



Bank Polski

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

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2018 to 30.09.2018	period from 01.01.2017 to 30.09.2017	period from 01.01.2018 to 30.09.2018	period from 01.01.2017 to 30.09.2017
Net interest income	6 873	6 357	1 617	1 493
Net fee and commission income	2 242	2 209	528	519
Operating profit	3 686	3 109	867	730
Profit before tax	3 708	3 129	872	735
Net profit (including non-controlling shareholders)	2 734	2 288	643	538
Net profit attributable to equity holders of the parent company	2 732	2 284	643	537
Earnings per share for the period - basic (in PLN/EUR)	2.19	1.83	0.51	0.43
Earnings per share for the period - diluted (in PLN/EUR)	2.19	1.83	0.51	0.43
Total net comprehensive income	2 792	2 771	657	651
Net cash from operating activities	(4 480)	5 586	(1 054)	1 312
Net cash from/used in investing activities	1 449	(2 495)	341	(586)
Net cash generated from/used in financing activities	1 089	(532)	256	(125)
Total net cash flows	(1 942)	2 559	(457)	601

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	As at 30.09.2018	As at 31.12.2017	As at 30.09.2018	As at 31.12.2017
Total assets	306 082	296 912	72 165	71 187
Total equity	37 713	36 256	8 892	8 693
Capital and reserves attributable to equity holders of the parent company	37 722	36 267	8 894	8 695
Share capital	1 250	1 250	295	300
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	30.17	29.00	7.11	6.95
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	30.17	29.00	7.11	6.95
Total capital adequacy ratio	18.41%	17.37%	18.41%	17.37%
Tier 1 capital	34 522	32 326	8 139	7 750
Tier 2 capital	2 700	1 700	637	408

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2018 to 30.09.2018	period from 01.01.2017 to 30.09.2017	period from 01.01.2018 to 30.09.2018	period from 01.01.2017 to 30.09.2017
Net interest income	6 250	5 899	1 471	1 386
Net fee and commission income	1 865	2 008	439	472
Operating profit	3 346	2 782	787	654
Profit before tax	3 346	2 782	787	654
Net profit	2 510	2 039	591	479
Earnings per share for the period - basic (in PLN/EUR)	2.01	1.63	0.47	0.38
Earnings per share for the period - diluted (in PLN/EUR)	2.01	1.63	0.47	0.38
Total net comprehensive income	2 647	2 550	623	599
Net cash from operating activities	(1 231)	10 815	(290)	2 541
Net cash flows from/used in investing activities	1 719	(2 416)	404	(568)
Net cash generated from/used in financing activities	(2 684)	(5 917)	(632)	(1 390)
Total net cash flows	(2 196)	2 482	(517)	583

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	As at 30.09.2018	As at 31.12.2017	As at 30.09.2018	As at 31.12.2017
Total assets	282 829	277 784	66 683	66 600
Total equity	37 247	35 987	8 782	8 628
Share capital	1 250	1 250	295	300
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	29.80	28.79	7.03	6.90
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	29.80	28.79	7.03	6.90
Total capital adequacy ratio	20.68%	19.59%	20.68%	19.59%
Tier 1 capital	34 507	32 597	8 136	7 815
Tier 2 capital	2 700	1 700	637	408

Selected consolidated financial statement items have been translated into EUR at the following rates	30.09.2018	31.12.2017	30.09.2017
arithmetic mean of NBP exchange rates at the end of the period (income statement, statement of comprehensive income and cash flow statement items)	4.2501	4.2447	4.2566
NBP mid exchange rates as at the date indicated (statement of financial position items)	4.2414	4.1709	4.2265



Bank Polski

Directors' Commentary to the financial results of the PKO Bank Polski SA Group for the nine-month period ended 30 September 2018

TABLE OF CONTENTS

1.	SUMMARY OF THE THIRD QUARTER OF 2018	3
1.1.	THE MOST IMPORTANT EVENTS IN THE THIRD QUARTER OF 2018.....	3
1.2.	SELECTED FINANCIAL DATA.....	5
2.	EXTERNAL BUSINESS CONDITIONS	6
2.1.	MACROECONOMIC ENVIRONMENT.....	6
2.2.	SITUATION ON THE FINANCIAL MARKET.....	7
2.3.	STANDING OF THE POLISH BANKING SECTOR	8
2.4.	STANDING OF THE POLISH NON-BANKING SECTOR.....	10
2.5.	THE UKRAINIAN MARKET.....	11
2.6.	REGULATORY AND LEGAL ENVIRONMENT.....	12
2.7.	THE FACTORS THAT WILL AFFECT THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE FOURTH QUARTER OF 2018	13
3.	FINANCIAL RESULTS OF THE BANK'S GROUP	15
3.1.	KEY FINANCIAL INDICATORS.....	15
3.2.	CONSOLIDATED INCOME STATEMENT.....	15
3.3.	STATEMENT OF FINANCIAL POSITION	20
3.4.	EQUITY AND CAPITAL ADEQUACY MEASURES	22
4.	ACTIVITIES OF THE PKO BANK POLSKI SA GROUP	23
4.1.	OPERATING SEGMENTS OF THE BANK'S GROUP	23
4.1.1.	RETAIL SEGMENT.....	24
4.1.2.	CORPORATE AND INVESTMENT SEGMENT.....	25
4.2.	MARKET POSITION OF THE PKO BANK POLSKI SA GROUP.....	27
4.3.	DISTRIBUTION NETWORK AND ACCESS CHANNELS	28
4.4.	ACTIVITIES OF THE PKO BANK POLSKI SA GROUP SUBSIDIARIES.....	29
4.5.	PRIZES AND AWARDS.....	31
5.	GLOSSARY	32

1. SUMMARY OF THE THIRD QUARTER OF 2018

1.1. THE MOST IMPORTANT EVENTS IN THE THIRD QUARTER OF 2018

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

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

In the third quarter of 2018, the PKO Bank Polski SA Group strengthened its position by attracting new Customers and increasing the scale of its operations, launching modern products and services, developing mobile and electronic banking and investing in innovative technological solutions. As a result, the PKO Bank Polski SA Group strengthened its leading position and its total assets exceeded PLN 300 billion as at the end of the quarter of 2018, and the result for the quarter reached the highest level ever of PLN 1 042 million.

In addition to its day-to-day business operations, the Bank's Group also focused on pro-social activities. The Bank supported the development of Polish sports and, for the fourth time, organized the PKO Bieg Charytatywny (PKO Charity Run) with the aim of collecting money for children in need.

PKO BANK POLSKI SA AMONG FTSE RUSSELL LARGE CAP COMPANIES

PKO Bank Polski SA is the only Polish company to join the FTSE Russell Developed Large Cap Index after the September reclassification of the Polish market to the developed status. It is a sign of appreciation both for the strength of the Polish economy and for the leading position of the Bank, its previous achievements and the strategic potential for further development.

100 MILLION IKO TRANSACTIONS

The best mobile application in the world, IKO, broke the record in terms of the number of transactions – PKO Bank Polski SA Customers used it 100 million times to make mobile payments. Five years ago, IKO was most frequently used for withdrawing cash from ATMs, whereas currently online payments represent almost a third of all transactions, and the number of mobile transactions concluded every month attains 7 million. The total number of activations amounted to almost 2.9 million as at the end of September 2018.

PKO BANK POLSKI SA – THE MAIN PARTNER OF THE EKSTRAKLASA FOOTBALL LEAGUE

PKO Bank Polski SA became the main partner of the Ekstraklasa Football League and the Official Bank of the games. The Bank signed an agreement for the period until the end of the 2020/2021 season. The aim of the project is to promote Polish sport, build a strong league, help the clubs educate young talent and promote football among the youngest children. In the 2018/2019 season, PKO Bank Polski SA will become the main partner. The Bank's logo will be visible during all 296 games played in 37 rounds, on the Ekstraklasa players' shirts, 16 stadiums and during game broadcasts.

THE BANK'S GROUP FOCUSES ON INNOVATION AND TECHNOLOGY

- A new investment fund PKO VC (venture capital) was established within the Bank's Group to invest in start-ups and fintechs. The new fund will have two tasks: firstly, it will seek good companies to invest in as a majority investor and incorporate them into the Bank's Group structure, and secondly, it will acquire minority blocks of shares. In August 2018, PKO Bank Polski SA acquired series A and B investment certificates of the Strategic Subfund and series A and B investment certificates of the Financial Subfund issued by PKO VC – a non-public assets closed-ended investment fund. The total value of the investment was PLN 200 million.

- As part of its strategy, the Bank consistently implemented digital transformation, whose key elements include multi-channel access to the Bank's services, focus on personalization of Customer relations and increasing the organization's efficiency. In the third quarter, the main focus was on the implementation of changes in the process of Cash Loan sale through IKO and the pilot project of electronic authorization of orders at branches (SMS authorization).
- PKO Bank Polski SA completed the implementation of a blockchain technology solution. The Bank uses the new technology to verify the authenticity and integrity of documents sent in electronic form. Product rules and regulations were sent for the first time in digital form to more than 5 million Customers of the Bank. In terms of scale, it was the biggest application of blockchain technology in banking in Europe. The solution was developed by the Bank and Krajowa Izba Rozliczeniowa (the Polish Clearing House) in cooperation with the Polish-British company Coinfirm as part of the platform for development of innovations and modern technologies "Let's Fintech with PKO Bank Polski!".
- PKO Bank Polski SA launched the Garmin Pay service for Bank card holders to make contactless payments using a watch with an appropriate function. Payments with a watch with a Garmin Pay function can be executed in every shop, service outlet or restaurant equipped with a terminal for contactless payments.
- The Bank launched the Apple Pay service, which the Bank's Customers who are VISA or Mastercard holders can use to make contactless payments in shops and service outlets with Apple devices or to make payments online.

THE BANK'S GROUP IS EXTENDING ITS OFFER OF PRODUCTS AND SERVICES

The Bank's Group offers modern and comprehensive solutions. The Bank meets the expectations of its retail and corporate Customers, taking into consideration their size, sector and development stage. It provides the Customers with professional tools, which make it easier to control their finances and conduct business activity.

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

- introducing new e-banking services for corporate Customers – the new solutions include the company assistant, which guarantees full control over the company's finances 24 hours a day through online banking, and the e-commerce solution, which makes it possible to open an online shop through the iPKO transaction service and manage finances and orders from one place. The company assistant function also includes a calendar of events integrated with payments, which sends (by SMS or e-mail) reminders about deadlines for social insurance contribution payments or filing VAT returns. The application automatically records contacts to business partners, which makes further cooperation significantly easier;
- introducing the Basic Payment Account to the offer, which is available to individuals from the age of 13 who do not have a payment account in Polish currency;
- launching sales of motor insurance policies: third party liability with a Green Card, Autocasco, Accident and Assistance. In cooperation with renowned insurance companies, the Bank offers a full insurance cover for vehicle owners. As a novelty on the market, the Customers can buy the policies offered by different insurers as part of a single package, in a single transaction. It is possible to buy a policy even 6 months in advance to obtain protection against potential changes in motor insurance prices;
- providing the Bank's Customers with an opportunity to file applications in the "Good Start" (Dobry Start) programme through the iPKO platform. Online applications for one-off student benefits may be filed by 30 November.

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

1.2. SELECTED FINANCIAL DATA

The activities in which the PKO Bank Polski SA Group engaged in the first three quarters of 2018 allowed it to achieve very good financial results and to reinforce its leading position among the largest financial institutions in Poland.

Table 1. Basic financial data of the PKO Bank Polski SA Group (in PLN million)

	3 quarters of 2018	3 quarters of 2017	Change (y/y)
Net profit	2 732	2 284	+19.6%
Result on business activities	9 881	9 296	+6.3%
Administrative expenses	-4 458	-4 310	+3.4%
Total assets and total liabilities and equity	306 082	289 961	+5.6%
Equity	37 713	35 340	+6.7%
Net ROA	1,2%	1,0%	+0.2 p.p.
Net ROE	9,7%	8,6%	+1.1 p.p.
C/I (cost to income ratio)	45,1%	47,2%	-2.1 p.p.
Interest margin	3,40%	3,27%	+0.13 p.p.
Share of impaired loans	4,9%	5,6%	-0.7 p.p.
Cost of risk	-0,63%	-0,74%	+0.11 p.p.
Total capital ratio	18,41%	17,68%	+0.73 p.p.
Tier 1 capital ratio	17,07%	16,77%	+0.30 p.p.

The net profit of the PKO Bank Polski SA Group for the first three quarters of 2018 amounted to PLN 2 732 million, which is a PLN 448 million, i.e. nearly 20%, increase compared to the prior year's result. The level of net profit was determined by:

- 1) an improvement in the result on business activities, which amounted to PLN 9 881 million (+6.3% y/y) mainly due to:
 - an increase in net interest income of 8.1% y/y, mainly as a result of the increase in the credit portfolio;
 - an increase in net fee and commission income of 1.5% y/y, among others on investment funds, pension funds and brokerage activities, as well as loans and insurance;
- 2) an improvement in the result on net write-offs and impairment of PLN 141 million (+12.0% y/y);
- 3) an increase in administrative expenses of PLN 148 million (3.4% y/y), mainly employee benefits and regulatory costs - the C/I ratio amounted to 45.1% as at the end of September 2018 compared to 47.2% as at the end of September 2017.

As a result of the actions taken in 2018, the scale of the Group's activities increased significantly:

- total assets and total equity and liabilities exceeded PLN 306 billion;
- since the beginning of the year, the Bank's Group increased:
 - the portfolio of financing granted to Customers by more than PLN 11 billion;
 - amounts due to Customers by almost PLN 5 billion;
 - the number of Customers by more than 250 thousand, mainly in the retail segment;
 - the number of active mobile banking users by more than 350 thousand;
- the number of current accounts of individuals was nearly 7.4 million;
- The Bank's Group retained a high share in the loans and savings market at a level of 17.5% and 17.5% respectively.

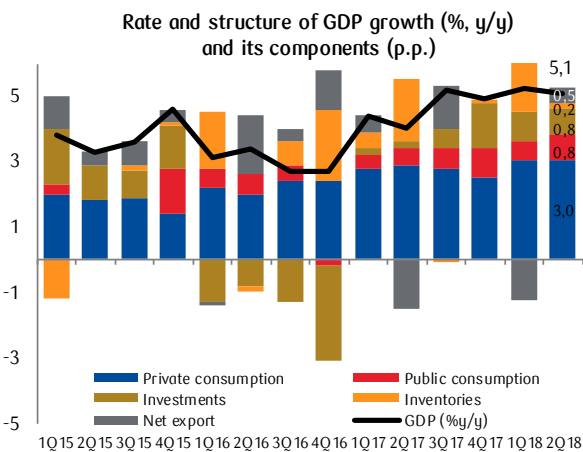
The increase in the scale of operations was achieved through improvement in the credit portfolio quality measured with the share of impaired loans and reduction of the cost of risk.

2. EXTERNAL BUSINESS CONDITIONS

2.1. MACROECONOMIC ENVIRONMENT

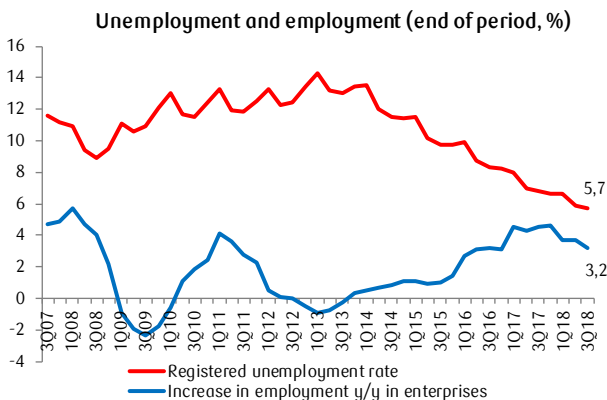
Macroeconomic factors affecting the national economy in the third quarter of 2018:

- ECONOMIC GROWTH IS NO LONGER ACCELERATING**



The pace of GDP growth (assessed based on available data) decreased to 4.7 – 5.0% y/y in the third quarter of 2018 (compared with 5.1% y/y in the second quarter of 2018). Consumption, supported with fast income growth and the highest consumer optimism ever, remained the key driver of economic growth in the third quarter of 2018. Public investment, which was responsible for the acceleration in economic growth in the first half of 2018, was adversely affected by demand barriers in the third quarter.

- IMPROVED LABOUR MARKET CONDITIONS**



The registered unemployment rate amounted to 5.7% in September compared with 5.9% in June. The unemployment rate declined even after eliminating seasonal factors (to 5.9% in September) despite the labour market coming close to the supply limit (a lack of unemployed persons willing to and capable of taking up a job). Growing problems with supply on the labour market are manifested by a slower increase in the number of new jobs and the falling number of job offers (118 thousand in September vs 138.8 thousand in June). Despite the lack of balance between demand for labour and its supply, a further growth in wages and salaries has not been observed. In the third quarter of 2018, the average remuneration in the enterprises sector increased by 6.9% y/y compared with 7.4% y/y in the second quarter of 2018.

