail network consisted of 1,124 branches organized into 11 regional branches and 8 retail banking offices. Compared to the end of 2017, the total number of retail branches decreased by eight.

Table 4. Retail branches and ATMs of PKO Bank Polski SA

	31.03.2018	31.12.2017	31.03.2017	Change since:	
				31.12.2017	31.03.2017
Number of branches in the retail segment	**1 143**	**1 151**	**1 190**	**-8**	**-47**
regional retail branches	11	11	11	0	0
retail branches	1 124	1 132	1 171	-8	-47
private banking branches	8	8	8	0	0
Number of ATMs	**3 179**	**3 190**	**3 196**	**-11**	**-17**
Number of agencies	**712**	**745**	**819**	**-33**	**-107**

The corporate segment's sales network consists of 32 Regional Corporate Centres organized into seven Regional Corporate Branches, as well as the branches located in the Federal Republic of Germany and the Czech Republic.

Table 5. Corporate and investment branches of PKO Bank Polski SA

	31.03.2018	31.12.2017	31.03.2017	Change since:	
				31.12.2017	31.03.2017
Number of branches in the corporate and investment segment:	41	41	40	0	1
regional corporate branches	7	7	7	0	0
regional corporate centres	32	32	32	0	0
foreign branches	2	2	1	0	1

4.4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP COMPANIES

PKO BANK HIPOTECZNY SA

PKO Bank Hipoteczny SA is the leader of the Polish market of mortgage banks in terms of total assets and the balance of mortgage loans. The Company is also the biggest and most active issuer of mortgage bonds in Poland.

PKO Bank Hipoteczny SA specializes in granting housing mortgage loans for individuals. It also purchases receivables under such loans from PKO Bank Polski SA. It acquires loans for its portfolio on the basis of strategic cooperation with PKO Bank Polski SA.

In the first quarter of 2018, under the Framework Agreement for the Sale of Receivables signed in 2015 with PKO Bank Polski SA, PKO Bank Hipoteczny SA acquired housing loans portfolios secured with mortgages totalling PLN 0.25 billion. The total value of the gross loan portfolio of PKO Bank Hipoteczny SA as at 31 March 2018 amounted to PLN 16.8 billion, including housing loans secured with mortgages acquired under the agreement with PKO Bank Polski SA amounting to PLN 10.8 billion.

The main objective of the Company is issuing covered bonds, which are meant to be the main source of long-term financing of loans secured with real estate. Such issues are performed as part of the national and international programme. The covered bonds are issued exclusively on the basis of housing loans in PLN, which comply with the conservative criteria regarding both the assessment of the borrower's creditworthiness and the valuation of mortgaged property.

In the first quarter of 2018, the Company conducted one foreign issue of covered bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 500 million. The issue was conducted as part of the International Covered Bond Issue Programme, which is addressed to the European market and launched based on the Base Prospectus whose update was approved by Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg in September 2017 and a supplement thereto – in March 2018.

The total value of covered bonds issued by PKO Bank Hipoteczny SA and outstanding (at nominal value) as at the end of March 2018 amounted to PLN 11.0 billion.

Covered bonds of PKO Bank Hipoteczny SA (both in PLN and in EUR) have been assigned a long-term rating Aa3 by Moody's Investors Service. PKO Bank Hipoteczny SA is the only Polish issuer of covered bonds whose covered bond issue programmes obtained such a high score. The rating they have obtained is the highest possible rating available to Polish securities. It is limited by Poland's country ceiling for debt instruments, which currently amounts to Aa3.

PKO Bank Hipoteczny SA was the first issuer of covered bonds from Poland to join The Covered Bond Label in February 2018. It is a quality certificate, which is aimed at building awareness of the security and high quality of covered bonds among investors. The uniform principles applied to

	define the quality of such assets allow the investors worldwide to compare the covered bonds of issuers from different countries.
PKO Towarzystwo Funduszy Inwestycyjnych SA	The net asset value of funds managed by the company as at the end of March 2018 was PLN 27.4 billion, i.e. it was 7.7% higher than as at the end of 2017. The increase in the net asset value was mainly due to net profit from sales and the net result on asset management. PKO Bank Polski SA is the main distributor of participation units. PKO Towarzystwo Funduszy Inwestycyjnych SA is ranked second in terms of the net asset value, with a 9.5% share in the market of investment funds, and first in terms of the value of non-dedicated funds' assets managed with a 16.5% market share*. If the net assets of GAMMA Towarzystwo Funduszy Inwestycyjnych SA (a Bank Group company, whose business combination with PKO TFI SA is planned) are taken into account, the combined market share of the investment funds of both companies in terms of the net asset value was 11.0%, and their share in the non-dedicated funds' assets managed was 18.0%*. As at 31 March 2018, PKO TFI SA managed 47 investment funds and sub-funds. In the first quarter of 2018, the Company carried out one issue of investment certificates of closed-ended investment funds, in which it raised assets with a total value of PLN 17.9 million. * *Source: The Chamber of Fund and Asset Managers (Izba Zarządzających Funduszami i Aktywami).*
PKO BP BANKOWY PTE SA	As at the end of March 2018, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 7.5 billion, representing a 7.5% decrease in relation to the balance as at the end of 2017. The decrease in the net asset value was mainly due to the situation on the Warsaw Stock Exchange. PKO BP Bankowy OFE had more than 920 thousand participants as at the end of March 2018. PKO BP Bankowy OFE is ranked ninth on the pension fund market in terms of the net asset value and the number of participants*. According to the Polish Financial Supervision Authority ranking, PKO BP Bankowy OFE achieved a rate of return of 12.500% for the period from 31 March 2015 to 30 March 2018, compared with the weighted average rate of return for all funds of 11.424% (third place among the pension funds operating on the market). * Source: www.knf.gov.pl
The PKO Leasing SA Group	**Leasing activities:** In the first quarter of 2018, the lease companies of the PKO Leasing SA Group financed fixed assets with a total value of PLN 2.2 billion, which represents a 15.2% increase compared with the same period of 2017. The change is due to the sales campaigns carried out, which effectively diversified the portfolio. Big increases in financing in the segment of plant and machinery and in the area of fleet management should be noted. As at the end of March 2018, the combined carrying value of amounts due from customers for financing of fixed assets (both due and not yet due) and carrying value of fixed assets leased by the PKO Leasing SA Group under operating lease agreements was PLN 15.5 billion. As at the end of March 2017, the carrying value was PLN 13.0 billion. In terms of the value of funds provided to the customers in the first quarter of 2018 for the financing of fixed assets, the PKO Leasing SA Group occupied first position on the lease market with a market share of 11.9%*. * *Source: The Polish Leasing Association* **Factoring activities:** In the first quarter of 2018, PKO Faktoring SA provided domestic and export factoring services without recourse and with recourse, reverse factoring and factoring schemes for suppliers. In the first quarter of 2018, the factoring turnover amounted to PLN 3.8 billion (in the same period of 2017, the Company's turnover amounted to PLN 2.8 billion); the number of customers as at the end of March 2018 was 533. As at 31 March 2018, PKO Faktoring SA was ranked ninth among factoring firms belonging to the Polish Factors Association, with a market share of 7.1%.
The PKO Życie Towarzystwo Ubezpieczeń SA Group	The scope of activities of PKO Życie Towarzystwo Ubezpieczeń SA comprises insurance activities in the area of the first category of insurance - life insurance. PKO Życie Towarzystwo Ubezpieczeń SA offers a wide range of insurance products. The company focuses on insuring the life and health of its customers. It offers independent products and products supplementing the bank products offered by PKO Bank Polski SA.

	Gross written premiums under the insurance contracts concluded by the Company in the first quarter of 2018 amounted to PLN 103.3 million compared to PLN 115.5 million in the first quarter of 2017. As at the end of March 2018, the Company insured 738 thousand persons (674 thousand persons at the end of March 2017).
PKO Towarzystwo Ubezpieczeń SA	The Company's business activities comprise non-life insurance (category II of insurance). PKO Towarzystwo Ubezpieczeń SA focuses on insuring the risks of a loss of income, the outcome of accidents and illness, as well as on insuring real estate for borrowers and mortgage borrowers. The Company offers a wide range of insurance products addressed to the customers of the Bank and other entities that belong to the Bank's Group. Gross written premiums under the insurance contracts concluded by the Company in the first quarter of 2018 amounted to PLN 117.3 million compared to PLN 107.5 million in the first quarter of 2017. As at the end of March 2018, the Company insured more than 642 thousand persons (414 thousand persons as at the end of March 2017).
The KREDOBANK SA Group (data according to the IFRS)	The loan portfolio of the KREDOBANK SA Group (gross) increased by UAH 341 million, or 3.9%, in the first quarter of 2018 and as at 31 March 2018 it amounted to UAH 9,193 million (the gross loan portfolio as at the end of March 2018 expressed in PLN amounted to PLN 1,193 million). The increase in the value of the loan portfolio in UAH is mainly due to an increase in the sales of new loans. In the first quarter of 2018, term deposits of KREDOBANK SA Group customers decreased by UAH 259 million, i.e. by 5.1%, and amounted to UAH 4,874 million as at 31 March 2018 (term deposits expressed in PLN as at the end of March 2018 amounted to PLN 633 million). The decrease in deposits in UAH is due to a decrease in the amount of term deposits of large business entities. As at 31 March 2018, the network of KREDOBANK SA branches comprised the Head Office in Lviv and 102 branches in 22 out of 24 Ukrainian districts; the number of KREDOBANK SA branches did not change in the first quarter of 2018.
The PKO BP Finat Sp. z o.o. Group	As of December 2017, the PKO BP Finat Sp. z o.o. Group includes KBC Towarzystwo Funduszy Inwestycyjnych SA and Net Fund Administration Sp. z o.o. The following changes occurred in the first quarter of 2018: - the Company KBC Towarzystwo Funduszy Inwestycyjnych SA changed its name to GAMMA Towarzystwo Funduszy Inwestycyjnych SA (GAMMA TFI SA); - the Company Net Fund Administration Sp. z o.o. became a direct subsidiary of PKO BP Finat Sp. z o.o. The net asset value of the funds managed by GAMMA TFI SA as at the end of March 2018 amounted to PLN 4.3 billion. As at 31 March 2018, the Company managed 21 investment funds and sub-funds.

4.5. PRIZES AND AWARDS

In the first quarter of 2018, the PKO Bank Polski SA Group received numerous prizes and awards, the most important of which are the following:

IKO - the best mobile application in the world	In March 2018, IKO took the first place in a ranking of mobile applications offered by the biggest 100 banks in the world, published by Retail Banker International. The ranking is based on scores given by the customers of application stores on iOS and Android. Having scored 4.8/5 based on nearly 150 thousand opinions, IKO left the other banks from all parts of the world behind. In addition, it was the only Polish mobile banking application included in the ranking.
Mobile Banking Leader	PKO Bank Polski SA once again became the unquestionable mobile banking leader according to the report of the PR News portal for the fourth quarter of 2017. Its position was driven by: almost 2.3 million customers using the bank's services on mobile devices (IKO, the "light" version, and the full version of the platform - iPKO), almost 1.3 million customers who log into the IKO application at least once a month, 14 million mobile transactions in the fourth quarter of 2017.
The Most Valuable Financial Brand	PKO Bank Polski SA is the most expensive brand in the Polish financial sector. The Bank's brand was valued at PLN 2.7 billion in the 14th edition of the Rzeczpospolita daily Most Valuable Polish Brands Ranking 2017. The Bank is the third most valuable brand in Poland.

PKO Bank Polski SA received the Ethical Firm title	PKO Bank Polski SA received an award in the fourth edition of the Ethical Firm competition for fair and transparent business practices consistent with the principles of corporate social responsibility.
Broker of the Year 2017	The Warsaw Stock Exchange awarded the Broker of the Year 2017 prize to the Brokerage House of PKO Bank Polski SA for the organization of initial public offerings of shares with the biggest combined value in 2017 and the biggest share in the sales of shares (excluding market maker's transactions) on the Main Market. At the same time, PKO Bank Polski SA received an award for the highest value of non-Treasury debt instruments issued on the Catalyst market and the highest value of OTC transactions settled at KDPW_CCP. PKO BP Finat Sp. z o.o. received an award for the biggest increase in the value of orders for the WSE and BondSpot information products.
Bulls and Bears for the Brokerage House of PKO Bank Polski SA	The Brokerage House of PKO Bank Polski SA received the Bull and Bear statuette for the best brokerage house in the 24th edition of the Bulls and Bears competition organized by the WSE journal *Parkiet*. The Brokerage House won due to the fact that it organized the two biggest IPO's last year, i.e. Play Communications and Dino, and due to its activities on the secondary market.
The Best Stock Market Analysts	The Brokerage House of PKO Bank Polski SA won the sixteenth edition of the ranking of stock market analysts prepared by the WSE journal *Parkiet*.
The best economic analyses team	The economic analyses team of PKO Bank Polski SA won the 2017 macroeconomic forecasts ranking prepared by the WSE journal *Parkiet*. Its forecasts proved more accurate than those of its 20 competitors.
The most interesting start-up - ZenCard	The e-Dukat 2017 competition jury considered ZenCard Sp. z o.o., a fintech company of the PKO Bank Polski SA Group, the most interesting start-up in the area of cashless payments and rewarded it with the e-Dukat statuette.
Alfa Prize for the PKO Skarbowy sub-fund	PKO Skarbowy, a PKO TFI SA sub-fund, received the Alfa prize in the Bestseller category. This prize is given to retail open-ended investment funds, which in the past year enjoyed the biggest popularity measured in terms of net inflows. The Alfa prize is given by the company Analizy Online. Its aim is to draw attention to the products that give customers above-average rates of return adjusted for the level of risk incurred (compared to the peer group).
High positions of KREDOBANK SA in the rankings in Ukraine	In 2018, KREDOBANK SA occupied high positions in various rankings in Ukraine, including: – first place in the following categories: mortgage loans for the purchase of real estate on the secondary market, blank overdrafts and "Standard on-line" deposits for corporate customers; and third place in the "best settlement and cash service offered in 2017" category in the ranking of the best bank products "Prostobank Awards-2017"; – second place in the reliability ranking of large retail banks in Ukraine according to the magazine *Hroszi*.

Bank Polski

Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the three-month period ended 31 March 2018

Report publication date:
22 May 2018

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CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	01.01-31.03.2018	01.01-31.03.2017
Interest and similar income	9	2 750	2 620
Interest expenses and similar charges	9	(532)	(574)
Net interest income		**2 218**	**2 046**
Fee and commission income	10	972	929
Fee and commission expense	10	(235)	(219)
Net fee and commission income		**737**	**710**
Dividend income		-	-
Net gain/(loss) on financial instruments measured at fair value through profit or loss	11	17	19
Gain/(loss) on investment securities	13		5
Net foreign exchange gains/(losses)	14	104	116
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	12	37	
Net income/(expense) on modification	15	(2)	
Net expected credit losses, impairment allowances and provisions	17	(336)	(391)
Other operating income	16	157	115
Other operating expenses	16	(55)	(39)
Net other operating income and expense		**102**	**76**
Administrative expenses	18	(1 579)	(1 563)
Tax on certain financial institutions	19	(228)	(233)
Operating profit/(loss)		**1 070**	**785**
Shares in profits (losses) of associates and jointly controlled entities		6	5
Profit before tax		**1 076**	**790**
Income tax expense	20	(320)	(262)
Net profit (including non-controlling shareholders)		756	528
Profit (loss) attributable to non-controlling shareholders		(1)	3
Net profit attributable to equity holders of the parent company		**757**	**525**
Earnings per share	21		
– basic earnings per share for the period (PLN)		0,61	0,42
– diluted earnings per share for the period (PLN)		0,61	0,42
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	01.01-31.03.2018	01.01-31.03.2017
Net profit (including non-controlling shareholders)		**756**	**528**
Other comprehensive income		**190**	**239**
Items which may be reclassified to profit or loss		**190**	**239**
Cash flow hedges (gross)	24	(51)	21
Deferred income tax	20	10	(5)
Cash flow hedges (net)	24	(41)	16
Unrealized net gains on available-for-sale financial assets (gross)			285
Deferred income tax	20		(51)
Unrealized net gains on available-for-sale financial assets (net)			234
Fair value of financial assets measured at at fair value through other comprehensive income (gross)		299	
Gains /losses transferred to the profit or loss (on disposal)		(29)	
Deferred income tax		(51)	
Fair value of financial assets measured at fair value through other comprehensive income (net)		219	
Foreign exchange differences on translation of foreign branches		10	(9)
Share in other comprehensive income of associates and joint ventures		2	(2)
Total net comprehensive income		**946**	**767**
Total net comprehensive income, of which attributable to:		946	767
Equity holders of PKO Bank Polski SA		947	764
non-controlling shareholders		(1)	3

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31.03.2018	31.12.2017
ASSETS			
Cash and balances with Central Bank	22	16 268	17 810
Amounts due from banks	23	3 764	5 233
- not held for trading, mandatorily measured at fair value through profit or loss		1	
- at fair value through OCI		-	
- measured at amortized cost		3 763	5 233
hedging derivatives	24	772	887
Other derivative instruments	25	1 543	1 711
Securities	26	57 824	54 075
- held for trading		1 593	431
- financial instruments designated at fair value through profit or loss upon initial recognition			8 157
- available-for-sale investment securities			43 675
- investment securities held to maturity			1 812
- not held for trading, mandatorily measured at fair value through profit or loss		4 177	
- designated at fair value through profit or loss (FVO)		-	
- at fair value through OCI		44 985	
- measured at amortized cost		7 069	
Loans and advances to customers	27	202 788	205 628
- not held for trading, mandatorily measured at fair value through profit or loss		1 032	
- at fair value through OCI		-	
- measured at amortized cost		201 756	205 628
Investments in associates and joint ventures	43	369	393
Non-current assets held for sale	30	135	138
Intangible assets	31	3 161	3 242
Property, plant and equipment	31	2 874	2 915
Current income tax receivable		2	2
Deferred income tax asset		1 900	1 767
Other assets	32	3 695	3 111
TOTAL ASSETS		**295 095**	**296 912**

	Note	31.03.2018	31.12.2017
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to the Central Bank		5	6
Amounts due to banks	33	1 866	4 558
- measured at fair value through profit or loss		-	
- measured at amortized cost		1 866	4 558
hedging derivatives	24	239	204
Other derivative instruments	25	1 994	2 536
Amounts due to customers	34	218 715	220 614
- measured at fair value through profit or loss		-	
- measured at amortized cost		218 715	220 614
Liabilities in respect of insurance activities	36	1 257	1 185
Debt securities in issue	37	26 267	23 932
- measured at fair value through profit or loss		-	-
- measured at amortized cost		26 267	23 932
Subordinated liabilities	38	2 707	1 720
Other liabilities	39	4 525	5 062
Current income tax liabilities		641	588
Deferred income tax provision		33	36
Provisions	40	289	215
TOTAL LIABILITIES		**258 538**	**260 656**
Equity	41		
Share capital		1 250	1 250
Other capital		32 142	31 979
Retained earnings		2 420	(66)
Net profit or loss for the year		757	3 104
Capital and reserves attributable to equity holders of the parent company		36 569	36 267
Non-controlling interests		(12)	(11)
TOTAL EQUITY		**36 557**	**36 256**
TOTAL LIABILITIES AND EQUITY		**295 095**	**296 912**
Total capital adequacy ratio	63	17,78%	17,37%
Book value (in PLN million)		36 557	36 256
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		29,25	29,00
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		29,25	29,00

(IN PLN MILLION)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

For 3 months ended 31 March 2018	Share capital	Other capital						Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Non-controlling interests		Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves								
		Supplementary capital	General banking risk fund	Other reserves							Accumulated other comprehensive income	Other		
As at 31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979		(66)	3 104	36 267	(11)	-	(11)	36 256
Changes due to IFRS 9 implementation	-	-	-	-	(78)	(78)		(567)	-	(645)	-	-	-	(645)
1 January 2018 (restated)	1 250	27 374	1 070	3 645	(188)	31 901		(633)	3 104	35 622	(11)	-	(11)	35 611
Transfer from retained earnings	-	-	-	-	-	-		3 104	(3 104)	-	-	-	-	-
Total comprehensive income, of which:	-	-	-	-	190	190		-	757	947	(1)	-	(1)	946
Net profit	-	-	-	-	-	-		-	757	757	(1)	-	(1)	756
Other comprehensive income	-	-	-	-	190	190		-	-	190		-	-	190
Transfer from net profit to capital	-	51	-	-	-	51		(51)	-	-	-	-	-	-
As at 31 March 2018	1 250	27 425	1 070	3 645	2	32 142		2 420	757	36 569	(12)	-	(12)	36 557

For 3 months ended 31 March 2017	Share capital	Other capital						Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Non-controlling interests		Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital and reserves								
		Supplementary capital	General banking risk fund	Other reserves							Accumulated other comprehensive income	Other		
As at 01 January 2017	1 250	24 491	1 070	3 608	(689)	28 480		(19)	2 874	32 585	(16)	-	(16)	32 569
Transfer from retained earnings	-	-	-	-	-	-		2 874	(2 874)	-	-	-	-	-
Total comprehensive income, of which:	-	-	-	-	239	239		-	525	764	3	-	3	767
Net profit	-	-	-	-	-	-		-	525	525	3	-	3	528
Other comprehensive income	-	-	-	-	239	239		-	-	239	-	-	-	239
As at 31 March 2017	1 250	24 491	1 070	3 608	(450)	28 719		2 855	525	33 349	(13)	-	(13)	33 336

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01-31.03.2018	01.01-31.03.2017
Cash flows from operating activities			
Profit before income tax		**1 076**	**790**
Total adjustments:		**(6 937)**	**1 031**
Depreciation and amortization		206	209
(Gains)/losses on investing activities		(6)	2
Interest and dividends		(8)	30
Change in:			
amounts due from banks		2 609	343
hedging derivatives		150	(427)
other derivatives		(386)	187
securities		(1 308)	990
loans and advances to customers		(2 686)	(113)
non-current assets held for sale		3	5
other assets, including inventories		(569)	(219)
net expected credit losses, impairment allowances and provisions		348	132
amounts due to the Central Bank		(1)	-
amounts due to banks		(2 692)	(814)
amounts due to customers		(1 787)	2 128
liabilities in respect of insurance activities		72	61
debt securities in issue		(13)	(743)
subordinated liabilities		(13)	(52)
other liabilities		(537)	(210)
Income tax paid		(283)	(484)
Other adjustments		(36)	6
Net cash from/used in operating activities		**(5 861)**	**1 821**

(IN PLN MILLION)

	Note	01.01-31.03.2018	01.01-31.03.2017
Cash flows from investing activities			
Inflows from investing activities		**101 489**	**2 332**
Proceeds from sale of and interest on investment securities		101 433	2 317
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		46	15
Other inflows from investing activities (dividends)		10	-
Outflows from investing activities		**(99 034)**	**(4 953)**
Purchase of a subsidiary, net of cash acquired		-	(14)
Purchase of investment securities		(98 924)	(4 865)
Purchase of intangible assets and property, plant and equipment		(110)	(74)
Net cash from/used in investing activities		**2 455**	**(2 621)**

	Note	01.01-31.03.2018	01.01-31.03.2017
Cash flows from financing activities			
Proceeds from debt securities in issue		3 844	3 719
Redemption of debt securities		(1 496)	(921)
Proceeds from issue of subordinated bonds		1 000	-
Taking up loans and advances		-	88
Repayment of loans and advances		(2 722)	(498)
Repayment of interest on long-term borrowings		(233)	(169)
Net cash from financing activities		**393**	**2 219**
Total net cash flows		**(3 013)**	**1 419**
of which foreign exchange differences on cash and cash equivalents		10	(206)
Cash equivalents at the beginning of the reporting period		23 000	17 966
Cash equivalents at the end of the reporting period	49	19 987	19 385

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP AND THE BANK

BUSINESS ACTIVITIES OF THE GROUP AND THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO Bank Polski" SA or "the Bank") was established in 1919 as Pocztowa Kasa Oszczędnościowa. In 1950, the Bank started operating as Powszechna Kasa Oszczędności Bank Państwowy (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 as amended), 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, ul. Puławska 15, 02-515 Warsaw, Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Commercial Register maintained by the District Court for the City of Warsaw, Commercial Court, 16th Registration Department. At present, the court competent for the Bank's affairs is the District Court in Warsaw, 13th Business Department of the National Court Register. The Bank was registered under the number KRS 0000026438 and was assigned the statistical number REGON 016298263.

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

The Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group ("the PKO Bank Polski SA Group", "the Bank's Group", "the Group") conducts its operations within the territory of the Republic of Poland and through subsidiaries in Ukraine, Sweden and Ireland; it also has branches in the Federal Republic of Germany ("the German Branch") and in the Czech Republic ("the Czech Branch").

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

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

The composition of the Group and scope of operations of its entities are presented in the note "Structure of the PKO Bank Polski SA Group and the scope of activities of the Group entities".

(IN PLN MILLION)

INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD OF THE BANK

As at 31 March 2018, the Bank's Supervisory Board consisted of:

No.	Name	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	appointed to the Supervisory Board on 25 February 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. The entity, authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Piotr Sadownik Chairman of the Supervisory Board. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. The entity, authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Piotr Sadownik Chairman of the Supervisory Board.
2.	Grażyna Ciurzyńska	Vice-Chair of the Supervisory Board	appointed to the Supervisory Board on 30 June 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. The entity, authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Grażyna Ciurzyńska Vice-Chair of the Supervisory Board. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. The entity, authorized to exercise the rights carried by the shares held by the State Treasury, as the Authorized Shareholder, appointed Grażyna Ciurzyńska Vice-Chair of the Supervisory Board.
3.	Zbigniew Hajłasz	Secretary of the Supervisory Board	appointed to the Supervisory Board on 30 June 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. On 14 July 2016, elected Secretary of the Supervisory Board. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017. On 24 August 2017, re-elected Secretary of the Supervisory Board.
4.	Mariusz Andrzejewski	Member of the Supervisory Board	appointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
5.	Mirosław Barszcz	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
6.	Adam Budnikowski	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
7.	Wojciech Jasiński	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
8.	Andrzej Kisielewicz	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
9.	Elżbieta Mączyńska - Ziemacka	Member of the Supervisory Board	reappointed to the Supervisory Board on 26 June 2014 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
10.	Janusz Ostaszewski	Member of the Supervisory Board	appointed to the Supervisory Board on 25 February 2016 for the previous joint term, which commenced on the day of the Annual General Meeting convened for 26 June 2014. Reappointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.
11.	Jerzy Paluchniak	Member of the Supervisory Board	appointed to the Supervisory Board on 22 June 2017 for the current joint term, which commenced on the day of the Annual General Meeting convened for 22 June 2017.

(IN PLN MILLION)

As at 31 March 2018, the Bank's Management Board consisted of:

No.	Name	Function	Date of appointment
1.	Zbigniew Jagiełło	President of the Management Board	on 8 January 2014, reappointed President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board. On 14 June 2017, he was reappointed President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
2.	Rafał Antczak	Vice-President of the Management Board	on 14 June 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
3.	Rafał Kozłowski	Vice-President of the Management Board	on 21 December 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA, with effect from 1 January 2018, for the current joint term of the Management Board, which commenced on 2 July 2017.
4.	Maks Kraczkowski	Vice-President of the Management Board	on 30 June 2016, appointed Vice-President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board, with effect from 4 July 2016. On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
5.	Mieczysław Król	Vice-President of the Management Board	on 2 June 2016, appointed Vice-President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board, with effect from 6 June 2016. On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
6.	Adam Marciniak	Vice-President of the Management Board	on 21 September 2017, he was appointed Vice-President of the Management Board of PKO Bank Polski SA, with effect from 1 October 2017, for the current joint term of the Management Board, which commenced on 2 July 2017.
7.	Piotr Mazur	Vice-President of the Management Board	on 8 January 2014, reappointed Vice-President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board. On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
8.	Jakub Papierski	Vice-President of the Management Board	on 8 January 2014, reappointed Vice-President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board. On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.
9.	Jan Emeryk Rościszewski	Vice-President of the Management Board	on 14 July 2016, appointed Vice-President of the Management Board of PKO Bank Polski SA for the previous joint term of the Management Board, with effect from 18 July 2016. On 14 June 2017, he was reappointed Vice-President of the Management Board of PKO Bank Polski SA for the current joint term of the Management Board, which commenced on 2 July 2017.

Changes in the number of PKO Bank Polski SA shares and rights to shares held by the Management and Supervisory Board members

No.	Name	Number of shares held as at 31.03.2018	Acquisition	Disposal	Number of shares held as at 31.12.2017
	Management Board of the Bank				
1.	Zbigniew Jagiełło, President of the Bank's Management Board	11 000	0	0	11 000
2.	Rafał Antczak, Vice-President of the Bank's Management Board	0	0	0	0
3.	Rafał Kozłowski[1], Vice-President of the Bank's Management Board	0	0	0	0
4.	Maks Kraczkowski, Vice-President of the Bank's Management Board	0	0	0	0
5.	Mieczysław Król, Vice-President of the Bank's Management Board	5 000	0	0	5 000
6.	Adam Marciniak, Vice-President of the Bank's Management Board	0	0	0	0
7.	Piotr Mazur, Vice-President of the Bank's Management Board	4 500	0	0	4 500
8.	Jakub Papierski, Vice-President of the Bank's Management Board	3 000	0	0	3 000
9.	Jan Emeryk Rościszewski, Vice-President of the Bank's Management Board	0	0	0	0

[1] On 21 December 2017, appointed to the position of Vice-President of the Management Board for the current joint term of the Bank's Management Board commencing on 1 January 2018

The PKO Bank Polski SA Supervisory Board members did not hold any shares of PKO Bank Polski SA as at 31 December 2017 and 31 March 2018.

2. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements, subject to review by the Supervisory Board Audit Committee on 17 May 2018, were approved for publication by the Bank's Management Board on 8 May 2018.

3. Basis of preparation of the financial statements

The condensed interim consolidated financial statements of the Group cover the period of three months ended 31 March 2018 and contain comparative data for the three months ended 31 March 2017 (comprising the consolidated income statement, consolidated statement of comprehensive income, statement of changes in consolidated equity and consolidated statement of cash flows) as well as comparative data as at 31 December 2017 (comprising the consolidated statement of financial position). The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated.

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

The accounting policies and calculation methods applied in the preparation of these condensed interim consolidated financial statements are consistent with the principles applied in the financial year ended 31 December 2017, except for changes resulting from the implementation of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers as of 1 January 2018. These changes are appropriately described in notes 4 and 5. The impact of IFRS 15, Revenue from Contracts with Customers, on the Group's operations was not material.

The principles that did not change are described in the annual consolidated financial statements of the PKO Bank Polski SA Group for 2017.

The condensed interim consolidated financial statements for the three-month period of 2018 do not contain all the information and disclosures that are required in the annual financial statements and they should be read together with the annual consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2017 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

4. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was published in July 2014 and adopted for application in the EU Member States on 22 November 2016 by Commission Regulation (EU) 2016/2067. It is mandatory for financial statements prepared for annual periods commencing on or after 1 January 2018 (with the exception of insurance companies, which may apply the standard from 1 January 2021). For the purposes of these financial statements, the data of the PKO Bank Polski SA's insurance companies have been presented in accordance with IFRS 9. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

(IN PLN MILLION)

The total impact of adjustments resulting from the implementation of IFRS 9 is presented in the following tables:

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)
FINANCIAL ASSETS					
Cash and balances with Central Bank	17 810	-	-	-	17 810
Amounts due from banks	5 233	-	-	-	5 233
Derivatives	2 598	(12)	-	-	2 586
Securities	**54 075**	**4 380**	**66**	**3**	**58 524**
- held for trading	431	-	-	-	431
- financial instruments designated at fair value through profit or loss upon initial recognition	8 157	(8 157)	-	-	-
- available-for-sale investment securities	43 675	(43 675)	-	-	-
- investment securities held to maturity	1 812	(1 812)	-	-	-
- not held for trading, mandatorily measured at fair value through profit or loss		4 578	66	46	4 690
- at fair value through OCI		47 266	-	(43)	47 223
- measured at amortized cost	-	6 180	-	-	6 180
Loans and advances to customers	**205 628**	**(4 368)**	**-**	**(797)**	**200 463**
- not held for trading, mandatorily measured at fair value through profit or loss		1 055	-	15	1 070
- at fair value through OCI		-	-	-	-
- measured at amortized cost	205 628	(5 423)	-	(812)	199 393
Other assets (other financial assets)	2 377	-	-	-	2 377
TOTAL FINANCIAL ASSETS	**287 721**	**-**	**66**	**(794)**	**286 993**
Deferred income tax asset	1 767	-	(12)	164	1 919

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)
Amounts due to the Central Bank	6	-	-	-	6
Amounts due to banks	4 558	-	-	-	4 558
Derivative financial instruments	2 740	-	-	-	2 740
Amounts due to customers	220 614	-	-	-	220 614
Debt securities in issue	23 932	-	-	-	23 932
Subordinated liabilities	1 720	-	-	-	1 720
Other liabilities (other financial liabilities)	4 129	-	-	-	4 129
Deferred income tax provision	36	-	-	(3)	33
Provisions for liabilities and guarantees granted	215	-	-	72	287
Current income tax liabilities	588	-	-	-	588
TOTAL FINANCIAL LIABILITIES, PROVISION FOR LIABILITIES AND GUARANTEES GRANTED, CURRENT TAX LIABILITIES AND DEFERRED TAX PROVISION	**258 538**	**-**	**-**	**69**	**258 607**

IFRS 9 impact as at 1 January 2018:	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)	Total change
Other comprehensive income	147	-	(78)	-	69	(78)
Retained earnings	(66)	-	132	(699)	(633)	(567)
Total impact on equity	**81**	**-**	**54**	**(699)**	**(564)**	**(645)**

According to our best knowledge, the impact of the adjustments resulting from the implementation of IFRS 9 on the Group's financial assets, financial liabilities and equity presented here is the best estimate as at the date of the publication of these consolidated financial statements.

Compared to the impact of IFRS 9 implementation disclosed in the annual consolidated financial statements for 2017, the provisions for loan receivables and securities increased by PLN 33 million (or PLN 23 million after tax), due to the better accuracy of impairment estimates. To better reflect the impact of the amendments to the Corporate Income Tax Act associated with IFRS 9 implementation, the effect of the tax liability arising as at 1 January 2018 in respect of the recognition for tax purposes of the reversal of the IBNR provision, settlement of the initial loss on POCI assets and the changes in the corresponding deferred income tax assets of PLN 52 million was recognized in note 20 as the impact on the profit/(loss) for the current period.

4.1 CLASSIFICATION AND MEASUREMENT

a) THE PRINCIPLES FOR CLASSIFICATION OF FINANCIAL INSTRUMENTS

In connection with the application of IFRS 9, as of 1 January 2018 the Group classifies financial assets into the following categories:

- measured at amortized cost;
- measured at fair value through other comprehensive income (FVOCI);
- measured at fair value through profit or loss (FVP&L).

Classification as at the date of acquisition or origin depends on the business model adopted by the Group for the purposes of managing a particular group of assets and on the characteristics of the contractual cash flows resulting from a single asset or group of assets. The Group identifies the following business models:

- the “held to collect cash flows” model, in which financial assets originated or acquired are held in order to collect gains from contractual cash flows – this model is typical for lending activities;
- the “held to collect cash flows and to sell” model, in which financial assets originated or acquired are held to collect gains from contractual cash flows, but they may also be sold (frequently and in transactions of a high value) – this model is typical for liquidity management activities;
- the residual model – other than the “held to collect cash flows” and “held to collect cash flows and to sell” model.

Financial instruments are classified at the moment of the first-time application of IFRS 9, i.e. as at 1 January 2018, and at the moment of recognition or modification of the instrument. A change in the classification of financial assets may be caused by a change in the business model or failing the SPPI test. Changes in the business model are caused by changes that occur within or outside the Group or by discontinuation of a particular activity, and therefore they occur very rarely. Failing the SPPI test is a result of a change in the characteristics of contractual cash flows, as a result of which the return on the instrument does not correspond exclusively to the amount of principal and interest.

BUSINESS MODEL

The business model is selected upon initial recognition of financial assets. The selection is performed at the level of individual groups of assets, in the context of the business area in connection with which the financial assets originated or were acquired, and is based i.a. on the following factors:

- the method for assessing and reporting the financial assets portfolio;
- the method for managing the risk associated with such assets and the principles of remuneration of persons managing such portfolios.

In the “held to collect cash flows” business model, assets are sold occasionally, in the event of an increase in credit risk or a change in the laws or regulations. The purpose of selling the assets is to maintain the assumed level of regulatory capital. Assets are sold in accordance with the principles described in the portfolio management strategy or close to maturity, in the event of a decrease in the credit rating below the level assumed for the given portfolio, significant internal restructuring or acquisition of another business, execution of a contingency or recovery plan or another unforeseeable factor independent of the Group.

ASSESSMENT OF CONTRACTUAL CASH FLOW CHARACTERISTICS

The assessment of the contractual cash flow characteristics establishes, based on a qualitative test of contractual cash flows, whether contractual cash flows are solely payments of principal and interest (hereinafter 'SPPI'). Interest is defined as consideration for the time value of money, credit risk relating to the principal remaining to be repaid within a specified period and other essential risks and costs associated with granting loans, as well as the profit margin.

Contractual cash flow characteristics do not affect the classification of the financial asset if:

- their effect on the contractual cash flows from that asset is not significant (de minimis characteristic),
- they are not genuine, i.e. they affect the contractual cash flows from the instrument only in the case of the occurrence of a very rare, unusual or very unlikely event (non-genuine characteristic).

To make such a determination, it is necessary to consider the potential impact of the contractual cash flow characteristics in each reporting period and throughout the whole life of the financial instrument.

The SPPI test is performed for each financial asset in the "held to collect cash flows" or "held to collect cash flows and to sell" models upon initial recognition (and for modifications which are significant after the subsequent recognition of a financial asset) and as at the date of change of the contractual cash flow characteristics.

If the qualitative assessment performed as part of the SPPI test is insufficient to determine whether the contractual cash flows are solely payments of principal and interest, a benchmark test (quantitative assessment) is performed to determine the difference between the (non-discounted) contractual cash flows and the (non-discounted) cash flows that would occur should the time value of money remain unchanged (the reference level of cash flows).

FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Financial assets (debt financial assets) are measured at amortized cost, provided that both the following conditions are met:

- the financial asset is held in accordance with the "held to collect cash flows" business model;
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal (the SPPI test is passed).

The initial value of a financial asset measured at amortized cost is adjusted for any commissions and fees which affect the effective return on such asset and constitute part of the effective interest rate on such asset (the commissions and fees associated with the operations performed by the Group which result in the origin of assets). Commissions and fees affecting the effective return on assets, which occur after the origination of the financial assets, result in changes in the schedules of future cash flows generated by such assets.

The present value of this category of assets is determined based on the effective interest rate described in item f, which is used for determining (calculating) the interest income generated by the asset in a given period. It is then adjusted for cash flows and allowances in respect of expected credit losses.

Assets for which a schedule of future cash flows necessary for calculating the effective interest rate cannot be determined are not measured at amortized cost. Such assets are measured at the amount of payment due, which comprises interest on the amount receivable, net of any allowance for expected credit losses. Commissions and fees arising upon the origin of such assets or determining their financial characteristics are settled over the asset's life on a straight-line basis and recognized in interest or commission income.

Commissions and fees settled on a straight-line basis are recognized in the profit or loss regularly throughout the life of the asset. The specific commissions and fees are settled monthly.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

Financial assets (including debt instruments) are measured at fair value through other comprehensive income if both the following conditions are met:

- financial assets are held in the business model whose purpose is to collect contractual cash flows and to sell financial assets, and
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal.

Financial assets measured at fair value through other comprehensive income are measured at the fair value net of the allowances for expected credit losses.

The effect of changes in the fair value of such financial assets is recognized in other comprehensive income until a given financial assets is derecognized or reclassified, with the exception of interest income, gain or loss resulting from the allowance for expected credit losses and foreign exchange gains or losses, which are recognized in profit or loss. If a financial asset is no longer recognized, accumulated gains or losses, which were previously recognized in other comprehensive income, are reclassified from other comprehensive income to profit or loss in the form of a reclassification adjustment.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (FVP&L)

If financial assets do not satisfy any of the above-mentioned criteria of measurement at amortized cost or at fair value through other comprehensive income, they are classified as financial assets measured at fair value through profit or loss.

Additionally, upon initial recognition, a financial asset may be irrevocably classified as measured at fair value through profit or loss, if such an approach eliminates or significantly reduces inconsistencies in the measurement or recognition (accounting mismatch). This option is available for debt instruments both in the “held to collect cash flows” and “held to collect cash flows and to sell” model.

