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Bank Polski

Condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2018

Report publication date:
28 August 2018

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Bank Polski

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2018 to 30.06.2018	period from 01.01.2017 to 30.06.2017	period from 01.01.2018 to 30.06.2018	period from 01.01.2017 to 30.06.2017
Net interest income	4 507	4 160	1 063	979
Net fee and commission income	1 482	1 443	350	340
Operating profit	2 301	1 916	543	451
Profit before tax	**2 315**	**1 927**	**546**	**454**
Net profit (including non-controlling shareholders)	**1 689**	**1 386**	**398**	**326**
Net profit attributable to equity holders of the parent company	**1 690**	**1 382**	**399**	**325**
Earnings per share for the period - basic (in PLN/EUR)	**1.35**	**1.11**	**0.32**	**0.26**
Earnings per share for the period - diluted (in PLN/EUR)	**1.35**	**1.11**	**0.32**	**0.26**
Total net comprehensive income	1 855	1 771	438	417
Net cash flows used in operating activities	(7 541)	1 769	(1 779)	416
Net cash flows used in investing activities	(1 991)	(2 100)	(470)	(494)
Net cash flows used in financing activities	1 438	(671)	339	(158)
Total net cash flows	(8 094)	(1 002)	(1 909)	(236)

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	As at 30.06.2018	As at 31.12.2017	As at 30.06.2018	As at 31.12.2017
Total assets	298 667	296 912	68 476	71 187
Total equity	36 776	36 256	8 432	8 693
Capital and reserves attributable to equity holders of the parent company	36 788	36 267	8 435	8 695
Share capital	1 250	1 250	287	300
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	29.42	29.00	6.75	6.95
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	29.42	29.00	6.75	6.95
Total capital adequacy ratio	17.42%	17.37%	17.42%	17.37%
Tier 1 capital	33 238	32 326	7 621	7 750
Tier 2 capital	2 700	1 700	619	408

Selected consolidated financial statement items have been translated into EUR at the following rates	30.06.2018	31.12.2017	30.06.2017
average of NBP exchange rates at the end of a period (income statement, statement of comprehensive income and cash flow statement items)	4.2395	4.2447	4.2474
NBP mid exchange rates as at the date indicated (statement of financial position items)	4.3616	4.1709	4.2265

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CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Interest and similar income	9	2 837	5 585	2 693	5 313
Interest income recognised under the effective interest rate method		2 727	5 359		
interest income on financial instruments measured at amortized cost		2 457	4 816		
interest income on instruments measured at fair value through other comprehensive income		270	543		
Income similar to interest income on instruments measured at fair value through profit or loss		110	226		
Interest expenses and similar charges	9	(546)	(1 078)	(579)	(1 153)
Net interest income		**2 291**	**4 507**	2 114	**4 160**
Fee and commission income	10	1 010	1 982	961	1 890
Fee and commission expense	10	(265)	(500)	(228)	(447)
Net fee and commission income		**745**	**1 482**	733	**1 443**
Dividend income	11	11	11	11	11
Net result on financial instruments measured at fair value through profit or loss	12	(2)	15	(6)	13
Gain/(loss) on investment securities	13			(4)	1
Net foreign exchange gains/(losses)	14	143	247	107	223
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	15	57	94		
measured at fair value through other comprehensive income		57	86		
measured at amortized cost		-	8		
Net credit losses	16	(362)	(687)	(371)	(743)
Impairment of non-financial assets	17	(15)	(23)	(22)	(44)
Other operating income	18	160	317	274	392
Other operating expenses	18	(126)	(184)	(99)	(138)
Net other operating income and expense		**34**	**133**	175	**254**
Administrative expenses	19	(1 438)	(3 017)	(1 375)	(2 938)
Tax on certain financial institutions	20	(233)	(461)	(231)	(464)
Operating profit		**1 231**	**2 301**	**1 131**	**1 916**
Shares in profits (losses) of associates and joint ventures		8	14	6	11
Profit before tax		**1 239**	**2 315**	**1 137**	**1 927**
Income tax expense	21	(306)	(626)	(279)	(541)
Net profit (including non-controlling shareholders)		933	1 689	**858**	1 386
Profit (loss) attributable to non-controlling shareholders		-	(1)	1	4
Net profit attributable to equity holders of the parent company		**933**	**1 690**	**857**	**1 382**
Earnings per share	22				
- basic earnings per share for the period (PLN)		0.75	1.35	0.69	1.11
- diluted earnings per share for the period (PLN)		0.75	1.35	0.69	1.11
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Net profit (including non-controlling shareholders)		**933**	**1 689**	**858**	**1 386**
Other comprehensive income		**(24)**	**166**	**146**	**385**
Items which may be reclassified to profit or loss		**(24)**	**166**	**146**	**385**
Cash flow hedges (gross)	25	62	11	(1)	20
Deferred income tax	21	(11)	(1)	1	(4)
Cash flow hedges (net)	25	51	10	-	16
Unrealized net gains on available-for-sale financial assets (gross)				185	470
Deferred income tax	21			(37)	(88)
Unrealized net gains on available-for-sale financial assets (net)				148	382
Fair value of financial assets measured at fair value through other comprehensive income (gross)		(57)	242		
Gains /losses transferred to profit or loss (on disposal)	15	(57)	(86)		
Deferred income tax	21	21	(30)		
Fair value of financial assets measured at fair value through other comprehensive income (net)		(93)	126		
Currency translation differences from foreign operations		18	28	(3)	(12)
Share in other comprehensive income of associates and joint ventures		-	2	1	(1)
Total net comprehensive income		**909**	**1 855**	**1 004**	**1 771**
Total net comprehensive income, of which attributable to:		909	1 855	1 004	1 771
Equity holders of the parent Company		909	1 856	1 003	1 767
non-controlling shareholders		-	(1)	1	4

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.06.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	23	9 973	17 810
Amounts due from banks	24	4 973	5 233
- measured at amortized cost		4 973	5 233
Derivative hedging instruments	25	742	887
Other derivative instruments	26	1 982	1 711
Securities	27	61 165	54 075
- held for trading		1 135	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		3 303	
- measured at fair value through other comprehensive income		50 249	
- measured at amortized cost		6 478	
Loans and advances to customers	28	207 593	205 628
- not held for trading, mandatorily measured at fair value through profit or loss		988	
- measured at amortized cost		206 605	205 628
Investments in associates and joint ventures	44	374	393
Non-current assets held for sale	31	158	138
Intangible assets	32	3 120	3 242
Property, plant and equipment	32	2 810	2 915
Current income tax receivable		1	2
Deferred tax assets	21	1 996	1 767
Other assets	33	3 780	3 111
TOTAL ASSETS		**298 667**	**296 912**

	Note	30.06.2018	31.12.2017
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		5	6
Amounts due to banks	34	2 090	4 558
- measured at amortized cost		2 090	4 558
Derivative hedging instruments	25	440	204
Other derivative instruments	26	2 141	2 536
Amounts due to customers	35	219 208	220 614
- measured at amortized cost		219 208	220 614
Liabilities due to insurance activities	37	1 383	1 185
Debt securities in issue	38	28 079	23 932
- measured at amortized cost		28 079	23 932
Subordinated liabilities	39	2 730	1 720
- measured at amortized cost		2 730	1 720
Other liabilities	40	5 246	5 062
Current income tax liabilities		158	588
Deferred tax liabilities	21	39	36
Provisions	41	372	215
TOTAL LIABILITIES		**261 891**	**260 656**
Equity	42		
Share capital		1 250	1 250
Other capital		34 233	31 979
Retained earnings		(385)	(66)
Net profit or loss for the period		1 690	3 104
Capital and reserves attributable to equity holders of the parent company		36 788	36 267
Non-controlling interests		(12)	(11)
TOTAL EQUITY		**36 776**	**36 256**
TOTAL LIABILITIES AND EQUITY		**298 667**	**296 912**
Total capital adequacy ratio	67	17.42%	17.37%
Book value (in PLN million)		36 776	36 256
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		29.42	29.00
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		29.42	29.00

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For 6 months period ended 30 June 2018	Share capital	Other capital					Undistributed profits	Net profit or loss for the period	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital					
		Reserve capital	General banking risk fund	Other reserves							
As at 31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979	(66)	3 104	36 267	(11)	36 256
Changes due to IFRS 9 implementation	-	-	-	-	(78)	(78)	(567)	-	(645)	-	(645)
As at 1 January 2018 (restated)	1 250	27 374	1 070	3 645	(188)	31 901	(633)	3 104	35 622	(11)	35 611
Transfer from retained earnings	-	-	-	-	-	-	3 104	(3 104)	-	-	-
Dividend declared	-	-	-	-	-	-	(688)	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-	166	166	-	1 690	1 856	(1)	1 855
Net profit	-	-	-	-	-	-	-	1 690	1 690	(1)	1 689
Other comprehensive income	-	-	-	-	166	166	-	-	166	-	166
Transfer from net profit to capital	-	2 101	-	65	-	2 166	(2 166)	-	-	-	-
Mandatory buy-out of shares from non-controlling shareholders	-	-	-		-	-	(2)	-	(2)	-	(2)
As at 30 June 2018	1 250	29 475	1 070	3 710	(22)	34 233	(385)	1 690	36 788	(12)	36 776

For 6 months period ended 30 June 2018	Accumulated other comprehensive income					
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Currency translation differences from foreign operations	Total
As at 31 December 2017	-	272	(116)	(9)	(257)	(110)
Changes due to IFRS 9 implementation	-	(78)	-	-	-	(78)
As at 1 January 2018 (restated)	-	194	(116)	(9)	(257)	(188)
Total comprehensive income, of which:	2	126	10	-	28	166
Other comprehensive income	2	126	10	-	28	166
As at 30 June 2018	2	320	(106)	(9)	(229)	(22)

(IN PLN MILLION)

For 6 months period ended 30 June 2017	Share capital	Other capital – Reserves – Reserve capital	Other capital – Reserves – General banking risk fund	Other capital – Reserves – Other reserves	Other capital – Accumulated other comprehensive income	Other capital – Total other capital	Undistributed profits	Net profit or loss for the period	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
As at 1 January 2017	1 250	24 491	1 070	3 608	(689)	28 480	(19)	2 874	32 585	(16)	32 569
Transfer from retained earnings	-	-	-	-	-	-	2 874	(2 874)	-	-	-
Total comprehensive income, of which:	-	-	-	-	385	385	-	1 382	1 767	4	1 771
Net profit	-	-	-	-	-	-	-	1 382	1 382	4	1 386
Other comprehensive income	-	-	-	-	385	385	-	-	385	-	385
Transfer from net profit to capital	-	2 883	-	38	-	2 921	(2 921)	-	-	-	-
As at 30 June 2017	1 250	27 374	1 070	3 646	(304)	31 786	(66)	1 382	34 352	(12)	34 340

For 6 months period ended 30 June 2017	Accumulated other comprehensive income – Share in other comprehensive income of associates and joint ventures	Available-for-sale financial assets	Cash flow hedges	Actuarial gains and losses	Currency translation differences from foreign operations	Total
As at 1 January 2017	(1)	(347)	(109)	(11)	(221)	(689)
Total comprehensive income, of which:	(1)	382	16	-	(12)	385
Other comprehensive income	(1)	382	16	-	(12)	385
As at 30 June 2017	(2)	35	(93)	(11)	(233)	(304)

(IN PLN MILLION)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01-30.06.2018	01.01-30.06.2017
Cash flows from operating activities			
Profit before tax		**2 315**	**1 927**
Total adjustments:		**(9 856)**	**(158)**
Amortization and depreciation		407	420
(Gains)/losses on investing activities		(22)	(49)
Interest and dividends		(315)	(170)
Change in:			
amounts due from banks		5	694
derivative hedging instruments		381	(478)
other derivatives		(678)	66
securities		(128)	3 441
loans and advances to customers		(5 362)	(4 131)
non-current assets held for sale		3	(13)
other assets		(651)	(112)
provisions and impairment allowances for credit losses		(1 692)	46
amounts due to the Central Bank		(1)	-
amounts due to banks		134	(832)
amounts due to customers		(1 334)	2 489
liabilities due to insurance activities		198	218
debt securities in issue		784	(902)
subordinated liabilities		10	(42)
other liabilities		(504)	(226)
Income tax paid		(1 161)	(618)
Other adjustments		70	41
Net cash flows used in operating activities		**(7 541)**	**1 769**

	Note	01.01-30.06.2018	01.01-30.06.2017
Cash flows from investing activities			
Inflows from investing activities		**157 773**	**29 576**
Proceeds from sale of subsidiaries		23	-
Proceeds from sale and interest on investment securities			29 529
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		157 275	
Proceeds from sale of and interest on securities measured at amortized cost		374	
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		87	43
Other inflows from investing activities (dividends)		14	4
Outflows from investing activities		**(159 764)**	**(31 676)**
Purchase of shares in subsidiaries, net of cash acquired		(2)	(14)
Purchase of investment securities			(31 440)
Acquisition of securities measured at fair value through other comprehensive income		(158 887)	
Purchase of securities measured at amortized cost		(565)	
Purchase of intangible assets and property, plant and equipment		(310)	(222)
Net cash flows used in investing activities		**(1 991)**	**(2 100)**

(IN PLN MILLION)

	Note	01.01-30.06.2018	01.01-30.06.2017
Cash flows from financing activities			
Proceeds from debt securities in issue		7 321	6 197
Redemption of debt securities		(3 958)	(3 532)
Proceeds from issue of subordinated bonds		1 000	-
Repayment of a subordinated loan		-	(880)
Long-term borrowings		168	88
Repayment of loans and advances		(2 842)	(2 287)
Repayment of interest on long-term borrowings		(251)	(257)
Net cash flows used in financing activities		**1 438**	**(671)**
Net cash flows		**(8 094)**	**(1 002)**
of which foreign exchange differences on cash and cash equivalents		263	(233)
Cash and cash equivalents at the beginning of the period		23 000	17 966
Cash and cash equivalents at the end of the period	50	14 906	16 964

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NOTES TO THE CONDENSED INTERIM 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 (a 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, Puławska 15 Street, 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 it 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 real estate management operations.

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

(IN PLN MILLION)

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

As at 30 June 2018, the Bank's Supervisory Board consisted of:

No.	Name and function	Function	Date of appointment
1.	Piotr Sadownik	Chairman of the Supervisory Board	Re-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. 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	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 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	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	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	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	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 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	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.

Mr Jerzy Paluchniak resigned as member of the Bank's Supervisory Board on 14 May 2018, with effect as of 18 May 2018.

As at 30 June 2018, the Management Board consisted of:

No.	Name and function	Function	Date of appointment
1.	Zbigniew Jagiełło	President 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, effective 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 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 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, effective from 1 October 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.
7.	Piotr Mazur	Vice-President 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 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 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.

2. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements, subject to review by the Supervisory Board Audit Committee on 23 August 2018, were approved for publication by the Bank's Management Board on 14 August 2018.

3. BASIS OF PREPARATION OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of the Group cover the six-month period ended 30 June 2018 and contain comparative data for the six-month period ended 30 June 2017 (comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in 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 the 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 note 4 and note 5. The impact of IFRS 15, Revenue from Contracts with Customers, on the Group's operations was not material.

The accounting policies 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 six-month period ended 30 June 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.

(IN PLN MILLION)

4. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments was published in July 2014 and adopted for application in 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 has 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.

Financial Instruments

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
Derivative hedging instruments	887	-	-	-	887
Other derivative instruments	1 711	(12)	-	-	1 699
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
- measured at fair value through other comprehensive income		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
- measured at amortized cost	205 628	(5 423)	-	(812)	199 393
Other financial assets	2 377	-	-	-	2 377
TOTAL FINANCIAL ASSETS	**287 721**	**-**	**66**	**(794)**	**286 993**
Deferred tax assets	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 hedging instruments	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 financial liabilities	4 129	-	-	-	4 129
Deferred tax liabilities	36	-	-	(3)	33
Provisions for financial liabilities and guarantees granted	86	-	-	71	157
TOTAL FINANCIAL LIABILITIES, PROVISIONS FOR LIABILITIES AND GUARANTEES GRANTED AND DEFERRED TAX LIABILITIES	**257 821**	**-**	**-**	**68**	**257 889**

(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)	Total change
Accumulated other comprehensive income	(110)	-	(78)	-	(188)	(78)
Retained earnings	(66)	-	132	(699)	(633)	(567)
Total impact on equity	**(176)**	**-**	**54**	**(699)**	**(821)**	**(645)**

As compared to the impact of IFRS 9 implementation disclosed in the annual consolidated financial statements for 2017, impairment allowances on loan receivables and securities increased by PLN 33 million (or PLN 23 million after tax), which was due to the improved accuracy of impairment estimates. In order 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 21 as the impact on the profit 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;
- measured at fair value through profit or loss.

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” 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 and 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 high volume transactions) – this model is typical for liquidity management activities;
- the residual model – other than the “held to collect” and “held to collect and 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 the 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, among other things, 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 for remunerating persons managing such portfolios.

In the "held to collect" 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 (hereinafter 'SPPI'), whether contractual cash flows are solely payments of principal and interest. 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 could not be significant (*de minimis* characteristic);
- they are not genuine, i.e. they affect the contractual cash flows from the instrument only in the case of occurrence of a very rare, unusual or very unlikely event (non-genuine characteristic).

In order to make such 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 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 principal outstanding (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 a 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 (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 principal outstanding (the SPPI test is passed).

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 asset 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, which would otherwise arise due to the measurement of assets or liabilities or recognition of the related gains or losses in accordance with different principles (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) or assets classified to the residual model;

3) financial assets designated for measurement at fair value through profit or loss upon initial recognition (the fair value through profit or loss valuation 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 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 applied, only dividends resulting from such investment are recognized in profit or loss. Gains or 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 a manner as if it has always been measured at amortized cost. This adjustment concerns other comprehensive income and it 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 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 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, which may either 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 a financial asset no longer being recognized ("AN INSIGNIFICANT MODIFICATION"), the carrying amount of the financial asset is recalculated and 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 granted 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 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 the 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 whether a given modification of financial assets is a significant or an insignificant modification depends on the satisfaction of 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 (SPPI test);
- An increase in exposure to a debtor, comprising the outstanding principal and off-balance sheet liabilities granted, to more than 10%.

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 initial 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 the 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 gross 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

As at 1 January 2018, the change in the classification and measurement of financial asset concerned:

- NBP bills of PLN 4 199 million, which were measured at fair value through profit or loss on a portfolio basis in accordance with IAS 39. In accordance with IFRS 9, a portfolio of bills is measured at the fair value through other comprehensive income due to the fact that the "held to collect cash flows and to sell" model is applied;
- loan portfolios of PLN 1 070 million, for which, 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, 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 and to sell" model, the fair value measurement through profit or loss was applied to selected tranches of corporate bonds acquired by the Group (one entity). 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 the fair value through profit or loss and amounted to PLN 157 million;

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- corporate and municipal debt securities of PLN 4 368 million, 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 IFRS, the total effect of adjustments arising from changes in the measurement and classification on 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 recognition of 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 to 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.

Upon the first application of IFRS 9, i.e. as at 1 January 2018, the Group recognized as POCI assets impaired exposures acquired as a result of mergers and acquisitions (the mergers with Nordea Bank Polska and SKOK "Wesoła" in Mysłowice and Raiffeisen-Leasing Polska SA) and exposures to corporate entities and lease receivables that satisfy the POCI criteria with a net book value of PLN 706 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 credit risk that has not increased significantly since initial recognition)	12-month expected credit losses
Stage 2 (significant increase in credit risk)	lifetime expected credit losses
Stage 3 (impaired loans)	
Stage 4 (credit-impaired loans upon initial recognition (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 from the reporting date to the maturity of the exposure are compared. The comparison is based on the value of the average probability of default in the analysed period, adjusted for the current and forecast macroeconomic ratios.

In order to assess a significant credit risk increase 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.

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

- restructuring measures involving granting concessions to the debtor due to its financial difficulties – forbearance;
- a delay 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 due to 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 Stages 2, 3 or 4, 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. In order to determine the value of an asset as at the default date in a given period, the Group adjusts the parameter which determines the amount of the exposure as at the default date for future scheduled repayments and potential overpayments and 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 risk parameters. The methodology of calculation of risk parameters involves examining the relationship between these parameters and the 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, the 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 the 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 will be 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 estimates that the total effect of impairment adjustments arising from IFRS 9 implementation as at 1 January 2018 on equity (retained earnings) 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, in particular 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 earnings and other comprehensive income (impact of adjustments in respect of the 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 and included in own funds;
- 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 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 currencies other than the domestic currency of any Member State. In accordance with this regulation, banks may apply transitional provisions with respect to own funds and increase the Tier 1 capital associated with the implementation of a new impairment model in a period of 5 consecutive years from 1 January 2018. The scaling factor shall 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 IFRS 9 implementation 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 were not 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 PLN 84 million; at the same time, due to impairment adjustments resulting from the implementation of IFRS 9 own funds decreased by PLN 35 million, and due to adjustments relating to changes in measurement and classification they increased by PLN 47 million. At the same time, the Group's own funds increased by 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).

Had the transitional solutions not been applied, the amount of the Group's own funds would be PLN 580 million lower. This decrease would comprise a decrease of PLN 699 million resulting from impairment adjustments, an increase of PLN 47 million resulting from changes in measurement and classification, 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 decreased by 1 base 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 condensed interim 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 1 January 2018 and according to IAS 39 as at 31 December 2017:

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	Measured at fair value through other comprehensive income	Measured at amortized cost	Total carrying amount
Cash and balances with Central Bank	-	-	-	17 810	17 810
Amounts due from banks	-	-	-	5 233	5 233
Derivative hedging instruments	-	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 financial assets	-	-	-	2 377	2 377
					-
TOTAL financial assets	**2 130**	**6 647**	**47 223**	**230 993**	**286 993**

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
Derivative hedging instruments	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 financial liabilities	-	4 129	4 129
TOTAL financial liabilities	**2 740**	**254 959**	**257 699**

(IN PLN MILLION)

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	-	17 810
Amounts due from banks	-	-	-	5 233	-	5 233
Derivative hedging instruments	-	887	-	-	-	887
Other derivative instruments	1 711	-	-	-	-	1 711
Securities	431	8 157	1 812	-	43 675	54 075
Loans and advances to customers	-	-	-	205 628	-	205 628
Other financial assets	-	-	-	2 377	-	2 377
TOTAL financial assets	**2 142**	**9 044**	**1 812**	**231 048**	**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
Derivative hedging instruments	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 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 ACCORDING TO IFRS AS AT THE DATE OF THE FIRST 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 Group's financial assets and liabilities, taking into account the changes in measurement and impairment write-downs recorded in accordance with IFRS 9 as at 1 January 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	5 233
Derivative hedging instruments	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	held for trading	1 711	held for trading	1 699
Securities 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 other comprehensive income	4 199
			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	available for sale	43 192	measured at fair value through other comprehensive income	43 024
Available-for-sale investment securities – debt securities	available for sale		not held for trading, mandatorily measured at fair value through profit or loss	157
Available-for-sale investment securities – equity instruments	available for sale[1]	483	not held for trading, mandatorily measured at fair value through profit or loss	575
Investment securities held to maturity – debt securities	held to maturity	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 – debt instruments	loans and receivables	4 368		
Investment securities – debt instruments			measured at amortized cost	4 368
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, part of the aforesaid portfolio, as equity instruments whose market prices from an active market were not available, were – after initial recognition – measured at cost less impairment.

(IN PLN MILLION)

Corporate and municipal bonds which met the definition of loans and advances in accordance with IAS 39, as at 31 December 2017, were presented as "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" 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.

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 hedging instruments	measured at fair value through profit or loss	204	not held for trading, mandatorily measured at fair value through profit or loss	204
Other derivative instruments	measured at fair value through profit or loss	2 536	not held for trading, mandatorily measured at fair value through profit or loss	2 536
Amounts due to customers	measured at amortized cost	220 614	measured at amortized cost	220 614
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 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 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	Classification	Impairment	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 beginning on 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 executed a contract (whether written, oral or in another customary form) and are obliged to perform their obligations;
2. the Group is able to identify each party's rights in relation to the goods or services to be transferred;
3. the Group is able to identify the payment terms for the goods or services to be transferred;
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 the goods or services will be collected. In order 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 the 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 consideration to which it will be entitled for transferring the promised services.

