Bank Polski

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

Report publication date:
28 August 2018

Bank Polski

SELECTED STAND-ALONE 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	4 104	3 867	968	910
Net fee and commission income	1 230	1 316	290	310
Operating profit	2 045	1 725	482	406
Profit before tax	**2 045**	**1 725**	**482**	**406**
Net profit	**1 510**	**1 251**	**356**	**295**
Earnings per share for the period - basic (in PLN/EUR)	**1.21**	**1.00**	**0.28**	**0.24**
Earnings per share for the period - diluted (in PLN/EUR)	**1.21**	**1.00**	**0.28**	**0.24**
Total net comprehensive income	1 655	1 634	390	385
Net cash flows used in operating activities	(4 297)	4 669	(1 014)	1 099
Net cash flows used in investing activities	(1 819)	(1 887)	(429)	(444)
Net cash flows used in financing activities	(1 866)	(3 814)	(440)	(898)
Total net cash flows	(7 982)	(1 032)	(1 883)	(243)

SELECTED STAND-ALONE 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	276 088	277 784	63 300	66 600
Total equity	36 255	35 987	8 312	8 628
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)	29.00	28.79	6.65	6.90
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	29.00	28.79	6.65	6.90
Total capital adequacy ratio	19.50%	19.59%	19.50%	19.59%
Tier 1 capital	33 150	32 597	7 600	7 815
Tier 2 capital	2 700	1 700	619	408

SELECTED 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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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	8	2 573	5 084	2 510	4 924
Interest income recognised under the effective interest rate method		2 424	4 788		
interest income on financial instruments measured at amortized cost		2 109	4 136		
interest income on instruments measured at fair value through other comprehensive income		315	652		
Income similar to interest income on instruments measured at fair value through profit or loss		149	296		
Interest expenses and similar charges	8	(493)	(980)	(537)	(1 057)
Net interest income		**2 080**	**4 104**	**1 973**	**3 867**
Fee and commission income	9	879	1 719	901	1 753
Fee and commission expense	9	(259)	(489)	(227)	(437)
Net fee and commission income		**620**	**1 230**	**674**	**1 316**
Dividend income	10	141	151	124	124
Net result on financial instruments measured at fair value through profit or loss	11	4	24	1	2
Gain/(loss) on investment securities	12			1	(1)
Net foreign exchange gains/(losses)	13	140	238	104	204
Gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss	14	56	93		
measured at fair value through other comprehensive income		56	85		
measured at amortized cost		-	8		
Net credit losses	15	(331)	(633)	(364)	(721)
Impairment of non-financial assets	16	(25)	(29)	(9)	(27)
Other operating income	17	40	91	37	61
Other operating expenses	17	(104)	(142)	(19)	(46)
Net other operating income and expense		**(64)**	**(51)**	**18**	**15**
Administrative expenses	18	(1 253)	(2 651)	(1 213)	(2 604)
Tax on certain financial institutions	19	(216)	(431)	(223)	(450)
Operating profit		**1 152**	**2 045**	**1 086**	**1 725**
Profit before tax		**1 152**	**2 045**	**1 086**	**1 725**
Income tax expense	20	(256)	(535)	(245)	(474)
Net profit		**896**	**1 510**	**841**	**1 251**
Earnings per share	21				
- basic earnings per share for the period (PLN)		0.72	1.21	0.67	1.00
- diluted earnings per share for the period (PLN)		0.72	1.21	0.67	1.00
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)

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		**896**	**1 510**	**841**	**1 251**
Other comprehensive income		**(54)**	**145**	**168**	**383**
Items which may be reclassified to profit or loss		**(54)**	**145**	**168**	**383**
Cash flow hedges (gross)	24	32	(27)	3	26
Deferred income tax	20	(6)	6	(1)	(5)
Cash flow hedges (net)	24	26	(21)	2	21
Unrealized net gains on available-for-sale financial assets (gross)				205	446
Deferred income tax	20			(39)	(84)
Unrealized net gains on available-for-sale financial assets (net)				166	362
Fair value of financial assets measured at fair value through other comprehensive income (gross)		(43)	290		
Gains /losses transferred to the profit or loss (on disposal)	14	(56)	(85)		
Deferred income tax	20	19	(39)		
Fair value of financial assets measured at fair value through other comprehensive income (net)		(80)	166		
Total net comprehensive income		**842**	**1 655**	**1 009**	**1 634**

(IN PLN MILLION)

STATEMENT OF FINANCIAL POSITION

	Note	30.06.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	22	9 899	17 765
Amounts due from banks	23	8 302	8 769
- measured at amortized cost		8 302	8 769
Derivative hedging instruments	24	654	1 104
Other derivative instruments	25	1 983	1 701
Securities	26	57 661	50 512
- held for trading		1 172	472
- financial instruments designated at fair value through profit or loss upon initial recognition			6 409
- available-for-sale investment securities			42 009
- investment securities held to maturity			1 622
- not held for trading, mandatorily measured at fair value through profit or loss		1 700	
- measured at fair value through other comprehensive income		48 474	
- measured at amortized cost		6 315	
Loans and advances to customers	27	185 918	186 892
- not held for trading, mandatorily measured at fair value through profit or loss		988	
- at fair value through other comprehensive income		7 690	
- measured at amortized cost		177 240	186 892
Investments in subsidiaries, associates and joint ventures	42	2 992	3 011
Non-current assets held for sale	30	335	359
Intangible assets	31	2 501	2 622
Property, plant and equipment	31	2 065	2 170
Deferred income tax assets	20	1 145	957
Other assets	32	2 633	1 922
TOTAL ASSETS		**276 088**	**277 784**

	Note	30.06.2018	31.12.2017
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		5	6
Amounts due to banks	33	2 008	4 299
- measured at amortized cost		2 008	4 299
Derivative hedging instruments	24	569	204
Other derivative instruments	25	2 142	2 537
Amounts due to customers	34	221 601	222 524
- measured at amortized cost		221 601	222 524
Debt securities in issue	36	5 442	5 204
- measured at amortized cost		5 442	5 204
Subordinated liabilities	37	2 730	1 720
- measured at amortized cost		2 730	1 720
Other liabilities	38	4 862	4 592
Current income tax liabilities		108	501
Provisions	39	366	210
TOTAL LIABILITIES		**239 833**	**241 797**
Equity	40		
Share capital		1 250	1 250
Other capital		34 030	31 963
Retained earnings		(535)	-
Net profit or loss for the period		1 510	2 774
TOTAL EQUITY		**36 255**	**35 987**
TOTAL LIABILITIES AND EQUITY		**276 088**	**277 784**
Total capital adequacy ratio	65	19.50%	19.59%
Book value (in PLN million)		36 255	35 987
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		29.00	28.79
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		29.00	28.79

(IN PLN MILLION)

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	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	27 118	1 070	3 593		182	31 963	-	2 774	35 987
Changes due to IFRS 9 implementation	-	-	-	-		(164)	(164)	(535)	-	(699)
1 January 2018 (restated)	1 250	27 118	1 070	3 593		18	31 799	(535)	2 774	35 288
Transfer from retained earnings	-	-	-	-		-	-	2 774	(2 774)	-
Dividend declared	-	-	-	-		-	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-		145	145	-	1 510	1 655
Net profit	-	-	-	-		-	-	-	1 510	1 510
Other comprehensive income	-	-	-	-		145	145	-	-	145
Transfer from retained earnings to equity	-	2 050	-	36		-	2 086	(2 086)	-	-
30 June 2018	1 250	29 168	1 070	3 629		163	34 030	(535)	1 510	36 255

FOR 6 MONTHS PERIOD ENDED 30 JUNE 2018	Accumulated other comprehensive income			
	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
As at 31 December 2017	266	(75)	(9)	182
Changes due to IFRS 9 implementation	(164)	-	-	(164)
1 January 2018 (restated)	102	(75)	(9)	18
Total comprehensive income, of which:	166	(21)	-	145
Other comprehensive income	166	(21)	-	145
As at 30 June 2018	268	(96)	(9)	163

(IN PLN MILLION)

FOR 6 MONTHS PERIOD ENDED 30 JUNE 2017	Share capital	Other capital					Undistributed profits	Net profit or loss for the period	Total equity
		Reserves			Accumulated other comprehensive income	Total other capital			
		Reserve capital	General banking risk fund	Other reserves					
As at 01 January 2017	**1 250**	**24 268**	**1 070**	**3 555**	**(442)**	**28 451**	**-**	**2 888**	**32 589**
Transfer from retained earnings	-	-	-	-	-		2 888	(2 888)	-
Total comprehensive income, of which:	**-**	**-**	**-**	**-**	**383**	**383**	**-**	**1 251**	**1 634**
Net profit	-	-	-	-	-		-	1 251	**1 251**
Other comprehensive income	-	-	-	-	383	383	-	-	**383**
Transfer from retained earnings to equity	-	2 850	-	38	-	2 888	(2 888)	-	-
30 June 2017	**1 250**	**27 118**	**1 070**	**3 593**	**(59)**	**31 722**	**-**	**1 251**	**34 223**

FOR 6 MONTHS PERIOD ENDED 30 JUNE 2017	Accumulated other comprehensive income			
	Available-for-sale financial assets	Cash flow hedges	Actuarial gains and losses	Total
As at 1 January 2017	(342)	(89)	(11)	(442)
Total comprehensive income, of which:	362	21	-	383
Other comprehensive income	362	21	-	383
As at 30 June 2017	20	(68)	(11)	(59)

(IN PLN MILLION)

STATEMENT OF CASH FLOWS

	Note	01.01-30.06.2018	01.01-30.06.2017
Cash flows from operating activities			
Profit before tax		**2 045**	**1 725**
Total adjustments:		**(6 342)**	**2 944**
Amortization and depreciation		342	363
(Gains)/losses on investing activities		(6)	(5)
Interest and dividends		(393)	(217)
Change in:			
amounts due from banks		351	1 173
derivative hedging instruments		815	674
other derivatives		(677)	(1 206)
securities		(193)	3 131
loans and advances to customers		(2 410)	(1 610)
non-current assets held for sale		276	1
other assets		(711)	(8)
amounts due to the Central Bank		(1)	-
amounts due to banks		311	(955)
amounts due to customers		(869)	2 313
provisions and impairment allowances for credit losses		(2 018)	89
debt securities in issue		243	-
subordinated liabilities		10	(42)
other liabilities		(418)	(243)
Income tax paid		(986)	(533)
Other adjustments		(8)	19
Net cash used in operating activities		**(4 297)**	**4 669**

	Note	01.01-30.06.2018	01.01-30.06.2017
Cash flows from investing activities			
Inflows from investing activities		**157 025**	**29 747**
Proceeds from sale of a subsidiary classified as held for sale		10	4
Proceeds from sale and interest on investment securities			29 673
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		156 686	
Proceeds from sale of and interest on securities measured at amortized cost		214	
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		25	20
Other inflows from investing activities (dividends)		90	50
Outflows from investing activities		**(158 844)**	**(31 634)**
Purchase of subsidiaries, net of cash acquired		(2)	(14)
Increase in equity of subsidiaries, associates and joint ventures		(4)	(214)
Purchase of investment securities			(31 302)
Acquisition of securities measured at fair value through other comprehensive income		(158 260)	
Purchase of securities measured at amortized cost		(439)	
Purchase of intangible assets and property, plant and equipment		(139)	(104)
Net cash used in investing activities		**(1 819)**	**(1 887)**

(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		645	664
Redemption of debt securities		(650)	(1 669)
Proceeds from issue of subordinated bonds		1 000	-
Repayment of a subordinated loan		-	(880)
Repayment of loans and advances		(2 656)	(1 685)
Repayment of interest on long-term borrowings		(205)	(244)
Net cash flows used in financing activities		**(1 866)**	**(3 814)**
Net cash flows		**(7 982)**	**(1 032)**
of which foreign exchange differences on cash and cash equivalents		258	(219)
Cash and cash equivalents at the beginning of the period		22 541	17 568
Cash and cash equivalents at the end of the period	48	14 559	16 536

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

BUSINESS ACTIVITIES OF THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO Bank Polski SA" or "the Bank") was established in 1919 as Pocztowa Kasa Oszczędnościowa. In 1950, the Bank started operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers dated 18 January 2000 (Journal of Laws of 2000 No. 5, item 55 as amended), Powszechna Kasa Oszczędności (a state-owned bank) was transformed into a state-owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its head office in Warsaw, Puławska Street 15, 02-515 Warsaw, Poland.

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

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

PKO Bank Polski SA is a universal deposit and credit bank which serves 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.

PKO Bank Polski SA is the parent entity of the PKO Bank Polski SA Group and a significant investor for associates and joint ventures of the Bank. Accordingly, PKO Bank Polski SA prepares consolidated financial statements of the Group, which include the financial data of these entities. The composition of the PKO Bank Polski SA Group and the scope of its operations 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 a member of the 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 01 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 01 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 FINANCIAL STATEMENTS

These condensed interim 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 FINANCIAL STATEMENTS

The condensed interim financial statements of PKO Bank Polski SA cover the period of six months ended 30 June 2018 and contain comparative data for the six-month period ended 30 June 2017 (comprising the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows) as well as comparative data as at 31 December 2017 (comprising the statement of financial position). The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated.

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

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

The condensed interim 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 financial statements of PKO Bank Polski SA 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 the EU Member States on 22 November 2016 by the 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). 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	17 765	-	-	-	17 765
Amounts due from banks	8 769	-	-	(2)	8 767
Derivative hedging instruments	1 104	-	-	-	1 104
Other derivative instruments	1 701	-	-	-	1 701
Securities	**50 512**	**4 368**	**91**	**(21)**	**54 950**
- held for trading	472	-	-	-	472
- financial instruments designated at fair value through profit or loss upon initial recognition	6 409	(6 409)	-	-	-
- available-for-sale investment securities	42 009	(42 009)	-	-	-
- investment securities held to maturity	1 622	(1 622)	-	-	-
- not held for trading, mandatorily measured at fair value through profit or loss		2 774	91	21	2 886
- measured at fair value through other comprehensive income		45 644	-	(42)	45 602
- measured at amortized cost		5 990	-	-	5 990
Loans and advances to customers	**186 892**	**(4 368)**	**(102)**	**(759)**	**181 663**
- not held for trading, mandatorily measured at fair value through profit or loss		1 055	-	15	1 070
- at fair value through other comprehensive income		8 343	(102)	(6)	8 235
- measured at amortized cost	186 892	(13 766)	-	(768)	172 358
Other financial assets	1 748	-	-	-	1 748
TOTAL FINANCIAL ASSETS	**268 491**	**-**	**(11)**	**(782)**	**267 698**
Deferred income tax assets	957	-	2	161	1 120

	31.12.2017 (classification under IAS 39)	Classification and measurement: reclassification	Classification and measurement: remeasurement	Impairment	01.01.2018 (classification under IFRS 9)
Amounts due to the Central Bank	6	-	-	-	6
Amounts due to banks	4 299	-	-	-	4 299
Derivative hedging instruments	204	-	-	-	204
Other derivative instruments	2 537	-	-	-	2 537
Amounts due to customers	222 524	-	-	-	222 524
Debt securities in issue	5 204	-	-	-	5 204
Subordinated liabilities	1 720	-	-	-	1 720
Other financial liabilities	3 812	-	-	-	3 812
Provisions for liabilities and guarantees granted	86	-	-	69	155
TOTAL FINANCIAL LIABILITIES AND PROVISIONS FOR FINANCING AND GUARANTEE LIABILITIES GRANTED	**240 392**	**-**	**-**	**69**	**240 461**

(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)
Accumulated other comprehensive income	182	-	(164)	-	18
Retained earnings	-	-	155	(690)	(535)
Total impact on equity	**182**	**-**	**(9)**	**(690)**	**(517)**

Compared to the impact of the IFRS 9 implementation disclosed in the annual financial statements for 2017, impairment allowance on loan receivables and securities increased by PLN 55 million (or PLN 46 million after tax), which was due to the better accuracy of impairment estimates. In order to better reflect the impact of the amendments to the Corporate Income Tax Act associated with the IFRS 9 implementation, the effect of the tax liability arising as at 1 January 2018 in respect of the recognition for tax purposes of the reversal of the IBNR provision, settlement of the initial loss on POCI assets and the changes in the corresponding deferred income tax assets of PLN 52 million was recognized in note 20 as the impact on the profit 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 Bank classifies financial assets into the following categories:

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

Classification as at the date of acquisition or origin depends on the business model adopted by the Bank 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 a group of assets. The Bank 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 to sell” model, in which financial assets originated or acquired are held to collect gains from contractual cash flows, but they may also be sold (frequently and in 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 to sell” model.

Financial instruments are classified at the moment of the first-time application of IFRS 9, i.e. as at 1 January 2018, and at the moment of recognition or modification of the instrument. A change in the classification of financial assets may be caused by a change in the business model or failing the SPPI test. Changes in the business model are caused by changes that occur within or outside the Bank or by commencement or 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 assessment and reporting of the financial assets portfolio;
- the method for managing the risk associated with such assets and the principles of remuneration of persons managing such portfolios.

In the “held to collect cash flows” business model, assets are sold occasionally, in the event of an increase in credit risk or a change in the laws or regulations. The purpose of selling the assets is to maintain the assumed level of regulatory capital.

Assets are sold in accordance with the principles described in the portfolio management strategy or close to maturity, in the event of a decrease in the credit rating below the level assumed for the given portfolio, significant internal restructuring or acquisition of another business, execution of a contingency or recovery plan or another unforeseeable factor independent of the Bank.

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 the 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" or "held to collect 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 not sufficient 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" 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 Bank which result in the origin of assets). Commissions and fees affecting the effective return on assets, which occur after the origination of the financial assets, result in changes in the schedules of future cash flows generated by such assets.

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

Assets for which a schedule of future cash flows necessary for calculating the effective interest rate cannot be determined are not measured at amortized cost. Such assets are measured at the amount of payment due, which comprises interest on the amount receivable, net of any allowance for expected credit losses.

Commissions and fees arising upon the origin of such assets or determining their financial characteristics are settled over the asset's life on a straight-line basis and recognized in interest or commission income.

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

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

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

- financial assets are held in the business model whose purpose is to collect contractual cash flows and to sell financial assets, and
- the terms and conditions of an agreement concerning the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding (the SPPI test 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 assets is derecognized or reclassified, with the exception of interest income, gain or loss resulting from the allowance for expected credit losses and foreign exchange gains or losses, which are recognized in profit or loss. If a financial asset is no longer recognized, accumulated gains or losses, which were previously recognized in other comprehensive income, are reclassified from other comprehensive income to profit or loss in the form of a reclassification adjustment.

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

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

Additionally, upon initial recognition a financial asset may be irrevocably classified as measured at fair value through profit or loss (fair value measurement option through profit or loss), if such an approach eliminates or significantly reduces inconsistencies in the measurement or recognition which would otherwise arise as a result of measurement of assets or liabilities or the recognition of the related gains or losses according to different accounting frameworks (accounting mismatch). This option is available for debt instruments both in the "held to collect" and "held to collect and to sell" model.

Financial assets measured at fair value through profit or loss are presented in the condensed interim financial statements of the Bank 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 financial assets classified into 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 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 of an investment in an equity instrument that is not held for trading and does not constitute a contingent payment recognized by the Bank as part of a business combination in accordance with IFRS 3 (the option of measurement at fair value through other comprehensive income). If the option of measurement at fair value through other comprehensive income is selected, only dividends resulting from the 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 Bank 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 in prior periods, 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 Bank 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 Bank 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 – defined as a change in the contractual cash flows in respect of a financial asset based on an annex to the contract – may be significant or insignificant. A change in the contractual cash flows resulting from the 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. Adjustment of the carrying amount of a financial asset resulting from the modification is recognized in the interest income/ expenses over time using the effective interest rate method. The carrying amount of a financial asset is calculated as the present value of renegotiated or modified contractual cash flows, discounted using the original effective interest rate on the financial asset (or, in the case of credit-impaired purchased or issued financial assets, the effective interest rate adjusted for credit risk) or, if applicable (e.g. with respect to gain or loss on a hedged item resulting from hedging), the updated effective interest rate. Any costs or fees incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining part of the life of the modified financial asset.

In certain circumstances, 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 (the SPPI test);
- Increasing an exposure to a debtor covering the amount of 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 original effective interest rate and the amount of the future cash flows that would arise from the original financial asset discounted using the same interest rate.