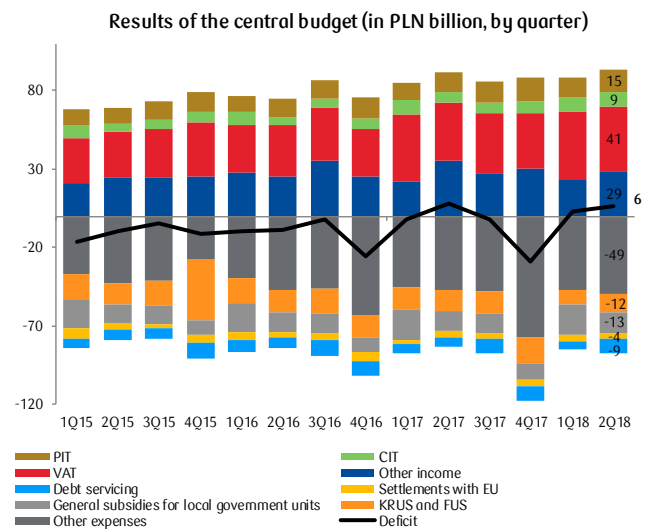
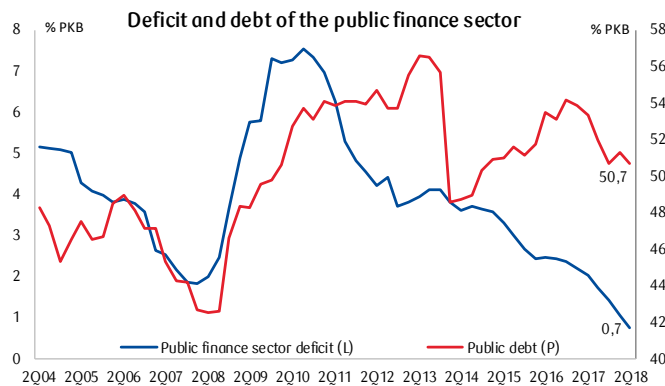
Research of the economic conditions does not indicate that the next quarters could bring about a significant increase in the rate of remuneration growth.

- DROUGHT STOPS INFLATION GROWTH**

Even though CPI inflation as at the end of the third quarter of 2018 dropped to 1.8% y/y from 2.0% y/y in June, its average level in the third quarter was the highest in 2018. This was a result of an increase in fuel and energy prices, acceleration of base inflation and an increase in food prices, which exceeded the seasonal pattern due to drought. The base inflation remained below 1% y/y, and therefore neither the cost pressure (wages and salaries and raw materials) nor the strong demand resulted in price increases.

- GOOD RESULTS OF THE PUBLIC FINANCE SECTOR**

The data for the third quarter of 2018 confirms the very good standing of the state budget, which had a surplus of PLN 1.1 billion as at the end of August 2018. The increase in revenues, including tax revenue, reflects the good condition of the economy and the further sealing of the tax system. On the expenditure side, it should be noted that the subsidy to the Social Insurance Fund (FUS) was significantly lower than planned. The good result of the FUS reflects an increase in wages and salaries and employment, which was partly due to the legalization of foreign labour. The good condition of the central budget will contribute to a further reduction in the public finance sector deficit and a decrease in public debt (in accordance with the UE methodology, in the second quarter it dropped to 50.7% GDP from 53.3% GDP a year before)



• **STABILIZATION OF MONETARY POLICY**

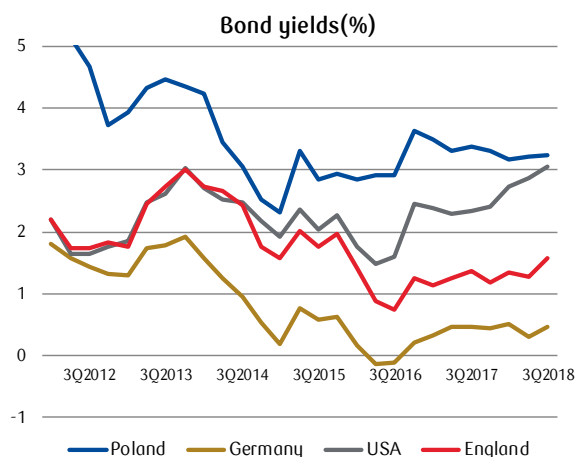
NBP's interest rates:

- reference – 1.50%
- bills of exchange rediscount – 1.75%
- Lombard – 2.50%
- deposit – 0.50%

In the third quarter of 2018, the NBP interest rates did not change and remained at historically low levels. The Monetary Policy Council's opinion that stabilizing interest rates, even over a horizon of up to the end of 2019, was justified, resulted mainly from the low inflation (including base inflation), the expected gradual drop in the pace of economic growth and from the fact that the tense situation on the labour market does not translate into increased price pressure. At the same time, growing fears that an increase in energy prices will translate into the increases in the prices of other goods and services, resulted in more neutral statements by the Monetary Policy Council members about the monetary policy directions.

2.2. SITUATION ON THE FINANCIAL MARKET

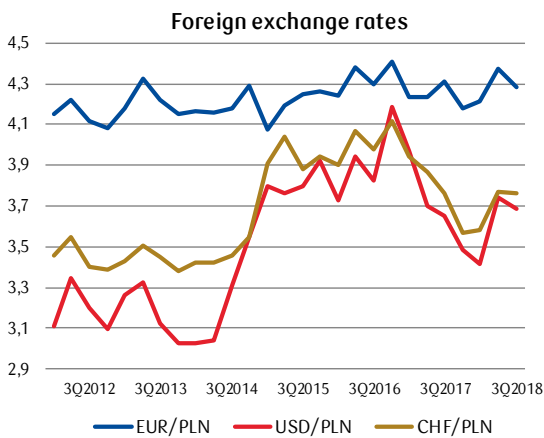
• **INTEREST RATE MARKET**



In the third quarter the return on the Polish 2-year Treasury bonds dropped by 6 b.p. to 1.58%, whereas the return on 5-year bonds and 10-year bonds remained stable (2.55% and 3.24%, respectively). The Polish Monetary Policy Council's intention to maintain the interest rates at the same level over the next year supported the valuation of short-term Treasury bonds. Moreover, due to the very good results of the State budget, the Ministry of Finance was able to reduce the supply of securities on the primary market in the second half of the quarter, which had a positive effect on the whole domestic debt market. On the other hand, an increase in the profitability of Treasury bonds in Europe and the USA had an adverse effect on the valuation of long-term securities, which was particularly noticeable in September. The revaluation on the global debt market was caused by: the third interest rate increase by the Fed this year, growing expectations that the interest rate increase cycle in the USA would

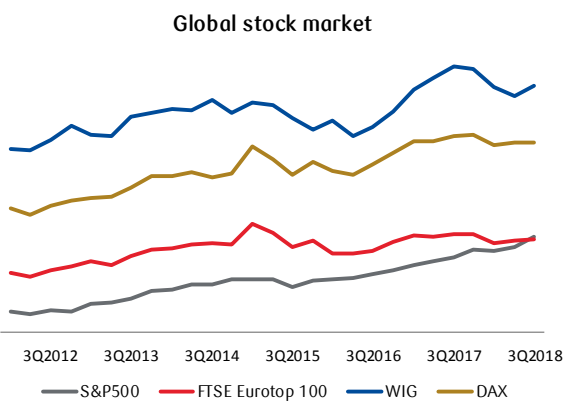
continue in the following quarters, and the expectations that the ECB would sooner withdraw from the negative interest rate policy in the euro zone. An increase in the risk aversion in Europe due to growing fears about the stability of the Italian fiscal policy also had an adverse effect on Polish bonds.

• CURRENCY MARKET



The third quarter of 2018 was characterized by high volatility on the currency market. The EUR/PLN exchange rate amounted to 4.36 at the beginning of the quarter and dropped to about 4.24 by the end of July. In the following months, the EUR/PLN rate grew gradually and (under the influence of the strong revaluation of the emerging markets' currencies, e.g. the Turkish lira) it came close to the 4.34 level a few times. Declining fears of the escalation of the trade war between the USA and China helped maintain the EUR/PLN exchange rate at a level close to 4.30; however, the anticipated further interest rate increases by the Fed and declining economic prosperity indicators in the euro zone stopped the appreciation of the Polish zloty. As a result, the EUR/PLN exchange rate as at the end of the third quarter of 2018 was 4.28. At the same time, the CHF/PLN rate, which amounted to 3.77 at the beginning of the quarter, subsequently varied during the quarter to return to 3.76 at the end of the quarter.

• STOCK MARKET



The third quarter of 2018 was good for the Warsaw Stock Exchange. The main WIG index increased by 5%, and WIG20 increased by 7%. As a result, the losses incurred in the first half of the year could be partly reduced. The bounce was due to:

- excessive pessimism, which prevailed on the financial markets at the end of the previous quarter and was mainly associated with the escalation of the trade dispute between the USA and China;
- signs of an economic slow-down in Europe and developing countries.

The summer months brought a reduction in trade tensions and fears about the economy. The Warsaw Stock Exchange was one of the strongest, which was partly a result of very positive information about the condition of the Polish economy. The Polish stock market proved immune to the currency crisis in Turkey and

the uncertainty in the euro zone associated with the budget plans of Italy. Despite the generally positive image of the Polish stock market, the companies with lower capitalization were not doing well, and the sWIG80 index dropped by nearly 10%.

2.3. STANDING OF THE POLISH BANKING SECTOR

NET PROFIT AND PROFITABILITY¹

In the period from January to August 2018 the banks operated in conditions of sustainable and stable growth of the economy, the good financial condition of households and enterprises, and low interest rates.

PLN 10.4 billion
net profit of the banking sector in the period January - August 2018

+11.7% y/y
rate of change in net profit of the banking sector

7.3% (+0.4 p.p. y/y)
return on equity of the banking sector as at the end of August 2018

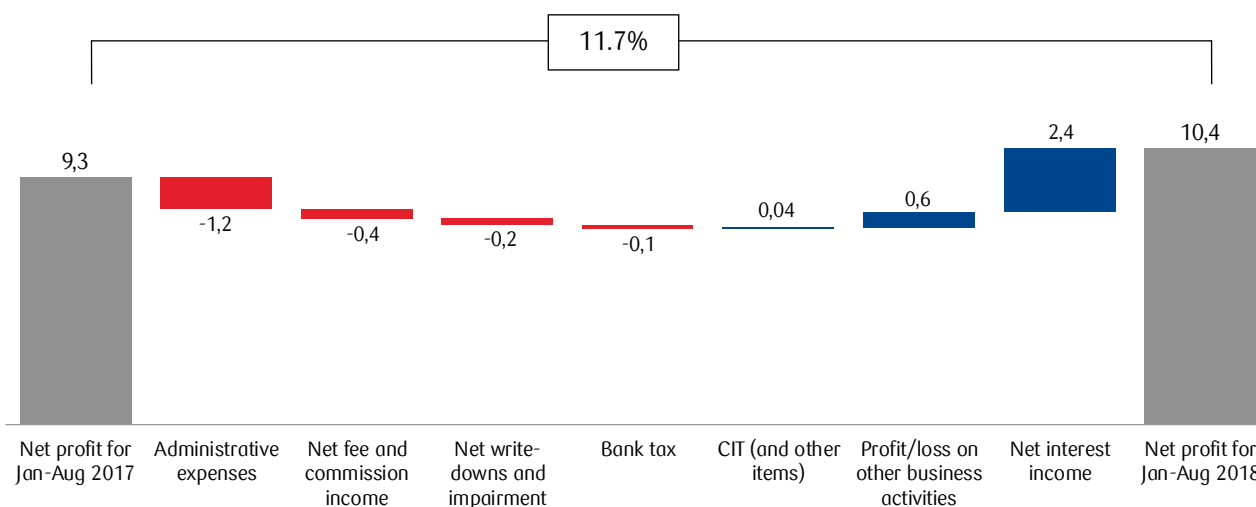
During the period, the banking sector earned a net profit of PLN 10.4 billion, i.e. 11.7% higher than in the corresponding period of 2017. The strong increase in net interest income (+PLN 2.4 billion y/y; +8.6% y/y) and in profit on other banking activities (+PLN 0.6 billion; +11.3% y/y), which resulted from (among other things) one-off events in the banking sector (disposal of companies) had the largest positive impact on the level of net profit.

¹Based on the NBP data; calculations of PKO Bank Polski SA.

The following had an opposite impact on the net profit:

- an increase in administrative expenses (-PLN 1.2 billion y/y; +5.4% y/y), accompanied by an increase in wages and salaries, expenditure on digitization and cyber security, as well as an increase in the costs of mergers and acquisitions;
- a decrease in the net fee and commission income (-PLN 0.4 billion; -4.2% y/y);
- a deterioration in the net result on write-downs and impairment (-PLN 0.2 billion y/y; +4.9% y/y) in the situation of strong focus of banks on increasing the share of high-margin loans in their portfolios, even though they generate a higher risk.

Change in the net profit of the banking sector (PLN billion)



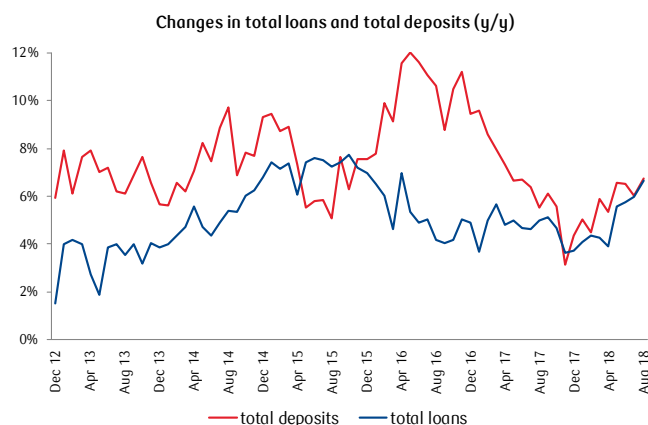
The loan portfolio quality improved as at the end of August 2018 (in relation to January 2018).² The share of non-performing loans granted to non-financial entities dropped to 7.0% compared to 7.6% as at the end of January 2018, which was mainly due to an improvement in the quality of corporate and consumer loans.

Return on equity of the banking sector improved as at the end of August 2018; ROE³ increased to 7.3% from 7.1% as at the end of December 2017 and 6.9% as at the end of August 2017.

LOAN AND DEPOSIT MARKET⁴

The volume of loans of the banking sector increased to PLN 1 247 billion as at the end of the third quarter, which was determined by:

- a slow-down in the rate of decline of foreign currency housing loans to -8.4% y/y (-18.9% y/y as at the end of 2017, due to a number of factors including strong y/y appreciation of PLN), accompanied by an increase in the annual rate of growth of housing loans in PLN to +10.9% (+10.4% as at the end of 2017);
- an increase in the rate of growth of consumer loans to +8.6% y/y (+7.4% y/y as at the end of 2017), despite a slight slow-down in the third quarter of 2018);



²Due to the fact that IFRS 9 entered into force in January 2018, the loan portfolio quality indicators as at the end of 2017 are hardly comparable to the indicators reported in 2018.

³Return on equity (ROE) - the ratio of the net profit of the banking sector in the last 12 months to average equity.

⁴Based on the NBP data; calculations of PKO Bank Polski SA.

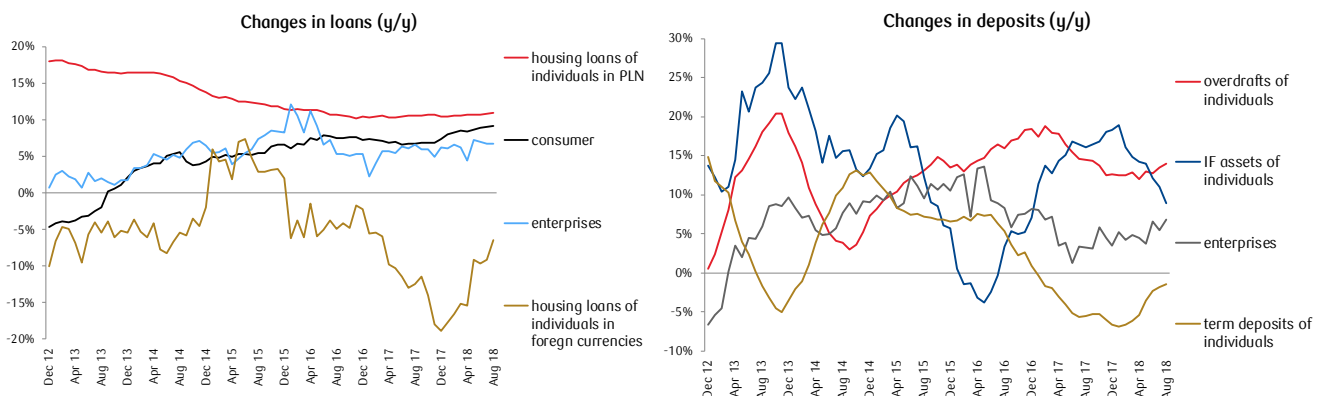
- an increase in the rate of growth of corporate loans to +7.2% y/y (+6.2% y/y as at the end of 2017) - mainly due to changes in foreign exchange rates.⁵ After eliminating the foreign exchange effect, the rate of growth of corporate loans slowed down in relation to the end of 2017 (according to the estimations).