Financial assets measured at fair value through profit or loss are presented in the consolidated financial statements of the Group in the following manner:

1) held for trading - financial assets which:

- have been acquired mainly for the purpose of their sale or redemption in the short term;
- upon initial recognition constitute a part of a portfolio of financial instruments, which are managed jointly and which actually generate short-term gains on an ongoing basis; or
- are derivative instruments (other than financial guarantee contracts or designated and effective hedging instruments);

2) financial assets that are not held for trading and must be measured at fair value through profit or loss – financial assets that have not passed the test of cash flow characteristics (irrespective of the business model);

3) financial assets designated for measurement at fair value through profit or loss upon initial recognition (the fair value through profit or loss option).

Gains or losses on the financial assets measured at fair value through profit or loss are recognized in profit or loss.

EQUITY INSTRUMENTS

Investments in equity instruments and contracts concerning such instruments are measured at fair value through profit or loss. Upon initial recognition, the entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value (the option of measurement at fair value through other comprehensive income) of an investment in an equity instrument that is not held for trading and does not constitute a contingent payment recognized by the Group as part of a business combination in accordance with IFRS 3. If the option of measurement at fair value through other comprehensive income is selected, any dividends resulting from the investment are recognized in profit or loss. In the case of such instruments, gains/losses on measurement recognized in other comprehensive income are not reclassified to profit or loss.

In the case of investments in equity instruments, the Group did not use the option of measurement at fair value through other comprehensive income.

b) RECLASSIFICATION OF FINANCIAL ASSETS

Financial assets are reclassified only in the event of a change in the business model relating to the asset or a group of assets resulting from the commencement or discontinuation of a significant part of the entity's operations. Such changes are very infrequent. Reclassification is presented prospectively, i.e. without changing the effects of fair value measurement, write-downs or accrued interest that have been recognized to date.

The following are not treated as changes in the business model:

1) changes in the intentions regarding specific financial assets (even in the event of significant changes in market conditions);
2) temporary discontinuation of a specific market for financial assets;
3) a transfer of financial assets between business areas that apply different business models.

No financial liabilities are reclassified.

In the event of reclassification of a financial asset from amortized cost to measurement at fair value through profit or loss, the fair value of the asset is determined as at the reclassification date. Any gains or losses arising from a difference between the previously recognized amortized cost of the financial asset and its fair value are recognized in the income statement.

In the event of reclassification of a financial asset from the fair value through profit or loss category to the amortized cost category, the fair value of the asset becomes its new gross carrying amount as at the reclassification date. The effective interest rate is determined based on the fair value of the asset as at the reclassification date.

In the event of reclassification of a financial asset from amortized cost to measurement at fair value through other comprehensive income, the fair value of the asset is determined as at the reclassification date. Any gains or losses arising from a difference between the previously recognized amortized cost of the financial asset and its fair value are recognized in other comprehensive income. The effective interest rate and expected credit losses are not adjusted as a result of such reclassification.

In the event of reclassification of a financial asset from the measurement at fair value through other comprehensive income category to the amortized cost category, the asset is reclassified at the fair value as at the reclassification date. Accumulated gains or losses previously recognized in other comprehensive income are removed from equity and adjusted based on the fair value of the financial asset as at the reclassification date. As a result, the financial asset is measured as at the reclassification date in such manner as if it had always been measured at amortized cost. This adjustment concerns other comprehensive income and does not affect the financial result; therefore, it is not a reclassification adjustment in accordance with IAS 1. The effective interest rate and expected credit losses are not adjusted as a result of such reclassification.

In the event of the reclassification of a financial asset from the fair value through profit or loss category to the fair value through other comprehensive income category, the Group continues to measure the asset at fair value. The effective interest rate is determined based on the fair value of the asset as at the reclassification date.

In the event of the reclassification of a financial asset from the fair value through other comprehensive income category to the fair value through profit or loss category, the Group continues to measure the asset at fair value. Accumulated gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss in the form of a reclassification adjustment in accordance with IAS 1 as at the reclassification date.

c) CHANGES IN THE ESTIMATED CONTRACTUAL CASH FLOWS - MODIFICATIONS

Modification - a change in the contractual cash flows in respect of a financial asset based on an annex to the contract. A modification may be significant or insignificant. A change in the contractual cash flows resulting from execution of the terms of the contract is not a modification.

If the contractual cash flows associated with a financial asset are renegotiated or otherwise modified, and such renegotiation or modification does not lead to such financial asset no longer being recognized ("AN INSIGNIFICANT MODIFICATION"), the carrying amount of the financial asset is recalculated and the gain or loss arising from such modification is recognized in the financial result. The adjustment of the carrying amount of a financial asset resulting from the modification is recognized in the interest income/ expenses over time using the effective interest rate method. The carrying amount of a financial asset is calculated as the present value of renegotiated or modified contractual cash flows, discounted using the original effective interest rate on the financial asset (or, in the case of credit-impaired purchased or issued financial assets, the effective interest rate adjusted for credit risk) or, if applicable (e.g. with respect to gain or loss on a hedged item resulting from hedging), the updated effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining part of the life of the modified financial asset.

In certain circumstances, the renegotiation or modification of contractual cash flows associated with a financial asset may lead to the derecognition of the financial asset. If an existing financial asset is derecognized due to its modification, and a modified asset is subsequently recognized, the modified asset is treated as a "new" financial asset ("A SIGNIFICANT MODIFICATION"). The new asset is recognized at fair value and a new effective interest rate applicable to the new asset is calculated. If the characteristics of a modified, new financial asset (after signing an annex) comply with the arm's length conditions, the carrying amount of that financial asset is equal to its fair value.

The assessment of whether a given modification of financial assets is a significant or an insignificant modification depends on satisfying certain quantitative and qualitative criteria.

The following QUALITATIVE CRITERIA have been adopted:

- Currency translation;
- Change of debtor, other than caused by the debtor's death;
- Introducing or removing a contractual characteristic that adversely affects the test of cash flow characteristics;
- Concluding a composition or restructuring agreement with respect to a terminated contract.

The occurrence of at least one of these criteria results in a significant modification.

The QUANTITATIVE CRITERION consists of a 10% test analysing the change in the contractual terms of a financial asset resulting in a difference between the amount of future cash flows arising from the changed financial asset discounted using the original effective interest rate and the amount of the future cash flows that would arise from the original financial asset discounted using the same interest rate.

In the event of the occurrence of a quantitative criterion (a difference) of more than 10%, the modification is considered significant, whereas a quantitative criterion of 10% or less means that the modification is considered insignificant.

The quantitative criterion is not applicable to loans that are subject to a restructuring process (i.e. their modification is treated as insignificant).

d) MEASUREMENT OF PURCHASED OR ORIGINATED CREDIT IMPAIRED ASSETS (POCI)

IFRS 9 distinguished a new category of purchased or originated credit-impaired assets (POCI).

POCI comprise debt financial assets measured at amortized cost and measured at fair value through other comprehensive income, i.e. loans and debt securities. Such assets are initially recognized at the net carrying amount (net of write-downs), which corresponds to their fair value. Interest income on POCI assets is calculated based on the net carrying amount using the effective interest rate adjusted for credit risk recognized for the whole life of the asset. The interest rate adjusted for credit risk is calculated taking into account future cash flows adjusted for the effect of credit risk recognized over the whole life of the asset. Any changes in the estimates of future profits in the subsequent reporting periods are charged or credited to profit or loss.

e) MEASUREMENT OF FINANCIAL GUARANTEES

Financial guarantees are recognized at fair value. In subsequent periods, financial guarantees are measured at the higher of the following two amounts:

- the amount of allowance for expected credit losses, or
- the amount of initially recognized commission, amortized in accordance with IFRS 15.

f) INTEREST INCOME

Interest income is calculated using the effective interest rate used for determining (calculating) interest income generated by the asset in a given period based on the carrying amount of the financial assets, except for:

1) purchased or originated credit-impaired financial assets (see item d). With respect to such financial assets, the Group applies the effective interest rate adjusted for credit risk to the amount of amortized cost of the financial asset (net carrying amount) from the date of initial recognition (POCI assets).

2) financial assets other than purchased or originated credit-impaired financial assets, which subsequently became credit-impaired financial assets. With respect to such financial assets, the Group applies the original effective interest rate (as at the date of recognition of an indication of impairment) to determine the amount of amortized cost of the financial asset (the net carrying amount) in the subsequent reporting periods.

g) ASSESSMENT OF IMPACT - CLASSIFICATION AND MEASUREMENT

Change in the classification and measurement of financial assets concerns:

- NBP bills, which were measured at fair value through profit or loss on a portfolio basis in accordance with IAS 39. In accordance with IFRS 9, the portfolio of bills is measured at fair value through other comprehensive income due to the fact that the “held to collect cash flows and to sell” model is applied;
- a portfolio of loans which will potentially be sold in the future to the Mortgage Bank (pooling) and which was measured to date under the amortized cost method in accordance with IAS 39. In accordance with IFRS 9, the portfolio of such loans is measured at fair value through other comprehensive income due to the fact that the "held to collect cash flows and to sell" model is applied (it is applicable to the separate financial statements of PKO Bank Polski SA only);
- due to the occurrence of the leverage component (an interest formula based on a multiple that is higher than 1) in the interest rate formula for selected loan portfolios, the SPPI test has not been passed: ARiMR (the Agency for Restructuring and Modernization of Agriculture) investment loans, selected working capital loans, student loans, preferential housing loans with BGK financing, housing loans (Alicja), selected loans granted to local government units. If the SPPI test has not been passed despite the application of the “held to collect cash flows” model, it is necessary to change the measurement category for such loan portfolios from amortized cost to fair value through profit or loss;
- due to the SPPI test not being met, despite the application of the “held to collect cash flows” model, the fair value measurement through profit or loss will be applied to selected tranches of corporate bonds acquired by the Group (one entity).

(IN PLN MILLION)

The classification of corporate bonds (which were previously recognized in investment securities available for sale) with an embedded option of conversion for shares (presented in derivatives) was also changed. In accordance with IFRS 9, they are collectively measured at fair value through profit or loss;

- corporate and municipal debt securities, which were previously presented under "Loans and advances granted to customers" and measured at amortized cost, are now recognized under securities measured at amortized cost (this reclassification does not affect the measurement).

In the case of investments in equity instruments, the Group did not use the option of measurement at fair value through other comprehensive income.

The implementation of IFRS 9 as of 1 January 2018 has not affected the classification and measurement of the Group's financial liabilities.

The Group has estimated that, in connection with the implementation of IFRS 9 on 1 January 2018, the total effect of adjustments arising from changes in the measurement and classification of equity (retained earnings or other comprehensive income) as at 1 January 2018 amounted to PLN 66 million (PLN 54 million after tax).

Furthermore, the Group prospectively applied a method of recognizing modifications in cash flows from financial assets, which as of 1 January 2018 are recognized in profit or loss on a one-off basis as at the date of the modification, and the change in the measurement as at the balance sheet date is calculated using the original effective interest rate. Up until 31 December 2017, the effect of modifications was spread over time using the effective interest rate method throughout the remaining part of the product's life.

As the main POCI category, the Group recognized impaired exposures acquired as a result of mergers and business combinations as at the date of the merger/business combination (the mergers with Nordea Bank Polska and SKOK "Wesoła" in Mysłowice) and exposures to corporate entities and lease receivables that satisfy the POCI criteria with a net book value of PLN 631 million.

4.2 Impairment

With respect to impairment, the Group applies IFRS 9, which is based on the concept of expected losses.

The impairment model is applicable to financial assets that are not measured at fair value through profit or loss, comprising:

- debt financial instruments comprising credit exposures and securities;
- lease receivables;
- off-balance sheet financial and guarantee liabilities.

In accordance with IFRS 9, expected credit losses are not recognized with respect to investments in equity instruments.

Impairment is measured as the expected credit losses on an asset over a period of 12 months or the asset's life. The basis of expected loss measurement will depend on whether a significant increase in credit risk has occurred since initial recognition. For the purposes of this criterion, financial assets are allocated to the following four stages:

Stage 1 (assets with no significant increase in credit risk since initial recognition)	12-monthly expected credit losses
Stage 2 (a significant increase in credit risk)	lifetime expected credit losses
Stage 3 Loans with an indication of impairment	
Stage 4 Purchased or originated credit-impaired loans (POCI)	

In order to assess a significant increase in credit risk, in the case of mortgage and other retail exposures, the Group applies a model based on the marginal PD calculation, i.e. calculation of the probability of default in a specific month from the moment of commencement of the exposure. As a result, it is able to reproduce the credit quality diversification over the lifetime of the exposure that is characteristic of credit exposures to individuals. The Group identifies the evidence of a significant increase in risk based on the comparison of the default probability curves over the life of an exposure as at the date of initial recognition and as at the reporting date. For each reporting date, only the parts of the original and current default probability curves which correspond to the period starting from the reporting date to the maturity of the exposure are compared. The comparison is based on the value of the average probability of default in the period analysed, adjusted for the current and forecast macroeconomic ratios.

In order to assess a significant increase in credit risk for corporate customers, the Group uses a model based on Markov chains. The curve of maximum acceptable credit quality deterioration in time, which is not identified as a significant credit risk increase, is calculated based on default probabilities estimated on the basis of customer migrations between rating and scoring categories.

To identify other evidence of a significant increase in credit risk, the Group makes use of the full quantitative and qualitative information available, including:

- restructuring measures involving granting concessions to the debtor due to its financial difficulties – forbearance;
- a delay of more than 30 days in the repayment of a material principal or interest amount;
- early warning signals identified as part of the monitoring process, indicating a significant increase in credit risk;
- a significant LTV increase;
- an assessment by an analyst as part of the individualized analysis process;
- quarantine in Stage 2 for exposures in respect of which an impairment indication ceased to exist in the last 3 months.

Indications of credit exposure impairment include in particular:

- a delay of more than 90 days in the repayment of a material principal or interest amount;
- a deterioration in the debtor's economic and financial standing during the term of the loan, resulting in the debtor being classified to a rating or risk class indicating a significant risk to debt repayment;
- signing a restructuring agreement or making use of a relief in debt repayment for economic or legal reasons resulting from the customer's financial problems (until the receivable is considered alleviated);
- filing a bankruptcy petition or declaring the debtor bankrupt, or initiating enforcement proceedings against the debtor.
- The expected loss is determined as the product of the following credit risk parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD), where each of these parameters has the form of a vector of the number of months representing the credit loss horizon. In the case of exposures classified as Stage 1, the Group estimates the expected loss over a period of up to 12 months. In the case of exposures classified as Stage 2, the expected loss is estimated for a period up to the maturity or renewal of the exposure. With respect to retail exposures without a repayment schedule, the Group determines the horizon based on historical behavioural data. The loss expected both during the life of an exposure and in a 12-month period is the total of the losses expected in the individual periods, discounted using the effective interest rate. To determine the value of an asset as at the default date in a given period, the Group adjusts the parameter which determines the amount of the exposure as at the default date for future scheduled repayments and potential overpayments/underpayments.

- The calculation of expected credit losses takes into account the estimates concerning future macroeconomic conditions. As regards the portfolio analysis, the impact of macroeconomic scenarios is included in the amounts of the individual parameters. The methodology of the calculation of risk parameters involves examining the relationship between these parameters and macroeconomic conditions based on historical data. For the purposes of calculating an expected loss, three macroeconomic scenarios developed based on the Group's forecasts are used: the base scenario and two alternative scenarios. The forecast ratios include the GDP growth ratio, the unemployment rate, WIBOR 3M, Libor CHF 3M, CHF/PLN exchange rate, the real estate price index and the NBP reference rate. The ultimate expected loss is the probability-weighted average of losses expected in the individual scenarios. The Group ensures the consistency of the macroeconomic scenarios used for calculating risk parameters with the macroeconomic scenarios used in credit risk budgeting processes.
- In the event of identifying impairment indications with respect to individually significant exposures, the expected credit loss on an exposure is determined on an individual basis as the difference between its gross carrying amount (or, in the case of off-balance sheet credit exposures, the amount of its balance sheet equivalent) and the current value of expected future cash flows determined taking into account the possible probability-weighted scenarios of contract execution and credit exposure management.
- The individual expected loss measurement method is also applied to individually significant exposures without indications of impairment, if using portfolio parameters in the calculations would not be justified due to the circumstances of the case.
- Both the process of assessment of a significant credit risk increase and the process of expected loss calculation are performed monthly for the individual exposures. For the purposes of this process, a dedicated calculation environment is used which allows distribution of the results to the Group's internal units.

IMPACT ASSESSMENT - IMPAIRMENT

The Group has estimated that, in connection with the IFRS 9 implementation on 1 January 2018, the total effect of adjustments arising from impairment on equity (retained earnings / accumulated losses) amounted to PLN 866 million (PLN 699 million after tax).

4.3 HEDGE ACCOUNTING

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

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

Having completed an analysis of risks and benefits associated with adopting the hedge accounting solutions introduced in IFRS 9, the Group decided to continue to apply IAS 39 with respect to hedge accounting and to continue the hedging relationships.

4.4 DISCLOSURES AND COMPARATIVE DATA

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

4.5 The impact of IFRS 9 on equity and capital adequacy measures

The impact of IFRS 9 on equity and capital adequacy measures results from the following factors:

- a change in the classification and measurement of financial assets, which as at 1 January 2018 was recognized in equity under retained earning/accumulated losses and other comprehensive income (impact of adjustments in respect of fair value measurement of loans measured at fair value through profit or loss);
- a change in the impairment model as at 1 January 2018, whose effect was also recognized in equity under retained earnings/accumulated losses;
- any changes in the net value of deferred tax assets (adjustment of deferred income tax assets corresponding to retained earnings). The amount of the above-mentioned net deferred tax asset is taken into account in the net risk exposure calculation in accordance with the requirements of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter: "CRR") (i.e. the 250% risk weight is applied or own funds are reduced). It is generally assumed that such assets are based on future profitability and result from temporary differences.

The impact of the IFRS 9 provisions concerning changes in the impairment model on own funds and capital adequacy measures is regulated by the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending the CRR as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. In accordance with this regulation, banks may apply transitional provisions with respect to own funds and increase Tier 1 capital associated with the implementation of a new impairment model in the period of 5 consecutive years from 1 January 2018. The scaling factor will decrease from one period to another.

The Group has decided to apply the transitional provisions in full and to spread the impact of adjustments resulting from the implementation of IFRS9 on own funds and capital adequacy measures over time.

At the same time, in accordance with the above-mentioned Regulation of the European Parliament and of the Council of 12 December 2017, in the event of applying the transitional provisions the Group is additionally obliged to disclose the following values as they would have been if the transitional provisions had not been applied: the amounts of own funds, Common Equity Tier 1 capital and Tier 1 capital, the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio, the total capital ratio and the leverage ratio.

As a result of adjusting the calculations to regulatory capital requirements that take into account the transitional solutions aimed at easing the impact of IFRS 9 implementation as at 1 January 2018, the Group's own funds calculated for capital adequacy purposes increased by approx. PLN 84 million; at the same time, due to impairment adjustments resulting from the implementation of IFRS 9 own funds decreased by approx. PLN 35 million, and due to adjustments relating to changes in measurement methods they increased by approx. 47 million. At the same time, the Group's own funds increased by approx. PLN 72 million due to the end of the transitional period provided for in the CRR for removing a specific percentage of unrealized gains on securities measured at fair value from own funds (as at 31/12/2017, 20% of such gains was removed).

If the transitional solutions were not applied, the amount of the Group's own funds would be PLN 578 million lower. This decrease would comprise a decrease of PLN 697 million resulting from impairment adjustments, an increase of PLN 47 million resulting from changes in measurement methods, and a simultaneous increase of PLN 72 million resulting from the end of the transitional period provided for in the CRR.

As a result, the total capital ratio of the Group will decrease by 1 percentage point. If the transitional solutions relating to IFRS 9 were not applied and the total impact of the implementation of the IFRS 9 implementation was recognized, the total capital ratio would decrease by 29 base points.

According to our best knowledge, the impact of the adjustments resulting from the implementation of IFRS 9 on capital adequacy presented here is the best estimate as at the date of the publication of these consolidated financial statements.

(IN PLN MILLION)

4.6 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES IN ACCORDANCE WITH IFRS 9 AND IAS 39

The following tables present the reconciliation between the statement of financial position items and the categories of financial assets and liabilities according to IFRS 9 as at 01.01.2018 and 31.03.2018:

FINANCIAL ASSETS 01.01.2018 CLASSIFICATION UNDER IFRS 9	Held for trading	Not held for trading, mandatorily measured at fair value through profit or loss	Designated at fair value through profit or loss (FVO)	Measured at fair value through OCI	Measured at amortized cost	Total carrying amount
Cash and balances with Central Bank	-	-	-	-	-	17 810
Amounts due from banks	-	-	-	-	5 233	5 233
hedging derivatives	-	887	-	-	-	887
Other derivative instruments	1 699		-	-	-	1 699
Securities	431	4 690	-	47 223	6 180	58 524
Loans and advances to customers	-	1 070	-	-	199 393	200 463
Other assets (other financial assets)	-	-	-	-	2 377	2 377
						-
TOTAL financial assets	**2 130**	**8 346**	**-**	**47 223**	**213 183**	**286 993**

FINANCIAL ASSETS 31.03.2018 CLASSIFICATION UNDER IFRS 9	Held for trading	Not held for trading, mandatorily measured at fair value through profit or loss	Designated at fair value through profit or loss (FVO)	Measured at fair value through OCI	Measured at amortized cost	Total carrying amount
Cash and balances with Central Bank	-	-	-	-	-	16 268
Amounts due from banks	-	1	-	-	3 763	3 764
hedging derivatives	-	772	-	-	-	772
Other derivative instruments	1 543	-	-	-	-	1 543
Securities	1 593	4 177	-	44 985	7 069	57 824
Loans and advances to customers	-	1 032	-	-	201 756	202 788
Other assets (other financial assets)	-	-	-	-	2 875	2 875
TOTAL financial assets	**3 136**	**5 982**	**-**	**44 985**	**215 463**	**285 834**

(IN PLN MILLION)

FINANCIAL LIABILITIES 01.01.2018 CLASSIFICATION UNDER IFRS 9	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 558	4 558
hedging derivatives	204	-	204
Other derivative instruments	2 536	-	2 536
Amounts due to customers	-	220 614	220 614
Debt securities in issue	-	23 932	23 932
Subordinated liabilities	-	1 720	1 720
Other liabilities (other financial liabilities)	-	4 129	4 129
TOTAL financial liabilities	**2 740**	**254 959**	**257 699**

FINANCIAL LIABILITIES 31.03.2018 CLASSIFICATION UNDER IFRS 9	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	5	5
Amounts due to banks	-	1 866	1 866
hedging derivatives	239	-	239
Other derivative instruments	1 994	-	1 994
Amounts due to customers	-	218 715	218 715
Debt securities in issue	-	26 267	26 267
Subordinated liabilities	-	2 707	2 707
Other liabilities (other financial liabilities)	-	3 367	3 367
TOTAL financial liabilities	**2 233**	**252 927**	**255 160**

(IN PLN MILLION)

The following tables present the reconciliation between the statement of financial position items and the categories of financial assets and liabilities according to IAS 39 as at 31.12.2017

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	held for trading	designated at fair value through profit or loss	held to maturity	loans and receivables	available for sale	Total carrying amount
Cash and balances with Central Bank						17 810
Amounts due from banks	-	-	-	5 233	-	5 233
- measured at amortized cost	-	-	-	5 233	-	5 233
Hedging derivatives	-	887	-	-	-	887
Other derivative instruments	1 711	-	-	-	-	1 711
Securities	431	8 157	1 812	-	43 675	54 075
- held for trading	431	-	-	-	-	431
- financial instruments designated at fair value through profit or loss upon initial recognition	-	8 157	-	-	-	8 157
- available-for-sale investment securities	-	-	-	-	43 675	43 675
- investment securities held to maturity	-	-	1 812	-	-	1 812
Loans and advances to customers	-	-	-	205 628	-	205 628
- measured at amortized cost	-	-	-	205 628	-	205 628
Other assets (other financial assets)	-	-	-	2 377	-	2 377
TOTAL financial assets	**2 142**	**9 044**	**1 812**	**213 238**	**43 675**	**287 721**

FINANCIAL LIABILITIES 31.12.2017 CLASSIFICATION UNDER IAS 39	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 558	4 558
hedging derivatives	204	-	204
Other derivative instruments	2 536	-	2 536
Amounts due to customers	-	220 614	220 614
Debt securities in issue	-	23 932	23 932
Subordinated liabilities	-	1 720	1 720
Other liabilities (other financial liabilities)	-	4 129	4 129
TOTAL financial liabilities	**2 740**	**254 959**	**257 699**

(IN PLN MILLION)

4.7 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES UNDER IFRS ON THE INITIAL APPLICATION OF IFRS 9

The following table presents the measurement categories of financial instruments under IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and liabilities as at 01.01.2018.

As at 01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial assets				
Cash and balances with Central Bank	loans and receivables	17 810	measured at amortized cost	17 810
Amounts due from banks	loans and receivables	5 233	measured at amortized cost	5 232
Amounts due from banks	loans and receivables	-	not held for trading, mandatorily measured at fair value through profit or loss	1
Hedging derivatives	measured at fair value through profit or loss	887	not held for trading, mandatorily measured at fair value through profit or loss	887
Other derivative instruments	measured at fair value through profit or loss	1 711	held for trading	1 699
Financial assets held for trading	held for trading	431	held for trading	431
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments	measured at fair value through profit or loss	6 688	measured at fair value through OCI	4 199
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments			not held for trading, mandatorily measured at fair value through profit or loss	2 489
Financial instruments designated at fair value through profit or loss upon initial recognition – equity instruments	measured at fair value through profit or loss	1 469	not held for trading, mandatorily measured at fair value through profit or loss	1 469
Available-for-sale investment securities – debt instruments	measured at fair value through OCI	43 192	measured at fair value through OCI	43 024
Available-for-sale investment securities – debt instruments	measured at fair value through OCI		not held for trading, mandatorily measured at fair value through profit or loss	137
Available-for-sale investment securities – equity instruments	measured at fair value through OCI[1]	483	not held for trading, mandatorily measured at fair value through profit or loss	595
Investment securities held to maturity – debt securities	measured at amortized cost	1 812	measured at amortized cost	1 812
Loans and advances to customers	loans and receivables	201 260	measured at amortized cost	199 393
Loans and advances to customers	loans and receivables		not held for trading, mandatorily measured at fair value through profit or loss	1 070
Loans and advances to customers	loans and receivables		measured at fair value through OCI	-
Loans and advances to customers – debt instruments	loans and receivables	4 368	measured at amortized cost	-
Debt instruments			measured at amortized cost	4 368
Other assets (other financial assets)	loans and receivables	2 377	measured at amortized cost	2 377
TOTAL financial assets		**287 721**	-	**286 993**

[1] In accordance with IAS 39, these equity instruments were measured at cost after initial recognition due to the fact that market prices from an active market were not available for them.

(IN PLN MILLION)

As at 01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial liabilities				
Amounts due to the Central Bank	measured at amortized cost	6	measured at amortized cost	6
Amounts due to banks	measured at amortized cost	4 558	measured at amortized cost	4 558
Derivative financial instruments	measured at fair value through profit or loss	2 740	not held for trading, mandatorily measured at fair value through profit or loss	2 740
Amounts due to customers	measured at amortized cost	220 614	measured at amortized cost	220 614
Debt securities in issue	measured at fair value through profit or loss (designated)	-	designated at fair value through profit or loss	-
Debt securities in issue	measured at amortized cost	23 932	measured at amortized cost	23 932
Subordinated liabilities	measured at amortized cost	1 720	measured at amortized cost	1 720
Other liabilities (other financial liabilities)	measured at amortized cost	4 129	measured at amortized cost	4 129
TOTAL financial liabilities		**257 699**		**257 699**

(IN PLN MILLION)

4.8 Disclosures concerning the reconciliation of the balance of provisions for off-balance sheet liabilities under IAS 39 and IAS 37 to the opening balance of provisions calculated under IFRS 9

The following table presents the reconciliation of the provisions for off-balance sheet liabilities calculated under IAS 37 as at 31 December 2017 to the opening balance of expected credit losses determined in accordance with IFRS 9 as at 1 January 2018.

PROVISIONS FOR OFF-BALANCE-SHEET LIABILITIES	IAS 37 carrying amount 31.12.2017	Reclassifications	Remeasurement	IFRS 9 carrying amount 01.01.2018
Provisions for off-balance-sheet liabilities	**86**	**86**	**71**	**157**
Provisions for instruments with no significant increase in credit risk since initial recognition (stage 1)		46	58	104
Provisions for instruments with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)		5	13	18
Provisions for credit-impaired instruments (stage 3)		35	-	35

5. IFRS 15 Revenue from Contracts with Customers

The International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers was adopted for application in all EU Member States on 22 September 2016 and it is applicable for annual periods starting after 1 January 2018.
IFRS 15 is applicable to fee and commission income and other fees generated by financial institutions in connection with e.g. loan servicing, asset management or custody operations, which are not covered by the International Financial Reporting Standard 9 Financial Instruments (IFRS 9).
In accordance with this standard, the Group recognizes revenues in a manner reflecting the transfer of promised goods or services to the customer in an amount reflecting the fee to which it expects to be entitled for such goods or services. Applying this standard, the Group takes into account the contractual terms and all significant facts and circumstances.
IFRS 15 introduces a 5-step model of revenue recognition, where:

Step I: Identify the contract with the customer:

In order to identify a contract with the customer, it is analysed whether the following criteria are met:

1. the parties have concluded a contract (whether written, oral or in another customary form) and are obliged to perform their obligations;
2. each party's rights in relation to the goods or services to be transferred can be identified;
3. the payment terms for the goods or services to be transferred can be identified;
4. the contract has commercial substance (i.e. it can be expected that the risk, timing or amount of future cash flows will change as a result of the contract); and
5. it is probable that the consideration to which the Group is entitled in exchange for goods or services will be collected. To determine whether the consideration is likely to be collected, the Group considers the customer's ability and intention to pay the consideration when due, net of any price discounts offered.

Step II: Identify the performance obligations in the contract:

A performance obligation is a promise (express or implied) to transfer to the customer goods or services, which are identified at contract inception based on the contractual terms and business practice. At the inception of the contract, the Group should assess the goods or services that have been promised to the customer, and identify as a performance obligation:

1. a good or service (or bundle of goods or services) that is distinct; or
2. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service promised to the customer is distinct if both the following conditions are met:

1. the customer can benefit from the good or service on its own or in conjunction with other readily available resources (i.e. the good or service can be distinct); and
2. the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the contract itself).

The Group identifies the options for purchase of additional goods or services for the customer (loyalty points) as separate performance obligations if they give the customer important rights (a material right that the customer would not obtain had the contract not been signed).

If a third party is engaged in the process of providing selected services to the customer, the Group should assess whether it plays the role of agent or principal, taking into account primarily the ability to control a given service before its transfer to the customer (the principle of control).

Step III: Determine the transaction price:

Upon contract inception, the Group determines the transaction price of a distinct good or a distinct service being the subject matter of each performance obligation taking into account the contractual terms and its usual business practice.

The transaction price is the amount to which the Group expects to be entitled in exchange for the transfer of goods and services to the customer, net of any amounts collected on behalf of third parties.

When making this determination, the Group will consider the following components: variable remuneration, time value of money, non-cash consideration and consideration payable to the customer. Where a contract contains elements of variable consideration (e.g. discounts granted by payment organizations), the Group will estimate the amount of variable consideration to which it will be entitled for transferring the promised services.

Step IV: Allocate the transaction price to the performance obligations in the contracts:

The Group allocates the transaction price to each performance obligation (or a distinct good or service) on the basis of the amount of consideration to which the Group expects to be entitled for transferring the promised goods or services to the customer. The Group performs the transaction price allocation based on the relative fair value model.

Step V: Recognize revenue when (or as) the entity satisfies a performance obligation:

The Group recognizes revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to the customer. The good is transferred or service is provided when control is passed to the customer.

With respect to each performance obligation, upon contract inception the Group determines whether the performance obligation will be satisfied over time or at a point in time.
The Group applies IFRS 15 from 1 January 2018. The Group analysed the main types of contracts under which it receives consideration recognized in the fee and commission income and other operating income categories. The analysis covered contracts with customers for bank products in respect of which the Group receives fees and commissions which do not constitute a part of the effective interest rate, bancassurance agreements, contracts for distribution services and investment fund management, bond issue guarantee agreements, agreements with international payment organizations, and agreements relating to the Group's own operations.

(IN PLN MILLION)

The Group did not identify any contracts in the case of which the IFRS 15 implementation could have a significant impact on the financial statements.

6. EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

In addition to the changes resulting from the implementation of IFRS 9, the Group introduced the following changes in recognition and presentation.

	31.12.2017 before restatement	reclassification of inventories to “Other assets”	31.12.2017 restated
Inventories	186	(186)	-
Other assets	2 925	186	3 111
TOTAL ASSETS	**296 912**	**-**	**296 912**

AMOUNTS DUE TO CUSTOMERS	31.12.2017 before restatement	change in the recognition of liabilities relating to insurance products	identification of loans and advances received as a separate item	31.12.2017 restated
Measured at amortized cost				
Amounts due to retail customers	151 161	-	-	151 161
Current accounts and overnight deposits	86 819	-	-	86 819
Term deposits	64 126	-	-	64 126
Other liabilities	216	-	-	216
Amounts due to corporate entities	56 230	-	(3 563)	52 667
Current accounts and overnight deposits	40 070	-	-	40 070
Term deposits	11 613	-	-	11 613
Loans and advances received	3 563	-	(3 563)	-
Amounts due from repurchase agreements	48	-	-	48
Other liabilities	936	-	-	936
Amounts due to public entities	11 409	-	-	11 409
Current accounts and overnight deposits	9 555	-	-	9 555
Term deposits	1 820	-	-	1 820
Other liabilities	34	-	-	34
Loans and advances received	-	-	3 563	3 563
Liabilities in respect of insurance products	-	1 814	-	1 814
Unit-Linked	-	1 811	-	1 811
Investment policy contracts	-	3	-	3
Total	**218 800**	**1 814**	**-**	**220 614**

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	31.12.2017 before restatement	change in the recognition of liabilities relating to insurance products	31.12.2017 restated
Technical reserves	882	-	882
Liabilities in respect of insurer's investment contracts, broken down by:	2 117	(1 814)	303
unit-linked financial insurance products	1 811	(1 811)	-
"Safe Capital"	292	-	292
structured products	-	11	11
other	14	(14)	-
Total	**2 999**	**(1 814)**	**1 185**

7. OTHER CHANGES IN ACCOUNTING POLICIES

NEW STANDARDS AND INTERPRETATIONS AND AMENDMENTS THERETO THAT HAVE BEEN PUBLISHED AND ADOPTED BY THE EU, BUT HAVE NOT YET COME INTO FORCE AND ARE NOT APPLIED BY THE GROUP

IFRS 16 LEASES

IFRS 16 was published by the International Accounting Standards Board on 13 January 2016 and it is mandatory for annual periods beginning on or after 1 January 2019. The new standard will replace the current IAS 17, Leases.

IFRS 16 introduces new principles for recognizing leases. The main change concerns elimination of the classification of leases as either operating or financial. A single accounting model for leases is introduced instead. Under the single model, the lessee is obliged to recognize the leased assets and the corresponding liabilities in the statement of financial position, unless the lease term is 12 months or less or the underlying asset has a low value. The lessee is also obliged to recognize in the income statement depreciation of a leased asset separately from interest expenses on the lease liability.

The current accounting treatment by the lessor will largely remain unaffected by IFRS 16, namely, the lessor continues to classify leases as either operating or financial and account for them as two separate types of lease.

In the Group's opinion, the application of the new standard will affect the recognition, presentation, measurement and disclosure of assets held by the Group as the lessee under operating lease contracts, as well as the corresponding liabilities, in the financial statements of the Group.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS, WHICH HAVE BEEN PUBLISHED, BUT NOT YET ADOPTED BY THE EUROPEAN UNION

- The amendments to IAS 12 concern clarification of the method of recognizing deferred tax assets relating to debt instruments measured at fair value. The amendments to IFRS 10 and IAS 28 concern the sale or contribution of assets by an investor to a joint venture or an associate. The Group does not expect the impact of the amendments to IAS 12, IAS 28 and IFRS 10 to be significant. The impact of the amendments to IFRS 4 (associated with IFRS 9) on the Group's insurance activities has not yet been estimated.
- Amendments to IAS 40 and improvements to IFRS 2014–2016 (IFRS 1, IAS 28) will have no impact on the financial statements of the Group.

8. Information on business segments and geographical areas

Segment reporting

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

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

1. The retail segment offers a full range of services to individuals as part of retail, private and mortgage banking. It also comprises transactions concluded with legal persons, i.e. small- and medium-sized enterprises. The products and services offered to the customers in this segment comprise: current and savings accounts, term deposits, private banking services, combined investment and insurance products, credit and debit cards, electronic banking services. With regard to financing, this segment offers consumer loans, mortgage loans, including those offered by PKO Bank Hipoteczny SA, as well as business loans for small and medium-sized enterprises, developers, cooperatives and property managers, and leases and factoring offered by the PKO Leasing SA Group. In addition, the results of the retail segment comprise the results of the following companies: PKO TFI SA, PKO BP Bankowy PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, the PKO BP Finat Sp. z o.o. Group and ZenCard Sp. z o.o.
2. The corporate and investment segment includes transactions concluded with large corporate clients and financial institutions. This segment offers the following products and services: maintaining current accounts and term deposits, safekeeping of securities, currency products and derivatives, business loans, leasing and factoring offered by the PKO Leasing SA Group. In this segment, PKO Bank Polski SA also concludes, on its own or as part of syndicates with other banks, agreements for the financing of large projects in the form of loans and issues of non-treasury securities. Moreover, the segment comprises own operations, i.e. investing activities, brokerage activities, interbank transactions, transactions in derivatives and debt securities. The results of the corporate and investment segments also comprise the results of the companies operating in Ukraine, mainly KREDOBANK SA and the companies which conduct real estate development and real estate management activities.
3. The transfer and other activities centre comprises the result on internal settlements related to funds transfer pricing, the result of long-term sources of financing and the result of positions classified for hedge accounting, as well as the results not allocated to any other segment. Internal funds transfer is based on arm's length transfer pricing. Transactions between the operating segments are conducted on an arm's length basis. Long-term external financing includes issuing securities, including covered bonds, subordinated liabilities and loans received from financial institutions. As part of this segment, the results of PKO Finance AB are presented.

The PKO BP SA Group usually accounts for transactions between the segments as if they were transactions between unrelated entities – using internal settlements rates. Transactions between the segments are conducted on an arm's length basis.

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

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

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

(IN PLN MILLION)

The following tables present data on revenues and results of individual operating segments of the PKO Bank Polski SA Group for the three-month period ended 31 March 2018 and 31 March 2017, as well as assets and liabilities as at 31 March 2018 and as at 31 December 2017.

FOR 3 MONTHS ENDED 31 MARCH 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	1 764	340	114	2 218
Net fee and commission income	610	131	(4)	737
Other net income	135	115	8	258
Gains/(losses) on financial transaction	5	20	(8)	17
Net foreign exchange gains/(losses)	36	43	25	104
Gains/(losses) on derecognition of financial assets and financial liabilities	8	29	-	37
Net income/(expense) on modification	(3)	1	-	(2)
Dividend income	-	-	-	-
Net other operating income and expense	82	29	(9)	102
Income/(expenses) relating to internal customers	7	(7)	-	-
Net impairment allowances and provisions	(314)	(22)	-	(336)
Administrative expenses, of which:	(1 244)	(296)	(39)	(1 579)
amortization and depreciation	(178)	(28)	-	(206)
Tax on certain financial institutions	(186)	(63)	21	(228)
Shares in profits/(losses) of associates and jointly controlled entities	-	-	-	6
Segment profit/(loss) before tax	765	205	100	1 076
Income tax expense (tax burden)	-	-	-	(320)
Profit (loss) attributable to non-controlling	-	-	-	(1)
Net profit attributable to equity holders of the parent company	**765**	**205**	**100**	**757**

AS AT 31 MARCH 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	163 741	124 425	5 027	293 193
Unallocated assets	-	-	-	1 902
Total assets	163 741	124 425	5 027	295 095
Liabilities	171 697	55 428	30 739	257 864
Unallocated liabilities	-	-	-	674
Total liabilities	171 697	55 428	30 739	258 538

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	1 681	322	43	2 046
Net fee and commission income	550	161	(1)	710
Other net income	100	116	-	216
Gains/(losses) on financial transaction	1	29	(6)	24
Net foreign exchange gains/(losses)	47	56	13	116
Dividend income	-	-	-	-
Net other operating income and expense	45	38	(7)	76
Income/(expenses) relating to internal customers	7	(7)	-	-
Net impairment allowances and provisions	(317)	(74)	-	(391)
Administrative expenses, of which:	(1 217)	(291)	(55)	(1 563)
amortization and depreciation	(180)	(29)	-	(209)
Tax on certain financial institutions	(173)	(66)	6	(233)
Shares in profits (losses) of associates and jointly controlled entities	-	-	-	5
Segment profit/(loss) before tax	624	168	(7)	790
Income tax expense (tax burden)	-	-	-	(262)
Profit (loss) attributable to non-controlling shareholders	-	-	-	3
Net profit attributable to equity holders of the parent company	**624**	**168**	**(7)**	**525**

AS AT 31 DECEMBER 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	161 441	128 090	5 612	295 143
Unallocated assets	-	-	-	1 769
Total assets	161 441	128 090	5 612	296 912
Liabilities	172 240	59 183	28 609	260 032
Unallocated liabilities	-	-	-	624
Total liabilities	172 240	59 183	28 609	260 656

INFORMATION ON GEOGRAPHICAL AREAS

Additionally, the PKO Bank Polski SA Group divides its operations into geographical areas. The Group conducts activities in the Republic of Poland and in Ukraine through the KREDOBANK SA Group, “Inter-Risk Ukraina” Sp. z d.o. and Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o., in Sweden through subsidiaries: PKO Finance AB and PKO Leasing Sverige AB, in Ireland through a subsidiary: ROOF Poland Leasing 2014 DAC, as well as through a corporate branch of PKO Bank Polski SA (PKO Bank Polski Niederlassung Deutschland) in the Federal Republic of Germany and through a corporate branch in the Czech Republic. For presentation purposes, the results of companies operating in Sweden and Ireland and the results of the branches operating in Germany and the Czech Republic, which from the point of view of the scale of operations of the PKO Bank Polski SA Group are not significant, are included in the segment of Poland.