STEP IV: ALLOCATE THE TRANSACTION PRICE TO THE INDIVIDUAL PERFORMANCE OBLIGATIONS

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.

Commission income includes one-off amounts charged by the Group for services not related directly to the creation of loans, advances and other receivables, as well as amounts charged by the Group for services performed, which are recognized on a straight-line basis. Commission income also includes fees and commissions recognized on a straight-line basis, received on loans and advances granted with an unspecified schedule of future cash flows for which the effective interest rate cannot be determined. In the case of such services, the straight-line method provides a fair view of the transfer of the goods and services.

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.

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. The Group has selected the simplified retrospective method for the first application of IFRS 15.

(IN PLN MILLION)

6. Explanation of the differences between previously published financial statements and these financial statements

In addition to the changes resulting from IFRS 9 implementation, 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 treatment of liabilities due 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 DUE TO INSURANCE ACTIVITIES	31.12.2017 before restatement	change in treatment of liabilities due 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**

PROVISIONS	31.12.2017 before restatement	reclassification	31.12.2017 restated
Provisions for legal claims and tax proceedings	21	-	21
Provisions from pensions and other defined post-employment benefits	46	15	61
Restructuring provision	-	21	21
Provisions for financial liabilities and guarantees granted	86	-	86
Other provisions, including for disputes with employees	62	(36)	26
Total	**215**	**-**	**215**

(IN PLN MILLION)

CONSOLIDATED INCOME STATEMENT	2 quarters cumulative period from 01.01.2017 to 30.06.2017 before restatement	reclassification	change in the treatment of net provisions for legal claims	2 quarters cumulative period from 01.01.2017 to 30.06.2017 restated
Net impairment allowance and write-downs	(783)	783	-	-
Net credit losses	-	(739)	(4)	(743)
Impairment of non-financial assets	-	(44)	-	(44)
Other operating income	388	-	4	392
Total	**(395)**	-	-	**(395)**

CONSOLIDATED INCOME STATEMENT	second quarter period from 01.04.2017 to 30.06.2017 before restatement	reclassification	change in the treatment of net provisions for legal claims	second quarter period from 01.04.2017 to 30.06.2017 restated
Net impairment allowance and write-downs	(392)	392	-	-
Net credit losses	-	(370)	(1)	(371)
Impairment of non-financial assets	-	(22)	-	(22)
Other operating income	273	-	1	274
Total	**(119)**	-	-	**(119)**

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 COME INTO FORCE YET AND ARE NOT APPLIED BY THE GROUP

IFRS 16 LEASES

The standard 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 leasing agreements refer to non-significant assets components. 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.
- 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 the customers a comprehensive product mix comprising both traditional banking products and more complex investment products, as well as services provided by the PKO Bank Polski SA Group entities. The segment note 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 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 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 Towarzystwo Funduszy Inwestycyjnych SA, PKO BP Bankowy PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO BP Finat Sp. z o.o. and ZenCard Sp. z o.o.
2. The corporate and investment segment includes transactions concluded with large corporate 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 & other activities centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting, as well as the results not allocated to any other segment. Internal funds transfer is based on arm's length transfer pricing. Long-term external financing includes the issuance of securities, including covered bonds, subordinated liabilities and loans received from financial institutions. The results of PKO Finance AB are presented as part of this segment.

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.

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 the individual operating segments of the PKO Bank Polski SA Group for the six-month periods ended 30 June 2018 and 30 June 2017, as well as assets and liabilities as at 30 June 2018 and as at 31 December 2017.

FOR 6 MONTHS ENDED 30 JUNE 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	3 583	692	232	4 507
Net fee and commission income	1 227	264	(9)	1 482
Other net income	177	297	26	500
Net result on financial instruments measured at fair value through profit or loss	4	25	(14)	15
Net foreign exchange gains	89	112	46	247
Gains on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	9	85	-	94
Dividend income	-	11	-	11
Net other operating income and expense	62	77	(6)	133
Income/expenses relating to internal customers	13	(13)	-	-
Net credit losses	(547)	(140)	-	(687)
Impairment of non-financial assets	(16)	(7)	-	(23)
Administrative expenses, of which:	(2 464)	(499)	(54)	(3 017)
amortization and depreciation	(351)	(56)	-	(407)
Tax on certain financial institutions	(373)	(126)	38	(461)
Shares in profits (losses) of associates and joint ventures	-	-	-	14
Segment gross profit	1 587	481	233	2 315
Income tax expense (tax burden)	-	-	-	(626)
Profit (loss) attributable to non-controlling shareholders	-	-	-	(1)
Net profit attributable to equity holders of the parent company	**1 587**	**481**	**233**	**1 690**

AS AT 30 JUNE 2018	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	164 011	127 099	5 560	296 670
Unallocated assets	-	-	-	1 997
Total assets	164 011	127 099	5 560	298 667
Liabilities	176 650	52 074	32 970	261 694
Unallocated liabilities	-	-	-	197
Total liabilities	176 650	52 074	32 970	261 891

(IN PLN MILLION)

FOR 6 MONTHS ENDED 30 JUNE 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	3 401	665	94	4 160
Net fee and commission income	1 144	295	4	1 443
Other net income	210	281	11	502
Net result on financial instruments measured at fair value through profit or loss and net result on investment securities	(2)	27	(11)	14
Net foreign exchange gains	100	102	21	223
Dividend income	-	11	-	11
Net other operating income and expense	99	154	1	254
Income/expenses relating to internal customers	13	(13)	-	-
Net credit losses	(604)	(139)	-	(743)
Impairment of non-financial assets	(3)	(41)	-	(44)
Administrative expenses, of which:	(2 399)	(484)	(55)	(2 938)
depreciation and amortization	(362)	(58)	-	(420)
Tax on certain financial institutions	(349)	(127)	12	(464)
Shares in profits (losses) of associates and jointly controlled entities	-	-	-	11
Segment gross profit	1 400	450	66	1 927
Income tax expense (tax burden)	-	-	-	(541)
Profit (loss) attributable to non-controlling shareholders	-	-	-	4
Net profit attributable to equity holders of the parent company	**1 400**	**450**	**66**	**1 382**

AS AT 31 DECEMBER 2017	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	161 380	128 151	5 612	295 143
Unallocated assets	-	-	-	1 769
Total assets	161 380	128 151	5 612	296 912
Liabilities	172 240	59 181	28 611	260 032
Unallocated liabilities	-	-	-	624
Total liabilities	172 240	59 181	28 611	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 6 MONTHS ENDED 30 JUNE 2018	Poland	Ukraine	Total
Net interest income	4 427	80	4 507
Net fee and commission income	1 456	26	1 482
Other net income	495	5	500
Administrative expenses	(2 953)	(64)	(3 017)
Net credit losses	(682)	(5)	(687)
Impairment of non-financial assets	(23)	-	(23)
Tax on certain financial institutions	(461)	-	(461)
Shares in profits (losses) of associates and joint ventures	-	-	14
Segment gross profit	**2 259**	**42**	**2 315**
Income tax expense (tax burden)	-	-	(626)
Profit (loss) attributable to non-controlling shareholders	-	-	(1)
Net profit attributable to equity holders of the parent company	**2 259**	**42**	**1 690**

AS AT 30 JUNE 2018	Poland	Ukraine	Total
Assets, of which:	296 626	2 041	298 667
non-financial non-current assets	5 972	116	6 088
deferred tax assets and current income tax receivable	1 990	7	1 997
Liabilities	260 084	1 807	261 891

FOR 6 MONTHS ENDED 30 JUNE 2017	Poland	Ukraine	Total
Net interest income	4 084	76	4 160
Net fee and commission income	1 417	26	1 443
Other net income	494	8	502
Administrative expenses	(2 879)	(59)	(2 938)
Net credit losses	(732)	(11)	(743)
Impairment of non-financial assets	(44)	-	(44)
Tax on certain financial institutions	(464)	-	(464)
Shares in profits (losses) of associates and jointly controlled entities	-	-	11
Segment gross profit	1 876	40	1 927
Income tax expense (tax burden)	-	-	(541)
Profit (loss) attributable to non-controlling shareholders	-	-	4
Net profit attributable to equity holders of the parent company	**1 876**	**40**	**1 382**

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 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:	second quarter period from 01.04.2018 to 30.06.2018				second quarter of 2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through other comprehensive income	Income similar to interest income on instruments measured at fair value through profit or loss	Total	Total
loans to and other receivables from banks	19	-	-	19	27
derivative hedging instruments	-	-	86	86	74
debt securities[1]	49	270	19	338	344
loans and advances to customers[1]	2 389	-	5	2 394	2 248
Total	**2 457**	**270**	**110**	**2 837**	**2 693**
of which: interest income on impaired financial instruments	78	3	-	81	67

[1] net result on insignificant modification is recognized in the items “debt securities” and “loans and advances to customers”

INTEREST INCOME ON:	2 quarters cumulative period from 01.01.2018 to 30.06.2018				2 quarters of 2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through other comprehensive income	Income similar to interest income on instruments measured at fair value through profit or loss	Total	Total
loans to and other receivables from banks	44	-	-	44	63
derivative hedging instruments	-	-	177	177	143
debt securities[1]	93	543	38	674	661
loans and advances to customers[1]	4 679	-	11	4 690	4 446
Total	**4 816**	**543**	**226**	**5 585**	**5 313**
of which: interest income on impaired financial instruments	141	6	1	148	132

[1] net result on insignificant modification is recognized in the items “debt securities” and “loans and advances to customers”

INTEREST EXPENSE AND SIMILAR CHARGES ON:	second quarter period from 01.04.2018 to 30.06.2018				second quarter of 2017
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through other comprehensive income	Costs similar to interest expense on instruments measured at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(8)	-	-	(8)	(6)
loans and advances granted	(7)	-	-	(7)	(51)
amounts due to customers (excluding loans and advances)	(374)	-	-	(374)	(398)
debt securities	-	(13)	(5)	(18)	(24)
debt securities issued	(117)	-	-	(117)	(85)
subordinated liabilities	(22)	-	-	(22)	(15)
Total	**(528)**	**(13)**	**(5)**	**(546)**	**(579)**

INTEREST EXPENSE AND SIMILAR CHARGES ON:	2 quarters cumulative period from 01.01.2018 to 30.06.2018				2 quarters of 2017
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through other comprehensive income	Costs similar to interest expense on instruments measured at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(17)	-	-	(17)	(10)
loans and advances granted	(16)	-	-	(16)	(81)
amounts due to customers (excluding loans and advances)	(748)	-	-	(748)	(798)
debt securities	-	(23)	(10)	(33)	(49)
debt securities issued	(225)	-	-	(225)	(181)
subordinated liabilities	(39)	-	-	(39)	(34)
Total	**(1 045)**	**(23)**	**(10)**	**(1 078)**	**(1 153)**

(IN PLN MILLION)

10. Fee and commission income and expenses

FEE AND COMMISSION INCOME ON:	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
payment and credit cards	313	589	272	521
maintenance of bank accounts	206	415	217	434
loans and advances granted	163	307	155	306
maintenance of investment funds and OFE (including management fees)	160	321	143	274
cash transactions	23	47	25	50
servicing foreign mass transactions	25	50	25	50
brokerage activities	43	96	53	100
offering insurance products	33	57	23	44
sale and distribution of court fee stamps	1	1	2	3
investment and insurance products	13	28	17	39
insurance intermediation	1	2	1	2
administration of insurance policies	1	2	2	3
fund management	11	24	13	29
other	-	-	1	5
customer orders	11	22	10	21
fiduciary services	1	3	2	3
other	18	46	17	45
Total	**1 010**	**1 982**	**961**	**1 890**

FEE AND COMMISSION EXPENSE ON:	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
card activities	(183)	(336)	(152)	(284)
commission paid to external entities for product sales	(15)	(30)	(28)	(44)
cost of construction investment supervision and property valuation	(11)	(22)	(10)	(21)
settlement services	(5)	(15)	(7)	(17)
fee and commissions for operating services provided by banks	(3)	(6)	(5)	(10)
sending short text messages (SMS)	(7)	(13)	(5)	(10)
asset management	(5)	(11)	(4)	(8)
fees incurred by the Brokerage House	(5)	(10)	(5)	(11)
other	(31)	(57)	(12)	(42)
Total	**(265)**	**(500)**	**(228)**	**(447)**

11. Dividend income

DIVIDEND INCOME	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
In respect of:				
Financial assets held for trading	-	-	1	1
Financial instruments not held for trading, mandatorily measured at fair value through profit or loss	11	11		
Available-for-sale investment securities			10	10
Total	**11**	**11**	**11**	**11**

(IN PLN MILLION)

12. Net result on financial instruments measured at fair value through profit or loss

NET RESULT ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018
Financial instruments held for trading	17	33
Financial instruments not held for trading, mandatorily measured at fair value through profit or loss	(18)	(17)
Hedge accounting (ineffective portion of cash flow hedges)	(1)	(1)
Total	**(2)**	**15**

NET RESULT ON FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Debt instruments	4	5
Equity instruments	(1)	(1)
Derivative instruments (of which an ineffective portion of cash flow hedges)	(9)	9
Total	**(6)**	**13**

13. Gain/(loss) on investment securities (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	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Equity securities	(4)	2
Debt securities	-	(1)
Total	**(4)**	**1**

14. Net foreign exchange gains/(losses)

Net foreign exchange gains comprise foreign exchange gains and losses, both realized and unrealized, resulting from valuation of assets and liabilities denominated in foreign currencies and from the fair value valuation of foreign currency derivatives (FX forward, FX swap, CIRS and currency options). In the case of the hedging strategies in which CIRS contracts are the hedging instrument, this item also includes the ineffective portion of cash flow hedges.

(IN PLN MILLION)

Impairment allowances for loans, advances and other foreign currency-denominated receivables, which are recorded in PLN, are revalued when the measurement of the underlying foreign currency-denominated assets changes. The effect of such revaluation is recognized in foreign exchange gains/(losses).

NET FOREIGN EXCHANGE GAINS/(LOSSES)	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Net foreign exchange gains, of which:	143	247	107	223
Ineffective portion of cash flow hedges recognized in the income statement	4	7	4	5
Total	143	247	107	223

15. GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018

Gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss (including in respect of sales and material modification) are presented divided by categories of financial instruments:

- measured at fair value through other comprehensive income,
- 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	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Measured at fair value through other comprehensive income	57	86		
Measured at amortized cost	-	8		
Total	57	94		

16. NET CREDIT LOSSES

NET CREDIT LOSSES	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Equity securities			17	35
Debt securities	2	6	(4)	(11)
available for sale			(4)	(11)
measured at fair value through other comprehensive income	-	4		
measured at amortized cost	2	2	-	-
Loans and advances to customers	(354)	(689)	(373)	(750)
measured at amortized cost	(354)	(689)	(373)	(750)
housing	1	(55)	(44)	(119)
corporate	(190)	(350)	(187)	(348)
consumer	(143)	(245)	(128)	(249)
finance lease receivables	(22)	(39)	(13)	(34)
Other financial assets	-	-	-	(4)
Provisions for financial liabilities and guarantees granted	(10)	(4)	(11)	(13)
Total	**(362)**	(687)	**(371)**	**(743)**

(IN PLN MILLION)

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES AND IMPAIRMENT ALLOWANCES (BALANCE)	30.06.2018	01.01.2018	31.12.2017
Amounts due from banks	1	-	-
measured at amortized cost	1	-	-
Equity securities			77
available for sale			77
Debt securities	45	49	249
available for sale			249
measured at fair value through other comprehensive income	30	35	
measured at amortized cost	15	14	
Loans and advances to customers	8 882	10 653	7 813
measured at amortized cost	8 882	10 653	7 813
Provisions for financial liabilities and guarantees granted	161	157	86
Other financial assets	103	100	100
Total	**9 192**	**10 959**	**8 325**

17. Impairment of non-financial assets

IMPAIRMENT OF NON-FINANCIAL ASSETS	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Non-current assets held for sale	(2)	(2)	-	-
Intangible assets	(10)	(10)	-	-
Investments in associates and joint ventures	1	(1)	(1)	(13)
Other non-financial assets, including inventories	(4)	(10)	(21)	(31)
Total	**(15)**	**(23)**	**(22)**	**(44)**

ACCUMULATED ALLOWANCES FOR NON-FINANCIAL ASSETS	30.06.2018	01.01.2018	31.12.2017
Non-current assets held for sale	21	19	19
Property, plant and equipment	46	46	46
Intangible assets	209	199	199
Investments in associates and joint ventures	147	146	146
Other non-financial assets, including inventories	228	218	218
Total	**651**	**628**	**628**

(IN PLN MILLION)

18. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Net sales of products and services	103	188	212	276
Gains realised on loss of control over a subsidiary	11	11	-	-
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	12	25	14	22
Damages, compensation and penalties received	2	9	4	16
Sundry income	3	9	7	13
Recovery of receivables expired, forgiven or written off	1	4	1	2
Release of provision for legal claims	-	-	1	4
Other[1]	28	71	35	59
Total	**160**	**317**	**274**	**392**

[1] In the first half of 2018, the reimbursement of penalty levied by the UOKiK amounting to PLN 21 million was recognized in the item “Other”.

OTHER OPERATING EXPENSE	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Costs of products and services sold	(12)	(18)	(80)	(90)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(7)	(14)	(1)	(11)
Cost of donations made	-	(19)	(4)	(13)
Sundry expenses	(4)	(8)	(4)	(9)
Provision for a potential return of fees and commissions to customers[1]	(62)	(62)	-	-
Provision for future payments	(5)	(5)	-	-
Provision for legal claims[2]	(22)	(25)	-	-
Other	(14)	(33)	(10)	(15)
Total	**(126)**	**(184)**	**(99)**	**(138)**

[1] For a detailed description of the provision recognized, see Note 49 “Legal claims”
[2] A provision of PLN 21 million relating to a penalty imposed by UOKiK was recognized in the first half of 2018 and disclosed under “Provisions for legal claims”

19. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Employee benefits[1]	(769)	(1 520)	(747)	(1 482)
Overheads, of which:	(368)	(704)	(337)	(681)
IT	(71)	(143)	(76)	(151)
Depreciation and amortization	(201)	(407)	(211)	(420)
property, plant and equipment, of which:	(90)	(178)	(91)	(183)
IT	(28)	(57)	(28)	(57)
Intangible assets, of which:	(111)	(228)	(120)	(236)
IT	(101)	(211)	(112)	(221)
investment properties	-	(1)	-	(1)
Contributions and fees to the Bank Guarantee Fund (BGF)	(65)	(298)	(49)	(305)
to the Resolution Fund[2]	-	(167)	-	(209)
to the Banks' Guarantee Fund	(65)	(131)	(49)	(96)
Taxes and charges	(35)	(88)	(31)	(50)
Total	**(1 438)**	**(3 017)**	**(1 375)**	**(2 938)**

[1] In the first half of 2018, the costs of restructuring amounting to PLN 36 million were recognized under “Employee benefits” (no costs in the first half of 2017).
[2] In the first half of 2018, the item “Contribution and payments to the Bank Guarantee Fund – for the bank resolution fund” comprised the contribution of PKO Bank Polski SA of PLN 162 million (PLN 209 million in the first half of 2017) and the contribution of PKO Bank Hipoteczny SA (the Mortgage Bank) of PLN 5 million (PLN 0 million in the first half of 2017).

(IN PLN MILLION)

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

From 2017, banks make contributions to the banks' guarantee fund (quarterly) and the banks' resolution fund (annually). The obligation to make the contribution to the banks' resolution fund arises on each 1 January; therefore, such contribution was recognized in the costs of the 1st quarter.

EMPLOYEE BENEFITS[1]	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Wages and salaries, of which:	(638)	(1 263)	(623)	(1 230)
costs of contributions to the employee pension plan	(12)	(18)	(11)	(24)
Social insurance, of which:	(111)	(217)	(104)	(214)
contributions for disability and retirement benefits	(90)	(185)	(86)	(182)
Other employee benefits	(20)	(40)	(20)	(38)
			-	
Total	**(769)**	**(1 520)**	**(747)**	**(1 482)**

[1] Restructuring costs of PLN 36 million are included in "Employee benefits" for the first half of 2018 (no such costs in the first half of 2017).

20. TAX ON CERTAIN FINANCIAL INSTITUTIONS

As of 1 February 2016, the Act of 15 January 2016 on tax on certain financial institutions came into force, which covered, among other things, banks and insurance companies. The tax is charged on the surplus of an entity's total assets above PLN 4 billion; in the case of banks, the assessment is based on the trial balance as at the end of each month. Banks are entitled to reduce the tax base by deducting such items as e.g. own funds or the value of Treasury securities. Additionally, banks reduce the tax base by the value of assets acquired from the NBP, constituting collateral of a refinancing loan granted by the NBP. The tax rate for all taxpayers is 0.0366% per month, and the tax is paid monthly by the 25th of the month following the month to which it relates. The tax was paid for the first time for February 2016. The tax paid is not tax-deductible for corporate income tax purposes.

TAX ON CERTAIN FINANCIAL INSTITUTIONS	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Tax on certain financial institutions, of which:				
PKO Bank Polski SA	(216)	(431)	(223)	(450)
PKO Życie Towarzystwo Ubezpieczeń SA	(1)	(2)	(1)	(2)
PKO Bank Hipoteczny SA	(15)	(27)	(6)	(11)
PKO Towarzystwo Ubezpieczeń SA	(1)	(1)	(1)	(1)
Total	**(233)**	**(461)**	**(231)**	**(464)**

21. CORPORATE INCOME TAX

	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Current income tax expense	(386)	(725)	(307)	(561)
Deferred income tax on temporary differences	80	99	28	20
Income tax expense recognized in the income statement	(306)	(626)	(279)	(541)
Income tax reported in other comprehensive income in respect of temporary differences	10	(31)	(36)	(92)
Total	**(296)**	**(657)**	**(315)**	**(633)**

(IN PLN MILLION)

	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Profit before tax	1 239	2 315	1 137	1 927
Tax calculated using the enacted rate in force in Poland (19%)	(236)	(440)	(216)	(366)
Effect of permanent differences between profit before income tax and taxable income, of which:	(65)	(183)	(71)	(185)
recognizing a non-tax-deductible impairment allowance on investments in associates and joint ventures	-	-	-	(3)
non-deductible impairment allowances on credit exposures and securities	(25)	(38)	(10)	(17)
contribution and payments to Bank Guarantee Fund	(14)	(57)	(8)	(58)
tax on certain financial institutions	(43)	(88)	(41)	(87)
other permanent differences	17	-	(12)	(20)
Effect of other differences between profit before income tax and taxable income, including new technologies tax relief and donations	(5)	(3)	8	10
Income tax expense recognized in the income statement	(306)	(626)	(279)	(541)
Effective tax rate	**24.70%**	**27.04%**	**24.54%**	**28.07%**

(IN PLN MILLION)

DEFERRED TAX LIABILITIES	31.12.2017	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (retained earnings)	INCOME STATEMENT	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (other comprehensive income)	OTHER COMPREHENSIVE INCOME	30.06.2018
Interest accrued on receivables (loans)[1]	224	471	(422)	-	-	273
Capitalized interest on performing housing loans	106	-	(15)	-	-	91
Interest on securities	62	-	-	-	-	62
Valuation of securities	8	29	30	(19)	29	77
Valuation of derivative financial instruments	8	-	-	-	5	13
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	333	-	(3)	-	-	330
Taxable profit due to the IBNRbeing future deductible in connection with the implementation of IFRS 9	-	-	78	-	-	78
Prepayments	120	-	23	-	-	143
Foreign exchange gains	18	-	(18)	-	-	-
Other taxable temporary differences	4	-	4	-	-	8
Deferred tax liabilities, gross	**883**	**500**	**(323)**	**(19)**	**34**	**1 075**
DEFERRED TAX ASSETS						
Interest accrued on liabilities	116	-	(17)	-	-	99
Valuation of derivatives	156	-	(14)	-	1	143
Valuation of securities	-	-	10	-	2	12
Provision for employee benefits	94	-	(4)	-	-	90
Allowances for credit losses[1]	735	639	(243)	-	-	1 131
Adjustments of stright-line valuation method and effective interest rate	705	-	57	-	-	762
Other deductible temporary differences	27	-	(23)	-	-	4
Provision for costs to be incurred	41	-	(8)	-	-	33
Tax loss carried-forward	16	-	(1)	-	-	15
Foreign exchange differences	1	-	(1)	-	-	-
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	723	-	20	-	-	743
Deferred tax assets, gross	**2 614**	**639**	**(224)**	**-**	**3**	**3 032**
Total effect of temporary differences	1 731	139	99	19	(31)	1 957
Deferred tax liabilities (presented in the statement of financial position)	36	-	-	-	-	39
Deferred tax assets (presented in the statement of financial position)	1 767	-	-	-	-	1 996

[1] A decrease in deferred tax assets arising on allowances for credit losses and liabilities due to interest accrued on receivables (loans) during the period relates to, among other things, a partial write-off of interest amounting to PLN 2 356 million.