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

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

d) Measurement of purchased or originated credit impaired assets (POCI)

IFRS 9 distinguished a new category of financial assets: 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 recognized as impairment gains or losses.

e) Measurement of financial guarantees

Financial guarantees are recognized at the fair value. In the 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 a financial asset in a given period based on the carrying amount of the financial assets, except for:

1) purchased or originated credit-impaired financial assets (see item d). With respect to such assets, the Bank 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 Bank 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 assets concerned:

- National Bank of Poland bills that amounts to 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 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, working capital loans, student loans, preferential housing loans (granted to victims of natural disasters) 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 or for sale” model, it is necessary to change the measurement category for such loan portfolios from amortized cost to fair value through profit or loss, amounting to PLN 1 070 million;
- due to the SPPI test not being met, despite the application of the “held to collect” model, the fair value measurement through profit or loss applied to selected tranches of corporate bonds acquired by the Bank (one entity) which amounted to PLN 137 million;

- corporate and municipal debt securities previously presented in "Loans and advances to customers" and measured at amortized cost reclassified to securities measured at amortized cost(reclassification with no effect on the measurement) which amounted to PLN 4 368 million.

In the case of investments in equity instruments, the Bank 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 Bank's financial liabilities.

Furthermore, the Bank prospectively applied a method of recognition of modifications in cash flows from financial assets, 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 adoption of IFRS 9, i.e. as at 1 January 2018, the Bank recognized as POCI impaired exposures acquired as a result of mergers and acquisition (a merger with Nordea Bank Polska and SKOK "Wesoła" in Mysłowice) and exposures to corporates with a net carrying amount of PLN 572 million which meet the criteria of POCI.

4.2 Impairment

With respect to impairment, the Bank 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 Bank 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 Bank identifies the evidence of a significant increase in risk based on a 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 Bank 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 Bank 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 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 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 Bank 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 Bank 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 Bank 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 macroeconomic conditions based on historical data. For the purposes of calculating an expected loss, three macroeconomic scenarios developed based on the Bank's forecasts are used: the base scenario and two alternative scenarios. The forecast ratios include the GDP growth ratio, the unemployment rate, WIBOR 3M, Libor CHF 3M, CHF/PLN exchange rate, the real estate price index and the NBP reference rate. The ultimate expected loss is the probability-weighted average of losses expected in the individual scenarios. The Bank 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 the identification of impairment indications with respect to individually significant exposures, the expected credit loss on an exposure is determined on an individual basis as the difference between its gross carrying amount (or, in the case of off-balance sheet credit exposures, the amount of its balance sheet equivalent) and the current value of expected future cash flows determined taking into account the possible probability-weighted scenarios of contract execution and credit exposure management.

The individual expected loss measurement method is also applied to individually significant exposures without indications of impairment, if using portfolio parameters in the calculations would not be justified due to the circumstances of the case.

Both the process of assessment of a significant credit risk increase and the process of expected loss calculation are performed monthly for the individual exposures. For the purposes of this process, a dedicated calculation environment is used which allows distribution of the results to the Bank's internal units.

IMPACT ASSESSMENT – IMPAIRMENT

The Bank has estimated that, in connection with the IFRS 9 implementation, the total effect of adjustments arising from impairment on equity (retained earnings / accumulated losses) as at 1 January 2018 amounted to PLN 851 million (PLN 690 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 Bank 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 Bank'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 Bank applied 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 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;

- changes in the value of deferred tax assets (adjustment of deferred income tax assets corresponding to retained earnings). The amount of the above-mentioned deferred tax asset is taken into account in the net risk exposure calculation in accordance with the requirements of the Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (hereinafter: "CRR") (i.e. the 250% risk weight is applied or own funds are reduced). It is generally assumed that such assets are based on future profitability and result from temporary differences.

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

The Bank 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 Bank is additionally obliged to disclose the following values as they would have been in case the transitional provisions were not applied (the amounts of own funds, Common Equity Tier 1 capital and Tier 1 capital, the total capital ratio, the Common Equity Tier 1 capital ratio, the Tier 1 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 the IFRS 9 implementation as at 1 January 2018, the Bank's equity calculated for capital adequacy purposes increased by PLN 10 million; at the same time, due to impairment adjustments resulting from the implementation of IFRS 9, own funds decreased by PLN 38 million, and due to adjustments relating to classification changes they decreased by PLN 22 million. At the same time, the Bank's equity increased by PLN 70 million due to the end of the transitional period provided for in the CRR for removing a specific percentage of unrealized gains on securities measured at fair value from own funds (as at 31/12/2017, 20% of such gains was removed).

If the transitional solutions were not applied, the amount of the Bank's own funds would be PLN 642 million lower. This decrease would comprise a decrease of PLN 690 million resulting from impairment adjustments, a decrease of PLN 22 million resulting from classification changes, and a simultaneous increase of PLN 70 million resulting from the end of the transitional period provided for in the CRR.

As a result, the total capital ratio of the Bank decreased by 7 base points. if the transitional solutions relating to IFRS 9 were not applied and the total impact of the IFRS 9 implementation was recognized, the total capital ratio would decrease by 37 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 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	-	-	-	17 765	17 765
Amounts due from banks	-	-	-	8 767	8 767
Derivative hedging instruments	-	1 104	-	-	1 104
Other derivative instruments	1 701	-	-	-	1 701
Securities	472	2 886	45 602	5 990	54 950
Loans and advances to customers	-	1 070	8 235	172 358	181 663
Other financial assets	-	-	-	1 748	1 748
TOTAL financial assets	**2 173**	**5 060**	**53 837**	**206 628**	**267 698**

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	-	4 299	4 299
Derivative hedging instruments	204	-	204
Other derivative instruments	2 537	-	2 537
Amounts due to customers	-	222 524	222 524
Debt securities in issue	-	5 204	5 204
Subordinated liabilities	-	1 720	1 720
Other financial liabilities	-	3 812	3 812
TOTAL financial liabilities	**2 741**	**237 565**	**240 306**

(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	-	-	-	17 765	-	17 765
Amounts due from banks	-	-	-	8 769	-	8 769
- measured at amortized cost	-	-	-	8 769	-	8 769
Derivative hedging instruments	-	1 104	-	-	-	1 104
Other derivative instruments	1 701	-	-	-	-	1 701
Securities	472	6 409	1 622	-	42 009	50 512
- held for trading	472	-	-	-	-	472
- financial instruments designated at fair value through profit or loss upon initial recognition	-	6 409	-	-	-	6 409
- available-for-sale investment securities	-	-	-	-	42 009	42 009
- investment securities held to maturity	-	-	1 622	-	-	1 622
Loans and advances to customers	-	-	-	186 892	-	186 892
- measured at amortized cost	-	-	-	186 892	-	186 892
Other financial assets	-	-	-	1 748	-	1 748
TOTAL financial assets	**2 173**	**7 513**	**1 622**	**215 174**	**42 009**	**268 491**

FINANCIAL ASSETS 31.12.2017 CLASSIFICATION UNDER IAS 39	Measured at fair value through profit or loss	Measured at amortized cost	Total carrying amount
Amounts due to the Central Bank	-	6	6
Amounts due to banks	-	4 299	4 299
Derivative hedging instruments	204	-	204
Other derivative instruments	2 537	-	2 537
Amounts due to customers	-	222 524	222 524
Debt securities in issue	-	5 204	5 204
Subordinated liabilities	-	1 720	1 720
Other financial liabilities	-	3 812	3 812
TOTAL financial liabilities	**2 741**	**237 565**	**240 306**

(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 Bank'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	17 765	measured at amortized cost	17 765
Amounts due from banks	loans and receivables	8 769	measured at amortized cost	8 767
Derivative hedging instruments	measured at fair value through profit or loss	1 104	measured at fair value through profit or loss (mandatory measurement)	1 104
Other derivative instruments	held for trading	1 701	held for trading	1 701
Financial assets held for trading	held for trading	472	held for trading	472
Financial instruments designated at fair value through profit or loss upon initial recognition – debt instruments	measured at fair value through profit or loss	6 409	measured at fair value through other comprehensive income	4 199
			not held for trading, mandatorily measured at fair value through profit or loss	2 210
Available-for-sale investment securities – debt instruments	available for sale	41 560	measured at fair value through other comprehensive income	41 403
Available-for-sale investment securities – debt securities	available for sale		not held for trading, mandatorily measured at fair value through profit or loss	137
Available-for-sale investment securities – equity instruments	available for sale[1]	449	not held for trading, mandatorily measured at fair value through profit or loss	539
Investment securities held to maturity – debt securities	held to maturity	1 622	measured at amortized cost	1 622
Loans and advances to customers	loans and receivables	182 524	measured at amortized cost	172 358
Loans and advances to customers	loans and receivables		not held for trading, mandatorily measured at fair value through profit or loss	1 070
Loans and advances to customers	loans and receivables		measured at fair value through other comprehensive income	8 235
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	1 748	measured at amortized cost	1 748
TOTAL financial assets		**268 491**	-	**267 698**

[1] In accordance with IAS 39, a part of the aforementioned portfolio, as equity instruments with no quotations of market prices from an active market, was measured at cost less impairment after initial recognition.

(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 cash flows” business model, after the entry into force of IFRS 9 they are classified as financial assets measured at amortized cost and presented under securities measured at amortized cost.

01.01.2018	Classification under IAS 39	Carrying amount under IAS 39	New classification under IFRS 9	New carrying amount under IFRS 9
Financial liabilities				
Amounts due to the Central Bank	measured at amortized cost	6	measured at amortized cost	6
Amounts due to banks	measured at amortized cost	4 299	measured at amortized cost	4 299
Derivative hedging instruments	measured at fair value through profit or loss	204	measured at fair value through profit or loss	204
Other derivative instruments	measured at fair value through profit or loss	2 537	measured at fair value through profit or loss	2 537
Amounts due to customers	measured at amortized cost	222 524	measured at amortized cost	222 524
Debt securities in issue	measured at amortized cost	5 204	measured at amortized cost	5 204
Subordinated liabilities	measured at amortized cost	1 720	measured at amortized cost	1 720
Other financial liabilities	measured at amortized cost	3 812	measured at amortized cost	3 812
TOTAL financial liabilities		**240 306**		**240 306**

(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 OF 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	69	155
Provisions for instruments with no significant increase in credit risk since initial recognition (stage 1)		46	56	102
Provisions for instruments with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)		5	13	18
Provisions for credit-impaired instruments (stage 3)		35	-	35

5. IFRS 15 Revenue from Contracts with Customers

The International Financial Reporting Standard (IFRS) 15 Revenue from Contracts with Customers was adopted for application in all EU Member States on 22 September 2016 and it is applicable for annual periods starting from 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 Bank 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 Bank 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 all of 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 Bank is able to identify each party's rights in relation to the goods or services to be transferred ;
3. the Bank 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 Bank 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 Bank 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 customary business practice. At the inception of the contract, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank will estimate the amount of variable consideration to which it will be entitled for transferring the promised services.

STEP IV: ALLOCATE THE TRANSACTION PRICE TO THE PERFORMANCE OBLIGATIONS IN THE CONTRACTS:

The Bank 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 Bank expects to be entitled for transferring the promised goods or services to the customer. The Bank allocates the transaction price based on the relative fair value model.

STEP V: RECOGNIZE REVENUE WHEN (OR AS) THE ENTITY SATISFIES A PERFORMANCE OBLIGATION:

The Bank 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-time fees charged by the Bank for the performance of activities not directly related to origination of loans, advances and other receivables, and fees for the provision of services by the Bank, settled on a straight line basis. Commission income also includes deferred fees and commission recognized on a straight line basis, received in respect of loans and advances with unspecified schedules of future cash flows for which the effective interest rate cannot be determined. For such services, the straight line basis of recognition ensures a true and fair view of delivering goods and services.

With respect to each performance obligation, upon contract inception the Bank determines whether the performance obligation will be satisfied over time or at a point in time.

(IN PLN MILLION)

The Bank has applied IFRS 15 from 1 January 2018. The Bank 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 Bank 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 Bank's own operations.

The Bank did not identify any contracts in the case of which the IFRS 15 implementation could have a significant impact on the financial statements. The Bank selected a retrospective simplified method for purposes of the first adoption of IFRS 15.

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

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

AMOUNTS DUE TO CUSTOMERS	31.12.2017 before restatement	separation of loans and advances received into a separate item	31.12.2017 restated
Measured at amortized cost:			
Amounts due to retail customers	150 537	-	150 537
Current accounts and overnight deposits	86 612	-	86 612
Term deposits	63 719	-	63 719
Other liabilities	206	-	206
Amounts due to corporate entities	60 578	(7 882)	52 696
Current accounts and overnight deposits	39 719	-	39 719
Term deposits	11 992	-	11 992
Loans and advances received	7 882	(7 882)	-
Amounts due from repurchase agreements	48	-	48
Other liabilities	937	-	937
Amounts due to public entities	11 409	-	11 409
Current accounts and overnight deposits	9 555	-	9 555
Term deposits	1 820	-	1 820
Other liabilities	34	-	34
Loans and advances received	-	7 882	7 882
Total	**222 524**	-	**222 524**

Provisions	31.12.2017 before restatement	Reclassification	31.12.2017 restated
Provisions for unsettled legal claims	18	-	18
Provisions from pensions and other defined post-employment benefits	45	14	59
Restructuring provision	-	21	21
Provisions for financial liabilities and guarantees granted	86	-	86
Other provisions, including for disputes with employees	61	(35)	26
Total	**210**	-	**210**

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	(745)	748	(3)	-
Net credit losses	-	(721)	-	(721)
Impairment of non-financial assets	-	(27)	-	(27)
Other operating income	58	-	3	61
Total	**(687)**	-	-	**(687)**

(IN PLN MILLION)

INCOME STATEMENT	second quarter period from 01.01.2017 to 30.06.2017 before restatement	Reclassification	second quarter period from 01.04.2017 to 30.06.2017 restated
Net impairment allowance and write-downs	(373)	373	-
Net credit losses	-	(364)	(364)
Impairment of non-financial assets	-	(9)	(9)
Total	**(373)**	**-**	**(373)**

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 BANK

IFRS 16 LEASES

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

IFRS 16 introduces new principles for recognizing leases. The main change concerns elimination of the classification of leases as either operating or financial. A single accounting model for leases is introduced instead. Under the single model, the lessee is obliged to recognize the leased assets and the corresponding liabilities in the statement of financial position, unless the lease term is 12 months or less leasing agreements regarding non-significant asset 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 Bank's opinion, the application of the new standard will affect the recognition, presentation, measurement and disclosure of assets held by the Bank as the lessee under operating lease contracts, as well as the corresponding liabilities, in the financial statements of the Bank.

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 Bank 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 Bank.

(IN PLN MILLION)

NOTES TO THE INCOME STATEMENT

8. 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	37	-	-	37	46
Derivative hedging instruments	-	-	125	125	95
debt securities[1]	46	257	19	322	326
loans and advances to customers[1]	2 026	58	5	2 089	2 043
Total	**2 109**	**315**	**149**	**2 573**	**2 510**
of which: interest income on impaired financial instruments	66	3	-	69	60

[1] net result on insignificant modification is recognized in 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	77	-	-	77	96
Derivative hedging instruments	-	-	247	247	176
debt securities[1]	90	518	38	646	630
loans and advances to customers[1]	3 969	134	11	4 114	4 022
Total	**4 136**	**652**	**296**	**5 084**	**4 924**
of which: interest income on impaired financial instruments	128	6	1	135	117

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

INTEREST EXPENSE ON:	second quarter period from 01.04.2018 to 30.06.2018				second quarter 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	(75)	-	-	(75)	(97)
amounts due to customers (excluding loans and advances)	(364)	-	-	(364)	(391)
debt securities	-	(13)	(5)	(18)	(24)
debt securities issued	(6)	-	-	(6)	(4)
subordinated liabilities	(22)	-	-	(22)	(15)
					-
Total	**(475)**	**(13)**	**(5)**	**(493)**	**(537)**

(IN PLN MILLION)

INTEREST EXPENSE 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)	(16)	-	-	(16)	(10)
loans and advances granted	(146)	-	-	(146)	(181)
amounts due to customers (excluding loans and advances)	(728)	-	-	(728)	(775)
debt securities	-	(23)	(10)	(33)	(49)
debt securities issued	(18)	-	-	(18)	(8)
subordinated liabilities	(39)	-	-	(39)	(34)
Total	**(947)**	**(23)**	**(10)**	**(980)**	**(1 057)**

9. 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	307	579	268	514
maintenance of bank accounts	201	404	211	424
loans and advances granted	161	309	165	322
maintenance of investment funds and OFE (including management fees)	50	102	95	180
cash transactions	20	42	22	44
servicing foreign mass transactions	25	50	25	50
brokerage activities	43	96	54	102
offering insurance products	41	73	27	46
sale and distribution of court fee stamps	1	1	2	3
investment and insurance products	3	7	4	8
customer orders	11	22	10	21
fiduciary services	1	3	2	3
other	15	31	16	36
Total	**879**	**1 719**	**901**	**1 753**

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	(179)	(329)	(150)	(280)
commission paid to external entities for product sales	(22)	(40)	(22)	(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)	(9)
sending short text messages (SMS)	(7)	(13)	(5)	(10)
fees incurred by the Brokerage House	(5)	(10)	(5)	(11)
other	(27)	(54)	(23)	(45)
Total	**(259)**	**(489)**	**(227)**	**(437)**

(IN PLN MILLION)

10. 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
from issuers not related to the Bank, with respect to:	11	11	11	11
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
from subsidiaries, joint ventures and associates, of which:	130	140	113	113
PKO Towarzystwa Funduszy Inwestycyjnych SA	64	64	60	60
CEUP eService Sp. z o.o.	3	13	3	3
PKO BP BANKOWY PTE SA	8	8	5	5
PKO BP Finat Sp. z o.o.	44	44	45	45
PKO Leasing SA	11	11	-	-
Total	**141**	**151**	**124**	**124**

11. 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	18	34
Financial instruments not held for trading, mandatorily measured at fair value through profit or loss	(11)	(7)
Hedge accounting (ineffective portion of cash flow hedges)	(3)	(3)
	-	
Total	**4**	**24**

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	5	6
Equity instruments	(1)	(1)
Derivative instruments (of which an ineffective portion of cash flow hedges)	(3)	(3)
Total	**1**	**2**

(IN PLN MILLION)

12. 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
Debt securities	1	(1)
Total	**1**	**(1)**

13. NET FOREIGN EXCHANGE GAINS/ (LOSSES)

Foreign exchange gains (losses) comprise foreign exchange gains and losses, both realized and unrealized, resulting from the 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.