(IN PLN MILLION)

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018	Poland	Ukraine	Total
Net interest income	2 181	37	2 218
Net fee and commission income	725	12	737
Other net income	255	3	258
Administrative expenses	(1 550)	(29)	(1 579)
Net impairment allowances and provisions	(335)	(1)	(336)
Tax on certain financial institutions	(228)	-	(228)
Shares in profits (losses) of associates and jointly controlled entities	-	-	6
Segment profit/(loss) before tax	1 048	22	1 076
Income tax expense (tax burden)	-	-	(320)
Profit (loss) attributable to non-controlling shareholders	-	-	(1)
Net profit attributable to equity holders of the parent company	**1 048**	**22**	**757**

AS AT 31 MARCH 2018	Poland	Ukraine	Total
Assets, of which:	293 274	1 821	295 095
non financial non-current assets	5 937	98	6 035
deferred income tax assets and current income tax receivable	1 896	6	1 902
Liabilities	256 916	1 622	258 538

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017	Poland	Ukraine	Total
Net interest income	2 009	37	2 046
Net fee and commission income	698	12	710
Other net income	211	5	216
Administrative expenses	(1 534)	(29)	(1 563)
Net impairment allowances and provisions	(386)	(5)	(391)
Tax on certain financial institutions	(233)	-	(233)
Shares in profits (losses) of associates and jointly controlled entities	-	-	5
Segment profit/(loss) before tax	765	20	790
Income tax expense	-	-	(262)
Profit (loss) attributable to non-controlling shareholders	-	-	3
Net profit attributable to equity holders of the parent company	**765**	**20**	**525**

AS AT 31 DECEMBER 2017	Poland	Ukraine	Total
Assets, of which:	295 133	1 779	296 912
non financial non-current assets	6 249	94	6 343
deferred income tax assets and current income tax receivable	1 764	5	1 769
Liabilities	259 048	1 608	260 656

(IN PLN MILLION)

NOTES TO THE CONSOLIDATED INCOME STATEMENT

9. INTEREST INCOME AND EXPENSES

INTEREST INCOME ON:	01.01.2018-31.03.2018			
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments at fair value through profit or loss	Total
loans to and other receivables from banks	25	-	-	25
hedging derivatives	-	-	91	91
debt securities	46	273	19	338
loans and advances to customers	2 290	-	6	2 296
Total	**2 361**	**273**	**116**	**2 750**
of which: interest income on impaired financial instruments/loans and advances granted	63	3	1	67

INTEREST INCOME ON:	01.01-31.03.2017
loans to and other receivables from banks	35
hedging derivatives	69
debt securities	317
loans and advances to customers	2 198
other financial assets	1
Total	**2 620**
of which: interest income on impaired financial instruments/loans and advances granted	65

INTEREST EXPENSE ON:	01.01.2018-31.03.2018			
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances)	(9)	-	-	(9)
loans and advances received	(9)	-	-	(9)
amounts due from customers(excluding loans and advances)	(374)	-	-	(374)
debt securities	-	(10)	(5)	(15)
securities in issue	(108)	-	-	(108)
subordinated liabilities	(17)	-	-	(17)
Total	**(517)**	**(10)**	**(5)**	**(532)**

(IN PLN MILLION)

INTEREST EXPENSE ON:	01.01-31.03.2017
amounts due to banks (excluding loans and advances)	(4)
loans and advances received	(30)
amounts due from customers(excluding loans and advances)	(400)
debt securities	(25)
securities in issue	(96)
subordinated liabilities	(19)
Total	**(574)**

10. Fee and commission income and expenses

FEE AND COMMISSION INCOME ON:	01.01-31.03.2018	01.01-31.03.2017
payment and credit cards	276	249
maintenance of bank accounts	209	217
loans and advances granted	144	151
maintenance of investment funds and OFE (including management fees)	161	131
cash transactions	24	25
servicing foreign mass transactions	25	25
brokerage activities	53	48
offering insurance products	24	21
sale and distribution of court fee stamps	-	1
investment and insurance products	15	22
insurance intermediation	1	1
administration of insurance policies	1	1
fund management	13	16
other	-	4
customer orders	11	11
fiduciary services	2	1
other	28	27
Total	**972**	**929**

FEE AND COMMISSION EXPENSE ON:	01.01-31.03.2018	01.01-31.03.2017
card activities	(153)	(132)
commission paid to external entities for product sales	(15)	(16)
cost of construction investment supervision and property valuation	(11)	(11)
settlement services	(10)	(10)
fee and commissions for operating services provided by banks	(3)	(5)
sending short text messages (SMS)	(6)	(5)
asset management	(6)	(4)
fees incurred by the Brokerage House	(5)	(6)
other	(26)	(30)
Total	**(235)**	**(219)**

(IN PLN MILLION)

11. RESULT ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2018	01.01-31.03.2017
Financial instruments held for trading	16	19
Financial instruments designated at fair value through profit or loss upon initial recognition		-
Financial instruments not held for trading, mandatorily measured at fair value through profit or loss	1	
Financial instruments designated at fair value through profit or loss	-	
Total	**17**	**19**

12. RESULT ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018

Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss (including gains or losses on disposal or a significant modification) are presented divided into the following accounting portfolios:

- measured at fair value through other comprehensive income (FVOCI);
- measured at amortized cost.

FINANCIAL INFORMATION

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2018
measured at fair value through OCI	29
measured at amortized cost	8
Total	**37**

13. RESULT ON FINANCIAL INSTRUMENTS (COMPARATIVE DATA IN ACCORDANCE WITH IAS 39)

ACCOUNTING POLICIES APPLICABLE UP TO 31 DECEMBER 2017

Gains less losses on investment securities include gains and losses arising from disposal of financial instruments classified as investment securities.

FINANCIAL INFORMATION

GAIN/(LOSS) ON INVESTMENT SECURITIES	01.01-31.03.2017
Equity securities	6
Debt securities	(1)
Total	**5**

(IN PLN MILLION)

14. FOREIGN EXCHANGE GAINS/ (LOSSES)

NET FOREIGN EXCHANGE GAINS/(LOSSES)	01.01-31.03.2018	01.01-31.03.2017
Net foreign exchange gains/(losses)	104	116
Ineffective portion of cash flow hedges recognized in the income statements	3	1
Total	**104**	**116**

15. RESULT ON MODIFICATION

ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018

The result on modification of financial assets is presented divided into the following accounting portfolios:

- measured at fair value through profit or loss;
- measured at fair value through other comprehensive income (FVOCI);
- measured at amortized cost.

The issues relating to the recognition of modifications are described in note 4 "IFRS 9 Financial Instruments". The result on insignificant modifications is presented in the item "Result on modification", and the result on significant modifications is presented under "Gains or losses on derecognition of financial instruments not measured at fair value through profit or loss".

FINANCIAL INFORMATION

NET INCOME/(EXPENSE) ON MODIFICATION	01.01-31.03.2018	01.01-31.03.2017
Financial instruments measured at fair value through OCI (debt instruments)	-	
Financial instruments measured at amortized cost	(2)	
Total	**(2)**	

16. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	01.01-31.03.2018	01.01-31.03.2017
Net sales of products and services	85	64
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	13	8
Damages, compensation and penalties received	7	12
Sundry income	6	6
Recovery of receivables expired, forgiven or written off	3	1
Other[1]	43	24
Total	**157**	**115**

[1] In the first quarter of 2018,a penalty reimbursed by the UOKiK and amounting to PLN 25 million was recognized in the item "Other".

(IN PLN MILLION)

OTHER OPERATING EXPENSE	01.01-31.03.2018	01.01-31.03.2017
Costs of products and services sold	(6)	(10)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(7)	(10)
Donations made	(19)	(9)
Sundry expenses	(4)	(5)
Other	(19)	(5)
Total	**(55)**	**(39)**

17. RESULT ON ALLOWANCES FOR EXPECTED CREDIT LOSSES, IMPAIRMENT WRITE-DOWNS AND PROVISIONS

NET EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	01.01-31.03.2018	01.01-31.03.2017
Equity securities	-	18
available for sale		18
Debt securities	4	(7)
measured at amortized cost	-	-
Loans and advances to customers	(335)	(377)
measured at fair value through OCI	(4)	
measured at amortized cost	(331)	(377)
Investments in associates and joint ventures	(2)	(12)
Other receivables (of which: other financial assets)	(6)	(14)
Provision for legal claims, lending commitments and guarantees granted	3	1
Total	**(336)**	**(391)**

ACCUMULATED EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	31.03.2018	31.12.2017
Amounts due from banks	2	-
measured at fair value through OCI	-	
measured at amortized cost	2	-
Equity securities	6	77
available for sale		77
measured at amortized cost	6	-
Debt securities	180	249
available for sale		249
measured at fair value through OCI	164	
measured at amortized cost	16	-
Loans and advances to customers (note 28)	11 029	7 823
measured at fair value through OCI	-	
measured at amortized cost	11 029	7 823
Non-current assets held for sale	19	19
Property, plant and equipment	48	46
Intangible assets	198	199
Investments in associates and joint ventures	148	146
Inventories	21	21
Other receivables (of which: other financial assets)	282	297
Provision for legal claims, lending commitments and guarantees granted	170	107
Provision for future liabilities (Other provisions)	10	11
Total	**12 113**	**8 995**

(IN PLN MILLION)

18. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	01.01-31.03.2018	01.01-31.03.2017
Employee benefits[1]	(751)	(735)
Overheads	(357)	(344)
Depreciation and amortization	(206)	(209)
Contributions and fees to the Bank Guarantee Fund (BGF)	(233)	(256)
to the Resolution Fund[2]	(167)	(209)
to the Bank Guarantee Fund	(66)	(47)
Taxes and charges	(32)	(19)
Total	**(1 579)**	**(1 563)**

[1] In the first quarter of 2018, the costs of restructuring amounting to PLN 45 million were recognized under "Employee benefits".
[2] In the first three months of 2018, the item "Contribution and payments to the Bank Guarantee Fund - for the forced restructuring fund" comprised the contribution of PKO Bank Polski SA of PLN 162 million and the contribution of Bank Hipoteczny (the Mortgage Bank) of PLN 5 million.

EMPLOYEE BENEFITS	01.01-31.03.2018	01.01-31.03.2017
Wages and salaries, of which:	(625)	(607)
costs of contributions to the employee pension plan	(6)	(13)
Social insurance, of which:	(106)	(110)
contributions for disability and retirement benefits	(95)	(96)
Other employee benefits	(20)	(18)
Total	**(751)**	**(735)**

19. TAX ON CERTAIN FINANCIAL INSTITUTIONS

TAX ON CERTAIN FINANCIAL INSTITUTIONS	01.01-31.03.2018	01.01-31.03.2017
Tax on certain financial institutions, of which:		
PKO Bank Polski SA	(215)	(227)
PKO Życie Towarzystwo Ubezpieczeń SA	(1)	(1)
PKO Bank Hipoteczny SA	(12)	(5)
Total	**(228)**	**(233)**

20. INCOME TAX

	01.01-31.03.2018	01.01-31.03.2017
Current income tax expense	(339)	(254)
Deferred income tax on temporary timing differences	19	(8)
Income tax expense recognized in the income statement	(320)	(262)
Income tax expense on temporary differences recognized in other comprehensive income	(41)	(56)
Total	**(361)**	**(318)**

(IN PLN MILLION)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	01.01-31.03.2018	01.01-31.03.2017
Profit or loss before tax	1 076	790
Tax calculated using the enacted rate in force in Poland (19%)	(204)	(150)
Effect of permanent timing differences, of which:	(118)	(114)
recognizing a non-tax-deductible impairment allowance on investments in associates and joint ventures	-	(3)
non-tax deductible impairment allowances on credit exposures	(13)	(7)
contributions to BGF	(43)	(50)
tax on financial institutions	(45)	(46)
other permanent differences	(17)	(8)
Effect of other timing differences, including new technologies tax relief and donations	2	2
Income tax expense recognized in the income statement	(320)	(262)
Effective tax rate	**29,74%**	**33,16%**

DEFERRED TAX PROVISION	31.12.2017	IMPACT OF IFRS 9 IMPLEMENTATION ADJUSTMENT ON OPENING BALANCE	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	IMPACT OF IFRS 9 IMPLEMENTATION ADJUSTMENT ON OPENING BALANCE	31.03.2018
Interest accrued on receivables (loans)	224	471	19	-	-	714
Capitalized interest on performing housing loans	106	-	(10)	-	-	96
Interest on securities	62	-	9	-	-	71
Valuation of securities	8	33	28	41	(19)	91
Valuation of derivatives	8	-	(5)	-	-	3
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	333	-	82	-	-	415
Prepayments	120	-	9	-	-	129
Foreign exchange gains	18	-	(18)	-	-	-
Taxable temporary differences relating to Group companies	4	-	1	-	-	5
Gross deferred income tax provision	**883**	**504**	**115**	**41**	**(19)**	**1 524**
DEFERRED TAX ASSET						
Interest accrued on liabilities	116	-	(33)	-	-	83
Valuation of derivatives	156	-	(16)	12	-	152
Valuation of securities	-	-	6	-	-	6
Provision for employee benefits	94	-	(4)	-	-	90
Impairment allowances on loan exposures	735	640	159	(12)	-	1 522
Valuation adjustment	-	-				-
Valuation adjustment under straight line and ESP methods	705	-	15	-	-	720
Other deductible temporary differences	27	-	1	-	-	28
Provision for costs to be incurred	41	-	-	-	-	41
Tax loss	16	-	(2)	-	-	14
Foreign exchange differences	1	-	-	-	-	1
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	723	-	8	-	-	731
Gross deferred tax asset	**2 614**	**640**	**134**	**-**	**-**	**3 388**
Total effect of temporary differences	1 731	136	19	(41)	19	1 864
Deferred income tax provision (presented in the statement of financial position)	36	-	-	-	-	33
Deferred income tax asset (presented in the statement of financial position)	1 767	136	19	(41)	19	1 900

21. EARNINGS PER SHARE

EARNINGS PER SHARE	01.01-31.03.2018	01.01-31.03.2017
Profit attributable to ordinary shareholders	757	525
Weighted average number of ordinary shares during the period (in million)	1 250	1 250
Earnings per share (in PLN per share)	0,61	0,42

In the first quarter of 2018 and in the first quarter of 2017 there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.

(IN PLN MILLION)

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

22. Cash and balances with the Central Bank

CASH AND BALANCES WITH THE CENTRAL BANK	31.03.2018	31.12.2017
Current account with the Central Bank	11 346	11 172
Cash in hand	4 182	4 673
Deposits with the Central Bank	740	1 965
Total	**16 268**	**17 810**

23. Amounts due from banks

AMOUNTS DUE FROM BANKS	31.03.2018	31.12.2017
Not held for trading, mandatorily measured at fair value through profit or loss	**1**	-
Loans and advances granted	1	-
Measured at amortized cost	**3 765**	**5 233**
Deposits with banks	2 344	3 710
Current accounts	1 367	1 470
Loans and advances granted	50	51
Receivables in respect of repurchase agreements	-	-
Cash in transit	4	2
Total, gross	**3 765**	5 233
Allowances for expected credit losses/ Impairment allowances	(2)	-
Total, net	**3 763**	**5 233**
Total	**3 764**	**5 233**

For 2018, credit risk exposure is described in more detail in note 28 "Expected credit losses and modifications", and for 2017 it is described in note 29 "Impairment allowances for financial assets - in accordance with IAS 39".

24. Derivative hedging instruments

ACCOUNTING POLICIES

The Group has decided to continue the application of IAS 39 and it didn't apply IFRS 9.

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively

(IN PLN MILLION)

HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence) When designating the hedged item, the Group applied the solutions of IAS 39 WS.99C as adopted by the European Union)
	The period in which cash flows are expected to occur and affect the financial results: April 2018 – October 2026

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and negotiated deposits in PLN	CIRS CHF/PLN	float CHF	1 770	179	181	-
		float PLN	6 356			

STRATEGY 2	**HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	The period in which cash flows are expected to occur and affect the financial results: April 2018 – December 2021

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in PLN	IRS PLN	PLN	6 001	74	-	-

STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN CHF, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate CHF loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	The period in which cash flows are expected to occur and affect the financial results: April 2018 - February 2024

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF	IRS CHF	CHF	400	-	6	-

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M EURIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
	The period in which cash flows are expected to occur and affect the financial results: April 2018 – February 2024

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in EUR	IRS EUR	EUR	524	-	27	-

(IN PLN MILLION)

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a fixed USD or EUR rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD or EUR
	The period in which cash flows are expected to occur and affect the financial results: April 2018 – August 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and financial liabilities in USD	CIRS CHF/USD	float CHF	818	3	25	(1)
		fixed USD	875			
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	2 000	428	-	4
		fixed EUR	1 802			

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on the 3M EURIBOR rate, and receives coupons based on the WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). When designating the hedged item, the Group applied the solutions of IAS 39 WS.99C as adopted by the European Union
	The period in which cash flows are expected to occur and affect the financial results: April 2018 – March 2021

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in EUR and negotiated deposits in PLN	CIRS EUR/PLN	float EUR	125	18	-	-
		float PLN	545			

STRATEGY 7	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
	The period in which cash flows are expected to occur and affect the financial results: April 2018 – July 2023

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and regular savings products in PLN	CIRS CHF/PLN	float CHF	225	69	-	-
		float PLN	872			

STRATEGY 8	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in the fair value of fixed interest loans in foreign currencies, resulting from the risk of fluctuations in interest rates during the hedged period
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Bank pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan in a foreign currency, which corresponds to the market IRS rate

(IN PLN MILLION)

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		FAIR VALUE ADJUSTMENT OF THE HEDGED ITEM
				Assets	Liabilities	
Loans in EUR	IRS EUR	EUR	46	-	-	-

STRATEGY 9	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE MORTGAGE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate mortgage loans in PLN , resulting from the risk of fluctuations in interest rates, and elimination of the risk of fluctuations in cash flows from a fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on a floating 3M WIBOR rate, and receives coupons based on a fixed EUR rate on the nominal value for which they were concluded.
HEDGED ITEM	the portfolio of floating interest mortgage loans in PLN and a fixed interest financial liability in EUR
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – January 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in PLN and financial liabilities in EUR	CIRS PLN/EUR	float PLN	2 101	1	-	-
		fixed EUR	499			

In the first quarter of 2018, the Group introduced Strategy 9 for cash flow hedging. This strategy is described above.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.03.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	772	239	887	204
Hedges of interest rate risk	74	33	90	35
IRS	74	33	90	35
Hedges of currency and interest rate risks	698	206	797	169
CIRS	698	206	797	169
Fair value hedges	-	-	-	-
Hedges of interest rate risk	-	-	-	-
IRS	-	-	-	-
Total	772	239	887	204

(IN PLN MILLION)

CHANGE IN OTHER COMPREHENSIVE INCOME DUE TO CASH FLOW HEDGES	01.01-31.03.2018	01.01-31.03.2017
Other comprehensive income at the beginning of the period, gross	(142)	**(134)**
Gains/losses recognized in other comprehensive income during the period	(5)	611
Amounts transferred from other comprehensive income to the cash flow statement, of which:	(46)	(590)
- interest income	(91)	(69)
- net foreign exchange gains/(losses)	45	(521)
Accumulated other comprehensive income at the end of the period, gross	**(193)**	**(113)**
Tax effect	36	20
Accumulated other comprehensive income at the end of the period, net	**(157)**	**(93)**
Impact on other comprehensive income during the period, gross	**(51)**	**21**
Tax effect	10	**(5)**
Impact on other comprehensive income during the period, net	**(41)**	**16**
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**3**	**1**
Net foreign exchange gains/(losses)	3	1
Net gain/(loss) on financial instruments measured at fair value	-	-

25. Other derivatives

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.03.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	860	1 277	875	1 385
CIRS	72	60	77	60
FX SWAP	134	81	161	380
Options	221	191	254	250
Commodity swap	101	100	129	128
FRA	3	2	1	1
Forward	145	274	206	324
Futures	7	8	7	8
Other	-	1	1	-
Total	1 543	1 994	1 711	2 536

26. Securities

Accounting policies applicable as of 1 January 2018

As of 1 January 2018, the Group classifies debt securities into the following categories:

- Financial assets measured at fair value through profit or loss:
  - financial instruments held for trading;
  - financial assets not held for trading, obligatorily measured at fair value through profit or loss;
  - financial assets designated upon initial recognition at fair value through profit or loss.

(IN PLN MILLION)

- Financial assets measured at fair value through other comprehensive income.
- Financial assets measured at amortized cost.

The principles for classification and measurement of securities are described in note 4 "IFRS 9 Financial Instruments".

In the case of investments in equity instruments, the Group did not use the option of measurement at fair value through other comprehensive income. They are measured at fair value through profit or loss. In 2017, such investments were classified as financial instruments available for sale and measured at fair value, whereas the instruments whose fair value could not be estimated were measured at cost less impairment.

ACCOUNTING POLICIES APPLICABLE UP TO 31 DECEMBER 2017

Until 31 December 2017, the Group classified securities into the following categories:

- financial instruments held for trading
- financial instruments designated upon initial recognition at fair value through profit or loss
- investment securities available for sale
- investment securities held to maturity.

The accounting policies applied in this area are described in detail in the consolidated financial statements of the Group for 2017.

FINANCIAL INFORMATION

SECURITIES	31.03.2018	31.12.2017
held for trading	1 593	431
financial instruments designated at fair value through profit or loss upon initial recognition		8 157
available-for-sale investment securities		43 675
investment securities held to maturity		1 812
not held for trading, mandatorily measured at fair value through profit or loss	4 177	
designated at fair value through profit or loss (FVO)	-	
measured at fair value through OCI	44 985	
measured at amortized cost	7 069	
Total	**57 824**	**54 075**

(IN PLN MILLION)

SECURITIES 31.03.2018	held for trading	not held for trading, mandatorily measured at fair value through profit or loss	designated at fair value through profit or loss (FVO)	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 569	2 274	-	44 985	7 069	55 897
NBP money market bills	-	-	-	1 549	-	1 549
Treasury bonds (in PLN)	1 260	1 166	-	34 162	2 402	38 990
Treasury bonds (in foreign currencies)	206	896	-	239	101	1 442
municipal bonds (in PLN)	16	-	-	4 926	2 503	7 445
corporate bonds (in PLN)	86	134	-	3 676	1 725	5 621
corporate bonds (in foreign currencies)	1	78	-	433	338	850
Equity securities	24	1 903	-	-	-	1 927
shares in other entities - not listed	-	241	-	-	-	241
shares in other entities - listed	18	204	-	-	-	222
participation units in investment funds and shares in collective investment undertakings	6	1 458	-	-	-	1 464
Total	**1 593**	**4 177**	-	**44 985**	**7 069**	**57 824**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish Treasury bonds. As at 31 March 2018, foreign currency Treasury bonds also comprised Ukrainian Treasury bonds.

(IN PLN MILLION)

SECURITIES 31.12.2017	held for trading	financial instruments designated at fair value through profit or loss upon initial recognition	available-for-sale investment securities	investment securities held to maturity	Total
Debt securities	405	6 688	43 192	1 812	52 097
NBP money market bills	-	4 199	-	-	4 199
Treasury bonds (in PLN)	151	1 413	33 502	1 663	36 729
Treasury bonds (in foreign currencies)	138	893	238	149	1 418
municipal bonds (in PLN)	23	106	4 928	-	5 057
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	92	-	4 045	-	4 137
corporate bonds (in foreign currencies)	1	-	479	-	480
covered bonds	-	-	-	-	-
Equity securities	26	1 469	483	-	1 978
shares in other entities - not listed	-	-	150	-	150
shares in other entities - listed	19	-	77	-	96
investment fund units and participation units in a collective investment undertaking/Investment certificates, rights to shares, pre-emptive rights	7	1 469	256	-	1 732
Total	**431**	**8 157**	**43 675**	**1 812**	**54 075**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish Treasury bonds. As at 31 December 2017, foreign currency Treasury bonds also comprised Ukrainian Treasury bonds.

Information on credit exposures in respect of securities measured at amortized cost or at fair value through other comprehensive income is provided for the year 2018 in note 28 “Expected credit losses and modifications”, and for 2017 in note 29 “Impairment of financial assets – in accordance with IAS 39”.

(IN PLN MILLION)

27. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES

- **ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018**

As of 1 January 2018, the Group classifies loans and advances to customers in the following categories:

- not held for trading, obligatorily measured at fair value through profit or loss;
- measured at fair value through other comprehensive income (FVOCI);
- measured at amortized cost;
- financial instruments held for trading.

The principles for classification and measurement of loans and advances to customers are described in note 4 "IFRS 9 Financial Instruments".

- **ACCOUNTING POLICIES APPLICABLE UP TO 31 DECEMBER 2017**

The accounting policies applied in this area are described in detail in the consolidated financial statements of the Group for 2017.

FINANCIAL INFORMATION

LOANS AND ADVANCES TO CUSTOMERS	31.03.2018 Net amount	01.01.2018 Net amount	31.12.2017 Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	202 788	200 464	205 629
Adjustment relating to fair value hedge accounting	-	(1)	(1)
Total loans and advances to customers	**202 788**	**200 463**	**205 628**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.03.2018	01.01.2018	31.12.2017
measured at amortized cost, of which:	201 756	199 394	205 629
debt securities			4 368
not held for trading, mandatorily measured at fair value through profit or loss	1 032	1 070	
measured at fair value through other comprehensive income	-	-	
Total	**202 788**	**200 464**	**205 629**

Corporate and municipal bonds, which met the definition of loans and advances in accordance with IAS 39, were presented under "Loans and advances to customers". Due to the fact that such securities meet the SPPI test criterion and are classified under the "held to collect cash flows" business model, after the entry into force of IFRS 9 they are classified as financial assets measured at amortized cost and presented under securities measured at amortized cost.

LOANS AN ADVANCES TO CUSTOMERS (excluding adjustment relating to fair value hedge accounting) 31.03.2018	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through OCI			measured at amortized cost		
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Loans	1 032	-	-	-	199 215	(10 561)	188 654
housing	35	-	-	-	109 729	(3 076)	106 653
corporate	172	-	-	-	63 423	(5 305)	58 118
consumer	825	-	-	-	26 063	(2 180)	23 883
Receivables in respect of repurchase agreements	-	-	-	-	26	-	26
Finance lease receivables	-	-	-	-	13 544	(468)	13 076
Total	1 032	-	-	-	212 785	(11 029)	201 756

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2017	measured at amortized cost		
	Gross amount	Impairment allowance for receivables	Net amount
Loans	**194 936**	**(7 363)**	**187 573**
housing	108 163	(1 972)	106 191
corporate	60 497	(3 705)	56 792
consumer	26 276	(1 686)	24 590
Debt securities	**4 378**	**(10)**	**4 368**
corporate bonds	1 859	(4)	1 855
municipal bonds	2 519	(6)	2 513
Receivables in respect of repurchase agreements	**902**	**-**	**902**
Finance lease receivables	**13 236**	**(450)**	**12 786**
Total	**213 452**	**(7 823)**	**205 629**

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT (excluding adjustments relating to fair value hedge accounting)	31.03.2018	31.12.2017
Loans and advances to customers, gross, of which:	**213 817**	**213 452**
mortgage banking	103 215	101 544
corporate (including receivables due from repurchase agreements)	51 865	56 056
retail and private banking	26 902	26 288
small and medium enterprises	31 835	29 564
Impairment allowances on loans and advances	(11 029)	(7 823)
Loans and advances to customers, net	**202 788**	**205 629**

For 2018, credit risk exposure relating to loans and advances measured at amortized cost or at fair value through other comprehensive income is described in more detail in note 28 “Expected credit losses and modifications”, and for 2017 it is described in note 29 “Impairment allowances for financial assets – in accordance with IAS 39”.

28. EXPECTED CREDIT LOSSES AND MODIFICATIONS

ESTIMATES AND ASSESSMENTS – APPLICABLE AS OF 1 JANUARY 2018

The allowance for expected credit losses is recognized in the financial statements in the following manner:

- Financial assets measured at amortized cost; the allowance reduces the gross carrying amount of the financial asset; changes in the amount of allowance are recognized in the income statement;
- Off-balance sheet liabilities in respect of loans and financial guarantees: the allowance is presented as a provision under liabilities; changes in the allowance amount are recognized in the income statement;
- Financial instruments measured at fair value through other comprehensive income: the carrying amount of assets recognized at fair value is not additionally written down; however, each change in the measurement is divided into the impairment component, which is recognized in the income statement, and the component relating to other changes in the fair value measurement, which is recognized in other comprehensive income.

A detailed description of changes in impairment applicable from 1 January 2018 in connection with the implementation of IFRS 9 is provided in note 4 “IFRS 9 Financial Instruments”.

(IN PLN MILLION)

IMPAIRMENT OF FINANCIAL ASSETS

With respect to impairment, the Group applies IFRS 9, which is based on the concept of expected losses. The method for estimating allowances for expected credit losses is described in note 4 "IFRS 9 Financial Instruments".

FINANCIAL ASSETS

BY MEASUREMENT MODEL	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – credit-impaired assets (stage 3)	of which: contractual (non-working) assets covered with allowance	of which: impaired assets	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses
Measured at fair value through OCI										
amounts due from banks	-	-	-	-	-	-	-	-	-	-
securities	44 544	(23)	-	-	605	-	605	(147)	45 149	(170)
bank loans	-	-	-	-	-	-	-	-	-	-
other financial assets	-	-	-	-	-	-	-	-	-	-
Total	**44 544**	**(23)**	**-**	**-**	**605**	**-**	**605**	**(147)**	**45 149**	**(170)**
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	472	-	472	(14)	472	(14)
Measured at amortized cost										
amounts due from banks	3 765	(2)	-	-	-	-	-	-	3 765	(2)
securities	7 066	(13)	-	-	3	-		(3)	7 069	(16)
Treasury bonds	2 506	(2)	-	-	-	-	-	-	2 506	(2)
other	4 560	(11)	-	-	3	-		(3)	4 563	(14)
bank loans	183 050	(524)	14 805	(1 122)	14 930	2 343	11 546	(9 383)	212 785	(11 029)
other financial assets	2 875	(100)	-	-	-	-	-	-	2 875	(100)
Total	**196 756**	**(639)**	**14 805**	**(1 122)**	**14 933**	**2 343**	**11 546**	**(9 386)**	**226 494**	**(11 147)**
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	237	-	237	(98)	237	(98)

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSETS	Gross amount - assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount - assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount - credit-impaired assets (stage 3)	of which: contractual (non-working) assets covered with allowance	including: impaired assets	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses
amounts due from banks	3 765	(2)	-	-	-	-	-	-	3 765	(2)
securities	51 610	(36)	-	-	608	-	605	(150)	52 218	(186)
Treasury bonds	2 506	(2)	-	-	-	-	-	-	2 506	(2)
other	4 560	(11)	-	-	3	-	-	(3)	4 563	(14)
bank loans	183 050	(524)	14 805	(1 122)	14 930	2 343	11 546	(9 383)	212 785	(11 029)
housing	101 505	(65)	4 659	(432)	3 565	737	2 753	(2 579)	109 729	(3 076)
corporate	49 927	(297)	5 409	(368)	8 087	1 222	5 911	(4 640)	63 423	(5 305)
consumer	21 922	(140)	1 675	(245)	2 466	384	2 070	(1 795)	26 063	(2 180)
receivables in respect of repurchase agreements	26	-	-	-	-	-	-	-	26	-
finance lease receivables	9 670	(22)	3 062	(77)	812	-	812	(369)	13 544	(468)
other financial assets	2 875	(100)	-	-	-	-	-	-	2 875	(100)
Total	**241 300**	**(662)**	**14 805**	**(1 122)**	**15 538**	**2 343**	**12 151**	**(9 533)**	**271 643**	**(11 317)**
of which: purchased or originated credit-impaired financial assets - POCI	-	-	-	-	709	-	709	(112)	709	(112)

LOAN QUALITY RATIO (excluding adjustments relating to fair value hedge accounting)	31.03.2018	31.12.2017
Share of impaired loans	5,4%	5,5%

The ratio of exposures with recognized impairment was determined for exposures measured at amortized cost and loans measured at fair value through other comprehensive income less non-performing interest (fully provided for).

(IN PLN MILLION)

IMPAIRMENT OF FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	Fair value as at 31 December 2017	Changes due to IFRS 9 implementation	Fair value as at 1 January 2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Changes resulting from updating the applied estimation method (net)	Decrease in impairment allowances due to write-off	Changes due to in foreign exchange differences on translation of foreign entities	Other adjustments	As at the end of the period
Available-for-sale investment securities	326	(326)	-	-	-	-	-	-	-	-	-	-
Measured at fair value through OCI												
securities	-	173	173	-	(1)	(3)	-	-	-	1	-	170
Total	**-**	**173**	**173**	**-**	**(1)**	**(3)**	**-**	**-**	**-**	**1**	**-**	**170**
Measured at amortized cost												
amounts due from banks	-	-	-	2	-	-	-	-	-	-	-	2
securities	-	14	14	3	-	(2)	-	-	-	-	1	16
bank loans	7 823	2 843	10 666	163	(102)	263	13	-	(113)	10	129	11 029
housing	1 972	1 060	3 032	14	(16)	59	2	-	(54)	2	37	3 076
corporate	3 705	1 421	5 126	67	(19)	102	10	-	(15)	6	28	5 305
consumer	1 686	375	2 061	28	(10)	82	1	-	(43)	2	59	2 180
debt securities	10	(10)	-	-	-	-	-	-	-	-	-	-
debt securities (corporate)	4	(4)	-	-	-	-	-	-	-	-	-	-
debt securities (municipal)	6	(6)	-	-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(3)	447	54	(57)	20	-	-	(1)	-	5	468
other financial assets	100	-	100	-	-	-	-	-	-	-	-	100
Total	**7 923**	**2 857**	**10 780**	**168**	**(102)**	**261**	**13**	**-**	**(113)**	**10**	**130**	**11 147**
												-
Total allowances for expected credit losses on financial assets	**8 249**	**2 704**	**10 953**	**168**	**(103)**	**258**	**13**	**-**	**(113)**	**11**	**130**	**11 317**

(IN PLN MILLION)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS ACCORDING BY ASSET TYPES	Fair value as at 31 December 2017	Changes due to IFRS 9 implementation[1]	Fair value as at 1 January 2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Changes resulting from updating the applied estimation method (net)	Decrease in impairment allowances due to write-off	Changes due to in foreign exchange differences on translation of foreign entities	Other adjustments	As at the end of the period
amounts due from banks	-	-	-	2	-	-	-	-	-	-	-	2
securities	326	(139)	187	3	(1)	(5)	-	-	-	1	1	186
bank loans	7 823	2 843	10 666	163	(102)	263	13	-	(113)	10	129	11 029
housing	1 972	1 060	3 032	14	(16)	59	2	-	(54)	2	37	3 076
corporate	3 705	1 421	5 126	67	(19)	102	10	-	(15)	6	28	5 305
consumer	1 686	375	2 061	28	(10)	82	1	-	(43)	2	59	2 180
debt securities	10	(10)	-	-	-	-	-	-	-	-	-	-
debt securities (corporate)	4	(4)	-	-	-	-	-	-	-	-	-	-
debt securities (municipal)	6	(6)	-	-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(3)	447	54	(57)	20	-	-	(1)	-	5	468
other financial assets	100	-	100	-	-	-	-	-	-	-	-	100
Total allowances for expected credit losses on financial assets	8 249	2 704	10 953	168	(103)	258	13	-	(113)	11	130	11 317

[1] with respect to impairment recognized on loans of PLN 363 million, with respect to the recognition of non-performing interest recognized at the gross carrying amount of PLN 2,480 million and in respect of reversal of write-downs for securities of PLN 139 million.

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(IN PLN MILLION)

FINANCIAL ASSETS IMPAIRED UPON INITIAL RECOGNITION - POCI

Total amount of purchased or originated credit-impaired financial assets in the period ended 31 March 2018 amounted to PLN 597 million.

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.03.2018	Gross amount	Allowances	Net amount
Securities	472	(14)	458
measured at fair value through OCI	472	(14)	458
measured at amortized cost	-	-	-
Loans and advances to customers	235	(98)	137
measured at fair value through OCI	-	-	-
measured at amortized cost	235	(98)	137
Other financial assets	2	-	2
Total	**709**	**(112)**	**597**

CHANGES IN ALLOCANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) - FIRST QUARTER OF 2018	As at the beginning of the period	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Changes resulting from updating the applied estimation method (net)	Decrease in impairment allowances due to write-off	Changes due to in foreign exchange differences on translation of foreign entities	Other adjustments	As at the end of the period
Securities	15	-	-	(1)	-	-	-	-	-	14
measured at fair value through OCI	15	-	-	(1)	-	-	-	-	-	14
measured at amortized cost	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	117	2	(1)	(17)	-	-	(9)	-	6	98
measured at fair value through OCI	-	-	-	-	-	-	-	-		-
measured at amortized cost	117	2	(1)	(17)	-	-	(9)	-	6	98
Other financial assets	-	-	-	-	-	-	-	-	-	-
Total	132	2	(1)	(18)	-	-	(9)	-	6	112

29. IMPAIRMENT OF FINANCIAL ASSETS – IN ACCORDANCE WITH IAS 39

ESTIMATES AND JUDGEMENTS APPLICABLE BY 31 DECEMBER 2017

A detailed description of the accounting policies applied in this respect is provided in the consolidated financial statements of the Group for 2017 in Note 27 “Loans and advances to customers” and in Note 26 “Securities”.

FINANCIAL INFORMATION – APPLICABLE BY 31 DECEMBER 2017:

AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS - THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
Receivables impaired, of which:	
assessed on an individual basis	-
Amounts due form banks not impaired, not past due	5 233
Total, gross	**5 233**

(IN PLN MILLION)

SECURITIES

AVAILABLE-FOR-SALE INVESTMENT DEBT SECURITIES – THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
impaired, assessed on an individual basis	822
not impaired, not past due	42 619
with an external rating	37 472
with an internal rating	5 147
Total, gross	**43 441**
Impairment allowances	(249)
Total, net	**43 192**

LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS BY METHOD OF IMPAIRMENT ALLOWANCE CALCULATION	31.12.2017		
	Gross amount	Impairment allowances	Net amount
individual basis, of which:	5 420	(2 103)	3 317
impaired	4 346	(2 097)	2 249
not impaired	1 074	(6)	1 068
portfolio basis	7 354	(5 000)	2 354
impaired	7 332	(5 000)	2 332
not impaired	22	-	22
group basis (IBNR)	200 678	(720)	199 958
Total	**213 452**	**(7 823)**	**205 629**

LOANS AND ADVANCES TO CUSTOMERS - THE GROUP'S EXPOSURE TO CREDIT RISK	31.12.2017		
	Gross amount	Impairment allowances	Net amount
impaired, of which:	11 678	(7 097)	4 581
assessed on an individual basis	4 346	(2 097)	2 249
not impaired, of which:	201 774	(726)	201 048
with a recognized individual impairment trigger	1 074	(6)	1 068
not past due	763	(4)	759
past due	311	(2)	309
without a recognized individual impairment trigger/IBNR	200 700	(720)	199 980
not past due	195 643	(544)	195 099
past due	5 057	(176)	4 881
Total	**213 452**	**(7 823)**	**205 629**

LOAN QUALITY RATIOS (IN %)	31.12.2017
Share of impaired loans	5,5%
Coverage ratio of impaired loans[1]	67,0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	4,2%

[1] The coverage ratio of loans and advances to customers is calculated as the ratio of total impairment allowance (both on impaired loans and advances to customers and IBNR) to the total gross exposure of impaired loans and advances to customers.