The tax systems of the countries in which the Bank and members of the PKO Bank Polski SA group have registered offices or branches, are subject to frequent legislation changes, among other things, in connection with sealing the tax system at both the national and international level. Moreover, the understanding of certain provisions of the tax law, due to their ambiguous character, may result in practice in individual, inconsistent interpretations by the tax authorities, diverging from interpretations made by taxpayers, and the respective disputes can only be resolved by judgements of national and European courts. Therefore, it cannot be ruled out that the tax authorities will apply an interpretation of the tax law different from the one implemented in practice by the Bank or members of the PKO Bank Polski SA Group, may have a considerable, unfavourable impact on their activities and financial standing, despite systematic actions undertaken by them in accordance with the law in order to minimize the risk.

22. EARNINGS PER SHARE

EARNINGS PER SHARE	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Net profit attributable to equity holders of the parent company	933	1 690	857	1 382
Weighted average number of ordinary shares during the period (in million)	1 250	1 250	1 250	1 250
Earnings per share (in PLN per share)	0.75	1.35	0.69	1.11

In the six-month period ended 30 June 2018 and in the six-month period ended 30 June 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

23. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	30.06.2018	31.12.2017
Current account with the Central Bank	3 822	11 172
Cash in hand	4 701	4 673
Deposits with the Central Bank	1 450	1 965
Total	**9 973**	**17 810**

24. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2018	01.01.2018	31.12.2017
Measured at amortized cost	4 974	5 233	5 233
Deposits with banks	3 635	3 710	3 710
Current accounts	1 290	1 470	1 470
Loans and advances granted	42	51	51
Cash in transit	7	2	2
Total, gross	4 974	5 233	5 233
Allowances for expected credit losses/ Impairment allowances	(1)	-	-
Total, net	4 973	5 233	5 233
Total	4 973	5 233	5 233

For the first half of 2018, the credit risk exposure is described in more detail in note 29 “Expected credit losses”, and for 2017 it is described in note 30 “Impairment allowances for financial assets (comparative data in accordance with IAS 39)”.

The entire balance of amounts due from banks as at 1 January 2018 and as at 30 June 2018 was classified as Stage 1. During the period ended 30 June 2018, there were no transfers of amounts due from banks between stages.

(IN PLN MILLION)

25. DERIVATIVE HEDGING INSTRUMENTS

ACCOUNTING POLICIES

The Group has decided to continue the application of IAS 39 and it did not apply IFRS 9 in respect of hedge accounting.

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 the 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 mortgage loans in CHF and the portfolio of short-term negotiated term deposits, including their future renewals (high probability of occurrence). The Group designated the hedged item taking into account the solutions provided in IAS 39 OS 99C in the form adopted by the European Union
	period in which cash flows are expected to occur and affect the financial results: July 2018 – October 2026

HEDGED ITEMS 30.06.2018	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	83	417	-
		float PLN	6 355			

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 the 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 the floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	period in which cash flows are expected to occur and affect the financial results: July 2018 – December 2021

HEDGED ITEMS 30.06.2018	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	4 921	46	-	(1)

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	portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	period in which cash flows are expected to occur and affect the financial results: July 2018 – November 2021

HEDGED ITEMS 30.06.2018	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	-	2	-

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 the 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	portfolio of loans in EUR indexed to the floating 3M EURIBOR rate
	period in which cash flows are expected to occur and affect the financial results: July 2018 - February 2024

HEDGED ITEMS 30.06.2018	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	1	18	-

(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 THE FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM THE 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 the fixed interest rate financial liability in a foreign currency, resulting from the foreign exchange 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 USD or EUR fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of floating interest rate mortgage loans denominated in CHF and the fixed interest rate financial liability denominated in USD or EUR
	period in which cash flows are expected to occur and affect the financial results: July 2018 – August 2024

HEDGED ITEMS 30.06.2018	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	124	-	-
		fixed USD	875			
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	2 000	375	1	5
		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	portfolio of variable interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Group designated the hedged item taking into account the solutions provided in IAS 39.OS.99C in the form adopted by the European Union
	period in which cash flows are expected to occur and affect the financial results: July 2018 – March 2021

HEDGED ITEMS 30.06.2018	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	1	2	-
		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 the 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	portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
	period in which cash flows are expected to occur and affect the financial results: July 2018 – July 2023

HEDGED ITEMS 30.06.2018	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	29	-	-
		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

HEDGED ITEMS 30.06.2018	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	-	-	-

(IN PLN MILLION)

STRATEGY 9	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM THE 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 fixed interest rate financial liability in a foreign currency, resulting from the foreign exchange 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 WIBOR rate, and receives coupons based on an EUR fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of floating interest rate mortgage loans denominated in PLN and fixed interest rate financial liability denominated in EUR
	period in which cash flows are expected to occur and affect the financial results: July 2018 – January 2024

HEDGED ITEMS 30.06.2018	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	83	-	3
		fixed EUR	499			

In the first half of 2018, the Group introduced Strategy 9 for cash flow hedging. In 2017, the Group introduced Strategy 7 which concerns cash flow hedges and Strategy 10 which concerns fair value hedges. This strategy is described above.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.06.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	**742**	**440**	**887**	**204**
Hedges of interest rate risk	47	20	90	35
IRS	47	20	90	35
Hedges of currency and interest rate risks	695	420	797	169
CIRS	695	420	797	169
Fair value hedges	-	-	-	-
Hedges of interest rate risk	-	-	-	-
IRS	-	-	-	-
Total	**742**	**440**	**887**	**204**

(IN PLN MILLION)

CHANGE IN OTHER COMPREHENSIVE INCOME DUE TO CASH FLOW HEDGES	second quarter period from 01.04.2018 to 30.06.2018	2 quarters cumulative period from 01.01.2018 to 30.06.2018	second quarter period from 01.04.2017 to 30.06.2017	2 quarters cumulative period from 01.01.2017 to 30.06.2017
Other comprehensive income at the beginning of the period, gross	**(193)**	**(142)**	**(113)**	**(134)**
Gains/losses recognized in other comprehensive income during the period	(140)	(145)	112	723
Amounts transferred from other comprehensive income to the cash flow statement, of which:	202	156	(113)	(703)
- interest income	(86)	(177)	(74)	(143)
- net foreign exchange gains	288	333	(39)	(560)
Other comprehensive income at the end of the period, gross	**(131)**	**(131)**	**(114)**	**(114)**
Tax effect	25	25	21	21
Other comprehensive income at the end of the period, net	**(106)**	**(106)**	**(93)**	**(93)**
Impact on other comprehensive income during the period, gross	**62**	**11**	**(1)**	**20**
Tax effect	(11)	(1)	1	(4)
Impact on other comprehensive income during the period, net	**51**	**10**	**-**	**16**
Ineffective portion of cash flow hedges recognized in the income statement, including in:	**4**	**7**	**4**	**5**
Net foreign exchange gains	4	7	4	5
Net result on financial instruments measured at fair value	-	-	-	-

26. OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.06.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	833	1 180	875	1 385
CIRS	171	194	77	60
FX Swap	308	100	161	380
Options	378	221	254	250
Commodity swap	103	102	129	128
FRA	2	1	1	1
Forward	179	333	206	324
Futures	7	8	7	8
Other	1	2	1	-
Total	**1 982**	**2 141**	**1 711**	**2 536**

27. 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.
- 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 available-for-sale financial instruments or financial instruments held for trading.

(IN PLN MILLION)

As a rule, financial instruments held for trading were measured at fair value, whereas available-for-sale 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	30.06.2018	01.01.2018	31.12.2017
held for trading	1 135	431	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	3 303	4 690	
measured at fair value through other comprehensive income	50 249	47 223	
measured at amortized cost	6 478	6 180	
Total	**61 165**	**58 524**	**54 075**

Corporate and municipal bonds of PLN 4 368 million which met the definition of loans and advances in accordance with IAS 39 as at 31 December 2017 were presented in “Loans and advances to customers”. After implementation of IFRS 9, due to the fact that these securities meet the SPPI test and are classified in the “held to collect cash flows” business model, they are allocated to financial assets measured at amortized cost and presented in the item dedicated to securities measured at amortized cost.

(IN PLN MILLION)

SECURITIES 30.06.2018	held for trading	not held for trading, mandatorily measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
Debt securities	1 111	1 647	50 249	6 478	59 485
NBP money market bills	-	-	5 998	-	5 998
Treasury bonds (in PLN)	756	1 440	35 021	1 857	39 074
Treasury bonds (in foreign currencies)	229	-	235	125	589
municipal bonds (in PLN)	16	-	4 967	2 431	7 414
municipal bonds (in foreign currencies)	-	78	-	-	78
corporate bonds (in PLN)	108	129	3 564	1 713	5 514
corporate bonds (in foreign currencies)	2	-	464	352	818
Equity securities	24	1 656	-	-	1 680
shares in other entities - not listed	-	263	-	-	263
shares in other entities - listed	17	196	-	-	213
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	7	1 197	-	-	1 204
Total	**1 135**	**3 303**	**50 249**	**6 478**	**61 165**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish Treasury bonds. As at 30 June 2018, foreign currency Treasury bonds also include Ukrainian Treasury bonds.

In April 2018, PKO Bank Polski SA finalized negotiations with Bank Gospodarstwa Krajowego SA relating to a sale of shares in The 2020 European Fund for Energy, Climate Change and Infrastructure (Marguerite I Fund) and signed a sale agreement. The said exposure was disclosed as participation units in a collective investment undertaking and classified in available-for-sale investment securities as at 31 December 2017 and in securities not held for trading, mandatorily measured at fair value through profit or loss as at 1 January 2018.

(IN PLN MILLION)

SECURITIES 01.01.2018	**held for trading**	**not held for trading, mandatorily measured at fair value through profit or loss**	**measured at fair value through other comprehensive income**	**measured at amortized cost**	**Total**
Debt securities	405	2 646	47 223	6 180	56 454
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	4 921	2 513	7 563
municipal bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	92	157	3 886	1 730	5 865
corporate bonds (in foreign currencies)	1	-	477	125	603
Equity securities	26	2 044	-	-	2 070
shares in other entities - not listed	-	239	-	-	239
shares in other entities - listed	19	225	-	-	244
participation units in a collective investment undertaking, participation units, investment certificates, rights to shares, pre-emptive rights	7	1 580	-	-	1 587
Total	**431**	**4 690**	**47 223**	**6 180**	**58 524**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish Treasury bonds. As at 1 January 2018, foreign currency Treasury bonds also include 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
municipal bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	92	-	4 045	-	4 137
corporate bonds (in foreign currencies)	1	-	479	-	480
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 include 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 first half of 2018 in note 29 “Expected credit losses”, and for 2017 in note 30 “Impairment of financial assets (comparative data in accordance with IAS 39)”.

As at 30 June 2018, PLN 459 million of securities were classified in Stage 3 (PLN 458 million as at 1 January 2018). In the period ended 30 June 2018, there were no transfers of securities between the stages.

(IN PLN MILLION)

28. 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.

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

If there are no justified perspectives for recovering a financial asset in entirety or partially, the Group writes down its gross carrying amount. A total write-off leads to derecognition of the financial asset.

• 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	30.06.2018	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)	207 593	200 464	205 629
Adjustment relating to fair value hedge accounting	-	(1)	(1)
Total loans and advances to customers	**207 593**	**200 463**	**205 628**

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	30.06.2018	01.01.2018	31.12.2017
measured at amortized cost, of which:	206 605	199 394	205 629
debt securities			4 368
not held for trading, mandatorily measured at fair value through profit or loss	988	1 070	
Total	**207 593**	**200 464**	**205 629**

Corporate and municipal bonds, which met the definition of loans and advances in accordance with IAS 39, as at 31 December 2017, were presented under “Loans and advances to customers”.After implementation of IFRS 9, due to the fact that these securities meet the SPPI test and are classified in the “held to collect” business model, they are allocated to financial assets measured at amortized cost and presented in the item dedicated to securities measured at amortized cost.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS 30.06.2018	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost		
	Net amount	Gross amount[1]	Allowances for expected credit losses[1]	Net amount
Loans and advances	988	200 662	(8 412)	192 250
housing	31	111 688	(2 354)	109 334
corporate	159	62 330	(4 240)	58 090
consumer	798	26 644	(1 818)	24 826
Receivables in respect of repurchase agreements	-	624	-	624
Finance lease receivables	-	14 201	(470)	13 731
Total	**988**	**215 487**	**(8 882)**	**206 605**

[1] As at 30 June 2018, The Group wrote-down contractual interest in the amount of PLN 2 354 million.

LOANS AND ADVANCES TO CUSTOMERS 01.01.2018	not held for trading, mandatorily measured at fair value through profit or loss	measured at amortized cost		
	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Loans and advances[1]	1 070	195 981	(10 235)	185 746
housing	37	108 837	(3 030)	105 807
corporate	182	61 484	(5 143)	56 341
consumer	851	25 660	(2 062)	23 598
Receivables in respect of repurchase agreements	-	902	-	902
Finance lease receivables	-	13 163	(418)	12 745
Total	**1 070**	**210 046**	**(10 653)**	**199 393**

[1] In the "Loans and advances " position was presented the value of the restricted interest in the amount of PLN 2 480 million, including: for corporate loans of PLN 1 208 million, for consumer loans of PLN 466 million and for housing loans of PLN 806 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	Net amount
Loans and advances	**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**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT (excluding adjustments relating to fair value hedge accounting)	30.06.2018	01.01.2018	31.12.2017
Loans and advances to customers, gross, of which:	**216 475**	**211 116**	**213 452**
mortgage banking	105 445	102 092	101 544
corporate	52 230	51 678	55 154
retail and private banking	27 458	26 523	26 288
small and medium enterprises	30 718	29 921	29 564
receivables in respect of repurchase agreements	624	902	902
Allowances for expected credit losses /impairment allowances on loans and advances	(8 882)	(10 653)	(7 823)
Loans and advances to customers, net	**207 593**	**200 463**	**205 629**

Information on credit exposures in respect of loans and advances to customers measured at amortized cost or at fair value through other comprehensive income is provided for the first half of 2018 in note 29 "Expected credit losses", and for 2017 in note 30 "Impairment of financial assets (comparative data in accordance with IAS 39)".

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN IMPAIRMENT STAGES 30.06.2018	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER IN THE PERIOD	Transfer from stage 1 to stage 2		Transfer from stage 2 to stage 3		Transfer from stage 1 to stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	203 411	6 032	4 236	782	499	449	78	215 487
loans and advances	191 203	4 458	3 493	639	435	370	64	200 662
housing	108 782	1 159	1 302	147	245	35	18	111 688
corporate	57 411	2 491	1 747	316	144	187	34	62 330
consumer	25 010	808	444	176	46	148	12	26 644
receivables in respect of repurchase agreements	624							624
finance lease receivables	11 584	1 574	743	143	64	79	14	14 201
Total	203 411	6 032	4 236	782	499	449	78	215 487
of which: purchased or originated credit-impaired assets (POCI)	372	-	-	-	-	-	-	372

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN IMPAIRMENT STAGES 30.06.2018	Impairment allowances							
	AMOUNTS NOT SUBJECT TO TRANSFER IN THE PERIOD	Transfer from stage 1 to stage 2		Transfer from stage 2 to stage 3		Transfer from stage 1 to stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	(7 872)	(381)	(33)	(304)	(113)	(179)	-	(8 882)
loans and advances	(7 512)	(337)	(31)	(267)	(110)	(155)	-	(8 412)
housing	(2 081)	(105)	(7)	(56)	(91)	(14)	-	(2 354)
corporate	(3 895)	(125)	(18)	(121)	(11)	(70)	-	(4 240)
consumer	(1 536)	(107)	(6)	(90)	(8)	(71)	-	(1 818)
receivables in respect of repurchase agreements								-
finance lease receivables	(360)	(44)	(2)	(37)	(3)	(24)	-	(470)
Total	(7 872)	(381)	(33)	(304)	(113)	(179)	-	(8 882)
of which: purchased or originated credit-impaired assets (POCI)	(98)	-	-	-	-	-	-	(98)

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN IMPAIRMENT STAGES 30.06.2018	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER IN THE PERIOD	Transfer from stage 1 to stage 2		Transfer from stage 2 to stage 3		Transfer from stage 1 to stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Measured at amortized cost:	195 539	5 651	4 203	478	386	270	78	206 605
loans and advances	183 691	4 121	3 462	372	325	215	64	192 250
housing	106 701	1 054	1 295	91	154	21	18	109 334
corporate	53 516	2 366	1 729	195	133	117	34	58 090
consumer	23 474	701	438	86	38	77	12	24 826
receivables in respect of repurchase agreements	624	-	-	-	-	-	-	624
finance lease receivables	11 224	1 530	741	106	61	55	14	13 731
Total	195 539	5 651	4 203	478	386	270	78	206 605
of which: purchased or originated credit-impaired assets (POCI)	274	-	-	-	-	-	-	274

Transfers between impairment stages were presented for the gross carrying amount and impairment allowances as at 30 June 2018. In the event that loans and advances to customers changed stages several times, the transfer was presented as a transfer from the stage in which they were as at 1 January 2018 or upon their initial recognition, to the impairment stage as at 30 June 2018.

29. EXPECTED CREDIT LOSSES

ESTIMATES AND ASSESSMENTS – APPLICABLE AS OF 1 JANUARY 2018

The allowance for expected credit losses is recognized in the financial statements as follows:

- 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 provision 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 decreased; 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;
- Financial assets measured at fair value through profit and loss: no allowances for expected credit losses are recognized.

A detailed description of the changes in impairment applicable from 1 January 2018 in connection with the implementation of IFRS 9 is recognized 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 30.06.2018	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: gross assets with impairment	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through other comprehensive income[1]										
securities	49 807	(17)	-	-	472	472	(13)	50 279	(30)	50 249
Treasury bonds	35 259	(3)	-	-	-		-	35 259	(3)	**35 256**
other	14 548	(14)	-	-	472	472	(13)	15 020	(27)	**14 993**
										-
Total	**49 807**	**(17)**	-	-	**472**	**472**	**(13)**	**50 279**	**(30)**	**50 249**
of which: purchased or originated credit-impaired assets	-	-	-	-	472	472	(13)	472	(13)	**459**
Measured at amortized cost										
amounts due from banks	4 974	(1)	-	-	-		-	4 974	(1)	**4 973**
securities	6 490	(12)	-	-	3	-	(3)	6 493	(15)	**6 478**
Treasury bonds	1 857	-	-	-	-	-	-	1 857	-	**1 857**
other	4 633	(12)	-	-	3	-	(3)	4 636	(15)	**4 621**
loans and advances	188 196	(513)	14 922	(1 229)	12 369	11 479	(7 140)	215 487	(8 882)	**206 605**
housing	104 192	(62)	4 862	(531)	2 634	2 567	(1 761)	111 688	(2 354)	**109 334**
corporate	49 785	(274)	5 707	(372)	6 838	6 134	(3 594)	62 330	(4 240)	**58 090**
consumer	22 893	(148)	1 681	(248)	2 070	2 061	(1 422)	26 644	(1 818)	**24 826**
receivables in respect of repurchase agreements	624	-	-	-	-		-	624	-	**624**
finance lease receivables	10 702	(29)	2 672	(78)	827	717	(363)	14 201	(470)	**13 731**
other financial assets	3 090	-	-	-	103	103	(103)	3 193	(103)	**3 090**
										-
Total	**202 750**	**(526)**	**14 922**	**(1 229)**	**12 475**	**11 582**	**(7 246)**	**230 147**	**(9 001)**	**221 146**
of which: purchased or originated credit-impaired assets	-	-	-	-	372	295	(98)	372	(98)	274
Total	**252 557**	**(543)**	**14 922**	**(1 229)**	**12 947**	**12 054**	**(7 259)**	**280 426**	**(9 031)**	**271 395**

[1] For instruments measured at fair value though other comprehensive income, the gross amount is presented as the fair value plus allowance for expected credit losses.

(IN PLN MILLION)

BY TYPE OF FINANCIAL ASSET 30.06.2018	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: gross assets with impairment	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	4 974	(1)	-	-	-	-	-	4 974	(1)	**4 973**
securities	56 297	(29)	-	-	475	472	(16)	56 772	(45)	**56 727**
Treasury bonds	37 116	(3)	-	-	-	-	-	37 116	(3)	**37 113**
other	19 181	(26)	-	-	475	472	(16)	19 656	(42)	**19 614**
loans and advances	188 196	(513)	14 922	(1 229)	12 369	11 479	(7 140)	215 487	(8 882)	**206 605**
housing	104 192	(62)	4 862	(531)	2 634	2 567	(1 761)	111 688	(2 354)	**109 334**
corporate	49 785	(274)	5 707	(372)	6 838	6 134	(3 594)	62 330	(4 240)	**58 090**
consumer	22 893	(148)	1 681	(248)	2 070	2 061	(1 422)	26 644	(1 818)	**24 826**
receivables in respect of repurchase agreements	624	-	-	-	-	-	-	624	-	**624**
finance lease receivables	10 702	(29)	2 672	(78)	827	717	(363)	14 201	(470)	**13 731**
other financial assets	3 090	-	-	-	103	103	(103)	3 193	(103)	**3 090**
Total	**252 557**	**(543)**	**14 922**	**(1 229)**	**12 947**	**12 054**	**(7 259)**	**280 426**	**(9 031)**	**271 395**
of which: purchased or originated credit-impaired assets	-	-	-	-	844	767	(111)	844	(111)	733

LOAN QUALITY RATIO (excluding adjustments relating to fair value hedge accounting)	30.06.2018	01.01.2018
Share of impaired exposures[1]	5.2%	5.3%
Coverage ratio of impaired loans[2]	77.5%	74.2%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.7%	3.9%

[1] The share of impaired loans was determined for loans and securities, excluding Treasury bonds, measured at amortized cost as the gross amount of impaired exposures to the total gross amount of loans and securities, excluding Treasury bonds measured at amortized cost, less contractual (non-performing) interests as at 01.01.2018 covered by an impairment allowance for stage 3.

[2] The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding Treasury bonds measured at amortized cost, less contractual (non-performing) interest as at 01.01.2018 covered by an impairment allowance for stage 3, to the gross amount of impaired exposures from these portfolios.