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/(losses), of which:	140	238	104	204
ineffective portion of cash flow hedges recognized in net foreign exchange gains/(losses)	(5)	(6)	2	3
Total	140	238	104	204

14. GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018

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

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

FINANCIAL INFORMATION

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS 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	56	85		
Measured at amortized cost	-	8		
Total	56	93		

(IN PLN MILLION)

15. 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
Debt securities	3	7	(4)	(11)
available for sale			(4)	(11)
measured at fair value through other comprehensive income	1	4		
measured at amortized cost	2	3		
Amounts due from banks	(1)	(1)		
Loans and advances to customers	(323)	(635)	(350)	(693)
measured at fair value through other comprehensive income	(1)	(5)		
housing	(1)	(5)		
measured at amortized cost	(322)	(630)	(350)	(693)
housing	9	(45)	(42)	(115)
corporate	(188)	(343)	(180)	(332)
consumer	(143)	(242)	(128)	(246)
Other financial assets	-	-	-	(4)
Provisions for financial liabilities and guarantees granted	(10)	(4)	(10)	(13)
Total	**(331)**	**(633)**	**(364)**	**(721)**

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES AND IMPAIRMENT ALLOWANCES (BALANCE)	30.06.2018	01.01.2018	31.12.2017
Amounts due from banks	3	2	-
Equity securities			52
Debt securities	37	43	246
Loans and advances to customers (note 27)	8 203	10 051	7 170
Provisions for financial liabilities and guarantees granted	159	155	86
Other financial assets	99	99	99
Total	**8 501**	**10 350**	**7 653**

16. 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	(11)	(11)	(1)	(3)
Property, plant and equipment	-	-	(1)	(1)
Intangible assets	(10)	(10)	-	-
Investments in subsidiaries, associates and joint ventures	-	-	-	(15)
Other non-current assets	(4)	(8)	(7)	(8)
Total	**(25)**	**(29)**	**(9)**	**(27)**

ACCUMULATED ALLOWANCES FOR NON-FINANCIAL ASSETS	30.06.2018	01.01.2018	31.12.2017
Non-current assets held for sale	-	262	262
Property, plant and equipment	29	29	29
Intangible assets	25	15	15
Investments in subsidiaries, associates and joint ventures	849	849	849
Other non-current assets	108	108	108
Total	**1 011**	**1 263**	**1 263**

(IN PLN MILLION)

17. 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
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	6	12	12	16
Sundry income	7	13	7	13
Recovery of receivables expired, forgiven or written off	1	4	1	2
Release of provision for legal claims	-	-	-	3
Other[1]	26	62	17	27
Total	40	91	37	61

[1] In the first half of the year 2018, reimbursement of the penalty imposed 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
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(3)	(6)	(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	(8)	(17)	(10)	(13)
Total	(104)	(142)	(19)	(46)

[1] For a detailed description of the provision recognized, see Note 47 "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 recognized for legal claims"

18. 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]	(680)	(1 345)	(664)	(1 316)
Overheads, of which:	(326)	(623)	(300)	(584)
IT	(62)	(126)	(66)	(132)
Depreciation and amortization	(167)	(342)	(181)	(363)
property, plant and equipment, of which:	(66)	(132)	(70)	(142)
IT	(25)	(51)	(26)	(52)
Intangible assets, of which:	(101)	(210)	(111)	(221)
IT	(99)	(205)	(109)	(215)
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(65)	(293)	(49)	(305)
to the Resolution Fund[2]	-	(162)	-	(209)
to the Banks' Guarantee Fund	(65)	(131)	(49)	(96)
Taxes and other charges	(15)	(48)	(19)	(36)
Total	(1 253)	(2 651)	(1 213)	(2 604)

[1] In the first half of the year 2018, the costs of restructuring amounting to PLN 36 million were recognized under "Employee benefits" (no such costs in the first half of 2017).
[2] In the first half of the year 2018, the item "Contribution and payments to the Bank Guarantee Fund - for the resolution fund" comprised the contribution of PKO Bank Polski SA of PLN 162 million (PLN 209 million in the first half of 2017).

According to IFRIC 21 Levies, fees paid by a bank 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' forced restructuring fund (annually). The obligation to make the contribution to the banks' forced restructuring fund arises on each 1 January, therefore, such contribution was recognized in the costs of the 1st quarter.

(IN PLN MILLION)

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:	(562)	(1 115)	(553)	(1 092)
costs of contributions to the employee pension plan	(12)	(17)	(11)	(24)
Social insurance, of which:	(99)	(193)	(94)	(192)
contributions to retirement and disability benefits	(80)	(165)	(77)	(163)
Other employee benefits	(19)	(37)	(17)	(32)
Total	**(680)**	**(1 345)**	**(664)**	**(1 316)**

[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).

19. TAX ON CERTAIN FINANCIAL INSTITUTIONS

On 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	(216)	(431)	(223)	(450)
Total	**(216)**	**(431)**	**(223)**	**(450)**

20. 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	(325)	(593)	(263)	(476)
Deferred income tax on temporary differences	69	58	18	2
Income tax expense recognized in the income statement	**(256)**	**(535)**	**(245)**	(474)
Income tax reported in other comprehensive income in respect of temporary differences	13	(33)	(40)	**(89)**
	-			
Total	**(243)**	**(568)**	**(285)**	**(563)**

(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	1 152	2 045	1 086	1 725
Tax calculated using the enacted rate in force in Poland (19%)	(219)	(389)	(206)	(328)
Effect of permanent differences between profit before income tax and taxable income, of which:	(32)	(143)	(63)	(173)
recognizing a non-tax-deductible impairment allowance on investments in subsidiaries, associates and joint ventures	-	-	-	(3)
non-deductible impairment allowances on credit exposures and securities	(27)	(38)	(10)	(17)
contribution and payments to the Bank Guarantee Fund	(11)	(55)	(9)	(58)
tax on certain financial institutions	(41)	(82)	(41)	(85)
other permanent differences	20	3	(3)	(10)
dividend income	27	29	24	24
Effect of other differences between profit before income tax and taxable income, including new technologies tax relief and donations	(5)	(3)	1	3
Income tax expense recognized in the income statement	(256)	(535)	(245)	(474)
Effective tax rate	**22,2%**	**26,2%**	**22,6%**	**27,5%**

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]	217	471	(422)	-	-	266
Capitalized interest on performing housing loans	106	-	(15)	-	-	91
Interest on securities	61	-	1	-	-	62
Valuation of securities	7	33	24	(19)	30	75
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	326	-	(13)	-	-	313
Taxable profit due to the IBNR deduction being future deductible costs in connection with the implementation of IFRS 9	-	-	78	-	-	78
Deferred tax liabilities, gross	**717**	**504**	**(347)**	**(19)**	**30**	**885**
DEFERRED TAX ASSETS						
Interest accrued on liabilities	109	-	(20)	-	-	89
Valuation of derivatives	138	-	(9)	-	6	135
Employee benefits	87	-	(4)	-	-	83
Allowances for credit losses[1]	655	629	(263)	-	-	1 021
Fair value remeasurement of loans	-	-	1	19	(9)	11
Adjustment of straight-line valuation method and effective interest rate	621	-	42	-	-	663
Provision for costs to be incurred	29	-	(2)	-	-	27
Other deductible temporary differences	35	-	(34)	-	-	1
Deferred tax assets, gross	**1 674**	**629**	**(289)**	**19**	**(3)**	**2 030**
Deferred tax assets (presented in the statement of financial position)	**957**	**125**	**58**	**38**	**(33)**	**1 145**

[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 has its registered office or branches, are subject to frequent legislative 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, in practice, result in individual, inconsistent interpretations by the tax authorities, diverging from the interpretations of 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 other than the one implemented in practice by the Bank, which could have a considerable, unfavourable impact on the Bank's activities and financial standing, despite the systematic actions undertaken by them in accordance with the law in order to minimize the risk.

21. 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
Profit attributable to ordinary shareholders	896	1 510	841	1 251
Weighted average number of ordinary shares during the period (in million)	1 250	1 250	1 250	1 250
Earnings per share (in PLN per share)	0.72	1.21	0.67	1.00

Both in the first six months period ended 30 June 2018 and in the first six months 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 STATEMENT OF FINANCIAL POSITION

22. 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	11 171
Cash in hand	4 627	4 629
Deposits with the Central Bank	1 450	1 965
Total	**9 899**	**17 765**

23. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2018	01.01.2018	31.12.2017
Measured at amortized cost	**8 305**	**8 769**	**8 769**
Deposits with banks	3 641	3 724	3 724
Amount due from PKO Bank Hipoteczny SA in respect of the sale of mortgage-secured housing loans by the Bank	2 206	2 498	2 498
Current accounts	1 011	1 041	1 041
Loans given	1 447	1 506	1 506
Total, gross	**8 305**	**8 769**	**8 769**
Allowances for expected credit losses/ Impairment allowances	(3)	(2)	-
Total, net	**8 302**	**8 767**	**8 769**
Total	**8 302**	**8 767**	**8 769**

For the 6-month period of 2018, credit risk exposure is described in more detail in note 28 “Expected credit losses ”, and for 2017 it is described in note 29 “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)

24. HEDGING DERIVATES

ACCOUNTING POLICIES

The Bank has decided to continue the application of IAS 39 and it did not apply IFRS 9 as regards hedge accounting.

TYPES OF HEDGING STRATEGIES APPLIED BY THE BANK

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated term deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged item taking into account the solutions provided in IAS 39 OS 99C in the form adopted by the European Union.
	The 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 Bank 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	the portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	The period in which cash flows are expected to occur and affect the financial results: 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	4 655	41	-	(1)

(IN PLN MILLION)

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 Bank pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	The period in which cash flows are expected to occur and affect the financial results: 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 FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank 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	the portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD
	The period in which cash flows are expected to occur and affect the financial results: July 2018 – September 2022

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	826	170	-	-
		fixed EUR	748			

(IN PLN MILLION)

STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF 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 Bank pays coupons based on the 3M EURIBOR rate, and receives coupons based on the WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	the portfolio of variable interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged item taking into account the solutions provided in IAS 39 OS 99C in the form adopted by the European Union
	The 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 6	HEDGING AGAINST CHANGES IN CASH FLOWS ASSOCIATED WITH MORTGAGE LOANS IN FOREIGN CURRENCIES AND DEPOSITS NEGOTIATED IN PLN, RESULTING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, WITH THE USE OF TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by mortgage loans denominated in foreign currencies and deposits negotiated in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: IRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and IRS transactions, where the Bank pays coupons based on a variable EURIBOR 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. In the event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED ITEM	the 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 Bank designated the hedged item taking into account the solutions provided in IAS 39 OS 99C in the form adopted by the European Union
	The 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 and negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	524	-	3	(1)
		float PLN	2 262			
	IRS EUR	EUR	524	-	19	(2)

STRATEGY 7	HEDGING AGAINST CHANGES IN CASH FLOWS ASSOCIATED WITH MORTGAGE LOANS IN FOREIGN CURRENCIES AND DEPOSITS NEGOTIATED IN PLN, RESULTING FROM INTEREST RATE AND FOREIGN EXCHANGE RISK, WITH THE USE OF TWO HEDGING INSTRUMENTS: CIRS AND CIRS-EP.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by mortgage loans denominated in foreign currencies and deposits negotiated in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: CIRS and CIRS-EP, in the period covered by hedging
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and CIRS transactions, where the Bank pays coupons based on a variable LIBOR CHF 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. In the event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction
HEDGED 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 Bank designated the hedged item taking into account the solutions provided in IAS 39 OS 99C in the form adopted by the European Union
	The period in which cash flows are expected to occur and affect the financial results: July 2018 – January 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 negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	500	-	52	-
		float PLN	2 131			
	CIRS CHF/EUR	float CHF	535	186	-	-
		fixed EUR	500			

STRATEGY 8	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
	The period in which cash flows are expected to occur and affect the financial results: 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 9	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 TWO HEDGING INSTRUMENTS: CIRS AND CIRS-EP.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of changes in cash flows generated by floating interest rate mortgage loans denominated in foreign currencies and regular savings products in PLN, resulting from changes in reference interest rates and changes in foreign exchange rates, with the use of two hedging instruments: CIRS and CIRS-EP, in the period covered by hedging.
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions with extended maturities, where the Bank pays coupons based on a fixed rate in EUR and receives coupons based on a variable WIBOR 3M reference rate on the nominal amount, and CIRS transactions, where the Bank pays coupons based on a variable LIBOR CHF 3M rate and receives coupons based on a fixed EUR rate on the nominal amount. In the event of bankruptcy of the underlying entity (the entity whose bankruptcy is monitored as part of the transaction), the CIRS-EP transaction is extended automatically on the terms and conditions defined on the date of concluding the transaction.
HEDGED ITEM	the portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN.
	The period in which cash flows are expected to occur and affect the financial results: July 2018 - August 2024

(IN PLN MILLION)

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-EP EUR/PLN	fixed EUR	554	-	73	(5)
		float PLN	2 363			
	CIRS CHF/EUR	float CHF	640	20	1	-
		fixed EUR	554			

STRATEGY 10	HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of 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	-	-	-

The Bank did not introduce any new hedging strategies in the first six months of 2018. In 2017, the Bank introduced Strategies 7, 8 and 9, which concern cash flow hedging, and Strategy 10, which concerns fair value hedging. These strategies are described above.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.06.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	**654**	**569**	**1 104**	**204**
Hedges of interest rate risk	41	21	90	35
IRS	41	21	90	35
Hedges of currency and interest rate risks	613	548	1 014	169
CIRS	613	548	1 014	169
Fair value hedges	-	-	-	-
Hedges of interest rate risk	-	-	-	-
IRS	-	-	-	-
Total	**654**	**569**	**1 104**	**204**

(IN PLN MILLION)

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF 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	**(150)**	**(91)**	**(86)**	**(109)**
Gains/losses recognized in other comprehensive income during the period	(450)	(509)	130	895
Amounts transferred from other comprehensive income to the cash flow statement, of which:	482	482	(127)	(869)
- interest income	(125)	(247)	(95)	(176)
- net foreign exchange gains/(losses)	607	729	(32)	(693)
Other comprehensive income at the end of the period, gross	**(118)**	**(118)**	**(83)**	**(83)**
Tax effect	22	22	15	15
Other comprehensive income at the end of the period, net	**(96)**	**(96)**	**(68)**	**(68)**
Impact on other comprehensive income during the period, gross	**32**	**(27)**	**3**	**26**
Tax effect	(6)	6	(1)	(5)
Impact on other comprehensive income during the period, net	**26**	**(21)**	**2**	**21**
Ineffective portion of cash flow hedges recognized in the income statement, including in:	**(8)**	**(9)**	**2**	**4**
Net foreign exchange gains/(losses)	(5)	(6)	2	3
Net result on financial instruments measured at fair value	(3)	(3)	-	1

25. OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.06.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	834	1 180	876	1 385
CIRS	171	196	77	61
FX Swap	308	99	161	380
Options	378	221	243	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	**1 983**	**2 142**	**1 701**	**2 537**

26. SECURITIES

ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018

As of 1 January 2018, the Bank 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.

(IN PLN MILLION)

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 Bank did not use the option of measurement at fair value through other comprehensive income. They are measured at fair value through profit or loss. In 2017, such investments were classified as financial instruments available for sale or as instruments held for trading. Instruments held for trading, in principle, were measured at fair value, whereas the available-for-sale instruments whose fair value could not be estimated were measured at cost less impairment allowances.

ACCOUNTING POLICIES APPLICABLE UP TO 31 DECEMBER 2017

Until 31 December 2017, the Bank 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 financial statements of PKO Bank Polski SA for 2017.

FINANCIAL INFORMATION

SECURITIES	30.06.2018	01.01.2018	31.12.2017
held for trading	1 172	472	472
financial instruments designated at fair value through profit or loss upon initial recognition			6 409
available-for-sale investment securities			42 009
investment securities held to maturity			1 622
not held for trading, mandatorily measured at fair value through profit or loss	1 700	2 886	
measured at fair value through other comprehensive income	48 474	45 602	
measured at amortized cost	6 315	5 990	
Total	**57 661**	**54 950**	**50 512**

Corporate and municipal bonds of PLN 4 368 million which met the definition of loans and advances under IAS 39, as at 31 December 2017 were presented in "Loans and advances to customers". After IFRS 9 coming into effect, 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	1 148	1 374	48 474	6 315	57 311
NBP money market bills	-	-	5 998	-	5 998
Treasury bonds (in PLN)	756	1 183	33 481	1 819	37 239
Treasury bonds (in foreign currencies)	229	-	-	-	229
municipal bonds (in PLN)	16	-	4 967	2 431	7 414
municipal bonds (in foreign currencies)	-	78	-	-	78
corporate bonds (in PLN)	108	113	3 564	1 713	5 498
corporate bonds (in foreign currencies)	2	-	464	352	818
covered bonds	37	-	-	-	37
Equity securities	24	326	-	-	350
shares in other entities - not listed	-	260	-	-	260
shares in other entities - listed	17	66	-	-	83
investment certificates, rights to shares, pre-emptive rights	7	-	-	-	7
Total	**1 172**	**1 700**	**48 474**	**6 315**	**57 661**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish Treasury bonds.

In April 2018, PKO Bank Polski SA finalized negotiations with Bank Gospodarstwa Krajowego SA relating to a sale of participation units 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	446	2 347	45 602	5 990	54 385
NBP money market bills	-	-	4 199	-	4 199
Treasury bonds (in PLN)	151	1 134	32 095	1 622	35 002
Treasury bonds (in foreign currencies)	138	893	-	-	1 031
municipal bonds (in PLN)	23	106	4 921	2 513	7 563
municipal bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	94	137	3 910	1 730	5 871
corporate bonds (in foreign currencies)	1	-	477	125	603
covered bonds	39	-	-	-	39
Equity securities	26	539	-	-	565
shares in other entities - not listed	-	238	-	-	238
Shares in other entities - listed	19	49	-	-	68
participation units in a collective investment undertaking / investment certificates, rights to shares, pre-emptive rights	7	252	-	-	259
Total	**472**	**2 886**	**45 602**	**5 990**	**54 950**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish Treasury bonds.

(IN PLN MILLION)

SECURITIES 31.12.2017	**held for trading**	**financial instruments designated at fair value through profit or loss upon initial recognition**	**available-for-sale investment securities**	**investment securities held to maturity**	**Total**
Debt securities	446	6 409	41 560	1 622	50 037
NBP money market bills	-	4 199	-	-	4 199
Treasury bonds (in PLN)	151	1 134	32 095	1 622	35 002
Treasury bonds (in foreign currencies)	138	893	-	-	1 031
municipal bonds (in PLN)	23	106	4 928	-	5 057
municipal bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	94	-	4 058	-	4 152
corporate bonds (in foreign currencies)	1	-	479	-	480
covered bonds	39	-	-	-	39
Equity securities	26	-	449	-	475
shares in other entities - not listed	-	-	148	-	148
shares in other entities - listed	19	-	49	-	68
Participation units in a collective investment undertaking / investment certificates, rights to shares, pre-emptive rights	7	-	252	-	259
Total	**472**	**6 409**	**42 009**	**1 622**	**50 512**

The item “Treasury bonds in PLN and in foreign currencies” includes Polish 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 year 2018 in note 28 “Expected credit losses”, and for 2017 in note 29 “Impairment of financial assets (comparative data in accordance with IAS 39)”.

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

(IN PLN MILLION)

27. Loans and advances to customers

Accounting policies

• Accounting policies applicable as of 1 January 2018

As of 1 January 2018, the Bank 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 Bank writes down or writes off 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 financial statements of PKO Bank Polski SA 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)	185 918	181 664	**186 893**
Adjustment relating to fair value hedge accounting	-	(1)	**(1)**
Total loans and advances to customers	**185 918**	**181 663**	**186 892**

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:	177 240	172 359	186 893
debt securities			4 368
measured at fair value through other comprehensive income	7 690	8 235	
not held for trading, mandatorily measured at fair value through profit or loss	988	1 070	
Total	**185 918**	**181 664**	**186 893**

Corporate and municipal bonds which met the definition of loans and advances in accordance with IAS 39 were presented under "Loans and advances to customers" as at 31 December 2017. Due to the fact that such securities meet the SPPI test criterion and are classified under the "held to collect cash flows" business model, after the entry into force of IFRS 9 they are classified as financial assets measured at amortized cost and presented under securities measured at amortized cost.

(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 fair value through other comprehensive income			measured at amortized cost		
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount[1]	Allowances for expected credit losses[1]	Net amount
Loans and advances	988	7 703	(13)	7 690	184 806	(8 190)	176 616
housing	31	7 703	(13)	7 690	84 862	(2 268)	82 594
corporate	159	-	-	-	73 723	(4 144)	69 579
consumer	798	-	-	-	26 221	(1 778)	24 443
Receivables in respect of repurchase agreements	-	-	-	-	624	-	624
Total	988	7 703	(13)	7 690	185 430	(8 190)	177 240

[1] As at 30 June 2018, the Bank wrote off a part of the contractual interest of PLN 2 354 million.

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 01.01.2018	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		
	Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Loans and advances[1]	1 070	8 243	(8)	8 235	181 500	(10 043)	171 457
housing	37	8 243	(8)	8 235	84 463	(2 960)	81 503
corporate	182	-	-	-	71 723	(5 053)	66 670
consumer	851	-	-	-	25 314	(2 030)	23 284
Receivables in respect of repurchase agreements	-	-	-	-	902	-	902
Total	1 070	8 243	(8)	8 235	182 402	(10 043)	172 359

[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	**188 783**	**(7 160)**	**181 623**
housing	92 134	(1 925)	90 209
corporate	70 719	(3 580)	67 139
consumer	25 930	(1 655)	24 275
Debt securities	**4 378**	**(10)**	**4 368**
corporate bonds	1 859	(4)	1 855
municipal bonds	2 519	(6)	2 513
Receivables in respect of repurchase agreements	902	-	**902**
Total	**194 063**	**(7 170)**	**186 893**

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENTS	30.06.2018	01.01.2018[1]	31.12.2017[1]
mortgage banking	86 152	85 960	85 515
corporate	60 220	58 164	61 597
retail and private banking	27 019	26 165	25 930
small and medium enterprises	20 106	20 524	20 119
receivables in respect of repurchase agreements	624	902	902
Allowances for expected credit losses /impairment allowances on loans and advances	(8 203)	(10 051)	(7 170)
Total	**185 918**	**181 664**	**186 893**

[1] without an adjustment relating to fair value hedge accounting

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 28 “Expected credit losses”, and for 2017 in note 29 “Impairment of financial assets (comparative data in accordance with IAS 39)”.