(IN PLN MILLION)

OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	31.12.2017		
	not past due	past due	TOTAL
impaired	-	99	99
not impaired, not past due	2 368	10	2 378
Total, gross	2 368	109	2 477
Impairment allowances	-	(100)	(100)
Total carrying amount, net	**2 368**	**9**	**2 377**

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

IMPAIRMENT ALLOWANCES ON SECURITIES – RECONCILIATION OF MOVEMENTS IN THE FIRST QUARTER OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other	As at the end of the period	Net - impact on the income statement
Debt securities	277	7	-	-	(5)	279	(7)
Equity securities	67	-	(18)	-	-	49	18
Total	344	7	(18)	-	(5)	328	11

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS - RECONCILIATION OF MOVEMENTS IN THE FIRST QUARTER OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other, of which arising from business combinations	As at the end of the period	Recoveries of exposures written off	Net - impact on the income statement
housing loans	2 200	199	(124)	(51)	(45)	2 179	-	(75)
corporate loans	3 807	469	(308)	(87)	(30)	3 851	-	(161)
consumer loans	1 471	307	(186)	(10)	(7)	1 575	-	(121)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
finance lease receivables	448	71	(50)	(4)	(3)	462	-	(21)
Total	8 003	1 047	(670)	(152)	(85)	8 143	-	(377)

30. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	31.03.2018	31.12.2017
Land and buildings	154	148
Other	-	9
Total, gross	154	**157**
Impairment allowances	(19)	(19)
Total	**135**	**138**

(IN PLN MILLION)

31. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS

INTANGIBLE ASSETS	31.03.2018	31.12.2017
Software	1 493	1 542
Goodwill	1 263	1 263
Future profit on concluded insurance contracts	63	66
Customer relationships	82	88
Other, including capital expenditure	260	283
Total	**3 161**	**3 242**

GOODWILL

Net goodwill	31.03.2018	31.12.2017
Nordea Bank Polska SA	863	863
PKO Życie Towarzystwo Ubezpieczeń SA	91	91
PKO Leasing Pro SA	31	31
Raiffeisen - Leasing Polska SA and its subsidiaries	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	51	51
Assets taken over from CFP Sp. z o.o.	8	8
ZenCard Sp. z o.o.	12	12
Total	**1 263**	**1 263**

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	31.03.2018	31.12.2017
Land and buildings	1 623	1 629
Machinery and equipment	442	437
Assets under construction	70	123
Other	739	726
Total	**2 874**	**2 915**

OPERATING LEASE – LESSOR

ASSETS LEASED	31.03.2018	31.12.2017
Vehicles	344	313
Real properties	63	70
Machinery and equipment	6	6
Total	**413**	**389**

(IN PLN MILLION)

32. OTHER ASSETS

ACCOUNTING POLICIES

The financial assets recognized in this item are stated at amounts due, comprising also the potential interest on such assets, taking into consideration impairment allowances. Non-financial assets are measured in accordance with the valuation principles applicable to specific categories of assets recognized in this item.

FINANCIAL INFORMATION

OTHER ASSETS[1]	31.03.2018	31.12.2017
Settlements in respect of card transactions	1 529	1 136
Settlements of financial instruments (including unpaid option premium)	439	284
Receivables in respect of cash settlements	145	158
Receivables and settlements in respect of trading in securities	56	94
Settlements relating to selling foreign currencies	2	2
Inventories	161	186
Assets for sale	94	107
Prepayments and deferred costs	325	286
Trade receivables	190	209
VAT receivable	171	114
Ceded technical reserves	491	472
Other	92	63
Total	**3 695**	**3 111**
of which: other financial assets	2 875	2 377

[1] As at 31 March 2018, the item "Inventories" was included in the Note "Other assets" – the comparable data as at 31 December 2017 was restated.

OTHER ASSETS – INVENTORIES	31.03.2018	31.12.2017
Goods for resale	163	190
Finished goods	-	10
Available for sale investments – construction projects	12	-
Materials	7	7
Impairment allowances on inventories	(21)	(21)
Total	**161**	**186**

Information on the credit risk exposure in respect of other financial assets was discussed for the year 2018 in Note 28 "Expected credit losses and modifications", and for the year 2017 in Note 29 "Impairment allowances on financial assets – in accordance with IAS 39".

(IN PLN MILLION)

33. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	31.03.2018	31.12.2017
Measured at amortized cost:	**1 866**	**4 558**
Loans and advances received[1]	156	2 785
Bank deposits	1 002	1 077
Amounts due from repurchase agreements	46	-
Current accounts	621	653
Other monetary market deposits	41	43
Total	**1 866**	**4 558**

[1] The item "Loans and advances received" is presented in detail in Note 35 "Loans and advances received".

34. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	31.03.2018	31.12.2017
Measured at amortized cost:	**218 715**	**220 614**
Amounts due to retail customers	152 424	151 161
Current accounts and overnight deposits	90 059	86 819
Term deposits	61 772	64 126
Other liabilities	593	216
Amounts due to corporate entities	50 197	52 667
Current accounts and overnight deposits	33 570	40 070
Term deposits	14 627	11 613
Amounts due from repurchase agreements	1 244	48
Other liabilities	756	936
Amounts due to public entities	10 937	11 409
Current accounts and overnight deposits	9 314	9 555
Term deposits	1 581	1 820
Other liabilities	42	34
Loans and advances received[1]	3 465	3 563
Liabilities in respect of insurance products[2]	1 692	1 814
Unit-Linked	1 690	1 811
Investment policy contracts	2	3
Total	**218 715**	**220 614**

[1] The item "Loans and advances received" is presented in detail in Note 35 "Loans and advances received".
[2] The Note "Amounts due to customers" covers liabilities in respect of insurance products (Unit-Linked and Polisolokaty)

(IN PLN MILLION)

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.03.2018	31.12.2017
retail and private banking	144 415	142 484
corporate	44 432	48 570
small and medium enterprises	23 459	24 127
loans and advances received	3 465	3 563
amounts due from repurchase agreements	1 244	48
other liabilities (including liabilities in respect of insurance products)	1 700	1 822
Total	**218 715**	**220 614**

35. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	31.03.2018	31.12.2017
From banks	156	2 785
Nordea Bank AB	-	2 596
From international financial institutions	3 465	3 557
European Investment Bank	1 803	1 820
Council of Europe Development Bank	1 261	1 282
European Bank for Reconstruction and Development	152	169
International Financial Corporation	235	273
International Financial Institutions of Ukraine	14	13
From other financial institutions	-	6
Total	**3 621**	**6 348**

On 8 February 2018, the Bank made a full and final early repayment of a loan facility granted by Nordea Bank AB (publ) based on an agreement of 1 April 2014. Initially, the credit line was granted for the period of 7 years, which means that the Bank repaid it 3 years before the original maturity. In connection with the repayment of the loan facility, based on a separate agreement, the security established on receivables in the mortgage portfolio will be released. Early repayment of the loan facility means that the Group's results will no longer be charged with the cost of interest connected with the aforesaid loan facility.

36. LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES[1]	31.03.2018	31.12.2017
Technical reserves	965	882
Liabilities in respect of insurer's investment contracts, broken down by:	292	303
"Safe Capital" product	281	292
structured products	11	11
Total	**1 257**	**1 185**

[1] Liabilities in respect of insurance products (Unit-Linked and Polisolokaty) were transferred from Note "Liabilities in respect of insurance activities" to Note "Amounts due to customers".

(IN PLN MILLION)

37. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	31.03.2018	31.12.2017
Measured at amortized cost:	**26 267**	**23 932**
bonds issued by PKO Finance AB	5 743	5 882
bonds issued by PKO Bank Polski SA	5 251	5 204
bonds issued by the PKO Leasing SA Group [1]	1 560	1 593
bonds issued by PKO Bank Hipoteczny SA	2 701	2 406
bonds issued by KREDOBANK SA	4	-
covered bonds issued by PKO Bank Hipoteczny SA	11 008	8 847
Total	**26 267**	**23 932**

[1] including the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen Leasing Polska SA.

INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF SECURITIES

ADDITIONAL INFORMATION	01.01-31.03.2018	01.01-31.03.2017
issuance of debt securities during the period (nominal value)		
in PLN	1 737	1 541
in original currency (EUR)	2 121	2 113
in original currency (CHF)	-	-
redemption of debt securities during the period (nominal value)		
in PLN	1 502	921
in original currency (EUR)	-	-
in original currency (CHF)	-	-

In the first quarter of 2018, there were the following issues, redemptions and repayments of securities in the companies of the PKO Bank Polski SA Group (taking into account the balances as at 31 March 2018):

BONDS ISSUED BY PKO BANK POLSKI SA

Issuance date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2018	Carrying amount at 31.12.2017
25.07.2017	fixed	0,75	750	EUR	25.07.2021	3 168	3 132
02.11.2017	fixed	0,30	400	CHF	02.11.2021	1 434	1 427
17.11.2017	zero-coupon bonds	-	650	PLN	17.05.2018	649	645
Total						5 251	5 204

RELATING TO THE ISSUE OF BONDS BY MEMBERS OF THE PKO BANK POLSKI SA GROUP

- PKO Bank Hipoteczny SA issued 17 366 bonds with a total nominal value of PLN 1 736,6 million, and redeemed 14 620 bonds with a total nominal value of PLN 1 462 million. Issues of the Company's bonds are governed by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. At the same time, according to the Guarantee Agreement, PKO Bank Polski SA is a guarantor of the issue of bonds up to a total amount of PLN 2 000 million.
- PKO Leasing SA issued 271 611 bonds with a total nominal value of PLN 271,6 million, and redeemed 230 609 bonds with a total nominal value of PLN 230,6 million. Issues of the Company's bonds are governed by the Bond Issue Agreement concluded with PKO Bank Polski SA.

(IN PLN MILLION)

- KREDOBANK SA issued 31 810 bonds with a total nominal value of UAH 31,8 million. The bond issue was carried out based on a prospectus approved by the National Securities and Securities Markets Commission of the Ukraine.

BONDS ISSUED BY PKO FINANCE AB

Issuance date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2018	Carrying amount at 31.12.2017
25.07.2012	fixed	4,00	50	EUR	25.07.2022	217	211
26.09.2012	fixed	4,63	1 000	USD	26.09.2022	3 417	3 530
23.01.2014	fixed	2,32	500	EUR	23.01.2019	2 109	2 141
Total						**5 743**	**5 882**

BONDS ISSUED BY THE PKO LEASING SA GROUP

Issuance date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2018	Carrying amount at 31.12.2017
01.12.2014[1]	variable.3M WIBOR.coupon	3M WIBOR+ 0.85% Class A Notes.3M WIBOR + 1.55% Class B Notes	1 183	PLN	02.10.2025	1 191	1 262
01.06.2016	variable.3M WIBOR.coupon	3M WIBOR + 0.40%	73	PLN	01.06.2019	73	73
09.11.2017	fixed .discount	discount based on 3M WIBOR + 0.35%	28	PLN	09.05.2018	28	28
10.11.2017	fixed .discount	discount based on 3M WIBOR + 0.20%	101	PLN	12.02.2018	-	101
05.12.2017	fixed .discount	discount based on 3M WIBOR + 0.20%	90	PLN	08.03.2018	-	90
20.12.2017	fixed .discount	discount based on 3M WIBOR + 0.20%	39	PLN	21.03.2018	-	39
12.02.2018	fixed .discount	discount based on 3M WIBOR + 0.20%	120	PLN	14.05.2018	120	-
08.03.2018	fixed .discount	discount based on 3M WIBOR + 0.20%	97	PLN	08.06.2018	97	-
21.03.2018	fixed .discount	discount based on 3M WIBOR + 0.20%	52	PLN	22.06.2018	51	-
Total						**1 560**	**1 593**

[1] the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen-Leasing Polska SA. Bonds are secured with securitized lease receivables (see the note 65 “Information on securitization of the lease portfolio and portfolio sale of receivables”).

(IN PLN MILLION)

BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issuance date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2018	Carrying amount at 31.12.2017
07.08.2017	zero-coupon bonds	-	45	PLN	23.01.2018	-	41
15.09.2017	zero-coupon bonds	-	642	PLN	15.03.2018	-	639
29.09.2017	zero-coupon bonds	-	50	PLN	05.03.2018	-	50
29.09.2017	zero-coupon bonds	-	24	PLN	23.01.2018	-	23
02.10.2017	zero-coupon bonds	-	100	PLN	05.03.2018	-	100
12.10.2017	zero-coupon bonds	-	30	PLN	16.04.2018	30	30
16.10.2017	zero-coupon bonds	-	515	PLN	16.04.2018	514	512
16.10.2017	zero-coupon bonds	-	15	PLN	16.04.2018	15	15
20.10.2017	zero-coupon bonds	-	88	PLN	05.02.2018	-	88
20.10.2017	zero-coupon bonds	-	163	PLN	23.01.2018	-	160
25.10.2017	zero-coupon bonds	-	50	PLN	05.02.2018	-	50
26.10.2017	zero-coupon bonds	-	4	PLN	26.10.2018	4	4
02.11.2017	zero-coupon bonds	-	50	PLN	15.02.2018	-	50
02.11.2017	zero-coupon bonds	-	20	PLN	30.10.2018	20	20
15.11.2017	zero-coupon bonds	-	187	PLN	15.05.2018	186	185
01.12.2017	zero-coupon bonds	-	118	PLN	23.01.2018	-	117
15.12.2017	zero-coupon bonds	-	25	PLN	25.06.2018	25	25
20.12.2017	zero-coupon bonds	-	37	PLN	05.04.2018	37	37
20.12.2017	zero-coupon bonds	-	30	PLN	20.06.2018	30	30
20.12.2017	zero-coupon bonds	-	60	PLN	25.06.2017	60	59
27.12.2017	zero-coupon bonds	-	100	PLN	27.06.2018	99	99
29.12.2017	zero-coupon bonds	-	73	PLN	29.03.2018	-	72
09.01.2018	zero-coupon bonds	-	20	PLN	25.04.2018	20	-
23.01.2018	zero-coupon bonds	-	157	PLN	16.05.2018	157	-
23.01.2018	zero-coupon bonds	-	191	PLN	23.07.2018	190	-
31.01.2018	zero-coupon bonds	-	100	PLN	25.05.2018	100	-
05.02.2018	zero-coupon bonds	-	153	PLN	07.05.2018	153	-
09.02.2018	zero-coupon bonds	-	4	PLN	08.02.2019	4	-
15.02.2018	zero-coupon bonds	-	60	PLN	21.05.2018	60	-
19.02.2018	zero-coupon bonds	-	4	PLN	10.12.2018	4	-
05.03.2018	zero-coupon bonds	-	150	PLN	30.05.2018	149	-
15.03.2018	zero-coupon bonds	-	45	PLN	25.05.2018	45	-
15.03.2018	zero-coupon bonds	-	746	PLN	21.09.2018	739	-
29.03.2018	zero-coupon bonds	-	40	PLN	01.10.2018	39	-
29.03.2018	zero-coupon bonds	-	22	PLN	29.05.2018	21	-
Total						2 701	2 406

BONDS ISSUED BY KREDOBANK SA

Issuance date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2018	Carrying amount at 31.12.2017
01.12.2017	fixed	15%	32	UAH	25.11.2022	4	-
Total						4	-

RELATING TO THE ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA:

- PKO Bank Hipoteczny SA carried out one foreign issue of mortgage-covered bonds in EUR addressed to institutional investors, with a total nominal value of EUR 500 million; the mortgage-covered bonds were purchased by investors at a price lower than their nominal value and are listed on the Stock Exchange in Luxembourg and Warsaw.

(IN PLN MILLION)

MORTGAGE-COVERED BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issuance date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 31.03.2018	Carrying amount at 31.12.2017
11.12.2015	variable	WIBOR3M + 0.75	20	PLN	11.12.2020	20	18
27.04.2016	variable	WIBOR3M + 0.65	485	PLN	28.04.2021	489	487
17.06.2016	variable	WIBOR3M + 0.59	498	PLN	18.06.2021	499	498
24.10.2016	fixed	0,125	500	EUR	24.06.2022	2 098	2 079
02.02.2017	fixed	0,820	25	EUR	02.02.2024	105	105
30.03.2017	fixed	0,625	500	EUR	24.01.2023	2 102	2 093
28.04.2017	variable	WIBOR3M + 0.59	500	PLN	18.05.2022	501	497
22.06.2017	fixed	2,69	261	PLN	10.09.2021	265	263
27.09.2017	fixed	0,75	498	EUR	27.08.2024	2 104	2 084
27.10.2017	variable	WIBOR3M + 0.59	500	PLN	27.06.2023	499	498
02.11.2017	fixed	0,47	54	EUR	03.11.2022	228	225
22.03.2018	fixed	0,75	500	EUR	24.01.2024	2 098	-
Total						**11 008**	**8 847**

38. SUBORDINATED LIABILITIES

	Nominal value in a foreign currency	Interest rate	Currency	Period	Special terms	Balance in PLN	
						31.03.2018	31.12.2017
Subordinated bonds	1 700	3,36	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years from the issue date	1 705	1 720
Subordinated bonds	1 000	3,31	PLN	05.03.2018 - 05.03.2028	right to early redemption within 5 years from the issue date	1 002	-
Total						**2 707**	**1 720**

The subordinated bonds were earmarked, with the approval of the Polish Financial Supervision Authority, for increasing the Group's supplementary funds.

On 28 February 2018, the Bank placed an issue of subordinated bonds with a total nominal bond value of PLN 1 000 million. The issue will be in the 10NC5 format. The nominal value of one bond amounts to PLN 500,000 and the issue price is equal to the nominal value of the bonds. The bonds bear interest in semi-annual interest periods, and interest on the bonds will be assessed on the nominal value at the variable interest rate of WIBOR 6M increased by a margin of 150 b.p. over the entire issue period. On 8 March 2018, the Polish Financial Supervision Authority (KNF) approved earmarking the proceeds from the issue of subordinated bonds for an increase in the Bank's Tier 2.

(IN PLN MILLION)

39. Other liabilities

OTHER LIABILITIES	31.03.2018	31.12.2017
Expenses to be paid	588	631
Deferred income	394	368
Liability in respect of tax on certain financial institutions	76	76
Interbank settlements	432	1 313
Liabilities arising from investing activities and internal operations	151	295
Amounts due to suppliers	163	211
Liabilities and settlements in respect of trading in securities	446	534
Settlements of financial instruments (including unpaid option premium)	263	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	302	120
contribution calculated by BGF / to be contributed to BGF (Resolution Fund)	162	-
maintained in the form of payment commitments, of which:	140	120
to the Resolution Fund	63	63
to the Banks' Guarantee Fund	77	57
Liabilities under the public law	224	165
Liabilities in respect of foreign exchange activities	805	350
Liabilities in respect of payment cards	212	259
Liabilities to insurance institutions	70	59
Settlements relating to buying foreign currencies	3	-
Other	396	400
Total	**4 525**	**5 062**
of which: other financial liabilities	3 367	4 129

As at 31 March 2018, and as at 31 December 2017, the Group did not have any liabilities in respect of which it did not meet its contractual obligations.

The “Liabilities in respect of the contribution to the Bank Guarantee Fund” item includes liabilities in respect of a contribution assessed by the BGF for the mandatory restructuring fund for 2018 (of PLN 162 million, due by 19 July 2018) and liabilities in respect of contributions to the BGF (see Note 53 Assets pledged as collateral for liabilities and transferred financial assets).

40. Provisions

Accounting policies

Provision for loan commitments and guarantees granted

Information on the credit risk exposure in respect of other financial assets was discussed for the year 2018 in Note 28 “Expected credit losses and modifications”, and for the year 2017 in Note 29 “Impairment allowances on financial assets – in accordance with IAS 39”.

A provision for off-balance sheet loan exposures is recognized in an amount equal to the resulting expected (possible to estimate) the loss of economic benefits.

In the portfolio analysis, when determining the provision, the portfolio parameters estimated using statistical methods are used, based on historical observations of the exposure with the same characteristics, the parameters which define a marginal probability of the evidence of impairment, average utilization of an off-balance sheet liability and the level of anticipated loss in the event of impairment in subsequent months in the period from the reporting date to the horizon of the calculation of the anticipated loss.

(IN PLN MILLION)

With regard to individually significant loan exposures subject to an individual assessment, the provision is determined on a case by case basis – as the difference between the expected amount of the balance sheet loan exposure which will arise as a result of an off-balance sheet commitment at the date of overdue amounts arising treated as an individual impairment trigger, and the present value of the expected future cash flows obtained from the exposure.

FINANCIAL INFORMATION

For 3 months ended 31 March 2018	Provisions for disputed claims and tax proceedings	Provisions for pension and other liabilities in respect of defined post-retirement benefits[1]	Restructuring[1]	Provisions for other liabilities and guarantees granted	Other provisions including provisions for employee disputed claims[1]	Total
As at 31 December 2017, of which:	21	60	21	86	26	214
Short-term provisions	21	21	21	61	26	150
Long-term provisions	-	39	-	25	-	64
Changes due to IFRS 9 implementation	-	-	-	71	-	71
Short-term provisions	-	-	-	47	-	47
Long-term provisions	-	-	-	24	-	24
1 January 2018 (restated), of which:	**21**	**60**	**21**	**157**	**26**	285
Short-term provisions	21	21	21	108	26	197
Long-term provisions	-	39	-	49	-	88
Increase, including increase in existing provisions	3	-	45	64	-	112
Utilized	(5)	(13)	(6)	-	-	(24)
Released during the period	-	-	-	(70)	(14)	(84)
As at 31 March 2018, of which:	**19**	**47**	**60**	**151**	**12**	**289**
Short-term provisions	19	8	60	114	12	213
Long-term provisions	-	39	-	37	-	76

[1] As at 31 December 2017, provisions were reclassified from item "Other provisions, including provisions for employee disputes" to "Provisions for pensions and other liabilities in respect of defined post-employment benefits" amounting to PLN 14 million, and "Restructuring" amounting to PLN 21 million.

For 3 months ended 31 March 2017	Provisions for disputed claims and tax proceedings	Provisions for pension and other liabilities in respect of defined post-retirement benefits	Restructuring	Provisions for other liabilities and guarantees granted	Other provisions including provisions for employee disputed claims	Total
As at 1 January 2017	**24**	**60**	**59**	**67**	**19**	229
Short-term provisions	24	21	59	51	19	174
Long-term provisions	-	39	-	16	-	55
Increase, including increase in existing provisions	6	-	-	44	-	50
Utilized	-	-	(13)	-	-	(13)
Released during the period	(10)	-	-	(41)	(1)	(52)
Other changes and reclassifications	-	-	-	(1)	-	(1)
As at 31 March 2017, of which:	**20**	**60**	**46**	**69**	**18**	**213**
Short-term provisions	20	21	46	53	18	158
Long-term provisions	-	39	-	16	-	55

(IN PLN MILLION)

41. Equity and shareholding structure of the Bank

EQUITY	31.03.2018	31.12.2017
Share capital	1 250	1 250
Supplementary capital	27 425	27 374
General banking risk fund	1 070	1 070
Other reserves	3 645	3 645
Accumulated other comprehensive income	2	(110)
Retained earnings	2 420	(66)
Net profit or loss for the year	757	3 104
Non-controlling interests	(12)	(11)
Total	**36 557**	**36 256**

According to the knowledge of PKO Bank Polski SA as at the date of transferring the report, the following three entities hold directly or indirectly qualifying holdings (at least 5% of the shares): State Treasury, Nationale-Nederlanden Otwarty Fundusz Emerytalny, and Aviva Otwarty Fundusz Emerytalny.

NAME OF SHAREHOLDER	Number of shares	% of voting rights	Nominal value of 1 share	Interest held (%)
As at 31 March 2018				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Fund until 23.06.2015)[1]	103 388 120	8,27%	PLN 1	8,27%
Aviva Otwarty Fundusz Emerytalny[1]	95 163 966	7,61%	PLN 1	7,61%
Other shareholders[2]	683 528 934	54,68%	PLN 1	54,68%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**
As at 31 December 2017				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Fund until 23.06.2015)[1]	103 388 120	8,27%	PLN 1	8,27%
Aviva Otwarty Fundusz Emerytalny[1]	95 163 966	7,61%	PLN 1	7,61%
Other shareholders[2]	683 528 934	54,68%	PLN 1	54,68%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**

1) Calculation of shareholdings as at the end of 2017 published by PTE in the annual information about the structure of fund assets and quotation from the securities exchange official list (*Ceduła Giełdowa*).

2) Including Bank Gospodarstwa Krajowego which, as at 31/03/2018 held 24,487,297 shares, representing 1.96% of the votes at the General Shareholders' Meeting.

(IN PLN MILLION)

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

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

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

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

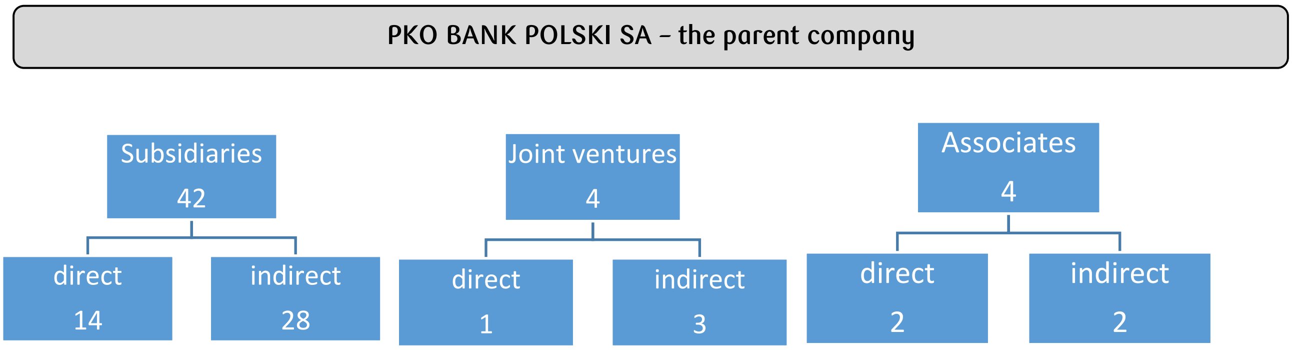
The Bank's shares are listed on the Warsaw Stock Exchange.

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

In the first quarter of 2018 and in 2017, there were no changes in the amount of the share capital of PKO Bank Polski SA. The shares of PKO Bank Polski SA issued are not preference shares and are fully paid up.

(IN PLN MILLION)

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



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

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

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY	
	DIRECT SUBSIDIARIES		31.03.2018	31.12.2017
1	PKO Bank Hipoteczny SA	Gdynia	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP BANKOWY PTE SA	Warsaw	100	100
5	PKO BP Finat Sp. z o.o.	Warsaw	100	100
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	99,6293	99,6293
10	Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.[1]	Kiev, Ukraine	95,4676	95,4676
11	Qualia Development Sp. z o.o.	Warsaw	100	100
12	ZenCard Sp. z o.o.	Warsaw	100	100
13	Merkury - FIZ AN[2]	Warsaw	100	100
14	NEPTUN - FIZ AN[2]	Warsaw	100	100

[1] The second shareholder of the entity is "Inter-Risk Ukraina" Additional Liability Company.
[2] PKO Bank Polski SA has investment certificates of the Fund; the share in the Fund's investment certificates is presented in the item "Share in equity".

(IN PLN MILLION)

No.	NAME OF ENTITY INDIRECT SUBSIDIARIES	REGISTERED OFFICE	% SHARE IN EQUITY* 31.03.2018	31.12.2017
	The PKO Leasing SA Group			
1	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
2	PKO Faktoring SA	Warsaw	100	100
3	PKO Leasing Nieruchomości Sp. z o.o.	Warsaw	100	100
4	PKO Agencja Ubezpieczeniowa Sp. z o.o.	Warsaw	100	100
	PKO Leasing Finanse Sp. z o.o.	Warsaw	100	100
5	ROOF Poland Leasing 2014 DAC[1]	Dublin, Ireland	-	-
	The PKO BP Finat Sp. z o.o.			
6	GAMMA Towarzystwo Funduszy Inwestycyjnych SA Group[2]	Warsaw	100	100
7	Net Fund Administration Sp. z o.o.[3]	Warsaw	100	-
	The PKO Życie Towarzystwo Ubezpieczeń SA Group			
8	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA Group			
9	Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. Group[4]			
10	Qualia Development Sp. z o.o.	Warsaw	100	100
11	Qualia 2 Sp. z o.o.	Warsaw	100	100
12	Qualia 3 Sp. z o.o.	Warsaw	100	100
13	Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.[5]	Warsaw	99,9975	99,9975
14	Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.[6]	Warsaw	99,9750	99,9750
15	Qualia Hotel Management Sp. z o.o.	Warsaw	100	100
16	Qualia - Residence Sp. z o.o.	Warsaw	100	100
17	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
18	FORT MOKOTÓW Sp. z o.o. w likwidacji	Warsaw	51	51
	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.[7]	Warsaw	-	99,9123
	Merkury - FIZ AN			
19	"Zarząd Majątkiem Górczewska" Sp. z o.o.	Warsaw	100	100
20	Molina Sp. z o.o.	Warsaw	100	100
21	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
22	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
23	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
24	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
25	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
26	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - FIZ AN			
27	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	"Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością[8]	Kiev, Ukraine	99,90	99,90
28	"CENTRUM HAFFNERA" Sp. z o.o.	Sopot	72,9766	72,9766
	"Sopot Zdrój" Sp. z o.o.	Sopot	100	100
	"Promenada Sopocka" Sp. z o.o.	Sopot	100	100

* Share in equity of the direct parent.

1) In accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.
2) Former name: KBC Towarzystwo Funduszy Inwestycyjnych SA.
3) Until 28 February 2018, the company was a direct subsidiary of GAMMA Towarzystwo Funduszy Inwestycyjnych SA.
4) In the limited partnerships in the Qualia Development Sp. z o.o. Group, Qualia Development Sp. z o.o. is the limited partner, and Qualia Sp. z o.o. is the general partner; according to the Articles of the aforesaid partnerships, the limited partner participates in 99.9% in profits, losses and assets of the limited partnership in the case of its liquidation, and the general partner – in 0.1%.; in the statement the limited partner's share in the capital is presented in the amount of contributions made.
5) On 9 March 2018, Qualia Sp. z o.o. assumed from Qualia 3 Sp. z o.o. all the rights and duties of the partnership's general partner; the name of the partnership was changed to Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.
6) On 9 March 2018, Qualia Sp. z o.o. assumed all the rights and duties of the partnership's general partner from Qualia 2 Sp. z o.o.; the name of the partnership was changed to Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.
7) The partnership was sold.
8) The second shareholder of the company is Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.

NAME OF SUBSIDIARY	CORE BUSINESS
PKO BANK HIPOTECZNY SA	The company specializes in granting mortgage housing loans to individual clients and it also purchases receivables relating to such loans from PKO Bank Polski SA. The core purpose of the company is to issue mortgage bonds on the domestic and foreign markets which constitute the main source of long-term financing of loans secured with a mortgage.
FORUM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.	The core business of the company is the creation, representation towards third parties and the management of open and closed investment funds and management of clients portfolio, which include one or more financial instruments. The company also offers specialized investment programs and conducts employee pension programs (PPE).
PKO LEASING SA	The Company, together with its subsidiaries – PKO Leasing Sverige AB and PKO Leasing Nieruchomości Sp. z o.o. provides lease services. The companies offer finance and operating leases: cars, vans, trucks, machinery and equipment, technological lines, medical equipment, real estate, IT hardware and software, ships, aircraft and railway equipment. The offer includes a fleet management service. Moreover, a subsidiary – PKO Leasing Finanse Sp. z o.o. is involved in storing, preparing and selling post-debt-collection and post-contract items and PKO Agencja Ubezpieczeniowa Sp. z o.o. provides specialist services within the scope of creating insurance products and programmes for the clients of financial institutions. This Group also includes a special purpose vehicle with its registered office in Ireland, established for the securitization of lease receivables. The PKO Leasing SA Group also includes PKO Faktoring SA, which provides domestic and export factoring services both assuming the risk and without assuming the risk, reverse factoring and a factoring program service for the suppliers.
PKO BP BANKOWY PTE SA	The Company's activities consist of creating and managing an open and voluntary pension funds and representing them in contacts with third parties. The Company manages PKO BP Bankowy Otwarty Fundusze Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (*Indywidualne Konto Emerytalne* – IKE) and Individual Retirement Security Account (*Indywidualne Konto Zabezpieczenia Emerytalnego* – IKZE) are offered.
PKO BP FINAT SP. Z O.O.	PKO BP Finat Sp. z o.o. provides comprehensive services to companies in the financial sector – including transfer agent, as well as fund and company accounting. It also specializes in the competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both companies of the Group, as well as companies outside the Group. In 2016, the Company began to handle group insurance dedicated to the products offered by the Bank. From December 2017, the PKO BP Finat Sp. z o.o. Group also comprises GAMMA Towarzystwo Funduszy Inwestycyjnych SA and Net Fund Administration Sp. z o.o. The core business of KBC Towarzystwo Funduszy Inwestycyjnych SA is the creation, representation towards third parties and the management of open and closed investment funds and the management of clients' portfolios, which include one or more financial instruments. Net Fund Administration Sp. z o.o. provides transfer agent services, and IT services.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The Company's core business consists of insurance activities in respect of insurance sector I – life insurance. The scope of the Company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 3, 4, 5 Section I). The Company offers a wide range of insurance products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.

PKO Towarzystwo Ubezpieczeń SA	The Company's core business consists of insurance activities in respect of insurance sector II – other personal insurance and property insurance. The scope of the Company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 Section II). PKO TU SA focuses on insuring against loss of income, private third party liability insurance and sickness insurance as well as real property insurance for loan recipients and clients who draw mortgage loans. The Company offers a wide range of insurance products addressed to customers of the Bank and other members of the Bank's Group.
PKO Finance AB	The Company conducts financial activities, mainly by seeking financing from international markets by issue of bonds and by lending the funds obtained to other members of the Bank's Group, including PKO Bank Polski SA.
KREDOBANK SA	KREDOBANK SA is a universal bank, focused on the customer service of retail clients and small and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time the Company strives to attract corporate customers with high creditworthiness. The Company offers services including maintaining the bank accounts of individuals and businesses, collecting deposits, lending, issuing warranties and guarantees, checks and bills trading, operations on the currency market, as well as operations on the securities market. The core business of Finansowa Kompania "Idea Kapitał" Sp. z o.o. – a subsidiary of KREDOBANK SA – consists of legal services in respect of acquired monetary claims under loan agreements.
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	The Company's core business is providing various financial services, including factoring services consisting in the acquisition of rights to the assignment of monetary claims under loan agreements in accordance with the Ukrainian law.
Qualia Development Sp. z o.o.	The core business of the members of the Qualia Development Sp. z o.o. Group is the sale of the last premises and real properties, as well as post-sale services in respect of the developer's products during the warranty period. Moreover, the Group is engaged in the hotel business, and intermediary activity in real estate turnover. In the first quarter of 2018, the Group continued its activities connected with the sale of developer's products and the sale of selected real properties and companies, including facilities in Gdańsk and Międzyzdroje.
ZenCard Sp. z o.o.	The Company conducts activities in respect of information technology and computer services; it specializes in creating solutions connected with using payment cards in discount and loyalty programmes. The Company built a platform for sellers to create discount and loyalty programmes, which at the same time allows for the virtualization of loyalty cards. This platform is integrated with a payment terminal and allows resigning from numerous separate loyalty cards or separate applications installed on mobile phones in return for a customer payment card which at the same time is a virtual loyalty card of each vendor. The Company's strategic partner is CEUP eService Sp. z o.o.- one of the largest settlement agents in Poland.
Merkury – FIZ AN	The fund's activities comprise investing money raised by non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. The fund conducts investment activities through subsidiaries whose business is buying and selling real estate on its own account and property management.

(IN PLN MILLION)

NEPTUN – FIZAN	The fund's activities comprise investing money raised by non-public offer to purchase investment certificates. The Fund is managed by PKO TFI SA. PKO Bank Polski SA sells to the Fund shares of companies whose business is not complementary to the offer of financial services offered by the Bank.

43. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY*	
			31.03.2018	31.12.2017
	Joint venture of PKO Bank Polski SA			
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	34	34
	1 EVO Payments International Sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, Czech Republic	100	100
	Joint ventures of NEPTUN - fizan			
	3 "Centrum Obsługi Biznesu" Sp. z o.o.	Poznań	41,44	41,44
	Associates of PKO Bank Polski SA			
1	Bank Pocztowy SA	Bydgoszcz	25,0001	25,0001
	1 Centrum Operacyjne Sp. z o.o. w likwidacji	Bydgoszcz	100	100
	2 Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.	Warsaw	100	100
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o	Poznań	33,33	33,33
	FERRUM SA[1]	Katowice	-	22,14
	FERRUM MARKETING Sp. z o.o.	Katowice	-	100
	Zakład Konstrukcji Spawanych FERRUM SA	Katowice	-	100
	Walcownia Rur FERRUM Sp. z o.o.	Katowice	-	-

* Share in equity of the direct parent

[1] On 27 February 2018, an increase in the share capital of FERRUM SA was registered in the National Court Register (KRS), as a result of which the share of PKO Bank Polski SA in the Company's share capital and in the votes at the General Shareholders' Meeting went down from 22.14% to 9.38% – the Company (with its subsidiaries) ceased to be an associate of the Bank.

NAME OF JOINT VENTURE OR ASSOCIATE	CORE BUSINESS
CENTRUM ELEKTRONICZNYCH USŁUG PŁATNICZYCH ESERVICE SP. Z O.O.	The Company offers services which consist of processing transactions involving payment instruments conducted both through POS terminals in Poland and abroad and online, lease of POS terminals, top-ups of mobile telephone cards and servicing of gift cards. PKO Bank Polski SA, together with the Company, offer comprehensive services which involve attracting and servicing entities which use POS terminals and settling transactions conducted with payment instruments using such terminals.
"CENTRUM OBSŁUGI BIZNESU" SP. Z O.O.	A joint project of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. The Bank is a member of a syndicate of banks which granted the Company an investment loan for the execution of the said project. The hotel was completed and began operating in 2007.
BANK POCZTOWY SA	Bank Pocztowy SA specializes in standard banking products offered to retail clients and a supplementary offer for micro-businesses and institutional clients. It also operates in the segment of settlements and treasury. The Bank is taking advantage of the potential of its main shareholder, Poczta Polska SA (Polish Post) and develops its product offering in cooperation with other entities in its Group.

"POZNAŃSKI FUNDUSZ PORĘCZEŃ KREDYTOWYCH" SP. Z O.O.	The Company specializes in supporting the development of small and medium-sized enterprises by providing guarantees and various types of services for business. The Company grants guarantees for loans and advances extended by banks, including PKO Bank Polski SA, as well as bank guarantees, lease and factoring transactions, and bid bond guarantees. The entity cooperates with PKO Leasing SA.

FINANCIAL INFORMATION

JOINT VENTURES	31.03.2018	31.12.2017
"Centrum Obsługi Biznesu" Sp. z o.o.	-	-
Acquisition price	17	17
Change in the share in net assets	(14)	(14)
Impairment allowance	(3)	(3)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	239	244
Value of shares as at the date of obtaining joint control	197	197
Change in the share in net assets	42	47
Total	**239**	**244**

CHANGE IN INVESTMENTS IN JOINT VENTURES	01.01-31.03.2018	01.01-31.03.2017
Investments in joint ventures as at the beginning of the period	244	227
Share in profits/ (losses)	5	7
Net impairment allowance	-	(1)
Dividend	(10)	-
Other	-	-
Investments in joint ventures as at the end of the period	**239**	**233**

ASSOCIATES	31.03.2018	31.12.2017
Bank Pocztowy SA Group	130	130
Acquisition price	184	184
Change in the share in net assets	85	83
Impairment allowance	(139)	(137)
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-
Acquisition price	2	2
Change in the share in net assets	4	4
Impairment allowance	(6)	(6)
FERRUM SA Group	-	19
Acquisition price	-	25
Change in the share in net assets	-	(6)
Total	**130**	**149**

CHANGE IN INVESTMENTS IN ASSOCIATES	01.01-31.03.2018	01.01-31.03.2017
Investments in associates as at the beginning of the period	149	159
Share in profits/ (losses)	1	(2)
Net impairment allowance	(2)	(11)
Share in comprehensive income of associated undertakings	1	(2)
Reclassification of shares from associates to financial assets	(19)	-
Investments in associates as at the end of the period	**130**	**144**

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01-31.03.2018	01.01-31.03.2017
As at the beginning of the period	146	120
Recognized during the period	2	12
Reversed during the period	-	-
As at the end of the period	**148**	**132**
Net increase - impact on the income statement	(2)	(12)

44. CHANGES IN COMPANIES COMPRISING THE GROUP

CHANGES TO MEMBERS OF THE GROUP AND TO OTHER SUBORDINATED ENTITIES.