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BY MEASUREMENT MODEL 01.01.2018	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-performing) interest covered by impairment allowance	of which: gross assets with impairment	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
Measured at fair value through other comprehensive income											
securities	46 785	(20)	-	-	473	2	473	(15)	47 258	(35)	47 223
Treasury bonds	33 740	-	-	-	-	-	-	-	33 740	-	33 740
other	13 045	(20)	-	-	473	2	473	(15)	13 518	(35)	13 483
											-
Total	46 785	(20)	-	-	473	2	473	(15)	47 258	(35)	47 223
of which: purchased or originated credit-impaired assets	-	-	-	-	473	2	473	(15)	473	(15)	458
Measured at amortized cost											-
amounts due from banks	5 233	-	-	-	-	-	-	-	5 233	-	5 233
securities	6 194	(14)	-	-	-	-		-	6 194	(14)	6 180
Treasury bonds	1 812	-	-	-	-	-	-	-	1 812	-	1 812
other	4 382	(14)	-	-	-	-	-	-	4 382	(14)	4 368
loans and advances	180 560	(490)	14 830	(1 078)	14 656	2 250	11 341	(9 085)	210 046	(10 653)	199 393
housing	100 205	(55)	5 016	(435)	3 616	733	2 812	(2 540)	108 837	(3 030)	105 807
corporate	47 757	(278)	5 870	(369)	7 857	1 153	5 959	(4 496)	61 484	(5 143)	56 341
consumer	21 661	(135)	1 608	(210)	2 391	364	2 014	(1 717)	25 660	(2 062)	23 598
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	902
finance lease receivables	10 035	(22)	2 336	(64)	792	-	556	(332)	13 163	(418)	12 745
other financial assets	2 378	(1)	-	-	99	-	99	(99)	2 477	(100)	2 377
Total	194 365	(505)	14 830	(1 078)	14 755	2 250	11 440	(9 184)	223 950	(10 767)	213 183
of which: purchased or originated credit-impaired assets	-	-	-	-	363	-	363	(115)	363	(115)	248
Total	241 150	(525)	14 830	(1 078)	15 228	2 252	11 913	(9 199)	271 208	(10 802)	260 406

(IN PLN MILLION)

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BY TYPE OF FINANCIAL ASSET 01.01.2018	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-performing) interest covered by impairment allowance	of which: impaired assets, gross	Allowances for expected credit losses (stage 3)	Total gross amount	Total allowances for expected credit losses	Total, net
amounts due from banks	5 233	-	-	-	-	-	-	-	5 233	-	**5 233**
securities	52 979	(34)	-	-	473	2	473	(15)	53 452	(49)	53 403
Treasury bonds	35 552	-	-	-	-	-	-	-	35 552	-	35 552
other	17 427	(34)	-	-	473	2	473	(15)	17 900	(49)	17 851
loans and advances	180 560	(490)	14 830	(1 078)	14 656	2 250	11 341	(9 085)	210 046	(10 653)	**199 393**
housing	100 205	(55)	5 016	(435)	3 616	733	2 812	(2 540)	108 837	(3 030)	**105 807**
corporate	47 757	(278)	5 870	(369)	7 857	1 153	5 959	(4 496)	61 484	(5 143)	**56 341**
consumer	21 661	(135)	1 608	(210)	2 391	364	2 014	(1 717)	25 660	(2 062)	**23 598**
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	**902**
finance lease receivables	10 035	(22)	2 336	(64)	792	-	556	(332)	13 163	(418)	**12 745**
other financial assets	2 378	(1)	-	-	99	-	99	(99)	2 477	(100)	**2 377**
Total	**241 150**	**(525)**	**14 830**	**(1 078)**	**15 228**	**2 252**	**11 913**	**(9 199)**	**271 208**	**(10 802)**	**260 406**
of which: purchased or originated credit-impaired assets	-	-	-	-	836	2	836	(130)	836	(130)	706

(IN PLN MILLION)

IMPAIRMENR OF FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	As at 01.01.2018 (changed)	Increase due to origination and acquisition	Decrease due to derecognition	Changes due to changes in credit risk (net)	Changes due to modification without derecognition (net)	Decrease of impairment allowances due to write-off	Decrease of impairment allowances due to partial write -off[2]	Changes due to foreign exchange differences on translation of foreign entities	Other changes	As at 30.06.2018
Available-for-sale investment securities	326	(326)	-	-	-	-	-	-	-	-	-	-
Measured at fair value through other comprehensive income												
amounts due from banks	-	-	-		-	-	-		-	-	-	-
securities	-	35	35	1	(1)	(4)	-	-	(2)	-	1	30
loans and advances	-	-	-	-	-	-	-	-	-	-	-	-
other financial assets	-	-	-	-	-	-	-		-	-	-	-
Total	**-**	**35**	**35**	**1**	**(1)**	**(4)**	**-**	**-**	**(2)**	**-**	**1**	**30**
Measured at amortized cost												
amounts due from banks	-		-	-	-	-	-		-	-	1	1
securities	-	14	14	3	-	(5)	-	-	-	-	3	15
loans and advances	7 823	2 830	10 653	332	(167)	504	20	(532)	(2 354)	29	397	8 882
housing	1 972	1 058	3 030	29	(33)	59	-	(201)	(714)	7	177	2 354
corporate	3 705	1 438	5 143	161	(36)	205	20	(156)	(1 252)	16	139	4 240
consumer	1 686	376	2 062	57	(20)	208	-	(174)	(388)	5	68	1 818
securities	10	(10)	-	-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(32)	418	85	(78)	32	-	(1)	-	1	13	470
other financial assets	100	-	100	-	-	-	-		-	-	3	103
Total	**7 923**	**2 844**	**10 767**	**335**	**(167)**	**499**	**20**	**(532)**	**(2 354)**	**29**	**404**	**9 001**
Total allowances for expected credit losses on financial assets	**8 249**	**2 553**	**10 802**	**336**	**(168)**	**495**	**20**	**(532)**	**(2 356)**	**29**	**405**	**9 031**

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY TYPE OF ASSET	As at 31.12.2017	Changes due to IFRS 9 implementation[1]	As at 01.01.2018 (changed)	Increase due to origination and acquisition	Decrease due to derecognition	Changes due to changes in credit risk (net)	Changes due to modification without derecognition (net)	Decrease of impairment allowances due to write-off	Decrease of impairment allowances due to partial write -off[2]	Changes due to foreign exchange differences on translation of foreign entities	Other changes	As at 30.06.2018
amounts due from banks	-	-	-	-	-	-	-	-	-	-	1	1
securities	326	(277)	49	4	(1)	(9)	-	-	(2)	-	4	45
loans and advances	7 823	2 830	10 653	332	(167)	504	20	(532)	(2 354)	29	397	8 882
housing	1 972	1 058	3 030	29	(33)	59	-	(201)	(714)	7	177	2 354
corporate	3 705	1 438	5 143	161	(36)	205	20	(156)	(1 252)	16	139	4 240
consumer	1 686	376	2 062	57	(20)	208	-	(174)	(388)	5	68	1 818
securities	10	(10)	-	-	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-	-
finance lease receivables	450	(32)	418	85	(78)	32	-	(1)	-	1	13	470
other financial assets	100	-	100	-	-	-	-	-	-	-	3	103
Total allowances for expected credit losses on financial assets	**8 249**	**2 553**	**10 802**	**336**	**(168)**	**495**	**20**	**(532)**	**(2 356)**	**29**	**405**	**9 031**

[1] with respect to impairment recognized on loans of PLN 797 million, with respect to the recognition of non-performing interest recognized in the gross carrying amount of PLN 2 480 million, in respect of a decrease in impairment allowances as a result of recognizing an initial loss on POCI loans of PLN 437 million and the reversal of write-downs for securities of PLN 287 million.

[2] relates to interest partially written-off in the amount of PLN 2 356 million

(IN PLN MILLION)

CREDIT - IMPAIRED FINANCIAL ASSETS UPON INITIAL RECOGNITION - POCI

The total amount of purchased or originated credit-impaired financial assets as at 30 June 2018 amounted to PLN 733 million (PLN 706 million as at 1 January 2018).

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 30.06.2018	Gross value	impairment allowances	Net value
Securities	472	(13)	459
measured at fair value through other comprehensive income	472	(13)	459
Loans and advances to customers	372	(98)	274
measured at amortized cost	372	(98)	274
Total	**844**	**(111)**	**733**

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 01.01.2018	Gross value	impairment allowances	Net value
Securities	473	(15)	458
measured at fair value through other comprehensive income	473	(15)	458
Loans and advances to customers	363	(115)	248
measured at amortized cost	363	(115)	248
Total	**836**	**(130)**	**706**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – FIRST HALF OF 2018	As at 01.01.2018 (changed)	Decrease due to derecognition	Changes due to changes in credit risk (net)	Decrease of impairment allowances due to write-off	Other adjustments	As at 30.06.2018
Securities	15	-	-	(2)	-	13
measured at fair value through other comprehensive income	15	-	-	(2)	-	13
Loans and advances to customers	115	(2)	(11)	(9)	5	98
measured at amortized cost	115	(2)	(11)	(9)	5	98
Total	**130**	**(2)**	**(11)**	**(11)**	**5**	**111**

(IN PLN MILLION)

30. Impairment of financial assets (comparative data in accordance with IAS 39)

Estimates and judgements applicable by 31 December 2017

A detailed description of the accounting policies applied is provided in the Group's consolidated financial statements for 2017 in Note 28 "Loans and advances to customers" and in Note 27 "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
Amounts due from banks not impaired, not past due	5 233
Total, net	**5 233**

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 CALCULATING IMPAIRMENT ALLOWANCES (excluding adjustments relating to fair value hedge accounting)	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 recognized individual impairment trigger	1 074	(6)	1 068
not past due	763	(4)	759
past due	311	(2)	309
without 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**

(IN PLN MILLION)

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 impaired loans 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	-	99	99
not impaired	2 368	10	2 378
Total, gross	**2 368**	**109**	**2 477**
Impairment allowances	-	(100)	(100)
Total at carrying amount (net)	**2 368**	**9**	**2 377**

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

IMPAIRMENT ALLOWANCES ON SECURITIES- RECONCILIATION OF MOVEMENTS IN THE FIRST HALF OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Other	As at the end of the period	Net increase - impact on the income statement
Debt securities	277	77	(66)	(42)	246	(11)
Equity securities	67	-	(35)	-	32	35
Total	344	77	(101)	(42)	278	24

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS - RECONCILIATION OF MOVEMENTS IN THE FIRST HALF 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	418	(294)	(148)	(71)	2 105	5	(119)
corporate loans	3 807	1 112	(747)	(245)	(67)	3 860	16	(349)
consumer loans	1 471	661	(410)	(82)	(12)	1 628	2	(249)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
finance lease receivables	448	127	(93)	(31)	(2)	449	-	(34)
Total	8 003	2 319	(1 546)	(506)	(152)	8 118	23	(750)

31. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	30.06.2018	31.12.2017
Land and buildings	179	148
Other	-	9
Total, gross	**179**	**157**
Impairment allowances	(21)	(19)
Total	**158**	**138**

(IN PLN MILLION)

32. Intangible assets and property, plant and equipment

Intangible assets

INTANGIBLE ASSETS	30.06.2018	31.12.2017
Software	1 464	1 542
Goodwill	1 263	1 263
Future profit on concluded insurance contracts	59	66
Customer relationships	79	88
Other, including capital expenditure	255	283
Total	**3 120**	**3 242**

Goodwill

Net goodwill	30.06.2018	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	30.06.2018	31.12.2017
Land and buildings	1 573	1 629
Machinery and equipment	428	437
Assets under construction	72	123
Other	737	726
Total	**2 810**	**2 915**

Operating lease – lessor

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES – LESSOR	30.06.2018	31.12.2017
For a period:		
up to 1 year	62	63
from 1 to 5 years	65	64
over 5 years	3	-
Total	**130**	**127**

For operating lease agreements in which the Group is the lessor, as a rule, the average period of agreement amounts to 36 months. The lessee bears the costs of servicing and insurance.

(IN PLN MILLION)

ASSETS LEASED OUT	30.06.2018	31.12.2017
Vehicles	429	313
Premises	24	70
Machinery and equipment	5	6
Total	**458**	**389**

33. OTHER ASSETS

OTHER ASSETS[1]	30.06.2018	31.12.2017
Settlements in respect of card transactions	1 525	1 136
Settlements of financial instruments (including unpaid option premium)	320	284
Receivables in respect of cash settlements	139	158
Receivables and settlements in respect of trading in securities and selling participation units in a collective investment undertaking	266	94
Dividend receivables	9	-
Inventories	127	186
Assets for sale	91	107
Prepayments	277	286
Trade receivables	213	209
VAT receivable	100	114
Ceded technical reserves and reinsurance recivables	596	472
Other	117	65
Total	**3 780**	**3 111**
of which: other financial assets	3 090	2 377

[1] As at 30 June 2018, the item "Inventories" was included in the Note "Other assets" – the comparative data as at 31 December 2017 was restated.

OTHER ASSETS - OTHER FINANCIAL ASSETS	30.06.2018	01.01.2018	31.12.2017
other financial assets	3 090	2 377	2 377

OTHER ASSETS – INVENTORIES	30.06.2018	31.12.2017
Goods for resale	129	190
Finished goods	-	10
Available for sale investments – construction projects	3	-
Materials	6	7
Impairment allowances on inventories	(11)	(21)
Total	**127**	**186**

Information on the credit risk exposure in respect of other financial assets was discussed for the first half of 2018 in Note 29 "Expected credit losses", and for the year 2017 in Note 30 – "Impairment of financial assets (comparative data in accordance with IAS 39)".

(IN PLN MILLION)

34. Amounts due to banks

AMOUNTS DUE TO BANKS	30.06.2018	31.12.2017
Measured at amortized cost	**2 090**	**4 558**
Loans and borrowings received[1]	101	2 785
Bank deposits	990	1 077
Amounts due from repurchase agreements	9	-
Current accounts	940	653
Other monetary market deposits	50	43
Total	**2 090**	**4 558**

[1] The item "Loans and advances received" is presented in detail in Note 36 "Loans and advances received".

35. Amounts due to customers

AMOUNTS DUE TO CUSTOMERS	30.06.2018	31.12.2017
Measured at amortized cost	**219 208**	**220 614**
Amounts due to retail customers	153 655	151 161
Current accounts and overnight deposits	93 441	86 819
Term deposits	60 001	64 126
Other liabilities	213	216
Amounts due to corporate entities	49 287	52 667
Current accounts and overnight deposits	34 540	40 070
Term deposits	13 965	11 613
Amounts due from repurchase agreements	-	48
Other liabilities	782	936
Amounts due to public entities	11 003	11 409
Current accounts and overnight deposits	9 073	9 555
Term deposits	1 849	1 820
Other liabilities	81	34
Loans and advances received[1]	3 643	3 563
Liabilities due to of insurance products[2]	1 620	1 814
Unit-Linked	1 618	1 811
Investment policy contracts	2	3
Total	**219 208**	**220 614**

[1] The item "Loans and advances received" is presented in detail in Note 36 "Loans and advances received".
[2] The Note "Amounts due to customers" covers liabilities due to insurance products (Unit-Linked and Polisolokaty)

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2018	31.12.2017
retail and private banking	145 360	142 484
corporate	44 773	48 570
small and medium enterprises	23 804	24 127
loans and advances received	3 643	3 563
amounts due from repurchase agreements	-	48
other liabilities (including liabilities in respect of insurance products)	1 628	1 822
Total	**219 208**	**220 614**

(IN PLN MILLION)

36. Loans and advances received

LOANS AND ADVANCES RECEIVED	30.06.2018	31.12.2017
From banks	101	2 785
Nordea Bank AB	-	2 596
From international financial institutions	3 643	3 557
European Investment Bank	2 031	1 820
Council of Europe Development Bank	1 217	1 282
European Bank for Reconstruction and Development	136	169
International Financial Corporation	245	273
International Financial Institutions of Ukraine	14	13
From other financial institutions	-	6
Total	**3 744**	**6 348**

On 8 February 2018, the Bank made full and final early repayment of a loan facility granted by Nordea Bank AB (publ) based on an agreement dated 1 April 2014. Initially, the credit line was granted for a 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.

37. Liabilities due to insurance activities

LIABILITIES DUE TO INSURANCE ACTIVITIES[1]	30.06.2018	31.12.2017
Technical reserves	1 094	882
Liabilities in respect of insurer's investment contracts, broken down by:	289	303
"Safe Capital"	278	292
structured products	11	11
Total	**1 383**	**1 185**

[1] Liabilities due to insurance products (Unit-Linked and Polisolokaty) were transferred from Note “Liabilities due to insurance activities” to Note “Amounts due to customers”.

38. Debt securities in issue

DEBT SECURITIES IN ISSUE	30.06.2018	31.12.2017
Measured at amortized cost:	**28 079**	**23 932**
bonds issued by PKO Finance AB	6 231	5 882
bonds issued by PKO Bank Polski SA	5 442	5 204
bonds issued by the PKO Leasing SA Group	1 366	1 593
bonds issued by PKO Bank Hipoteczny SA	2 899	2 406
bonds issued by KREDOBANK SA	6	-
covered bonds issued by PKO Bank Hipoteczny SA	12 135	8 847
Total	**28 079**	**23 932**

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

(IN PLN MILLION)

INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF SECURITIES

ADDITIONAL INFORMATION	30.06.2018	31.12.2017
issuance of debt securities during the period (nominal value)		
in PLN	5 390	9 807
in original currency (EUR)	500	1 829
in original currency (CHF)	-	400
redemption of debt securities during the period (nominal value)		
in PLN	4 374	7 279
in original currency (EUR)	-	200

In the first half of 2018, the issues, redemptions and repayments of securities in the companies in the PKO Bank Polski SA Group described below took place (taking into account balances as at 30 June 2018).

BONDS ISSUED BY PKO BANK POLSKI SA

Issue date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2018	Carrying amount at 31.12.2017
25.07.2017	fixed	0,75	750	EUR	25.07.2021	3 286	3 132
02.11.2017	fixed	0,30	400	CHF	02.11.2021	1 510	1 427
17.11.2017	zero-coupon bonds	-	650	PLN	17.05.2018	-	645
17.05.2018	zero-coupon bonds	-	650	PLN	16.11.2018	646	-
Total						5 442	5 204

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

- In the first half of 2018, PKO Bank Hipoteczny SA issued 37 832 bonds with a total nominal value of PLN 3 783.2 million, and redeemed 33 080 bonds with a total nominal value of PLN 3 308 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 of PLN 2 000 million (in the first half of 2017, PKO Bank Hipoteczny SA issued 26 276 bonds with a total nominal value of PLN 2 628 million and redeemed 18 629 bonds with a total nominal value of PLN 1 836 million).
- In the first half of 2018, PKO Leasing SA issued 599 521 bonds with a total nominal value of PLN 599.5 million, and redeemed 552 220 bonds with a total nominal value of PLN 552.2 million. Issues of the Company's bonds are governed by the Bond Issue Agreement concluded with PKO Bank Polski SA (in the first half of 2017, PKO Leasing SA issued 491 751 bonds with a total nominal value of PLN 492 million and redeemed 450 225 bonds with a total nominal value of PLN 450 million).
- In the first half of 2018, KREDOBANK SA issued 39 582 bonds with a total nominal value of UAH 39.6 million. The bond issue was carried out based on a prospectus approved by the National Securities and Securities Markets Commission of the Ukraine (in the first half of 2017, KREDOBANK SA did not issue any bonds).

BONDS ISSUED BY PKO FINANCE AB

Issue date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2018	Carrying amount at 31.12.2017
25.07.2012	fixed	4,00	50	EUR	25.07.2022	225	211
26.09.2012	fixed	4,63	1 000	USD	26.09.2022	3 796	3 530
23.01.2014	fixed	2,32	500	EUR	23.01.2019	2 210	2 141
Total						6 231	5 882

(IN PLN MILLION)

BONDS ISSUED BY THE PKO LEASING SA GROUP

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2018	Carrying amount at 31.12.2017
01.12.2014[1]	variable	1 183	PLN	02.10.2025	986	1 262
01.06.2016	variable	73	PLN	01.06.2019	73	73
09.11.2017	zero-coupon bonds	28	PLN	09.05.2018	-	28
10.11.2017	zero-coupon bonds	101	PLN	12.02.2018	-	101
05.12.2017	zero-coupon bonds	90	PLN	08.03.2018	-	90
20.12.2017	zero-coupon bonds	39	PLN	21.03.2018	-	39
12.02.2018	zero-coupon bonds	120	PLN	14.05.2018	-	-
08.03.2018	zero-coupon bonds	97	PLN	08.06.2018	-	-
21.03.2018	zero-coupon bonds	52	PLN	22.06.2018	-	-
10.04.2018	zero-coupon bonds	32	PLN	10.07.2018	32	-
09.05.2018	zero-coupon bonds	30	PLN	09.08.2018	30	-
14.05.2018	zero-coupon bonds	64	PLN	13.08.2018	64	-
25.05.2018	zero-coupon bonds	95	PLN	24.08.2018	95	-
08.06.2018	zero-coupon bonds	51	PLN	07.09.2018	51	-
20.06.2018	zero-coupon bonds	8	PLN	18.09.2018	8	-
22.06.2018	zero-coupon bonds	28	PLN	21.09.2018	27	-
Total					1 366	1 593

[1] Bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen-Leasing Polska SA. The bonds are secured with securitized lease receivables (see the note 69 “Information on securitization of the lease portfolio and portfolio sale of receivables”).

(IN PLN MILLION)

BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2018	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
16.10.2017	zero-coupon bonds	515	PLN	16.04.2018	-	512
16.10.2017	zero-coupon bonds	15	PLN	16.10.2018	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	-	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
20.12.2017	zero-coupon bonds	37	PLN	05.04.2018	-	37
20.12.2017	zero-coupon bonds	30	PLN	20.06.2018	-	30
20.12.2017	zero-coupon bonds	60	PLN	25.06.2017	-	59
27.12.2017	zero-coupon bonds	100	PLN	27.06.2018	-	99
29.12.2017	zero-coupon bonds	73	PLN	29.03.2018	-	72
09.01.2018	zero-coupon bonds	20	PLN	25.04.2018	-	-
23.01.2018	zero-coupon bonds	157	PLN	16.05.2018	-	-
23.01.2018	zero-coupon bonds	191	PLN	23.07.2018	191	-
31.01.2018	zero-coupon bonds	100	PLN	25.05.2018	-	-
05.02.2018	zero-coupon bonds	153	PLN	07.05.2018	-	-
09.02.2018	zero-coupon bonds	4	PLN	08.02.2019	4	-
15.02.2018	zero-coupon bonds	60	PLN	21.05.2018	-	-
19.02.2018	zero-coupon bonds	4	PLN	10.12.2018	4	-
05.03.2018	zero-coupon bonds	150	PLN	30.05.2018	-	-
15.03.2018	zero-coupon bonds	45	PLN	25.05.2018	-	-
15.03.2018	zero-coupon bonds	746	PLN	21.09.2018	742	-
29.03.2018	zero-coupon bonds	40	PLN	01.10.2018	40	-
29.03.2018	zero-coupon bonds	22	PLN	29.05.2018	-	-
05.04.2018	zero-coupon bonds	53	PLN	06.07.2018	52	-
16.04.2018	zero-coupon bonds	620	PLN	22.10.2018	616	-
16.04.2018	zero-coupon bonds	30	PLN	06.07.2018	30	-
07.05.2018	zero-coupon bonds	163	PLN	08.08.2018	163	-
15.05.2018	zero-coupon bonds	195	PLN	21.11.2018	193	-
16.05.2018	zero-coupon bonds	130	PLN	16.07.2018	130	-
21.05.2018	zero-coupon bonds	49	PLN	31.08.2018	49	-
25.05.2018	zero-coupon bonds	250	PLN	17.12.2018	248	-
29.05.2018	zero-coupon bonds	35	PLN	21.11.2018	35	-
13.06.2018	zero-coupon bonds	32	PLN	13.09.2018	32	-
20.06.2018	zero-coupon bonds	70	PLN	21.12.2018	69	-
22.06.2018	zero-coupon bonds	20	PLN	22.08.2018	20	
25.06.2018	zero-coupon bonds	145	PLN	21.12.2018	143	
27.06.2018	zero-coupon bonds	100	PLN	28.12.2018	99	
Total					2 899	2 406

BONDS ISSUED BY KREDOBANK SA

Issue date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2018	Carrying amount at 31.12.2017
01.12.2017	fixed	15%	44	UAH	25.11.2022	6	-
Total						6	-

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

In the first half of 2018, 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 the first half of 2017, two foreign issue denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 500 million and a maturity of 5 years and 10 months of the issuance date and EUR 25 million and a maturity of 7 years of the issuance date);

(IN PLN MILLION)

- two domestic issues of mortgage-covered bonds in PLN addressed to institutional investors, with a total nominal value of PLN 800 million; the mortgage-covered bonds were purchased by investors at a price equal to their nominal value, and are listed on the Stock Exchange in Warsaw (in the first half of 2017: two domestic issues denominated in PLN, addressed to institutional investors, with a total nominal value of PLN 500 million and a maturity of 5 years and 20 days of the issuance date, and of PLN 265 million and a maturity of 4 years and 3 months of the issuance date).