As at the end of the third quarter of 2018, the amount of the banking sector deposits increased to PLN 1 263 billion, which was associated with:

- an increase in the rate of growth of deposits of individuals to +7.7% y/y (+3.6% as at the end of 2017). The growth of deposits of individuals was positively affected by a lower (y/y) inflow of the individuals' funds into the investment fund market, which was due to: a decrease in the average annual rates of return on the funds⁶ and withdrawal of the Customers' money from the TFIs having exposure to bonds of one of debt collection companies;
- an increase in the rate of growth of corporate deposits (to +5.7% y/y as at the end of the third quarter of 2018 from 3.4% y/y as at the end of 2017), which in part was due to the good financial standing of enterprises.

The rate of growth of loans increased to +6.5% y/y as at the end of the third quarter of 2018 (+3.7% as at the end of 2017), while the rate of growth of deposits was slightly higher (+6.6% y/y vs +4.4% as at the end of 2017). After eliminating the foreign exchange effect, the overall rate of growth of loans did not change significantly in relation to the end of 2017 (according to the estimations, it amounted to approx. 6.7% y/y).

Given the comparable growth rates of loans and deposits, as at the end of the third quarter of 2018 the Loans/Deposits ratio increased to 98.7% (98.1% as at the end of 2017).

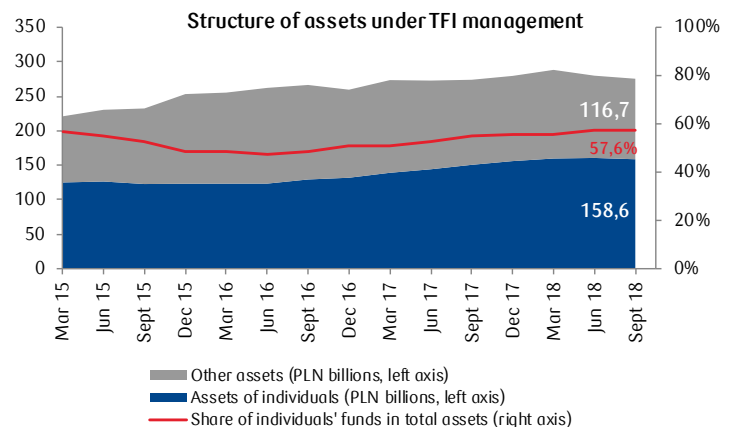


2.4. STANDING OF THE POLISH NON-BANKING SECTOR

INVESTMENT FUNDS MARKET

In the first three quarters of 2018 the situation on the Polish investment fund market was shaped by the bear market on the Warsaw Stock Exchange (WSE) in the first half of the year (which reversed in the third quarter, so that the losses could be partly recovered) and a drop in the returns on Polish Treasury bonds and low interest rates on bank deposits.

Moreover, the controversies associated with the operations of some investment fund management companies (towarzystwa funduszy inwestycyjnych - TFI) could have an adverse effect on the perception of the investment fund market by the investors.



⁵Strong y/y appreciation of the Polish zloty observed as at the end of 2017, which brought a decrease in the annual rate of growth as at the end of 2017.

⁶It was observed from the beginning of the year in the IF market segments with lower risk profiles, which are the most popular among retail Customers.

As at the end of the third quarter of 2018, the average annual rates of return realized in the main IF market segments were significantly lower than as at the end of 2017. The decreases were the biggest in the case of the average annual rates of return on funds linked to the local share market: -25.5 p.p. for the Polish universal share funds; -9.1 p.p. for the Polish stable growth mixed funds. The average annual rates of return on universal debt funds and the Polish universal money and cash funds were lower than as at the end of 2017 by -2.3 p.p. and -1.2 p.p., respectively. As at the end of the third quarter of 2018, the average 12M rates of return in the IF segments with high exposure to the domestic share market were negative (universal Polish share funds: -11.7%; mixed Polish stable growth funds: -3.3%). In the IF market segments with low risk profiles, the average 12M rates of return were lower than or close to the average interest rates on new fixed-term household deposits (universal Polish debt funds: 1.2%; universal Polish money and cash funds: 1.6%; average interest rates on new term deposits of households: 1.6%).

Since the beginning of 2018, the total net assets of TFIs decreased by PLN -4.3 billion (-1.6%) to PLN 275.3 billion, which was due to a decrease in the investment fund assets of institutional entities of PLN -7.0 billion (-5.7%), accompanied by an increase in the investment fund assets of individuals of PLN 2.7 billion (+1.7%). The total net assets of TFIs increased by 0.5% y/y.

During the three quarters of 2018, the net inflow of individuals slowed down noticeably. The realized balance of deposits and redemptions in this group of investors was PLN 5.7 billion, compared to PLN 12.3 billion in the corresponding period of 2017.

As at the end of September 2018, the share of individuals' assets in total assets increased to 57.6% from 55.8% as at the end of 2017.

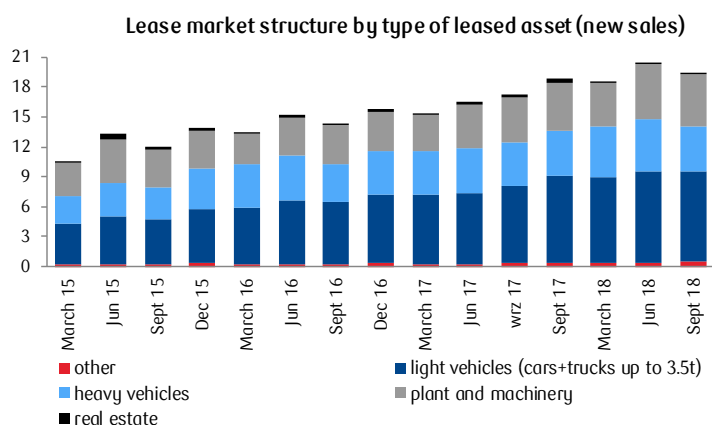
LEASE MARKET

The lease market continued to grow dynamically in the first three quarters of 2018, and the lease industry financed assets with a value of PLN 58.2 billion (+18.7% y/y).⁷

The lease of light vehicles (i.e. cars, vans and trucks up to 3.5 tons) continued to have the biggest positive effect on the development of the lease market. The value of financed assets in this segment was PLN 26.7 billion (+22.1% y/y), which represented approx. 46% of the total financing granted by lease companies.

Another segment which recorded a strong, two-digit growth, was the lease of plant and machinery (+18.2% y/y; the combined value of new contracts totalling PLN 15 billion). Within this segment, the lease of construction equipment recorded the fastest growth (+50% y/y) due to the economic upturn in the construction industry.

The financing of heavy vehicles also increased (+14.1% y/y) and the value of leased assets was PLN 14.9 billion. In this segment, the lease of tractor units grew the most (+11.6% y/y).



2.5. THE UKRAINIAN MARKET

ECONOMIC CONDITIONS

The Ukrainian economy continued its revival in 2018. In the second quarter of 2018, the GDP growth accelerated to 3.8% y/y from 3.1% y/y in the first quarter of 2018 and 2.2% y/y in the fourth quarter of 2017. The available data suggests that the high level of economic activity will be continued in the third quarter of 2018. This is particularly true about consumption, which is supported by an increase in wages and salaries and inflow of foreign earnings.

Acceleration of the GDP growth, increase in retail sales, wages and salaries, and the improved collectability of taxes led to a visible improvement in taxable income, in particular in respect of CIT. The growth of PIT revenue was maintained at about 25% since the beginning of the year, VAT revenue grew by almost 30%, and CIT revenue –

⁷ According to data of the Polish Lease Association

by more than 50%. As a result, the accumulated budget recognized a surplus after August 2018. The public debt decreased to 61.8% of GDP in June 2018 vs 73.9% of GDP a year before.

The CPI inflation continued a downward trend: in August 2018 it amounted to 9.0% y/y vs 9.9% y/y in June and 13.7% y/y in December 2017. The base inflation (i.e. after eliminating food, fuels and energy) also started to slow down (8.7% y/y in August vs 9.0% y/y in June), but it was still significantly higher than the 2017 average. High inflation and the fears that the instability could spread into Ukraine from other emerging financial markets led to a number of decisions to increase the interest rates (two 50 b.p. increases of 12 July and 30 August 2018, increasing the main rate from 17.00% to 18.00%). The interest rate increase led to the appreciation of the hryvnia to the dollar in the first half of the year. In the third quarter of 2018, the exchange rate of UAH dropped (from 26.19 UAH/USD as at the end of June to 28.30 UAH/USD as at the end of September 2018 and from 7.04 UAH/PLN to 7.74 UAH/PLN, respectively), although the scale of this depreciation was lower than in the case of many other emerging economies thanks to further monetary policy restrictions.

UKRAINIAN BANKING SECTOR

In accordance with NBU data, the number of banks operating in Ukraine as at the end of August was 81 compared to 82 as at the end of June and December.

The value of total assets of the Ukrainian banking system amounted to UAH 1 341.2 billion in August 2018 and it exceeded the amount recorded in December 2017 (UAH 1 336.4 billion) for the first time this year.

The volume of loans as at 31 August 2018 was UAH 1 142.5 billion (+UAH 79.4 billion since the beginning of the year and UAH 68.7 billion since June). The increase recorded in the third quarter was largely due to the depreciation of hryvnia and affected in particular loans granted to private enterprises. The increase in deposits was much smaller (UAH 24.2 billion since June and UAH 24.3 billion since December) despite a more than 20% growth of nominal wages and salaries, which reflected a decrease in the trust of households in the banking sector (deposit growth was slower than in the previous year). A decrease in deposits of public enterprises could have been associated with ongoing consolidation of the public finance sector. The Loans/Deposits ratio increased to 119.7% from 115.4% as at the end of June and 114.3% as at the end of 2017.

ROA (1.58% as at the end of August 2018 vs -1.94% as at the end of 2017) and ROE (13.37% vs -15.96% in 2017) improved in 2018. By August, the Ukrainian banks generated a profit of UAH 13.7 billion compared to UAH 3.4 billion in the corresponding period of 2017. Despite a decrease in the amount of own funds, the capital adequacy ratio increased (to 16.15% at the end of August 2018 from 16.10% at the end of December 2017, the regulatory requirement being 10%).

2.6. REGULATORY AND LEGAL ENVIRONMENT

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

PROTECTION OF INVESTORS / CUSTOMERS

- The Act on amending the act on payment services and certain other acts (Journal of Laws of 2016, item 1997), which introduced, among other things, free of charge and generally available bank accounts and defined uniform principles for transferring payment accounts (implementation of the Payment Accounts Directive (PAD));
- The Act on mortgage credit and supervision over mortgage credit intermediaries and agents of 23 March 2017 (Journal of Laws of 2017, item 819), which imposed on banks as of 1 July 2018 additional information requirements associated with agreements that include reference rates, including the obligation to inform the Customers about potential implications of the application of such rates.

Impact on revenues, operating expenses and product offer

COUNTERACTING MONEY LAUNDERING AND FINANCING OF TERRORISM

The Act on preventing money laundering and financing of terrorism (Journal of Laws of 2018, item 723), which entered into force on 13 July 2018 and, among other things, decreased the threshold for reporting cash transactions by banks and other financial market entities (implementation of AMLD IV).

Impact on operating expenses

DE MINIMIS

The Regulation of the Minister of Finance of 28 March 2018 on granting de minimis aid by Bank Gospodarstwa Krajowego in the form of loan repayment guarantees (Journal of Laws of 2018, item 707) and the Regulation of the Minister of Finance of 12 June 2018 on granting de minimis aid by Bank Gospodarstwa Krajowego in the form of loan repayment guarantees as part of the Smart Growth Operational Programme 2014 - 2020 (Journal of Laws of 2018, item 1166), which extend the validity period of loan repayment guarantees.

Impact on lending activities

SPLIT PAYMENT

Entry into force as of 1 July 2018 of the Act on amending the VAT act and certain other acts of 15 December 2017 (Journal of Laws of 2018, item 62), which imposed on banks an obligation to open and maintain, free of charge, VAT accounts linked to clearing accounts, as well as an obligation to handle the payments made and received by the Customers through the bank in respect of invoices using the split payment mechanism.

Impact on operating expenses and product offer

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

A CHANGE IN BASIC INTEREST RATES

The Resolutions of the Central Bank of Ukraine (NBU) no. 443D and 593D - discount rate increases: to 17.5% from 13 July 2018 and to 18.0% from 7 September 2018.

Impact on the net interest income of banks and their profitability

CURRENCY MANAGEMENT

- NBU decision no. 79/2018, which relaxes the requirements addressed to banks concerning the confirmation and registration of agreements on the interbank market;
- NBU decision no. 86/2018, which introduces changes to the procedure for exchanging information on currency transactions concluded by Customers.

Impact on business activities of banks and currency position management

LIQUIDITY

NBU decision no. 87/2018, which changes the principles for calculating the cash ratio.

Impact on liquidity management

CREDIT INTERMEDIARIES

NBU decision no. 91/2018, which introduces changes in the requirements applicable to the banks' credit intermediaries (consumer loans).

Operations of credit intermediaries in the area of consumer loans

RISK

NBU decision no. 98/2018 concerning the banks' liability for ineffective risk management systems at the banks.

Impact on risk management

OPERATING EXPENSES

NBU decision no. 84/2018, which introduced changes to the rates charged by NBU for its services as of July 2018.

Impact on the banks' operating expenses

2.7. THE FACTORS THAT WILL AFFECT THE FINANCIAL RESULTS OF THE BANK'S GROUP IN THE FOURTH QUARTER OF 2018

The operations of the Bank's Group in the fourth quarter of 2018 may be affected by the following probable external conditions:

- in the global economy:
 - gradual slowing down of the global economic growth, in particular in the euro zone and in Germany;
 - further tightening of the US monetary policy and expected changes in the communication policy of the European Central Bank;

- possible further growth of geopolitical tension (the conflict in Syria, uncertainty as to the possibility of easing the conflict between the USA and North Korea and tension between the USA and Iran);
- potential escalation of tension in trade policy (possible further protectionist action by the USA, in particular against China, and potential retaliatory action of other states against the USA);
- uncertainty as to the ultimate form of brexit and the budget plans of Italy;
- execution of the soft landing scenario in China;
- the political and economic situation in Ukraine;
- in the Polish economy:
 - progress in the absorption of European funds;
 - good moods among consumers and a further increase of disposable income of households;
 - persistent tension on the labour market, which results from strong demand for labour and its limited supply (due to demographic factors, lower retirement age) and leads to an increased growth in wages and salaries (and, consequently, costs of labour) and a risk of staff shortages in some industries;
 - gradual decrease of domestic CPI inflation to approx. 1.6% as at the end of the year - it can be expected that the fourth quarter will bring a moderate drop in inflation, mainly due to a high reference base for food and fuel prices from the previous year;
 - stabilization of NBP interest rates and a high probability that the NBP interest rates will remain unchanged until the end of 2019;
 - gradual increase in the growth rate of deposits and continued relatively strong demand for loans (in particular for households);
- new regulatory solutions, including:
 - the Act on amending the act on payment services and certain other acts of 10 May 2018 (Journal of Laws of 2018, item 1075), which introduced, among others, the legal framework for the activities of new payment service providers in the areas of payment initiation service (PIS) and account information service (AIS);
 - preparation for the implementation of IFRS 16, which will introduce new principles for identification and recognition of leases, leading to (among others) elimination of the division of leases into operating and financial, an increase in total assets, an increase in debt ratios, a decrease in capital ratios;
 - the Act on insurance distribution (Journal of Laws of 2017, item 2486) and the Act on amending the act on insurance distribution (Journal of Laws of 2018, item 378), which impose additional obligations (including information obligations) on insurance companies as of 1 October 2018 (implementation of IDD).