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.06.2018	Carrying amount, gross							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN 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 fair value through other comprehensive income	7 602	70	30	-	-	1	-	7 703
loans and advances	7 602	70	30	-	-	1	-	7 703
housing	7 602	70	30	-	-	1	-	7 703
Total	7 602	70	30	-	-	1	-	7 703
of which: purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Measured at amortized cost:	176 464	4 158	3 337	624	431	356	60	185 430
loans and advances	175 840	4 158	3 337	624	431	356	60	184 806
housing	82 261	976	1 184	145	245	33	18	84 862
corporate	68 982	2 377	1 709	305	140	180	30	73 723
consumer	24 597	805	444	174	46	143	12	26 221
receivables in respect of repurchase agreements	624	-	-	-	-	-	-	624
Total	176 464	4 158	3 337	624	431	356	60	185 430
of which: purchased or originated credit-impaired assets	248	-	-	-	-	-	-	248

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.06.2018	Impairment allowances							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN 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 fair value through other comprehensive income	(5)	(7)	-	-	-	(1)	-	(13)
loans and advances	(5)	(7)	-	-	-	(1)	-	(13)
housing	(5)	(7)	-	-	-	(1)	-	(13)
Total	(5)	(7)	-	-	-	(1)	-	(13)
of which: purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Measured at amortized cost:	(7 329)	(315)	(30)	(260)	(110)	(146)	-	(8 190)
loans and advances	(7 329)	(315)	(30)	(260)	(110)	(146)	-	(8 190)
housing	(2 013)	(90)	(6)	(55)	(91)	(13)	-	(2 268)
corporate	(3 812)	(120)	(18)	(117)	(11)	(66)	-	(4 144)
consumer	(1 504)	(105)	(6)	(88)	(8)	(67)	-	(1 778)
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-
Total	(7 329)	(315)	(30)	(260)	(110)	(146)	-	(8 190)
of which: purchased or originated credit-impaired assets	(92)	-	-	-	-	-	-	(92)

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.06.2018	Carrying amount, net							
	AMOUNTS NOT SUBJECT TO TRANSFER IN A GIVEN 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 fair value through other comprehensive income	7 597	63	30	-	-	-	-	7 690
loans and advances	7 597	63	30	-	-	-	-	7 690
housing	7 597	63	30	-	-	-	-	7 690
Total	7 597	63	30	-	-	-	-	7 690
of which: purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-
Measured at amortized cost:	169 135	3 843	3 307	364	321	210	60	177 240
loans and advances	168 511	3 843	3 307	364	321	210	60	176 616
housing	80 248	886	1 178	90	154	20	18	82 594
corporate	65 170	2 257	1 691	188	129	114	30	69 579
consumer	23 093	700	438	86	38	76	12	24 443
receivables in respect of repurchase agreements	624	-	-	-	-	-	-	624
Total	169 135	3 843	3 307	364	321	210	60	177 240
of which: purchased or originated credit-impaired assets	156	-	-	-	-	-	-	156

Transfers between impairment stages were presented for the gross carrying amount and impairment allowance as at 30 June 2018. In the event when loans and advances to customers, which 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.

28. Expected credit losses

Estimates and assessments – applicable as of 1 January 2018

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

- Financial assets measured at amortized cost; the allowance reduces the gross carrying amount of the financial asset; changes in the amount of provision are recognized in the income statement;
- Off-balance sheet liabilities in respect of loans and financial guarantees: the allowance is presented as a provision under liabilities; changes in the allowance amount are recognized in the income statement;
- Financial instruments measured at fair value through other comprehensive income: the carrying amount of assets recognized at fair value is not additionally 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 changes in impairment applicable from 1 January 2018 in connection with the implementation of IFRS 9 is provided in note 4 “IFRS 9 Financial Instruments”.

(IN PLN MILLION)

IMPAIRMENT OF FINANCIAL ASSETS

With respect to impairment, the Bank 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	48 029	(14)	-	-	472	472	(13)	48 501	(27)	48 474
Treasury bonds	33 481	-	-	-	-	-	-	33 481	-	33 481
other	14 548	(14)	-	-	472	472	(13)	15 020	(27)	14 993
loans and advances	7 586	(2)	115	(11)	2	2	-	7 703	(13)	7 690
housing	7 586	(2)	115	(11)	2	2	-	7 703	(13)	7 690
Total	55 615	(16)	115	(11)	474	474	(13)	56 204	(40)	56 164
of which: purchased or originated credit-impaired assets	-	-	-	-	472	472	(13)	472	(13)	459
Measured at amortized cost										
amounts due from banks	8 305	(3)	-	-	-	-	-	8 305	(3)	8 302
securities	6 325	(10)	-	-	-	-	-	6 325	(10)	6 315
Treasury bonds	1 819	-	-	-	-	-	-	1 819	-	1 819
other	4 506	(10)	-	-	-	-	-	4 506	(10)	4 496
loans and advances	162 201	(461)	11 763	(1 117)	11 466	10 676	(6 612)	185 430	(8 190)	177 240
housing	77 725	(48)	4 560	(506)	2 577	2 510	(1 714)	84 862	(2 268)	82 594
corporate	61 352	(281)	5 526	(365)	6 845	6 131	(3 498)	73 723	(4 144)	69 579
consumer	22 500	(132)	1 677	(246)	2 044	2 035	(1 400)	26 221	(1 778)	24 443
receivables in respect of repurchase agreements	624	-	-	-	-		-	624	-	624
other financial assets	2 431	-	-	-	99	99	(99)	2 530	(99)	2 431
										-
Total	179 262	(474)	11 763	(1 117)	11 565	10 775	(6 711)	202 590	(8 302)	194 288
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	248	207	(92)	248	(92)	156
Total	234 877	(490)	11 878	(1 128)	12 039	11 249	(6 724)	258 794	(8 342)	250 452

[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	8 305	(3)	-	-	-	-	-	8 305	(3)	8 302
securities	54 354	(24)	-	-	472	472	(13)	54 826	(37)	54 789
Treasury bonds	35 300	-	-	-	-	-	-	35 300	-	35 300
other	19 054	(24)	-	-	472	472	(13)	19 526	(37)	19 489
loans and advances	169 787	(463)	11 878	(1 128)	11 468	10 678	(6 612)	193 133	(8 203)	184 930
housing	85 311	(50)	4 675	(517)	2 579	2 512	(1 714)	92 565	(2 281)	90 284
corporate	61 352	(281)	5 526	(365)	6 845	6 131	(3 498)	73 723	(4 144)	69 579
consumer	22 500	(132)	1 677	(246)	2 044	2 035	(1 400)	26 221	(1 778)	24 443
receivables in respect of repurchase agreements	624	-	-	-	-	-	-	624	-	624
other financial assets	2 431	-	-	-	99	99	(99)	2 530	(99)	2 431
								-	-	-
Total	234 877	(490)	11 878	(1 128)	12 039	11 249	(6 724)	258 794	(8 342)	250 452
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	720	679	(105)	720	(105)	615

LOAN QUALITY RATIO (excluding adjustments relating to fair value hedge accounting)	30.06.2018	01.01.2018
Share of impaired exposures[1]	5,4%	5,6%
Coverage ratio of impaired loans[2]	76,9%	72,9%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3,8%	4,1%

[1] The share of impaired loans was determined for loans and securities, excluding Treasury bonds, measured at amortized cost and loans measured at fair value through other comprehensive income as the gross amount of impaired exposures to the total gross amount of loans and securities, excluding Treasury bonds measured at amortized cost, and loans measured at fair value through other comprehensive income , less contractual (non-performing) interest 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 and loans measured at fair value through other comprehensive income, 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.

(IN PLN MILLION)

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	45 161	(17)	-	-	473	2	473	(15)	45 634	(32)	45 602
Treasury bonds	32 095	-	-	-	-	-	-	-	32 095	-	32 095
other	13 066	(17)			473	2	473	(15)	13 539	(32)	13 507
loans and advances	8 155	(3)	88	(5)	-	-	-	-	8 243	(8)	8 235
housing	8 155	(3)	88	(5)	-	-	-	-	8 243	(8)	8 235
Total	53 316	(20)	88	(5)	473	2	473	(15)	53 877	(40)	53 837
of which: purchased or originated credit-impaired assets	-	-	-	-	473	2	473	(15)	473	(15)	458
Measured at amortized cost											
amounts due from banks	8 769	(2)	-	-	-	-	-	-	8 769	(2)	8 767
securities	6 001	(11)	-	-	-	-	-	-	6 001	(11)	5 990
Treasury bonds	1 622	-	-	-	-	-	-	-	1 622	-	1 622
other	4 379	(11)	-	-	-	-	-	-	4 379	(11)	4 368
loans and advances	156 575	(450)	12 025	(987)	13 802	2 250	10 717	(8 606)	182 402	(10 043)	172 359
housing	76 135	(46)	4 760	(415)	3 568	733	2 761	(2 499)	84 463	(2 960)	81 503
corporate	58 199	(282)	5 660	(363)	7 864	1 153	5 962	(4 408)	71 723	(5 053)	66 670
consumer	21 339	(122)	1 605	(209)	2 370	364	1 994	(1 699)	25 314	(2 030)	23 284
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	902
other financial assets	1 748	-	-	-	99	-	99	(99)	1 847	(99)	1 748
										-	-
Total	173 093	(463)	12 025	(987)	13 901	2 250	10 816	(8 705)	199 019	(10 155)	188 864
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	221	-	192	(107)	221	(107)	114
Total	226 409	(483)	12 113	(992)	14 374	2 252	11 289	(8 720)	252 896	(10 195)	242 701

(IN PLN MILLION)

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: 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	8 769	(2)	-	-	-	-	-	-	8 769	(2)	8 767
securities	51 162	(28)	-	-	473	2	473	(15)	51 635	(43)	51 592
Treasury bonds	33 717	-	-	-	-	-	-	-	33 717	-	33 717
other	17 445	(28)	-	-	473	2	473	(15)	17 918	(43)	17 875
loans and advances	164 730	(453)	12 113	(992)	13 802	2 250	10 717	(8 606)	190 645	(10 051)	180 594
housing	84 290	(49)	4 848	(420)	3 568	733	2 761	(2 499)	92 706	(2 968)	89 738
corporate	58 199	(282)	5 660	(363)	7 864	1 153	5 962	(4 408)	71 723	(5 053)	66 670
consumer	21 339	(122)	1 605	(209)	2 370	364	1 994	(1 699)	25 314	(2 030)	23 284
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	902
other financial assets	1 748	-	-	-	99	-	99	(99)	1 847	(99)	1 748
											-
Total	226 409	(483)	12 113	(992)	14 374	2 252	11 289	(8 720)	252 896	(10 195)	242 701
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	694	2	665	(122)	694	(122)	572

(IN PLN MILLION)

IMPAIRMENT ALLOWANCES ON 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	Other changes	As at 30.06.2018
Available-for-sale investment securities	298	(298)	-	-	-	-	-	-	-	-	-
Measured at fair value through other comprehensive income											
securities	-	32	32	-	-	(4)	-	-	(2)	1	27
loans and advances	-	8	8	-	-	5	-	-	-	-	13
housing	-	8	8	-	-	5	-	-	-	-	13
Total	**-**	**40**	**40**	**-**	**-**	**1**	**-**	**-**	**(2)**	**1**	**40**
Measured at amortized cost											
amounts due from banks	-	2	2	-	-	1	-	-	-	-	3
securities	-	11	11	1	-	(4)	-	-	-	2	10
loans and advances	7 170	2 873	10 043	225	(68)	453	20	(520)	(2 354)	391	8 190
housing	1 925	1 035	2 960	27	(32)	50	-	(200)	(714)	177	2 268
corporate	3 580	1 473	5 053	149	(20)	194	20	(147)	(1 252)	147	4 144
consumer	1 655	375	2 030	49	(16)	209	-	(173)	(388)	67	1 778
securities	10	(10)	-	-	-	-	-	-		-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-		-	-
other financial assets	99	-	99	-	-	-	-	-		-	99
Total	7 269	**2 886**	**10 155**	**226**	**(68)**	**450**	**20**	**(520)**	**(2 354)**	**393**	8 302
Total allowances for expected credit losses on financial assets	7 567	2 628	10 195	226	(68)	451	20	(520)	(2 356)	394	8 342

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	Other changes	As at 30.06.2018
amounts due from banks	-	2	2	-	-	1	-	-	-	-	3
securities	298	(255)	43	1	-	(8)	-	-	(2)	3	37
loans and advances	7 170	2 881	10 051	225	(68)	458	20	(520)	(2 354)	391	8 203
housing	1 925	1 043	2 968	27	(32)	55	-	(200)	(714)	177	2 281
corporate	3 580	1 473	5 053	149	(20)	194	20	(147)	(1 252)	147	4 144
consumer	1 655	375	2 030	49	(16)	209	-	(173)	(388)	67	1 778
securities	10	(10)	-	-	-	-	-	-		-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-		-	-
other financial assets	99	-	99	-	-	-	-	-	-	-	99
Total	**7 567**	**2 628**	**10 195**	**226**	**(68)**	**451**	**20**	**(520)**	**(2 356)**	**394**	**8 342**

[1] with respect to impairment recognized on loans of PLN 759 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 allowances as a result of recognizing an initial loss of PLN 346 million for POCI assets, and in respect of reversal of write-downs for securities of PLN 132 million.

[2] relates to interest partially written off amounting to PLN 2 356 million.

(IN PLN MILLION)

CREDIT - IMPAIRED FINANCIAL ASSETS UPON INITIAL RECOGNITION – POCI

Total amount of purchased or originated credit-impaired financial assets as at 30 June 2018 amounted to PLN 615 million (PLN 572 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	248	(92)	156
measured at amortized cost	248	(92)	156
Total	**720**	**(105)**	**615**

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	221	(107)	114
measured at amortized cost	221	(107)	114
Total	**694**	**(122)**	**572**

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) IN THE FIRST HALF OF 2018	As at the beginning of the period	Decrease due to derecognition	Changes due to changes in credit risk (net)	Decrease in impairment allowances due to write-off	Other adjustments	As at the end of the period
Securities	15	-	-	(2)	-	13
measured at fair value through other comprehensive income	15	-	-	(2)	-	13
Loans and advances to customers	107	(1)	(10)	(9)	5	92
measured at amortized cost	107	(1)	(10)	(9)	5	92
Total	**122**	**(1)**	**(10)**	**(11)**	**5**	**105**

(IN PLN MILLION)

29. IMPAIRMENT OF FINANCIAL ASSETS (COMPARABLE DATA IN ACCORDANCE WITH IAS 39)

ESTIMATES AND JUDGEMENTS APPLICABLE BY 31 DECEMBER 2017

A detailed description of the accounting policies applied in this respect is provided in the consolidated financial statements of PKO Bank Polski SA for 2017 in Note 27 "Loans and advances to customers" and in Note 26 "Securities".

FINANCIAL INFORMATION – APPLICABLE BY 31 DECEMBER 2017

AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS - EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
Amounts due from banks not impaired, not past due	8 769
Total gross/net	**8 769**

SECURITIES

AVAILABLE-FOR-SALE INVESTMENT DEBT SECURITIES – THE BANK'S EXPOSURE TO CREDIT RISK	Exposure 31.12.2017
impaired, assessed on an individual basis	819
not impaired, not past due	40 987
with an external rating	35 840
with an internal rating	5 147
Total, gross	**41 806**
Impairment allowances	(246)
Total, net	**41 560**

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 value	Impairment allowances	Net value
individual basis, of which:	4 793	(1 665)	3 128
impaired	3 757	(1 660)	2 097
not impaired	1 036	(5)	1 031
portfolio basis	7 118	(4 880)	2 238
group basis (IBNR)	182 152	(625)	181 527
Total	**194 063**	**(7 170)**	**186 893**

(IN PLN MILLION)

LOANS AND ADVANCES TO CUSTOMERS - EXPOSURE TO CREDIT RISK	31.12.2017		
	Gross value	Impairment allowances	Net value
impaired, of which:	10 875	(6 540)	4 335
assessed on an individual basis	3 757	(1 660)	2 097
not impaired, of which:	183 188	(630)	182 558
with recognized individual impairment trigger	1 016	(5)	1 011
not past due	751	(4)	747
past due	265	(1)	264
without recognized individual impairment trigger/IBNR	182 172	(625)	181 547
not past due	179 574	(477)	179 097
past due	2 598	(148)	2 450
Total	**194 063**	**(7 170)**	**186 893**

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	46 179	(111)	46 068
housing	4 512	(15)	4 497
corporate	33 364	(71)	33 293
consumer	8 303	(25)	8 278
Total	**46 179**	**(111)**	**46 068**
of which irrevocable loan commitments	33 607	(70)	33 537
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 404	(40)	8 364
to financial entities	2 917	(5)	2 912
to non-financial entities	5 456	(34)	5 422
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	4 335
to financial entities	1 985	-	1 985
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 430	(4)	1 426
to financial entities	21		21
to non-financial entities	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantees for financial entities	205	-	205
Guarantees and pledges granted – domestic municipal bonds	316	-	316
Total	**14 690**	**(44)**	**14 646**
of which performance guarantees granted	2 630	(14)	2 616

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

OTHER FINANCIAL ASSETS

OTHER FINANCIAL ASSETS	31.12.2017		
	Not past due	Past due	TOTAL
impaired	-	98	98
not impaired	1 739	10	1 749
Total, gross	**1 739**	**108**	**1 847**
Impairment allowances	-	(99)	(99)
Total at carrying amount (net)	**1 739**	**9**	**1 748**

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	274	77	(66)	(42)	243	(11)
Equity securities	1	-	-	-	1	-
Total	275	77	(66)	(42)	244	(11)

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	2 144	410	(290)	(147)	(66)	2 051	5	(115)
corporate loans	3 667	1 081	(732)	(240)	(53)	3 723	16	(333)
consumer loans	1 432	651	(403)	(82)	(9)	1 589	2	(246)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
Total	7 320	2 143	(1 427)	(469)	(128)	7 439	23	(693)

(IN PLN MILLION)

30. Non-current assets held for sale

NON-CURRENT ASSETS HELD FOR SALE	30.06.2018	31.12.2017
Investments in subsidiaries	318	601
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	-	283
Qualia Development Sp. z o.o.	318	318
Land and buildings	17	20
Total, gross	**335**	**621**
Impairment allowances	-	(262)
Total, net	**335**	**359**

A decrease in non-current assets held for sale in the first half of 2018 was due to a sale of shares in Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. to Bankowe Towarzystwo Kapitałowe SA (for details, see Note 43).

The Qualia Development Sp. z o.o. Group (according to IFRS)	30.06.2018	31.12.2017
Current assets	399	398
Non-current assets	1	-
Current liabilities	28	28
Non-current liabilities	1	1
	01.01-30.06.2018	01.01-30.06.2017
Revenue	25	145
Profit (loss) on continuing operations	1	54
Profit (loss) on discontinued operations (after tax)	-	1
Profit/(loss) for the period	1	55
Other comprehensive income	-	-
Total comprehensive income	1	55
Dividends received	-	-

31. Intangible assets and property, plant and equipment

Intangible assets

INTANGIBLE ASSETS	30.06.2018	31.12.2017
Software	1 399	1 485
Goodwill	871	871
Customer relationships	20	24
Other, including capital expenditure	211	242
Total	**2 501**	**2 622**

Goodwill

Net goodwill	30.06.2018	31.12.2017
Nordea Bank Polska S.A.	863	863
Centrum Haffnera Sp. z o.o.	8	8
Total	**871**	**871**

(IN PLN MILLION)

Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	30.06.2018	31.12.2017
Land and buildings	1 436	1 481
Machinery and equipment	361	375
Assets under construction	75	128
Other	193	186
Total	**2 065**	**2 170**

32. Other assets

OTHER ASSETS	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	63
Dividend receivables	61	-
Settlements relating to selling foreign currencies	1	2
Assets for sale	50	57
Prepayments	77	62
Trade receivables	110	94
Other	84	66
Total	**2 633**	**1 922**
of which: other financial assets	2 431	1 748

OTHER ASSETS - OTHER FINANCIAL ASSETS	30.06.2018	01.01.2018	31.12.2017
of which: other financial assets	2 431	1 748	1 748

Information on the credit risk exposure in respect of other financial assets was discussed for the first half of 2018 in Note 28 “Expected credit losses”, and for the year 2017 in Note 29 “Impairment of financial assets (comparable data in accordance with IAS 39)”.