MORTGAGE-COVERED BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issue date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 30.06.2018	Carrying amount at 31.12.2017
11.12.2015	variable	WIBOR3M + 0.75	19	PLN	11.12.2020	19	18
27.04.2016	variable	WIBOR3M + 0.65	485	PLN	28.04.2021	486	487
17.06.2016	variable	WIBOR3M + 0.59	497	PLN	18.06.2021	497	498
24.10.2016	fixed	0,125	499	EUR	24.06.2022	2 172	2 079
02.02.2017	fixed	0,820	25	EUR	02.02.2024	109	105
30.03.2017	fixed	0,625	500	EUR	24.01.2023	2 183	2 093
28.04.2017	variable	WIBOR3M + 0.69	500	PLN	18.05.2022	501	497
22.06.2017	fixed	2,69	265	PLN	10.09.2021	270	263
27.09.2017	fixed	0,75	498	EUR	27.08.2024	2 187	2 084
27.10.2017	variable	WIBOR3M + 0.59	500	PLN	27.06.2023	494	498
02.11.2017	fixed	0,47	54	EUR	03.11.2022	237	225
22.03.2018	fixed	0,75	500	EUR	24.01.2024	2 178	-
27.04.2018	variable	WIBOR3M + 0.49	700	PLN	25.04.2024	701	-
18.05.2018	variable	WIBOR3M + 0.32	100	PLN	29.04.2022	101	
Total						12 135	8 847

39. SUBORDINATED LIABILITIES

	Nominal value	Interest rate	Currency	Period	Special terms	Balance in PLN	
						30.06.2018	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	1 719	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	1 011	-
Total						2 730	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 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.

On 24 March 2017, the Group obtained consent for the earlier repayment of a subordinated advance of CHF 224 million (equivalent of PLN 884 million).

(IN PLN MILLION)

40. Other liabilities

OTHER LIABILITIES	30.06.2018	31.12.2017
Expenses to be paid	614	631
Deferred income	410	368
Dividend payable	688	-
Liability in respect of tax on certain financial institutions	78	76
Interbank settlements	670	1 313
Liabilities arising from investing activities and internal operations	129	295
Amounts due to suppliers	223	211
Liabilities and settlements in respect of trading in securities	798	534
Settlements of financial instruments (including unpaid option premium)	286	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	327	120
contribution calculated by BGF / to be contributed to BGF (Resolution Fund)	167	-
maintained in the form of payment commitments, of which:	160	120
to the Resolution Fund	63	63
to the Banks' Guarantee Fund	97	57
Liabilities under the public law	121	165
liabilities in respect of foreign exchange activities	282	350
Liabilities in respect of payment cards	176	259
Liabilities to insurance institutions	159	59
Settlements relating to buying foreign currencies	30	-
Other	255	400
Total	**5 246**	**5 062**
of which: other financial assets	3 367	4 129

As at 30 June 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 167 million, due by 19 July 2018) and liabilities in respect of contributions to the BGF (see Note 55 “Assets pledged as collateral for liabilities and transferred financial assets”).

41. Provisions

Accounting policies

Provision for loan commitments and guarantees granted

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.

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.

(IN PLN MILLION)

FINANCIAL INFORMATION

For 6 months period ended 30 June 2018	Provisions for legal claims and tax proceedings	Provisions from pensions and other defined post-employment benefits[1]	Restructuring provision[1]	Provisions for financial liabilities and guarantees granted	Other provisions, including for disputes with employees[1]	Total
As at 31 December 2017, of which:	21	46	-	86	62	215
Short-term provisions	21	7	-	61	62	151
Long-term provisions	-	39	-	25	-	64
Changes due to reclassification, of which:	-	15	21	-	(36)	-
Short-term provisions	-	15	21	-	(36)	-
Long-term provisions	-	-	-	-	-	-
Changes due to IFRS 9 implementation	-	-	-	71	-	71
Short-term provisions	-	-	-	47	-	47
Long-term provisions	-	-	-	24	-	24
As at 1 January 2018 (restated), of which:	**21**	**61**	**21**	**157**	**26**	286
Short-term provisions	21	22	21	108	26	198
Long-term provisions	-	39	-	49	-	88
Increase, of which increases of existing provisions	26	-	45	100	67	238
Amounts utilized	(6)	-	(11)	-	-	(17)
Unutilized amounts released during the period	(1)	(15)	(9)	(96)	(14)	(135)
As at 30 June 2018, of which:	**40**	**46**	**46**	**161**	**79**	**372**
Short-term provisions	40	7	46	127	79	299
Long-term provisions	-	39	-	34	-	73

[1] As at 31 December 2017, provisions were reclassified from the 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 15 million, and "Restructuring" amounting to PLN 21 million.

"Other provisions, including provisions for employee disputes" specify in the line "Increases, including increases in existing provisions" a provision for potential returns to customers of commissions and fees as well as costs of meeting obligations resulting from free of charge services to customers of PLN 62 million (a detailed description of the case is provided in Note 49 "Legal claims").

For 6 months period ended 30 June 2017	Provisions for legal claims and tax proceedings	Provisions from pensions and other defined post-employment benefits	Restructuring provision	Provisions for financial liabilities and guarantees granted	Other provisions, of which provisions for disputes with employees	Total
As at 01 January 2017	**24**	**60**	**59**	**67**	**19**	229
Short-term provisions	24	21	59	51	19	174
Long-term provisions	-	39	-	16	-	55
Increase, of which increases of existing provisions	11	-	-	113	1	125
Amounts utilized	(6)	-	(21)	-	-	(27)
Unutilized amounts released during the period	(16)	(2)	-	(100)	-	(118)
Other changes and reclassifications	-	-	-	(1)	-	(1)
As at 30 June 2017, of which:	**13**	**58**	**38**	**79**	**20**	**208**
Short-term provisions	13	19	38	64	20	154
Long-term provisions	-	39	-	15	-	54

42. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.06.2018	01.01.2018	31.12.2017
Share capital	1 250	1 250	1 250
Supplementary capital	29 475	27 374	27 374
General banking risk fund	1 070	1 070	1 070
Other reserves	3 710	3 645	3 645
Accumulated other comprehensive income	(22)	(188)	(110)
Retained earnings	(385)	(633)	(66)
Net profit or loss for the year	1 690	3 104	3 104
Non-controlling interests	(12)	(11)	(11)
Total	**36 776**	**35 611**	**36 256**

According to the knowledge of PKO Bank Polski SA as at the date of submitting the condensed interim consolidated financial statements, 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.

(IN PLN MILLION)

NAME OF SHAREHOLDER	number of shares	voting rights %	Nominal value of 1 share	Interest held (%)
As at 30 June 2018				
State Treasury	367 918 980	29,43%	1 zł	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Funds until 23.06.2015)[1]	100 514 482	8,04%	1 zł	8,04%
Aviva Open Pension Fund[1]	89 163 966	7,13%	1 zł	7,13%
Other shareholders[2]	692 402 572	55,40%	1 zł	55,40%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**
As at 31 December 2017				
State Treasury	367 918 980	29,43%	1 zł	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Funds until 23.06.2015)[1]	103 388 120	8,27%	1 zł	8,27%
Aviva Open Pension Fund[1]	95 163 966	7,61%	1 zł	7,61%
Other shareholders	683 528 934	54,68%	1 zł	54,68%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**

1) Calculation of shareholdings as at the end of the half-year period published by PTE in the semi-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 31.06.2018 held 24 487 297 shares, representing 1.96% of the votes at the General Shareholders' Meeting.

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 half of 2018 and in 2017, there were no changes in the amount of the Bank's share capital. The Bank's shares are not preference shares and are fully paid up.

All shares of PKO Bank Polski SA carry the same rights and obligations. The shares have no preference in terms of voting rights or dividend. However, the Articles of Associations of PKO Bank Polski SA restrict the voting rights of the shareholders holding more than 10% of total votes at the General Shareholders Meeting and forbids such shareholders to execute more than 10% of the total voting rights at the General Shareholders' Meeting.

This does not apply to:

1) those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of the voting rights 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 rights from A-series registered shares (the State Treasury);
3) shareholders acting jointly with the shareholders referred to in point (2) above based on an agreement concerning joint execution of voting rights from shares.

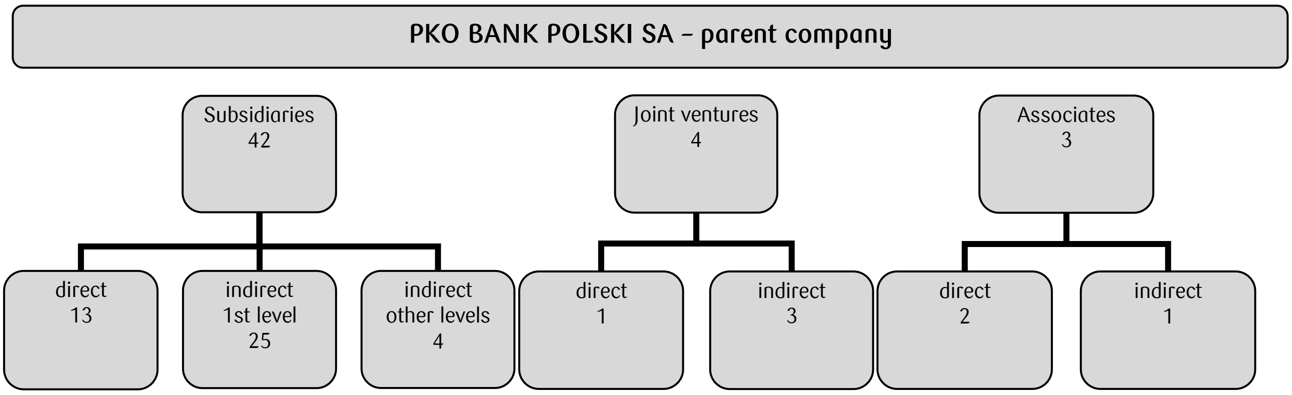
In accordance with § 6 (2) of the PKO Bank Polski SA's Articles of Association, a conversion of A-series registered shares into bearer shares and a transfer of these shares requires the approval of the Council of Ministers in the form of a resolution. The conversion into bearer shares or transfer of A-series registered shares, after obtaining the above-mentioned approval, shall result in the expiry of the above-mentioned restrictions in respect of shares being converted into bearer shares or in respect of their transfer, to the extent to which the approval was granted.

In accordance with § 6 (3), subject to Article 28 (2) of the Banking Law, a conversion of bearer shares into registered shares is not permitted.

In accordance with Art. 13(20) of the Act on principles of managing state-owned assets dated 16 December 2016, PKO Bank Polski SA's shares owned by the State Treasury cannot be sold. In addition, based on Articles 14 of the said Act, shares of PKO Bank Polski SA (which is considered "a company of significant importance to the economy" in accordance with the Regulation of the President of the Council of Ministers on determining the list of companies of significant importance to the state economy) cannot be donated to a local authority unit or an association of local authority units.

(IN PLN MILLION)

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



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

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

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY	
	DIRECT SUBSIDIARIES		30.06.2018	31.12.2017
1	PKO Bank Hipoteczny SA	Gdynia	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA[1]	Warsaw	97.5060	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	100	99.6293
10	Qualia Development Sp. z o.o.	Warsaw	100	100
11	ZenCard Sp. z o.o.	Warsaw	100	100
12	Merkury - fiz an[2]	Warsaw	100	100
13	NEPTUN - fizan[2]	Warsaw	100	100

[1] The second shareholder of the entity is PKO BP Finat Sp. z o.o.
[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* 30.06.2018	 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.			
	PKO Towarzystwo Funduszy Inwestycyjnych SA[2]	Warsaw	-	100
	Net Fund Administration Sp. z o.o.[3]	Warsaw	-	100
	The PKO Życie Towarzystwo Ubezpieczeń SA Group			
6	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	100	100
	The KREDOBANK SA Group			
7	Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. Group[4]			
8	Qualia Development Sp. z o.o.	Warsaw	100	100
9	Qualia 2 Sp. z o.o.	Warsaw	100	100
10	Qualia 3 Sp. z o.o.	Warsaw	100	100
11	Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.[5]	Warsaw	99,9975	99,9975
12	Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.[6]	Warsaw	99,9750	99,9750
13	Residence Management Sp. z o.o.[7]	Warsaw	100	100
14	Qualia - Residence Sp. z o.o.	Warsaw	100	100
15	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
	FORT MOKOTÓW Sp. z o.o. w likwidacji (in liquidation)[8]	Warsaw	-	51
	Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k.[9]	Warsaw	-	99,9123
	Merkury - FIZ AN			
16	“Zarząd Majątkiem Górczewska” Sp. z o.o.	Warsaw	100	100
17	Molina Sp. z o.o.	Warsaw	100	100
18	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
19	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
20	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
21	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
22	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
23	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
	NEPTUN - FIZ AN			
24	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	“Inter-Risk Ukraina” additional liability company[10]	Kiev, Ukraine	99,90	99,90
	Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o.[11]	Kiev, Ukraine	95,4676	-
25	“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.[12]	Sopot	-	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 an capital involvement in it.
2) Former name: KBC Towarzystwo Funduszy Inwestycyjnych SA; the company was combined with PKO Towarzystwo Funduszy Inwestycyjnych SA.
3) The company was merged with PKO BP Finat Sp. z o.o.
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) Former name: Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.
6) Former name: Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.
7) Former name: Qualia Hotel Management Sp. z o.o.
8) The liquidation of the company was completed; the company was deleted from the Register of Businesses.
9) The partnership was sold.
10) The second shareholder of the company is Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o.
11) The second shareholder of the company is Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o.; up until 6 June 2018, it was a direct subsidiary of PKO Bank Polski SA.
12) The company was sold.

NAME OF SUBSIDIARY	BUSINESS ACTIVITIES
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.
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH S.A.	The core business of the Company is the creation, representation vis-à-vis 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 competency outsourcing of IT specialists, project teams and IT processes. Based on the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both Group companies, as well as companies outside the Group. In 2016, the Company began to handle group insurance dedicated to the products offered by the Bank.
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 issuing 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 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.
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 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 rental of apartments. In the first half of 2018, the Group continued its activities connected with the sale of developer's products and the sale of selected real properties and companies.
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.
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.

(IN PLN MILLION)

44. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY*	
			30.06.2018	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, the Czech Republic	100	100
	Joint ventures of NEPTUN - Fizan			
	3 "Centrum Obsługi Biznesu" Sp. z o.o.	Poznań	41.4455	41.4455
	Associates of PKO Bank Polski SA			
1	Bank Pocztowy SA	Bydgoszcz	25.0001	25.0001
	1 Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o. w likwidacji (in liquidation)[1]	Warsaw	100	100
	Centrum Operacyjne Sp. z o.o. w likwidacji (in liquidation)[2]	Bydgoszcz	-	100
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o	Poznań	33.33	33.33
	FERRUM SA[3]	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	-	100

* share in equity of the direct parent

1) In May 2018, the Extraordinary Shareholders' Meeting of the Company adopted a resolution on dissolving the Company.
2) The liquidation of the Company was completed; the Company was deleted from the register of businesses.
3) 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	BUSINESS ACTIVITIES
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. It uses the potential of its main shareholder – Poczta Polska S.A. and develops a range of products in collaboration with stakeholders across the 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.

(IN PLN MILLION)

FINANCIAL INFORMATION

JOINT VENTURES	30.06.2018	31.12.2017
"Centrum Obsługi Biznesu" Sp. z o.o.	-	-
Acquisition price	17	17
Change in the share in net assets	(15)	(14)
Impairment allowances	(2)	(3)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	244	244
Value of shares as at the date of obtaining joint control	197	197
Change in the share in net assets	47	47
Total	**244**	**244**

ASSOCIATES	30.06.2018	31.12.2017
Bank Pocztowy SA Group	130	130
Acquisition price	184	184
Change in the share in net assets	85	83
Impairment allowances	(139)	(137)
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-
Purchase price	2	2
Change in the share in net assets	4	4
Impairment allowances	(6)	(6)
FERRUM SA Group	-	19
Acquisition price	-	25
Change in the share in net assets	-	(6)
Total	**130**	**149**

CHANGE IN INVESTMENTS IN JOINT VENTURES	01.01-30.06.2018	01.01-30.06.2017
Investments in joint ventures as at the beginning of the period	244	227
Share in profits/ (losses)	12	14
Net impairment allowance	1	(1)
Dividend	(13)	(3)
Investments in joint ventures as at the end of the period	**244**	**237**

CHANGE IN INVESTMENTS IN ASSOCIATES	01.01-30.06.2018	01.01-30.06.2017
Investments in associates as at the beginning of the period	149	159
Share in profits/ (losses)	2	(3)
Net impairment allowance	(2)	(12)
Share in comprehensive income of associates	2	(1)
Reclassification of shares from associates to financial assets	(21)	-
Investments in associates as at the end of the period	**130**	**143**

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01-30.06.2018	01.01-30.06.2017
As at the beginning of the period	146	120
Recognized during the period	2	13
Reversed during the period	(1)	-
As at the end of the period	**147**	133
Net increase - impact on the income statement	(1)	(13)

(IN PLN MILLION)

A summary of the financial data separately for each joint venture and each associate of the Group is presented below. The amounts presented are derived from the financial statements of the specific entities, prepared in accordance with either IFRS or PAS, including data for 2017 and 2016 from audited financial statements.

Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group (according to IFRS)	30.06.2018	31.12.2017
Current assets	188	198
Non-current assets	228	228
Current liabilities	149	161
Non-current liabilities	27	26
	01.01-30.06.2018	01.01-30.06.2017
Revenue	240	229
Profit (loss) from continuing operations	37	41
Profit (loss) from discontinued operations (after tax)	37	41
Profit/(loss) for the period	37	41
Other comprehensive income	2	-
Total comprehensive income	39	41
Dividend received from an entity classified as a joint venture	13	3

"Centrum Obsługi Biznesu" Sp. z o.o. (according to PAS)	30.06.2018	31.12.2017
Current assets	9	10
Non-current assets	81	82
Current liabilities	27	24
Non-current liabilities	58	60
	01.01-30.06.2018	01.01-30.06.2017
Revenue	13	15
Profit/(loss) for the period	(2)	3

Bank Pocztowy SA Group (in accordance with IFRS, data as published by the Company)	31.12.2017	31.12.2016
Total assets	7 461	6 937
Total liabilities	6 827	6 413
	01.01-31.12.2017	01.01-31.12.2016
Revenue	457	469
Profit (loss) from continuing operations	5	3
Profit/(loss) for the period	5	3
Other comprehensive income	16	(21)
Total comprehensive income	21	(19)

"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o. (according to PAS)	30.06.2018	31.12.2017
Current assets	27	24
Current liabilities	4	3
Non-current liabilities	5	2
	01.01-30.06.2018	01.01-30.06.2017
Revenue	1	1
Profit/(loss) for the period	-	-
Profit (loss) from discontinued operations (after tax)	-	-
Other comprehensive income	-	-

45. CHANGES IN COMPANIES COMPRISING THE GROUP

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

The following selected events affecting the structure of the PKO Bank Polski SA Group took place in the first half of 2018.[1]

THE MERGER BETWEEN NET FUND ADMINISTRATION SP. Z O.O. AND PKO BP FINAT SP. Z O.O.

On 4 June 2018, a combination between Net Fund Administration Sp. z o.o. as the acquired company and PKO BP Finat Sp. z o.o. as the acquiring company was registered in the National Court Register (KRS) appropriate for the acquiring company. The business combination was put into effect in accordance with Article 492 § 1.1 of the Commercial Companies Code (merger by acquisition), by transferring all the assets of the acquired company to the acquiring company, without increasing the share capital of the acquiring company. After the merger, PKO Bank Polski SA still holds the shares in PKO BP Finat Sp. z o.o. representing 100% of the company's share capital and carrying 100% of voting rights at the Shareholders' Meeting.

THE MERGER BETWEEN GAMMA TFI SA AND PKO TFI SA

On 4 June 2018 a combination between GAMMA Towarzystwo Funduszy Inwestycyjnych SA (until 27 February 2018 its name was KBC Towarzystwo Funduszy Inwestycyjnych SA) as the acquired company and PKO Towarzystwo Funduszy Inwestycyjnych SA as the acquiring company was registered in the National Court Register appropriate to the acquiring company. The combination was put into effect in accordance with Article 492 § 1.1 of the Commercial Companies Code (merger by acquisition), by transferring all the assets of the acquired company to the acquiring company, at the same time increasing the share capital of the acquiring company and exchanging the shares of the acquired company with the shares of the acquiring company. After the merger, PKO Bank Polski SA holds shares in PKO Towarzystwo Funduszy Inwestycyjnych SA representing 97.506% of the company's share capital, carrying 97.506% of voting rights at the Shareholders' Meeting. The remaining shares are held by PKO BP Finat Sp. z o.o.

KREDOBANK SA

In the first half of 2018, PKO Bank Polski SA executed a mandatory repurchase of shares in KREDOBANK SA from minority shareholders. In March 2018, the Bank presented KREDOBANK SA with an irrevocable request for the repurchase of the shares based on Article 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 Ukrainian deposit account of PKO Bank Polski SA, and PKO Bank Polski SA became a shareholder holding a 100% share in the share capital and 100% voting rights at the General Shareholders' Meeting of KREDOBANK SA.

FINANSOWA KOMPANIA "PRYWATNE INWESTYCJE" SP. Z O.O.

On 28 May 2018, PKO Bank Polski SA concluded a contract with Bankowe Towarzystwo Kapitałowe SA (a direct subsidiary of NEPTUN – fizan) for the sale of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., i.e. the interest constituting 95.4676% in the company's share capital and votes at the Shareholders' Meeting.

On 7 June 2018, the Articles of Association of Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. taking into account the above-mentioned change in the Company's main shareholder were registered in the Single national register of legal entities, individuals-entrepreneurs and organizations of the Ukraine. "Inter-Risk Ukraina" spółka z dodatkową odpowiedzialnością (additional liability company) remains the company's second shareholder.

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 odpowiedzialnością – Zakopane Sp. k. ceased to be a subsidiary of Qualia Development Sp. z o.o.

At the same time, on 8 March 2018, Qualia – Residence Sp. z o.o. sold the land property located in Zakopane at 14 Piłsudskiego Street.

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[1] Information about all changes in the structure of the Group as well as joint ventures and associates is presented in the description of the structure of the Group in Note 43 and in the list of associates and joint ventures presented in Note 44.

"PROMENADA SOPOCKA" SP. Z O.O.

On 28 June 2018, "CENTRUM HAFFNERA" Sp. z o.o. sold shares in "Promenada Sopocka" Sp. z o.o. representing 100% of the company's share capital and carrying 100% of voting rights at the Shareholders' Meeting. "Promenada Sopocka" Sp. z o.o. ceased to be a subsidiary of "CENTRUM HAFFNERA" Sp. z o.o.

EVENTS WHICH WILL HAVE AN IMPACT ON CHANGES IN THE GROUP'S STRUCTURE IN SUBSEQUENT PERIOD

In the first half of 2018, work was carried out in connection with the merger (merger by acquisition) between Qualia Sp. z o.o. (as the acquiring company) and: Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k., Qualia spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k., Qualia 2 Sp. z o.o. and Qualia 3 Sp. z o.o. (the acquired companies). The merger plan was published on 11 May 2018 in Monitor Sądowy i Gospodarczy. The partners' meetings were held at the partnerships during which resolutions were passed concerning the merger of the above-mentioned entities and increasing the share capital and amending the Articles of Association of the acquiring company. On 31 July 2018, these changes were entered in the National Court Register appriopriate to the acquiring company.

(IN PLN MILLION)

OTHER NOTES

46. 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 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

On 18 June 2018, the Annual General Meeting of PKO Bank Polski SA passed a resolution on the appropriation of the Bank's profit for the year 2017 (8/2018) according to which the net profit of PLN 2 774 million was appropriated as follows:

1) for the payment of dividend to the shareholders PLN 687.5 million;
2) for the supplementary capital PLN 2 050 million;
3) for other reserves PLN 36.5 million.

This means that 24.8% of the 2017 profit was appriopriated for dividend, giving PLN 0.55 per share, gross. Moreover, the Annual General Meeting of PKO Bank Polski SA decided that 8 August 2018 will be the record date (the day of acquiring the right to dividend) and 22 August 2018 will be the date of dividend payment.

The resolution of the Bank's Annual General Meeting on profit appropriation for 2017 is consistent with the PFSA recommendation.

47. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET COMMITMENTS GRANTED

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

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 30 June 2018			
Company A	corporate bonds	1 950	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	53	31.12.2022
Total		**3 058**	

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	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 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:	30.06.2018	31.12.2017
intangible assets	40	21
property, plant and equipment	102	78
Total	**142**	**99**

(IN PLN MILLION)

FINANCIAL COMMITMENTS GRANTED AND GUARANTEE COMMITMENTS GRANTED

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 30.06.2018	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	4 859	(18)	4 841
corporate	32 230	(64)	32 166
consumer	8 723	(27)	8 696
Total	**45 812**	**(109)**	**45 703**
of which irrevocable loan commitments	20 271	(38)	20 233
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 591	(49)	5 542
to financial entities	410	(7)	403
to non-financial entities	5 125	(41)	5 084
to public entities	56	(1)	55
Guarantees and pledges granted – domestic corporate bonds	2 635	-	2 635
to non-financial entities	2 635	-	2 635
Letters of credit issued	1 292	(3)	1 289
to non-financial entities	1 292	(3)	1 289
Guarantees and warranties granted – payment guarantee for financial entities	256	-	256
Guarantees and pledges granted - domestic municipal bonds	1 036	-	1 036
Total	**10 810**	**(52)**	**10 758**
of which performance guarantees granted	2 618	(12)	2 606

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 01.01.2018	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	5 195	(15)	5 180
corporate	30 928	(71)	30 857
consumer	8 348	(25)	8 323
Total	**44 471**	**(111)**	**44 360**
of which irrevocable loan commitments	33 607	(70)	33 537
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 813	(42)	5 771
to financial entities	320	(5)	315
to non-financial entities	5 462	(36)	5 426
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	2 350
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 409	(4)	1 405
to financial entities	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantee for financial entities	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**10 140**	**(46)**	**10 094**
of which performance guarantees granted	2 630	(14)	2 616

(IN PLN MILLION)

Information about the provisions recognized for off-balance sheet financial and guarantee commitments is presented in the Note 41 "Provisions".

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 31.12.2017	Off-balance sheet liabilities under IAS 37	Provisions for off-balance sheet liabilities under IAS 37	Total off-balance sheet liabilities granted
Financial liabilities granted:			
Credit lines and limits			
housing	5 195	(6)	5 189
corporate	30 928	(43)	30 885
consumer	8 348	(10)	8 338
Total	**44 471**	**(59)**	**44 412**
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 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
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	(9)	2 621

COMMITMENTS GRANTED BY MATURITY

OFF-BALANCE SHEET LIABILITIES GRANTED BY MATURITY AS AT 30.06.2018	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Off-balance sheet liabilities under IFRS 9						
Liabilities granted - financing	12 022	3 192	12 623	9 915	8 060	45 812
liabilities granted – guarantees and pledges	509	805	4 056	4 604	836	10 810
Total	12 531	3 997	16 679	14 519	8 896	56 622

OFF-BALANCE SHEET LIABILITIES GRANTED BY MATURITY AS AT 31.12.2017	up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	over 5 years	Total
Off-balance sheet liabilities under IAS 37						
Liabilities granted - financial	9 014	524	12 135	15 000	7 798	44 471
liabilities granted – guarantees and pledges	752	554	3 213	4 726	895	10 140
Total	9 766	1 078	15 348	19 726	8 693	54 611

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 30.06.2018	Nominal amount of off-balance sheet liabilities with no significant increase in credit risk since initial recognition (stage 1)	Provisions for expected credit losses (stage 1)	Nominal amount of off-balance sheet liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Provisions for expected credit losses (stage 2)	Nominal amount of credit-impaired off-balance sheet liabilities (stage 3)	Provisions for expected credit losses (stage 3)	Total nominal amount	Total provision	Total, net
Financial liabilities granted:									
Credit lines and limits	41 154	(61)	4 149	(29)	509	(19)	45 812	(109)	45 703
housing	4 335	(9)	514	(6)	10	(3)	4 859	(18)	4 841
corporate	29 226	(42)	2 513	(8)	491	(14)	32 230	(64)	32 166
consumer	7 593	(10)	1 122	(15)	8	(2)	8 723	(27)	8 696
Total	**41 154**	**(61)**	**4 149**	**(29)**	**509**	**(19)**	45 812	(109)	45 703
of which irrevocable loan commitments	18 572	(18)	1 570	(16)	129	(4)	20 271	(38)	20 233
of which: purchased or originated credit-impaired assets - POCI	-	-	-	-	100	-	100	-	100
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	3 981	(19)	1 461	(3)	149	(27)	5 591	(49)	5 542
to financial entities	410	(7)	-	-	-		410	(7)	403
to non-financial entities	3 515	(12)	1 461	(3)	149	(26)	5 125	(41)	5 084
to public entities	56	-	-	-	-	(1)	56	(1)	55
Guarantees and pledges granted - domestic corporate bonds	2 635	-	-	-	-	-	2 635	-	2 635
to non-financial entities	2 635	-	-	-	-		2 635	-	2 635
Letters of credit issued	1 282	(2)	9	(1)	1	-	1 292	(3)	1 289
to non-financial entities	1 282	(2)	9	(1)	1	-	1 292	(3)	1 289
Guarantees and warranties granted – payment guarantees for financial entities	256	-	-	-	-	-	256	-	256
Guarantees and pledges granted - domestic municipal bonds	1 036	-	-	-	-	-	1 036	-	1 036
Total	**9 190**	**(21)**	**1 470**	**(4)**	**150**	**(27)**	10 810	(52)	10 758
of which performance guarantees granted	1 702	(3)	860	(2)	56	(7)	2 618	(12)	2 606
of which: purchased or originated credit-impaired assets - POCI	-	-	-	-	-	-	-	-	-

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 01.01.2018	Nominal amount of off-balance sheet liabilities with no significant increase in credit risk since initial recognition (stage 1)	Provisions for expected credit losses (stage 1)	Nominal amount of off-balance sheet liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Provisions for expected credit losses (stage 2)	Nominal amount of credit-impaired off-balance sheet liabilities (stage 3)	Provisions for expected credit losses (stage 3)	Total nominal amount	Total provision	Total, net
Financial liabilities granted:									
Credit lines and limits	42 548	(70)	1 626	(17)	297	(24)	44 471	(111)	44 360
housing	5 163	(11)	27	(1)	5	(3)	5 195	(15)	5 180
corporate	30 150	(49)	494	(3)	284	(19)	30 928	(71)	30 857
consumer	7 235	(10)	1 105	(13)	8	(2)	8 348	(25)	8 323
							-	-	-
Total	**42 548**	**(70)**	**1 626**	**(17)**	**297**	**(24)**	44 471	(111)	44 360
of which irrevocable loan commitments	31 722	(40)	1 589	(14)	296	(16)	33 607	(70)	33 537
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-	-
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	5 360	(31)	44	(1)	409	(10)	5 813	(42)	5 771
to financial entities	320	(5)	-	-	-		320	(5)	315
to non-financial entities	5 009	(25)	44	(1)	409	(10)	5 462	(36)	5 426
to public entities	31	(1)	-	-	-	-	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	-	-	-	-	2 350	-	2 350
to non-financial entities	2 350	-	-		-		2 350	-	2 350
Letters of credit issued	1 406	(3)	3	(1)	-	-	1 409	(4)	1 405
to non-financial entities	1 406	(3)	3	(1)	-		1 409	(4)	1 405
Guarantees and warranties granted – payment guarantees for financial entities	252						252	-	252
Guarantees and pledges granted - domestic municipal bonds	316						316	-	316
							-	-	-
Total	**9 684**	**(34)**	**47**	**(2)**	**409**	**(10)**	10 140	(46)	10 094
of which performance guarantees granted	2 283	(8)	31	-	316	(6)	2 630	(14)	2 616
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-	-

(IN PLN MILLION)

OFF-BALANCE SHEET LIABILITIES GRANTED - TRANSFERS BETWEEN IMPAIRMENT STAGES 30.06.2018	Nominal value AMOUNTS NOT SUBJECT TO TRANSFER IN THE PERIOD	Transfer between stage 1 and stage 2		Transfer between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financial liabilities granted:								
Credit lines and limits	43 364	2 070	344	3	2	29	-	45 812
housing	4 368	485	3	-	-	3	-	4 859
corporate	30 496	1 482	225	2	1	24	-	32 230
consumer	8 500	103	116	1	1	2	-	8 723
Total	**43 364**	**2 070**	**344**	**3**	**2**	**29**	**-**	**45 812**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	4 232	1 322	23	7	-	7	-	5 591
to financial entities	410	-	-	-		-	-	410
to non-financial entities	3 775	1 319	17	7		7	-	5 125
to public entities	47	3	6	-		-	-	56
Guarantees and pledges granted - domestic corporate bonds	2 635	-	-	-	-	-	-	2 635
to non-financial entities	2 635	-	-	-	-	-	-	2 635
Letters of credit issued	1 282	9	-	1	-	-	-	1 292
to non-financial entities	1 282	9	-	1		-	-	1 292
Guarantees and warranties granted - payment guarantees for financial entities	256	-	-	-	-	-	-	256
Guarantees and pledges granted - domestic municipal bonds	1 036	-	-	-	-	-	-	1 036
Total	**9 441**	**1 331**	**23**	**8**	**-**	**7**	**-**	**10 810**

OFF-BALANCE SHEET LIABILITIES GRANTED - TRANSFERS BETWEEN IMPAIRMENT STAGES 30.06.2018	Provisions AMOUNTS NOT SUBJECT TO TRANSFER IN THE PERIOD	Transfer between stage 1 and stage 2		Transfer between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financial liabilities granted:								
Credit lines and limits	(91)	(15)	(1)	(1)	-	(1)	-	(109)
housing	(13)	(5)	-	-	-	-	-	(18)
corporate	(54)	(7)	(1)	(1)	-	(1)	-	(64)
consumer	(24)	(3)	-	-	-	-	-	(27)
Total	**(91)**	**(15)**	**(1)**	**(1)**	**-**	**(1)**	**-**	**(109)**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	(43)	(3)	-	(2)	-	(1)	-	(49)
to financial entities	(7)	-	-	-		-	-	(7)
to non-financial entities	(35)	(3)	-	(2)	-	(1)	-	(41)
to public entities	(1)	-	-	-		-	-	(1)
Guarantees and pledges granted - domestic corporate bonds	-	-	-	-	-	-	-	-
to non-financial entities	-	-	-	-	-	-	-	-
Letters of credit issued	(3)	-	-	-	-	-	-	(3)
to non-financial entities	(3)	-	-	-			-	(3)
Guarantees and warranties granted - payment guarantees for financial entities	-	-	-	-	-	-	-	-
Guarantees and pledges granted - domestic municipal bonds	-	-	-	-	-	-	-	-
Total	**(46)**	**(3)**	**-**	**(2)**	**-**	**(1)**	**-**	**(52)**

OFF-BALANCE SHEET LIABILITIES GRANTED - TRANSFERS BETWEEN IMPAIRMENT STAGES 30.06.2018	Net amount AMOUNTS NOT SUBJECT TO TRANSFER IN THE PERIOD	Transfer between stage 1 and stage 2		Transfer between stage 2 and stage 3		Transfer between stage 1 and stage 3		TOTAL
		from stage 1 to stage 2	from stage 2 to stage 1	from stage 2 to stage 3	from stage 3 to stage 2	from stage 1 to stage 3	from stage 3 to stage 1	
Financial liabilities granted:								
Credit lines and limits	43 273	2 055	343	2	2	28	-	45 703
housing	4 355	480	3	-	-	3	-	4 841
corporate	30 442	1 475	224	1	1	23	-	32 166
consumer	8 476	100	116	1	1	2	-	8 696
Total	**43 273**	**2 055**	**343**	**2**	**2**	**28**	**-**	**45 703**
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	4 189	1 319	23	5	-	6	-	5 542
to financial entities	403	-	-	-	-	-	-	403
to non-financial entities	3 740	1 316	17	5	-	6	-	5 084
to public entities	46	3	6	-	-	-	-	55
Guarantees and pledges granted - domestic corporate bonds	2 635	-	-	-	-	-	-	2 635
to non-financial entities	2 635	-	-	-	-	-	-	2 635
Letters of credit issued	1 279	9	-	1	-	-	-	1 289
to non-financial entities	1 279	9	-	1	-	-	-	1 289
Guarantees and warranties granted - payment guarantees for financial entities	256	-	-	-	-	-	-	256
Guarantees and pledges granted - domestic municipal bonds	1 036	-	-	-	-	-	-	1 036
Total	**9 395**	**1 328**	**23**	**6**	**-**	**6**	**-**	**10 758**

(IN PLN MILLION)

Transfers between impairment stages were presented at the nominal amount and provision amount as at 30 June 2018. If off balance sheet liabilities changed stages several times, the movement was presented as a transfer from the stage in which they were as at 1 January 2018 or upon their initial recognition, to the impairment stage as at 30 June 2018.

48. OFF-BALANCE SHEET COMMITMENTS RECEIVED

OFF-BALANCE SHEET COMMITMENTS RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2018	31.12.2017
Financial	485	95
Guarantees	9 955	14 227
Total	**10 440**	**14 322**

As at 30 June 2018, the balance of off balance sheet financing liabilities received in respect of term deposits in PLN from the financial sector with the value date after the balance sheet date increased by PLN 390 million.

In the first half of 2018, the Bank terminated a guarantee agreement from a counterparty which ensured unfunded credit protection in respect of a portfolio of selected corporate loan receivables of the Bank, in the amount of PLN 4 505 million, and sureties received from the State Treasury for the "old portfolio" housing loans under the Act of 29 November 2000 on the surety of the State Treasury for certain housing loans of PLN 204 million.

Due to the provisions of the Agreement which requires the Nordea Bank AB (publ) Group to participate in the credit risk of the Mortgage (currency) 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, which estimated fair value on 31 December 2017 was zero. Agreement. In the period of the Agreement there were no losses resulting in Nordea AB being required to make any payments to the Bank.

49. LEGAL CLAIMS

As at 30 June 2018, the total amount of litigation in which PKO Bank Polski SA Group companies (including the Bank) are defendants (suits) was PLN 1 749 million, including PLN 13 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 amount as at 30 June 2018 in which PKO Bank Polski SA Group companies (including the Bank) are plaintiffs was PLN 1 149 million, including PLN 20 million 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 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 a proceeding initiated by the President of the Competition and Consumer Protection Office (*Urząd Ochrony Konkurencji i Konsumentów* – UOKiK) based on 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 such practices 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 ruling of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million.

On 7 February 2014 the ruling was appealed against on behalf of the Bank and eight other plaintiffs. The Court of Appeal in Warsaw in its ruling 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. As a result of a cassation appeal lodged by the Bank, in its ruling of 25 October 2017, the Supreme Court waived the disputed ruling of the Court of Appeal in Warsaw and referred the case for re-consideration. The penalties paid by the Bank were returned to the Bank on 21 March 2018. The case is currently pending before the Court of Appeal in Warsaw. The date of the hearing has been set at 24 October 2018. As at 30 June 2018, the Bank created a provision for these proceedings in the amount of PLN 21 million.

As at 30 June 2018, the Group was a party, among other things, 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 costumers 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 ruling 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 ruling. In its ruling of 31 May 2017, the Court of Appeal in Warsaw upheld the SOKiK ruling in part, i.e. it upheld the ruling 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 a one-day "validity" did not allow customers 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 ruling of the Court of Appeal. A cassation appeal has also been lodged by the President of UOKiK. The Bank is awaiting the decision of the Supreme Court on accepting the cassation appeals for consideration. As at 30 June 2018, the Bank did not have a provision for this claim.

- **Before SOKiK: three proceedings initiated by individuals for:**

1) The recognition 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 30 June 2018, the Bank did not have a provision for these proceedings.

- **Before the President of UOKiK**

Three proceedings initiated ex-officio are pending before the President of UOKiK:

1) proceedings initiated ex-officio on 12 October 2016 in respect of practices violating collective interests of customers applied by PKO BP SA . The alleged violations by the Bank consist in informing customers about amendments to agreements on provision of financial service via messages sent in electronic banking systems. The second alleged violation is related to the failure to mention in the correspondence connected with unilateral changes in the contractual conditions significant information which allows customers to establish the admissibility of the proposed changes, i.e. failing to provide the legal and factual basis which was the cause of the changes. On 27 June 2018, the Bank created a provision of PLN 62 million in connection with the submission of an application for issuing an obligating decision. The date of concluding the proceedings was deferred to 12 November 2018;
2) the proceedings initiated ex-officio on 28 June 2017 for stating that the template of the agreement was prohibited. The alleged violation by the Bank consists of applying contractual provisions in its template agreements on mortgage loans and advances revalued/ indexed/ denominated in foreign currencies, which can be regarded as prohibited. Actions are pending in order to complete the proceedings. The deadline for concluding the proceedings was set on 31 December 2018. As at 30 June 2018, the Bank did not have a provision for this claim;

3) proceedings initiated ex-officio on 26 July 2018 in respect of practices violating the collective interests of customers. The alleged violation by the Bank consists in collecting higher instalments from customers for loans and advances denominated in foreign currencies than the ones resulting from the instructions on foreign currency risk presented to customers before concluding the agreements and transferring the potential currency risk to customers. The Bank responded to the charges in its letter of 23 September 2017.

   The date of concluding the proceedings was deferred until 31 August 2018. As at 30 June 2018, the Bank did not have a provision for this claim;

Moreover, there are seventeen explanatory proceedings pending before the President of UOKiK connected with the Bank's activities, and nine reports by the President of UOKiK without initiating proceedings (under Art. 49a of the Act on competition and consumer protection). As at 30 June 2018, the Bank did not set up any provisions for these proceedings.

The other companies in the Group are not parties to any significant proceedings in respect of applying practices which violate competition. The UOKiK proceedings relating to the fees for earlier resignation in polices with insurance-based capital fund, conducted in respect of PKO Życie Towarzystwo Ubezpieczeń SA, described in previous financial statements of the Group, was formally ended, whereas actions taken by the Company as a result of the implementation of an obligating decision issued in this respect by the President of the UOKiK in 2015 and an arrangement concluded with the President of the UOKiK in 2016, are continuing.

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 Consumer Protection). No provisions has been set up for the aforesaid proceedings.

b) THE MOST SIGNIFICANT PROCEEDINGS AGAINST THE BANK INITIATED BY INDIVIDUALS:

1) in October 2013, a claim was received by the Bank for payment of PLN 31 million in respect of damages suffered as a result of unjustifiably failing to grant disaster loans, due to the alleged lack of cooperation on the part of the Bank, which is claimed to result in a family farm being seized from the plaintiffs. Currently, the case is pending before the first instance court. As at 30 June 2018, the Bank recognized a provision for this claim of PLN 1 million;
2) in November 2013, the City Consumers' Ombudsman for the Capital City of Warsaw filed a claim on behalf of 66 people (clients of a developer) for determining the non-existence of a right – an ordinary joint contractual mortgage of PLN 12 million disclosed in the land and mortgage register of real properties owned by people on behalf of whom he applied potentially to obligate the Bank to place a statement of will, i.e. giving its consent to deleting the aforesaid mortgage entry. In its ruling of 30 September 2016, the Regional Court in Warsaw accepted the claim stating that the contractual mortgages established on premises did not exist, and referred to the lack of an agreement concluded between the Bank and developer for distribution of the mortgage in the event of separating the individual premises. The Bank lodged an appeal against the ruling and is currently awaiting the date of the appeal hearing. As at 30 June 2018, the Bank did not have a provision for this claim;
3) in August 2016, the Bank received a claim for payment of PLN 20 million compensation for damages incurred on the Bank's Client's assets due to unreliable - in the Plaintiff's opinion - tax information PIT 8 C for 2007, 2008 and 2009 issued by Dom Maklerski PKO BP; the case is currently pending before the first instance court. As at 30 June 2018, the Bank did not have a provision for this claim;
4) In March 2016, the Bank received a claim brought by the Receiver of a joint stock company in bankruptcy-related liquidation for determining the ineffectiveness of a legal action which consisted of creating a joint contractual mortgage for the Bank in the amount of PLN 53 million established on real properties in order to secure four investor loan agreements. In its ruling of 20 September 2017, the Regional Court in Warsaw dismissed the suit against the Bank. The plaintiff lodged an appeal against the above-mentioned ruling which was accepted by a ruling of 22 May 2018. On 31 July 2018, the Court delivered the ruling, including its justification, to the Bank. The Bank is analysing the case and considering the possibility of lodging a cassation appeal. Given the nature of the claim, the only provision which needed to be recognized was a provision for the costs of the proceedings;;
5) in February 2016, the Bank received a claim lodged by a joint stock company in liquidation for determining the invalidity of an agreement on surety provided by the company for the repayment of a loan granted by SKOK Wesoła in Mysłowice (whose legal successor is the Bank) to the president of the management board of the plaintiff's sole shareholder, and statement on submission to enforcement in connection with the said surety; the claim was validly dismissed by the courts in both instances due to a lack of the plaintiff's legal interests; in this case a cassation complaint was lodged; the Supreme Court has not issued any decision regarding the

(IN PLN MILLION)

acceptance of the complaint for consideration. As at 30 June 2018, the Bank did not have a provision for this claim;

6) in September 2016, the Bank received a claim for payment of PLN 15 million as compensation for damages resulting from the fact that the Bank failed to release funds under an investment loan, in which the plaintiff argues that the purpose of the loan agreement was to consolidate previous liabilities and determine new terms and conditions for repaying the debt, and as a result of failing to release the loan, the liabilities became immediately due and payable and were subject to bank restructuring proceedings; the proceedings are pending before the first instance Court. As at 30 June 2018, the Bank did not have a provision for this claim;

7) as at 30 June 2018, there were 565 court proceedings pending against the Bank, initiated by the Bank's customers in connection with concluding loans in CHF, and the subject matter of the Bank's hearings are primarily claims for determining the invalidity of the entire or part of the agreement, or payment in respect of benefits which were allegedly undue in connection with the abusive nature of the foreign currency clauses; the existing valid rulings issued hitherto are favourable to the Bank, and there have been no valid rulings confirming the customers' claims, and no clause used in the agreement has been entered in the register of prohibited clauses.

c) Re-privatizations claims relating to properties used by the Group

As at the date of these financial statements there are:

- two proceedings, including one suspended, in respect of the Bank's real properties, related to determining the invalidity of 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;
- thirteen 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 real properties.

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 remote.

50. Supplementary information to the statement of cash flows

Cash and cash equivalents consist of cash in hand, cash on nostro accounts and a deposit with the National Bank of Poland, current amounts due from banks, as well as other cash equivalents with maturities up to 3 months from the date of acquisition.

CASH AND CASH EQUIVALENTS	30.06.2018	31.12.2017	30.06.2017
Cash and balances with the Central Bank	8 523	15 845	13 637
Deposits with the Central Bank	1 450	1 965	-
Current amounts due from banks	4 685	5 036	3 176
Restricted cash and cash equivalents	248	154	151
Total	**14 906**	**23 000**	**16 964**

Restricted cash and cash equivalents

Cash and cash equivalents of PLN 248 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 30 June 2018 and 31 December 2017, respectively,

(IN PLN MILLION)

- PLN 233 million (as at 31 December 2017: PLN 134 million) pledged as collateral for securitization transactions.

51. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

TRANSACTIONS WITH THE STATE TREASURY

The State Treasury has control over the Bank 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 42 "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 state support in the repayment of certain housing loans, the 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	01.01-30.06.2018	01.01-30.06.2017
Income recognized on an accruals basis	82	56
Income recognized on a cash basis	60	13
Difference – "Loans and advances to customers"	22	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. 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 half of 2018 and in the first half of 2017.

As of 1 January 1996, became the general distributor of court fee stamps. The Bank receives commission in this respect from the State Treasury – in the first half of 2018 the Bank received a respective commission of PLN 1 million, and in the first half of 2017 the respective commission amounted to PLN 3 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 half of 2018 in the amount of PLN 35 million, and PLN 24 million in the first half of 2017.

SIGNIFICANT TRANSACTIONS WITH THE STATE TREASURY'S RELATED ENTITIES

The transactions were concluded on arm's-length terms.

(IN PLN MILLION)

	Balance sheet exposure, including exposure to loans and debt instruments		Off-balance sheet exposure		Liabilities in respect of deposits	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
counterparty 1	-	-	2 450	2 450	-	-
counterparty 2	2 937	2 936	-	-	-	-
counterparty 3	999	1 004	1 859	1 825	4	55
counterparty 4	2 038	2 024	310	308	268	186
counterparty 5	927	284	1 383	1 463	319	290
counterparty 6	263	29	1 651	1 832	3 544	4 093
counterparty 7	1	286	1 252	815	369	-
counterparty 8	218	215	986	351	300	208
counterparty 9	614	333	443	1 269	1	-
counterparty 10	205	221	565	575	4	2

In the first half of 2018, interest and commission income on the aforesaid transactions with the 10 counterparties referred to above amounted to PLN 73 million (in 2017, PLN 13 million), and the respective interest expense amounted to PLN 16 million (in 2017, PLN 1 million). As at 30 June 2018 and as at 31 December 2017, respectively, no impairment allowances were recognized on an individual basis for the above-mentioned receivables.
Other transactions with entities related with the State Treasury covered loans and advances granted, loan facilities, guarantees granted and deposits placed.