3. FINANCIAL RESULTS OF THE BANK'S GROUP

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

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

3.1. KEY FINANCIAL INDICATORS

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

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

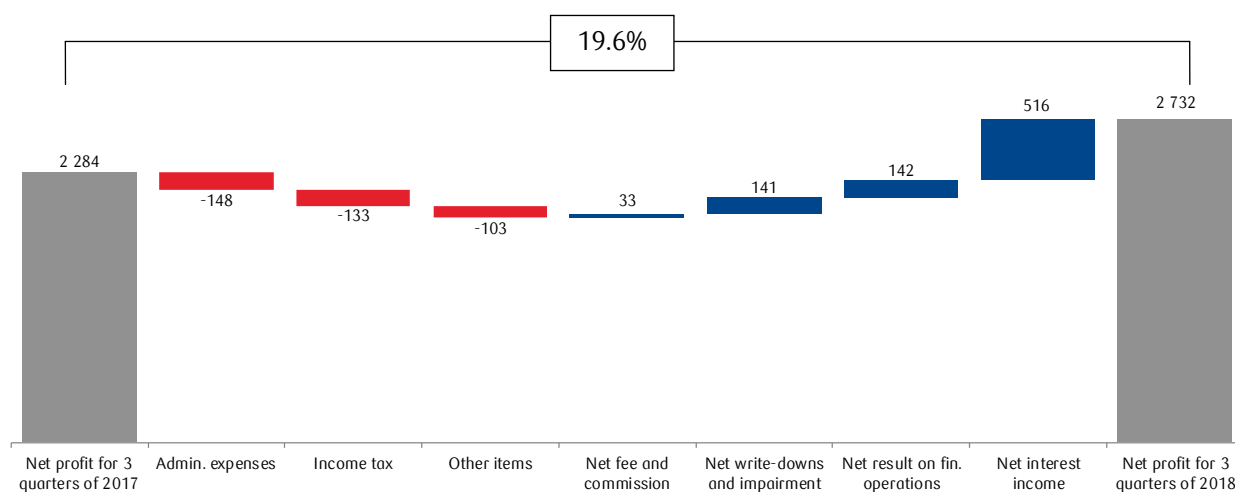
	30.09.2018	30.09.2017	Change
Net ROA (net profit/average balance of assets)	1,2%	1,0%	+0.2 p.p.
Net ROE (net profit/average balance of equity)	9,7%	8,6%	+1.1 p.p.
C/I (costs to income ratio)	45,1%	47,2%	-2.1 p.p.
Interest margin (net interest income/average balance of interest-bearing assets)	3,40%	3,27%	+0.13 p.p.
Share of impaired loans	4,9%	5,6%	-0.7 p.p.
Cost of risk	-0,63%	-0,74%	+0.11 p.p.
Total capital ratio (own funds/total capital requirement*12.5)	18,41%	17,68%	+0.73 p.p.
Tier 1 capital ratio	17,07%	16,77%	+0.30 p.p.

3.2. CONSOLIDATED INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
Administrative expenses
Net write-downs and impairment

The consolidated net profit of the PKO Bank Polski SA Group earned in the first three quarters of 2018 amounted to PLN 2 732 million and was PLN 448 million (+19.6%) higher than in the corresponding period of 2017.

Change in the net profit of the PKO Bank Polski SA Group (in PLN million)



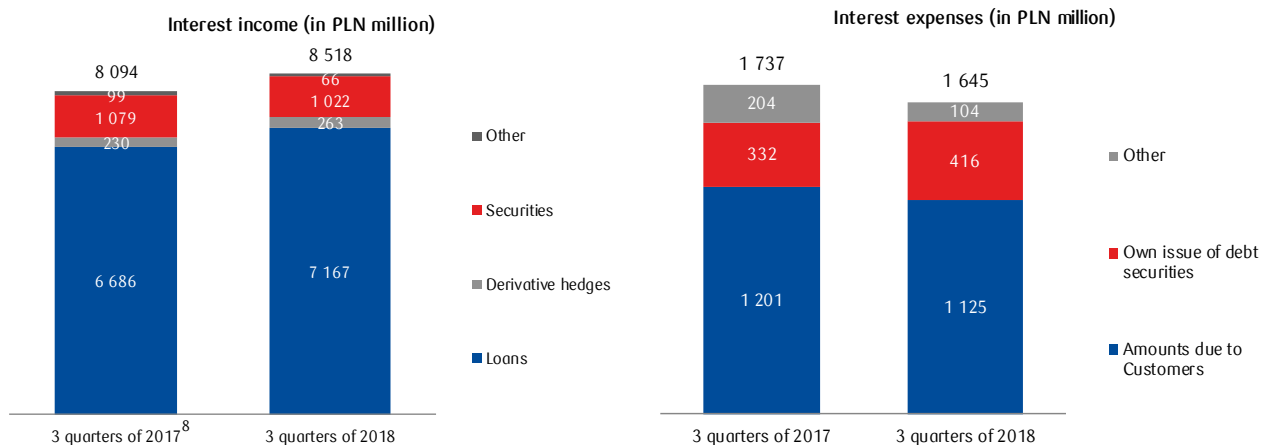
In the income statement of the PKO Bank Polski SA Group for the first three quarters of 2018 the result on business activities amounted to PLN 9 881 million and was PLN 585 million, i.e. 6.3%, higher y/y, mainly as a result of an increase in net interest income.

Table 3. Income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01-30.09.2018	01.01-30.09.2017	Change (in PLN million)	Change (in %)
Net interest income	6 873	6 357	516	8,1%
Net fee and commission income	2 242	2 209	33	1,5%
Net other income	766	730	36	4,9%
Dividend income	12	12	0	0,0%
Result on financial operations	170	28	142	6.1x
Net foreign exchange gains/losses	345	324	21	6,5%
Net other operating income and expenses	239	366	-127	-34,7%
Result on business activities	9 881	9 296	585	6,3%
Administrative expenses	-4 458	-4 310	-148	3,4%
Tax on certain financial institutions	-699	-698	-1	0,1%
Net operating income/expenses	4 724	4 288	436	10,2%
Net write-downs and impairment	-1 038	-1 179	141	-12,0%
Share in profits and losses of associates and joint ventures	22	20	2	10,0%
Profit before tax	3 708	3 129	579	18,5%
Corporate income tax	-974	-841	-133	15,8%
Net profit (incl. attributable to non-controlling shareholders)	2 734	2 288	446	19,5%
Profits and losses of non-controlling shareholders	2	4	-2	-50,0%
Net profit	2 732	2 284	448	19,6%

NET INTEREST INCOME

The net interest income for the first three quarters of 2018 amounted to PLN 6 873 million, i.e. PLN 516 million more than in the same period of the previous year. The higher net interest income y/y resulted from an increase in both the volumes and the interest margin.

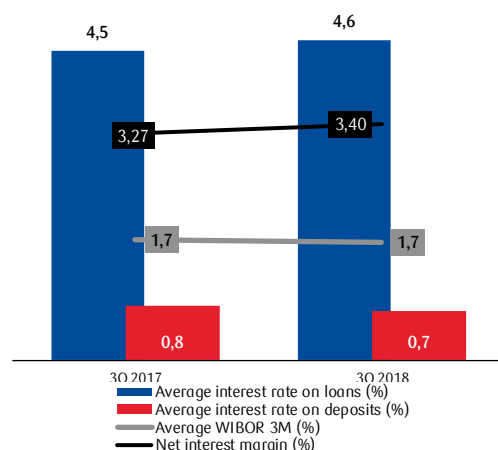


The interest income amounted to PLN 8 518 million and was PLN 424 million higher than in the same period of 2017 mainly as a result of:

- an increase in income on loans and advances granted to Customers of PLN 481 million y/y – associated with an increase in the average volume of loan receivables of PLN 6.9 billion and lease receivables of PLN 1.5 billion, accompanied by a change in their structure (an increase in the share of consumer loans and lease receivables at the expense of housing loans in foreign currencies), while the market levels of interest rates for PLN, CHF and EUR remain unchanged;
- a higher income on derivative hedges (+PLN 33 million y/y), mainly as a result of an increase in the volume and average interest on CIRS hedging transactions;
- a simultaneous decrease in the revenues on securities of PLN 57 million y/y resulting from a decrease in the average volume of securities of PLN 2.5 billion (mainly NBP bills of PLN 5.4 billion), accompanied by an increase in the average interest on such securities due to a 13 p.p. y/y increase in the share in the Treasury bond portfolio,
- a decrease in other revenues of PLN 33 million, which was mainly associated with a decrease in the interest income on the mandatory reserve of PLN 45 million due to a new interest rate on such funds introduced by the Monetary Policy Council as of the beginning of 2018, which was partly offset with an increase in the revenues from interbank deposits.

Interest expenses amounted to PLN 1 645 million and they were PLN 92 million lower than in the corresponding period of 2017. The decrease in interest expenses was mainly due to:

- a decrease in the costs of the deposit base of PLN 94 million y/y, which was associated with a change in the ageing structure towards current deposits, whose share increased by 7 p.p. y/y to approx. 62% of the amounts due to Customers;
- a decrease in the costs of loans and advances received of PLN 93 million y/y resulting from regular overpayment of the financing received from Nordea AB – the debt was repaid in the total amount in the first quarter of 2018;
- at the same time, the costs of issue of debt securities and subordinated liabilities increased by PLN 84 million due to an increase in the volumes of the mid-term bonds and covered bonds issued.



⁸The interest income for the first three quarters of 2017 was adjusted to achieve comparability. Revenues from non-Treasury bonds in the amount of approx. PLN 108 million, in 2017 included in loans and advances to Customers, were transferred from income on loans to income on securities.

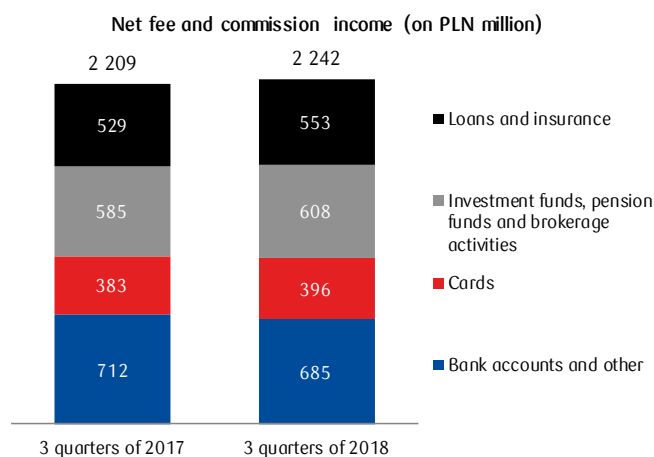
The interest margin increased by approx. 0.13 p.p. y/y to 3.40% as at the end of September 2018. The average annualized interest-earning assets increased by 4.5% y/y (mainly the portfolio of amounts due from Customers and the securities portfolio), and the annualized net interest income increased by 8.9%, mainly as a result of an increase in interest income on loans and securities (the effect of an increase in volume and returns on assets) and optimization of the costs of financing the operations.

As at the end of September 2018, the average interest on amounts due in respect of loans of the PKO Bank Polski SA Group amounted to 4.6%, and the average interest on total deposits was at a level of 0.7%, compared to 4.5% and 0.8% respectively as at the end of September 2017.

NET FEE AND COMMISSION INCOME

The net fee and commission income for the first three quarters of 2018 amounted to PLN 2 242 million and was PLN 33 million higher than in the same period of the previous year. The level of net fee and commission income was mainly driven by:

- a higher net income on loans and insurance (+PLN 24 million y/y), mainly due to an increase in the sales of insurance products linked to consumer and housing loans, and to lease products;
- a higher net income from investment funds, pension funds and brokerage activities (+PLN 23 million y/y), due to the Customers' interest in investment funds as an alternative to bank deposits and development of the funds' offer. The value of assets managed by PKO TFI SA increased by approx. 50% y/y as a result;
- a higher net income on payment and credit cards (+PLN 13 million y/y), due to the higher number of cards and higher volumes of non-cash transactions;
- a lower net income on servicing bank accounts and other income (PLN -27 million y/y), among other things related to a change in the structure of the accounts of Customers who choose less expensive accounts.

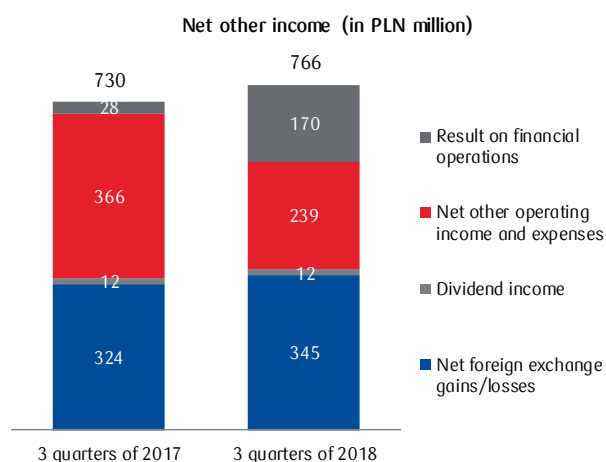


NET OTHER INCOME

The net other income for the first three quarters of 2018 amounted to PLN 766 million and it was PLN 36 million higher than in the same period of the previous year.

The drop in annualized net other operating income and expenses was caused by:

- recognizing in June 2018 a provision of PLN 62.5 million in connection with the intention of PKO Bank Polski SA to file a request for issuing a binding decision by the President of the Office of Competition and Consumer Protection in the proceedings concerning practices violating the collective interests of consumers;⁹
- recognizing additional income of PLN 88 million in 2017 in respect of the completion of a development project and starting to transfer the apartments to Customers of one of the Bank's Group companies.



Compared with the period up to September 2017, result on financial operations increased (+ PLN 142 million y/y), mainly due to sales of securities (included in gains/losses on the derecognition of financial assets and liabilities).

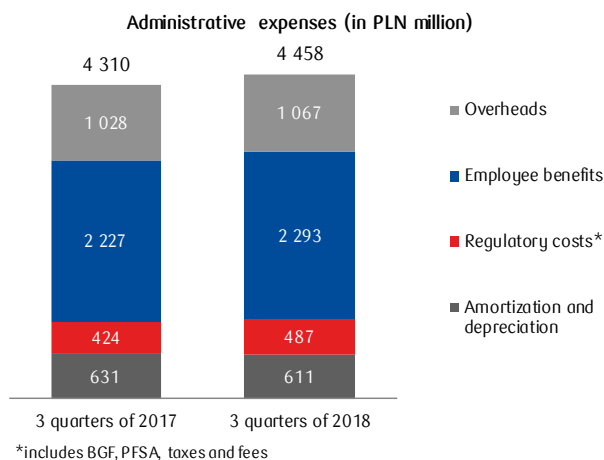
⁹The information on setting up the provision was published in current report No. 24/2018 on 27 June 2018. On 27 August 2018, the President of the Office of Competition and Consumer Protection (UOKiK) issued a binding decision. The decision became legally valid on 4 October 2018.

ADMINISTRATIVE EXPENSES

After the first three quarters of 2018, administrative expenses amounted to PLN 4 458 million and were 3.4% higher than in the same period of the previous year.

Their level was mainly determined by:

- an increase in overheads of PLN 39 million, i.e. of 3.8%, mainly in connection with an increase in the following expenses:
 - marketing (of PLN 46 million – including mainly the Bank's activities in respect of its image, of PLN 20 million, and promoting banking products, of PLN 12 million);
 - postal services (of PLN 15 million, including PLN 16 million due to sending information to Customers about product changes as a result of amendments to the Act on payment services and changes in banking commission and fee tariffs);
- an increase in the costs of employee benefits of PLN 66 million, i.e. of 3.0%;
- an increase in the costs of taxes and fees of PLN 53 million, i.e. of 74.6%, mainly due to recognizing income tax on interest on the foreign bonds issue of PLN 42 million in 2018 and PLN 12 million higher PFSA costs caused mainly by recognizing, in January 2018, a provision for the annual fee (in 2017 it was accrued on a monthly basis);
- an increase of PLN 10 million, i.e. 2.8%, in contributions and payments to the BGF – after the third quarter of 2018, the BGF costs amounted to PLN 363 million, of which the contribution for mandatory restructuring of banks was PLN 167 million. In the same period of the previous year, the BGF costs amounted to PLN 353 million and the mandatory restructuring contribution amounted to PLN 209 million;
- a drop in amortization and depreciation (mainly amortization) of PLN 20 million, i.e. of 3.2%.



As at 30 September 2018, the employment level at the PKO Bank Polski SA Group was 28 153 FTEs (a drop of 261 FTEs y/y).

As at the end of September 2018, the operating efficiency of the PKO Bank Polski SA Group measured with the annual C/I ratio was 45.1% (47.2% as at the end of September 2017). In quarterly terms, the C/I ratio was 42.5%, compared to 43.0% in the third quarter of 2017.

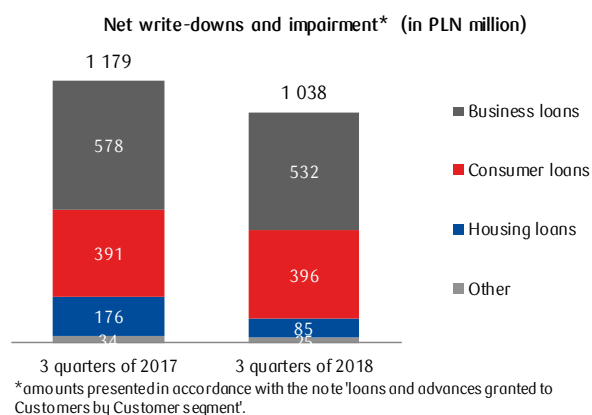
NET WRITE-DOWNS AND IMPAIRMENT

The amount of net impairment write-downs and impairment reflects the conservative approach of the PKO Bank Polski SA Group to recognizing and measuring credit risk. After the three quarters of 2018, it was PLN 1 038 million. The result improved (by PLN 141 million y/y) mainly due to a better result on write-downs on the exposure to the housing and business loans portfolio.