33. Amounts due to banks

AMOUNTS DUE TO BANKS	30.06.2018	31.12.2017
Measured at amortized cost	**2 008**	**4 299**
Loans and advances received[1]	-	2 596
Bank deposits	958	1 077
Current accounts	1 000	583
Other monetary market deposits	50	43
Total	**2 008**	**4 299**

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

(IN PLN MILLION)

34. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.06.2018	31.12.2017
Measured at amortized cost	**221 601**	**222 524**
Amounts due to retail customers	152 889	150 537
Current accounts and overnight deposits	93 171	86 612
Term deposits	59 516	63 719
Other liabilities	202	206
Amounts due to corporate entities	49 428	52 696
Current accounts and overnight deposits	34 299	39 719
Term deposits	14 303	11 992
Other liabilities	782	937
Amounts due from repurchase agreements	44	48
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]	8 281	7 882
Total	**221 601**	**222 524**

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

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.06.2018	31.12.2017
retail and private banking	144 591	141 870
corporate	45 417	49 140
small and medium enterprises	23 268	23 584
amounts due from repurchase agreements	44	48
Loans and advances received[1]	8 281	7 882
Total	**221 601**	**222 524**

35. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	30.06.2018	31.12.2017
From banks	-	2 596
Nordea Bank AB	-	2 596
From international financial institutions	2 050	2 000
European Investment Bank	1 383	1 308
Council of Europe Development Bank	667	692
On other liabilities	6 231	5 882
PKO Finance AB	6 231	5 882
Total	**8 281**	**10 478**

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 of 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.

(IN PLN MILLION)

36. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	30.06.2018	31.12.2017
bonds issued by banks, of which:	5 442	5 204
in PLN	646	645
in EUR, translated into PLN	3 286	3 132
in CHF, translated into PLN	1 510	1 427
Total	**5 442**	**5 204**

INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF SECURITIES

ADDITIONAL INFORMATION	30.06.2018	30.06.2017
issuance of debt securities during the period (nominal value)		
in PLN	650	670
in original currency (EUR)	-	-
in original currency (CHF)	-	-
redemption of debt securities during the period (nominal value)		
in PLN	650	815
in original currency (EUR)	-	200

In the first half of 2018, the Bank issued and redeemed securities amounting to PLN 650 million. In 2017, the Bank issued banking bonds with a nominal value of PLN 1 320 million, and Eurobonds with a nominal value of EUR 750 million, and Eurobonds with a nominal value of CHF 400 million, and at the same time, it repurchased EUR banking bonds of EUR 200 million and PLN banking bonds of PLN 1 485 million.

As regards Eurobond issues, two issues were held by the Bank in 2017:

- On 18 July 2017, the Bank issued 4-year Eurobonds of EUR 750 million with the 0.75% coupon (Mid Swap+65 b.p.). The bonds are listed on the Luxembourg Securities Exchange and on the Warsaw Stock Exchange. This issue is the first one held under the new EMTN programme opened in May 2017 for a total of EUR 3 billion. The programme provides for the issue of unsecured senior Eurobonds and subordinated bonds in EUR, USD, CHF and PLN.
- On 19 October 2017, the Bank placed its Eurobonds under the EMTN programme amounting to CHF 400 million, with 4-year maturity and 0.30% coupon (Mid Swap + 58 b.p.). The bonds are listed on the Zurich Securities Exchange.

37. 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 Bank's supplementary funds.

(IN PLN MILLION)

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 Bank obtained a consent for early repayment of a subordinated loan of CHF 224 million (the equivalent of PLN 884 million).

38. OTHER LIABILITIES

OTHER LIABILITIES	30.06.2018	31.12.2017
Expenses to be paid	490	514
Deferred income	531	495
Liability in respect of tax on certain financial institutions	72	75
Dividend payable	688	-
Interbank settlements	670	1 313
Liabilities arising from investing activities and internal operations	129	295
Amounts due to suppliers	107	74
Liabilities and settlements in respect of trading in securities	797	502
Settlements of financial instruments (including unpaid option premium)	286	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	322	120
on contribution accrued by BGF / to be contributed by BGF (resolution fund)	162	-
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	102	148
liabilities in respect of foreign exchange activities	282	350
Liabilities in respect of payment cards	176	259
Settlements relating to buying foreign currencies	30	-
Liabilities to insurance institutions	46	29
Other	134	137
Total	**4 862**	**4 592**
of which: other financial assets	3 013	3 812

As at 30 June 2018, and as at 31 December 2017, the Bank did not have any liabilities in respect of which it did not meet its contractual obligations.

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

(IN PLN MILLION)

39. 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) 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.

FINANCIAL INFORMATION

FOR 6 MONTHS PERIOD ENDED 30 JUNE 2018	Provisions for legal claims	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	Total
31 December 2017, of which:	**18**	**45**	**-**	**86**	**61**	**210**
Short-term provisions	18	7	-	61	61	147
Long-term provisions	-	38	-	25	-	63
Changes due to reclassification, of which:	-	14	21	-	(35)	-
Short-term provisions	-	14	21	-	(35)	-
Long-term provisions	-	-	-	-	-	-
Changes due to IFRS 9 implementation	-	-	-	69	-	69
Short-term provisions	-	-	-	45	-	45
Long-term provisions	-	-	-	24	-	24
1 January 2018 (restated), of which:	**18**	**59**	**21**	**155**	**26**	**279**
Short-term provisions	18	21	21	106	26	192
Long-term provisions	-	38	-	49	-	87
Increase, of which increases of existing provisions	26	-	45	97	67	235
Amounts utilized	(6)	-	(11)	-	-	(17)
Unutilized amounts released during the period	(1)	(14)	(9)	(93)	(14)	(131)
30 June 2018, of which:	**37**	**45**	**46**	**159**	**79**	**366**
Short-term provisions	37	7	46	125	79	294
Long-term provisions	-	38	-	34	-	72

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

A provision for potential returns to customers of fees and commission and a provision for the cost of discharging an obligation arising on provision of free-of-charge services to customers amounting to PLN 62 million are included in “Other provisions, including provisions for employee disputes”, in the line “Increase, including increase in existing provisions” (for details, see Note 47 “Legal claims”).

(IN PLN MILLION)

FOR 6 MONTHS PERIOD ENDED 30 JUNE 2017	Provisions for legal claims	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
1 January 2017, of which:	20	59	59	67	18	223
Short-term provisions	20	21	59	51	18	169
Long-term provisions	-	38	-	16	-	54
Increase, of which increases in existing provisions	2	-	-	113	1	116
Amounts utilized	(6)	-	(21)	-	-	(27)
Unutilized amounts released during the period	(5)	(2)	-	(100)	-	(107)
Other changes and reclassifications	-	-	-	(1)	-	(1)
30 June 2017, of which:	11	57	38	79	19	204
Short-term provisions	11	19	38	64	19	151
Long-term provisions	-	38	-	15	-	53

40. 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	29 168	27 118	27 118
General banking risk fund	1 070	1 070	1 070
Other reserves	3 629	3 593	3 593
Accumulated other comprehensive income	163	18	182
Items which may be reclassified to profit or loss	172	27	191
cash flow hedges	(96)	(75)	(75)
unrealized net gains on available-for-sale financial assets			266
fair value of financial assets measured at fair value through other comprehensive income	268	102	
Items which cannot be reclassified to profit or loss	(9)	(9)	(9)
actuarial gains and losses	(9)	(9)	(9)
Retained earnings	(535)	(535)	-
Net profit or loss for the year	1 510	2 774	2 774
Total	**36 255**	**35 288**	**35 987**

According to the knowledge of PKO Bank Polski SA as at the date of submitting these condensed interim 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.

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%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Funds until 23.06.2015)[1]	100 514 482	8,04%	PLN 1	8,04%
Aviva Open Pension Fund[1]	89 163 966	7,13%	PLN 1	7,13%
Other shareholders[2]	692 402 572	55,40%	PLN 1	55,40%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**
As at 31 December 2017				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Open Pension Fund (ING Open Pension Funds until 23.06.2015)[1]	103 388 120	8,27%	PLN 1	8,27%
Aviva Open Pension Fund[1]	95 163 966	7,61%	PLN 1	7,61%
Other shareholders	683 528 934	54,68%	PLN 1	54,68%
Total	**1 250 000 000**	**100,00%**	---	**100,00%**

1) Calculation of shareholdings as at the end of a given 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 30/06/2018 held 24 487 297 shares, representing 1.96% of the votes at the General Shareholders' Meeting.

(IN PLN MILLION)

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	312 500 000 zł
Series A	ordinary bearer shares	197 500 000	PLN 1	197 500 000 zł
Series B	ordinary bearer shares	105 000 000	PLN 1	105 000 000 zł
Series C	ordinary bearer shares	385 000 000	PLN 1	385 000 000 zł
Series D	ordinary bearer shares	250 000 000	PLN 1	250 000 000 zł
Total	---	**1 250 000 000**	---	**1 250 000 000 zł**

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

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

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

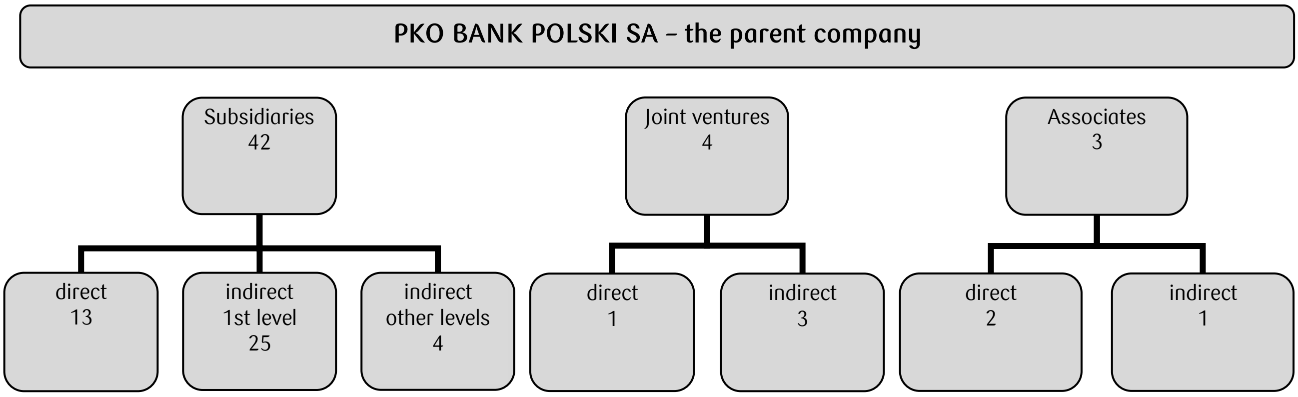
In accordance § 6(2) of the PKO Bank Polski SA's Articles of Association, the conversion of A-series registered shares into bearer shares and the transfer of these shares requires the approval of the Council of Ministers in the form of a resolution. Conversion into bearer shares or the transfer of A-series registered shares, after getting the above-mentioned approval, results in the expiry of the above-mentioned restrictions in respect of shares subject to conversion into bearer shares or transfer, to the extent to which this approval was given.

In accordance with § 6(3), subject to Article 28.2 of the Banking Law, it is not permitted to convert bearer shares into registered shares.

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



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

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

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY	
	DIRECT SUBSIDIARIES		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[3]	Warsaw	100	100
13	NEPTUN - fizan[3]	Warsaw	100	100

1) PKO BP Finat Sp. z o.o. is another shareholder
2) The company is disclosed in non-current assets held for sale
3) PKO Bank Polski SA has investment certificates of the Fund; the share in the Fund's investment certificates of the Fund 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
	4.1 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.			
	GAMMA 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 "Idea Kapitał" Sp. z o.o.	Lviv, Ukraine	100	100
	The Qualia Development Sp. z o.o. Group[4]			
8	Qualia 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 - fizan			
24	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	24.1 "Inter-Risk Ukraina" additional liability company[10]	Kiev, Ukraine	99,90	99,90
	24.2 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
	25.1 "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 without having any capital involvement in it.
2) Previous name: KBC Towarzystwo Funduszy Inwestycyjnych SA; the company was merged with PKO Towarzystwo Funduszy Inwestycyjnych SA.
3) The company was merged with PKO BP Finat Sp. z o.o.
4) In the limited partnerships of 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; in accordance with the Articles of Association 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) Previous name: Qualia 3 spółka z ograniczoną odpowiedzialnością – Neptun Park Sp. k.
6) Previous name: Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k.
7) Previous name: Qualia Hotel Management Sp. z o.o.
8) Liquidation of the company was completed, the company has been deleted from the Register of Businesses.
9) The company has been 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 "Inter Risk Ukraina" additional liability company; up until 6 June 2018, it was a direct subsidiary of PKO Bank Polski SA.
12) The company has been 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 the Bank. The core purpose of the company is to issue mortgage bonds on domestic and foreign markets which constitute the main source of long-term financing of loans secured with mortgage.
PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA	The core business of the company is the creation, representation towards third parties and the management of open and closed investment funds and management of clients' portfolios, 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 open and voluntary pension funds and representing them in contacts with third parties. The company manages PKO BP Bankowy Otwarty Fundusze Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (*Indywidualne Konto Emerytalne* – IKE) and Individual Retirement Security Account (*Indywidualne Konto Zabezpieczenia Emerytalnego* – IKZE) are offered.
PKO BP FINAT SP. Z O.O.	PKO BP Finat Sp. z o.o. provides comprehensive services to companies in the financial sector – including transfer agent, as well as fund and company accounting. It also specializes in the competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the company also provides services as a national payment institution. Its clients are both companies of the Bank's Group, as well as companies outside the Group. In 2016, the company began to handle group insurance dedicated to the products offered by the Bank.
PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA	The company's core business consists of insurance activities in respect of insurance sector I – life insurance. The scope of the company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 3, 4, 5 Section I). The company offers a wide range of insurance products. It focuses on life and health insurance for its clients. It has both separate products and products supplementing the banking products offered by the Bank.
PKO TOWARZYSTWO UBEZPIECZEŃ SA	The company's core business consists of insurance activities in respect of insurance sector II – other personal insurance and property insurance. The scope of the company's activities comprises policies in all groups specified in the PFSA licence (1, 2, 7, 8, 9, 13, 14, 15, 16, 17, 18 Section II). PKO TU SA focuses on insuring against loss of income, private third party liability insurance and sickness insurance as well as real property insurance for loan recipients and clients who draw mortgage loans. The company offers a wide range of insurance products addressed to customers of the Bank and other members of the Bank's Group.

PKO Finance AB	The company conducts financial activities, mainly by seeking financing from international markets by issue of bonds and by lending the funds obtained to other members of the Bank's Group, including PKO Bank Polski SA.
KREDOBANK SA	KREDOBANK SA is a universal bank, focused on the customer service of retail clients and small-and medium-sized enterprises running the business mainly in the western part of Ukraine and in Kiev. At the same time, it 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)

ABRIDGED INFORMATION ON ASSOCIATES AND JOINT VENTURES

The Bank holds the following 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. in liquidation	Katowice	-	100

* share in equity of the direct parent entity

1) In May 2018, the Extraordinary Shareholders' Meeting passed a resolution to dissolve the company.
2) The company's liquidation has been completed; the company has been 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.	Company is a joint investment of PKO Bank Polski SA, Buildco Poznań SA and the City of Poznań which consists of building a hotel in Poznań. The Bank is a member of a syndicate of banks which granted the company an investment loan for the execution of the said project. The hotel was built 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 the main shareholder – Poczta Polska SA 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)

42. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

AS AT 30 JUNE 2018	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 200	-	1 200
KREDOBANK SA	1 072	(793)	279
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan (investment certificates)[1]	132	-	132
Merkury - fiz an (investment certificates)[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard Sp. z o.o.	22	-	22
PKO BP Finat Sp. z o.o.	21	-	21
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(54)	130
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	2	(2)	-
Total	**3 841**	**(849)**	**2 992**

[1] PKO Bank Polski SA holds investment certificates in the Fund allow to control the fund in accordance with the IFRS.

AS AT 31 December 2017	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA	1 200	-	1 200
KREDOBANK SA	1 070	(793)	277
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	-	187
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan (investment certificates)[1]	132	-	132
Merkury - fiz an (investment certificates)[1]	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
PKO BP Finat Sp. z o.o.	21	-	21
ZenCard Sp. z o.o.	18	-	18
JOINT VENTURES			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
ASSOCIATES			
Bank Pocztowy SA	184	(54)	130
FERRUM SA	25	-	25
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	2	(2)	-
Total	**3 860**	**(849)**	**3 011**

[1] PKO Bank Polski SA holds the Fund's investment certificate which, allow the Bank to exercise control the Fund, in accordance with IFRS.

43. CHANGES IN COMPANIES COMPRISING THE GROUP

CHANGES TO COMPANIES OF THE GROUP AND TO OTHER SUBORDINATED ENTITIES

In the first half of 2018, the following selected events which had an impact on the PKO Bank Polski SA Group's structure took place[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.

[1] Information on all changes in the structure of the Group, joint ventures and associates is provided accordingly in the summary of the composition of the Group presented in note 41 and in the summary of subsidiaries, associates and joint ventures presented in note 42.

“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

44. DIVIDENDS PER SHARE AND PROFIT APPROPRIATION

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.

45. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES COMMITMENTS GRANTED

CORPORATE SECURITIES PROGRAMMES COVERED WITH UNDERWRITING AGREEMENTS (THE BANK'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 Organization, Conducting and Servicing of the Bond Issuance Programme. All securities of the Bank under the underwriting programme have unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

CONTRACTUAL COMMITMENTS

CONTRACTUAL COMMITMENTS CONCERNING:	30.06.2018	31.12.2017
intangible assets	35	17
property, plant and equipment	56	72
Total	**91**	**89**

(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	46 714	(107)	46 607
housing	5 071	(18)	5 053
corporate	32 977	(62)	32 915
consumer	8 666	(27)	8 639
Total	**46 714**	**(107)**	**46 607**
of which irrevocable loan commitments	**20 271**	**(38)**	**20 233**
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 331	(49)	8 282
to financial entities	3 167	(7)	3 160
to non-financial entities	5 108	(41)	5 067
to public entities	56	(1)	55
Guarantees and pledges granted – domestic corporate bonds	4 635	-	4 635
to financial entities	2 000	-	2 000
to non-financial entities	2 635	-	2 635
Letters of credit issued	1 302	(3)	1 299
to financial entities	10	-	10
to non-financial entities	1 292	(3)	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	**15 560**	**(52)**	**15 508**
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	46 179	(111)	46 068
housing	4 512	(15)	4 497
corporate	33 364	(71)	33 293
consumer	8 303	(25)	8 278
Total	**46 179**	**(111)**	**46 068**
of which irrevocable loan commitments	**33 607**	**(70)**	**33 537**
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 404	(40)	8 364
to financial entities	2 917	(5)	2 912
to non-financial entities	5 456	(34)	5 422
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	4 335
to financial entities	1 985	-	1 985
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 430	(4)	1 426
to financial entities	21		21
to non-financial entities	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantees for financial entities	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**14 690**	**(44)**	**14 646**
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 39 "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	46 179	(59)	46 120
housing	4 512	(6)	4 506
corporate	33 364	(43)	33 321
consumer	8 303	(10)	8 293
Total	**46 179**	**(59)**	**46 120**
of which irrevocable loan commitments	33 607	(51)	33 556
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 404	(25)	8 379
to financial entities	2 917	(3)	2 914
to non-financial entities	5 456	(21)	5 435
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	4 335
to financial entities	1 985	-	1 985
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 430	(2)	1 428
to financial entities	21	-	21
to non-financial entities	1 409	(2)	1 407
Guarantees and warranties granted – payment guarantees for financial entities	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	**14 690**	**(27)**	**14 663**
of which performance guarantees granted	2 630	(9)	2 621

OFF-BALANCE SHEET 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 - financial	10 301	3 009	15 431	9 913	8 060	46 714
liabilities granted - guarantees and pledges	509	799	4 058	7 813	2 381	15 560
Total	10 810	3 808	19 489	17 726	10 441	62 274

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	7 547	2 672	13 253	14 915	7 792	46 179
liabilities granted - guarantees and pledges	751	506	3 232	8 010	2 191	14 690
Total	8 298	3 178	16 485	22 925	9 983	60 869