In the first quarter of 2018, the following events which had an impact on the PKO Bank Polski SA Group's structure and relating to joint ventures and associates, including capital injection, took place.

ZENCARD SP. Z O.O.

On 19 February 2018, the Company's share capital increase of PLN 17 150 was registered in the National Court Register (KRS). All shares in the increased share capital were taken up by the existing sole shareholder, PKO Bank Polski SA.

As at 31 March 2018, the Company's share capital amounted to PLN 107 900 thousand and is divided into 2 158 shares with a nominal value of PLN 50 each.

PKO BP FINAT SP. Z O.O. GROUP

On 28 February 2018, a change in the name of KBC Towarzystwo Funduszy Inwestycyjnych SA to GAMMA Towarzystwo Funduszy Inwestycyjnych SA was registered in the KRS.

On 1 March 2018, PKO BP Finat Sp. z o.o. Group acquired from GAMMA Towarzystwo Funduszy Inwestycyjnych SA the shares in Net Fund Administration Sp. z o.o. (NetFA) representing 100% of the Company's share capital and 100% of the voting rights at the General Shareholders' Meetings. Thereby, NetFA became a direct subsidiary of PKO BP Finat Sp. z o.o.

QUALIA DEVELOPMENT SP. Z O.O. GROUP

- **QUALIA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ– ZAKOPANE SP. K. (ZAKOPANE COMPANY)**

On 8 March 2018, Qualia Development Sp. z o.o. sold all the rights and duties of the limited partner in Zakopane Company, and Qualia Sp. z o.o. sold all the rights and duties of the general partner in Zakopane Company. Qualia spółka z ograniczoną odpowiedzialności – Zakopane Sp. k. ceased to be a subsidiary of Qualia Development Sp. z o.o.

- **QUALIA – RESIDENCE SP. Z O.O.**

On 8 March 2018, the Company sold land property located in Zakopane at ul. Piłsudskiego 14.

On 29 March 2018, the Extraordinary Shareholders' Meeting adopted a resolution on returning to Qualia Development Sp. z o.o. The additional payments totalling PLN 12 300 000. The funds were transferred on 30 March 2018.

- **QUALIA 2 SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ – NOWY WILANÓW SP. K.**

Qualia Sp. z o.o. assumed from Qualia 2 Sp. z o.o. all the rights and duties of the limited partner in Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. – the agreement on the sale of all the rights and duties was concluded on 9 March 2018.

Partners of Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. adopted a resolution on appropriate amendments to the partnership's agreement, including a change in the Company's name to Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.

- **QUALIA 3 SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ – NEPTUN PARK SP. K.**

Qualia Sp. z o.o. assumed from Qualia 3 Sp. z o.o. all the rights and duties of the limited partner in Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. – the agreement on the sale of all the rights and duties was concluded on 9 March 2018.

Partners of Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. adopted a resolution on appropriate amendments to the partnership's agreement, including a change in the Company's name to Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k. – the change was registered in the National Court Register on 25 April 2018.

FERRUM SA GROUP

On 27 February 2018, an increase in the share capital of FERRUM SA was registered in the National Court Register (KRS), as a result of which the share of PKO Bank Polski SA in the Company's share capital and in votes at the General Shareholders' Meeting went down from 22,14% to 9,38% – the Company (with its subsidiaries) ceased to be an associate of the Bank.

EVENTS WHICH WILL HAVE AN IMPACT ON CHANGES IN THE FOLLOWING QUARTERS

- **KREDOBANK SA**

In the first quarter of 2018, PKO Bank Polski SA started a squeeze-out procedure, i.e. Mandatory repurchase of shares in KREDOBANK SA from minority shareholders. In March 2018, it presented KREDOBANK SA with an irrevocable request for the repurchase of the shares based on Art. 65-2 of the Ukraine's Act on joint stock companies.

On 17 April 2018, all shares in KREDOBANK SA repurchased under the aforesaid procedure were recorded on the deposit account of PKO Bank Polski SA, and PKO Bank Polski SA became a shareholder holding a 100% share in the share capital and voting rights at the General Shareholders' Meeting of KREDOBANK SA.

- **QUALIA HOTEL MANAGEMENT SP. Z O.O.**

On 26 February 2018, the Extraordinary Shareholders' Meeting adopted a resolution related to the change in the Company's name to Residence Management Sp. z o.o. – the change in name was registered in the KRS on 20 April 2018.

OTHER NOTES

45. Dividends per share

On 16 March 2018, the Bank received an individual recommendation from the PFSA in respect of increasing own funds by retaining at least 75% of the profit earned in the period from 1 January to 31 December 2017. At the same time, the PFSA confirmed that the Bank had met the requirements for the distribution of dividend at a level of up to 25% of the 2017 net profit. Both the Supervisory Board and Management Board of PKO Bank Polski SA adopted resolutions that within their competence they would perform the PFSA recommendation.

On 3 April 2018, the Management Board of the Bank adopted a resolution in which it decided to submit to the Annual General Shareholders' Meeting a recommendation of the following allocation of the profit earned in 2017 of PLN 2 774 million:

- for the payment of dividend to the shareholders – PLN 687,5 million;
- for the supplementary capital – PLN 2 050 million;
- for other reserves – PLN 36,5 million.

This means that the Management Board of the Bank recommends allocating 24.80% of the 2017 profit for dividend, which means PLN 0,55 per share, gross.

The recommendation of the Management Board of the Bank was in line with its dividend policy which assumes the systematic payment of dividends over a long period in keeping with the principle of prudent management of the Bank and the Bank's Group. The decision on the recommended allocation of the 2017 profit was moreover consistent with the decision declared by the Management board and Supervisory Board of the Bank on complying with the individual recommendation of PFSA.

On 19 April 2018, the Supervisory Board of the Bank gave a positive opinion on the Management Board's recommendation for the Annual General Shareholders Meeting regarding the allocation of the profit earned in 2017. Moreover, in accordance with the draft resolution of the Annual General Shareholders' Meeting:

- the record date (the day of acquiring the right to dividend) will be 8 August 2018;
- the date of dividend payment will be 22 August 2018.

(IN PLN MILLION)

46. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS GRANTED

SECURITIES PROGRAMMES COVERED WITH UNDERWRITING AGREEMENTS (THE GROUP'S MAXIMUM COMMITMENT TO TAKE UP SECURITIES)

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreements	Contract expiry date
As at 31 March 2018			
Company A	corporate bonds	1 452	31.12.2020
Company B	corporate bonds	995	31.07.2020
Company C	corporate bonds	56	31.12.2022
Total		**2 503**	

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreements	Contract expiry date
As at 31 December 2017			
Company A	corporate bonds	1 453	31.12.2020
Company B	corporate bonds	769	31.07.2020
Company C	corporate bonds	58	31.12.2022
Total		**2 280**	

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

CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	31.03.2018	31.12.2017
intangible assets	24	21
property, plant and equipment	97	78
Total	**121**	**99**

(IN PLN MILLION)

Financial commitments granted and guarantee commitments granted

OFF-BALANCE SHEET LIABILITIES GRANTED 31.03.2018	Off-balance sheet liabilities under IFRS 9	Provisions for off-balance sheet liabilities under IFRS 9	Total off-balance sheet liabilities granted
Financial liabilities granted:			
Credit lines and limits			
housing	5 635	(18)	5 617
corporate	30 452	(65)	30 387
consumer	8 652	(29)	8 623
Total	**44 739**	**(112)**	**44 627**
of which irrevocable loan commitments	28 678	(63)	28 615
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 208	(37)	5 171
to financial entities	327	(13)	314
to non-financial entities	4 841	(23)	4 818
to public entities	40	(1)	39
Guarantees and pledges granted – domestic corporate bonds	2 578	-	2 578
to financial entities	-	-	-
to non-financial entities	2 578	-	2 578
Letters of credit issued	1 418	(2)	1 416
to financial entities	21	-	21
to non-financial entities	1 397	(2)	1 395
Guarantees and warranties granted – payment guarantee for financial entities	210	-	210
Guarantees and pledges granted - domestic municipal bonds	452	-	452
Total	**9 866**	**(39)**	**9 827**
of which performance guarantees granted	2 355	(14)	2 341

Information about the provisions recognized for off-balance sheet financial and guarantee commitments is presented in the Note 40 “Provisions”.

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES GRANTED 31.12.2017	Off-balance sheet liabilities under IAS 37	Provisions for off-balance sheet liabilities under IAS 37	Total
Financial liabilities granted:			
Credit lines and limits			-
housing	5 195	(6)	5 189
corporate	30 928	(43)	30 885
consumer	8 347	(10)	8 337
Total	**44 470**	**(59)**	**44 411**
of which irrevocable loan commitments	33 607	(51)	33 556
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 813	(25)	5 788
to financial entities	320	(3)	317
to non-financial entities	5 462	(21)	5 441
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	2 350
to financial entities	-	-	-
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 409	(2)	1 407
to non-financial entities	1 409	(2)	1 407
to public entities			-
Guarantees and warranties granted – payment guarantee for financial entities	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**10 140**	**(27)**	**10 113**
of which performance guarantees granted	2 630	-	2 630

47. OFF-BALANCE SHEET COMMITMENTS RECEIVED

OFF-BALANCE SHEET COMMITMENTS RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.03.2018	31.12.2017
Financial	255	95
Guarantees	14 355	14 227
Total	**14 610**	**14 322**

Due to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the ‘Special Indemnity Agreement’), according to which Nordea Bank AB (publ) covered, up to 31 March 2018, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement.

The Group has made a valuation of the Special Indemnity Agreement based on the conducted analysis of probability of cash flows arising from the Agreement. The estimated expected value is zero.

48. LEGAL CLAIMS

As at 31 March 2018,the total amount in litigation where the Bank is the defendant, and litigation (suits) in which other PKO Bank Polski SA Group companies are defendants (suits) was PLN 1 771 million, including PLN 18 million in respect of litigation in the Ukraine (as at 31 December 2017 the total amount of the said litigation was PLN 1 709 million), and the total number of suits as at 31 March 2018 where the Bank is the plaintiff and litigation where other PKO Bank Polski SA Group companies are plaintiffs was PLN 1 161 million, including 19 million cases in respect of litigation in the Ukraine (as at 31 December 2017 the total amount under the said litigation was PLN 1 363 million).

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

a) UNFAIR COMPETITION PROCEEDINGS

PROCEEDING AGAINST PRACTICES THAT LIMIT COMPETITION IN THE PAYMENTS MARKET USING PAYMENT CARDS IN POLAND:

The Bank is a party to proceedings initiated by the 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* – POHiD) against operators of the Visa and Europay payment systems and 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 the above cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of the '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, of PLN 16,6 million.

The Bank appealed against the decision of the President of UOKiK to CCCP (Court for Competition and Consumer Protection / *Sąd Ochrony Konkurencji i Konsumentów* – SOKiK). By judgement of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10,4 million. On 7 February 2014 the judgement was appealed against on behalf of the Bank and eight other plaintiffs. The Court of Appeal in Warsaw in its judgement of 6 October 2015, restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. a penalty of PLN 16,6 million (penalty imposed on PKO Bank Polski SA) and a penalty of PLN 4,8 million (penalty imposed on Nordea Bank Polska SA). The penalties were paid by the Bank in October 2015. The cost of the respective provision was incurred in previous periods and the amount of the provision was updated depending on the course of the litigation. On 28 April 2016, the Bank filed a cassation complaint. In its judgement of 25 October 2017, the Supreme Court waived the disputed judgement of the Court of Appeal in Warsaw and referred the case for re-consideration. The penalties levied on the Bank and paid by it were returned to the Bank on 21 March 2018. The Court of Appeal deferred the appeal hearing by 24 October 2018.

As at 31 March 2018, the Bank was a party to the following proceedings:

PROCEEDINGS RESULTING FROM A DECISION OF THE PRESIDENT OF THE UOKIK IN RESPECT OF THE SUSPICION OF USING PROHIBITED CONTRACTUAL PROVISIONS IN TEMPLATES OF CONSUMER LOAN AGREEMENTS, WITH THE EXCLUSION OF CREDIT CARD AGREEMENTS, WHICH THE BANK APPEALED AGAINST TO THE SOKIK

By decision of 31 December 2013, the Bank's activities were considered to be practices violating the collective interests of consumers and a fine amounting to PLN 29 million was imposed on the Bank by the President of UOKiK. The Bank appealed against this decision to SOKiK. By judgement of 9 July 2015 SOKiK waived the entire decision of the President of the UOKiK. On 21 August 2015 the President of UOKiK appealed against that judgement. In its judgement of 31 May 2017, the Court of Appeal in Warsaw upheld the SOKiK judgement in part, i.e. it upheld the judgement on waiving the penalty in the amount of PLN 17 million. In respect of the second alleged prohibited practice (one-day information form expiring after one day), the Court of Appeal accepted UOKiK's appeal as justified, because the application of a form with one-day "validity" did not allow consumers to become acquainted with the terms and conditions of a loan and to compare the offers of various banks. The Court of Appeal reduced the penalty levied by UOKiK from PLN 12 million to PLN 6 million. The penalty was repaid in July 2017 (the cost was incurred in the second quarter of 2017). On 23 October 2017, the Bank lodged a cassation appeal against the judgement of the Court of Appeal. The Bank is awaiting the decision of the Supreme Court on accepting the cassation appeal for consideration.

- **BEFORE SOKIK: THREE PROCEEDINGS INITIATED BY INDIVIDUALS FOR:**

1) recognizing as abusive and prohibiting the Bank from using the provisions in template agreements on loans denominated in CHF in its trading with customers; the currency conversion rules used by the Bank for loan payment purposes and for the determination of loan instalments as well as the provisions concerning interest rates are questioned (proceeding suspended);
2) the recognition as illegal of the provisions in the templates of the mortgage loan agreement Nordea-Habitat and the surety agreement,

As at 31 March 2018, the Bank did not have a provision for these proceedings, because the probability of unfavourable verdicts was considered to be low.

- **BEFORE THE PRESIDENT OF UOKIK**

Three proceedings are pending before the President of UOKiK:

1) in respect of the alleged practices applied by PKO Bank Polski SA which violate the collective interests of consumers who are party to an agreement for payment services and have access to the electronic banking. The alleged violation involves informing of the proposed changes to the conditions of the agreement during its performance exclusively using electronic communications sent through electronic banking channels, which do not constitute a permanent information carrier. The charges also include a failure to include appendices in the information in the form of electronic documents (regulations and banking fee and commission tariffs for individuals) sent to consumers on the changes introduced to PKO Bank Polski SA and Inteligo branded products, i.e.: bank accounts and debit cards, credit cards, payment cards. Currently, actions are being taken to conclude these proceedings. The deadline was set at 12 June 2018;
2) for regarding the provisions of the agreement template as prohibited due to using in the Bank's templates, annexes to mortgage loan and advances agreements revalued/ indexed/ denominated in foreign currencies and appendices thereto, which can be regarded as prohibited provisions. Actions are being taken to conclude these proceedings. The deadline for concluding the proceedings was determined to be 31 July 2018;
3) in respect of the Bank applying practices which violate collective consumer interests by collecting from consumers higher instalments of loans and advances denominated in foreign currencies than the ones resulting from a warning about currency risk presented to the consumers before concluding agreements, and transferring the potential currency risk to the consumers. The Bank responded to the charges in its letter of 23 September 2017. According to the Bank's findings, the proceedings were transferred to the UOKiK local office (Delegatura) in Poznań. The deadline for concluding the proceedings has not been determined.

Moreover, there are sixteen explanatory proceedings pending before the President of UOKiK connected with the Bank's activities (under Art. 49a of the Act on Competition and Consumer Protection).

As at 31 March 2018, the Bank did not set up any provisions for these proceedings, because the probability of unfavourable outcome of these proceedings is assessed as low.

In the first quarter of 2018, PKO Życie Towarzystwo Ubezpieczeń SA – a subisdiary of the Bank – a subsidiary of the Bank continued its activities connected with the implementation of:

a) the obligating decision issued in October 2015 by the President of UOKiK, in respect of changes in the fees for earlier resignation stipulated in policies with an insurance capital fund;

b) arrangement concluded on 19 December 2016 with the President of UOKiK, under which the conditions of the decision referred to in point a) above were extended to the entire active (as at 1 December 2016) portfolio of insurance products with an insurance capital fund held by the Company's customers, and corresponding solutions were adopted for customers who concluded agreements with an insurance capital fund after 1 January 2008 when they were aged 61 or more, and the agreements were terminated after the customer's 65th birthday.

As at 31 March 2018, PKO Życie Towarzystwo Ubezpieczeń SA does not have a provision for an administrative penalty in respect of proceedings relating to products with an insurance capital fund (a provision of PLN 8.1 was released in 2015 due to the fact that the obligating decision of the President of UOKiK became final). At the same time, the Company maintains provision for damages at a level adequate to the conditions of the obliging decision and the arrangement.

(IN PLN MILLION)

Moreover, in respect of the activities conducted by PKO Bank Polski SA subsidiaries, there are three explanatory proceedings pending before the President of UOKiK and one position of the President of UOKiK presented without initiating proceedings (under Art. 49a of the Act of competition and consumers protection).

b) RE-PRIVATIZATIONS CLAIMS RELATING TO PROPERTIES USED BY THE BANK

As at the date of these financial statements there are:

a) Four proceedings, including one suspended, in respect of the Bank's properties, relating to declaring invalid the decisions which denied the Bank the right to temporary ownership which would transfer the properties under its administration and on obtaining ex officio the right of perpetual usufruct to the land and ownership of the building, return of real property, and regulation of the legal status of the property;

b) fourteen proceedings, including one suspended in respect of real properties of other members of the Bank's Group, related to declaring the invalidity of administrative decisions or refund of the property.

The Management Board of PKO Bank Polski SA believes that the probability of serious claims against the Group as a result of the aforesaid proceedings is small.

c) TAX DISPUTES

As a result of an unfavourable judgment of the Supreme Administrative Court (NSA - *Naczelny Sąd Administracyjny*) rendered in August 2016 and the ensuing judgments issued on this basis by the Voivodeship Administrative Court (WSA - *Wojewódzki Sąd Administracyjny*) in Łódź on 10 January, 13 January and 8 February 2017 which dismissed all complaints brought by PKO Leasing SA (legal successor of PKO Bankowy Leasing Sp. z o.o.) in respect of crediting surpluses and refunds made against outstanding VAT, as at 31 March 2018 the PKO Leasing SA Group disclosed outstanding VAT totalling PLN 21.1 million, fully written down. Interest receivables on the outstanding VAT claimed before administrative courts results from decisions of the Tax Office in Łódź in respect of settling surpluses and refunds of VAT for settlement periods from January 2011 to June 2013 against outstanding VAT in which the settlement of refunds and surpluses of VAT against outstanding VAT was performed at the date of filing correcting VAT returns (in December 2014), and not at the date of the payment of the tax in an amount higher than the amount due, as was argued by the company.

In 2018, PKO Leasing SA continued appeal proceedings against the decisions of the tax authorities. The company is awaiting the date of the trial before NSA.

49. NOTES TO THE CASH FLOW STATEMENT

CASH AND CASH EQUIVALENTS	31.03.2018	31.12.2017	31.03.2017
Cash and balances with Central Bank	15 528	15 845	14 087
Deposits with the Central Bank	740	1 965	-
Amounts due from banks (current)	3 431	5 036	5 144
Restricted cash and cash equivalents	288	154	154
Total	**19 987**	**23 000**	**19 385**

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 288 million (as at 31 December 2017: PLN 154 million), including:

- PLN 8 million (as at 31 December 2017: PLN 11 million) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of a settlement-making participant is obliged to make payments to the settlement fund which guarantees proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of the transactions made by each participant and is updated by KDPW_CCP on a daily basis.
- PLN 7 million (as at 31 December 2017: PLN 9 million) paid in by participants in IKE, IKZE, PPE and PSO, which was not converted by the transfer agent into investment fund participation units by 31 March 2018 and 31 December 2017, respectively,

(IN PLN MILLION)

- PLN 273 million (as at 31 December 2017: PLN 134 million) pledged as collateral for securitization transactions.

50. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Group as it holds a 29.43% interest in the Bank's share capital. The Bank's shareholding structure is described in detail in the note "Equity and shareholding structure of the Bank" to these financial statements.

Receivables, securities and liabilities arising from transactions conducted with the State Treasury, budgetary units and entities in which the State Treasury is the shareholder are disclosed in the Group's consolidated statement of financial position.

Pursuant to the Act of 30 November 1995 on the state support in the repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, PKO Bank Polski SA receives payments from the State budget as repurchase of interest receivable on housing loans.

INCOME FROM TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS IN THE 'OLD' PORTFOLIO	01.01-31.03.2018	01.01-31.03.2017
Income recognized on the accruals basis	69	47
Income recognized on a cash basis	21	4
Difference – "Loans and advances to customers"	48	43

As of 1 January 2018, pursuant to the Act of 30 November 1995 on state support in the repayment of certain housing loans, the reimbursement of guarantee bonuses paid, and amendments to certain Acts, loan recipients will obtain the right to extinguish their remaining debt, which will be charged to the State budget, as a result of which the "old portfolio" housing loans will be fully settled (to 2026). The Bank conducts settlements in respect of the repurchase of interest on housing loans by the State budget and received the respective commissions of PLN 1 million in the first quarter of 2018, and no respective commission in the first quarter of 2017.

As of 1 January 1996, became the general distributor of court fee stamps. The Bank receives commissions in this respect from the State Treasury – in the first quarter of 2018 the Bank did not receive any respective commission, and in the first quarter of 2017 the respective commission amounted to PLN 1 million.

Dom Maklerski PKO Banku Polskiego SA plays the role of 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- in the first quarter of 2018 in the amount of PLN 19 million, and PLN 12 million in the first quarter of 2017.

RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

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

AS AT 31 MARCH 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	82	5	53	12
"Centrum Obsługi Biznesu" Sp. z o.o.	25	25	9	
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	9	-
Total joint ventures and associates	**107**	**30**	**71**	**13**

(IN PLN MILLION)

FOR 3 MONTHS ENDED 31 MARCH 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	85	64	19	19
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	**86**	**64**	**19**	**19**

AS AT 31 DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	49	6	37	25
"Centrum Obsługi Biznesu" Sp. z o.o.	19	19	9	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	16	-
Total joint ventures and associates	**68**	**25**	**62**	**26**

FOR 3 MONTHS ENDED 31 MARCH 2017 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	54	54	18	18
Total joint ventures and associates	**54**	**54**	**18**	**18**

51. Fair value hierarchy

ASSETS MEASURED AT FAIR VALUE 31.03.2018	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Amounts due from banks	1	-	-	1
not held for trading, mandatorily measured at fair value through profit or loss	1	-	-	1
Hedging derivatives	772	-	772	-
Other derivative instruments	1 543	3	1 540	-
Securities	**50 755**	**41 542**	**7 288**	**1 925**
held for trading	1 593	1 577	16	-
not held for trading, mandatorily measured at fair value through profit or loss	4 177	3 818	24	335
designated at fair value through profit or loss (FVO)	-	-	-	-
measured at fair value through OCI	44 985	36 147	7 248	1 590
Loans and advances to customers	**1 032**	-	-	**1 032**
not held for trading, mandatorily measured at fair value through profit or loss	1 032	-	-	1 032
Total financial assets measured at fair value	**54 103**	**41 545**	**9 600**	**2 958**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF THE PKO BANK POLSKI SA GROUP FOR THE THREE-MONTH PERIOD ENDED 31 MARCH 2018 (IN PLN MILLION)

LIABILITIES MEASURED AT FAIR VALUE 31.03.2018	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Hedging derivatives	239	-	239	-
Other derivative instruments	1 994	1	1 993	-
Total financial liabilities measured at fair value	**2 233**	**1**	**2 232**	**-**

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31.12.2017	Carrying amount	Level 1 Prices quoted on active markets	Level 2 Valuation techniques based on observable market data	Level 3 Other valuation techniques
Financial assets held for trading	431	429	2	-
Debt securities	405	403	2	-
Shares in other entities	19	19	-	-
Investment certificates	7	7	-	-
Derivative financial instruments	2 598	1	2 597	-
Hedging instruments	887	-	887	-
Trading instruments	1 711	1	1 710	-
Financial instruments designated at fair value through profit or loss upon initial recognition	8 157	3 775	4 382	-
Debt securities	6 688	2 306	4 382	-
Participation units	1 469	1 469	-	-
Available-for-sale investment securities	43 651	34 236	7 249	2 166
Debt securities	43 192	34 152	7 249	1 791
Equity securities	203	80		123
Participation units in investment funds and shares in collective investment undertakings	256	4	-	252
Total financial assets measured at fair value	**54 837**	**38 441**	**14 230**	**2 166**
Derivative financial instruments	2 740	-	2 740	-
Hedging instruments	204	-	204	-
Trading instruments	2 536	-	2 536	-
Total financial liabilities measured at fair value	**2 740**	**-**	**2 740**	**-**

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	31.03.2018 Fair value acc. to		31.12.2017 Fair value acc. to	
	positive scenario	negative scenario	positive scenario	negative scenario
Not held for trading, mandatorily measured at fair value through profit or loss				
Loans and advances to customers	1 036	1 028		
Participation units in a collective investment undertaking	223	202		
Shares in Visa Inc.	129	104		
Amounts due from banks	1	1		
Measured at fair value through OCI				
Corporate bonds	1 596	1 584		
Available-for-sale investment securities				
Participation units in a collective investment undertaking			264	239
Shares in Visa Inc.			129	103
Corporate bonds			1 799	1 783

(IN PLN MILLION)

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

	level of fair value hierarchy	valuation method	31.03.2018 carrying amount	fair value
Cash and balances with Central Bank	n/a	at amounts due	16 268	16 268
Amounts due from banks	2	discounted cash flows	3 763	3 765
measured at amortized cost	2	discounted cash flows	3 763	3 765
Securities	3	discounted cash flows	7 069	7 072
measured at amortized cost	3	discounted cash flows	7 069	7 072
Loans and advances to customers	3	discounted cash flows	201 756	196 252
measured at amortized cost	3	discounted cash flows	201 756	196 252
housing loans	3	discounted cash flows	106 653	98 915
corporate loans	3	discounted cash flows	58 118	58 135
consumer loans	3	discounted cash flows	23 883	26 127
amounts due from repurchase agreements	2	discounted cash flows	26	26
finance lease receivables	3	discounted cash flows	13 076	13 049
Other financial assets	3	at amount due less impairment allowance	2 875	2 875
Amounts due to the Central Bank	2	at amounts due	5	5
Amounts due to banks	2	discounted cash flows	1 866	1 866
measured at amortized cost	2	discounted cash flows	1 866	1 866
Amounts due to customers			**218 715**	**218 640**
measured at amortized cost	3	discounted cash flows	218 715	218 640
amounts due to retail customers	3	discounted cash flows	152 424	152 359
amounts due to business entities	3	discounted cash flows	50 197	50 187
amounts due to public entities	3	discounted cash flows	10 937	10 937
Loans and advances received	3	discounted cash flows	3 465	3 465
Liabilities in respect of insurance products			1 692	1 692
Debt securities in issue	1, 2	market quotations/discounted cash flows	26 267	26 486
measured at amortized cost	1, 2	market quotations/discounted cash flows	26 267	26 486
Subordinated debt	2	discounted cash flows	3 367	3 367
Other financial liabilities	3	at amounts due	4 525	4 516

	level of fair value hierarchy	valuation method	31.12.2017 carrying amount	fair value
Cash and balances with Central Bank	n/a	at amounts due	17 810	17 810
Amounts due from banks	2	discounted cash flows	5 233	5 233
Loans and advances to customers			**205 629**	**194 804**
housing loans	3	discounted cash flows	106 191	101 998
corporate loans	3	discounted cash flows	56 792	56 761
consumer loans	3	discounted cash flows	24 590	26 407
debt securities		discounted cash flows	4 368	4 368
debt securities (corporate)	3	discounted cash flows	1 855	1 855
debt securities (municipal)	3	discounted cash flows	2 513	2 513
amounts due from repurchase agreements	2	discounted cash flows	902	902
finance lease receivables	3	discounted cash flows	12 786	12 820
Investment securities held to maturity	1	discounted cash flows	1 812	1 816
Other financial assets	3	at amount due less impairment allowance	2 377	2 377
Amounts due to the Central Bank	2	at amounts due	6	6
Amounts due to other banks	2	discounted cash flows	4 558	4 558
Amounts due to customers			**215 237**	**215 172**
to corporate entities	3	discounted cash flows	52 667	52 666
to public entities	3	discounted cash flows	11 409	11 409
to retail customers	3	discounted cash flows	151 161	151 097
Debt securities in issue	1, 2	market quotations/discounted cash flows	23 932	24 226
Subordinated debt	2	discounted cash flows	1 720	1 720
Other financial liabilities	3	at amounts due	4 129	4 129

(IN PLN MILLION)

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

Receivables covered by securitization of lease receivables

As at 31 March 2018, receivables covered by the securitization of lease receivables amounted to PLN 1 381 million. They are pledged as collateral for liabilities in respect of debt securities issued by the special vehicle ROOF Poland Leasing 2014 DAC. Securitized lease receivables are presented as the Group's assets because they do not meet the derecognition criteria. In particular, the Group is not obliged to pay any amounts to final recipients until it has received the corresponding amounts from lessees. In addition, the criterion of an immediate transfer of cash flows from the securitized assets is not met. In the period from launching securitization in December 2014 to 31 December 2017, the Group was able to sell lease receivables not yet due as at the date of their sale, up to PLN 1 475 million when lease receivables had been repaid. In addition, the Group settles its liabilities to buyers of securities on a quarterly basis, while the typical settlement period for securitized lease agreements is one month. From January 2018 the securitization programme entered the amortization stage.

Liabilities in respect of repurchase transactions

Financial assets which the Group does not derecognize include assets pledged as collateral for liabilities in respect of repurchase transactions (Treasury bonds).

CARRYING AMOUNT	31.03.2018	31.12.2017
Debt securities	1 287	48
Amounts due from repurchase agreements	1 288	48
Net balance	(1)	-

Liabilities from the negative valuation of derivative instruments

Cash deposits with banks include assets held as collateral for own liabilities, including settlements relating to the negative valuation of derivative instruments. As at 31 March 2018, such assets amounted to PLN 441 million (PLN 558 million as at 31 December 2017).

Preliminary settlement deposit of the National Depository for Securities (KDPW)

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

CARRYING AMOUNT / FAIR VALUE	31.03.2018	31.12.2017
Value of the deposit	10	10
Nominal value of the collateral	10	10
Type of collateral	Treasury bonds	Treasury bonds
Carrying amount of the collateral	10	10

(IN PLN MILLION)

Bank Deposit Guarantee Fund

	31.03.2018	31.12.2017
Value of the fund	1 060	1 133
Nominal value of the collateral	1 100	1 200
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	1 101	1 193

Assets include Treasury bonds with maturities sufficient to secure their carrying amount over the period defined by the Act of 10 June 2016 on the Bank Guarantee Fund, deposit guarantee system and mandatory restructuring. The Fund is increased or decreased on 1 July of each year, in proportion to the amount representing the basis for calculating the mandatory reserve deposits. These assets are treated as assets pledged as collateral for own liabilities.

Funds securing liabilities in respect of contributions to the Bank Guarantee Fund (BGF)

	31.03.2018	31.12.2017
Value of the contribution made in the form of payables	140	120
Nominal value of the assets in which funds corresponding to payables were	200	175
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	200	174

Since 2017, the value of contributions in the form of payment commitments represents 30% of the contributions to the Bank Guarantee Fund (the "BGF") for the Deposit Guarantee Fund or the Bank Resolution Fund. Assets securing liabilities include Treasury bonds pledged for the BGF in an amount which ensures maintaining the ratio of the value of property rights securing liabilities to the amount of the liabilities of no less than 110%. For the purposes of establishing the minimum ratio of assets to the amount of liabilities, the value of property rights securing liabilities is determined at the amount specified based on the last fixing rate of the day in the electronic market for Treasury securities organized by the minister responsible for budgetary matters, plus interest due as at the valuation date, unless interest has already been included in the fixing rate.

Such assets funds are treated as assets pledged as collateral for own liabilities, they cannot be pledged or encumbered in any way, are excluded from judicial or administrative enforcement proceedings and do not form part of the estate in bankruptcy. The amount of funds securing liabilities relating to contributions to the BGF will be increased on the payment dates of contributions to the Deposit Guarantee Fund (quarterly) and the Bank Resolution Fund (in the third quarter of a given year) representing not more than 30% of the contribution established by the BGF. The amount of these funds may decrease if the Bank is called by the BGF to transfer in cash the amount corresponding to the value of the liabilities.

Legal limitations relating to the Group's title

In the years ended 31 March 2018 and 31 December 2017, respectively, there were no intangible assets or property, plant and equipment items to which the Group's legal title would be limited and pledged as collateral for the Bank's liabilities

TRANSFERRED FINANCIAL ASSETS

As at 31 March 2018 and 31 March 2017, the Group had no transferred financial assets fully derecognized in respect of which the Group maintains an exposure.

54. OTHER INFORMATION

SEASONAL OR CYCLICAL NATURE OF OPERATIONS DURING THE REPORTING PERIOD

PKO Bank Polski SA is a universal bank, operating on the entire territory of Poland and its activities are subject to the same seasonal variations as the entire Polish economy. The activities of other members of the PKO Bank Polski SA Group do not show any significant features of being of a seasonal or cyclical nature.

RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE GROUP

As at 31 March 2018, and as at 31 December 2017 there was no collateral established for the benefit of the Bank's Group, which the Group was entitled to sell or pledge, if all obligations of the collateral holder were performed.

INFORMATION ON SIGNIFICANT AGREEMENTS ON GRANTING LOANS AND ADVANCES SURETIES OR GUARANTEES BY THE ISSUER OR ITS SUBSIDIARIES

In the first quarter of 2018, PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA did not conclude any significant agreements on granting loan and borrowing sureties or guarantees.

LOANS DRAWN, AND AGREEMENTS ON ADVANCES, GUARANTEES AND SURETIES NOT RELATED TO OPERATING ACTIVITIES

In the first quarter of 2018, PKO Bank Polski SA and the subsidiaries of PKO Bank Polski SA did not draw any loans or borrowings, and did not receive any sureties or guarantees not related to their operating activities.

SIGNIFICANT AGREEMENTS AND MATERIAL AGREEMENTS WITH THE CENTRAL BANK AND SUPERVISING AUTHORITIES

In the first quarter of 2018, PKO Bank Polski SA did not conclude any significant agreements or material agreements with the central bank or supervising authorities.

POSITION OF PKO BANK POLSKI SA'S MANAGEMENT BOARD CONCERNING THE REALIZATION OF PREVIOUSLY PUBLISHED FORECASTS OF THE RESULTS FOR THE CURRENT YEAR

PKO Bank Polski SA did not publish any forecasts of the results for 2018.

OTHER INFORMATION IMPORTANT FOR THE EVALUATION OF THE EMPLOYMENT, FINANCIAL POSITION, RESULTS OF THE ISSUER AND THEIR CHANGES

In the first quarter of 2018 there were no other significant events important for the evaluation of the employment, financial position and results in PKO Bank Polski SA or in the subsidiaries of PKO Bank Polski SA.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

55. Risk management within the Group

Risk management is one of the most important internal processes in both PKO Bank Polski SA and other entities of the PKO Bank Polski SA Group. Risk management is aimed at ensuring the profitability of the business activities while monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank and the Group, in a changing macroeconomic and legal environment. The level of risk is an important part of the planning processes.

The Group and the Bank identified risks which are to be managed, and some of these risks are considered material. The materiality assessments of the risks associated with the Bank's and the Group's operations are conducted at least once a year. An assessment of materiality may be performed more often, especially if the scope of operations or the risk profile of the Bank, a Group entity or the Group change significantly. When determining the criteria for classifying a given risk as material, the impact of the risk on both the Bank's and the Group's activities is taken into account. When assessing the materiality of the risks to the Bank and the Group, a list of material, monitored and immaterial risks is determined at Bank and Group level. All risks classified as material for the Bank are also material for the Group. The following risks are considered material for the Bank: credit risk, insolvency risk, currency risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. Group entities may consider types of risks other than those listed above to be material, taking into account the specific nature and scale of their operations and the markets on which they operate. The Bank verifies the materiality of these risks at Group level. Group entities participate in assessing the materiality of the risks initiated by the Parent Company and assessed at Group level.

The consolidated financial statements of the Group for 2017 and the report on Capital Adequacy, and other information subject to publication in the PKO Bank Polski SA Group as at 31 December 2017 describe in detail the following elements for specific risks: identification, measurement and assessment, control, forecasting and monitoring, reporting, and management actions for significant risks identified.

Risk management objective

The objective of the risk management is to strive to maintain the level of risk within the accepted tolerances in order to:

- protect shareholder value:
- protect customer deposits;
- support the Group in conducting efficient operations.

The risk management objectives are achieved, in particular, by providing appropriate information on the risk, so that decisions are made in full awareness of the particular risks involved.

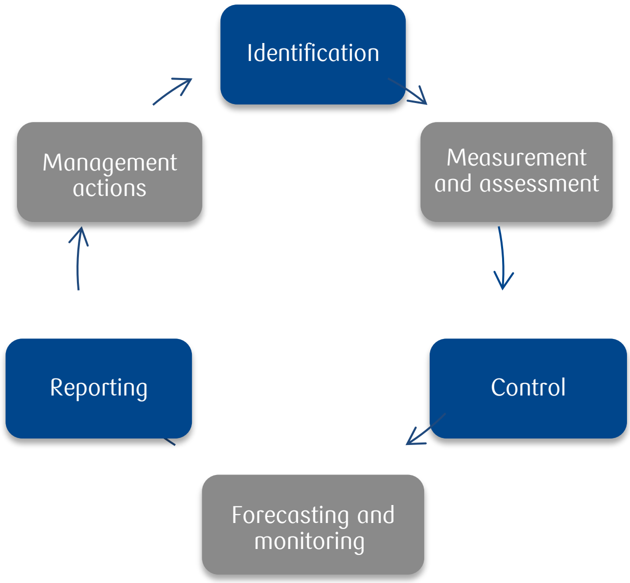
Main principles of risk management

The Group's risk management is based, in particular, on the following principles:

1) the Group manages all the risks identified;
2) the risk management process is appropriate from the perspective of the scale of operations and materiality, scale and complexity of a given risk, and adjusted on an on-going basis to take account of the new risks and their sources;
3) risk management methods (especially models and their assumptions) and risk management measurement or assessment systems are tailored to the scale and complexity of individual risks, the current and planned operations of the Group and its operating environment, and are periodically verified and validated;
4) the area of risk management remains organizationally independent from business activities;
5) risk management is integrated into the planning and controlling systems;
6) the level of risk is monitored on an on-going basis;
7) the risk management process supports the implementation of the Group's strategy in compliance with the Risk Management Strategy, in particular with respect to the level of risk tolerance.

THE RISK MANAGEMENT PROCESS

The process of risk management in the Group consists of the following stages:



- **RISK IDENTIFICATION:**

Risk identification consists of recognizing the existing and potential sources of risk and estimating the significance of its potential impact on the Bank's and the Group's operations. As part of risk identification, the risks considered to be material in the Bank's or the Group's operations are identified.

- **RISK MEASUREMENT AND ASSESSMENT:**

Risk measurement covers determining the risk assessment measures adequate to the type and significance of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account achieving the risk management objectives. As part of risk measurement, valuation of the risks for the purpose of the pricing policy and stress-tests are conducted based on assumptions which ensure a sound assessment of the risk. Stress-test scenarios include, among other things, the requirements stemming from the Recommendations of the Polish Financial Supervision Authority. In addition, the Group conducts comprehensive stress tests (CST) which are an integral element of the risk management and which supplement stress tests specific for individual risks. CST also covers an analysis of the impact of changes in the environment (in particular, the macroeconomic environment) and the functioning of the Bank on the Group's financial position.

- **RISK CONTROL:**

Risk control involves determining the tools to be used for measuring or reducing the level of risk in specific areas of the Group's activities. This includes establishing control mechanisms adjusted to the scale and complexity of the Bank's and the Group's activities especially in the form of strategic tolerance limits for the individual types of risk.

- **RISK FORECASTING AND MONITORING:**

Risk forecasting and monitoring involves preparing risk level forecasts and monitoring deviations from forecasts or the adopted benchmarks (e.g. limits, thresholds, plans, prior period measurements, recommendations and instructions issued by supervisory and regulatory authorities), and performing (specific and comprehensive) stress tests. Risk level forecasts are verified. The frequency of risk monitoring is adequate to the significance and variability of specific risks.