The share of impaired loans as at the end of the third quarter of 2018 amounted to 4.9% (a decrease of 0.7 p.p. in relation to the end of the third quarter of 2017).

The cost of risk as at the end of the third quarter of 2018 amounted to 0.63%, i.e. it improved by 0.11 p.p. in relation to the corresponding period of the previous year.

The improvement in the risk ratios, accompanied by an increase in the gross amount of financing granted to Customers of approx. 5% y/y, is a result of the continuation of the conservative credit risk management policy of the Bank's Group and careful monitoring of the portfolio of receivables.



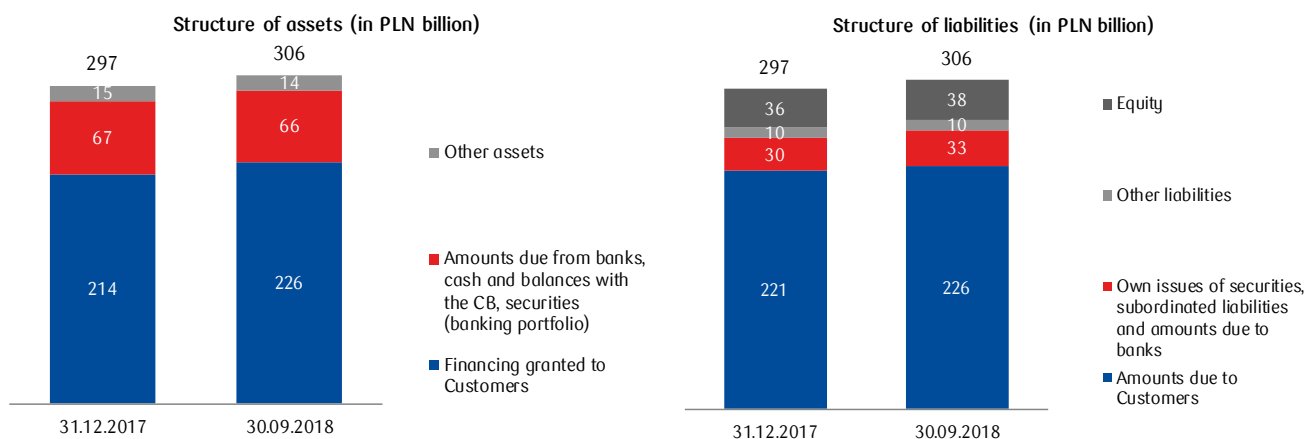
3.3. STATEMENT OF FINANCIAL POSITION

Main items of the statement of financial position
Financing granted to Customers
Amounts due to Customers
External financing

MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Total assets and total equity and liabilities of the PKO Bank Polski SA Group as at the end of September 2018 amounted to nearly PLN 306 billion (an increase of approx. PLN 9 billion since the beginning of the year). Therefore, the PKO Bank Polski SA Group consolidated its position of the largest institution in the Polish banking sector.

The Bank's Group noted an increase in the financing granted to Customers, with a simultaneous drop in cash and balances with the Central Bank. As far as the structure of liabilities is concerned, the most stable liabilities increased since the beginning of the year, i.e. the liabilities in respect of issues of securities and customer deposits. At the same time, the amounts due to banks decreased (total repayment of the financing received from Nordea AB).



The ratio of financing granted to Customers to stable sources of financing amounted to 88.0%, which indicates the very good liquidity of the Bank's Group.

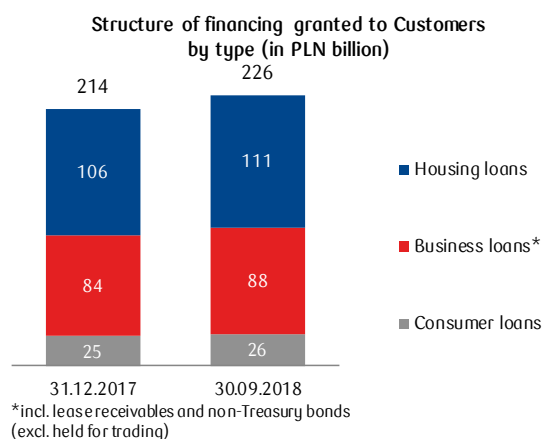
As at the end of September 2018, operating efficiency measured in terms of return on equity (ROE) improved by 1.1 p.p. y/y to 9.7%, and return on assets (ROA) improved by 0.2 p.p. y/y to 1.2%.

FINANCING GRANTED TO CUSTOMERS

As at the end of September 2018, the amount of financing granted to Customers of the Bank's Group exceeded PLN 225.6 billion and it was more than PLN 11 billion higher than as at the beginning of the year.

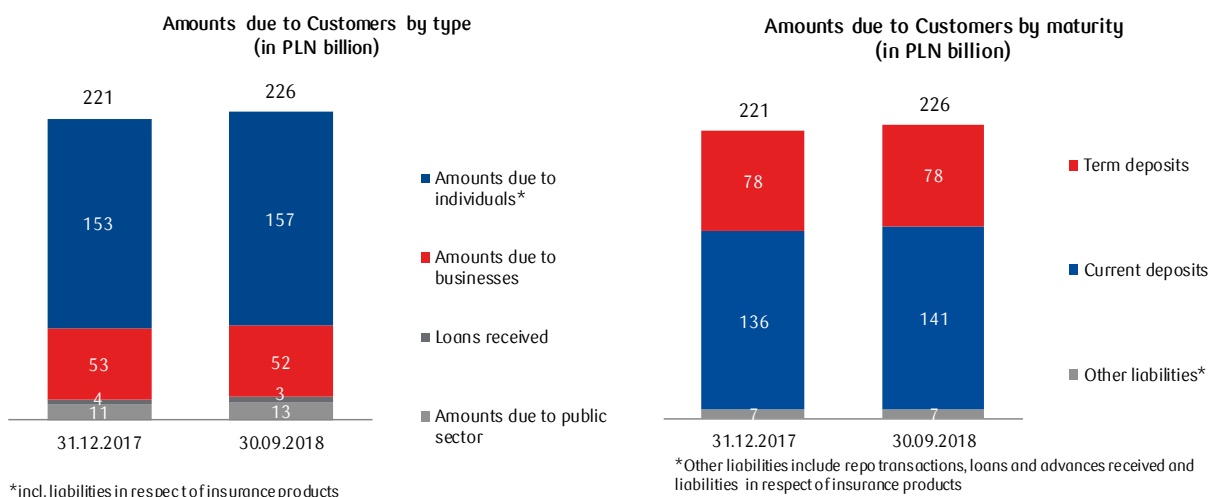
The structure of the net financing granted includes mainly housing loans (49.2% of the portfolio as at the end of September 2018), which increased by PLN 4.8 billion during the year.

The increase in the portfolio of financing granted was also due to an increase in the net volume of amounts due from corporate Customers of PLN 4.9 billion and consumer loans of PLN 1.7 billion.



AMOUNTS DUE TO CUSTOMERS

Amounts due to Customers constitute the basic source of financing assets. As at the end of September 2018 they amounted to PLN 225.6 billion and comprised 74% of total equity and liabilities. In the structure of amounts due to Customers, amounts due to individuals constitute the main item (69.4% of the portfolio as at the end of September 2018), and the share of amounts due to business entities is lower (23.1% of the portfolio as at the end of September 2018).



In 2018 funds continued to migrate from term deposits to current deposits and investment funds; therefore the share of current deposits in total deposits increased to 62.4% (+0.6 p.p. in relation to the end of 2017).

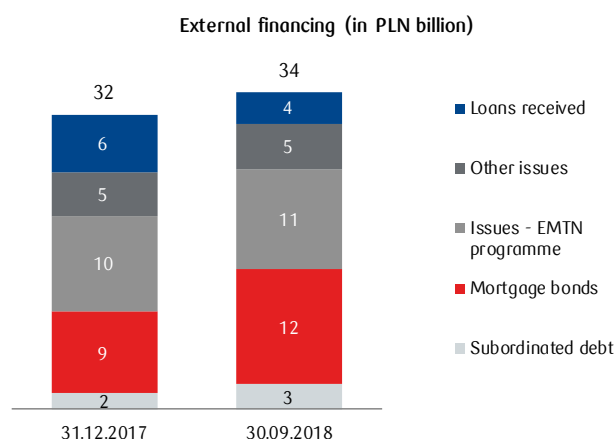
EXTERNAL FINANCING

The PKO Bank Polski SA Group is an active participant in the market of issues of debt securities, both domestic and foreign. Such activities are aimed at diversifying the sources of financing of the operations and adjusting them to regulatory requirements.

The increase in the share of long-term sources of financing of PLN 2.4 billion is mainly the effect of:

- PKO Bank Hipoteczny SA issuing covered bonds (with a nominal value of EUR 500 million and PLN 1 360 million) and PKO Bank Polski SA issuing subordinated bonds (PLN 1 billion);
- total repayment of the outstanding credit line from Nordea Bank AB.

Current repayments of the outstanding loans and the currency effect associated with the depreciation of the Polish zloty also had an impact on the level of external sources of financing.



Detailed information on the issues conducted by the PKO Bank Polski SA Group is provided in Note 38 of the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the nine months ended 30 September 2018.

3.4. EQUITY AND CAPITAL ADEQUACY MEASURES

In the first three quarters of 2018, the PKO Bank Polski SA Group continued actions aimed at providing an adequate capital buffer and strengthened its capital position. As at the end of September 2018, equity amounted to PLN 37.7 billion (PLN 1.5 billion more than in December 2017) and represented 12.3% of the equity and liabilities of the PKO Bank Polski SA Group (an increase of 0.1 p.p. since the end of 2017).

As at the end of the third quarter of 2018, the total capital ratio of the PKO Bank Polski SA Group increased in relation to 31 December 2017 by 1.04 p.p. to 18.41%, and T1 equity ratio increased by 0.57 p.p. to 17.07%.

The increase in capital ratios was due to an increase in own funds of PLN 3.2 billion, which was accompanied by an increase in capital requirements of approx. PLN 0.5 billion (mainly for credit risk). The increase in equity was a result of: recognition (with PFSA's consent) of a part of the profit generated in the first half of 2018 in the amount of PLN 1.1 billion, issue of subordinated debt of PLN 1 billion, and accumulation of profits of the Group companies and accumulation of 75.2% of the Bank's profit for 2017 of PLN 2.1 billion (which resulted in an effective increase in own funds of PLN 0.3 billion, since a part of the 2017 profit of PLN 1.8 billion had already been recognized in own funds with PFSA's consent).

The capital adequacy measures of the PKO Bank Polski SA Group as at 30 September 2018 were affected by applying the preferential risk weight of 35% to exposures secured with a mortgage on a residential property for which an appraisal has not been prepared by a property expert. As a result, the requirements for housing loans decreased by approx. PLN (-)0.6 billion, causing an increase in the total capital ratio of 0.64 p.p. and Tier 1 capital ratio of 0.60 p.p.

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

The capital adequacy measures of the PKO Bank Polski SA Group were calculated based on the CRR regulation, taking into account prudential consolidation.

4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP

4.1. OPERATING SEGMENTS OF THE BANK'S GROUP

Retail segment
Corporate and investment segment

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

RETAIL SEGMENT

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



NUMBER OF CUSTOMERS: 9.7 MILLION

FINANCING GRANTED: 166 BILLION

SAVINGS VOLUME: 223 BILLION

CORPORATE AND INVESTMENT SEGMENT

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



NUMBER OF CUSTOMERS: 15.3 THOUSAND

FINANCING GRANTED: 68 BILLION

VOLUME OF DEPOSITS: 49 BILLION

4.1.1. RETAIL SEGMENT

The segment's Customers
Business volumes
Actions taken in the third quarter of 2018

In the third quarter of 2018, the PKO Bank Polski SA Group continued building strong, long-term relations with the Customers in the retail segment. The Group focused on adjusting the products to the Customers' needs and developing access tools and channels, allowing the Customers to manage their finances conveniently at any place or time.

THE SEGMENT'S CUSTOMERS

As at the end of September 2018, the Retail Segment served more than 9.7 million Customers, including:

- 9.3 million individuals;
- 0.45 million firms and enterprises.

Since the beginning of 2018, the number of the segment's Customers increased by 250 thousand.

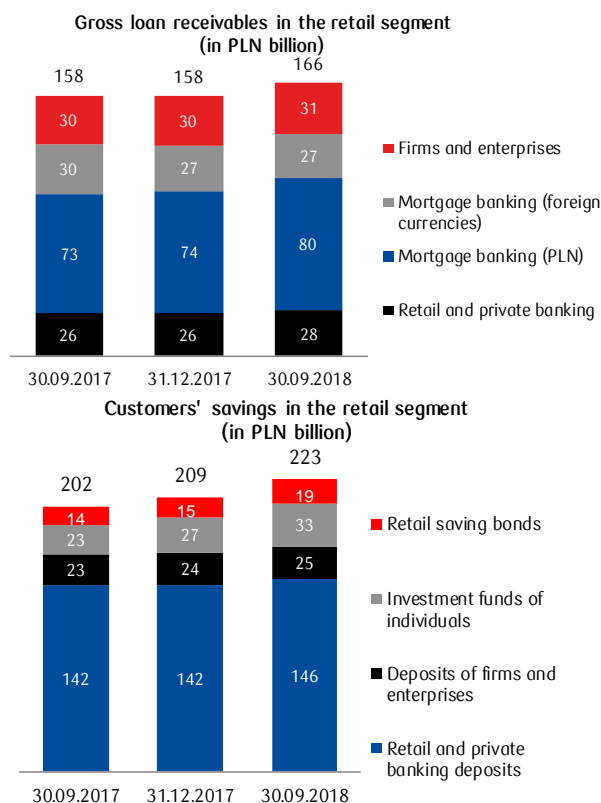
BUSINESS VOLUMES

As at the end of September 2018, the total financing provided to the retail segment Customers amounted to PLN 166 billion and it was nearly PLN 8.0 billion (i.e. 5.0%) higher than as at the beginning of the year.

It was mainly due to the increases in the portfolios of mortgage loans in PLN (+PLN 5.8 billion), retail and private banking loans (+PLN 1.8 billion) and loans granted to firms and enterprises (+PLN 1.0 billion), accompanied by a decrease in the portfolio of mortgage loans in foreign currencies (-PLN 0.6 billion) due to loan repayments.

As at 30 September 2018, the savings of the retail segment amounted to PLN 223 billion and since the beginning of the year their balance increased by PLN 13.7 billion (i.e. 6.6%).

This was partly due to an increase in the balance of investment funds of individuals, retail bonds, and retail and private banking deposits (mainly current ones), which was accompanied by a decrease in term deposits.



ACTIONS TAKEN IN THE THIRD QUARTER OF 2018

In the third quarter of 2018, the PKO Bank Polski SA Group took the following actions:

- on the housing loans market:
 - granted loans to individuals totalling PLN 4 billion (more than PLN 11 billion since the beginning of the year), taking the first position on the market with a market share of 30.1% in the third quarter and 28.9% as at the end of September 2018;
 - introduced to the Bank's offer a loan bearing interest based on a fixed 5-year base rate;
- with respect to consumer loans:
 - launched a cash loan with APRC of 3.44%, distributed using the slogan "Mini Ratka to dobry plan" ("Mini Ratka is a good plan"); the total sales of consumer loans in the third quarter exceeded PLN 3.7 billion;

- introduced a special offer for a cash loan with 0% commission, offered at iPKO, IKO and Contact Centre to the Customers who do not have cash loans with PKO Bank Polski SA;
- with respect to insurance products:
 - commenced sales of motor insurance: third party liability with a Green Card, Autocasco, Accident and Assistance. In cooperation with renowned insurance companies, PKO Bank Polski SA offers a full insurance cover for vehicle owners. As a novelty on the market, the Bank offers the possibility of buying, as part of a single package and a single sale process, several policies from different insurers, as well as buying a policy even six months in advance in order to obtain protection against potential changes in motor insurance prices over the next 6 months;
- in respect of supporting the operations and financing of firms and enterprises:
 - remained the largest lender among the 21 banks granting loans with *de minimis* guarantees with a market share of 20%;¹⁰ as a result, it maintained its position as sales leader as at the end of the third quarter. The guarantees granted by the Bank in the third quarter amounted to PLN 0.4 billion, and since the launch of the programmed they totalled approx. PLN 10.5 billion;
 - the Group had granted loans as part of the “Portfelowa Linia Gwarancyjna COSME” (COSME Portfolio Guarantee Line) in excess of PLN 312 million and guarantees totalling PLN 250 million;
 - continued selling the guarantees under the Smart Growth Operational Programme Guarantee Fund (FG POIR) to the segment of firms and enterprises and corporate Customers, which it started in March 2018;
- in respect of the transactions and savings offer:
 - strengthened its leading position on the market in terms of the number of current accounts maintained, which amounted to nearly 7.4 million and increased by 300 thousand during the year;
 - sold more than 89 million Treasury bonds since the beginning of 2018;
 - in August 2018, introduced the Basic Payment Account to the offer, which is available to individuals from the age of 13 who do not have a payment account in the Polish currency;
 - replaced the prepaid PKO Junior card, a personalized debit card, which is linked to a technical accounts and requires an input of funds;
 - made the Garmin Pay service available to the holders of PKO Bank Polski SA payment cards. The Bank's retail Customers who have smartwatches equipped with that function may make contactless payments using their cards, also using the multicurrency card function;
 - enabled the Customers holding VISA or Mastercard cards to make contactless and online payments with Apple devices, using the Apple Pay service;
- in the area of retail Customer service, as part of the digital transformation, it implemented (as a pilot project) electronic authorization of orders made by Customers at a branch (SMS authorization) as a step towards paperless customer service. As at the end of the third quarter, SMS authorization was possible in the case of the 14 most popular orders (including deposits and withdrawals) at 12 branches. Since October it has become available in all branches of the Warsaw region and selected branches in Poznań, Bydgoszcz and Kraków (in total, 116 branches).