(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, gross (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 provisions	Total, net
Financial liabilities granted:									
Credit lines and limits	42 059	(60)	4 147	(29)	508	(18)	46 714	(107)	46 607
housing	4 548	(9)	513	(6)	10	(3)	5 071	(18)	5 053
corporate	29 975	(41)	2 512	(8)	490	(13)	32 977	(62)	32 915
consumer	7 536	(10)	1 122	(15)	8	(2)	8 666	(27)	8 639
							-	-	-
Total	**42 059**	**(60)**	**4 147**	**(29)**	**508**	**(18)**	46 714	(107)	46 607
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	6 721	(20)	1 461	(3)	149	(26)	8 331	(49)	8 282
to financial entities	3 167	(7)					3 167	(7)	3 160
to non-financial entities	3 498	(12)	1 461	(3)	149	(26)	5 108	(41)	5 067
to public entities	56	(1)					56	(1)	55
Guarantees and pledges granted – domestic corporate bonds	4 635	-	-	-	-	-	4 635	-	4 635
to financial entities	2 000	-	-	-	-	-	2 000	-	2 000
to non-financial entities	2 635	-	-	-	-	-	2 635	-	2 635
Letters of credit issued	1 292	(2)	9	(1)	1	-	1 302	(3)	1 299
to financial entities	10						10	-	10
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	**13 940**	**(22)**	**1 470**	**(4)**	**150**	**(26)**	15 560	(52)	15 508
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, gross (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 provisions	Total, net
Financial liabilities granted:									
Credit lines and limits	44 258	(71)	1 625	(17)	296	(23)	46 179	(111)	46 068
housing	4 481	(11)	26	(1)	5	(3)	4 512	(15)	4 497
corporate	32 587	(50)	494	(3)	283	(18)	33 364	(71)	33 293
consumer	7 190	(10)	1 105	(13)	8	(2)	8 303	(25)	8 278
									-
Total	**44 258**	**(71)**	**1 625**	**(17)**	**296**	**(23)**	46 179	(111)	46 068
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	7 951	(29)	44	(1)	409	(10)	8 404	(40)	8 364
to financial entities	2 917	(5)	-	-	-	-	2 917	(5)	2 912
to non-financial entities	5 003	(23)	44	(1)	409	(10)	5 456	(34)	5 422
to public entities	31	(1)					31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	4 335	-	-	-	-	-	4 335	-	4 335
to financial entities	1 985	-	-	-	-	-	1 985	-	1 985
to non-financial entities	2 350	-	-	-	-	-	2 350	-	2 350
Letters of credit issued	1 427	(3)	3	(1)	-	-	1 430	(4)	1 426
to financial entities	21	-	-	-	-	-	21	-	21
to non-financial entities	1 406	(3)	3	(1)		-	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantees for financial entities	205	-	-	-	-	-	205	-	205
Guarantees and pledges granted - domestic municipal bonds	316	-	-	-	-	-	316	-	316
							-	-	-
Total	**14 234**	**(32)**	**47**	**(2)**	**409**	**(10)**	14 690	(44)	14 646
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	44 268	2 068	344	3	2	29	-	46 714
housing	4 581	484	3	-	-	3	-	5 071
corporate	31 244	1 481	225	2	1	24	-	32 977
consumer	8 443	103	116	1	1	2	-	8 666
Total	44 268	2 068	344	3	2	29	-	46 714
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	6 972	1 322	23	7	-	7	-	8 331
to financial entities	3 167	-	-	-	-	-	-	3 167
to non-financial entities	3 758	1 319	17	7	-	7	-	5 108
to public entities	47	3	6	-	-	-	-	56
Guarantees and pledges granted - domestic corporate bonds	4 635	-	-	-	-	-	-	4 635
to financial entities	2 000	-	-	-	-	-	-	2 000
to non-financial entities	2 635	-	-	-	-	-	-	2 635
Letters of credit issued	1 292	9	-	1	-	-	-	1 302
to financial entities	10	-	-	-	-	-	-	10
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	14 191	1 331	23	8	-	7	-	15 560

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	(89)	(15)	(1)	(1)	-	(1)	-	(107)
housing	(13)	(5)	-	-	-	-	-	(18)
corporate	(52)	(7)	(1)	(1)	-	(1)	-	(62)
consumer	(24)	(3)	-	-	-	-	-	(27)
Total	(89)	(15)	(1)	(1)	-	(1)	-	(107)
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 financial entities	-	-	-	-	-	-	-	-
to non-financial entities	-	-	-	-	-	-	-	-
Letters of credit issued	(3)	-	-	-	-	-	-	(3)
to financial entities	-	-	-	-	-	-	-	-
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	44 179	2 053	343	2	2	28	-	46 607
housing	4 568	479	3	-	-	3	-	5 053
corporate	31 192	1 474	224	1	1	23	-	32 915
consumer	8 419	100	116	1	1	2	-	8 639
Total	44 179	2 053	343	2	2	28	-	46 607
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	6 929	1 319	23	5	-	6	-	8 282
to financial entities	3 160	-	-	-	-	-	-	3 160
to non-financial entities	3 723	1 316	17	5	-	6	-	5 067
to public entities	46	3	6	-	-	-	-	55
Guarantees and pledges granted - domestic corporate bonds	4 635	-	-	-	-	-	-	4 635
to financial entities	2 000	-	-	-	-	-	-	2 000
to non-financial entities	2 635	-	-	-	-	-	-	2 635
Letters of credit issued	1 289	9	-	1	-	-	-	1 299
to financial entities	10	-	-	-	-	-	-	10
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	14 145	1 328	23	6	-	6	-	15 508

Transfers between impairment stages were presented in the nominal amount and provisions 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.

(IN PLN MILLION)

46. OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.06.2018	31.12.2017
Financial	485	95
Guarantees	9 799	14 066
Total	**10 284**	**14 161**

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

In the first half of 2018, the Bank issued a termination notice for a guarantee from a counterparty which ensured unfunded credit protection for a portfolio of selected corporate credit receivables of the Bank amounting to PLN 4 505 million and the State Treasury guarantees of 204 million PLN reached their maturity. The latter guarantees related to the "old portfolio" housing loans and had been granted pursuant to the Act of 29 November 2000 on the State Treasury's guaranteeing certain housing loans.

Due to the provisions of the Agreement which require the Nordea Bank AB (publ) Group to participate in the credit risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the 'Special Indemnity Agreement'), according to which Nordea Bank AB (publ) covered, up to 30 March 2018, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement, which estimated fair value on 31 December 2017 was zero. During the term of the agreement, no losses resulting in a need for Nordea AB to pay funds to the Bank were recorded.

47. LEGAL CLAIMS

As at 30 June 2018, the total amount of litigation (suits) where the Bank is the defendant, was PLN 1 701 million (as at 31 December 2017 the total amount of the said litigation was PLN 1 659 million), and the total number of suits as at 30 June 2018 where the Bank is the plaintiff was PLN 950 million (as at 31 December 2017 the total amount under said litigation was PLN 1 190 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) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization – Employers Association (*Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców* – POHiD) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/Eurocard/Mastercard banking cards. The claims under these proceedings relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using the above cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint establishment of the 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among others, PKO Bank Polski SA, of PLN 16.6 million. The Bank appealed against the decision of the President of UOKiK to CCCP (Court for Competition and Consumer Protection / *Sąd Ochrony Konkurencji i Konsumentów* – SOKiK). By 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 complaint filed by the Bank, in its judgement of 25 October 2017, the Supreme Court waived the disputed judgement of the Court of Appeal in Warsaw and referred the case for re-consideration. The penalties levied on the Bank and paid by it were returned to the Bank on 21 March 2018. The 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 recognized a provision for this claim of PLN 21 million.

As at 30 June 2018, the Bank was a party to the following proceedings:

Proceedings resulting from a decision of the President of the UOKiK in respect of the suspicion of using prohibited contractual provisions in templates of consumer loan agreements, with the exclusion of credit card agreements, which the Bank appealed against to the SOKiK

By decision of 31 December 2013, the Bank's activities were considered to be practices violating the collective interests of consumers and a fine amounting to PLN 29 million was imposed on the Bank by the President of UOKiK. The Bank appealed against this decision to SOKiK. By 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 judgement. In its judgement of 31 May 2017, the Court of Appeal in Warsaw upheld the SOKiK judgement in part, i.e. it upheld the judgement on waving the penalty in the amount of PLN 17 million. In respect of the second alleged prohibited practice (one-day information form expiring after one day), the Court of Appeal accepted UOKiK's appeal as justified, because the application of a form with one-day "validity" did not allow consumers to become acquainted with the terms and conditions of the loan and to compare the offers of various banks. The Court of Appeal reduced the penalty levied by UOKiK from PLN 12 million to PLN 6 million. The penalty was repaid in July 2017 (the cost was incurred in the second quarter of 2017). On 23 October 2017, the Bank lodged a cassation appeal against the judgement of the Court of Appeal. A cassation appeal was also lodged by the President of the 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: two 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 are pending before the President of UOKiK which were initiated by the President of UOKiK *ex officio:*

1) the proceedings initiated *ex-officio* on 12 October 2016 in respect of the alleged practices applied by PKO BP SA which violate the collective interests of consumers. The alleged violation involves informing of the proposed changes to the conditions of the agreement during its performance exclusively using electronic communications sent through electronic banking channels. The second of the alleged violations relates to the failure to indicate in the correspondence concerning one-sided amendment of the terms of the agreement the relevant information that would enable the consumers to evaluate the acceptability of the proposed changes, i.e. failure to provide the legal basis and the actual basis being the reason for the changes. On 27 June 2018, the Bank recorded a provision of PLN 62 million in connection with the submission of application for a commitment decision. The deadline for closing the proceedings was extended to 12 November 2018;
2) the proceedings initiated *ex officio* on 28 June 2017 for regarding the provisions of the agreement template as prohibited. The Bank's alleged violation is related to using contractual provisions in the Bank's templates of mortgage loan and advances agreements revalued/ indexed/ denominated in foreign currencies which can be regarded as prohibited provisions. Actions are being taken in order to conclude the proceedings. The deadline for closing the proceedings was set on 31 December 2018. As at 30 June 2018, the Bank did not have a provision for this claim;
3) the proceedings initiated *ex officio* on 26 July 2018 in respect of the alleged practices which violate the collective interests of consumers. The Bank's alleged violation consists of collecting from consumers higher instalments of loans and advances denominated in foreign currencies than arises from the instructions concerning currency risk presented to the consumers before concluding the agreements and shifting the potential currency risk to the consumers. The Bank responded to the charges in its letter on 23 September

2017. The deadline for closing the proceedings was extended to 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 addresses of the President of UOKiK without initiating proceedings (under Article 49a of the Act on Competition and Consumer Protection).

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 for losses incurred as a result of failing to grant disaster loans, without grounds for doing so, due to the alleged lack of cooperation on the part of the Bank, which in consequence is leded to a family farm being lost by the plaintiffs. The case is currently 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 Urban Spokesman for the Consumers of the Capital City of Warsaw lodged a claim in the name of 66 persons – clients of a developer, for confirming the non-existence of the right from the contractual joint ordinary mortgage of PLN 12 million revealed in the land and mortgage register of the real estate owned by the persons in the name of whom the Spokesman acts; or for the Bank to commit itself to making a declaration of intent, i.e. to agree to deleting the above-mentioned mortgage. By the ruling of 30 September 2016, the Circuit Court in Warsaw granted the action and confirmed the non-existence of the contractual mortgages set up on the apartments, pointing to the lack of an agreement concluded between the Bank and the developer for dividing up the mortgage at the moment of separating out the individual apartments. The Bank lodged an appeal against the above-mentioned ruling and is currently waiting for the date of the hearing to be set. 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 as damages for a loss incurred in the property of the Bank's Client in connection with negligent, in the opinion of the Plaintiff, PIT 8 C tax information for the years 2007, 2008 and 2009 issued by Dom Maklerski PKO BP; the case is currently pending before the first instance court;
4) In March 2016, the Bank received a claim brought by the Receiver of a joint stock company under liquidation bankruptcy for considering void a legal transaction relating to the joint stock company consisting of setting up a joint contractual mortgage for the Bank amounting to PLN 53 million, set up on real estate as collateral for four investment loan agreements. By a decision dated 20 September 2017, the Circuit Court in Warsaw repealed the claim 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 from a joint stock company in liquidation for establishing the invalidity of a pledge agreement of this joint stock company for the repayment of a loan granted by SKOK Wesoła in Mysłowice (whose legal successor is the Bank) to the chairman of the management board of the plaintiff's sole shareholder, and a statement of submission to execution in connection with the pledge; the action has been validly dismissed by both instances of courts due to a lack of the plaintiff's legal interest; a cassation complaint has been lodged in the case; the Supreme Court has not yet made a decision concerning 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 loss incurred as a result of the Bank's failure to release funds as part of an investment loan; the plaintiff is arguing that the purpose of this loan agreement was to consolidate previous liabilities and set new terms for repaying the debt, whereas failure to release the loan resulted in the liabilities being placed on demand and subjected to bank restructuring procedure; the proceedings are currently 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, 565 court cases were pending against the Bank, instituted by the Bank's customers in connection with agreements concluded for granting loans in Swiss francs. The main claims of the Bank's customers are related to establishing the invalidity of the whole or a part of a loan agreement or for reimbursement of payments which were allegedly not due, in connection with the abusive nature of the foreign currency clauses; the valid rulings issued so far are favourable to the Bank; there has been no valid ruling confirming the validity of the customers' claims, and none of the clauses used in the agreements has been entered in the register of prohibited clauses.

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

As at the date of these financial statements there are two proceedings, including one suspended, in respect of the Bank's properties, relating to declaring invalid the decisions which denied the Bank the right to temporary ownership which would transfer the properties under its administration and on obtaining *ex officio* the right of perpetual usufruct to the land and ownership of the building, return of real property, and regulation of the legal status of the property.

(IN PLN MILLION)

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

48. 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, as well as 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	8 449	15 800	13 568
Deposits with the Central Bank	1 450	1 965	-
Current amounts due from banks	4 652	4 765	2 957
Restricted cash and cash equivalents	8	11	11
Total	**14 559**	**22 541**	**16 536**

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 8 million (as at 31 December 2017: PLN 11 million) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of 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.

49. 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 note 40, "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 statement of financial position.

Pursuant to the Act of 30 November 1995 on state support in the repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain Acts, PKO Bank Polski SA receives payments from the State budget as the 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, 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 successively (to 2026) completely settled. The Bank conducts settlements in respect of the repurchase of interest on housing loans by the State budget and the respective commission in received the first half of 2018 and in the first half of 2017 amounted to PLN 1 million.

(IN PLN MILLION)

As of 1 January 1996, the Bank became the general distributor of court fee stamps. The Bank receives commissions in this respect from the State Treasury – PLN 1 million in the first half of 2018 and PLN 3 million in the first half of 2017.

Dom Maklerski of PKO Bank Polski SA plays the role of an agent for the issue of retail treasury bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Dom Maklerski of PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds – PLN 35 million in the first half of 2018 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.

	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, the interest and commission income on transactions with the 10 counterparties referred to above amounted to PLN 73 million (2017: PLN 13 million) and the costs of interest amounted to PLN 16 million (2017: PLN 1 million). No individual impairment write-downs were recognized with respect to the above-mentioned receivables as at 30 June 2018 and 31 December 2017, respectively.

The other transactions concluded with the State Treasury's related entities comprised loans and borrowings granted, credit lines, guarantees granted and deposits made.

EQUITY RELATED PARTY TRANSACTIONS

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

AS AT 30 JUNE 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	108	-	5	112
Merkury - fiz an and its subsidiaries	-	-	18	-
NEPTUN - fizan and its subsidiaries	172	172	61	-
PKO Bank Hipoteczny SA	3 799	1 404	250	2 997
PKO BP BANKOWY PTE SA	-	-	14	-
PKO BP Finat Sp. z o.o.	-	-	51	1
PKO Finance AB	-	-	6 231	-
PKO Leasing SA and its subsidiaries	13 829	13 829	113	4 919
PKO Towarzystwo Funduszy Inwestycyjnych SA	11	-	138	-
PKO Towarzystwo Ubezpieczeń SA	-	-	15	-
PKO Życie Towarzystwo Ubezpieczeń SA	1	-	437	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	258	-
ZenCard Sp. z o.o.	-	-	1	-
Total subsidiaries	**17 920**	**15 405**	**7 592**	**8 030**

(IN PLN MILLION)

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**

AS AT 31 DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
KREDOBANK SA and its subsidiary	93	-	9	105
Merkury - fiz an and its subsidiaries	-	-	10	-
NEPTUN - fizan and its subsidiaries	203	203	57	-
PKO Bank Hipoteczny SA	4 258	1 477	5	2 912
PKO BP BANKOWY PTE SA	-	-	12	-
PKO BP Finat Sp. z o.o.	1	-	42	1
PKO Finance AB	-	-	5 882	-
PKO Leasing SA and its subsidiaries	12 550	12 546	66	5 332
PKO Towarzystwo Funduszy Inwestycyjnych SA	26	-	67	-
PKO Towarzystwo Ubezpieczeń SA	-	-	8	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	441	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	238	-
Total subsidiaries	**17 131**	**14 226**	**6 837**	**8 351**

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

FOR THE PERIOD ENDED 30 JUNE 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	1	1	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	120	112	1	1
PKO BP Finat Sp. z o.o.	2	-	3	-
PKO Finance AB	-	-	139	139
PKO Leasing SA and its subsidiaries	153	139	8	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	128	62	1	1
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	5	5
Qualia Development Sp. z o.o. and its subsidiaries	-	-	1	1
Total subsidiaries	**405**	**315**	**158**	**147**

FOR THE PERIOD 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**

FOR THE PERIOD ENDED 30 June 2017 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	5	5	-	-
NEPTUN - fizan and its subsidiaries	1	1	-	-
PKO Bank Hipoteczny SA	42	37	-	-
PKO BP BANKOWY PTE SA	6	-	-	-
PKO BP Finat Sp. z o.o.	47	-	9	-
PKO Finance AB	-	-	115	114
PKO Leasing SA and its subsidiaries	139	133	7	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	187	126	1	1
PKO Towarzystwo Ubezpieczeń SA	31	-	9	-
PKO Życie Towarzystwo Ubezpieczeń SA	8	-	7	4
Qualia Development Sp. z o.o. and its subsidiaries	-	-	1	2
Total subsidiaries	**466**	**302**	**149**	**121**

FOR THE PERIOD 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 Bank through the key management personnel of PKO Bank Polski SA or close family members of the key management personnel. In the first half of 2018 and in the first half of 2017, no transactions were conducted between the Bank and that entity.

Benefits for the PKO Bank Polski SA key management

Remuneration received by members of the Supervisory Board and the Management 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) passed a resolution on the principles for calculating the remuneration of Management Board and Supervisory Board members, proposed by the State Treasury represented by the Minister of Development and Finance who exercised the rights from the Bank shares held by the State Treasury. In accordance with the resolution, the principles for remunerating the members of the Management Board and Supervisory Board of PKO Bank Polski SA must be adjusted to the provisions of the Act on principles of remunerating people who manage certain companies. On the basis of the said resolution, the Supervisory Board introduced new principles for hiring and remunerating Management Board members, which are consistent with the provisions of the Act on principles of remunerating people who manage certain companies.

These principles entered into force on 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 any remuneration from the Bank's related entities.

50. 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 the 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 Bank 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 Dom Maklerski 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 Bank 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 rates, 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 COOPERATIVE 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
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)

(IN PLN MILLION)

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	654	-	654	-
Other derivative instruments	1 983	3	1 980	-
Securities	**51 346**	**36 370**	**13 259**	**1 717**
held for trading	1 172	1 172	-	-
debt securities	1 148	1 148	-	-
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	1 700	1 249	79	372
debt securities	1 374	1 183	78	113
shares in other entities - listed	66	66	-	-
shares in other entities - not listed	260	-	1	259
measured at fair value through other comprehensive income	48 474	33 949	13 180	1 345
debt securities	48 474	33 949	13 180	1 345
Loans and advances to customers	**8 678**	-	-	**8 678**
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
measured at fair value through other comprehensive income	7 690	-	-	7 690
housing loans	7 690	-	-	7 690
Total financial assets measured at fair value	**62 661**	**36 373**	**15 893**	**10 395**

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	569	-	569	-
Other derivative instruments	2 142	1	2 141	-
Total financial liabilities measured at fair value	**2 711**	**1**	**2 710**	-

(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	472	470	2	-
Debt securities	446	444	2	-
Shares in other entities	19	19	-	-
Investment certificates, rights to shares, pre-emptive rights	7	7	-	-
Derivative financial instruments	2 805	1	2 804	-
Hedging instruments	1 104	-	1 104	-
Trading instruments	1 701	1	1 700	-
Financial instruments designated at fair value through profit or loss upon initial recognition	6 409	2 027	4 382	-
Available-for-sale investment securities	41 985	32 795	7 024	2 166
Debt securities	41 560	32 745	7 024	1 791
Equity securities	173	50	-	123
Participation units in a collective investment undertaking	252	-	-	252
Total financial assets measured at fair value	**51 671**	**35 293**	**14 212**	**2 166**
Derivative financial instruments	2 741	-	2 741	-
Hedging instruments	204	-	204	-
Trading instruments	2 537	-	2 537	-
Total financial liabilities measured at fair value	**2 741**	**-**	**2 741**	**-**

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

Starting from 2018, at level 3 of the fair value hierarchy, the Bank discloses housing loans measured at fair value through other comprehensive income and 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 at amortized cost.