- **RISK REPORTING:**

Risk reporting consists in regularly providing information to the Bank's governing bodies on the results of the risk measurement or assessment, actions taken and follow-up recommendations. The scope, frequency and form of the reporting are adjusted to the managerial level of the recipients.

- **MANAGEMENT ACTIONS:**

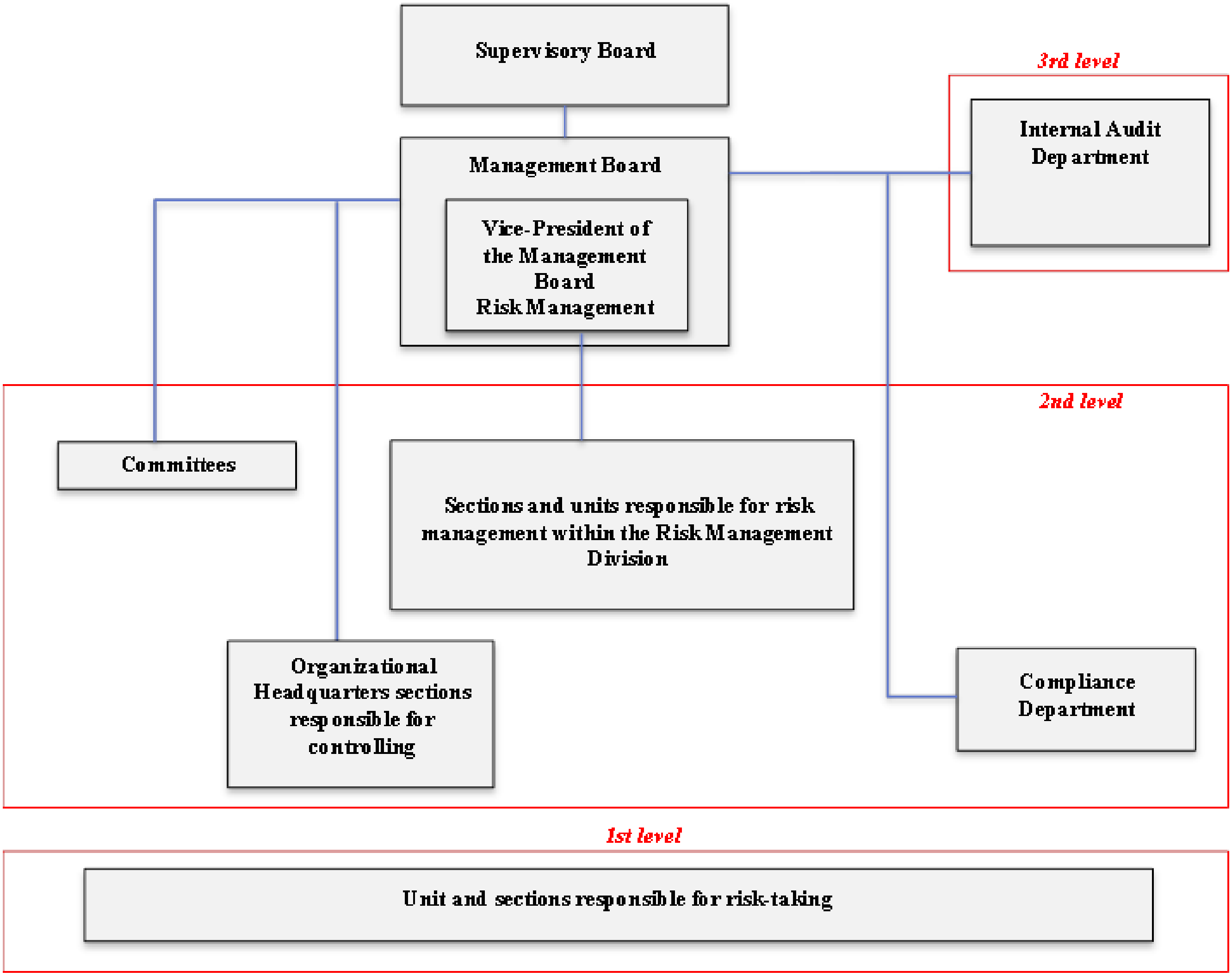
Management actions consist particularly in issuing internal regulations affecting the management processes relating to different types of risk, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, and making decisions, including decisions to use tools supporting risk management. The objective of management actions is to shape the risk management process and risk levels.

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

The Bank supervises the functioning of the PKO Bank Polski SA Group. As part of its supervisory role, the Bank monitors their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for the purposes of the risk monitoring and reporting system at Group level.

Risk management in the Bank takes place in all the Bank's organizational units.

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



The risk management system is supervised by the Supervisory Board of the Bank which controls and evaluates the adequacy and effectiveness of the system. The Supervisory Board evaluates whether or not individual elements of the risk management system support proper execution of the process for setting and achieving specific objectives of the Bank. In particular, the Supervisory Board verifies whether the system applies formal rules to establish the size of the risk taken and risk management principles, as well as formal procedures to identify, measure or estimate and monitor the risks associated with the Bank's operations, taking into account the anticipated level of risk in the future. The Supervisory Board verifies if formal limits restricting the risk and the rules of conduct in the event that limits are exceeded are applied, and if the adopted management reporting system enables monitoring the risk levels. The Supervisory Board evaluates whether the risk management system is updated on an on-going basis to take into account new risk factors and sources. The Supervisory Board is supported by the following committees: the Supervisory Board Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

In respect of risk management, the Management Board of PKO Bank Polski SA is responsible for strategic risk management, including supervising and monitoring actions taken by the Bank in respect of risk management. The Management Board makes major decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management. In its risk management activities, the Management Board is supported by the following committees:

1) the Risk Committee;
2) the Asset and Liability Committee (ALCO);
3) The Bank's Credit Committee;
4) the Operational risk Committee.

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

1) The first line of defence is formed of organizational structures responsible for product management, executing sales of products and customer servicing, and of other structures which perform risk-generating operating tasks based on the internal regulations of PKO Bank Polski SA. The function is realized in all of the Bank's organizational units and in all organizational units of the Head Office, as well as in the Group entities. Organizational units of the Head Office implement the relevant risk control mechanisms (especially limits) developed by the organizational units of the Head Office in the second line of defence, and ensure that the limits are adhered to by applying the relevant controls. At the same time, the Group and the Bank are obliged to have comparable and consistent systems for the risk assessment and control, taking into account the specific characteristics of each entity and its market.
2) The second line of defence – covers compliance units and involves the identification, measurement, evaluation or control, monitoring and reporting of significant types of risks, and of the threats and irregularities identified; the tasks are executed by dedicated organizational structures acting on the basis of the applicable internal regulations of PKO Bank Polski SA; the objective of these structures is to ensure that the tasks performed as part of the first line of defence are properly governed in the internal regulations of PKO Bank Polski SA and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan (i.e. the budget), to the extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. The function is performed, in particular by the Risk Management Area, the Compliance Department and relevant committees.
3) The third line of defence consists of the internal audit function which performs independent audits of individual components of the Bank's management system, including the risk management system, and of the internal control system; the internal audit operates independently of the first and second lines of defence and may support their actions by way of consultations, but without participating in their decision-making. The function is performed in accordance with the Bank's internal regulation on the principles of functioning of the internal control system.

The independence of the lines of defence consists of preserving organizational independence in the following areas:

1) the function of the second line of defence with regard to creating system solutions is independent of the function of the first line of defence;
2) the function of the third line of defence is independent of the functions of the first and second lines of defence;
3) the function of non-compliance risk management is subject to the Vice-President of the Management Board – Legal and Compliance.

Information about actions performed under the risk management and internal control systems and on the results of such actions are periodically submitted to the Management Board and Supervisory Board.

The organizational structure of the Bank is adapted to the size and profile of the risks incurred by the Bank, and in order to ensure the effectiveness of risk management and to avoid conflicts of interest, in particular by separating organizational structures which manage individual risks – independence of the organizational structures responsible for identifying, measurement or estimation, control, monitoring and reporting the risks from the structures whose activities generate the risk – full independence of the internal audit and compliance unit – independence of the organizational structures monitoring the safety of the Bank's IT system and protection of information from the operating structures of the Bank. The scope of responsibility and level of independence of organizational structures, except the internal audit and compliance units, depend on the materiality and level of risks connected with the Bank's operations.

The Bank supervises the functioning of individual entities in the Bank's Group. As part of its supervisory role, the Bank monitors their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group companies for the purposes of risk monitoring and the reporting system at Group level.

The principles and methods of evaluating individual risks in entities in the Bank's Group are defined in the internal regulations implemented by these entities. Entities in the Bank's Group create and update internal regulations concerning the management of specific risks, upon consultation with the Bank and taking into account recommendations issued by the Bank and the Risk Management Strategy in PKO Bank Polski SA and the Bank's Group. The internal risk management regulations of entities in the Bank's Group take account of:

1) the principle of consistency and comparability of the assessment of individual risks in the Bank and entities in the Bank's Group;
2) the scope and type of relationships between members of the Bank's Group;
3) the specific features and scale of activities of a given member of the Bank's Group and the market on which it operates;
4) risks managed in entities in the Bank's Group resulting from specific features of their activities.

The supervision of risk management in Group members is exercised in particular by engaging organizational units in the Headquarters and specialist organizational units or competent committees operating in the Bank in presenting opinions on transactions of members of the Group in accordance with separate internal regulations of the Bank. A list of companies which have a material impact on the Group's risk profile is determined at least once in a year. According to the Bank's separate regulations, an approach relating to the minimum quantitative strategic tolerance limits for individual risks specific for a given company and the reporting method are determined.

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN THE FIRST QUARTER OF 2018

The Group's top priority is to maintain a strong capital position, including effective management of capital adequacy, to retain stable sources of financing which form the basis for business development, to support Polish entrepreneurship, ensuring customer satisfaction, engagement in developing new market standards, preventing cyberthreats, without compromising priorities in terms of operational efficiency, effective cost control and an appropriate assessment of the risk level.

To this end, in 2018, the Bank took the following steps, among others:

1) On 8 February 2018, the Bank made a full and final early repayment of a loan facility granted by Nordea Bank AB (publ) based on an agreement of 1 April 2014. The Bank informed about concluding the agreement with Nordea Bank AB (publ) and its terms and conditions in its current report No. 26/2014. Initially, the loan facility was granted for a period of 7 years, which means that the Bank repaid it 3 years before the original maturity.
2) On 8 March 2018, the Polish Financial Supervision Authority (KNF) approved earmarking the proceeds from the issue of subordinated bonds which was carried out on 5 March 2018 with a nominal value of PLN 1,000,000,000 for an increase in the Bank's Tier 2 capital in accordance with Art. 127 (2) (2) of the Banking Law, in conjunction with Art. 63 of the Regulation of the European Parliament and Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No. 648/2012.

(IN PLN MILLION)

3) On 22 March 2018, PKO Bank Hipoteczny issued mortgage covered bonds of EUR 500 million, maturing on 24 January 2024.

4) On 3 April 2018, the Bank's Management Board adopted a resolution in which it recommends earmarking 24,80% of the 2017 profit for dividend, which means PLN 0,55 per share, gross.

56. Credit risk management

Maximum exposure to risk – financial instruments for which the requirements relating to impairment do not apply

BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS - MAXIMUM EXPOSURE TO CREDIT RISK	31.03.2018
Amounts due from banks not held for trading, mandatorily measured at fair value through profit or loss	1
Hedging derivatives	772
Other derivative instruments	1 543
Securities	5 770
held for trading	1 593
not held for trading, mandatorily measured at fair value through profit or loss	4 177
designated at fair value through profit or loss (FVO)	-
Loans and advances to customers not held for trading, mandatorily measured at fair value through profit or loss	1 032
housing	35
corporate	172
consumer	825
Other assets – other financial assets at fair value through profit or loss	-
Total	**9 118**

BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS - MAXIMUM EXPOSURE TO CREDIT RISK	31.12.2017
Hedging derivatives	887
Other derivative instruments	1 711
Securities	8 588
held for trading	431
financial instruments designated at fair value through profit or loss upon initial recognition	8 157
Other assets - other financial assets	2 377
Total	**13 563**

(IN PLN MILLION)

OVERDUE EXPOSURE – FINANCIAL ASSETS SUBJECT TO IMPAIRMENT WHICH ARE OVERDUE OR IMPAIRED

EXPOSURES PAST DUE 31.03.2018	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	2 473	-	-	2 473	1 827	718	17	2 562	329	339	2 694	3 362	8 397
bank loans	1 698	-	-	1 698	871	380	4	1 255	233	193	2 494	2 920	5 873
housing	494	-	-	494	523	201	-	724	91	87	491	669	1 887
corporate	969	-	-	969	202	77	4	283	103	64	1 595	1 762	3 014
consumer	235	-	-	235	146	102	-	248	39	42	408	489	972
finance lease receivables	775	-	-	775	956	338	13	1 307	96	146	200	442	2 524
Other financial assets	1	-	-	1	-	-	-	-	-	-	1	1	2
Total, net	**2 474**	**-**	**-**	**2 474**	**1 827**	**718**	**17**	**2 562**	**329**	**339**	**2 695**	**3 363**	**8 399**

(IN PLN MILLION)

EXPOSURES PAST DUE 31.12.2017	up to 30 days	30 to 90 days	over 90 days	TOTAL
Debt securities:	-	-	3	3
corporate bonds (in foreign currencies)	-	-	3	3
Amounts due from banks	-	-	1	1
Loans and advances to customers:	4 541	976	2 765	8 282
bank loans	2 762	606	2 639	6 007
housing	1 222	320	596	2 138
corporate	1 066	153	1 555	2 774
consumer	474	133	488	1 095
finance lease receivables	1 779	370	126	2 275
Other financial assets	1	-	1	2
Total, net	**4 542**	**976**	**2 770**	**8 288**

INTERNAL RATINGS

Taking into account the nature of the Group's operations and the volume of credit and lease receivables, the most important portfolios are the ones managed by the Bank and PKO Leasing SA.

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

The following portfolios are covered by the rating system:

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

Loans and advances which are not individually impaired and are not rated, are characterized with a satisfactory level of credit risk. This applies in particular to retail loans (including housing loans) which do not have individually significant exposures and therefore do not give rise to a significant credit risk.

57. CONCENTRATION OF CREDIT RISK AT THE GROUP

The Group defines credit concentration risk as the risk arising from a considerable exposure to single entities or groups of entities whose repayment capacity depends on a common risk factor. The Group analyses the risk of concentration towards:

1) the largest entities
2) the largest groups
3) industry sectors
4) geographical regions
5) currencies
6) exposures secured with a mortgage.

58. FORBEARANCE PRACTICES

Forbearance is defined by the group as actions aimed at amending the contractual terms agreed with a debtor or an issuer, forced by the debtor's or issuer's difficult financial situation (restructuring activities introducing concessions that would not have otherwise been granted). The aim of forbearance activities is to restore a debtor's or an issuer's ability to settle their liabilities towards the Group and to maximize the efficiency of managing non-performing loans, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS

31.03.2018	Performing exposures subject to forbearance					of which: performing restructured exposures in a conditional period, reclassified from non-performing exposures	Non-performing exposures subject to forbearance					Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net	
Measured at amortized cost:	1 047	1	1 048	(74)	974	92	2 467	208	2 675	(1 286)	1 389	2 363
Loans	1 024	1	1 025	(74)	951	92	2 316	208	2 524	(1 238)	1 286	2 237
housing	399	-	399	(15)	384	42	877	1	878	(495)	383	767
corporate	577	1	578	(55)	523	46	1 194	203	1 397	(626)	771	1 294
consumer	48	-	48	(4)	44	4	245	4	249	(117)	132	176
Finance lease receivables	23	-	23	-	23	-	151	-	151	(48)	103	126
Total	**1 047**	**1**	**1 048**	**(74)**	**974**	**92**	**2 467**	**208**	**2 675**	**(1 286)**	**1 389**	**2 363**

31.12.2017	Performing exposures subject to forbearance					of which: performing restructured exposures in a conditional period, reclassified from non-performing exposures	Non-performing exposures subject to forbearance					Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net	
Loans	1 433	2	1 435	(54)	1 381	72	2 298	213	2 511	(968)	1 543	2 924
housing	544	-	544	(13)	531	57	872	11	883	(439)	444	975
corporate	819	2	821	(39)	782	9	1 211	187	1 398	(433)	965	1 747
consumer	70	-	70	(2)	68	6	215	15	230	(96)	134	202
Finance lease receivables	31	-	31	(3)	28	-	160	-	160	(58)	102	130
Total	**1 464**	**2**	**1 466**	**(57)**	**1 409**	**72**	**2 458**	**213**	**2 671**	**(1 026)**	**1 645**	**3 054**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.03.2018	31.12.2017
Dividing the debt due into instalments	2 206	2 365
Change in the repayment scheme (fixed payments, degressive)	1 640	1 671
Extension of the loan period;	1 596	1 700
Change in interest rate	777	772
Change in margin	751	896
Debt reduction	162	150
Other terms	181	72

More than one change in the terms and condition of repayment may be applied to a forborne exposure.

(IN PLN MILLION)

SECURITIES SUBJECT TO FORBEARANCE

31.03.2018	Performing exposures subject to forbearance					of which: performing restructured exposures in a conditional period, reclassified from non-performing exposures	Non-performing exposures subject to forbearance					Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net	
Not held for trading, mandatorily measured at fair value through profit or loss	115	-	115	-	115	-	-	-	-	-	-	115
corporate bonds (in PLN)	115	-	115	-	115	-	-	-	-	-	-	115
Measured at fair value through OCI	165	-	165	(2)	163	-	605	-	605	(148)	457	620
corporate bonds (in PLN)	57	-	57	-	57	-	605	-	605	(148)	457	514
corporate bonds (in foreign currencies)	108	-	108	(2)	106	-	-	-	-	-	-	106
Total	280	-	280	(2)	278	-	605	-	605	(148)	457	735

31.12.2017	Performing exposures subject to forbearance					of which: performing restructured exposures in a conditional period, reclassified from non-performing exposures	Non-performing exposures subject to forbearance					Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net		Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net	
Available-for-sale investment securities												
corporate bonds (in PLN)	81	-	81	-	81	-	819	-	819	(246)	573	654
corporate bonds (in foreign currencies)	150	-	150	-	150	-	-	-	-	-	-	150
Total	231	-	231	-	231	-	819	-	819	(246)	573	804

(IN PLN MILLION)

DEBT SECURITIES SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	31.03.2018	31.12.2017
Dividing the debt due into instalments	829	1 050
Change in the repayment scheme (fixed payments, degressive)	829	1 050
Extension of the loan period;	829	1 050
Change in interest rate	663	819
Change in margin	663	819
Debt reduction	133	133
Release or modification of collateral	-	-
Borrower replacement or a third party joining the debt	-	-
Other terms	-	-

59. RISK MANAGEMENT OF FOREIGN CURRENCY RISK ASSOCIATED WITH MORTGAGE LOANS FOR HOUSEHOLDS

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

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (translated into PLN at the exchange rate of 1 CHF = 3.5812)	31.03.2018			
	Financial institutions	Corporates	Households	Total
Measured at amortized cost				
Gross amount	2	384	24 203	24 589
assets with no significant increase in credit risk since initial recognition (stage 1)	-	111	21 226	21 337
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	2	135	1 577	1 714
credit-impaired assets (stage 3)	-	138	1 400	1 538
Allowances for expected credit losses	-	(98)	(1 157)	(1 255)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1)	-	(1)	(14)	(15)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	-	(14)	(122)	(136)
allowances for credit-impaired assets (stage 3)	-	(83)	(1 021)	(1 104)
Measured at at amortised cost, net	2	286	23 046	23 334
of which: purchased or originated credit-impaired financial assets	68	2	-	70
Total	2	286	23 046	23 334

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (translated into PLN at the exchange rate of 1 CHF = 3.5672)	31.12.2017			
	Financial institutions	Corporates	Households	Total
Assessed on an individual basis, of which:	-	113	102	215
impaired	-	104	90	194
Assessed on a portfolio basis, impaired	-	17	1 041	1 058
Assessed on a group basis (IBNR)	2	270	23 277	23 549
			-	
Loans and advances to customers, gross	2	400	24 420	24 822
Impairment allowances on exposures assessed on an individual basis, of which:	-	(51)	(42)	(93)
impaired	-	(51)	(42)	(93)
Impairment allowances on exposures assessed on a portfolio basis	-	(14)	(749)	(763)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(3)	(49)	(52)
Total impairment allowances on exposures	-	(68)	(840)	(908)
Loans and advances to customers, net	2	332	23 580	23 914

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	31.03.2018			31.12.2017		
	gross	allowances	net	gross	allowances	net
CHF	23 664	(1 027)	22 637	23 895	(754)	23 141
EUR	3 311	(75)	3 236	3 359	(54)	3 305
USD	83	(30)	53	268	(171)	97
PLN	79 796	(1 582)	78 214	74 369	(916)	73 453
OTHER	104	(11)	93	111	(22)	89
TOTAL	106 958	(2 725)	104 233	102 002	(1 917)	100 085

60. INTEREST RATE RISK MANAGEMENT

REPRICING GAP

The repricing gap shows the difference between the present value of assets and liabilities exposed to interest rate risk which are repriced in a given time range, with the items recognized on the transaction date.

As at the end of the first quarter of 2018 and 2017, the Group had a positive cumulative gap in PLN in all the time horizons.

SENSITIVITY MEASURES

The PKO Bank Polski SA Group's exposure to interest rate risk remained within the adopted limits as at 31 December 2017 and 31 March 2018. The Group was mainly exposed to the PLN interest rate risk. Among all the stress tests performed by the Group involving a parallel shift of interest rate curves, the most unfavourable for the Group was the scenario of a parallel shift of interest rate curves in PLN.

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

SENSITIVITY MEASURE	31.03.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)[1]	266	301
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)[2]	1 702	2 150

[1] Taking into account the nature of the operation of the other Group companies which generate material interest rate risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR for interest rates in the main currencies; as at 31 March 2018 it amounted to approx. PLN 9.6 million and as at 31 December 2017, to PLN 10 million.

[2] The table presents the value of the most adverse stress-test scenario: a movement of interest rate curves in particular currencies by 200 b.p. upwards and by 200 b.p. downwards.

As at 31 March 2018 the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 266 million. As at 31 December 2017, the Bank's VaR amounted to PLN 301 million.

61. CURRENCY RISK MANAGEMENT

SENSITIVITY MEASURES

The Bank's VaR and a stress-test analysis of the Bank's exposure to currency risk, presented cumulatively for all currencies, are presented in the table below:

SENSITIVITY MEASURE	31.03.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million) [1]	2	3
Change in CUR/PLN by 20% (in PLN million) (stress-test) [2]	103	48

[1] Taking into account the nature of the operation of the other Group companies which generate material currency risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR which amounted to approx. PLN 0.5 million as at 31 March 2018 and to approx. PLN 0.1 million as at 31 December 2017.
[2] The table presents the value of the most adverse stress-test scenario: PLN appreciation by 20% and PLN depreciation by 20%.

FOREIGN CURRENCY POSITION

The Group's foreign currency positions are presented in the table below:

FOREIGN CURRENCY POSITION	31.03.2018	31.12.2017
EUR	(296)	(157)
USD	(57)	(28)
CHF	(42)	8
GBP	6	11
Other (Global, Net)	56	61

Currency positions (in addition to the volatility of foreign exchange rates) are a key factor determining the level of currency risk to which the Group is exposed. The foreign currency positions is determined by all foreign currency transactions concluded, both in the statement of financial position and off-balance sheet transactions. The Group's exposure to currency risk is low.

62. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAP

The liquidity gaps presented below represent the sum of adjusted liquidity gaps of the Bank (adjustments relate to, among other things, the Bank's core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities), PKO Bank Hipoteczny, PKO Leasing, KREDOBANK and the contractual liquidity gaps of the other Group companies.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.03.2018								
The Group - adjusted periodic gap in real terms	15 642	20 354	(1 320)	1 258	6 879	11 333	30 631	(84 777)
The Group - adjusted cumulative periodic gap in real terms	15 642	35 996	34 676	35 934	42 813	54 146	84 777	-
31.12.2017								
The Group - adjusted periodic gap in real terms	16 011	27 220	(871)	(177)	6 091	10 150	30 400	(88 824)
The Group - adjusted cumulative periodic gap in real terms	16 011	43 231	42 360	42 183	48 274	58 424	88 824	-

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny, PKO Leasing, and KREDOBANK and the contractual liquidity gaps of the other Group companies, was positive both as at 31 March 2018 and 31 December 2017. This means that the Group has a surplus of the assets receivable over the liabilities payable.

LIQUIDITY SURPLUS

The table below presents liquidity surplus of the Bank as at 31 March 2018 and as at 31 December 2017.

SENSITIVITY MEASURE	31.03.2018	31.12.2017
Liquidity surplus in the horizon of up to 30 days[1] (in PLN billion)	8	14

[1] Liquidity surplus – determines the Bank's ability to meet the liquidity needs in a given survival horizon if the scenarios defined in stress tests materialize.

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	31.03.2018	31.12.2017
M3 - coverage ratio of non-liquid assets to own funds	15,29	13,92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,19	1,19
NSFR – net stable funding ratio	107,5%	113,9%
LCR - liquidity coverage ratio	124,3%	156,0%

In the periods ended 31 December 2017 and 31 March 2018, liquidity measures remained above their respective supervisory limits. The LCR and NSFR ratios in the table present values for the Group, and M3-M4 ratios are related to the Bank.

CORE DEPOSIT BASE

As at 31 March 2018, the core deposit base constituted approx. 93,8% of all deposits placed with the Bank (excluding the interbank market), which means no significant changes compared with 31 December 2017.

(IN PLN MILLION)

63. CAPITAL ADEQUACY

The Group and the Bank maintain the capital adequacy at a safe level, above the supervisory and regulatory limits.

In accordance with the CRR Regulation, for prudential consolidation purposes the Group consists of: PKO Bank Polski SA, PKO Leasing SA Group, PKO BP BANKOWY PTE SA, PKO Towarzystwo Funduszy Inwestycyjnych SA, KREDOBANK SA Group, PKO Finance AB, Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., PKO BP Finat Sp. z o.o., GAMMA TFI SA, PKO Bank Hipoteczny SA, Bankowe Towarzystwo Kapitałowe SA Group.

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

An increase in the funds between 31 March 2018 and 31 December 2017 resulted mainly from the recognition in the Tier II capital a new issue of subordinated bonds (PLN 1 billion, upon a respective PFSA approval), an increase in the accumulated value of other comprehensive income (of approx. PLN 119 million) and retained profit (of approx. PLN 95 million) accompanied by an increase in intangible assets reducing own funds (of approx. PLN 70 million). Moreover, due to the end of the transitional period determined in the CRR in respect of removing applicable value of unrealized profits on securities measured at fair value from own funds (as at 31 December, 20% of such profits were removed), the funds went up by approx. PLN 72 million.

	31.03.2018	31.12.2017
Total own funds	**35 459**	**34 026**
Tier 1 capital	**32 759**	**32 326**
Tier 1 capital before regulatory adjustments and reductions, of which:	35 416	35 270
Share capital	1 250	1 250
Other reserves	30 941	30 891
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings	2 155	2 060
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 584)	(1 654)
Accumulated other comprehensive income	6	(113)
Adjustments in Tier 1 basic capital due to prudential filters	81	55
Other transitional period adjustments to Tier 1 basic capital	-	(72)
Tier 2 capital	**2 700**	**1 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	1 700
Requirements for own funds	**15 951**	**15 670**
Credit risk	14 786	14 499
Operational risk	685	656
Market risk	433	474
Credit valuation adjustment risk	47	41
Total capital adequacy ratio	**17,78%**	**17,37%**
Tier 1 capital ratio	**16,43%**	**16,50%**

Without taking into account transitional solutions related to the mitigation of the impact of implementation of IFRS 9 on own funds as at 31 March 2018, the value of the Group's own funds would amount to PLN 34 796 million, the Tier I capital to PLN 32 096 million, the total capital ratio would amount to 17,51%, the Tier I capital ratio would be 16,15%, and the leverage ratio would total 10,46%.

(IN PLN MILLION)

RISK-WEIGHTED ASSETS

CRR reference			Risk weighted assets		Minimum capital requirements
			31.03.2018	31.12.2017	31.03.2018
	1	Credit risk (excluding counterparty credit risk	183 263	179 664	14 661
Article 438 c) and d)	2	including standardized method	183 263	179 664	14 661
Article 107 438 c) and d)	6	Counterparty credit risk	2 146	2 092	172
Article 438 c) and d)	7	including measurement at market value	1 523	1 541	122
Article 438 c) and d)	8	including measurement of the original value of the exposure	-	-	-
	9	including standardized method	-	-	-
	10	including internal model method (IMM)	-	-	-
Article 438 c) and d)	11	including exposure in respect of own contributions to the central counterparty's fund in the case of default and other exposures to the central counterparty	41	36	3
Article 438 c) and d)	12	including verification of credit measurement	583	515	47
Article 438 e)	13	Settlement/delivery risk	-	-	-
Article 438 e)	19	Market risk	5 412	5 924	433
	20	including standardized method	5 412	5 924	433
	21	including internal models method	-	-	-
Article 438 e)	22	Large exposures	-	-	-
Article 438 f)	23	Operational risk	8 562	8 204	685
	24	including basic indicator approach	2 603	2 520	208
	25	including standardized method	-	-	-
	26	including advanced credit risk measurement method	5 959	5 684	477
Article 437 clause 2 and Article 48 and Article 60	27	Amounts below thresholds for deduction (risk weight 250%) - included in the requirement for credit risk	7 127	4 897	570
Article 500	28	Adjustment for the lower limit	-	-	-
	29	**Total**	**199 383**	**195 884**	**15 951**

64. LEVERAGE RATIO

The Group calculates the leverage ratio as one of the capital adequacy measures.

The objective of managing the risk of excessive financial leverage is to ensure an appropriate relationship between the amount of the core capital (Tier 1) and the total of balance sheet assets and off-balance sheet liabilities granted by the Bank. The method of managing excessive leverage risk is governed in the internal regulations of the Bank relating to capital adequacy.

For the purpose of measuring the risk of excessive financial leverage, a leverage ratio is calculated as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage ratio. The Group calculated the leverage ratio as at the reporting date. As at 31 March 2018, the leverage ratio was calculated with reference to the Tier 1 capital and remained above the internal and external limits, and above the minimum values recommended by the PFSA.

In order to maintain the leverage ratio at an acceptable level, the strategic tolerance limit and threshold value are determined and subsequently monitored and verified at least once a year.

DISCLOSURE OF THE LEVERAGE RATIO

Exposure for calculating the leverage ratio within the meaning of the CRR Regulation

	Leverage ratio exposures specified in CRR	
	31.03.2018	31.12.2017
Total capital and exposure measure		
Tier 1 capital	32 759	32 326
Total exposure measure comprising the leverage ratio	307 171	306 830
Leverage ratio		
Leverage ratio	10,67%	10,54%

INTERNAL CAPITAL (PILLAR II)

In the first quarter of 2018, the Group calculated internal capital in accordance with the generally applicable provisions of law:

- the CRR Regulation;
- the Polish Banking Law;
- the Regulation of the Minister of Finance and Development of 6 March 2017 on the risk management and internal control systems, remuneration policy and the detailed procedure for estimating the internal capital in banks;
- The Act on Macro-prudential supervision;

and the internal regulations of the Bank and the Group.

Internal capital is the amount of capital estimated by the Group that is necessary to cover all of the identified significant risks characteristic of the Group's activities and the effect of changes in the business environment, taking account of the anticipated risk level.

The estimation of internal capital is aimed at determining the minimum level of own funds which ensures the safety of operations, taking into account changes in the profile and scale of the operations as well as adverse stress conditions.

The internal capital for covering the individual risk types is determined using the methods specified in the internal regulations. In the event of performing internal capital estimates based on statistical models, the annual forecast horizon and a 99.9% confidence level are adopted. The total internal capital of the Group is the sum of the internal capital needed to cover all significant types of risks to which the Bank and the Group are exposed, taking into account the entities included in prudential consolidation. The effect of diversification between various risks and the Group entities.

The relation of the Group's own funds to its internal capital remained on a level exceeding both the threshold set by the law and the Group's internal limits.

DISCLOSURES (PILLAR III)

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which are available on the Bank's website (www.pkobp.pl).

65. INFORMATION ON SECURITIZATION OF THE LEASE PORTFOLIO AND PORTFOLIO SALE OF RECEIVABLES

In connection with the acquisition of Raiffeisen-Leasing Polska SA and its subsidiaries, on 1 December 2016, the Group consolidated a special purpose vehicle ROOF Poland Leasing 2014 DAC with its registered office in Ireland. The SPV is buying securitized receivables resulting from lease agreements sold by Raiffeisen-Leasing Polska SA under the securitization plan which was initiated in December 2014. The receivables acquired by the SPV were financed by an issue of securities. The objective and benefit of selling these receivables to the SPV was to obtain and diversify the sources of long-term financing.

Redemption of debt securities in the first quarter of 2018 at their nominal value amounted to PLN 70 million redeemed on 02.01.2018 and PLN 204 million redeemed on 03.04.2018.

Moreover, in the 3-month period of 2018, the Group did not sell portfolios of balance sheet receivables and written-off receivables (as at 31.12.2017, it amounted to PLN 2 million).

SEPARATE INCOME STATEMENT

INCOME STATEMENT	Note	01.01-31.03.2018	01.01-31.03.2017
Interest and similar income	3	2 513	2 414
Interest expenses and similar charges	3	(487)	(520)
Net interest income/(expense)		**2 026**	**1 894**
Fee and commission income	4	840	852
Fee and commission expense	4	(230)	(210)
Net fee and commission income/(expense)		**610**	**642**
Dividend income		10	-
Net gain/(loss) on financial instruments measured at fair value through profit or loss	5	20	1
Gain/(loss) on investment securities	7		(2)
Net foreign exchange gains/(losses)	8	98	100
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	6	37	
- measured at fair value through OCI		29	
- measured at amortized cost		8	
Net income/(expense) on modification	9	(2)	
- measured at fair value through OCI		-	
- measured at amortized cost		(2)	
Net expected credit losses, impairment allowances and provisions	11	(309)	(372)
Other operating income	10	51	21
Other operating expenses	10	(35)	(27)
Net other operating income and expense		**16**	**(6)**
Administrative expenses	12	(1 398)	(1 391)
Tax on certain financial institutions		(215)	(227)
Operating profit/(loss)		**893**	**639**
Profit before tax		**893**	**639**
Income tax expense	13	(279)	(229)
Net profit for the year		**614**	**410**
Earnings per share	14		
– basic earnings per share for the period (PLN)		0,49	0,33
– diluted earnings per share for the period (PLN)		0,49	0,33
Weighted average number of ordinary shares during the period (in million)		1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250

(IN PLN MILLION)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	01.01-31.03.2018	01.01-31.03.2017
Net profit for the year		**614**	**410**
Other comprehensive income		**199**	**215**
Items which may be reclassified to profit or loss		**199**	**215**
Cash flow hedges (gross)	17	(59)	23
Deferred income tax	13	12	(4)
Cash flow hedges (net)	17	(47)	19
Unrealized net gains on available-for-sale financial assets (gross)			241
Deferred income tax	13		(45)
Unrealized net gains on available-for-sale financial assets (net)			196
Fair value of financial assets measured at fair value through other comprehensive income (gross)		333	
Gains /losses transferred to the profit or loss (on disposal)		(29)	
Deferred income tax	13	(58)	
Fair value of financial assets measured at fair value through other comprehensive income (net)		246	
Total net comprehensive income		**813**	**625**

SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	31.03.2018	31.12.2017
ASSETS			
Cash and balances with Central Bank	15	16 211	17 765
Amounts due from banks	16	5 603	8 769
- not held for trading, mandatorily measured at fair value through profit or loss		1	
- at fair value through OCI		-	
- measured at amortized cost		5 602	8 769
hedging derivatives	17	918	1 104
Other derivative instruments	18	1 544	1 701
Securities	19	54 362	50 512
- held for trading		1 628	472
- financial instruments designated at fair value through profit or loss upon initial recognition			6 409
- available-for-sale investment securities			42 009
- investment securities held to maturity			1 622
- not held for trading, mandatorily measured at fair value through profit or loss		2 499	
- designated at fair value through profit or loss (FVO)		-	
- at fair value through OCI		43 307	
- measured at amortized cost		6 928	
Loans and advances to customers	20	183 471	186 892
- not held for trading, mandatorily measured at fair value through profit or loss		1 032	
- at fair value through OCI		8 547	
- measured at amortized cost		173 892	186 892
Investments in subsidiaries, associates and joint ventures	34	2 990	3 011
Non-current assets held for sale	23	357	359
Intangible assets	24	2 542	2 622
Property, plant and equipment	24	2 104	2 170
Deferred income tax asset		1 063	957
Other assets	25	2 482	1 922
TOTAL ASSETS		**273 647**	**277 784**

	Note	31.03.2018	31.12.2017
EQUITY AND LIABILITIES			
Liabilities			
Amounts due to the Central Bank		5	6
Amounts due to banks	26	1 626	4 299
- measured at fair value through profit or loss		-	
- measured at amortized cost		1 626	4 299
hedging derivatives	17	238	204
Other derivative instruments	18	1 995	2 537
Amounts due to customers	27	220 844	222 524
- measured at fair value through profit or loss		-	
- measured at amortized cost		220 844	222 524
Debt securities in issue	29	5 251	5 204
- measured at fair value through profit or loss		-	-
- measured at amortized cost		5 251	5 204
Subordinated liabilities	30	2 707	1 720
Other liabilities	31	4 068	4 592
Current income tax liabilities	13	530	501
Provisions	32	282	210
TOTAL LIABILITIES		**237 546**	**241 797**
Equity	33		
Share capital		1 250	1 250
Other capital		31 998	31 963
Retained earnings		2 239	-
Net profit or loss for the year		614	2 774
TOTAL EQUITY		**36 101**	**35 987**
TOTAL LIABILITIES AND EQUITY		**273 647**	**277 784**
Total capital adequacy ratio	44	20,03%	19,59%
Book value (in PLN million)		36 101	35 987
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		28,88	28,79
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		28,88	28,79

(IN PLN MILLION)

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018	Share capital	Other capital						Retained earnings	Net profit or loss for the year	Total equity
		Other reserves				Accumulated other comprehensive income	Total other capital and reserves			
		Supplementary capital	General banking risk fund	Other reserves						
As at 31 December 2017	1 250	27 118	1 070	3 593		182	31 963	-	2 774	35 987
Changes due to IFRS 9 implementation	-	-	-	-		(164)	(164)	(535)	-	(699)
1 January 2018 (restated)	1 250	27 118	1 070	3 593		18	31 799	(535)	2 774	35 288
Transfer from retained earnings	-	-	-	-		-	-	2 774	(2 774)	-
Total comprehensive income, of which:	-	-	-	-		199	199	-	614	813
Net profit	-	-	-	-		-	-	-	614	614
Other comprehensive income	-	-	-	-		199	199	-	-	199
As at 31 March 2018	1 250	27 118	1 070	3 593		217	31 998	2 239	614	36 101

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017	Share capital	Other capital						Retained earnings	Net profit or loss for the year	Total equity
		Other reserves				Accumulated other comprehensive income	Total other capital and reserves			
		Supplementary capital	General banking risk fund	Other reserves						
As at 01 January 2017	1 250	24 268	1 070	3 555		(442)	28 451	-	2 888	32 589
Transfer from retained earnings	-	-	-	-		-		2 888	(2 888)	-
Total comprehensive income, of which:	-	-	-	-		215	215	-	410	625
Net profit	-	-	-	-		-		-	410	410
Other comprehensive income	-	-	-	-		215	215	-	-	215
As at 31 March 2017	1 250	24 268	1 070	3 555		(227)	28 666	2 888	410	33 214

(IN PLN MILLION)

SEPARATE STATEMENT OF CASH FLOWS

	Note	01.01-31.03.2018	01.01-31.03.2017
Cash flows from operating activities			
Profit before tax		**893**	**639**
Total adjustments:		**(4 610)**	**3 807**
Depreciation and amortization		175	182
(Gains)/losses on investing activities		(3)	6
Interest and dividends		(29)	34
Change in:			
amounts due from banks		1 634	2 257
hedging derivatives		220	-
other derivatives		(385)	73
securities		(1 334)	430
loans and advances to customers		(2 133)	383
non-current assets held for sale		2	3
other assets		(563)	(114)
amounts due to the Central Bank		(1)	-
amounts due to banks		(71)	(797)
amounts due to customers		(1 680)	2 014
provisions and impairment allowances		327	36
debt securities in issue		47	(36)
subordinated liabilities		(13)	(52)
other liabilities		(524)	(231)
Income tax paid		(239)	(411)
Other adjustments		(40)	33
Net cash from/used in operating activities		**(3 717)**	**4 446**

(IN PLN MILLION)

	Note	01.01-31.03.2018	01.01-31.03.2017
Cash flows from investing activities			
Inflows from investing activities		**100 945**	**2 463**
Proceeds from sale of and interest on investment securities		100 921	2 454
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		14	9
Other inflows from investing activities (dividends)		10	-
Outflows from investing activities		**(98 515)**	**(4 842)**
Purchase of a subsidiary, net of cash acquired		-	(14)
Increase in equity of subsidiaries, associates and joint ventures		(4)	(4)
Purchase of investment securities		(98 473)	(4 793)
Purchase of intangible assets and property, plant and equipment		(38)	(31)
Net cash from/used in investing activities		**2 430**	**(2 379)**

	Note	01.01-31.03.2018	01.01-31.03.2017
Cash flows from financing activities			
Proceeds from issue of subordinated bonds		1 000	-
Repayment of loans and advances		(2 602)	(100)
Repayment of interest on long-term borrowings		(198)	(203)
Net cash from financing activities		**(1 800)**	**(303)**
Total net cash flows		**(3 087)**	**1 764**
of which foreign exchange differences on cash and cash equivalents		6	(197)
Cash equivalents at the beginning of the reporting period		22 541	17 568
Cash equivalents at the end of the reporting period	37	19 454	19 332

(IN PLN MILLION)

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. IFRS 9 FINANCIAL INSTRUMENTS

1.1 FINANCIAL INSTRUMENTS

The total impact of adjustments relating to the adoption of IFRS 9 is shown in the tables below:

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)
FINANCIAL ASSETS					
Cash and balances with Central Bank	17 765	-	-	-	17 765
Amounts due from banks	8 769	-	-	(2)	8 767
Derivatives	2 805	-	-	-	2 805
Securities	**50 512**	**4 368**	**91**	**(21)**	**54 950**
- held for trading	472	-	-	-	472
- financial instruments designated at fair value through profit or loss upon initial recognition	6 409	(6 409)	-	-	-
- available-for-sale investment securities	42 009	(42 009)	-	-	-
- investment securities held to maturity	1 622	(1 622)	-	-	-
- not held for trading, mandatorily measured at fair value through profit or loss	-	2 774	91	21	2 886
- at fair value through OCI	-	45 644	-	(42)	45 602
- measured at amortized cost		5 990	-	-	5 990
Loans and advances to customers	**186 892**	**(4 368)**	**(102)**	**(759)**	**181 663**
- not held for trading, mandatorily measured at fair value through profit or loss	-	1 055	-	15	1 070
- at fair value through OCI	-	8 343	(102)	(6)	8 235
- measured at amortized cost	186 892	(13 766)	-	(768)	172 358
Other assets (other financial assets)	1 748	-	-	-	1 748
TOTAL FINANCIAL ASSETS	**268 491**	**-**	**(11)**	**(782)**	**267 698**
Deferred income tax asset	957	-	2	161	1 120

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)
Amounts due to the Central Bank	6				6
Amounts due to banks	4 299				4 299
Derivative financial instruments	2 741				2 741
Amounts due to customers	222 524				222 524
Debt securities in issue	5 204				5 204
Subordinated liabilities	1 720				1 720
Other liabilities (other financial liabilities)	3 812				3 812
Provisions for liabilities and guarantees granted	86	-	-	69	155
Current income tax liability	501	-	-	-	501
TOTAL FINANCIAL LIABILITIES, PROVISION FOR LIABILITIES AND GUARANTEES GRANTED AND CURRENT TAX LIABILITIES	**240 893**	**-**	**-**	**69**	**240 962**

(IN PLN MILLION)

IFRS 9 impact as at 1 January 2018:	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)
Other comprehensive income	182	-	(164)	-	18
Retained earnings	-	-	155	(690)	(535)
Total impact on equity	**182**	**-**	**(9)**	**(690)**	**(517)**

To the best of our knowledge, the impact of the adjustments relating to the adoption of IFRS 9 on the Bank's financial assets, financial liabilities and equity, as presented in these financial statements, is the best estimate as at the date of publication of these financial statements.