4.1.2. CORPORATE AND INVESTMENT SEGMENT

The segment's Customers Business volumes Actions taken in the third quarter of 2018

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

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

¹⁰ According to data provided by the Sureties and Guarantees Centre of Bank Gospodarstwa Krajowego as at 30 September 2018,

THE SEGMENT'S CUSTOMERS

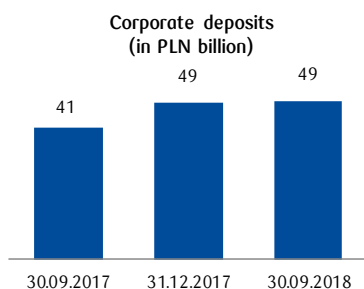
As at the end of September 2018, the Corporate and Investment Segment provided services to 15.3 thousand Customers, including:

- 8.6 thousand corporate Customers;
- 1.1 thousand strategic Customers;
- 4.6 thousand local government entities and central government institutions, including other public entities and related entities;
- almost 0.7 thousand foreign Customers;
- 0.3 thousand financial Customers

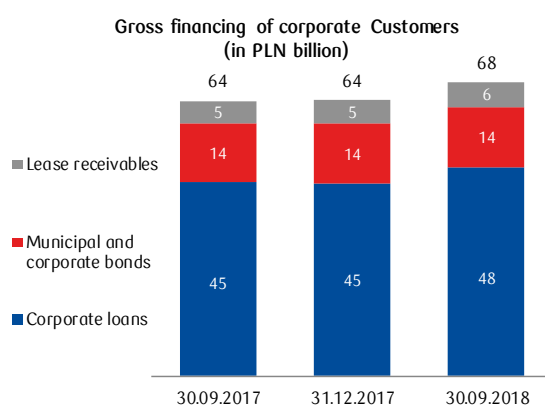
Since the beginning of 2018, the number of the segment's Customers increased by more than 0.5 thousand.

BUSINESS VOLUMES

As at the end of September 2018, the total financing of corporate Customers (including loans, bonds issued and lease receivables) amounted to PLN 68 billion and was more than PLN 4 billion (i.e. 6.4%) higher than at the beginning of the year. The increase concerned mainly loan receivables.



The balance of corporate Customers' deposits as at the end of September 2018 was close to PLN 49 billion and it did not change significantly in relation to the end of 2017.



ACTIONS TAKEN IN THE THIRD QUARTER OF 2018

In the third quarter of 2018, the PKO Bank Polski SA Group took the following actions:

- in respect of Customer service and transaction banking:
 - launched the Split Payment mechanism as part of the Tax Fraud Prevention Programme implemented by the Polish government. The purpose of this solution is to seal the tax system by separating VAT amounts from money transfers executed by enterprises and depositing them on dedicated VAT accounts;
 - implemented a new, innovative product for corporate Customers - „Usługi Identyfikacji Depozytów (SID)” (“Deposit Identification Services”), which supports the bidding process. This solution facilitates effective management of bid bonds received and their subsequent repayment to the bidders (with interest, if any) after the bidding process has been completed;
 - won the tender and, consequently, continued to provide services to the Lubelskie Voivodship and the City of Szczecin, thus confirming its unquestionable leading position among the providers of banking services to the local governments. The Bank's Group provides services to 9 voivodships;
- with respect to the financing of corporate Customers, where loans provided by consortia of banks and organization of bond issues are the standard elements of the offer:
 - as a member of a consortium of banks, signed a loan agreement with the PGE Group a total of PLN 4.1 billion, of which the share of PKO Bank Polski amounted to PLN 1 billion;
 - executed 111 agreements for municipal bond issues and annexes extending the period of availability of the programme totalling PLN 0.8 billion;
- with respect to brokerage activities (Dom Maklerski PKO Banku Polskiego SA):
 - achieved turnover of almost PLN 9 billion on the secondary share market, which represented 7.6% of the market and gave Dom Maklerski PKO Banku Polskiego SA 4th place in the ranking of brokerage houses;

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018

- in the area of option transactions, took the first place on the market with a market share of 26.5%;
- was active on the primary market and participated in the transactions of purchase of own shares by the company BENEFIT SYSTEMS S.A. and the calls for subscription for the shares of Ferrum S.A. and Pamapol S.A.;
- maintained nearly 130 thousand securities accounts and cash accounts, and more than 197 thousand register accounts. In terms of the number of securities accounts (according to KDPW data) the Brokerage House ranked third out of 40 market participants;
- in cooperation with the Bucharest stock exchange, organized the international “Romanian Capital Day” meetings, which were an opportunity for institutional investors to get to know the companies operating on the fast-growing Romanian market.

4.2. MARKET POSITION OF THE PKO BANK POLSKI SA GROUP

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

The share of PKO Bank Polski SA (together with PKO Bank Hipoteczny SA) in the loan market was 17.5% (slightly below the level recorded as at the end of 2017). In the area of savings, the market share was 17.5% (an increase of 0.2 p.p. in relation to the end of 2017).

The PKO Bank Polski SA Group constantly increases its share in the investment funds of individuals market, which as at the end of September 2018 amounted to 20.9% and was 3.4 p.p. higher than as at the end of 2017.

Table 4. Market shares

	30.09.2018	31.12.2017	30.09.2017	Change since:	
				31.12.2017	30.09.2017
Loans:	17,5%	17,7%	17,7%	-0,2 p.p.	-0,2 p.p.
granted to individuals, including:	22,9%	23,0%	23,0%	-0,1 p.p.	-0,1 p.p.
housing	26,0%	26,1%	26,0%	-0,1 p.p.	0,0 p.p.
PLN	28,3%	28,6%	28,6%	-0,3 p.p.	-0,3 p.p.
foreign currency	21,1%	21,2%	21,2%	-0,1 p.p.	-0,1 p.p.
consumer and other	16,0%	15,9%	16,1%	0,1 p.p.	-0,1 p.p.
overdrafts	31,8%	32,0%	31,6%	-0,2 p.p.	0,2 p.p.
instalment and other	15,0%	14,9%	15,1%	0,1 p.p.	-0,1 p.p.
granted institutional entities	12,6%	12,8%	12,8%	-0,2 p.p.	-0,2 p.p.
Leasing (sales)	11,4%	12,0%	12,5%	-0,6 p.p.	-1,1 p.p.
Sales of mortgage loans	28,9%	29,6%	30,4%	-0,7 p.p.	-1,5 p.p.
Total savings*	17,5%	17,3%	16,4%	0,2 p.p.	1,1 p.p.
savings of individuals**	21,5%	21,2%	20,9%	0,3 p.p.	0,6 p.p.
Deposits:	17,3%	17,9%	17,2%	-0,6 p.p.	0,1 p.p.
of individuals	19,7%	20,4%	20,6%	-0,7 p.p.	-0,9 p.p.
of institutional entities	13,9%	14,5%	12,6%	-0,6 p.p.	1,3 p.p.
TFI assets - funds of individuals	20,9%	17,5%	15,3%	3,4 p.p.	5,6 p.p.
Non-Treasury debt securities (amount of debt)	32,0%	29,3%	28,6%	2,7 p.p.	3,4 p.p.
Brokerage activities - turnover on the secondary market***	7,9%	14,7%	15,6%	-6,8 p.p.	-7,7 p.p.

Source: NBP, WSE, Polish Lease Association, Polish Bank Association, Anality Online

* Total savings comprise total deposits, TFI assets and retail saving bonds.

**Savings of individuals comprise deposits of individuals, funds of individuals and retail saving bonds.

*** In 2017, including the effect of intermediation in the sale of Pekao SA shares. After eliminating this effect, the share of brokerage activities in turnover on the secondary market would amount to 11.0% after three quarters of 2017 and 11.2% in the whole year 2017.

4.3. DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking
Electronic banking
Network of branches and agencies

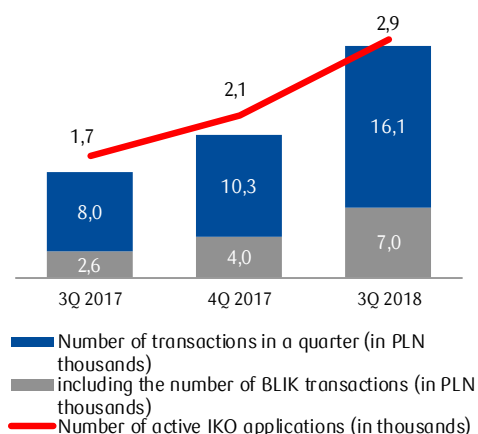
IKO MOBILE BANKING

IKO is the most popular and appreciated mobile payment application in Poland. It combines the mobile banking function with the mobile payment function. As at the end of the third quarter of 2018, the total number of active IKO applications was nearly 2.9 million. New functionalities are constantly added to the application.

The share of the Customers using mobile banking is also growing. August 2018 was the first month when the number of log-ins to IKO exceeded the number of log-ins to iPKO. The number of Customers who logged in to IKO in the third quarter of 2018 was 12% higher than in the second quarter of 2018.

In the third quarter of 2018, a new process of cash loan sale was implemented in the IKO application. As a result, the daily sales of cash loans in the IKO application increased by almost 90%.

Moreover, the IKO application was extended by adding the following functions: multi-currency card services, push notifications about transactions on the account, an application for a new account for an unregistered Customer, and access to foreign exchange service, which in the first half of the year 2018 was available through the iPKO transaction service (eKANTOR) – since the launch of this service, more than 100 thousand agreements have been signed and transactions totalling PLN 1.4 billion have been concluded.



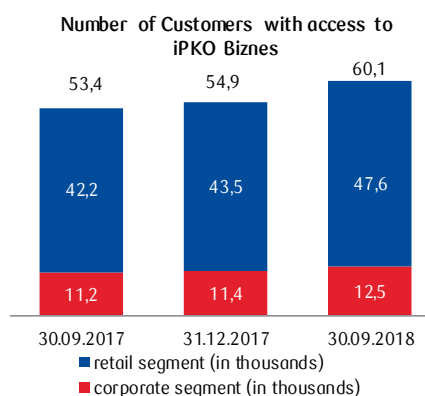
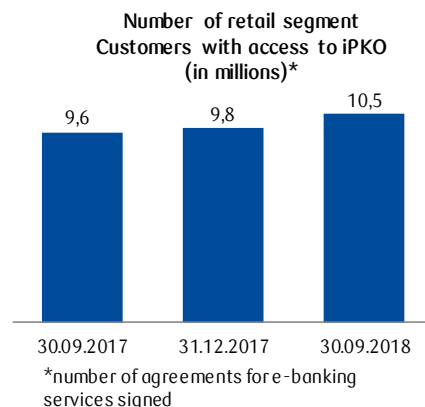
ELECTRONIC BANKING

The Customers of PKO Bank Polski SA can use a package of electronic banking services as part of the generally available iPKO service.

Using such services gives the Customers access to information about accounts and products and allows them to conclude transactions through the Internet, self-service terminals and telephone. As at the end of the third quarter of 2018, 10.5 million Customers had access to iPKO, and more than 60 thousand Customers used iPKO Biznes.

The Bank added the following new products and services to its e-banking offer in the third quarter of 2018:

- support in conducting business activities as part of iPKO in the form of a business assistant, i.e. a modern application which supports the management of the entity's revenues and costs 24 hours a day;
- the possibility of opening an online shop from the iPKO level and managing the finances and orders from one location, where the inventories of products, order execution process and returns can be tracked. The platform is integrated with all major online payment systems and many courier companies.



NETWORK OF BRANCHES AND AGENCIES

PKO Bank Polski SA provides its Customers with a wide network of retail branches and agencies, private banking offices, corporate branches, as well as branches located abroad.

As at 30 September 2018, the PKO Bank Polski SA retail network consisted of 1 110 branches organized into 11 regional branches. Compared to the end of 2017, the total number of retail branches decreased by 30.

The corporate segment's sales network consists of 33 Regional Corporate Centres organized into seven Regional Corporate Branches, as well as the branches located in the Federal Republic of Germany and the Czech Republic.

The branch and ATM network is complemented by the agency network. As at the end of September 2018, PKO Bank Polski SA collaborated with 590 agencies. The number of agencies dropped by 155 compared with the beginning of the year due to continuing efforts to increase the sales network's effectiveness, i.e., for instance, to implement a new agency agreement with a new remuneration model.

Table 5. Operating data of the segments

	30.09.2018	31.12.2017	30.09.2017	Change since:	
				31.12.2017	30.09.2017
Number of branches in the retail segment:	1 121	1 151	1 167	-30	-46
regional retail branches	11	11	11	0	0
retail branches	1 102	1 132	1 148	-30	-46
private banking offices	8	8	8	0	0
Number of branches in the corporate and retail segment:	42	41	41	1	1
regional corporate branches	7	7	7	0	0
regional corporate centres	33	32	32	1	1
foreign branches	2	2	2	0	0
Number of ATMs	3 146	3 190	3 208	-44	-62
Number of agencies	590	745	769	-155	-179

4.4. ACTIVITIES OF THE PKO BANK POLSKI SA GROUP SUBSIDIARIES

PKO BANK HIPOTECZNY SA

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

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

In 2018, under the Framework Agreement for the Sale of Receivables signed in 2015 with PKO Bank Polski SA, PKO Bank Hipoteczny SA acquired housing loans portfolios secured with mortgages totalling PLN 2.4 billion. The total value of the gross loan portfolio of PKO Bank Hipoteczny SA as at 30 September 2018 amounted to PLN 20.3 billion, including housing loans secured with mortgages acquired under the agreement with PKO Bank Polski SA amounting to PLN 12.5 billion.

The main objective of the company is the issue of covered bonds, which are meant to be the main source of long-term financing of loans secured with real estate. Such issues are performed as part of the national and international programme.

In the period from January to September 2018, the company carried out:

- one foreign issue of covered bonds denominated in EUR, addressed to institutional investors, with the total nominal value of EUR 500 million;
- four domestic issues of zloty-denominated covered bonds, addressed to institutional investors, in the total nominal amount of PLN 1 360 million.

The total value of covered bonds issued by PKO Bank Hipoteczny SA and outstanding (at the nominal value) as at the end of September 2018 amounted to PLN 12.5 billion.

Covered bonds of PKO Bank Hipoteczny SA (both in PLN and in EUR) have been assigned a long-term rating Aa3 by Moody's Investors Service.

PKO Bank Hipoteczny SA was the first issuer of covered bonds from Poland to join The Covered Bond Label in February 2018.

**PKO TOWARZYSTWO FUNDUSZY
INWESTYCYJNYCH SA**

The net asset value of funds managed by PKO TFI SA as at the end of September 2018 was PLN 35.1 billion, i.e. it was 19.5% higher than as at the end of 2017.

PKO TFI SA ranks second in terms of net asset value and has a 12.7% share in the market of investment funds; and it ranks first with a 20.9% share in the investment funds of individuals market*.

As at 30 September 2018, PKO TFI SA managed 65 investment funds and sub-funds, including 16 funds and sub-funds acquired as part of the merger with GAMMA TFI SA.

In 2018, PKO TFI SA established PKO VC – a closed-ended investment fund of non-public assets with two separate sub-funds (Financial Sub-fund and Strategic Sub-fund).

In the first three quarters of 2018, PKO TFI SA (together with GAMMA TFI SA) carried out eight issues of closed-ended investment fund certificates, whereby it acquired assets with a total value of PLN 84.1 million.

*Source: *Analizy Online*.

PKO BP BANKOWY PTE SA

As at the end of September 2018, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 7.3 billion, representing a 9.2% decrease in relation to the balance as at the end of 2017. The decrease in the net asset value was mainly due to the situation on the Warsaw Stock Exchange.

PKO BP Bankowy OFE had more than 915 thousand participants as at the end of September 2018.

PKO BP Bankowy OFE is ranked 9th on the pension fund market in terms of the net value of assets and in terms of the number of participants*.