In connection with the adoption of IFRS 9, the following equity instruments were also disclosed at level 3 of the fair value hierarchy:

- Shares in 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 in Krajowa Izba Rozliczeniowa SA

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.06.2018 Fair value acc. to positive scenario	30.06.2018 Fair value acc. to negative scenario	31.12.2017 Fair value acc. to positive scenario	31.12.2017 Fair value acc. to 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		
Corporate bonds[3]	113	113		
Equity securities[4]	116	105		
Measured at fair value through other comprehensive income				
Corporate bonds[3]	1 348	1 342		
Housing loans[1]	7 913	7 475		
Available-for-sale investment securities				
Participation units in a collective investment undertaking[5]			264	239
Shares in Visa Inc.[2]			129	103
Corporate bonds[3]			**1 799**	**1 783**

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 credit spread of +/- 10%

[4] Scenario assuming a change in the projected company's net assets of +/- 5%

[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 FAIR VALUE CHANGES AT LEVEL 3 OF FAIR VALUE HIERARCHY DURING THE PERIOD	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	9 420	
Loans and advances to customers not held for trading, mandatorily measured at fair value through profit or loss	1 070	
Loans and advances to customers measured at fair value through other comprehensive income	8 235	
Equity instruments at fair value through profit or loss	115	
Opening balance at the beginning of the period – restated	**11 586**	
Foreign exchange differences	17	(24)
Participation units in a collective investment undertaking	7	(13)
Other equity instruments	10	(11)
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)	-
Loans granted to customers during the period	1 049	
Measured at fair value through other comprehensive income	1 049	
Sale / repayment of loans during the period	(1 715)	
Not held for trading, mandatorily measured at fair value through profit or loss	(82)	
Measured at fair value through other comprehensive income	(1 633)	
Net gain/(loss) in financial instruments measured at fair value through profit or loss	17	-
Participation units in a collective investment undertaking	6	-
Other equity instruments	11	-
Remeasurement recognized in other comprehensive income	29	43
Loans and advances to customers	38	
Corporate bonds	(9)	20
Participation units in a collective investment undertaking		(1)
Shares in Visa Inc.		24
As at the end of the period	**10 395**	**2 921**

(IN PLN MILLION)

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

	level of fair value hierarchy	valuation method	30.06.2018 carrying amount	fair value
Cash and balances with Central Bank	n/a	at amounts due	9 899	9 899
Amounts due from banks			8 302	8 302
measured at amortized cost	2	discounted cash flows	8 302	8 302
Securities			6 315	6 315
measured at amortized cost	3	discounted cash flows	6 315	6 315
debt securities (Treasury bonds)	1	market quotations	1 819	1 819
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			177 240	174 500
measured at amortized cost	3	discounted cash flows	177 240	174 500
housing loans	3	discounted cash flows	82 594	78 508
corporate loans	3	discounted cash flows	69 579	68 353
consumer loans	3	discounted cash flows	24 443	27 015
receivables in respect of repurchase agreements	2	discounted cash flows	624	624
Other financial assets	3	at amount due less impairment allowance	2 431	2 431
Amounts due to the Central Bank	2	at amounts due	5	5
Amounts due to banks			2 008	2 008
measured at amortized cost	2	discounted cash flows	2 008	2 008
Amounts due to customers			221 601	221 644
measured at amortized cost	2	discounted cash flows	221 601	221 644
amounts due to retail customers	3	discounted cash flows	152 889	152 826
amounts due to business entities	3	discounted cash flows	49 428	49 428
amounts due to public entities	3	discounted cash flows	11 003	11 003
loans and advances received	3	discounted cash flows	8 281	8 387
Debt securities in issue			5 442	5 442
measured at amortized cost	1, 2	market quotations/discounted cash flows	5 442	5 442
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	3 013	3 013

	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	17 765	17 765
Amounts due from banks	2	discounted cash flows	8 769	8 769
Loans and advances to customers			**186 893**	**184 479**
housing loans	3	discounted cash flows	90 209	86 008
corporate loans	3	discounted cash flows	67 139	67 093
consumer loans	3	discounted cash flows	24 275	26 108
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	3	discounted cash flows	902	902
Investment securities held to maturity	3	discounted cash flows	1 622	1 622
Other financial assets	3	at amount due less impairment allowance	1 748	1 748
Amounts due to the Central Bank	2	at amounts due	6	6
Derivatives	2	discounted cash flows	4 299	4 299
Amounts due to customers			**222 524**	**222 761**
to corporate entities	3	discounted cash flows	52 696	52 696
to public entities	3	discounted cash flows	11 409	11 409
to retail customers	3	discounted cash flows	150 537	150 473
loans and advances received	3	discounted cash flows	7 882	8 183
Debt securities in issue	1, 2	market quotations/discounted cash flows	5 204	5 204
Subordinated liabilities	2	discounted cash flows	1 720	1 720
Other financial liabilities	3	at amounts due	3 812	3 812

52. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank offsets financial assets and liabilities and presents 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. In order for offsetting to be possible, the legal right may not be contingent on the occurrence of a specific future event.

The Group enters into offsetting arrangements, i.e. International Swaps and Derivatives Association Master Agreements (ISDA) and Global Master Repurchase Agreements (GMRA), which make it possible to offset financial assets and liabilities (so-called close out netting) in the event of an infringement with respect to one of the parties to the agreement.

(IN PLN MILLION)

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).

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

Liabilities in respect of repurchase transactions

Financial assets which are not derecognized by the Bank include assets put up as collateral for liabilities in respect of repurchase transactions (Treasury bonds).

CARRYING AMOUNT	30.06.2018	31.12.2017
Debt securities	43	48
Transactions with repurchase agreements	44	48
Net balance	(1)	-

Liabilities from the negative valuation of derivative instruments

Cash deposits with banks include assets held as collateral for own liabilities, including settlements relating to the negative valuation of derivative instruments. As at 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, the deposit guarantee and resolution system. 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.

(IN PLN MILLION)

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 payment commitments include Treasury bonds pledged for BGF in an amount which ensures maintaining the ratio of the value of property rights securing payment commitments to the amount of payment commitments of no less than 110%. For the purposes of establishing the minimum ratio of assets to the amount of payment commitment, the value of property rights securing payment commitments 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 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 payment commitments 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 payment commitments.

LEGAL LIMITATIONS RELATING TO THE BANK'S TITLE

In the period of 6 months ended 30 June 2018 and in the year ended 31 December 2017, there were no intangible assets or property, plant and equipment items to which the Bank's legal title would be limited and pledged as collateral for the Bank's liabilities.

TRANSFERRED FINANCIAL ASSETS

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

54. 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 domestic and foreign markets, provides fiduciary services and is a depository of pension and investment funds. Assets held by the Bank as part of providing fiduciary services have not been disclosed in these condensed interim financial statements since they do not meet the definition of the Bank's assets.

RISK MANAGEMENT OBJECTIVES AND POLICIES

55. Risk Management in the Bank

Risk management is one of the most important internal processes at PKO Bank Polski SA. Risk management is aimed at ensuring the profitability of business activities while maintaining an adequate level of capital adequacy measures and monitoring the risk level, keeping the risks within the risk tolerances and limits adopted by the Bank, in a changing macroeconomic and legal environment. The risk management system supports the execution of the Bank's Strategy in compliance with the Risk Management Strategy. It includes the achievement of the desired capital targets, the level of risk tolerance and the process of capital planning, including the policy for obtaining sources of capital.

The components of the risk management system, i.e. definition of risks, risk management objectives, risk identification, measurement or assessment, risk control, forecasting and monitoring, reporting and management actions for the material risks identified by the Bank have been described in detail in the separate financial statements of PKO Bank Polski S.A. for 2017 and in the report on Capital Adequacy, and in other information subject to publication of the Powszechna Kasa Oszczędności Bank Polski S.A. Group as at 31 December 2017.

Risk management objective

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

- protect shareholder value;
- protect customer deposits;
- support the Bank 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.

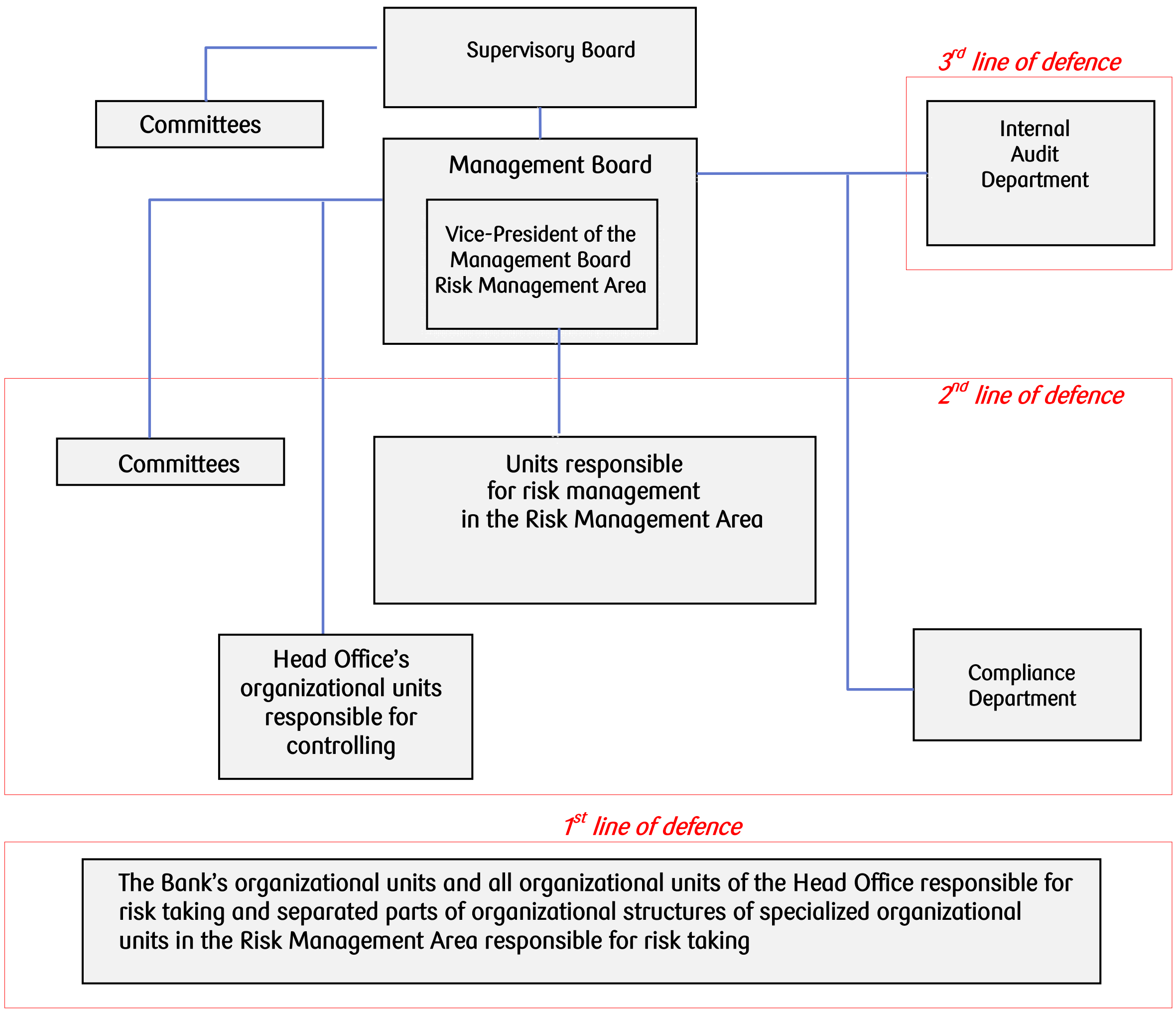
Key risk management policies

Risk management at PKO Bank Polski SA is based, in particular, on the following principles:

1) the Bank manages all the risks identified;
2) the risk management process supports the pursuit of the Bank's strategy in compliance with the risk management strategy, in particular with reference to the scope 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) the methods of identification, measurement or assessment, monitoring and managing risks are adequate to the level of risk tolerance adopted by the Bank. Material types of risk to which the Bank is exposed are identified respectively when business decisions are taken;
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 Bank and its operating environment, and are periodically verified and validated;
6) the Management Board specifies the types of risk subject to management and the Head Office's organizational units and specialist organizational units responsible for managing those types of risks;
7) The Bank allocates the resources necessary to effectively manage risk;
8) The Bank develops contingency plans in the event of crisis situations occurring, which could have a particularly material impact on the Bank's operations, in particular the contingency plans required by the universally binding legal regulations and the Bank's internal regulations;
9) Financial, capital and strategic plans are verified and assessed in respect of the generated risk levels;
10) the process of managing the given risks and the capital adequacy is adequately regulated in respect of the degree of complexity and materiality of the risk, in the Bank's internal regulations relating to the principles of managing that type of risk and the principles for managing capital adequacy and own funds.

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

The organization of risk management in PKO Bank Polski SA is presented in the 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 assesses whether the elements of the risk management system contribute to ensuring the correctness of the process of setting and pursuing the Bank's detailed goals. In particular, it verifies whether the system applies formalized procedures to determine the amount of risk accepted and the policies for risk management, as well as formalized procedures for the identification, measurement, assessment and monitoring of the Bank's operational risks, which also account for the anticipated future risk levels. It verifies whether formalized risk mitigation limits, and policies for proceeding in the event the limits are exceeded, are applied under the risk management system, and whether the adopted management reporting system enables monitoring the risk levels. The Supervisory Board evaluates if the risk management system is updated on an on-going basis to take into account new risk factors and sources. The Supervisory Board is supported by the following committees: the Supervisory Board Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

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

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

The risk management process is carried out through 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. 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.

THE SECOND LINE OF DEFENCE covers the compliance units and involves identification, measurement, evaluation or control, monitoring and reporting of significant types of risks, and of the threats and irregularities identified; the tasks are executed by dedicated organizational structures acting on the basis of the applicable internal regulations of PKO Bank Polski SA. The objective of these structures is to ensure that the tasks performed as part of the first line of defence are properly governed in the internal regulations of PKO Bank Polski SA and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. The function is performed, in particular, by the Risk Management Area, the Compliance Department and relevant committees. The second line of defence supports taking actions aimed at eliminating unfavourable deviations from the financial plan in respect of the inflows with an impact on the quantitative strategic risk tolerance limits included in the financial plan. These tasks are performed in particular by the organizational units of the Head Office responsible for controlling.

THE THIRD LINE OF DEFENCE constitutes an internal audit which performs independent audits of the components of the Bank's management system, including the risk management system and the internal control system. The internal audit operates independently of the first and second line of defence and may support the actions performed here through consultations, but without the possibility of influencing the decisions taken.

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

- the function of the second line of defence as regards creating systemic 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.

SPECIFIC ACTIONS IN THE AREA OF RISK MANAGEMENT IN THE BANK TAKEN IN THE FIRST HALF OF 2018

1) On 8 February 2018, the Bank made full early repayment of a credit line granted by Nordea Bank AB (publ) based on an agreement of 1 April 2014. The Bank provided information about concluding the agreement with Nordea Bank AB (publ) and the terms and conditions of its conclusion in current report No. 26/2014. Formerly, the credit facility had been granted for a period of 7 years, and therefore, the Bank repaid it early, 3 years before its initial maturity;
2) On 8 March 2018 the Polish Financial Supervision Authority gave its consent to earmarking the funds obtained from subordinated bonds issued on 5 March 2018, with a total nominal value of PLN 1 000 000 000, for increasing the Bank's Tier 2 capital base on Article 127 Section 2 point 2 of the Banking Law in connection with Article 63 of the Regulation (EU) No. 575/2013 of the European Parliament and Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012;
3) on 18 May 2018 the Bank converted its short-term notes of PLN 650 million into bonds maturing after 6 months in the same amount.
4) the Bank participates in a consecutive edition of European stress-tests conducted by the European Banking Authority (EBA). EBA is planning the publication of the results of the stress-tests by 2 November 2018.

(IN PLN MILLION)

56. CREDIT RISK MANAGEMENT

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

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	30.06.2018
Hedging derivatives	654
Other derivative instruments	1 983
Securities:	2 872
held for trading	1 172
not held for trading, mandatorily measured at fair value through profit or loss	1 700
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	**6 497**

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2017
Hedging derivatives	1 104
Other derivative instruments	1 701
Securities	6 881
held for trading	472
financial instruments designated at fair value through profit or loss upon initial recognition	6 409
Total	**9 686**

(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:	1 016	-	-	1 016	787	351	-	1 138	211	168	2 266	2 645	4 799
bank loans	1 016	-	-	1 016	787	351	-	1 138	211	168	2 266	2 645	4 799
housing	452	-	-	452	560	196		756	57	74	448	579	1 787
corporate	311	-	-	311	93	55		148	121	53	1 443	1 617	2 076
consumer	253	-	-	253	134	100	-	234	33	41	375	449	936
Total, net	**1 016**	**-**	**-**	**1 016**	**787**	**351**	**-**	**1 138**	**211**	**168**	**2 266**	**2 645**	**4 799**

(IN PLN MILLION)

EXPOSURES PAST DUE 31.12.2017	up to 30 days	30 to 90 days	over 90 days	TOTAL
Loans and advances to customers:	2 295	570	2 523	5 388
housing	1 221	319	567	2 107
corporate	605	121	1 484	2 210
consumer	469	130	472	1 071
Total, net	**2 295**	**570**	**2 523**	**5 388**

INTERNAL RATINGS

Exposures to institutional customers which do not meet the impairment premises are classified according to the customer's rating, within the internal rating classes from A to G (in respect of financial entities A-F).

The following portfolios are covered by the rating system:
- corporate market customers;
- small and medium enterprises (excluding certain product groups assessed in a simplified manner).

Loans and advances which do not meet the impairment premises, which are not subject to rating are characterized by a satisfactory credit risk level. This applies in particular to retail loans (including housing loans) which do not have individually significant exposures and therefore do not give rise to a significant credit risk.

57. CREDIT RISK CONCENTRATION IN PKO BANK POLSKI SA

The Bank defines the credit risk concentration as the risk of material losses or a significant change in the Bank's risk profile due to excessive concentration of exposures to particular customers and groups of related customers, customers operating in the same business sector or geographical area, or due to excessive concentration for other reasons.

CONCENTRATION BY THE LARGEST ENTITIES

The risk of concentration of exposures to single customers and groups of related customers is monitored in accordance with Article 395.1 of Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (CRR) in accordance with which the Bank shall not incur an exposure to a client or group of connected clients the value of which exceeds 25% of its eligible capital.

As at 30 June 2018 and 31 December 2017 the concentration limits were not exceeded. As at 30 June 2018 the level of the Bank's risk concentration in respect of the largest exposure to one entity amounted to 49,3%[1] of the Bank's eligible capital (49,0% as at 31 December 2017[1]).

CONCENTRATION BY THE LARGEST GROUPS

The largest exposure concentration of PKO Bank Polski to a group of borrowers amounts to 6,97%[1] of the Bank's credit portfolio (as at 31 December 2017 it amounted to 6,80%[1]).

As at 30 June 2018 and 31 December 2017, the largest concentration of the Bank's exposure was, respectively, 52,9%[1] and 52,7%[1] of the Bank's eligible capital.

CONCENTRATION BY INDUSTRY

Industry limits are used in the Bank the purpose of which is to limit the risk related to financing institutional customers engaged in selected industries characterized by a high level of credit risk and avoiding an excessive industry concentration level.