Compared with the disclosure of the impact of IFRS 9 implementation in the annual financial statements for 2017, there was an increase in impairment allowances for credit receivables and securities of PLN 55 million (PLN 46 million after taking into account the income tax expense), resulting from the greater accuracy of estimates relating to impairment measurement. In order to better reflect the impact of amendments to the Polish Corporate Income Tax Act relating to the adoption of IFRS 9, the effect of a tax liability arising as at 1 January 2018 in connection with the recognition in the tax calculation of the release of the provision for claims incurred but not reported (IBNR) and accounting for an initial loss on purchased or originated credit-impaired assets, as well as changes in the corresponding deferred tax asset of PLN 52 million was recognized as the effect on the net profit or loss for the current period and presented in Note 13.

(IN PLN MILLION)

1.2 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES UNDER IFRS 9 AND IAS 39

The table below shows a reconciliation between items in the statement of financial position and the categories of financial instruments under IFRS 9 as at 01.01.2018 and 31.03.2018:

FINANCIAL ASSETS 01.01.2018 CLASSIFICATION UNDER IFRS 9	Held for trading	Not held for trading, mandatorily measured at fair value through profit or loss	Designated at fair value through profit or loss (FVO)	Measured at fair value through OCI	Measured at amortized cost	Total carrying amount
Cash and balances with Central Bank						17 765
Amounts due from banks	-	1	-	-	8 766	8 767
hedging derivatives	-	1 104	-	-	-	1 104
Other derivative instruments	1 701	-	-	-	-	1 701
Securities	472	2 886	-	45 602	5 990	54 950
Loans and advances to customers	-	1 070	-	8 235	172 358	181 663
Other assets (other financial assets)	-	-	-	-	1 748	1 748
						-
TOTAL financial assets	**2 173**	**5 061**	**-**	**53 837**	**188 862**	**267 698**

FINANCIAL ASSETS 31.03.2018 CLASSIFICATION UNDER IFRS 9	Held for trading	Not held for trading, mandatorily measured at fair value through profit or loss	Designated at fair value through profit or loss (FVO)	Measured at fair value through OCI	Measured at amortized cost	Total carrying amount
Cash and balances with Central Bank	-	-	-	-	-	16 211
Amounts due from banks	-	1	-	-	5 602	5 603
hedging derivatives	-	918	-	-	-	918
Other derivative instruments	1 544	-	-	-	-	1 544
Securities	1 628	2 499	-	43 307	6 928	54 362
Loans and advances to customers	-	1 032	-	8 547	173 892	183 471
Other assets (other financial assets)	-	-	-	-	2 283	2 283
						-
TOTAL financial assets	**3 172**	**4 450**	**-**	**51 854**	**188 705**	**264 392**

(IN PLN MILLION)

FINANCIAL ASSETS 01.01.2018 CLASSIFICATION UNDER IFRS 9	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 299	4 299
hedging derivatives	204	-	204
Other derivative instruments	2 537	-	2 537
Amounts due to customers	-	222 524	222 524
Debt securities in issue	-	5 204	5 204
Subordinated liabilities	-	1 720	1 720
Other liabilities (other financial liabilities)	-	3 812	3 812
TOTAL financial liabilities	**2 741**	**237 565**	**240 306**

FINANCIAL ASSETS 31.03.2018 CLASSIFICATION UNDER IFRS 9	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	5	5
Amounts due to banks	-	1 626	1 626
hedging derivatives	238	-	238
Other derivative instruments	1 995	-	1 995
Amounts due to customers	-	220 844	220 844
Debt securities in issue	-	5 251	5 251
Subordinated liabilities	-	2 707	2 707
Other liabilities (other financial liabilities)	-	3 297	3 297
TOTAL financial liabilities	**2 233**	**233 730**	**235 963**

(IN PLN MILLION)

The table below shows a reconciliation between items in the statement of financial position and the categories of financial instruments under IAS 9 as at 31.12.2017

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	held for trading	designated at fair value through profit or loss	held to maturity	loans and receivables	available for sale	Total carrying amount
Cash and balances with Central Bank	-	-	-	17 765	-	17 765
Amounts due from banks	-	-	-	8 769	-	8 769
- measured at amortized cost	-	-	-	8 769	-	8 769
hedging derivatives	-	1 104	-	-	-	1 104
Other derivative instruments	1 701	-	-	-	-	1 701
Securities	472	6 409	1 622	-	42 009	50 512
- held for trading	472	-	-	-	-	472
- financial instruments designated at fair value through profit or loss upon initial recognition	-	6 409	-	-	-	6 409
- available-for-sale investment securities	-	-	-	-	42 009	42 009
- investment securities held to maturity	-	-	1 622	-	-	1 622
Loans and advances to customers	-	-	-	186 892	-	186 892
- measured at amortized cost	-	-	-	186 892	-	186 892
Other assets (other financial assets)	-	-	-	1 748	-	1 748
TOTAL financial assets	**2 173**	**13 922**	**1 622**	**213 426**	**42 009**	**268 491**

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 299	4 299
hedging derivatives	204	-	204
Other derivative instruments	2 537	-	2 537
Amounts due to customers	-	222 524	222 524
Debt securities in issue	-	5 204	5 204
Subordinated liabilities	-	1 720	1 720
Other liabilities (other financial liabilities)	-	3 812	3 812
TOTAL financial liabilities	**2 741**	**237 565**	**240 306**

1.3 CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES UNDER IFRS ON INITIAL APPLICATION OF IFRS 9

Changes in the measurement classification for financial assets as indicated above related to the following:

- money market bills of the National Bank of Poland which had been measured at fair value through profit or loss under IAS 39. Under IFRS 9, the portfolio of NBP bills is measured at fair value through other comprehensive income due to the application of the "maintained for cash flows and for sale" model;
- the portfolio of loans which will be subject to a potential sale to Bank Hipoteczny (pooling), previously measured at amortized cost in accordance with IAS 39. Under IFRS 9, the portfolio of loans is measured at fair value through other comprehensive income due to the application of the "maintained for cash flows and for sale" model.
- due to the presence of a leverage component (the interest rate formula is based on a multiplier higher than 1) in the interest rate formula, the SPPI test has not been passed for selected portfolios of loans, namely: ARiMR (Agency for Restructuring and Modernization of Agriculture) investment loans, working capital loans, student loans, preferential "natural disaster" housing loans (subsidies from BKG), loans for residential purposes (the Alicja housing loan), selected loans granted to local authorities. The failure to meet the SPPI test resulted in the need to change the measurement category for these loans from "at amortized cost" to "at fair value through profit or loss", regardless of the fact that they are held under the "held for cash flows" business model;
- for selected tranches of corporate bonds acquired by the Bank (one entity), regardless of the application of the "held for cash flows" business model, measurement at fair value through profit or loss shall apply due to failing to pass the SPPI test.

In the case of equity investments, the Bank did not take advantage of the measurement option "at fair value through other comprehensive income".

The implementation of IFRS 9 starting from 1 January 2018 did not affect the classification and measurement of the Bank's financial liabilities.

In addition, the Bank decided to recognize modifications of cash flows from financial assets prospectively. These modifications will be recognized in the profit or loss on a one-off basis upon modification, and changes in the carrying amounts as at the balance sheet date will be calculated using the original effective interest rate. Until 31 December 2017, the effect of modifications was deferred using the effective interest rate method over the remaining life of a product.

The table below shows measurement categories for financial instruments in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 01.01.2018.

(IN PLN MILLION)

As at 01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial assets				
Cash and balances with Central Bank	loans and receivables	17 765	measured at amortized cost	17 765
Amounts due from banks	loans and receivables	8 769	measured at amortized cost	8 766
Amounts due from banks	loans and receivables	-	not held for trading, mandatorily measured at fair value through profit or loss	1
Hedging derivatives	measured at fair value through profit or loss	1 104	measured at fair value through profit or loss (mandatory measurement)	1 104
Other derivative instruments	measured at fair value through profit or loss	1 701	held for trading	1 701
Financial assets held for trading	held for trading	472	held for trading	472
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments			measured at fair value through OCI	4 199
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments	measured at fair value through profit or loss	6 409	not held for trading, mandatorily measured at fair value through profit or loss	2 210
Available-for-sale investment securities – debt instruments	measured at fair value through OCI		measured at fair value through OCI	41 403
Available-for-sale investment securities – debt instruments	measured at fair value through OCI	41 560	not held for trading, mandatorily measured at fair value through profit or loss	137
Available-for-sale investment securities – equity instruments	measured at fair value through OCI[1]	449	not held for trading, mandatorily measured at fair value through profit or loss	539
Investment securities held to maturity – debt securities	measured at amortized cost	1 622	measured at amortized cost	1 622
Loans and advances to customers	loans and receivables		measured at amortized cost	172 358
Loans and advances to customers	loans and receivables	182 514	not held for trading, mandatorily measured at fair value through profit or loss	1 070
Loans and advances to customers	loans and receivables		measured at fair value through OCI	8 235
Loans and advances to customers – debt instruments	loans and receivables	4 378		
Debt instruments			measured at amortized cost	4 368
Other assets (other financial assets)	loans and receivables	1 748	measured at amortized cost	1 748
TOTAL financial assets		**268 491**	-	**267 698**

[1] In accordance with IAS 39, these instruments were measured at cost after initial recognition, as equity instruments not quoted on an active market.

(IN PLN MILLION)

As at 01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial liabilities				
Amounts due to the Central Bank	measured at amortized cost	6	measured at amortized cost	6
Amounts due to banks	measured at amortized cost	4 299	measured at amortized cost	4 299
Derivative financial instruments	measured at fair value through profit or loss	2 741	measured at fair value through profit or loss	2 741
Amounts due to customers	measured at amortized cost	222 524	measured at amortized cost	222 524
Debt securities in issue	measured at fair value through profit or loss (designated)		measured at fair value through profit or loss (designated)	
Debt securities in issue	measured at amortized cost	5 204	measured at amortized cost	5 204
Subordinated liabilities	measured at amortized cost	1 720	measured at amortized cost	1 720
Other liabilities (other financial liabilities)	measured at amortized cost	3 812	measured at amortized cost	3 812
TOTAL financial liabilities		**240 306**		**240 306**

(IN PLN MILLION)

1.4 Disclosures relating to provisions for off-balance sheet liabilities under IAS 39 and IAS 37 to opening balances calculated under IFRS 9

The table below shows a reconciliation of provisions for off-balance sheet liabilities calculated in accordance with IAS 37 as at 31 December 2017 with the opening balance of the expected credit losses determined in accordance with IFRS 9 as at 1 January 2018.

PROVISIONS FOR OFF-BALANCE-SHEET LIABILITIES	IAS 37 carrying amount 31.12.2017	Reclassifications	Remeasurement	IFRS 9 carrying amount 01.01.2018
Provisions for off-balance-sheet liabilities	**86**	**86**	**69**	**155**
Provisions for instruments with no significant increase in credit risk since initial recognition (stage 1)		46	56	102
Provisions for instruments with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)		5	13	18
Provisions for credit-impaired instruments (stage 3)		35	-	35

2. Explanation of differences between previously published financial statements and these financial statements

Apart from changes resulting from the adoption of IFRS 9, the Bank made the following changes in the accounting treatment and presentation:

AMOUNTS DUE TO CUSTOMERS	31.12.2017 before restatement	identification of loans and advances received as a separate item	31.12.2017 restated
Measured at amortized cost			
Amounts due to retail customers	150 537	-	150 537
Current accounts and overnight deposits	86 612	-	86 612
Term deposits	63 719	-	63 719
Other liabilities	206	-	206
Amounts due to corporate entities	60 578	(7 882)	52 696
Current accounts and overnight deposits	39 719	-	39 719
Term deposits	11 992	-	11 992
Loans and advances received	7 882	(7 882)	-
Amounts due from repurchase agreements	48	-	48
Other liabilities	937	-	937
Amounts due to public entities	11 409	-	11 409
Current accounts and overnight deposits	9 555	-	9 555
Term deposits	1 820	-	1 820
Other liabilities	34	-	34
Loans and advances received	-	7 882	7 882
Total	**222 524**	**-**	**222 524**

(IN PLN MILLION)

NOTES TO THE SEPARATE INCOME STATEMENT

3. INTEREST INCOME AND EXPENSES

INTEREST INCOME ON:	01.01.2018-31.03.2018			
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments at fair value through profit or loss	Total
loans to and other receivables from banks	40	-	-	40
hedging derivatives	-	-	122	122
debt securities	44	261	19	324
loans and advances to customers	1 945	76	6	2 027
Total	2 029	337	147	2 513
of which: interest income on impaired financial instruments/loans and advances granted	62	3	1	66

INTEREST INCOME ON:	01.01-31.03.2017
loans to and other receivables from banks:	50
hedging derivatives	81
debt securities	304
loans and advances to customers	1 979
Total	2 414
of which: interest income on impaired financial instruments/loans and advances granted	57

INTEREST EXPENSES ON:	01.01.2018-31.03.2018			
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total
amounts due to banks (excluding loans and advances)	(8)	-	-	(8)
loans and advances received	(71)	-	-	(71)
amounts due to customers(excluding loans and advances)	(364)	-	-	(364)
debt securities	-	(10)	(5)	(15)
securities in issue	(12)	-	-	(12)
subordinated liabilities	(17)	-	-	(17)
Total	(472)	(10)	(5)	(487)

(IN PLN MILLION)

INTEREST EXPENSES ON:	01.01-31.03.2017
amounts due to banks	(4)
loans and advances received	(84)
amounts due to customers (excluding loans and advances)	(384)
debt securities	(25)
securities in issue	(4)
subordinated liabilities	(19)
Total	**(520)**

4. COMMISSION AND FEE INCOME AND EXPENSES

FEE AND COMMISSION INCOME ON:	01.01-31.03.2018	01.01-31.03.2017
payment and credit cards	272	246
maintenance of bank accounts	203	213
loans and advances granted	148	157
maintenance of investment funds and OFE (including management fees)	52	85
cash transactions	22	22
servicing foreign mass transactions	25	25
brokerage activities	53	48
offering insurance products	32	19
sale and distribution of court fee stamps	-	1
investment and insurance products	4	4
customer orders	11	11
fiduciary services	2	1
other	16	20
Total	**840**	**852**

FEE AND COMMISSION EXPENSES ON:	01.01-31.03.2018	01.01-31.03.2017
card activities	(150)	(130)
commission paid to external entities for product sales	(18)	(22)
cost of construction investment supervision and property valuation	(11)	(11)
settlement services	(10)	(10)
fee and commissions for operating services provided by banks	(3)	(4)
sending short text messages (SMS)	(6)	(5)
fees incurred by the Brokerage House	(5)	(6)
other	(27)	(22)
Total	**(230)**	**(210)**

(IN PLN MILLION)

5. Net gain/(loss) on financial instruments measured at fair value through profit or loss

NET INCOME FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2018	01.01-31.03.2017
Financial instruments held for trading	16	1
Financial instruments not held for trading, mandatorily measured at fair value through profit or loss	4	
Total	**20**	**1**

6. Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	01.01-31.03.2018
measured at fair value through OCI	29
measured at amortized cost	8
Total	**37**

7. Gain/(loss) on investment securities (comparable data under IAS 39)

GAIN/(LOSS) ON INVESTMENT SECURITIES	01.01-31.03.2017
Equity securities	-
Debt securities	(2)
Total	**(2)**

8. Net foreign exchange gains/(losses)

NET FOREIGN EXCHANGE GAINS/(LOSSES)	01.01-31.03.2018	01.01-31.03.2017
Net foreign exchange gains/(losses), of which:	98	100
ineffective portion of cash flow hedges recognized in the income statements	(1)	1
Total	**98**	**100**

9. Net income/(expense) on modification

NET INCOME/(EXPENSE) ON MODIFICATION	01.01-31.03.2018	01.01-31.03.2017
Financial instruments measured at fair value through OCI (debt instruments)	-	
Financial instruments measured at amortized cost	(2)	
Total	**(2)**	

(IN PLN MILLION)

10. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	01.01-31.03.2018	01.01-31.03.2017
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	6	4
Sundry income	6	6
Recovery of receivables expired, forgiven or written off	3	1
Other[1]	36	10
Total	**51**	**21**

[1] „Other" includes PLN 25 million relating to a returned penalty from UOKIK

OTHER OPERATING EXPENSE	01.01-31.03.2018	01.01-31.03.2017
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(3)	(10)
Donations	(19)	(9)
Sundry expenses	(4)	(5)
Other	(9)	(3)
Total	**(35)**	**(27)**

11. NET EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS

NET EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	01.01-31.03.2018	01.01-31.03.2017
Amounts due from banks	-	-
measured at fair value through OCI	-	
measured at amortized cost	-	-
Equity securities	-	-
available for sale		-
measured at fair value through OCI	-	
measured at amortized cost	-	
Debt securities	4	(7)
available for sale		(7)
measured at fair value through OCI	3	
measured at amortized cost	1	
Loans and advances to customers	(312)	(343)
measured at fair value through OCI	(4)	
measured at amortized cost	(308)	(343)
Non-current assets held for sale	-	(2)
Property, plant and equipment	-	-
Intangible assets	-	-
Investments in associates and joint ventures	-	(15)
Other receivables (of which: other financial assets)	(4)	(5)
Provision for legal claims, lending commitments and guarantees granted	3	-
Provision for future liabilities (Other provisions)	-	-
Total	**(309)**	**(372)**

(IN PLN MILLION)

ACCUMULATED EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	31.03.2018	31.12.2017
Amounts due from banks	2	-
measured at fair value through OCI	-	
measured at amortized cost	2	-
Equity securities	-	52
available for sale		52
measured at fair value through OCI	-	
measured at amortized cost	-	
Debt securities	173	246
available for sale		246
measured at fair value through OCI	162	
measured at amortized cost	11	-
Loans and advances to customers	10 373	7 170
measured at fair value through OCI	11	
measured at amortized cost	10 362	7 170
Non-current assets held for sale	262	262
Property, plant and equipment	29	29
Intangible assets	15	15
Investments in associates and joint ventures	849	849
Other receivables (of which: other financial assets)	210	207
Provision for legal claims, lending commitments and guarantees granted	164	104
Provision for future liabilities (Other provisions)	10	11
Total	**12 087**	**8 945**

12. Administrative expenses

ADMINISTRATIVE EXPENSES	01.01-31.03.2018	01.01-31.03.2017
Employee benefits[1]	(665)	(652)
Overheads	(318)	(289)
Depreciation and amortization	(175)	(182)
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(228)	(256)
to the Resolution Fund	(162)	(209)
to the Banks' Guarantee Fund	(66)	(47)
Taxes and charges	(12)	(12)
Total	**(1 398)**	**(1 391)**

[1] „Employee benefits" include restructuring costs of PLN 45 million.

EMPLOYEE BENEFITS	01.01-31.03.2018	01.01-31.03.2017
Wages and salaries, of which:	(553)	(539)
costs of contributions to the employee pension plan	(5)	(13)
Social insurance, of which:	(94)	(98)
contributions for disability and retirement benefits	(85)	(86)
Other employee benefits	(18)	(15)
Total	**(665)**	**(652)**

(IN PLN MILLION)

13. INCOME TAX EXPENSE

	01.01-31.03.2018	01.01-31.03.2017
Current income tax expense	(268)	(213)
Deferred income tax on temporary timing differences	(11)	(16)
Income tax expense recognized in the income statement	**(279)**	**(229)**
Income tax expense on temporary differences recognized in other comprehensive income	(46)	(49)
Total	**(325)**	**(278)**

RECONCILIATION OF THE EFFECTIVE INTEREST RATE

	01.01-31.03.2018	01.01-31.03.2017
Profit or loss before tax	893	639
Tax calculated using the enacted rate in force in Poland (19%)	(170)	(121)
Effect of permanent timing differences, of which:	(113)	(110)
recognizing a non-tax-deductible impairment allowance on investments in associates and joint ventures	-	(3)
non-tax deductible impairment allowances on credit exposures	(11)	(7)
BFG fees	(44)	(49)
tax on financial institutions	(41)	(44)
other permanent differences	(17)	(7)
Dividend income	2	-
Effect of other timing differences, including new technologies tax relief and donations	2	2
Income tax expense	(279)	(229)
Effective tax rate	**31,24%**	**35,84%**
Temporary difference resulting from deferred income tax, disclosed in the income statement	(11)	(16)
Total current income tax expense recognized in the income statement, of which:	**(268)**	**(229)**

DEFERRED TAX PROVISION	31.12.2017	IMPACT OF IFRS 9 IMPLEMENTATION ADJUSTMENT ON OPENING BALANCE	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	IMPACT OF IFRS 9 IMPLEMENTATION ADJUSTMENT ON OPENING BALANCE	31.03.2018
Interest accrued on receivables (loans)	217	471	19	-	-	707
Capitalized interest on performing housing loans	106	-	(10)	-	-	96
Interest on securities	61	-	10	-	-	71
Valuation of securities	7	33	24	39	(19)	84
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	326	-	72	-	-	398
Taxable temporary differences relating to Group companies	-	-	-	-	-	-
Gross deferred income tax provision	**717**	**504**	**115**	**39**	**(19)**	**1 356**
DEFERRED TAX ASSET						
Interest accrued on liabilities	109	-	(33)	-	-	76
Valuation of derivatives	138	-	(14)	12	-	136
Valuation of securities	-	-		-	-	-
Provision for employee benefits	87	-	(4)	-	-	83
Impairment allowances on loan exposures	655	629	150	-	-	1 434
Valuation adjustment		-	12	(19)	19	12
Valuation adjustment under the straight line and ESP methods	621	-	10	-	-	631
Provision for costs to be incurred	29	-	(16)	-	-	13
Other deductible temporary differences	35	-	(1)	-	-	34
Gross deferred tax asset	**1 674**	**629**	**104**	**(7)**	**19**	**2 419**
Total effect of temporary differences	957	125	(11)	(46)	38	1 063
Deferred income tax provision (presented in the statement of financial position)	-	-	-	-	-	-
Deferred income tax asset (presented in the statement of financial position)	957	125	(11)	(46)	38	1 063

14. EARNINGS PER SHARE

EARNINGS PER SHARE	01.01-31.03.2018	01.01-31.03.2017
Profit attributable to ordinary shareholders	614	410
Weighted average number of ordinary shares during the period (in millions)	1 250	1 250
Earnings per share (in PLN per share)	0,49	0,33

(IN PLN MILLION)

NOTES TO THE SEPARATE STATEMENT OF FINANCIAL POSITION

15. Cash and balances with the Central Bank

CASH AND BALANCES WITH THE CENTRAL BANK	31.03.2018	31.12.2017
Current account with the Central Bank	11 345	11 171
Cash in hand	4 126	4 629
Deposits with the Central Bank	740	1 965
Total	**16 211**	**17 765**

16. Amounts due from banks

AMOUNTS DUE FROM BANKS	31.03.2018	31.12.2017
Not held for trading, mandatorily measured at fair value through profit or loss	**1**	-
Loans and advances granted	1	-
Measured at amortized cost	**5 604**	**8 769**
Deposits with banks	2 237	3 724
Amount due from PKO Bank Hipoteczny SA in respect of the sale of mortgage-secured housing loans by the Bank	1 564	2 498
Current accounts	999	1 041
Loans and advances granted	804	1 506
Total, gross	**5 604**	8 769
Allowances for expected credit losses/ Impairment allowances	(2)	-
Total, net	**5 602**	**8 769**
Total	**5 603**	**8 769**

17. Hedging derivatives

Types of hedging strategies applied by the Bank

Strategy 1	Hedges against fluctuations in cash flows from mortgage loans denominated in CHF and negotiated deposits resulting from the risk of fluctuations in interest rates and in foreign exchange rates, using CIRS transactions
Description of the hedging relationship	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
Hedged risk	foreign exchange risk and interest rate risk
Hedging instrument	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
Hedged item	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence)
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – October 2026

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and negotiated deposits in PLN	CIRS CHF/PLN	float CHF	1 770	179	180	-
		float PLN	6 356			

STRATEGY 2	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE PLN LOANS RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loans resulting from the risk of fluctuations in interest rates, using IRS transactions during the hedged period
HEDGED RISK	Interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on a floating 3M LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – December 2021

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in PLN	IRS PLN	PLN	5 736	71	-	-

STRATEGY 3	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE CHF LOANS RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loans resulting from the risk of fluctuations in interest rates, using IRS transactions during the hedged period
HEDGED RISK	Interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on a floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – November 2021

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF	IRS CHF	CHF	400	-	6	-

(IN PLN MILLION)

STRATEGY 4	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on a floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate in USD or EUR on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of variable interest mortgage loans in CHF and a fixed interest financial liability in USD
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – September 2022

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and financial liabilities in USD	CIRS CHF/USD	float CHF	818	3	25	(1)
		fixed USD	875			
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	826	202	-	-
		fixed EUR	748			

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED DEPOSITS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on a 3M EURIBOR rate, and receives coupons based on a 3M WIBOR rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence)
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – March 2021

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in EUR and negotiated deposits in PLN	CIRS EUR/PLN	float EUR	125	18	-	-
		float PLN	545			

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN FOREIGN CURRENCIES AND NEGOTIATED DEPOSITS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FOREIGN EXCHANGE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP CONTRACTS.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in foreign currencies and negotiated deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using two hedging instruments: IRS and CIRS-EP, during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions, in which the Bank pays coupons based on a fixed interest rate in EUR, and receives coupons based on a variable 3M WIBOR reference rate on the nominal value for which they were concluded, and IRS transactions in which the Bank pays coupons based on a variable EURIBOR 3M rate, and receives coupons based on a fixed EUR rate, on the nominal value for which they were concluded. If the underlying entity (i.e. the entity whose bankruptcy is monitored as part of the transaction) declares bankruptcy, the CIRS-EP transaction is automatically extended on terms and conditions determined on the transaction date
HEDGED ITEM	the portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence)
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – February 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in EUR and negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	524	85	-	-
		float PLN	2 263			
	IRS EUR	EUR	524	-	27	-

(IN PLN MILLION)

STRATEGY 7	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN FOREIGN CURRENCIES AND NEGOTIATED DEPOSITS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FOREIGN EXCHANGE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP CONTRACTS.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in foreign currencies and negotiated deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using two hedging instruments: IRS and CIRS-EP, during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions, in which the Bank pays coupons based on a fixed interest rate in EUR, and receives coupons based on a variable 3M WIBOR reference rate on the nominal value for which they were concluded, and CIRS transactions in which the Bank pays coupons based on a variable LIBOR CHF 3M rate, and receives coupons based on a fixed EUR rate, on the nominal value for which they were concluded. If the underlying entity (i.e. the entity whose bankruptcy is monitored as part of the transaction) declares bankruptcy, the CIRS-EP transaction is automatically extended on the terms and conditions determined on the transaction date
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence)
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – January 2023

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	500	37	-	-
		float PLN	2 131			
	CIRS CHF/EUR	float CHF	535	195	-	-
		fixed EUR	500			

STRATEGY 8	HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVING PRODUCTS IN PLN RESULTING FROM THE RISK OF CHANGES IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING CIRS
DESCRIPTION OF THE HEDGING RELATIONSHIP	Elimination of the risk of cash flows fluctuations generated by variable interest loans in CHF and by variable rate regular saving products resulting from fluctuations in reference CHF interest rates and PLN and from changes in the CHF/PLN exchange rate, using CIRS transactions, in the period covered by the hedge
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of variable interest mortgage loans in CHF and the portfolio of variable interest rate regular saving products in PLN
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 - July 2023

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and regular savings products in PLN	CIRS CHF/PLN	float CHF	225	69	-	-
		float PLN	872			

STRATEGY 9	HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVING PRODUCTS IN PLN RESULTING FROM THE RISK OF CHANGES IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP CONTRACTS.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in foreign currencies and variable interest regular savings products in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using two hedging instruments: IRS and CIRS-EP, during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions, in which the Bank pays coupons based on a fixed interest rate in EUR, and receives coupons based on a variable 3M WIBOR reference rate on the nominal value for which they were concluded, and CIRS transactions in which the Bank pays coupons based on a variable LIBOR CHF 3M rate, and receives coupons based on a fixed EUR rate, on the nominal for which they were concluded. If the underlying entity (i.e. the entity whose bankruptcy is monitored as part of the transaction) declares bankruptcy, the CIRS-EP transaction is automatically extended on the terms and conditions determined on the transaction date
HEDGED ITEM	the portfolio of variable interest mortgage loans in CHF and the portfolio of variable interest rate regular saving products in PLN
	The period when the cash flows are expected to occur and affect the profit or loss: April 2018 – August 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENTS
				Assets	Liabilities	
Loans in CHF and regular savings products in PLN	CIRS-EP EUR/PLN	fixed EUR	554	28	-	-
		float PLN	2 363			
	CIRS CHF/EUR	float CHF	640	31	-	-
		fixed EUR	554			

(IN PLN MILLION)

STRATEGY 10	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of fluctuations in the fair value of fixed interest loans in foreign currencies resulting from the risk of fluctuations in interest rates, using IRS transactions, during the hedged period.
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Bank pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan in a foreign currency, which corresponds to the market IRS rate

HEDGED ITEM	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES		CARRYING AMOUNT/FAIR VALUE OF HEDGING INSTRUMENTS		FAIR VALUE ADJUSTMENT OF THE HEDGED ITEM
				Assets	Liabilities	
Loans in EUR	IRS EUR	EUR	46	-	-	-

The Bank did not implement any new hedging strategies in the first quarter of 2018. In 2017, the Bank implemented Strategies 7, 8 and 9 for cash flow hedges and Strategy 10 for fair value hedges. The description of the strategies implemented is presented above.

CARRYING AMOUNT OF HEDGING INSTRUMENTS	31.03.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	**918**	**238**	-	-
Hedges of interest rate risk	71	32	90	35
IRS	71	32	90	35
Hedges of currency and interest rate risks	847	206	1 014	169
CIRS	847	206	1 014	169
Fair value hedges	-	-	-	-
Hedges of interest rate risk	-	-	-	-
IRS	-	-	-	-
Total	**918**	**238**	**1 104**	**204**

(IN PLN MILLION)

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	01.01-31.03.2018	01.01-31.03.2017
Other comprehensive income at the beginning of the period, gross	**(91)**	**(109)**
Gains/losses recognized in other comprehensive income during the period	(59)	765
Amounts transferred from other comprehensive income to the cash flow statement, of which:	-	(742)
- interest income	(122)	(81)
- net foreign exchange gains/(losses)	122	(661)
Accumulated other comprehensive income at the end of the period, gross	**(150)**	**(86)**
Tax effect	28	16
Accumulated other comprehensive income at the end of the period, net	**(122)**	**(70)**
Impact on other comprehensive income during the period, gross	**(59)**	**23**
Tax effect	12	(4)
Impact on other comprehensive income during the period, net	**(47)**	**19**
Ineffective portion of cash flow hedges recognized in the income statements, including in:	**(1)**	**2**
Net foreign exchange gains/(losses)	(1)	1
Net gain/(loss) on financial instruments measured at fair value	-	1

18. OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	31.03.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	861	1 278	876	1 385
CIRS	72	60	77	61
FX SWAP	134	81	161	380
Options	221	191	243	250
Commodity swap	101	100	129	128
FRA	3	2	1	1
Forward	145	274	206	324
Futures	7	8	7	8
Other	-	1	1	-
Total	1 544	1 995	1 701	2 537

(IN PLN MILLION)

19. SECURITIES

SECURITIES	31.03.2018	31.12.2017
held for trading	1 628	472
financial instruments designated at fair value through profit or loss upon initial recognition		6 409
available-for-sale investment securities		42 009
investment securities held to maturity		1 622
not held for trading, mandatorily measured at fair value through profit or loss	2 499	
designated at fair value through profit or loss (FVO)	-	
measured at fair value through OCI	43 307	
measured at amortized cost	6 928	
Total	**54 362**	**50 512**

(IN PLN MILLION)

SECURITIES 31.03.2018	held for trading	not held for trading, mandatorily measured at fair value through profit or loss	designated at fair value through profit or loss (FVO)	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 604	1 981	-	43 307	6 928	53 820
NBP money market bills	-	-	-	1 549	-	1 549
Treasury bonds (in PLN)	1 260	892	-	32 723	2 362	37 237
Treasury bonds (in foreign currencies)	206	896	-	-	-	1 102
municipal bonds (in PLN)	16	-	-	4 926	2 503	7 445
corporate bonds (in PLN)	90	115	-	3 676	1 725	5 606
corporate bonds (in foreign currencies)	1	78	-	433	338	850
covered bonds	31	-	-	-	-	31
Equity securities	24	518	-	-	-	542
shares in other entities - not listed	-	238	-	-	-	238
shares in other entities - listed	18	68	-	-	-	86
Participation units in a collective investment undertaking/Investment certificates, rights to shares, pre-emptive rights	6	212	-	-	-	218
Total	**1 628**	**2 499**	-	**43 307**	**6 928**	**54 362**

Treasury bonds in PLN and in foreign currencies include the Polish Treasury bonds.

(IN PLN MILLION)

SECURITIES 31.12.2017	held for trading	financial instruments designated at fair value through profit or loss upon initial recognition	available-for-sale investment securities	investment securities held to maturity	Total
Debt securities	446	6 409	41 560	1 622	50 037
NBP money market bills	-	4 199	-	-	4 199
Treasury bonds (in PLN)	151	1 134	32 095	1 622	35 002
Treasury bonds (in foreign currencies)	138	893	-	-	1 031
municipal bonds (in PLN)	23	106	4 928	-	5 057
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	94	-	4 058	-	4 152
corporate bonds (in foreign currencies)	1	-	479	-	480
covered bonds	39	-	-	-	39
Equity securities	26	-	449	-	475
shares in other entities - not listed	-	-	96	-	148
shares in other entities - listed	19	-	101	-	68
Participation units in a collective investment undertaking/Investment certificates, rights to shares, pre-emptive rights	7	-	252	-	259
Total	**472**	**6 409**	**42 009**	**1 622**	**50 512**

Treasury bonds in PLN and in foreign currencies include Polish Treasury bonds.

(IN PLN MILLION)

Exposures to credit risk for securities measured at amortized cost or at fair value through OCI are described in Note 21 "Expected credit losses and modifications" for 2018, and in Note 22 "Impairment allowances on financial assets" for 2017.

20. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	31.03.2018	01.01.2018	31.12.2017
	Net amount	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	183 471	181 664	**186 893**
Adjustment relating to fair value hedge accounting	-	(1)	**(1)**
Total loans and advances to customers	**183 471**	**181 663**	**186 892**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	31.03.2018	01.01.2018	31.12.2017
measured at amortized cost, of which:	173 892	172 359	186 893
debt securities			4 368
measured at fair value through OCI	8 547	8 235	
not held for trading, mandatorily measured at fair value through profit or loss	1 032	1 070	
Total	**183 471**	**181 664**	**186 893**

Corporate and municipal bonds which met the definition of loans and advances under IAS 39 were presented in "Loans and advances to customers". After IFRS 9 entered into force, these instruments are classified as financial assets measured at amortized cost and presented in the item comprising securities measured at amortized cost, because they meet the SPPI test and the business model of "held for cash flows".

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.03.2018	Reported						
	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through OCI			measured at amortized cost		
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Loans	1 032	8 558	(11)	8 547	184 228	(10 362)	173 866
housing	35	8 558	(11)	8 547	84 197	(2 999)	81 198
corporate	172	-	-	-	74 338	(5 218)	69 120
consumer	825	-	-	-	25 693	(2 145)	23 548
Receivables in respect of repurchase agreements	-	-	-	-	26	-	26
Total	1 032	8 558	(11)	8 547	184 254	(10 362)	173 892

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2017	measured at amortized cost		
	Gross amount	Impairment allowance for receivables	Net amount
Loans	**188 783**	**(7 160)**	**181 623**
housing	92 134	(1 925)	90 209
corporate	70 719	(3 580)	67 139
consumer	25 930	(1 655)	24 275
Debt securities	**4 378**	**(10)**	**4 368**
corporate bonds	1 859	(4)	1 855
municipal bonds	2 519	(6)	2 513
Receivables in respect of repurchase agreements	902	-	**902**
Total	**194 063**	**(7 170)**	**186 893**

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT	31.03.2018	31.12.2017
mortgage banking	86 241	85 515
corporate (including receivables due from repurchase agreements)	60 176	62 499
retail and private banking	26 518	25 930
small and medium enterprises	20 909	20 119
Impairment allowances on loans and advances	(10 373)	(7 170)
Total	**183 471**	**186 893**

Exposures to credit risk for loans and advances to customers measured at amortized cost or at fair value through OCI are described further in Note 21 “Expected credit losses and modifications” for 2018, and in Note 22 “Impairment allowances on financial assets” for 2017.