According to the Polish Financial Supervision Authority ranking, PKO BP Bankowy OFE achieved a rate of return of 18.857% for the period from 30 September 2015 to 28 September 2018, compared with the weighted average rate of return for all funds of 18.826% (fourth place among the pension funds operating on the market).

*Source: *www.knf.gov.pl*

**THE GROUP
PKO LEASING SA**

Lease activities:

In 2018, the lease companies of the PKO Leasing SA Group financed fixed assets with a total value of PLN 6.6 billion, which represents a 10.3% increase compared with the same period of 2017. Big increases in financing in the segment of plant and machinery should be noted.

As at the end of September 2018, the combined carrying value of amounts due from Customers for financing of fixed assets (both due and not yet due) and carrying value of fixed assets leased by the PKO Leasing SA Group under operating lease agreements was PLN 16.2 billion. As at the end of September 2017, the carrying amount was PLN 14.7 billion.

In terms of the value of fixed assets leased to Customers in the period from January to September 2018, the PKO Leasing SA Group ranked 1st on the market of lease services with an 11.4% market share*.

*Source: *The Polish Leasing Association*

Factoring activities:

In 2018, the factoring turnover amounted to PLN 13 billion (in the same period of 2017, the company's turnover amounted to PLN 8.4 billion); the number of Customers as at the end of September 2018 was 515.

As at 30 September 2018, PKO Faktoring SA was ranked 8th (in terms of turnover) among factoring firms belonging to the Polish Factors Association, with a market share of 7.65%.

**PKO ŻYCIE TOWARZYSTWO
UBEZPIECZEŃ SA GROUP**

The scope of activities of PKO Życie Towarzystwo Ubezpieczeń SA comprises insurance activities in the area of the first category of insurance – life insurance.

PKO Życie Towarzystwo Ubezpieczeń SA offers a wide range of insurance products. The company focuses on insuring the life and health of its Customers. It offers independent products and products supplementing the bank products offered by PKO Bank Polski SA.

In 2018, the company introduced ONKOPLAN cancer insurance to its offer.

Gross written premiums from insurance contracts signed by the company in the period from January to September 2018 amounted to PLN 381.7 million, compared to PLN 370.4 million in the corresponding period of 2017.

As at the end of September 2018, the company insured more than 807 thousand people (710 thousand people as at the end of September 2017).

**PKO TOWARZYSTWO
UBEZPIECZEŃ SA**

The company's business activities comprise non-life insurance (category II of insurance). PKO Towarzystwo Ubezpieczeń SA focuses on insuring the risks of a loss of income, the outcome of accidents and illness, as well as on insuring real estate for borrowers and mortgage borrowers. The company offers a wide range of insurance products addressed to the Customers of the Bank and other entities that belong to the Bank's Group.

In 2018, the company introduced Car Assistance insurance to its offer for PKO Bank Polski SA Customers.

Gross written premiums from insurance contracts signed by the company in the period from January to September 2018 amounted to PLN 422.2 million, compared to PLN 350.4 million in the corresponding period of 2017.

As at the end of September 2018, the company insured 764 thousand people (534 thousand people as at the end of September 2017).

**THE KREDOBANK SA GROUP
(DATA ACCORDING TO THE IFRS
APPLIED BY THE PKO BANK
POLSKI SA GROUP)**

The credit portfolio of the KREDOBANK SA Group (gross) increased by UAH 1 711 million, i.e. 19.3%, in the period from January to September 2018, and, as at 30 September 2018, it amounted to UAH 10 563 million (the gross credit portfolio expressed in PLN amounted to PLN 1 374 million as at the end of September 2018). The increase in the value of the loan portfolio in UAH is mainly due to new loans.

Term deposits of Customers of the KREDOBANK SA Group increased by UAH 135 million, i.e. 2.6%, in the period from January to September 2018, and amounted to UAH 5 268 million as at 30 September 2018 (term deposits expressed in PLN amounted to PLN 685 million as at the end of September 2018).

As at 30 September 2018, the network of KREDOBANK SA branches comprised the Head Office in Lviv and 93 branches in 22 out of 24 Ukrainian districts. In the period from January to September 2018, two branches were opened, 2 branches were relocated, and 11 branches were closed down.

4.5. PRIZES AND AWARDS

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

BOOK OF LISTS

According to the Book of Lists 2018/2019 prepared by the Warsaw Business Journal, PKO Bank Polski SA again became the leader of the "banks" category in Poland. PKO Leasing SA and Dom Maklerski PKO Banku Polskiego SA were also the leaders in their categories.

PKO Leasing SA received the Book of Lists 2018/2019 certificate for taking first place among lease companies. The total value of lease contracts signed in 2017 was taken into consideration.

Book of Lists – a guide to Polish business and economy and the ranking of the biggest firms by sector, present on the Polish market for 23 years.

**CEE CAPITAL MARKETS &
FINTECH AWARDS**

PKO Bank Polski SA won three awards in the international CEE Capital Markets & Fintech Awards competition. "Let's Fintech with PKO Bank Polski!" acceleration programme was the best in the Institutional Innovator category. The ZenCard technology received an award in the Fintech Innovation of the Year category, and Dom Maklerski PKO Banku Polskiego SA was rewarded for the highest value of transactions.

The purpose of CEE Capital Markets & Fintech Awards is to attract the attention of global investors to fast-growing companies, economy and innovations of Central and Eastern Europe. The competition was initiated by CEE Business Media Sp. z o.o.

**AN ATTRACTIVE POLISH
EMPLOYER - UNIVERSUM
2018**

PKO Bank Polski SA was once again appreciated by students. In a prestigious ranking of employers – Universum Student Survey – it was among the best employers in Poland in two categories: business and law. Students highly appreciated the Bank's technological innovations, its package of employee benefits and ethical conduct.

The annual Talent Survey conducted by a consulting firm Universum is one of the largest surveys of this type in the world. It examines professional preferences and objectives, career paths and industries in which respondents would like to work. This year's Polish edition was conducted with the participation of more than 17.5 thousand students from 71 Polish universities. They evaluated employers in the following areas: business, engineering, IT, humanities, sciences, law, health and medicine.

THE BEST LEASING PRODUCT	The lease of plant and machinery offered by PKO Leasing SA was ranked the best leasing product for SME in 2018 in the <i>Gazeta Finansowa</i> report "Turbiny Polskiej Gospodarki 2018" (Drivers of the Polish Economy 2018). The report summarizes the financial results of SMEs and presents products that contribute to the better efficiency of their operations.
HIGH POSITIONS OF KREDOBANK SA IN THE RANKINGS IN UKRAINE	In the July 2018 ranking prepared by Prostobank Consulting agency, KREDOBANK SA was ranked first in the deposits for business entities and loans for business development categories, and third in the following categories: deposits for individuals, loans on the secondary market of residential real estate, and clearing and cash services.

5. GLOSSARY

Financing granted to Customers – loans and advances to Customers + finance lease receivables + non-Treasury bonds (excluding bonds held for trading) – receivables in respect of repurchase agreements;

Total Capital Ratio – calculated as the ratio of own funds to the total capital requirement multiplied by 12.5;

Net other operating income and expenses – net other operating income and expense + gains/losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss (measured at amortized cost);

Average interest rate on loans – interest income on loans and advances to Customers on an annual basis / average balance of loans and advances to Customers from the last 5 quarters;

Average interest rate on deposits – interest expense on amounts due to Customers on an annual basis / average balance of amounts due to Customers from the last 5 quarters;

C/I ratio (costs to income ratio) – calculated as the ratio of administrative expenses to the result on business activities on an annual basis;

Financing granted to Customers to stable sources of financing ratio – calculated as the ratio of financing granted to Customers (loans and advances to Customers + finance lease receivables + non-Treasury bonds, excluding bonds held for trading) to stable sources of financing (amounts due to Customers and external financing in the form of subordinated liabilities, own issues of debt securities and loans from financial institutions);

Tier 1 capital ratio – calculated as the ratio of Tier 1 capital to the total capital requirement multiplied by 12.5;

Cost of risk – calculated by dividing net credit loss allowances for the 12 months ended 30 September 2018 by the average balance of loans and advances to Customers, gross, at the beginning and at the end of the reporting period, and interim quarterly periods;

Net interest margin – net interest income on an annual basis / average balance of interest-earning assets from the last 5 quarters;

Net ROA – net profit for the year / average balance of assets from the last 5 quarters;

Net ROE – net profit for the year / average balance of equity from the last 5 quarters;

Share of impaired loans – defined as the portfolio with recognized impairment in the portfolio of exposures measured at amortized cost and in the portfolio of loans measured at fair value through other comprehensive income;

Result on business activities – operating profit excluding administrative expenses, tax on certain financial institutions, net credit losses and impairment of non-financial assets;

Net other income – dividend income + net gain/loss in financial instruments measured at fair value through profit or loss + net gain/loss on investment securities + net foreign exchange gains/losses + gains/losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss + net other operating income/expense;

Result on financial transactions – net gain/loss in financial instruments measured at fair value through profit or loss + net gain/loss on investment securities + gains/losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss (measured at fair value through other comprehensive income);

Net write-downs and impairment – net credit losses + impairment of non-financial assets.



Bank Polski

Condensed interim
consolidated financial statements
of the PKO Bank Polski SA Group
**for the nine-month period ended
30 September 2018**



CONTENTS

CONSOLIDATED INCOME STATEMENT	5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	7
STATEMENT OF CHANGES IN CONSOLIDATED EQUITY	9
CONSOLIDATED STATEMENT OF CASH FLOWS	11
1. GENERAL INFORMATION ABOUT THE GROUP	13
2. APPROVAL OF THE FINANCIAL STATEMENTS	15
3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS	15
4. IFRS 9 FINANCIAL INSTRUMENTS	16
5. IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS	16
6. EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS.....	17
7. OTHER CHANGES IN ACCOUNTING POLICIES	19
8. INFORMATION ON BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS	20
NOTES TO THE CONSOLIDATED INCOME STATEMENT.....	24
9. INTEREST INCOME AND EXPENSES	24
10. FEE AND COMMISSION INCOME AND EXPENSES	25
11. NET FOREIGN EXCHANGE GAINS/ (LOSSES)	26
12. GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	26
13. NET CREDIT LOSSES	26
14. IMPAIRMENT OF NON-FINANCIAL ASSETS	27
15. OTHER OPERATING INCOME AND EXPENSES	27
16. ADMINISTRATIVE EXPENSES	28
17. TAX ON CERTAIN FINANCIAL INSTITUTIONS	29
18. INCOME TAX.....	29
19. EARNINGS PER SHARE	31
NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	32
20. CASH AND BALANCES WITH THE CENTRAL BANK	32
21. AMOUNTS DUE FROM BANKS	32
22. DERIVATIVES HEDGING INSTRUMENTS	33
23. OTHER DERIVATIVE INSTRUMENTS	39
24. SECURITIES	39
25. LOANS AND ADVANCES TO CUSTOMERS	44
26. EXPECTED CREDIT LOSSES	47
27. IMPAIRMENT OF FINANCIAL ASSETS (COMPARABLE DATA IN ACCORDANCE WITH IAS 39)	53
28. NON-CURRENT ASSETS HELD FOR SALE.....	55
29. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	55
30. OTHER ASSETS.....	57
31. AMOUNTS DUE TO BANKS	57
32. AMOUNTS DUE TO CUSTOMERS	58
33. LOANS AND ADVANCES RECEIVED	58
34. LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	59
35. DEBT SECURITIES IN ISSUE	59
36. SUBORDINATED LIABILITIES	62
37. OTHER LIABILITIES.....	63
38. PROVISIONS	63

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

39.	EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK.....	64
	INFORMATION ABOUT MEMBERS OF THE PKO BANK POLSKI SA GROUP, JOINT VENTURES AND ASSOCIATES	66
40.	STRUCTURE OF THE PKO BANK POLSKI SA GROUP AND THE SCOPE OF ACTIVITIES OF THE GROUP ENTITIES.....	66
41.	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES.....	70
42.	CHANGES IN COMPANIES COMPRISING THE GROUP.....	72
	OTHER NOTES.....	74
43.	DIVIDENDS PER SHARE AND PROFIT APPROPRIATION	74
44.	CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES GRANTED	74
45.	OFF-BALANCE SHEET LIABILITIES RECEIVED	81
46.	LEGAL CLAIMS	81
47.	SUPPLEMENTARY INFORMATION TO THE STATEMENT OF CASH FLOWS	84
48.	TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES	85
49.	FAIR VALUE HIERARCHY	86
50.	FINANCIAL ASSETS AND FINANCIAL LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	92
51.	ASSETS PLEDGED AS COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS	92
52.	OTHER INFORMATION.....	94
	RISK MANAGEMENT OBJECTIVES AND POLICIES	96
53.	RISK MANAGEMENT WITHIN THE GROUP.....	96
54.	CREDIT RISK MANAGEMENT.....	99
55.	CONCENTRATION OF CREDIT RISK AT THE GROUP.....	101
56.	FORBEARANCE PRACTICES	101
57.	MANAGING THE RISK OF FOREIGN CURRENCY LOANS AND ADVANCES GRANTED TO CUSTOMERS, BROKEN DOWN BY CURRENCY.....	106
58.	INTEREST RATE RISK MANAGEMENT	109
59.	CURRENCY RISK MANAGEMENT	109
60.	LIQUIDITY RISK MANAGEMENT	110
61.	CAPITAL ADEQUACY.....	111
62.	LEVERAGE RATIO.....	113
63.	INFORMATION ON SECURITIZATION OF LEASE PORTFOLIO AND PORTFOLIO SALE OF RECEIVABLES.....	114
	SEPARATE STATEMENT OF COMPREHENSIVE INCOME	117
	SEPARATE STATEMENT OF FINANCIAL POSITION	118
	SEPARATE STATEMENT OF CHANGES IN EQUITY.....	120
	SEPARATE STATEMENT OF CASH FLOWS.....	122
	NOTES TO THE SEPARATE FINANCIAL STATEMENTS.....	124
1.	EXPLANATIONS OF DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS.....	124
	NOTES TO THE SEPARATE INCOME STATEMENT.....	125
2.	INTEREST INCOME AND EXPENSE.....	125
3.	COMMISSION AND FEE INCOME AND EXPENSES	126
4.	NET FOREIGN EXCHANGE GAINS/(LOSSES)	127
5.	GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	127
6.	NET EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS	127
7.	NET IMPAIRMENT OF NON-FINANCIAL ASSETS.....	128
8.	OTHER OPERATING INCOME AND EXPENSES.....	128
9.	ADMINISTRATIVE EXPENSES.....	129
10.	INCOME TAX EXPENSE	129
11.	EARNINGS PER SHARE.....	131
	NOTES TO THE SEPARATE STATEMENT OF FINANCIAL POSITION.....	132
12.	CASH AND BALANCES WITH THE CENTRAL BANK	132

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

13.	AMOUNTS DUE FROM BANKS	132
14.	HEDGING DERIVATIVES	132
15.	OTHER DERIVATIVE INSTRUMENTS.....	140
16.	SECURITIES	140
17.	LOANS AND ADVANCES TO CUSTOMERS	144
18.	EXPECTED CREDIT LOSSES	147
19.	IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS (DATA IN ACCORDANCE WITH IAS 39).....	152
20.	NON-CURRENT ASSETS HELD FOR SALE.....	154
21.	INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	154
22.	OTHER ASSETS	155
23.	AMOUNTS DUE TO BANKS	155
24.	AMOUNTS DUE TO CUSTOMERS	156
25.	LOANS AND ADVANCES RECEIVED	156
26.	DEBT SECURITIES IN ISSUE	157
27.	SUBORDINATED LIABILITIES	157
28.	OTHER LIABILITIES.....	158
29.	PROVISIONS	159
30.	EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK.....	159
31.	INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	160
32.	CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES GRANTED	162
33.	OFF-BALANCE SHEET LIABILITIES RECEIVED	164
34.	NOTES TO THE CASH FLOW STATEMENT	164
	RESTRICTED CASH AND CASH EQUIVALENTS.....	164
35.	RELATED-PARTY TRANSACTIONS – CAPITAL LINKS	165
	OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT.....	167
36.	RISK MANAGEMENT AT PKO BANK POLSKI SA.....	167
37.	CREDIT RISK MANAGEMENT.....	167
38.	INTEREST RATE RISK MANAGEMENT	169
39.	CURRENCY RISK MANAGEMENT	169
40.	LIQUIDITY RISK MANAGEMENT	169
41.	CAPITAL ADEQUACY.....	170
	SUBSEQUENT EVENTS.....	171
42.	SUBSEQUENT EVENTS.....	171