Total exposure to the four largest industry groups, i.e. "Financial and insurance operations", "Industrial processing", "Public administration and national defence" and "Wholesale and retail trading (...)" as at 30 June 2018 amounted to 58% (58% as at 31 December 2017).

[1] the exposure excluded from the concentration of exposures limit

CONCENTRATION BY GEOGRAPHICAL REGIONS

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

The structure of the credit portfolio by geographical region is differentiated in the Bank in terms of the Bank customer's area – separate for the Retail Market Area (ORD) and the Corporate and Investment Banking Area (OKI). ORD comprises 11 geographic regions and the head office. As at 30 June 2018 the largest concentration of the ORD credit portfolio is in the Warsaw and Katowice region (approx. 26% of the ORD portfolio) (25% as at 31 December 2017). In OKI the Bank differentiates 7 macro-regions and the head office. As at 30 June 2018 the largest concentration of the OKI credit portfolio is in the central macro-region – 44% of the OKI portfolio (49% as at 31 December 2017).

CURRENCY CONCENTRATION OF CREDIT RISK

As at 30 June 2018 the share of exposures in convertible currencies other than PLN in the whole of the Bank's portfolio amounted to 20% (and was the same as at 31 December 2017). Exposures in CHF dominate in the structure of foreign currency loans.

OTHER TYPES OF CONCENTRATION

In accordance with Recommendations S, T and C of the Polish Financial Supervision Authority the Bank applies internal limits related to the Bank customers' exposures, which determine the credit risk and concentration appetite. As at 30 June 2018 and as at 31 December 2017, those limits were not exceeded.

58. FORBEARANCE PRACTICES

Forbearance is defined by the Bank as actions aimed at amending the contractual terms agreed with a debtor or an issuer, forced by the debtor's or issuer's difficult financial situation (restructuring activities introducing concessions that 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 Bank 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. The changes may relate to:

- 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 concluding and timely servicing of the forbearance agreement the due becomes a non-matured receivable. The assessment of the possibilities of the debtor not defaulting on an out-of-court settlement agreement (repayment of the debt in pre-determined periods) is an element of the forbearance process. Forbearance agreements are monitored on a current basis. If impairment is recognized in relation to the related credit exposures or there is a significant increase in credit risk, impairment allowances are recognized to reflect the expected loss.

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

- the debt does not meet the premises of impairment and impairment is not recognized in respect of the debt;
- at least 12 months passed since 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 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 which is overdue more than 30 days;
- at least 12 instalments have been repaid on a timely basis and in the amounts agreed.

(IN PLN MILLION)

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 and advances	-	-	-	-	-	1	-	1	-	1	1
consumer			-		-	1		1		1	1
Measured at amortized cost:	1 116	1	1 117	(114)	1 003	1 964	187	2 151	(958)	1 193	2 196
Loans and advances	1 116	1	1 117	(114)	1 003	1 964	187	2 151	(958)	1 193	2 196
housing	531		531	(73)	458	705	-	705	(386)	319	777
corporate	531	1	532	(36)	496	1 039	184	1 223	(482)	741	1 237
consumer	54	-	54	(5)	49	220	3	223	(90)	133	182
Total	**1 116**	**1**	**1 117**	**(114)**	**1 003**	**1 965**	**187**	**2 152**	**(958)**	**1 194**	**2 197**

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 and advances	1 432	2	1 434	(54)	1 380	2 257	190	2 447	(924)	1 523	2 903
housing	544	-	544	(13)	531	861	-	861	(428)	433	964
corporate	818	2	820	(39)	781	1 181	186	1 367	(400)	967	1 748
consumer	70	-	70	(2)	68	215	4	219	(96)	123	191
Total	1 432	2	1 434	(54)	1 380	2 257	190	2 447	(924)	1 523	2 903

(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	2 054	2 334
Change in the repayment scheme (fixed payments, degressive)	1 481	1 577
Extension of the loan period	1 475	1 684
Change in interest rate	708	764
Change in margin	665	896
Debt reduction	133	150
Other terms	33	22

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

(IN PLN MILLION)

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	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	-	-	-	-	-	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	Refinancing	Total, gross	Impairment allowances	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowances	Total, net	
Available-for-sale investment securities											
corporate bonds (in PLN)	81	-	81	-	81	819	-	819	(246)	573	654
corporate bonds (in foreign currencies)	150	-	150	-	150	-	-	-	-	-	150
Total	231	-	231	-	231	819	-	819	(246)	573	804

(IN PLN MILLION)

DEBT SECURITIES SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT (GROSS)	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

59. Managing the risk of foreign currency loans and borrowings granted to customers, broken down 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 fair value through other comprehensive income						
Gross loans	7 703	-	-	-	-	7 703
housing	7 703	-	-	-	-	7 703
Allowances for expected credit losses	(13)	-	-	-	-	(13)
Measured at fair value through other comprehensive income	7 690	-	-	-	-	7 690
Measured at amortized cost						
Gross loans	144 636	24 942	12 781	2 243	204	184 806
housing	57 349	24 101	3 345	55	12	84 862
corporate	61 373	563	9 410	2 185	192	73 723
consumer	25 914	278	26	3	-	26 221
Receivables in respect of repurchase agreements	624	-	-	-	-	624
Allowances for expected credit losses	(6 704)	(973)	(316)	(195)	(2)	(8 190)
Measured at amortized cost, net	138 556	23 969	12 465	2 048	202	177 240
Total	147 234	23 969	12 465	2 048	202	185 918

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY 31.12.2017	PLN	CHF	EUR	USD	OTHER	Total
Measured at amortized cost						
Gross loans and advances	150 225	24 786	11 941	1 620	211	188 783
housing	64 802	23 909	3 354	57	12	92 134
corporate	59 810	589	8 561	1 560	199	70 719
consumer	25 613	288	26	3	-	25 930
debt securities (corporate)	1 734	-	125	-	-	1 859
debt securities (municipal)	2 519	-	-	-	-	2 519
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Impairment allowances	(5 861)	(891)	(230)	(187)	(1)	(7 170)
Total	149 519	23 895	11 836	1 433	210	186 893

(IN PLN MILLION)

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

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

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.7702)	30.06.2018			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost:				
Gross amount	2	345	24 595	24 942
assets with no significant increase in credit risk since initial recognition (stage 1)	-	108	21 872	21 980
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	2	130	1 658	1 790
credit-impaired assets (stage 3)	-	107	1 065	1 172
Allowances for expected credit losses	-	(74)	(899)	(973)
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)	-	(58)	(731)	(789)
Measured at amortized cost, net	2	271	23 696	23 969
of which: purchased or originated credit-impaired assets	-	-	58	58
Total	2	271	23 696	23 969

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 fair value through other comprehensive income						
Gross amount	7 703	-	-	-	-	7 703
assets with no significant increase in credit risk since initial recognition (stage 1)	7 586	-	-	-	-	7 586
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	115	-	-	-	-	115
credit-impaired assets (stage 3)	2	-	-	-	-	2
Allowances for expected credit losses	(13)	-	-	-	-	(13)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	(2)	-	-	-	-	(2)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	(11)	-	-	-	-	(11)
Measured at fair value through other comprehensive income	7 690	-	-	-	-	7 690
Measured at amortized cost:						
Gross amount	145 260	24 942	12 781	2 243	204	185 430
assets with no significant increase in credit risk since initial recognition (stage 1)	127 293	21 980	10 940	1 786	202	162 201
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	8 755	1 790	905	311	2	11 763
credit-impaired assets (stage 3)	9 212	1 172	936	146	-	11 466
Allowances for expected credit losses	(6 704)	(973)	(316)	(195)	(2)	(8 190)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	(398)	(13)	(44)	(4)	(2)	(461)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	(836)	(171)	(56)	(54)	-	(1 117)
allowances for credit-impaired assets (stage 3)	(5 470)	(789)	(216)	(137)	-	(6 612)
Measured at amortized cost, net	138 556	23 969	12 465	2 048	202	177 240
of which: purchased or originated credit-impaired assets	95	58	3	-	-	156
Total	147 234	23 969	12 465	2 048	202	185 918

(IN PLN MILLION)

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	30.06.2018			31.12.2017		
	gross amount	impairment allowances	net amount	gross amount	impairment allowances	net amount
CHF	24 091	(802)	23 289	23 895	(754)	23 141
EUR	3 345	(59)	3 286	3 354	(50)	3 304
USD	55	(6)	49	56	(5)	51
PLN	62 498	(1 219)	61 279	58 322	(911)	57 411
OTHER	12	-	12	12	-	12
TOTAL	90 001	(2 086)	87 915	85 639	(1 720)	83 919

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	30.06.2018					Total
	PLN	CHF	EUR	USD	Other currencies	
Performing exposures subject to forbearance	607	299	96	1	-	1 003
Measured at amortized cost:	607	299	96	1	-	1 003
gross amount	680	334	102	1	-	1 117
allowances for expected credit losses	(73)	(35)	(6)		-	(114)
Non-performing exposures subject to forbearance	846	204	144	-	-	1 194
Not held for trading, mandatorily measured at fair value through profit or loss	1	-	-	-	-	1
Measured at amortized cost:	845	204	144	-	-	1 193
gross amount	1 554	429	167	1	-	2 151
allowances for expected credit losses	(709)	(225)	(23)	(1)	-	(958)
Loans and advances to customers subject to forbearance, net	1 453	503	240	1	-	2 197

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			Total
	Financial institutions	Corporates	Households	
Assessed on an individual basis, of which:	-	92	102	194
impaired	-	83	90	173
Assessed on a portfolio basis, impaired	-	15	1 041	1 056
Assessed on a group basis (IBNR)	2	257	23 277	23 536
Loans and advances to customers, gross	**2**	**364**	**24 420**	**24 786**
Impairment allowances on exposures assessed on an individual basis, of which:	-	(36)	(42)	(78)
impaired	-	(36)	(42)	(78)
Impairment allowances on exposures assessed on a portfolio basis	-	(12)	(749)	(761)
Impairment allowances on exposures assessed on a group basis (IBNR)	-	(3)	(49)	(52)
Total impairment allowances	-	**(51)**	**(840)**	**(891)**
Loans and advances to customers, net	**2**	**313**	**23 580**	**23 895**

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	145 696	23 536	11 230	1 479	211	182 152
past due	1 953	512	83	4	46	2 598
not past due	143 743	23 024	11 147	1 475	165	179 554
Impairment allowances on exposures assessed on a group basis (IBNR)	(467)	(52)	(48)	(57)	(1)	(625)
past due	(117)	(27)	(5)	-	-	(149)
not past due	(350)	(25)	(43)	(57)	(1)	(476)
Loans and advances to customers, net	145 229	23 484	11 182	1 422	210	181 527

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	1 031	397	172	-	-	1 600
Impairment allowances on exposures assessed on a group basis (IBNR) subject to forbearance	(54)	(14)	(2)	-	-	(70)
Loans and advances to customers subject to forbearance, net	977	383	170	-	-	1 530

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	31.12.2017					Total
	PLN	CHF	EUR	USD	Other currencies	
Performing exposures subject to forbearance	890	325	165	-	-	1 380
Measured at amortized cost:	890	325	165	-	-	1 380
gross amount	936	332	166	-	-	1 434
allowances for expected credit losses	(46)	(7)	(1)	-	-	(54)
Non-performing exposures subject to forbearance	1 125	260	137	1	-	1 523
Measured at amortized cost:	1 125	260	137	1	-	1 523
gross amount	1 754	531	160	2	-	2 447
allowances for expected credit losses	(629)	(271)	(23)	(1)	-	(924)
Loans and advances to customers subject to forbearance, net	2 015	585	302	1	-	2 903

As at 30 June 2018 the average LTV for the CHF-denominated credit portfolio amounted to 65.7% (as at 31 December 2017: 67.0%) – compared with the average LTV for the whole portfolio, which amounted to 61.1% (as at 31 December 2017: 63.0%).

60. INTEREST RATE RISK MANAGEMENT

REPRICING GAP

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

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

SENSITIVITY MEASURES

PKO Bank Polski SA's exposure to interest rate risk remained within the adopted limits as at 30 June 2018 and as at 31 December 2017. The Bank was mainly exposed to the PLN interest rate risk. Among all the stress tests performed by the Bank involving a parallel shift of interest rate curves, the most unfavourable for the Bank was the scenario of a parallel shift of interest rate curves in PLN.

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

SENSITIVITY MEASURE	30.06.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	252	301
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test)[1]	1 719	2 097

[1] 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.

61. CURRENCY RISK MANAGEMENT

SENSITIVITY MEASURES

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

SENSITIVITY MEASURE	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)	173	184

[1] The table presents the values for the most unfavourable stress scenario: a 20% appreciation of PLN and a 20% depreciation of PLN.

As at 30 June 2018 and as at 31 December 2017, the Bank's currency VaR for the 10-day time horizon (10-day VaR) amounted to PLN 3 million.

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 Bank is exposed. The level of currency positions is determined by all foreign currency transactions concluded by the Bank, both those reported in the statement of financial position (e.g. loans) and off-balance sheet (e.g. derivative transactions, especially CIRS). In accordance with the Bank's currency risk management policy, a currency position opened by the Bank as part of its banking operations each day (e.g. repayment of foreign-currency loans by the customer in PLN, currency conversion of a loan) must be closed on the same day, including by using derivatives. This means that the Bank's foreign currency position as at the end of the day may consist solely of an unclosed position in banking operations generated on that date and the currency position generated in trading operations, which is maintained within the adopted limits. As a result, the Bank's currency risk exposure is low.

FOREIGN CURRENCY POSITION	30.06.2018	31.12.2017
EUR	(30)	63
USD	15	14
CHF	(3)	8
GBP	3	11
Other (Global, Net)	2	22

62. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAP

Liquidity gaps presented below include, among other things, the Bank's adjusted balance sheet items in respect of core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.06.2018								
adjusted periodic gap	9 237	28 329	1 473	3 335	9 321	12 754	26 275	(90 724)
adjusted cumulative periodic gap	9 237	37 566	39 039	42 374	51 695	64 449	90 724	-
31.12.2017								
adjusted periodic gap	15 256	22 934	(1 927)	1 912	12 096	10 242	34 258	(94 771)
adjusted cumulative periodic gap	15 256	38 190	36 263	38 175	50 271	60 513	94 771	-

In all brackets, the Bank's real cumulative liquidity gap values were positive as at 30 June 2018 and as at 31 December 2017. This indicates a surplus of assets which mature or are possible to liquefy over the maturing liabilities.

LIQUIDITY RESERVE AND LIQUIDITY SURPLUS

SENSITIVITY MEASURE	30.06.2018	31.12.2017
Liquidity surplus in a 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	111,1%	114,6%
LCR - liquidity coverage ratio	126,4%	160,7%

In the periods ended 31 December 2017 and 30 June 2018, liquidity measures remained above their respective supervisory limits.

CORE DEPOSIT BASE

As at 30 June 2018, the core deposit base constituted approx. 93.6% of all deposits placed with the Bank (excluding the interbank market), which means significant changes compared with the end of 2017.

63. OTHER RISKS

Detailed information on the manner of managing risk: operational, commodity price, prices of equity securities, other price risks, derivatives, risk of non-compliance and proceedings, loss of reputation, macroeconomic changes, models, business, capital and excessive financial leverage risk have been described in the financial statements of PKO Bank Polski SA for the year 2017 and in the Report on Capital Adequacy and Other Disclosures by the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna as at 31 December 2017.

64. COMPLEX 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 by the Bank, and concentration risk. They include an analysis of the impact of changes in the environment and the functioning of the Bank on the Bank's financial position, in particular: the income statement, statement of financial position, own funds, capital adequacy and selected liquidity measures.

Comprehensive stress tests for the Bank's purposes are conducted once every six months, with a 3-yearly horizon, in consideration of the changes in the amounts and structure of items of the statement of financial position and the income statement (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by the supervisory authorities.

65. CAPITAL ADEQUACY

The Bank maintains a safe level of capital adequacy in excess of the supervisory and regulatory limits.

OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

The increase in own funds between 31 December 2017 and 30 June 2018 resulted mainly from accounting for the new issue of subordinated bonds in Tier II Capital (PLN 1 billion, after obtaining the respective consent of the PFSA) and for the Resolution of the Bank's Ordinary General Shareholders' Meeting on the appropriation of profit for 2017 (in respect of the profit amount included in the Bank's equity as at 31 December 2017, additionally, PLN 264 million was accounted for). Additionally, undistributed profit increased taking into consideration the transitional solutions relating to mitigating the impact of introducing IFRS 9 on own funds (by PLN 117 million) with a simultaneous drop in the value of intangible assets which reduce own funds (by PLN 108 million). Additionally, in connection with the end of the transitional period determined by the CRR in respect of derecognizing from own funds the applicable amount of unrealized profit on securities measured at fair value (as at 31 December 2017, 20% of those profits were derecognized), own funds increased by PLN 71 million.

(IN PLN MILLION)

	30.06.2018	31.12.2017
Total own funds	**35 850**	**34 297**
Tier 1 capital	**33 150**	**32 597**
Tier 1 capital before regulatory adjustments and reductions, of which:	35 235	34 854
Share capital	1 250	1 250
Other reserves	32 798	30 712
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings, of which:	117	1 822
unappropriated profit	(535)	1 822
adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	652	-
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 401)	(1 509)
Accumulated other comprehensive income	163	182
Adjustments in Tier 1 basic capital due to prudential filters	24	12
Other transitional period adjustments to common equity Tier 1 capital	-	(71)
Tier 2 capital	**2 700**	**1 700**
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	1 700
Requirements for own funds	**14 705**	**14 008**
Credit risk	13 626	13 017
Operational risk	500	455
Market risk	533	495
Credit valuation adjustment risk	46	41
Total capital adequacy ratio	**19.50%**	**19.59%**
Tier 1 capital ratio	**18.03%**	**18.62%**

Without accounting for transitional solutions relating to mitigating the impact of implementing IFRS 9 on equity as at 30 June 2018, the value of the Bank's equity would amount to PLN 35 198 million, Tier I capital would amount to PLN 32 498 million, the total capital ratio would amount to 19.23% and the Tier I ratio would amount to 17.75%

66. Leverage ratio

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

The purpose of managing the risk of excessive leverage is to ensure appropriate relationship between the basic capital (Tier I) amount and the total balance-sheet assets and off-balance sheet liabilities of the Bank. The manner of managing excessive leverage was regulated in the Bank's internal regulations relating to capital adequacy.

For the purpose of measuring excessive leverage risk the leverage ratio is calculated as a measure of Tier I capital divided by the total exposure and is given as a percentage. The Bank calculated the leverage ratio as at the reporting date. As at 30 June 2018 and 31 December 2017, the leverage ratio was calculated in respect of Tier I capital and maintained above the internal and external limit levels, and above the minimum values recommended by the PFSA.

To maintain leverage at an acceptable level the strategic tolerance limit and the threshold value are determined, the levels of which are monitored and verified at least once a year.

(IN PLN MILLION)

Exposure for the calculation of the leverage ratio within the meaning of CRR

	Leverage ratio exposures specified in CRR	
	30.06.2018	31.12.2017
Total capital and exposure measure		
Tier 1 capital	33 150	32 596
Total exposure measure included in the leverage ratio	277 980	286 331
Leverage ratio		
Leverage ratio	11.93%	11.38%

Without transitional solutions, the leverage ratio would amount to 11.72%

Internal capital (Pillar II)

In the first half of the year 2018, the Bank calculated internal capital in accordance with external regulations:

- the CRR;
- the Polish Banking Law;
- Regulation of the Minister of Finance and Development of 6 March 2017 on 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 Bank's internal regulations.

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

The estimation of internal capital is aimed at determining the minimum level of own funds which ensure 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 estimations based on statistical models, the annual forecast horizon is adopted and a 99.9% confidence level. The Bank's total internal capital comprises the sum of the internal capital necessary to cover all material risks to which the Bank is exposed. The effect of diversification between particular risks is not taken into account.

The ratio of own funds to the internal capital of PKO Bank Polski SA was maintained at a level exceeding both the statutory limit and the Bank's internal limit.

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).

67. Information on portfolio sale of receivables

In the first half of 2018, the Bank effected portfolio sales (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 provisions 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 the sale, all risks and rewards were transferred, hence the Bank derecognized these assets. The Bank did not receive any securities on account of the above-mentioned transactions.

(IN PLN MILLION)

SUBSEQUENT EVENTS

68. SUBSEQUENT EVENTS

On 7 August 2018, PKO Bank Polski SA concluded a purchase agreement for 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 day of 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 pursues 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)