(IN PLN MILLION)

21. EXPECTED CREDIT LOSSES AND MODIFICATIONS

FINANCIAL ASSETS

BY MEASUREMENT MODEL	Gross amount – assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount – assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount – credit-impaired assets (stage 3)	of which: non-working interest	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses
Measured at fair value through OCI										
amounts due from banks	-	-	-		-	-	-	-	-	-
securities	42 864	(15)	-		605	-	605	(147)	43 469	(162)
bank loans	8 450	(3)	107	(8)	1	-	1	-	8 558	(11)
other financial assets	-	-	-		-	-	-	-	-	-
									-	-
Total	51 314	(18)	107	(8)	606	-	606	(147)	52 027	(173)
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-		472	-	472	(14)	472	(14)
Measured at amortized cost										
amounts due from banks	5 604	(2)	-	-					5 604	(2)
securities	6 939	(11)	-	-	-	-	-	-	6 939	(11)
Treasury bonds	2 362	-	-	-	-	-	-	-	2 362	-
other	4 577	(11)	-	-	-	-	-	-	4 577	(11)
bank loans	159 119	(481)	11 270	(1 016)	13 865	2 343	10 741	(8 865)	184 254	(10 362)
housing	76 319	(52)	4 366	(411)	3 512	737	2 705	(2 536)	84 197	(2 999)
corporate	61 198	(304)	5 232	(361)	7 908	1 222	5 987	(4 553)	74 338	(5 218)
consumer	21 576	(125)	1 672	(244)	2 445	384	2 049	(1 776)	25 693	(2 145)
receivables in respect of repurchase agreements	26	-	-	-	-	-	-	-	26	-
other financial assets	2 382	(99)	-	-	-	-	-	-	2 382	(99)
										-
Total	174 044	(593)	11 270	(1 016)	13 865	2 343	10 741	(8 865)	199 179	(10 474)
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	203	-	203	(94)	203	(94)

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSETS	Gross amount - assets with no significant increase in credit risk since initial recognition (stage 1)	Allowances for expected credit losses (stage 1)	Gross amount - assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for expected credit losses (stage 2)	Gross amount - credit-impaired assets (stage 3)	of which: non-working interest	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses
amounts due from banks	5 604	(2)	-	-	-	-	-	-	5 604	(2)
securities	49 803	(26)	-	-	605	-	605	(147)	50 408	(173)
bank loans	167 543	(484)	11 377	(1 024)	13 866	2 343	10 742	(8 865)	192 786	(10 373)
housing	84 769	(55)	4 473	(419)	3 513	737	2 706	(2 536)	92 755	(3 010)
corporate	61 198	(304)	5 232	(361)	7 908	1 222	5 987	(4 553)	74 338	(5 218)
consumer	21 576	(125)	1 672	(244)	2 445	384	2 049	(1 776)	25 693	(2 145)
receivables in respect of repurchase agreements	26	-	-	-	-	-	-	-	26	-
other financial assets	2 382	(99)	-	-	-	-	-	-	2 382	(99)
Total	225 358	(611)	11 377	(1 024)	14 471	2 343	11 347	(9 012)	251 206	(10 647)
of which: purchased or originated credit-impaired financial assets - POCI	-	-	-	-	675	-	675	(108)	675	(108)

LOAN QUALITY RATIO (excluding adjustments relating to fair value hedge accounting)	31.03.2018	31.12.2017
Share of impaired loans	5,5%	5,6%

The ratio of impaired exposures was determined for exposures measured at amortized cost and for loans measured at fair value through other comprehensive income less non-working interest (fully covered by an allowance).

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31 December 2017	Changes due to IFRS 9 implementation	Fair value as at 1 January 2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Changes resulting from updating the applied estimation method (net)	Decrease in impairment allowances due to write-off	Other adjustments	As at the end of the period
Available-for-sale investment securities	298	(298)	-	-	-	-	-	-	-	-	-
Measured at fair value through OCI											
securities	-	165	165	-	(1)	(2)	-	-	-	-	162
bank loans	-	8	8	-	-	4	-	-	-	(1)	11
housing	-	8	8	-	-	4	-	-	-	(1)	11
Total	-	173	173	-	(1)	2	-	-	-	(1)	173
measured at amortized cost											
amounts due from banks	-	2	2	1	-	(1)	-	-	-	-	2
securities	10	1	11	1	-	(2)	-	-	-	1	11
bank loans	7 160	2 883	10 043	92	(33)	236	13	-	(111)	122	10 362
housing	1 925	1 035	2 960	13	(15)	54	2	-	(54)	39	2 999
corporate	3 580	1 473	5 053	56	(10)	99	10	-	(14)	24	5 218
consumer	1 655	375	2 030	23	(8)	83	1	-	(43)	59	2 145
other financial assets	99	-	99	-	-	-	-	-	-	-	99
Total	7 269	2 886	10 155	94	(33)	233	13	-	(111)	123	10 474

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS ACCORDING BY ASSET TYPES	As at 31 December 2017	Changes due to IFRS 9 implementation[1]	Fair value as at 1 January 2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Changes resulting from updating the applied estimation method (net)	Decrease in impairment allowances due to write-off	Other adjustments	As at the end of the period
amounts due from banks	-	2	2	1	-	(1)	-	-	-	-	2
securities	308	(132)	176	1	(1)	(4)	-	-	-	1	173
bank loans	7 160	2 891	10 051	92	(33)	240	13	-	(111)	121	10 373
housing	1 925	1 043	2 968	13	(15)	58	2	-	(54)	38	3 010
corporate	3 580	1 473	5 053	56	(10)	99	10	-	(14)	24	5 218
consumer	1 655	375	2 030	23	(8)	83	1	-	(43)	59	2 145
other financial assets	99	-	99	-	-	-	-	-	-	-	99
Total	7 567	2 761	10 328	94	(34)	235	13	-	(111)	122	10 647

[1] PLN 2 million of expected credit losses on amounts due from banks, PLN 411 million of expected credit losses on loans, PLN 2 480 million relating to taking into account full contractual interest (non-working) recognized at gross carrying amounts and PLN 132 million in respect of released allowances for securities.

(IN PLN MILLION)

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS – POCI

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 31.03.2018	Gross amount	Allowances	Net amount
Securities	472	(14)	458
measured at fair value through OCI	472	(14)	458
measured at amortized cost	-	-	-
Loans and advances to customers	203	(94)	109
measured at fair value through OCI	-	-	-
measured at amortized cost	203	(94)	109
Other financial assets	-	-	-
Total	**675**	**(108)**	**567**

CHANGES IN ALLOCANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – FIRST QUARTER OF 2018	As at the beginning of the period	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Changes resulting from updating the applied estimation method (net)	Decrease in impairment allowances due to write-off	Changes due to in foreign exchange differences on translation of foreign entities	Other adjustments	As at the end of the period
Securities	15	-	-	(1)	-	-	-	-	-	14
measured at fair value through OCI	15	-	-	(1)	-	-	-	-	-	14
measured at amortized cost	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers	107	-	(1)	(8)	-	-	(9)	-	5	94
measured at fair value through OCI	-	-	-	-	-	-	-	-	-	-
measured at amortized cost	107	-	(1)	(8)	-	-	(9)	-	5	94
Other financial assets	-	-	-	-	-	-	-	-	-	-
Total	122	-	(1)	(9)	-	-	(9)	-	5	108

22. IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS – UNDER IAS 39

AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS - EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
Receivables impaired, of which:	-
assessed on an individual basis	-
Amounts due from banks not impaired, not past due	8 769
Total, gross	**8 769**

SECURITIES

AVAILABLE-FOR-SALE INVESTMENT DEBT SECURITIES – THE BANK'S EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
impaired, assessed on an individual basis	819
not impaired, not past due	40 987
with an external rating	35 840
with an internal rating	5 147
Total, gross	**41 806**
Impairment allowances	(246)
Total, net	**41 560**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS BY METHOD OF IMPAIRMENT ALLOWANCE CALCULATION	31.12.2017		
	Gross amount	Impairment allowances	Net amount
individual basis, of which:	4 793	(1 665)	3 128
impaired	3 757	(1 660)	2 097
not impaired	1 036	(5)	1 031
portfolio basis	7 118	(4 880)	2 238
group basis (IBNR)	182 152	(625)	181 527
Total	**194 063**	**(7 170)**	**186 893**

LOANS AND ADVANCES TO CUSTOMERS - EXPOSURE TO CREDIT RISK	31.12.2017		
	Gross amount	Impairment allowances	Net amount
impaired, of which:	10 875	(6 540)	4 335
assessed on an individual basis	3 757	(1 660)	2 097
not impaired, of which:	183 188	(630)	182 558
with a recognized individual impairment trigger	1 016	(5)	1 011
not past due	751	(4)	747
past due	265	(1)	264
without a recognized individual impairment trigger/IBNR	182 172	(625)	181 547
not past due	179 574	(477)	179 097
past due	2 598	(148)	2 450
Total	**194 063**	**(7 170)**	**186 893**

LOAN QUALITY RATIOS (IN %)	31.12.2017
Share of impaired loans	5,6%
Coverage ratio of impaired loans[1]	65,9%
Share of loans overdue for more than 90 days in gross loans and advances to customers	4,3%

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

OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	31.12.2017		
	not past due	past due	TOTAL
impaired	-	98	98
not impaired, not past due	1 739	10	1 749
Total, gross	1 739	108	1 847
Impairment allowances	-	(99)	(99)
Total carrying amount, net	**1 739**	**9**	**1 748**

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

IMPAIRMENT ALLOWANCES ON SECURITIES – RECONCILIATION OF MOVEMENTS IN THE FIRST QUARTER OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other	As at the end of the period	Net - impact on the income statement
Debt securities	274	7	-	-	(5)	276	(7)
Equity securities	1	-	-	-	-	1	-
Total	**275**	**7**	**-**	**-**	**(5)**	**277**	**(7)**

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS - RECONCILIATION OF MOVEMENTS IN THE FIRST QUARTER OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other, of which arising from business combinations	As at the end of the period	Recoveries of exposures written off	Net - impact on the income statement
housing loans	2 144	195	(122)	(51)	(41)	2 125	-	(73)
corporate loans	3 667	451	(298)	(84)	(22)	3 714	-	(153)
corporate loans, non-financial sector	3 607	393	(239)	(84)	(19)	3 686	71	(154)
corporate loans (financial sector)	41	51	(51)	-	(3)	4	-	1
corporate loans, public sector	19	7	(8)	-	-	15	-	-
consumer loans	1 432	301	(183)	(10)	(5)	1 535	-	(118)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
Total	**7 320**	**948**	**(605)**	**(145)**	**(68)**	**7 450**	**-**	**(343)**

23. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	31.03.2018	31.12.2017
Investments in subsidiaries	601	601
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	283	283
Qualia Development Sp. z o.o.	318	318
Land and buildings	18	20
Total, gross	619	621
Impairment allowances	(262)	(262)
Total, net	**357**	**359**

24. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS

INTANGIBLE ASSETS	31.03.2018	31.12.2017
Software	1 435	1 485
Goodwill	871	871
Customer relationships	22	24
Other, including capital expenditure	214	242
Total	**2 542**	**2 622**

(IN PLN MILLION)

GOODWILL

Net goodwill	31.03.2018	31.12.2017
Nordea Polska companies	863	863
Centrum Finansowe Puławska Sp. z o.o.	8	8
Total	**871**	**871**

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	31.03.2018	31.12.2017
Land and buildings	1 461	1 481
Machinery and equipment	380	375
Assets under construction	75	128
Other	188	186
Total	**2 104**	**2 170**

25. OTHER ASSETS

OTHER ASSETS	31.03.2018	31.12.2017
Settlements in respect of card transactions	1 528	1 136
Settlements of financial instruments (including unpaid option premium)	439	284
Receivables in respect of cash settlements	144	158
Receivables and settlements in respect of trading in securities	56	63
Settlements relating to selling foreign currencies	2	2
Assets for sale	53	57
Prepayments and deferred costs	91	62
Trade receivables	101	94
Other	68	66
Total	**2 482**	**1 922**
of which: other financial assets	2 283	1 748

26. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	31.03.2018	31.12.2017
Measured at amortized cost:	**1 626**	**4 299**
Loans and advances received[1]	-	2 596
Bank deposits	999	1 077
Amounts due from repurchase agreements	46	-
Current accounts	540	583
Other monetary market deposits	41	43
Total	**1 626**	**4 299**

[1] Loans and advances received are presented in detail in Note 28 "Loans and advances received"

(IN PLN MILLION)

27. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	31.03.2018	31.12.2017
Measured at amortized cost:	**220 844**	**222 524**
Amounts due to retail customers	151 765	150 537
Current accounts and overnight deposits	89 844	86 612
Term deposits	61 339	63 719
Other liabilities	582	206
Amounts due to corporate entities	50 388	52 696
Current accounts and overnight deposits	33 364	39 719
Term deposits	14 980	11 992
Other liabilities	756	937
Amounts due from repurchase agreements	1 288	48
Amounts due to public entities	10 937	11 409
Current accounts and overnight deposits	9 314	9 555
Term deposits	1 581	1 820
Other liabilities	42	34
Loans and advances received[1]	7 754	7 882
Total	**220 844**	**222 524**

[1] Loans and advances received are presented in detail in Note 28 "Loans and advances received"

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	31.03.2018	31.12.2017
retail and private banking	143 736	141 870
corporate	45 060	49 140
small and medium enterprises	23 006	23 584
amounts due from repurchase agreements	1 288	48
Loans and advances received[1]	7 754	7 882
Total	**220 844**	**222 524**

28. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	31.03.2018	31.12.2017
From banks	-	2 596
Nordea Bank AB	-	2 596
From international financial institutions	2 011	2 000
European Investment Bank	1 314	1 308
Council of Europe Development Bank	697	692
From other institutions:	5 743	5 882
PKO Finance AB	5 743	5 882
Total	**7 754**	**10 478**

(IN PLN MILLION)

29. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	31.03.2018	31.12.2017
bank bonds, of which:	5 251	5 204
in PLN	649	645
in EUR, translated into PLN	3 168	3 132
in CHF, translated into PLN	1 434	1 427
Total	**5 251**	**5 204**

INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF SECURITIES

ADDITIONAL INFORMATION	31.03.2018	31.12.2017
issuance of debt securities during the period (nominal value)		
in PLN	-	1 320
in original currency (EUR)	-	750
in original currency (CHF)	-	400
redemption of debt securities during the period (nominal value)		
in PLN	-	1 485
in original currency (EUR)	-	200

In the first quarter of 2018, the Bank did not issue nor redeem any securities. In 2017, the Bank issued banking bonds with a nominal value of PLN 1 320 million, Eurobonds with a nominal value of EUR 750 million and Eurobonds with a nominal value of CHF 400 million, and at the same time, it repurchased EUR banking bonds of EUR 200 million and PLN banking bonds of PLN 1 485 million.

Regarding the issuance of Eurobonds the Bank held two issues:

- On 18 July 2017, the Bank issued Eurobonds amounting to EUR 750 million, with a 4-year maturity and 0.75% coupon (Mid Swap +65 b.p.). The bonds are listed on the Luxembourg Stock Exchange and, at the same time, on the Warsaw Stock Exchange. The issue was the first one held under the new EMTN programme launched in May 2017 totalling EUR 3 billion. The programme involves issuing unsecured senior Eurobonds and subordinated bonds in EUR, USD, CHF and PLN.
- On 19 October 2017, the Bank placed its Eurobonds under the EMTN programme amounting to CHF 400 million, with 4-year maturity and 0.30% coupon (Mid Swap +58 b.p.). The bonds are listed on the Zurich Stock Exchange. The Bank aims to introduce the bonds to alternative trading on the Warsaw Stock Exchange.

30. SUBORDINATED LIABILITIES

	Nominal value in a foreign currency	Interest rate	Currency	Period	Special terms	Balance in PLN	
						31.03.2018	31.12.2017
Subordinated bonds	1 700	3,36	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years from the issue date	1 705	1 720
Subordinated bonds	1 000	3,31	PLN	05.03.2018-- 05.03.2028	right to early redemption within 5 years from the issue date	1 002	-
Total						**2 707**	**1 720**

(IN PLN MILLION)

The subordinated bonds were designated on approval of the Polish Financial Supervision Authority for increasing the Bank's Tier 2 capital.

On 28 February 2018, the Bank placed an issue of subordinated bonds totalling PLN 1,000 million. The issue was conducted in the 10NC5 formula. The nominal value of one bond is PLN 500 000 and its issue price is equal to the nominal value. The bonds bear interest in half-yearly interest periods, calculated based on the nominal value at a variable interest rate of WIBOR 6M increased by a margin of 150 b.p. p.a. over the entire issue period. On 8 March 2018, the Polish Financial Supervision Authority granted permission to designate proceeds from the issue of subordinated bonds for an increase in the Bank's Tier 2 capital.

31. OTHER LIABILITIES

OTHER LIABILITIES	31.03.2018	31.12.2017
Expenses to be paid	467	514
Deferred income	500	495
Liability in respect of tax on certain financial institutions	71	75
Interbank settlements	432	1 313
Liabilities arising from investing activities and internal operations	150	295
Amounts due to suppliers	105	74
Liabilities and settlements in respect of trading in securities	445	502
Settlements of financial instruments (including unpaid option premium)	263	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	302	120
contribution calculated by BGF / to be contributed to BGF (Resolution Fund)	162	-
maintained in the form of payment commitments, of which:	140	120
to the resolution fund	63	63
to the banks' guarantee fund	77	57
Liabilities under the public law	130	148
liabilities in respect of foreign exchange activities	805	350
Liabilities in respect of payment cards	212	259
Other	183	166
Total	**4 068**	**4 592**
of which: other financial liabilities	3 297	3 812

As at 31 March 2018 and as at 31 December 2017, the Bank did not have any liabilities in respect of which it would not meet its contractual obligations.

The item "Liabilities in respect of contribution to the Bank Guarantee Fund" includes liabilities in respect of the Bank's contribution to the bank resolution fund calculated by the BGF for the Bank for 2018 (of PLN 162 million, payable by 19 July 2018) and liabilities maintained in the form of payment commitments in respect of contributions to the BGF.

(IN PLN MILLION)

32. PROVISIONS

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2018	Provisions for disputed claims and tax proceedings	Provisions for pension and other liabilities in respect of defined post-retirement benefits[1]	Restructuring[1]	Provisions for other liabilities and guarantees granted	Other provisions including provisions for employee disputed claims[1]	Total
As at 31 December 2017, of which:	**18**	**59**	**21**	**86**	**26**	**210**
Short-term provisions	18	21	21	61	26	147
Long-term provisions	-	38	-	25	-	63
Changes due to IFRS 9 implementation	-	-	-	69	-	69
Short-term provisions	-	-	-	45	-	45
Long-term provisions	-	-	-	24	-	24
1 January 2018 (restated), of which:	**18**	**59**	**21**	**155**	**26**	279
Short-term provisions	18	21	21	106	26	192
Long-term provisions	-	38	-	49	-	87
Increase, including increase in existing provisions	3	-	45	62	-	110
Utilized	(5)	(13)	(6)	-	-	(24)
Released during the period	-	-	-	(68)	(14)	(82)
Other changes and reclassifications	-	-	-	(1)	-	(1)
As at 31 March 2018, of which:	**16**	**46**	**60**	**148**	**12**	**282**
Short-term provisions	16	8	60	111	12	207
Long-term provisions	-	38	-	37	-	75

[1] As at 31 December 2017, provisions included in “Other provisions, including provisions for employee disputed claims” were reclassified to “Provisions for pension and other liabilities in respect of defined post-retirement benefits” (PLN 14 million) and to “Restructuring” (PLN 21 million).

FOR THE 3-MONTH PERIOD ENDED 31 MARCH 2017	Provisions for disputed claims and tax proceedings	Provisions for pension and other liabilities in respect of defined post-retirement benefits	Restructuring	Provisions for other liabilities and guarantees granted	Other provisions including provisions for employee disputed claims	Total
As at 1 January 2017, of which:	**20**	**59**	**59**	**67**	**18**	223
Short-term provisions	20	21	59	51	18	169
Long-term provisions	-	38	-	16	-	54
Increase, including increase in existing provisions	1	-	-	44	-	45
Utilized	-	-	(13)	-	-	(13)
Released during the period	(4)	-	-	(41)	(1)	(46)
Other changes and reclassifications	-	-	-	(1)	-	(1)
As at 31 March 2017, of which:	**17**	**59**	**46**	**69**	**17**	**208**
Short-term provisions	17	21	46	53	17	154
Long-term provisions	-	38	-	16	-	54

(IN PLN MILLION)

33. Equity and shareholding structure of the Bank

EQUITY	31.03.2018	31.12.2017
Share capital	1 250	1 250
Supplementary capital	27 118	27 118
General banking risk fund	1 070	1 070
Other reserves	3 593	3 593
Accumulated other comprehensive income	217	182
Items which may be reclassified to profit or loss	226	191
cash flow hedges	(122)	(75)
unrealized net gains on available-for-sale financial assets		266
fair value of financial assets measured at fair value through other comprehensive income	348	
Items which cannot be reclassified to profit or loss	(9)	(9)
actuarial gains and losses	(9)	(9)
fair value of equity instruments measured at fair value through other comprehensive income	-	
fair value of own credit risk of financial liabilities measured at fair value through profit or loss	-	
Retained earnings	2 239	-
Net profit or loss for the year	614	2 774
Total	**36 101**	**35 987**

34. Investments in subsidiaries, joint ventures and associates

AS AT 31 MARCH 2018	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 200	-	1 200
KREDOBANK SA	1 070	(793)	277
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - FIZAN (investment certificates)	132	-	132
Merkury - FIZ AN (investment certificates)	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard Sp. z o.o.	22	-	22
PKO BP Finat Sp. z o.o.	21	-	21
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(54)	130
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	2	(2)	-
Total	**3 839**	**(849)**	**2 990**

(IN PLN MILLION)

AS AT 31 DECEMBER 2017	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 200	-	1 200
KREDOBANK SA	1 070	(793)	277
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - FIZAN[1]	132	-	132
Merkury - FIZ AN[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat Sp. z o.o.	21	-	21
ZenCard Sp. z o.o.	18	-	18
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(54)	130
FERRUM SA	25	-	25
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	2	(2)	-
Total	**3 860**	**(849)**	**3 011**

[1] PKO Bank Polski SA holds investment certificates of the Fund which enable exercising control over the Fund in accordance with IFRS.

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01-31.03.2018	01.01-31.03.2017
As at the beginning of the period	849	824
Recognized during the period	-	15
As at the end of the period	849	839
Net increase - impact on the income statement	**-**	**(15)**

(IN PLN MILLION)

OTHER NOTES

35. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES GRANTED

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreements	Contract expiry date
As at 31 March 2018			
Company A	corporate bonds	1 452	31.12.2020
Company B	corporate bonds	995	31.07.2020
Company C	corporate bonds	56	31.12.2022
Total		**2 503**	

Issuer of underwritten securities	Type of underwritten securities	Off-balance sheet liabilities resulting from underwriting agreements	Contract expiry date
As at 31 December 2017			
Company A	corporate bonds	1 453	31.12.2020
Company B	corporate bonds	769	31.07.2020
Company C	corporate bonds	58	31.12.2022
Total		**2 280**	

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

(IN PLN MILLION)

FINANCIAL AND GUARANTEE LIABILITIES GRANTED

OFF-BALANCE SHEET LIABILITIES GRANTED 31.03.2018	Off-balance sheet liabilities under IFRS 9	Provisions for off-balance sheet liabilities under IFRS 9	Total
Financial liabilities granted:			
Credit lines and limits	45 214	(109)	45 105
housing	4 920	(18)	4 902
corporate	31 691	(64)	31 627
consumer	8 603	(27)	8 576
Total	**45 214**	**(109)**	**45 105**
of which irrevocable loan commitments	**28 678**	**(63)**	**28 615**
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	7 831	(37)	7 794
to financial entities	2 960	(13)	2 947
to non-financial entities	4 831	(23)	4 808
to public entities	40	(1)	39
Guarantees and pledges granted – domestic corporate bonds	4 578	-	4 578
to financial entities	2 000	-	2 000
to non-financial entities	2 578	-	2 578
Letters of credit issued	1 418	(2)	1 416
to financial entities	21		21
to non-financial entities	1 397	(2)	1 395
to public entities	-	-	-
Guarantees and warranties granted – payment guarantee for financial entities	210	-	210
Guarantees and pledges granted - domestic municipal bonds	452	-	452
Total	**14 489**	**(39)**	**14 450**
of which performance guarantees granted	2 355	(14)	2 341

Information about the provisions recognized for off-balance sheet financial and guarantee liabilities is presented in Note 32 "Provisions".

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES GRANTED 31.12.2017	Off-balance sheet liabilities under IAS 37	Provisions for off-balance sheet liabilities under IAS 37	Total
Financial liabilities granted:			
Credit lines and limits	46 179	(59)	46 120
housing	4 512	(6)	4 506
corporate	33 364	(43)	33 321
consumer	8 303	(10)	8 293
Total	**46 179**	**(59)**	**46 120**
of which irrevocable loan commitments	33 607	(51)	33 556
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 404	(25)	8 379
to financial entities	2 917	(3)	2 914
to non-financial entities	5 456	(21)	5 435
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	4 335
to financial entities	1 985	-	1 985
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 430	(2)	1 428
to financial entities	21	-	21
to non-financial entities	1 409	(2)	1 407
Guarantees and warranties granted – payment guarantee for financial entities	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**14 690**	**(27)**	**14 663**
of which performance guarantees granted	2 630	(9)	2 621

Right to sell or pledge collateral established for the Bank

As at 31 March 2018, and as at 31 December 2017 no collateral was established for the benefit of the Bank, which the Bank was entitled to sell or pledge, if all obligations of the collateral holder were performed.

36. Off-balance sheet liabilities received

Off-balance sheet liabilities received

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	31.03.2018	31.12.2017
Financial	255	95
Guarantees	14 204	14 066
Total	**14 459**	**14 161**

Due to the provisions of the Agreement which require Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the "Special Indemnity Agreement"), according to which Nordea Bank AB (publ) covered, until 31 March 2018, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement.

The Bank has made a valuation of the Special Indemnity Agreement on the basis of the conducted analysis of the probability of cash flows arising from the Agreement. The estimated expected value is zero.

(IN PLN MILLION)

37. Notes to the cash flow statement

CASH AND CASH EQUIVALENTS	31.03.2018	31.12.2017	31.03.2017
Cash and balances with the Central Bank	15 471	15 800	14 025
Deposits with the Central Bank	740	1 965	-
Current amounts due from banks	3 235	4 765	5 294
Restricted cash and cash equivalents	8	11	13
Total	**19 454**	**22 541**	**19 332**

Restricted cash and cash equivalents

Cash and cash equivalents of PLN 8 million (as at 31 December 2017: PLN 11 million) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees the proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a daily basis.

38. Related-party transactions – capital links

Transactions of the parent company with associates and joint ventures accounted for under the equity method. All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range of from one month to fifteen years.

AS AT 31 MARCH 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	123	1	2	102
Merkury - fiz an and its subsidiaries	-	-	11	-
NEPTUN - fizan and its subsidiaries	198	198	46	-
PKO Bank Hipoteczny SA	2 504	754	11	3 649
PKO BP BANKOWY PTE SA	-	-	11	-
PKO BP Finat Sp. z o.o. and its subsidiaries	-	-	48	1
PKO Finance AB	-	-	5 743	-
PKO Leasing SA and its subsidiaries	13 371	13 365	90	3 638
PKO Towarzystwo Funduszy Inwestycyjnych SA	11	-	108	-
PKO Towarzystwo Ubezpieczeń SA	-	-	43	-
PKO Życie Towarzystwo Ubezpieczeń SA	1	-	449	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	248	-
ZenCard Sp. z o.o.	-	-	2	-
Total subsidiaries	**16 208**	**14 318**	**6 812**	**7 391**

(IN PLN MILLION)

AS AT DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	93	-	9	105
Merkury - fiz an and its subsidiaries	-	-	10	-
NEPTUN - fizan and its subsidiaries	203	203	57	-
PKO Bank Hipoteczny SA	4 258	1 477	5	2 912
PKO BP BANKOWY PTE SA	-	-	12	-
PKO BP Finat Sp. z o.o.	1	-	42	1
PKO Finance AB	-	-	5 882	-
PKO Leasing SA and its subsidiaries	12 550	12 546	66	5 332
PKO Towarzystwo Funduszy Inwestycyjnych SA	26	-	67	-
PKO Towarzystwo Ubezpieczeń SA	-	-	8	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	441	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	238	-
Total subsidiaries	**17 131**	**14 226**	**6 837**	**8 351**

AS AT 31 MARCH 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	82	5	53	12
"Centrum Obsługi Biznesu" Sp. z o.o.	25	25	9	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	9	-
Total joint ventures and associates	**107**	**30**	**71**	**13**

AS AT 31 DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	49	6	37	25
"Centrum Obsługi Biznesu" Sp. z o.o.	19	19	9	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	16	-
Total joint ventures and associates	**68**	**25**	**62**	**26**

FOR THE PERIOD ENDED 31 MARCH 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	59	55	-	-
PKO BP Finat Sp. z o.o. and its subsidiaries	1	-	1	-
PKO Finance AB	-	-	68	68
PKO Leasing SA and its subsidiaries	70	68	4	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	30	30	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	2	2
Total subsidiaries	**161**	**154**	**75**	**70**

(IN PLN MILLION)

FOR THE PERIOD ENDED 31 MARCH 2017 / ENTITY	Total income	of which interest and commission	Total expense	of which interest and commission
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	26	23	-	-
PKO BP Finat Sp. z o.o.	-	-	4	-
PKO Finance AB	-	-	57	57
PKO Leasing SA and its subsidiaries	62	60	5	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	61	60	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	2	2
Qualia Development Sp. z o.o. and its subsidiaries	1	1	1	1
Total subsidiaries	**152**	**146**	**69**	**60**

FOR THE PERIOD ENDED 31 MARCH 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	85	64	19	19
Indirect joint ventures				
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Direct associates				
Centrum Operacyjne Sp. z o.o.	-	-	-	-
Total joint ventures and associates	**86**	**65**	**19**	**19**

FOR THE PERIOD ENDED 31 MARCH 2017 / ENTITY	Total income	of which interest and commission	Total expense	of which interest and commission
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	54	54	18	18
Total joint ventures and associates	**54**	**54**	**18**	**18**

(IN PLN MILLION)

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

39. RISK MANAGEMENT AT PKO BANK POLSKI SA

Risk management is one of the most important internal processes in PKO Bank Polski SA. Risk management is aimed at ensuring the profitability of the business activities while maintaining an adequate level of capital adequacy measures and monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank, in a changing macroeconomic and legal environment. The risk management system supports the execution of the Bank's Strategy in compliance with the risk management strategy. It includes the achievement of the desired capital targets, the level of risk tolerance and the process of capital planning, including the policy for obtaining sources of capital.

The following elements: definition of risks, risk management objectives, risk identification, measurement or assessment, risk control, forecasting and monitoring, reporting and management actions for the material risks identified by the Bank have been described in detail in the separate financial statements of PKO Bank Polski SA for 2017 and in the report Capital Adequacy, and Other Information Subject to Disclosure of the Group of Powszechna Kasa Oszczędności Bank Polski SA as at 31 December 2017.

40. CREDIT RISK MANAGEMENT

BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS - MAXIMUM EXPOSURE TO CREDIT RISK	**31.03.2018**
Amounts due from banks not held for trading, mandatorily measured at fair value through profit or loss	1
Hedging derivatives	918
Other derivative instruments	1 544
Securities	4 127
held for trading	1 628
not held for trading, mandatorily measured at fair value through profit or loss	2 499
Loans and advances to customers not held for trading, mandatorily measured at fair value through profit or loss	1 032
housing	35
corporate	172
consumer	825
Total	**7 622**

BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS - MAXIMUM EXPOSURE TO CREDIT RISK	**31.12.2017**
Hedging derivatives	1 104
Other derivative instruments	1 701
Securities	6 881
held for trading	472
financial instruments designated at fair value through profit or loss upon initial recognition	6 409
Other assets - other financial assets	1 748
Total	**11 434**

(IN PLN MILLION)

PAST DUE ANALYSIS – FINANCIAL ASSETS PAST DUE OR IMPAIRED

EXPOSURES PAST DUE 31.03.2018	Assets with no significant increase in credit risk since initial recognition (stage 1)				Assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)				Credit-impaired assets (stage 3)				TOTAL EXPOSURES PAST DUE
	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	up to 30 days	30 to 90 days	over 90 days	TOTAL	
Loans and advances to customers:	1 047	-	-	1 047	844	353	-	1 197	229	187	2 377	2 793	5 037
loans	1 047	-	-	1 047	844	353	-	1 197	229	187	2 377	2 793	5 037
housing	469	-	-	469	516	197	-	713	90	87	462	639	1 821
corporate	348	-	-	348	182	57	-	239	100	58	1 523	1 681	2 268
consumer	230	-	-	230	146	99	-	245	39	42	392	473	948
Total, net	**1 047**	**-**	**-**	**1 047**	**844**	**353**	**-**	**1 197**	**229**	**187**	**2 377**	**2 793**	**5 037**

EXPOSURES PAST DUE 31.12.2017	up to 30 days	30 to 90 days	over 90 days	TOTAL
Loans and advances to customers:	2 295	570	2 523	5 388
loans	2 295	570	2 523	5 388
housing	1 221	319	567	2 107
corporate	605	121	1 484	2 210
consumer	469	130	472	1 071
Total, net	**2 295**	**570**	**2 523**	**5 388**

41. Interest rate risk management

Sensitivity measures

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

SENSITIVITY MEASURE	31.03.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	267	301
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)[1]	1 633	2 097

[1] The table presents the value of the most adverse stress-test scenario: the movement of interest rate curves in particular currencies by 200 b.p. upwards and by 200 b.p. downwards.

42. Currency risk management

The Bank's VaR and a stress-test analysis of the Bank's exposure to currency risk, presented cumulatively for all currencies, are presented in the table below:

SENSITIVITY MEASURE	31.03.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	2	3
Change in CUR/PLN by 20% (in PLN million) (stress-test)	61	184

43. Liquidity risk management

Liquidity gap

Liquidity gaps presented below include, among other things, the Bank's adjusted balance sheet items in respect of core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.03.2018								
adjusted periodic gap	14 865	16 790	(2 204)	2 845	12 811	12 513	33 889	(91 509)
adjusted cumulative periodic gap	14 865	31 655	29 451	32 296	45 107	57 620	91 509	-
31.12.2017								
adjusted periodic gap	15 256	22 934	(1 927)	1 912	12 096	10 242	34 258	(94 771)
adjusted cumulative periodic gap	15 256	38 190	36 263	38 175	50 271	60 513	94 771	-

LIQUIDITY SURPLUS

The table below presents the Bank's liquidity surplus as at 31 March 2018 and 31 December 2017

SENSITIVITY MEASURE	31.03.2018	31.12.2017
Liquidity surplus in the horizon of up to 30 days[1] (in PLN billion)	8	14

[1] Liquidity surplus – determines the Bank's ability to meet the liquidity needs in a given survival horizon if the scenarios defined in stress tests materialize.

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	31.03.2018	31.12.2017
M3 - coverage ratio of non-liquid assets to own funds	15,29	13,92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,19	1,19
NSFR – net stable funding ratio	108,2%	114,6%
LCR - liquidity coverage ratio	115,6%	160,7%

In the periods ended 31 March 2018 and 31 December 2017, liquidity measures remained above their respective supervisory limits.

44. CAPITAL ADEQUACY

	31.03.2018	31.12.2017
Total own funds	**35 629**	**34 297**
Tier 1 capital	**32 929**	**32 597**
Tier 1 capital before regulatory adjustments and reductions, of which:	34 971	34 854
Share capital	1 250	1 250
Other reserves	30 712	30 712
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings	1 939	1 822
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 437)	(1 509)
Accumulated other comprehensive income	217	182
Adjustments in Tier 1 basic capital due to prudential filters	49	12
Other transitional period adjustments to Tier 1 basic capital	-	(71)
Tier 2 capital	**2 700**	**1 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	1 700
Requirements for own funds	**14 234**	**14 008**
Credit risk	13 256	13 017
Operational risk	477	455
Market risk	454	495
Credit valuation adjustment risk	47	41
Total capital adequacy ratio	**20,03%**	**19,59%**
Tier 1 capital ratio	**18,51%**	**18,62%**

SUBSEQUENT EVENTS

45. SUBSEQUENT EVENTS

1. On 6 April 2018, the business combination plan of PKO BP Finat Sp. z o.o. (Acquirer) and Net Fund Administration Sp. z o.o. (Acquiree) was publicly announced on the websites of the merging companies. The combination will be conducted in accordance with Article 492 § 1 point 1 of the Commercial Companies Code (combination by acquisition) by transferring all the assets of the Acquiree to the Acquirer, without increasing the capital of the Acquirer.
2. On 17 April 2018, the business combination plan of PKO Towarzystwo Funduszy Inwestycyjnych SA (Acquirer) and GAMMA Towarzystwo Funduszy Inwestycyjnych SA (Acquiree) was publicly announced on the websites of the merging companies. The combination will be conducted in accordance with Article 492 § 1 point 1 of the Commercial Companies Code (combination by acquisition) by transferring all the assets of the Acquiree to the Acquirer. As a result of the combination, the Acquiree will be dissolved without liquidation. The business combination plan specifies, among other things, the ratio of exchange of the shares in the Acquiree and the conditions for granting shares in the Acquirer.
3. An Ordinary General Shareholders' Meeting (GSM) was convened by the Management Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for 18 May 2018. The agenda of the GSM covers, in particular:

   1) Considering and approving the financial statements of PKO Bank Polski S.A. and the consolidated financial statements of PKO Bank Polski S.A. Group for 2017.
   2) Considering and approving the Directors' Report of the PKO Bank Polski Group, together with the Directors' Report of PKO Bank Polski SA, and the Directors' Report on non-financial information of the PKO Bank Polski S.A. Group, including the Directors' Report on non-financial information of PKO Bank Polski S.A. for 2017.
   3) Considering and approving the report of the Supervisory Board of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna for 2017.
   4) Distributing the profit of PKO Bank Polski SA for 2017 and defining the amount of the dividend per share, the dividend day and the dividend payment date.
   5) Granting the vote of acceptance to the performance of duties by members of management and Supervisory Board for 2017.
   6) Adopting the resolution on amendments the Articles of Association of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
   7) Presentation of the Supervisory Board's report on an evaluation of the functioning of the remuneration policy at the PKO Bank Polski SA and report on the evaluation of the compliance of the PKO Bank Polski SA of the "Corporate Governance Policy for Supervised Institutions".
   8) Changes to the composition of the Supervisory Board.

   Detailed information on the Ordinary General Shareholders' Meeting convened for 18 May 2018, including draft resolutions, have been published on the Bank's website https://www.pkobp.pl/ in the Investor Relations section, Current Reports tab.

4. On 19 April 2018, the Bank terminated a guarantee agreement ensuring unfunded credit protection with regard to a portfolio of selected corporate loan receivables of the Bank. Termination of the guarantee was without specifying the reasons, as provided for in the guarantee agreement and in accordance with its terms and conditions. In accordance with the guarantee agreement, due to termination the guarantee expired on 24 April 2018.

5. In April 2018, PKO Bank Hipoteczny SA acquired portfolios of receivables from mortgage-secured housing loans of PLN 1 375 million under the Framework Receivables Sale Agreement concluded on 17 November 2015 with PKO Bank Polski SA.

6. On 27 April 2018, PKO Bank Hipoteczny SA issued mortgage bonds amounting to PLN 700 million, maturing in April 2024.

(IN PLN MILLION)

7. On 27 April 2018, PKO Bank Polski SA finished negotiations with Bank Gospodarstwa Krajowego SA regarding the sale of shares in The 2020 European Fund for Energy, Climate Change and Infrastructure (the Marguerite I Fund) and signed the sale agreement.

Signatures of all Members of the Bank's Management Board

08.05.2018	Zbigniew Jagiełło	President of the Management Board	.... (signature)
08.05.2018	Rafał Antczak	Vice-President of the Management Board	.... (signature)
08.05.2018	Rafał Kozłowski	Vice-President of the Management Board	.... (signature)
08.05.2018	Maks Kraczkowski	Vice-President of the Management Board	.... (signature)
08.05.2018	Mieczysław Król	Vice-President of the Management Board	.... (signature)
08.05.2018	Adam Marciniak	Vice-President of the Management Board	.... (signature)
08.05.2018	Piotr Mazur	Vice-President of the Management Board	.... (signature)
08.05.2018	Jakub Papierski	Vice-President of the Management Board	.... (signature)
08.05.2018	Jan Emeryk Rościszewski	Vice-President of the Management Board	.... (signature)

Signature of the person responsible
for maintaining the books of account

Danuta Szymańska
Director, Department of Accounting and Taxes

....
(signature)