Equity Related-party transactions

All transactions with the 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 30 JUNE 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	86	19	38	27
"Centrum Obsługi Biznesu" Sp. z o.o.	26	26	8	
Bank Pocztowy SA	-	-	-	2
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	9	-
Total joint ventures and associates	**112**	**45**	**55**	**29**

FOR 6 MONTHS ENDED 30 JUNE 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.	196	168	54	54
"Centrum Obsługi Biznesu" Sp. z o.o.	2	2	-	-
Total joint ventures and associates	**198**	**170**	**54**	**54**

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 6 MONTHS ENDED 30 JUNE 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.	129	126	50	50
Total joint ventures and associates	**129**	**126**	**50**	**50**

Personal related-party transactions

As at 30 June 2018 and 31 December 2017, one entity was related to the Group through the key management personnel of PKO Bank Polski SA or close family members of the key management personnel. In the first half of 2018 and in the first half of 2017, no mutual transactions were conducted between the Bank and this entity.

Benefits for the PKO Bank Polski SA key management

Remuneration received by members of the Supervisory Board from the Bank

REMUNERATION RECEIVED FROM PKO BANK POLSKI SA (in PLN thousand)	01.01-30.06.2018	01.01-30.06.2017
Supervisory Board of the Bank	680	603
Management Board[1]	8 826	12 293
Total	**9 506**	**12 896**

[1] Includes remuneration of the Management Board members who ceased to perform their functions in 2017 and 2016.

On 13 March 2017, the Extraordinary Shareholders' Meeting (ESM) adopted a resolution on the principles for determining remuneration of members of the Management Board and Supervisory Board proposed by the State Treasury represented by the Minister of Development and Finance who exercised the rights from the Bank shares owned by the State Treasury. The Resolution concerned adapting the remuneration policy for members of the Management and Supervisory Boards of PKO Bank Polski SA to the provisions of the Act on principles of remunerating people who manage certain companies. On the basis of the resolution, the Supervisory Board introduced a new policy of employing and remunerating members of the Management Board which were defined in accordance with the provisions of the Act on principles of remunerating people who manage certain companies.

These rules were implemented as of 22 June 2017. Service agreements were concluded with the Management Board members to replace the existing employment agreements and benefits related to the change in the employment relationship were paid.

In the first half of 2018 and in the first half of 2017 no member of the Management Board received remuneration from the Bank's related entities.

Remuneration for members of management boards and supervisory boards of subsidiaries of the Group.

REMUNERATION RECEIVED BY MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS OF THE PKO BANK POLSKI SA GROUP SUBSIDIARIES (in PLN thousand)	01.01-30.06.2018	01.01-30.06.2017
Supervisory Board	408	213
Management Board	10 809	14 181
Total	**11 217**	**14 394**

52. Fair value hierarchy

Accounting policies, and estimates and judgements

The fair value is the price that would be received for the sale of an asset or paid for transfer of a liability in a transaction carried out under regular conditions on the main (or most advantageous) market at the valuation date in the current market conditions (i.e. exit price), regardless of whether this price is directly observable or estimated using another valuation technique.

Depending on the classification of financial assets and liabilities to a specific level of the hierarchy, different methods of fair value measurement are used.

LEVEL 1: PRICES QUOTED ON ACTIVE MARKETS

Financial assets and liabilities whose fair value is stated directly at prices quoted (not adjusted) on active markets for identical assets and liabilities. In this category, the Group classifies financial and equity instruments for which there is an active market and for which the fair value is determined with reference to the market value, which is a bid price:

- debt securities valued using fixing from the Bondspot platform or Bloomberg or Reuters information services,
- debt and equity securities which are traded on a regulated market, including in the Brokerage House portfolio,
- derivative instruments, which are traded on a regulated market.

LEVEL 2: VALUATION TECHNIQUES BASED ON OBSERVABLE MARKET DATA

Financial assets and liabilities whose fair value is determined using valuation models where all significant entry data are observable on the market directly (as prices) or indirectly (based on prices). In this category, the Group classifies financial instruments for which there is no active market:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	OBSERVABLE INPUTS
DERIVATIVE FINANCIAL INSTRUMENTS – CIRS, IRS, FRA	The discounted future cash flows model based on the yield curves.	Yield curves are built based on market rates, market data of the money market, market transactions of FRA, IRS, basis swap.
DERIVATIVE FINANCIAL INSTRUMENTS – CURRENCY OPTION, INTEREST RATE OPTIONS, EQUITY EXOTIC OPTIONS, FX FORWARD, FX SWAP TRANSACTIONS	Valuation models specific for a particular type of a currency option. The model of discounted future cash flows based on yield curves for FX forward and FX swap transactions. The prices of equity exotic options embedded in structured products are obtained from the market (market prices).	Yield curves built based on money market rates, market rate of swap points, volatility levels for specific currency pairs, NBP fixing exchange rates. For the purpose of valuation of equity exotic options embedded in structured products, market prices of these options are obtained.
NBP MONEY MARKET BILLS	Yield curve method	Yield curves are built based on money market data and OIS (overnight index swap) transactions market.
MUNICIPAL BONDS IN EUR	Accepted valuation model.	Market rates, market data from the money market, IRS transactions market, CDS transactions market, volatility of interest rate options market.
MUNICIPAL BONDS IN PLN	Yield curve and risk margin model.	Yield curves are built based on market rates, money market data, IRS transactions market.

CORPORATE BONDS	Yield curve and risk margin model.	Yield curves are built based on market rates, money market data, IRS transactions market.
COMMODITY SWAP TRANSACTIONS	Commodity price yield curve.	Commodity price yield curves are built based on money market data, market rate SWAP points.

LEVEL 3: OTHER VALUATION TECHNIQUES

Financial assets and liabilities whose fair value is determined using valuation models for which input data is not based on observable market data (unobservable input data). In this category, the Bank classifies financial instruments, which are valued using internal valuation models:

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE	VALUATION METHOD (TECHNIQUE)	UNOBSERVABLE INPUT
PARTICIPATION UNITS IN A COLLECTIVE INVESTMENT UNDERTAKING	Method of the net asset value (NAV) of the Fund i.e. the fair value of investment projects (companies) comprised in the Fund, which are subject to a semi-annual review or an audit performed by a registered auditor.	Net asset value of the fund.
C-SERIES PREFERENCE SHARES OF VISA INC.	Estimating the fair value based on the current market value of the listed ordinary shares of Visa Inc., including a discount which takes into account the limited liquidity of C-series shares and the terms and conditions of the conversion of C-series shares into ordinary shares.	Discount taking into account the limited liquidity of C-series shares and the terms of converting the C-series shares into ordinary shares.
SHARES OF BIURO INFORMACJI KREDYTOWEJ SA	Assessment of fair value based on the present value of forecast results of the company	Forecast results of the company
SHARES IN POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Assessment of fair value based on the present value of forecast results of the company	Forecast results of the company
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION CO-OPERATIVE SOCIETY	Market value of shares estimated by the company	Market value estimated by the company
SHARES OF KRAJOWA IZBA ROZLICZENIOWA SA	Assessment of fair value based on the present value of forecast results of the company	Forecast results of the company

(IN PLN MILLION)

SHARES IN WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA "INVEST-PARK" SP Z O.O.	Fair value determined by an appraiser using the net adjusted assets method	Value of the company's net assets
SHARES OF WIELKOPOLSKA GILDIA ROLNO-OGRODNICZA S.A.	Fair value determined by an appraiser using the net adjusted assets method	Value of the company's net assets
CORPORATE BONDS	Yield curve and risk margin model. Yield curves are built based on market rates, money market data and IRS transactions market.	Credit spread (credit margins determined on the basis of initial margins modified by credit indices quotes ascribed to issuers based on their ratings and business sectors)
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method	Effective credit margin

FINANCIAL INFORMATION

ASSETS MEASURED AT FAIR VALUE 30.06.2018	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	742	-	742	-
Other derivative instruments	1 982	3	1 979	-
Securities	54 687	39 447	13 520	1 720
held for trading	1 135	1 135	-	-
debt securities	1 111	1 111	-	-
shares in other entities - listed	17	17	-	-
investment certificates, rights to shares, pre-emptive rights	7	7	-	-
not held for trading, mandatorily measured at fair value through profit or loss	3 303	2 823	105	375
debt securities	1 647	1 440	94	113
shares in other entities - listed	196	196	-	-
shares in other entities - not listed	263	-	1	262
investment certificates, rights to shares, pre-emptive rights	1 197	1 187	10	-
measured at fair value through other comprehensive income	50 249	35 489	13 415	1 345
debt securities	50 249	35 489	13 415	1 345
Loans and advances to customers	988	-	-	988
not held for trading, mandatorily measured at fair value through profit or loss	988	-	-	988
housing loans	31	-	-	31
corporate loans	159	-	-	159
consumer loans	798	-	-	798
Total financial assets measured at fair value	**58 399**	**39 450**	**16 241**	**2 708**

LIABILITIES MEASURED AT FAIR VALUE 30.06.2018	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	440	-	440	-
Other derivative instruments	2 141	3	2 138	-
Total financial liabilities measured at fair value	**2 581**	**3**	**2 578**	**-**

(IN PLN MILLION)

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**	-

In the first half of 2018 and in 2017, there were no transfers between fair value levels.

Starting from 2018, in level 3 of the fair value hierarchy, the Group recognizes loans and advances to customers, not held for trading, mandatorily measured at fair value through profit or loss. In prior periods, these loans were measured using the amortized cost method.

As a result of the implementation of IFRS 9, the following equity instruments were also recognized at level 3 of the fair value hierarchy:

- Shares of Biuro Informacji Kredytowej SA
- Shares in Polski Standard Płatności Sp. z o.o.
- Shares in Society For Worldwide Interbank Financial Telecommunication Co-operative Society
- Shares of Krajowa Izba Rozliczeniowa SA
- Shares of Wielkopolska Gildia Rolno-Ogrodnicza SA
- Shares in Wałbrzyska Special Economic Zone “Invest-Park” Sp. z o.o.

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2018		31.12.2017	
	Fair value acc. to		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]	1 017	960		
Shares in Visa Inc.[2]	155	128		
Equity securities[3]	119	107		
Corporate bonds[4]	113	113		
Measured at fair value through other comprehensive income				
Corporate bonds[4]	1 348	1 342		
Available-for-sale investment securities				
Participation units in a collective investment undertaking[5]			264	239
Shares in Visa Inc.[2]			129	103
Corporate bonds[4]			1 799	1 783

[1] Scenario assuming a change in the discount rate of +/- 0.5 p.p
[2] Scenario assuming discount ratio in respect of future conditions of conversion of C Series shares into ordinary shares at the level of 0%/100%, respectively
[3] Scenario assuming a change in the projected company's net assets of +/- 5%
[4] Scenario assuming a change in the credit spread of +/- 10%
[5] Scenario assuming an increase/decrease in the Fund's net asset value of +/- 5%, respectively

(IN PLN MILLION)

Reconciliation of the changes in the fair value of financial instruments at level 3 is presented in the following table.

RECONCILIATION OF CHANGES DURING THE PERIOD AT LEVEL 3 OF FAIR VALUE HIERARCHY	01.01-30.06.2018	01.01-30.06.2017
Opening balance at the beginning of the period	**2 166**	**3 374**
First time adoption of IFRS 9	1 186	
Loans and advances to customers not held for trading, mandatorily measured at fair value through profit or loss	1 070	
Equity instruments at fair value through profit or loss	116	
Opening balance at the beginning of the period – restated	**3 352**	
Foreign exchange differences	17	(24)
Participation units in a collective investment undertaking	7	(13)
Other capital instruments	10	(11)
Increasing the involvement in capital instruments	1	-
Taking up a new share issue a collective investment institution	-	10
Issuance and redemption of corporate bonds	(324)	(443)
Reduction of equity exposure to a collective investment institution	(47)	(39)
Sale of participation units in a collective investment institution	(217)	-
Sale/repayment of loans during the period	(82)	
Not held for trading, mandatorily measured at fair value through profit or loss	(82)	
Net gain/(loss) in financial instruments measured at fair value through profit or loss	17	-
Participation units in a collective investment undertaking	6	-
Shares in Visa Inc.	11	-
Remeasurement recognized in other comprehensive income	(9)	43
Corporate bonds	(9)	20
Participation units in a collective investment undertaking		(1)
Shares in Visa Inc.		24
As at the end of the period	**2 708**	**2 921**

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

	level of fair value hierarchy	valuation method	30.06.2018 carrying amount	30.06.2018 fair value
Cash and balances with Central Bank	n/a	at amounts due	9 973	9 973
Amounts due from banks			4 973	4 973
measured at amortized cost	2	discounted cash flows	4 973	4 973
Securities			6 478	6 480
measured at amortized cost	3	discounted cash flows	6 478	6 480
debt securities (Treasury bonds)	1	market quotations	1 982	1 984
debt securities (corporate)	3	discounted cash flows	2 065	2 065
debt securities (municipal)	3	discounted cash flows	2 431	2 431
Loans and advances to customers			206 605	203 842
measured at amortized cost	3	discounted cash flows	206 605	203 842
housing loans	3	discounted cash flows	109 334	105 251
corporate loans	3	discounted cash flows	58 090	56 861
consumer loans	3	discounted cash flows	24 826	27 416
receivables in respect of repurchase agreements	2	discounted cash flows	624	624
finance lease receivables	3	discounted cash flows	13 731	13 690
Other financial assets	3	at amount due less impairment allowance	3 090	3 090
Amounts due to the Central Bank	2	at amounts due	5	5
Amounts due to banks			2 090	2 088
measured at amortized cost	2	discounted cash flows	2 090	2 088
Amounts due to customers			**219 208**	219 144
measured at amortized cost	3	discounted cash flows	219 208	219 144
amounts due to retail customers	3	discounted cash flows	153 655	153 592
amounts due to business entities	3	discounted cash flows	49 287	49 286
amounts due to public entities	3	discounted cash flows	11 003	11 003
loans and advances received	3	discounted cash flows	3 643	3 643
Liabilities in respect of insurance products	2	discounted cash flows	1 620	1 620
Debt securities in issue			28 079	28 227
measured at amortized cost	1, 2	market quotations/discounted cash flows	28 079	28 227
Subordinated liabilities			2 730	2 730
measured at amortized cost	2	discounted cash flows	2 730	2 730
Other financial liabilities	3	at amounts due	3 367	3 367

(IN PLN MILLION)

	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**	**203 256**
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
receivables in respect of 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
Derivatives	2	discounted cash flows	4 558	4 558
Amounts due to customers			**218 800**	**218 735**
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
loans and advances received	3	discounted cash flows	3 563	3 563
Debt securities in issue	1, 2	market quotations/discounted cash flows	23 932	24 226
Subordinated liabilities	2	discounted cash flows	1 720	1 720
Other financial liabilities	3	at amounts due	4 129	4 129

54. Offsetting financial assets and financial liabilities

The Group offsets financial assets and liabilities and shows them in the statement of financial position in net amounts if there is a legally enforceable right to offset the recognized amounts and an intention to settle them on a net basis or to realize a given asset and settle the liability simultaneously. The provisions of par. 42 of IAS 32 indicate, among other things, that in order for offsetting to be possible, a legal right may not be contingent on occurrence of a specific future event.

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

Exposures arising from derivatives are further secured by margin deposits provided by counterparties as part of executing CSA (Credit Support Annex).

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

Receivables covered by securitization of lease receivables

As at 30 June 2018, receivables covered by the securitization of lease receivables amounted to PLN 996 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.

(IN PLN MILLION)

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	30.06.2018	31.12.2017
Debt securities	-	48
Transactions with repurchase agreements	-	48
Net balance	-	-

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 30 June 2018, such assets amounted to PLN 633 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	30.06.2018	31.12.2017
Value of the deposit	10	10
Nominal value of the pledge	10	10
Type of pledge	Treasury bonds	Treasury bonds
Carrying amount of the pledge	8	11

Bank Deposit Guarantee Fund

	30.06.2018	31.12.2017
Value of the fund	1 060	1 133
Nominal value of the pledge	1 100	1 200
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	1 101	1 193

Assets designated as the collateral for the Fund 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)

	30.06.2018	31.12.2017
Value of the contribution made in the form of payables	160	120
Nominal value of the assets in which funds corresponding to payables were invested	223	175
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	224	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 an amount of 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 period of 6 months ended 30 June 2018 and in the year ended 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 liabilities.

TRANSFERRED FINANCIAL ASSETS

As at 30 June 2018 and as at 31 December 2017, the Group had no transferred financial assets fully derecognized in respect of which the Group maintains an exposure.

56. FIDUCIARY ACTIVITIES

The Bank is a direct participant in the Central Securities Depository of Poland (*Krajowy Depozyt Papierów Wartościowych*) and the Securities Register (at the National Bank of Poland). The Bank maintains securities accounts and handles transactions on the domestic and foreign markets, provides fiduciary services and performs a depository role for pension and investment funds. Assets held by the Bank, and therefore by the Group, as part of providing fiduciary services have not been disclosed in these condensed interim consolidated financial statements since they do not meet the definition of the Bank's assets.

RISK MANAGEMENT OBJECTIVES AND POLICIES

57. 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 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 risks is determined at Bank and Group level. The following risks are considered material for the Group: 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 elements of the risk management system 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 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.

KEY 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 supports the implementation of the Group's strategy in compliance with the risk management strategy, in particular with regard to the level of risk tolerance;
3) 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;
4) methods of the risk identification, measurement and management are adequate to the risk tolerance level adopted by the Group. Material risks to which the Group is exposed are identified accordingly on making business decisions;
5) 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;

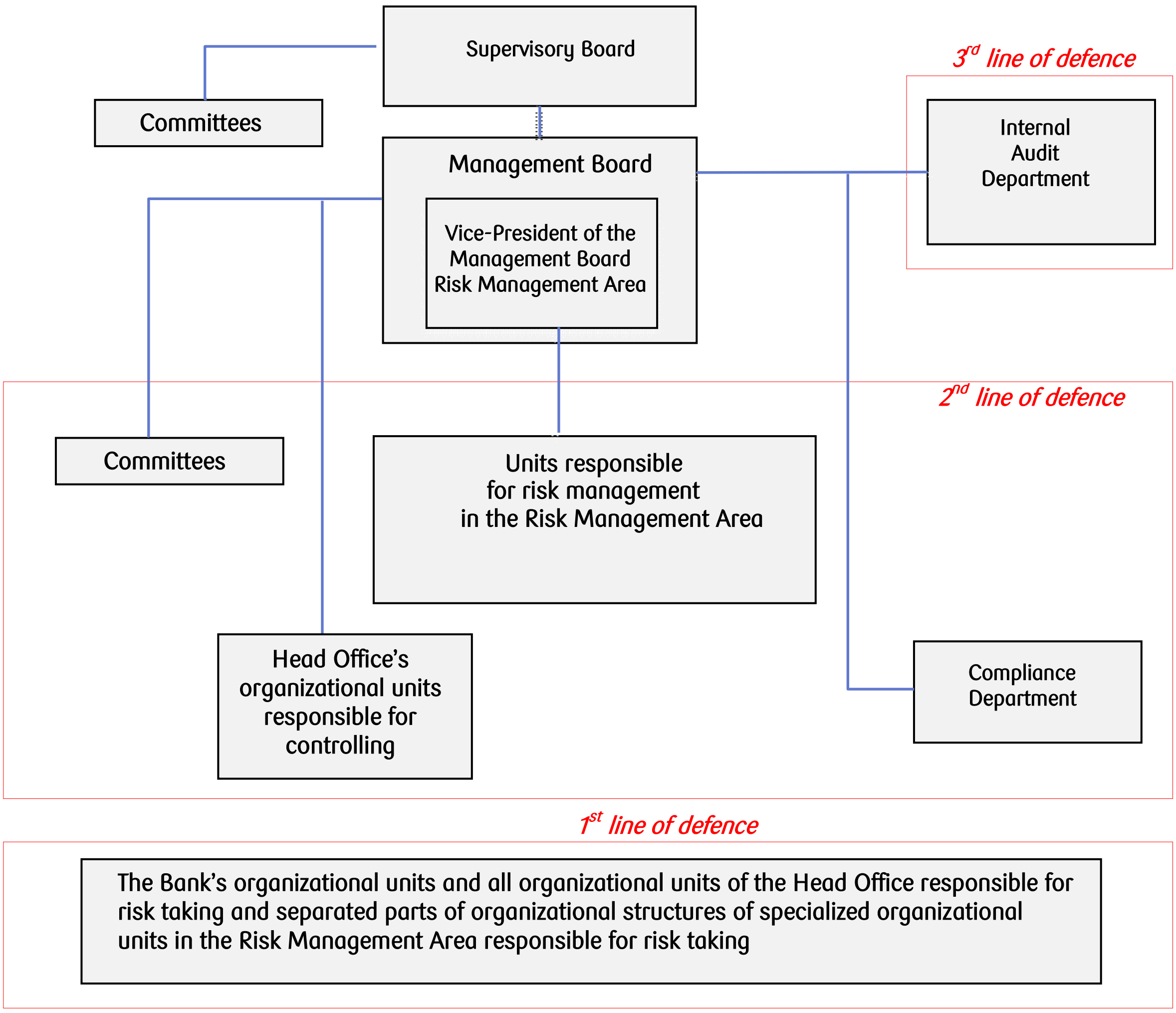
6) the Management Board determines the risks subject to management and organization units in the Headquarters as well as specialist organizational units responsible for managing such risks;
7) the Group allocates the resources necessary for effective risk management;
8) the Group develops emergency plans in the event of crisis situations which may significantly affect the functioning of the Group, and in particular emergency plans required under universally applicable provisions of law and internal Group's regulations;
9) financial, capital and strategic plans are verified and assessed in respect of the risk level generated;
10) the process of managing a given risk and capital adequacy is regulated appropriately to the level of complexity and materiality of the risk, in the internal Group regulations relating to the rules for managing such risk and the rules for managing capital adequacy and equity.

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

The Bank supervises the functioning of the Group. As part of its supervisory role, the Bank assesses their risk management systems and supports their development. In addition, the Bank takes into account the level of risk in particular Group entities 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 Group. In particular, the Supervisory Board assesses 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 Group'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 Group in respect of risk management. The Management Board makes major decisions affecting the risk profile of the Group 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 Operating Risk Committee.

The risk management process is carried out in three independent but complementary lines of defence:

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 risk assessment and control, taking into account the specific characteristics of each entity and its market.

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 Bank regulations. 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 function is performed, in particular by the Risk Management Area, the Compliance Department and relevant committees. 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. These activities are in particular performed in organizational units of the Headquarters responsible for controlling.

The third line of defence constitutes an 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 independence of the lines of defence consists of preserving organizational independence in the following areas:

- 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;
- the function of the third line of defence is independent of the functions of the first and second lines of defence;
- the function of non-compliance risk management is subject to the Vice-President of the Management Board – Legal and Compliance.

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. The scope of responsibility and level of independence of the 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 Group are defined in the internal regulations. 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 entities which have a material impact on the Group's risk profile is determined at least once 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 HALF 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 the first half of 2018, the Bank took the following steps, among others:

1) On 8 February 2018, the Bank made full 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 to increase 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.
3) On 18 May 2018, the Bank exchanged its own maturing short-term bonds in the amount of PLN 650 million for 6-month bonds in the same amount.
4) PKO Bank Hipoteczny SA carried out three issues of mortgage covered bonds, including one denominated in EUR in the nominal amount of EUR 500 million, maturing on 24 January 2024, and two issues of mortgage covered bonds with a total nominal value of PLN 800 million, maturing in 2022–2024.
5) The Bank is participating in a subsequent edition of the European stress tests carried out by the European Bank Supervision Authority (EBA). The EBA plans to publish the results of the stress tests by 2 November 2018.

(IN PLN MILLION)

58. CREDIT RISK MANAGEMENT

MAXIMUM EXPOSURE TO RISK – FINANCIAL INSTRUMENTS TO WHICH THE IMPAIRMENT DO NOT APPLY

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	30.06.2018
Hedging derivatives	742
Other derivative instruments	1 982
Securities:	4 438
held for trading	1 135
not held for trading, mandatorily measured at fair value through profit or loss	3 303
Loans and advances to customers not held for trading, mandatorily measured at fair value through profit or loss	988
housing	31
corporate	159
consumer	798
Total	**8 150**

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	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
Total	**11 186**

(IN PLN MILLION)

FINANCIAL ASSETS PAST DUE, AT RISK OF IMPAIRMENT OR IMPAIRED

EXPOSURES PAST DUE 30.06.2018	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:	2 481	16	-	2 497	1 709	736	-	2 445	297	270	2 465	3 032	7 974
loans	1 788	4	-	1 792	846	390	-	1 236	222	178	2 305	2 705	5 733
housing	494	-	-	494	571	201	-	772	57	75	451	583	1 849
corporate	1 032	4	-	1 036	141	88	-	229	132	62	1 476	1 670	2 935
consumer	262	-	-	262	134	101	-	235	33	41	378	452	949
finance lease receivables	693	12	-	705	863	346	-	1 209	75	92	160	327	2 241
Other financial assets	-	1	-	1	-	-	-	-	-	-	-	-	1
Total, net	2 481	17	-	2 498	1 709	736	-	2 445	297	270	2 465	3 032	7 975

(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
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 ratings 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-sized 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 significant credit risk.

59. CONCENTRATION OF CREDIT RISK AT THE GROUP

The Group defines the credit concentration risk as the risk of material losses or significant changes in the risk profile of the Group due to excessive concentration with regard to exposure to individual customers and groups of customers operating in the same sector of the economy or operating in the same geographical region, or due to excessive concentration arising for other reasons.

CONCENTRATION BY THE LARGEST ENTITIES

As at 30 June 2018 and 31 December 2017, concentration limits were not exceeded.

As at 30 June 2018, the level of the concentration risk of the Bank's Group to individual exposures was low – the largest exposure to a single entity accounted for 8.2% of the recognized consolidated capital of the Group (8.6% as at 31 December 2017).

CONCENTRATION BY THE LARGEST GROUPS

The largest concentration of the PKO Bank Polski SA Group's exposure to a group of related borrowers amounted to 1.09% of the Group's loan portfolio (1.13% as at 31 December 2017).

As at 30 June 2018 and 31 December 2017, the level of the risk of concentration in respect of a group of entities was low – the largest concentration of the Group exposure accounted for 8.7% and 9.2% of the recognized capital of the Group.

CONCENTRATION BY INDUSTRY

The Group applies limits intended to reduce the level of risk associated with financing institutional customers operating in certain industries characterized by a high level of credit risk, and to avoid excessive concentration in individual industry sectors.

The total exposure to the four largest groups of industry sectors, i.e. “Financial and insurance activities”, “Industrial processing”, Wholesale and retail trade (...)”, and “Public administration and national defence” amounted to 56% as at 30 June 2018 (32.2% as at 31 December 2017).

CONCENTRATION BY GEOGRAPHICAL REGIONS

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

The structure of the loan portfolio by geographical regions is recognized in the Group with regard to:

- the place of conducting activities – the Group conducts its activities within the territory of the Republic of Poland and through its subsidiaries: in the Ukraine, Sweden, and Ireland as well as in the form of Branches in Germany and the Czech Republic;
- area of the Bank’s client – separately for the Retail Market Area (ORD) and for the Corporate and Investment Banking Area (OKI). Within ORD, 11 geographic areas and the headquarters are distinguished. As at 30 June 2018, the largest concentration of the ORD loan portfolio was in the Warsaw and Katowice region (approx. 26% of the total ORD portfolio). As at 31 December 2017, the largest concentration of the ORD loan portfolio was in same regions (approx. 26% of the total ORD portfolio). In the OKI area, the Bank distinguishes 7 macro-regions and the headquarters. As at 30 June 2018, the largest concentration of the OKI loan portfolio was in the central macro-region (approx. 41% of the total OKI portfolio). As at 31 December 2017, the largest concentration of the OKI loan portfolio was in the central macro-region (approx. 44% of the total OKI portfolio).

CONCENTRATION OF CREDIT RISK BY CURRENCY

As at 30 June 2018, the share of exposure in convertible currencies other than PLN in the entire Group's portfolio amounted to 19.7% (19.2% as at 31 December 2017). Exposures in CHF relating to the Bank’s loan portfolio represent the largest part of the Group’s currency exposure. In the case of companies in the Group, the situation is different, i.e. the dominating item in the currency portfolio of the PKO Leasing SA Group are exposures in EUR (93% of the currency portfolio) and in the KREDOBANK SA Group and in Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o. loans granted in USD are dominating (50% and 81% of the respective currency portfolios).

OTHER TYPES OF CONCENTRATION

In accordance with recommendations S and T of the Polish Financial Supervision Authority, the Bank applies internal limits associated with loan exposures of the Bank’s customers which determine the appetite for credit risk and concentration. As at 30 June 2018 and 31 December 2017, these limits were not exceeded.

60. FORBEARANCE PRACTICES

Forbearance is defined by the group as actions aimed at amending 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 otherwise would not have 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 non-performing loans management, i.e. obtaining the highest possible recoveries while minimizing the costs incurred.

Forbearance consists in amending repayment terms which are agreed individually for each agreement. Such changes may consist in:

- dividing the debt due into instalments,
- changing the repayment scheme (fixed payments, degressive payments),
- extending the loan period,
- changing the interest rate,
- changing the margin,
- reducing the debt.

As a result of signing and repaying amounts due under the forbearance agreement on a timely basis, a non-performing loan becomes a performing one. The forbearance process also involves evaluating the debtor's capacity to meet the terms of the settlement agreement on a timely basis (repayment of the debt at agreed dates). Forbearance agreements are monitored on an on-going basis.

If impairment or a considerable increase in credit risk is recognized in respect of the related credit exposures, impairment allowances are created to reflect the expected impairment loss.

Forborne exposures classified as non-performing are included in the portfolio of performing exposures when the following conditions are met simultaneously:

- a receivable does not meet the condition of an impairment trigger and there is no impairment recognized;
- at least 12 months have passed from the conclusion of the restructuring agreement;
- the entire debt is covered by the restructuring agreement;
- the debtor demonstrated the capacity to fulfil the terms of the restructuring agreement.

Exposures cease to meet the criteria of a forborne exposure when all of the following conditions are met:

- at least 24 months have passed from the date of including the forborne exposure into the portfolio of performing exposures (conditional period);
- as at the end of the conditional period referred to above, the customer has no debt towards the Bank overdue for more than 30 days;
- at least 12 instalments have been repaid on a timely basis and in the amounts agreed.

(IN PLN MILLION)

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

LOANS AND ADVANCES TO CUSTOMERS

30.06.2018	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Net amount of exposures subject to forbearance
	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	-	-	-	-	-	1	-	1	-	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1
consumer	-	-	-	-	-	1	-	1	-	1	1
											-
Measured at amortized cost:	1 137	1	1 138	(114)	1 024	2 120	198	2 318	(1 014)	1 304	2 328
Loans	1 117	1	1 118	(114)	1 004	2 013	198	2 211	(1 001)	1 210	2 214
housing	531	-	531	(73)	458	718	1	719	(398)	321	779
corporate	532	1	533	(36)	497	1 074	194	1 268	(512)	756	1 253
consumer	54	-	54	(5)	49	221	3	224	(91)	133	182
Finance lease receivables	20	-	20	-	20	107	-	107	(13)	94	114
Total	1 137	1	1 138	(114)	1 024	2 121	198	2 319	(1 014)	1 305	2 329

31.12.2017	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Net amount of exposures subject to forbearance
	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	2 298	213	2 511	(968)	1 543	2 924
housing	544	-	544	(13)	531	872	11	883	(439)	444	975
corporate	819	2	821	(39)	782	1 211	187	1 398	(433)	965	1 747
consumer	70	-	70	(2)	68	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	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)	30.06.2018	31.12.2017
Dividing the debt due into instalments	2 085	2 365
Change in the repayment scheme (fixed payments, degressive)	1 482	1 671
Extension of the loan period	1 491	1 700
Change in interest rate	716	772
Change in margin	665	896
Debt reduction	133	150
Other terms	239	72

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

SECURITIES SUBJECT TO FORBEARANCE

30.06.2018	Performing exposures subject to forbearance			Non-performing exposures subject to forbearance				Net amount of exposures subject to forbearance
	Instruments with modified terms and conditions	Total, gross	Total, net	Instruments with modified terms and conditions	Total, gross	Impairment allowances	Total, net	
Not held for trading, mandatorily measured at fair value through profit or loss	-	-	-	113	113	-	113	113
corporate bonds (in PLN)	-	-	-	113	113	-	113	113
Measured at fair value through other comprehensive income	190	190	190	472	472	(13)	459	649
corporate bonds (in PLN)	63	63	63	472	472	(13)	459	522
corporate bonds (in foreign currencies)	127	127	127	-	-	-	-	127
Total	190	190	190	585	585	(13)	572	762

31.12.2017	Performing exposures subject to forbearance			Non-performing exposures subject to forbearance				Net amount of exposures subject to forbearance
	Instruments with modified terms and conditions	Total, gross	Total, net	Instruments with modified terms and conditions	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

DEBT SECURITIES SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT (GROSS)	30.06.2018	31.12.2017
Dividing the debt due into instalments	775	1 050
Change in the repayment scheme (fixed payments, degressive)	775	1 050
Extension of the loan period	775	1 050
Change in interest rate	585	819
Change in margin	585	819
Debt reduction	-	133

(IN PLN MILLION)

61. RISK MANAGEMENT OF FOREIGN CURRENCY RISK ASSOCIATED WITH LOANS AND ADVANCES GRANTED TO CUSTOMERS BY CURRENCY

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY 30.06.2018	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, mandatorily measured at fair value through profit or loss						
Loans and advances to customers	988	-	-	-	-	988
housing	31					31
corporate	159					159
consumer	798					798
Not held for trading, mandatorily measured at fair value through profit or loss	988	-	-	-	-	988
Measured at amortized cost						
Gross loans	161 910	24 942	10 448	2 093	1 269	200 662
housing	84 024	24 101	3 346	84	133	111 688
corporate	51 972	563	7 076	2 004	715	62 330
consumer	25 914	278	26	5	421	26 644
Receivables in respect of repurchase agreements	624	-	-	-	-	624
Finance lease receivables	10 353	26	3 493	274	55	14 201
Allowances for expected credit losses	(7 133)	(985)	(396)	(205)	(163)	(8 882)
Measured at amortized cost, net	165 754	23 983	13 545	2 162	1 161	206 605
Total	166 742	23 983	13 545	2 162	1 161	207 593

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY 31.12.2017	PLN	CHF	EUR	USD	OTHER	Total
Measured at amortized cost						
Gross loans	158 171	24 786	9 505	1 441	1 033	194 936
housing	80 711	23 909	3 354	83	106	108 163
corporate	51 847	589	6 125	1 353	583	60 497
consumer	25 613	288	26	5	344	26 276
Debt securities (corporate)	1 734	-	125	-	-	1 859
Debt securities (municipal)	2 519	-	-	-	-	2 519
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Finance lease receivables	9 377	24	3 485	323	27	13 236
						-
Impairment allowances	(6 290)	(896)	(289)	(198)	(150)	(7 823)
Total	166 413	23 914	12 826	1 566	910	205 629

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 Group 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 Group takes into consideration the risk of foreign currency mortgage loans for households in the capital adequacy and own fund management.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.7702)	30.06.2018			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost				
Gross amount	2	370	24 596	24 968
assets with no significant increase in credit risk since initial recognition (stage 1)	-	120	21 873	21 993
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	2	131	1 658	1 791
credit-impaired assets (stage 3)	-	119	1 065	1 184
Allowances for expected credit losses	-	(86)	(899)	(985)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	-	(1)	(12)	(13)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	-	(15)	(156)	(171)
allowances for credit-impaired assets (stage 3)	-	(70)	(731)	(801)
Measured at amortized cost, net	2	284	23 697	23 983
of which: purchased or originated credit-impaired assets	-	-	58	58
Total	2	284	23 697	23 983

LOANS AND ADVANCES TO CUSTOMERS	30.06.2018					Total
	PLN	CHF	EUR	USD	Other currencies	
Not held for trading, mandatorily measured at fair value through profit or loss	988	-	-	-	-	988
Measured at amortized cost:						
Gross amount	172 887	24 968	13 941	2 367	1 324	215 487
assets with no significant increase in credit risk since initial recognition (stage 1)	151 976	21 993	11 190	1 876	1 161	188 196
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	11 035	1 791	1 762	326	8	14 922
credit-impaired assets (stage 3)	9 876	1 184	989	165	155	12 369
Allowances for expected credit losses	(7 133)	(985)	(396)	(205)	(163)	(8 882)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	(418)	(13)	(48)	(5)	(29)	(513)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	(923)	(171)	(78)	(54)	(3)	(1 229)
allowances for credit-impaired assets (stage 3)	(5 792)	(801)	(270)	(146)	(131)	(7 140)
Measured at amortized cost, net	165 754	23 983	13 545	2 162	1 161	206 605
of which: purchased or originated credit-impaired assets	137	58	79	-	-	274
Total	166 742	23 983	13 545	2 162	1 161	207 593

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	30.06.2018			31.12.2017		
	gross amount	impairment allowances	net amount	gross amount	impairment allowances	net amount
PLN	81 588	(1 243)	80 345	74 369	(916)	73 453
CHF	24 091	(802)	23 289	23 895	(754)	23 141
EUR	3 346	(59)	3 287	3 359	(54)	3 305
USD	84	(30)	54	268	(171)	97
OTHER	134	(24)	110	111	(22)	89
TOTAL	109 243	(2 158)	107 085	102 002	(1 917)	100 085

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	30.06.2018					
	PLN	CHF	EUR	USD	Other currencies	Total
Performing exposures subject to forbearance	624	299	100	1	-	1 024
Measured at amortized cost:	624	299	100	1	-	1 024
gross amount	697	334	106	1	-	1 138
allowances for expected credit losses	(73)	(35)	(6)		-	(114)
Non-performing exposures subject to forbearance	883	204	202	5	11	1 305
Not held for trading, mandatorily measured at fair value through profit or loss	1					1
Measured at amortized cost:	882	204	202	5	11	1 304
gross amount	1 606	429	228	30	25	2 318
allowances for expected credit losses	(724)	(225)	(26)	(25)	(14)	(1 014)
Loans and advances to customers subject to forbearance, net	1 507	503	302	6	11	2 329

(IN PLN MILLION)

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	-	**(68)**	**(840)**	**(908)**
Loans and advances to customers, net	**2**	**332**	**23 580**	**23 914**

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.12.2017					
	PLN	CHF	EUR	USD	Other currencies	Total
Performing exposures subject to forbearance	**911**	**325**	**173**	-	-	**1 409**
Measured at amortized cost:	911	325	173	-	-	1 409
gross amount	960	332	174			1 466
impairment allowances	(49)	(7)	(1)			(57)
Non-performing exposures subject to forbearance	**1 177**	**260**	**194**	**6**	**8**	**1 645**
Measured at amortized cost:	1 177	260	194	6	8	1 645
gross amount	1 837	532	250	27	25	2 671
impairment allowances	(660)	(272)	(56)	(21)	(17)	(1 026)
Loans and advances to customers subject to forbearance, net	**2 088**	**585**	**367**	**6**	**8**	**3 054**

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR)	31.12.2017					Total
	PLN	CHF	EUR	USD	Other currencies	
Loans and advances to customers, gross	162 281	23 549	12 375	1 538	935	200 678
past due	3 715	512	764	8	58	5 057
not past due	158 566	23 037	11 611	1 530	877	195 621
Impairment allowances on exposures assessed on a group basis (IBNR)	(518)	(52)	(63)	(60)	(27)	(720)
past due	(138)	(27)	(10)	-	(1)	(176)
not past due	(380)	(25)	(53)	(60)	(26)	(544)
Loans and advances to customers, net	**161 763**	**23 497**	**12 312**	**1 478**	**908**	**199 958**

LOANS AND ADVANCES TO CUSTOMERS ASSESSED ON A GROUP BASIS (IBNR) SUBJECT TO FORBEARANCE, BY CURRENCY	31.12.2017					Total
	PLN	CHF	EUR	USD	Other currencies	
Loans and advances to customers subject to forbearance, gross	1 055	397	181	25	26	1 684
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(57)	(14)	(2)	(2)	(1)	(76)
Loans and advances to customers subject to forbearance, net	**998**	**383**	**179**	**23**	**25**	**1 608**

As at 30 June 2018 the average LTV for the loan portfolio in CHF amounted to 65.7% (as at 31 December 2017: 67.0%) – compared with the average LTV for the entire portfolio of 60.7% (as at 31 December 2017: 62.4%).

62. 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 half of 2018 and in 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 30 June 2018 and 31 December 2017. 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	30.06.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)[1]	252	301
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)[2]	1 863	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 30 June 2018 it amounted to approx. PLN 10.0 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 30 June 2018 the Bank's interest rate VaR for the 10-day time horizon (10-day VaR) amounted to PLN 252 million. As at 31 December 2017, the Bank's VaR amounted to PLN 301 million.

63. 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	30.06.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)[1]	3	3
Change in CUR/PLN by 20% (in PLN million) (stress-test)[2]	40	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 0.1 million as at 30 June 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

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 position 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.

FOREIGN CURRENCY POSITION	30.06.2018	31.12.2017
EUR	(217)	(157)
USD	(30)	(28)
CHF	(3)	8
GBP	3	11
Other (Global, Net)	57	61

64. 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 and 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
30.06.2018								
The Group - adjusted periodic gap	9 596	31 266	2 118	1 746	5 937	9 809	21 653	(82 125)
The Group - adjusted cumulative periodic gap	9 596	40 862	42 980	44 726	50 663	60 472	82 125	-
31.12.2017								
The Group - adjusted periodic gap	16 011	27 220	(871)	(177)	6 091	10 150	30 400	(88 824)
The Group - adjusted cumulative periodic gap	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 and KREDOBANK and the contractual liquidity gaps of the other Group companies, was positive as at 30 June 2018 and as at 31 December 2017. This means that the Group has a surplus of assets receivable or potentially liquid over liabilities payable.

LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

SENSITIVITY MEASURE	30.06.2018	31.12.2017
Liquidity surplus in the horizon of up to 30 days (in PLN billion)[1]	15	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.

(IN PLN MILLION)

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	30.06.2018	31.12.2017
M3 - coverage ratio of non-liquid assets to own funds	14.86	13.92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.18	1.19
NSFR – net stable funding ratio	110.7%	113.9%
LCR - liquidity coverage ratio	132.4%	156.0%

In the periods ended 31 December 2017 and 30 June 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 30 June 2018, the core deposit base constituted approx. 93.9% of all deposits placed with the Bank (excluding the interbank market), which represents an unchanged level compared with the end of 2017.

65. OTHER RISKS

Detailed information about the manner of managing the following risks: operating, prices of goods, prices of equity securities, other price risks, derivatives, non-compliance, loss of reputation, macroeconomic changes, business models, capital, insurance and excessive leverage, is included in the consolidated financial statements of PKO Bank Polski SA for 2017, and in the Capital Adequacy Report, along with other information of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group as at 31 December 2017.

66. COMPREHENSIVE STRESS-TESTS

Comprehensive stress-tests are an integral part of the Bank's risk management and are complementary to stress - tests specific to particular types of risks. They cover the risks which, on an aggregate basis, are considered material. They include an analysis of the impact of changes in the environment and the functioning of the Bank on its financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy and selected liquidity measures.

Comprehensive stress tests for the purposes of the Bank are carried out semi-annually with a 3-year horizon, taking into account changes in the value and structure of items in the statement of financial position and profit and loss account (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by the supervisory authorities.

67. CAPITAL ADEQUACY

The Group maintains 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, PKO BP Finat Sp. z o.o., PKO Bank Hipoteczny SA, Bankowe Towarzystwo Kapitałowe SA Group.

OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

An increase in the funds between 31 December 2017 and 30 June 2018 resulted mainly from including the new issue of subordinated bonds (PLN 1 billion, upon PFSA approval) in the Tier II capital and taking into account the Resolution of the Annual General Shareholders' Meeting of the Bank in respect of the distribution of 2017 profit (in respect of the amount of profit allocated to the Group's own funds as at 31 December 2017, in June 2018 an additional amount of 264 million was included). Moreover, there was an increase in the value of undistributed profit, taking into account transitional solutions relating to the mitigation of the impact of IFRS 9 on own funds (of PLN 336 million), accompanied by a decrease in intangible values which reduce own funds (of approx. PLN 105 million). Moreover, due to the end of the transitional period determined in the CRR in respect of removing the applicable value of unrealized profits on securities measured at fair value from own funds (as at 31 December 2017, 20% of such profits were removed), own funds went up by PLN 72 million.

(IN PLN MILLION)

	30.06.2018	31.12.2017
Total own funds	**35 938**	**34 026**
Tier 1 capital	**33 238**	**32 326**
Tier 1 capital before regulatory adjustments and reductions, of which:	35 928	35 270
Share capital	1 250	1 250
Other reserves	33 034	30 891
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings, of which:	574	2 060
retained earnings	(88)	2 060
adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	662	-
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 549)	(1 654)
Accumulated other comprehensive income	(23)	(113)
Adjustments in Tier 1 basic capital due to prudential filters	42	55
Other transitional period adjustments to common equity Tier 1 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	**16 500**	**15 670**
Credit risk	15 234	14 499
Operational risk	708	656
Market risk	512	474
Credit valuation adjustment risk	46	41
Total capital adequacy ratio	**17.42%**	**17.37%**
Tier 1 capital ratio	**16.12%**	**16.50%**

Without taking into account transitional solutions related to the mitigation of the impact of the implementation of IFRS 9 on own funds as at 30 June 2018, the value of the Group's own funds would amount to PLN 35 275 million, the Tier I capital to PLN 32 575 million, the total capital ratio would amount to 17.17%, the Tier I capital ratio would be 16.15%, and the leverage ratio would total 15.85%.

68. 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 Group. The method of managing excessive leverage risk is governed in the internal regulations of the Group 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 30 June 2018 and 31 December 2017, 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.

(IN PLN MILLION)

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

	Leverage ratio exposures specified in CRR	
	30.06.2018	31.12.2017
Total capital and exposure measure		
Tier 1 capital	33 238	32 326
Total exposure measure included in the leverage ratio	310 795	306 830
Leverage ratio		
Leverage ratio	10.69%	10.54%

Without taking into account the transitional solutions, the leverage ratio would amount to 10.50%.

Internal capital (Pillar II)

In the first half of 2018, the Group calculated internal capital in accordance with the generally applicable provisions of the 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 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).

69. 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.

The redemption of debt securities in the first half of 2018 at their nominal value amounted to PLN 70 million for securities redeemed on 2 January 2018 and PLN 204 million for securities redeemed on 3 April 2018.

In the first half of 2018, the Group performed sales of impaired loan portfolios (balance sheet and off-balance sheet receivables) of more than 11.6 thousand individual receivables from retail and business customers amounting to over PLN 750 million (PLN 555 million in the first half of 2017). The total carrying amount of the provision for potential claims on the sale of receivables as at 30 June 2018 amounted to PLN 2.1 million (PLN 2 million as at 31 December 2017). As a result of loan sale all risks and rewards were transferred, hence the Group derecognized these assets. The Group did not receive securities in respect of the aforesaid transactions.

(IN PLN MILLION)

SUBSEQUENT EVENTS

70. SUBSEQUENT EVENTS

On 27 July 2018, PKO Bank Hipoteczny SA issued mortgage covered bonds with a total nominal value of PLN 500 million and maturing in July 2025.

On 7 August 2018, PKO Bank Polski SA concluded A Series investment certificates of Subfundusz Strategiczny and A Series investment certificates of Subfundusz Finansowy issued by PKO VC – closed-end investment fund of non-public assets ("Fund") and on 7 August 2018, it subscribed for B Series investment certificates of the aforesaid subfunds. The total value of the Bank's investments in the Fund amounts to PLN 200 million. On the Bank's entry in the record of the Fund's participants as the sole investor, i.e. on 9 August 2018, the Fund became a subsidiary of the Bank. The Fund is managed by PKO TFI SA and adheres to a policy appropriate for venture capital funds, and invests in financial technological innovations in banking and banking-related areas, as well as innovative solutions for enterprises.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

14.08.2018	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	MIECZYSŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	.... (SIGNATURE)
14.08.2018	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)