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

CONSOLIDATED INCOME STATEMENT

INCOME STATEMENT	Note	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Interest and similar income	9	2 933	8 518	2 781	8 094
Interest income recognized under the effective interest rate method		2 820	8 179		
interest income on financial instruments measured at amortized cost		2 542	7 358		
interest income on instruments measured at fair value through other comprehensive income		278	821		
Income similar to interest income on instruments measured at fair value through profit or loss		113	339		
Interest expenses and similar charges	9	(567)	(1 645)	(584)	(1 737)
Net interest income		2 366	6 873	2 197	6 357
Fee and commission income	10	1 021	3 003	1 018	2 908
Fee and commission expense	10	(261)	(761)	(252)	(699)
Net fee and commission income		760	2 242	766	2 209
Dividend income		1	12	1	12
Net result on financial instruments measured at fair value through profit or loss		34	49	(2)	11
Gain/(loss) on investment securities				16	17
Net foreign exchange gains/(losses)	11	98	345	101	324
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	12	35	129		
measured at fair value through other comprehensive income		35	121		
measured at amortized cost		-	8		
Net credit losses	13	(336)	(1 023)	(379)	(1 122)
Impairment of non-financial assets	14	8	(15)	(13)	(57)
Other operating income	15	148	465	163	555
Other operating expenses	15	(50)	(234)	(51)	(189)
Net other operating income and expense		98	231	112	366
Administrative expenses	16	(1 441)	(4 458)	(1 372)	(4 310)
Tax on certain financial institutions	17	(238)	(699)	(234)	(698)
Operating profit/(loss)		1 385	3 686	1 193	3 109
Shares in profits (losses) of associates and joint ventures		8	22	9	20
Profit before tax		1 393	3 708	1 202	3 129
Income tax expense	18	(348)	(974)	(300)	(841)
Net profit (including non-controlling shareholders)		1 045	2 734	902	2 288
Profit (loss) attributable to non-controlling shareholders		3	2	-	4
Net profit attributable to equity holders of the parent company		1 042	2 732	902	2 284
Earnings per share	19				
- basic earnings per share for the period (PLN)		0.83	2.19	0.72	1.83
- diluted earnings per share for the period (PLN)		0.83	2.19	0.72	1.83
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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Net profit (including non-controlling shareholders)		1 045	2 734	902	2 288
Other comprehensive income		(108)	58	98	483
Items which may be reclassified to profit or loss		(108)	58	98	483
Cash flow hedges (gross)	22	(55)	(44)	45	65
Deferred income tax	18	10	9	(8)	(12)
Cash flow hedges (net)	22	(45)	(35)	37	53
Unrealized net gains on available-for-sale financial assets (gross)				77	547
Deferred income tax	18			(12)	(100)
Unrealized net gains on available-for-sale financial assets (net)				65	447
Fair value of financial assets measured at fair value through other comprehensive income (gross)		5	247		
Gains /losses transferred to the profit or loss (on disposal)	12	(35)	(121)		
Deferred income tax	18	5	(25)		
Fair value of financial assets measured at fair value through other comprehensive income (net)		(25)	101		
Foreign exchange differences on translation of foreign branches		(23)	5	(6)	(18)
Share in other comprehensive income of associates and joint ventures		(15)	(13)	2	1
Total net comprehensive income		937	2 792	1 000	2 771
Total net comprehensive income, of which attributable to:		937	2 792	1 000	2 771
equity holders of the parent		934	2 790	1 000	2 767
non-controlling shareholders		3	2	-	4

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.09.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	20	13 372	17 810
Amounts due from banks	21	8 226	5 233
- measured at amortized cost		8 226	5 233
Derivative hedging instruments	22	496	887
Other derivative instruments	23	1 389	1 711
Securities	24	58 644	54 075
- held for trading		1 999	431
- financial instruments designated at fair value through profit or loss upon initial recognition			8 157
- available-for-sale investment securities			43 675
- investment securities held to maturity			1 812
- not held for trading, measured at fair value through profit or loss		3 023	
- measured at fair value through OCI		46 952	
- measured at amortized cost		6 670	
Loans and advances to customers	25	211 633	205 628
- not held for trading, measured at fair value through profit or loss		934	
- measured at amortized cost		210 699	205 628
Investments in subsidiaries, associates and joint ventures	41	377	393
Non-current assets held for sale	28	160	138
Intangible assets	29	3 088	3 242
Property, plant and equipment	29	2 836	2 915
Current income tax receivable		1	2
Deferred income tax assets	18	2 187	1 767
Other assets	30	3 673	3 111
TOTAL ASSETS		306 082	296 912

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

	Note	30.09.2018	31.12.2017
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		6	6
Amounts due to banks	31	1 923	4 558
- held for trading		26	-
- measured at amortized cost		1 897	4 558
Derivative hedging instruments	22	492	204
Other derivative instruments	23	2 387	2 536
Amounts due to customers	32	225 617	220 917
- held for trading		34	-
- measured at amortized cost		225 583	220 917
Liabilities in respect of insurance activities	34	1 185	882
Debt securities in issue	35	28 213	23 932
- measured at amortized cost		28 213	23 932
Subordinated liabilities	36	2 707	1 720
- measured at amortized cost		2 707	1 720
Other liabilities	37	5 088	5 062
Current income tax liabilities		344	588
Deferred income tax provision	18	34	36
Provisions	38	373	215
TOTAL LIABILITIES		268 369	260 656
Equity	39		
Share capital		1 250	1 250
Other capital		34 125	31 979
Undistributed profits		(385)	(66)
Net profit or loss for the year		2 732	3 104
Capital and reserves attributable to equity holders of the parent company		37 722	36 267
Non-controlling interests		(9)	(11)
TOTAL EQUITY		37 713	36 256
TOTAL LIABILITIES AND EQUITY		306 082	296 912
Total capital adequacy ratio	61	18.41%	17.37%
Book value (in PLN million)		37 713	36 256
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		30.17	29.00
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		30.17	29.00

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Share capital	Other capital			Accumulated other comprehensive income	Total other capital	Undistributed profits	Net profit or loss for the period	Capital and reserves attributable to equity holders of the parent company	Total non- controlling interests	Total equity
		Reserve capital									
		Supplementary capital	General banking risk fund	Other reserves							
As at 31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979	(66)	3 104	36 267	(11)	36 256
Changes due to IFRS 9 implementation	-	-	-	-	(78)	(78)	(567)	-	(645)	-	(645)
As at 1 January 2018 (restated)	1 250	27 374	1 070	3 645	(188)	31 901	(633)	3 104	35 622	(11)	35 611
Transfer from retained earnings	-	-	-	-	-	-	3 104	(3 104)	-	-	-
Dividend paid	-	-	-	-	-	-	(688)	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-	58	58	-	2 732	2 790	2	2 792
Net profit for the year	-	-	-	-	-	-	-	2 732	2 732	2	2 734
Other comprehensive income	-	-	-	-	58	58	-	-	58	-	58
Transfer from retained earnings to equity	-	2 101	-	65	-	2 166	(2 166)	-	-	-	-
Transfer from other capital	-	(121)	-	121	-	-	-	-	-	-	-
Mandatory buy-out of shares from non-controlling shareholders	-	-	-	-	-	-	(2)	-	(2)	-	(2)
As at 30 September 2018	1 250	29 354	1 070	3 831	(130)	34 125	(385)	2 732	37 722	(9)	37 713

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Accumulated other comprehensive income					
	Share in other comprehensive income of subsidiaries, associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of a foreign branch	Total
As at 31 December 2017	-	272	(116)	(9)	(257)	(110)
Changes due to IFRS 9 implementation	-	(78)	-	-	-	(78)
As at 1 January 2018 (restated)	-	194	(116)	(9)	(257)	(188)
Total comprehensive income, of which:	(13)	101	(35)	-	5	58
Other comprehensive income	(13)	101	(35)	-	5	58
As at 30 September 2018	(13)	295	(151)	(9)	(252)	(130)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Share capital	Other capital Reserve capital			Accumulated other comprehensive income	Total other capital	Retained earnings	Net profit or loss for the period	Capital and reserves attributable to equity holders of the parent company	Total non- controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
As at 1 January 2017	1 250	24 491	1 070	3 608	(689)	28 480	(19)	2 874	32 585	(16)	32 569
Transfer from retained earnings	-	-	-	-	-	-	2 874	(2 874)	-	-	-
Total comprehensive income, of which:	-	-	-	-	483	483	-	2 284	2 767	4	2 771
Net profit for the year	-	-	-	-	-	-	-	2 284	2 284	4	2 288
Other comprehensive income	-	-	-	-	483	483	-	-	483	-	483
Transfer from retained earnings to equity	-	2 883	-	38	-	2 921	(2 921)	-	-	-	-
As at 30 September 2017	1 250	27 374	1 070	3 646	(206)	31 884	(66)	2 284	35 352	(12)	35 340

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Accumulated other comprehensive income						Total
	Share in other comprehensive income of subsidiaries, associates and joint ventures	Available-for- sale financial assets	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of a foreign branch		
As at 1 January 2017	(1)	(347)	(109)	(11)	(221)	(689)	
Total comprehensive income, of which:	1	447	53	-	(18)	483	
Other comprehensive income	1	447	53	-	(18)	483	
As at 30 September 2017	-	100	(56)	(11)	(239)	(206)	



CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	01.01- 30.09.2018	01.01- 30.09.2017
Cash flows from operating activities			
Profit before tax		3 708	3 129
Total adjustments:		(8 188)	2 457
Amortization and depreciation		611	631
(Gains)/losses on investing activities		(27)	(21)
Interest and dividends		(365)	(349)
Change in:			
amounts due from banks		(496)	703
hedging derivatives		679	(964)
other derivatives		161	(351)
securities		(1 023)	5 558
loans and advances to customers		(8 889)	(5 444)
non-current assets held for sale		(25)	(15)
other assets		(534)	52
provisions and impairment allowances for credit losses		(2 265)	156
amounts due to the Central Bank		-	1
amounts due to banks		(33)	(1 285)
amounts due to customers		4 990	5 332
liabilities in respect of insurance activities		303	314
debt securities in issue		133	(812)
subordinated liabilities		(13)	2
other liabilities		26	(239)
Income tax paid		(1 497)	(788)
Other adjustments		76	(24)
Net cash used in operating activities		(4 480)	5 586

	Note	01.01- 30.09.2018	01.01- 30.09.2017
Cash flows from investing activities			
Inflows from investing activities		197 568	43 483
Proceeds from sale of subsidiaries		23	-
Proceeds from sale and interest on investment securities			43 383
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		196 909	
Proceeds from sale of and interest on securities measured at amortized cost		475	
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		132	85
Other inflows from investing activities (dividends)		29	15
Outflows from investing activities		(196 119)	(45 978)
Purchase of shares in subsidiaries, net of cash acquired		(2)	(14)
Purchase of investment securities			(45 647)
Purchase of securities measured at fair value through other comprehensive income		(194 751)	
Purchase of securities measured at amortized cost		(811)	
Purchase of intangible assets and property, plant and equipment		(555)	(317)
Net cash used in investing activities		1 449	(2 495)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

	Note	01.01- 30.09.2018	01.01- 30.09.2017
Cash flows from financing activities			
Proceeds from debt securities in issue		9 654	13 357
Redemption of debt securities		(5 506)	(5 068)
Proceeds from issue of subordinated bonds		1 000	1 700
Dividend paid to shareholders		(688)	-
Repayment of subordinated bonds issued		-	(1 656)
Repayment of a subordinated loan		-	(880)
Taking up loans and advances		168	88
Repayment of loans and advances		(3 060)	(7 646)
Repayment of interest on long-term borrowings		(479)	(427)
Net cash used in financing activities		1 089	(532)
Total net cash flows		(1 942)	2 559
of which foreign exchange differences on cash and cash equivalents		157	(186)
Cash equivalents at the beginning of the period		23 000	17 966
Cash equivalents at the end of the period	47	21 058	20 525



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION ABOUT THE GROUP

BUSINESS ACTIVITIES OF THE GROUP AND THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna ("PKO Bank Polski SA" or "the Bank") was established in 1919 as Pocztaowa 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, 15 Puławska Street, 02-515 Warsaw, Poland.

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

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

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

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

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

The composition of the Group and scope of operations of its entities are presented in note 40 "Structure of the PKO Bank Polski SA Group and scope of activities of the Group entities".

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

As at 30 September 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.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

As at 30 September 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 Emyryk 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.

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

Name and surname	Number of shares held as at 30.09.2018	Acquisition	Disposal	Number of shares held as at 31.12.2017
Management Board of the Bank				
Zbigniew Jagiełło, President of the Bank's Management Board	11 000	0	0	11 000
Rafał Antczak, Vice-President of the Bank's Management Board	0	0	0	0
Rafał Kozłowski ¹ , Vice-President of the Bank's Management Board	0	0	0	0
Maks Kraczkowski, Vice-President of the Bank's Management Board	0	0	0	0
Mieczysław Król, Vice-President of the Bank's Management Board	5 000	0	0	5 000
Adam Marciniak, Vice-President of the Bank's Management Board	0	0	0	0
Piotr Mazur, Vice-President of the Bank's Management Board	4 500	0	0	4 500
Jakub Papierski, Vice-President of the Bank's Management Board	3 000	0	0	3 000
Jan Emyryk Rościszewski, Vice-President of the Bank's Management Board	0	0	0	0

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

The PKO Bank Polski SA Supervisory Board members did not hold any shares of PKO Bank Polski SA as at 30 September 2018 and 31 December 2017.

2. APPROVAL OF THE FINANCIAL STATEMENTS

These condensed interim consolidated financial statements, subject to review by the Supervisory Board Audit Committee on 5 November 2018, were approved for publication by the Bank's Management Board on 29 October 2018.

3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

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

The accounting policies and calculation methods applied in the preparation of these condensed interim consolidated financial statements are consistent with the principles applied in the financial year ended 31 December 2017, except for changes resulting from the implementation of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers as of 1 January 2018. These changes are appropriately described in 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 consolidated financial statements of the PKO Bank Polski SA Group for 2017.

The condensed interim consolidated financial statements for the nine-month period of 2018 do not contain all the information and disclosures that are required in the annual financial statements and they should be read together with the annual consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2017 and the condensed interim consolidated financial statements for the six-month period ended 30 June 2018 prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

4. IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 Financial Instruments was published in July 2014 and adopted for application in the EU Member States on 22 November 2016 by 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). For the purposes of these financial statements, the data of the PKO Bank Polski SA's insurance companies has been presented in accordance with IFRS 9. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The amendments cover the classification and measurement of financial instruments, recognition and calculation of impairment and hedge accounting.

Detailed disclosures in this respect have been presented in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2018.

Amounts due to customers changed compared with the published data. This is connected with the change in recognizing liabilities in respect of insurance products described in Note 6 "Explanation of differences between previously published reports and these financial statements."

The data in respect of the impact of implementation of IFRS 9 has not changed.

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 Group recognizes revenues in a manner reflecting the transfer of promised goods or services to the customer in an amount reflecting the fee to which it expects to be entitled for such goods or services. Applying this standard, the Group takes into account the contractual terms and all significant facts and circumstances.

The Group did not identify any contracts in the case of which the IFRS 15 implementation could have a significant impact on the financial statements. The Group selected a simplified retrospective method for the purpose of first-time application of IFRS 15. For more information in this respect, please see the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2018.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

In addition to the changes resulting from the implementation of IFRS 9, described in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2018, to better reflect any changes, the Group introduced the following changes in recognition and presentation.

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

AMOUNTS DUE TO CUSTOMERS	31.12.2017 before restatement	change in treatment of liabilities arising from insurance products	separation of loans and advances received into a separate item	31.12.2017 restated
Measured at amortized cost:				
Amounts due to retail customers	151 161	-	-	151 161
Current accounts and overnight deposits	86 819	-	-	86 819
Term deposits	64 126	-	-	64 126
Other liabilities	216	-	-	216
Amounts due to corporate entities	56 230	-	(3 563)	52 667
Current accounts and overnight deposits	40 070	-	-	40 070
Term deposits	11 613	-	-	11 613
Loans and advances received	3 563	-	(3 563)	-
Amounts due from repurchase agreements	48	-	-	48
Other liabilities	936	-	-	936
Amounts due to public entities	11 409	-	-	11 409
Current accounts and overnight deposits	9 555	-	-	9 555
Term deposits	1 820	-	-	1 820
Other liabilities	34	-	-	34
Loans and advances received	-	-	3 563	3 563
Liabilities in respect of insurance products	-	2 117	-	2 117
Total	218 800	2 117	-	220 917

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES	31.12.2017 before restatement	change in treatment of liabilities arising from insurance products	31.12.2017 restated
Technical reserves	882	-	882
Liabilities in respect of insurer's investment contracts	2 117	(2 117)	-
Total	2 999	(2 117)	882

PROVISIONS	31.12.2017 before restatement	Separation of provisions for pensions and restructuring from other provisions	31.12.2017 restated
Provisions for disputed claims and tax proceedings	21	-	21
Provisions for pension and other liabilities in respect of defined post-retirement benefits	46	15	61
Restructuring	-	21	21
Provisions for liabilities and guarantees granted	86	-	86
Other provisions, including for disputes with employees	62	(36)	26
Total	215	-	215

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

PROVISIONS	30.09.2017 before restatement	Separation of provisions for pensions and restructuring from other provisions	30.09.2017 restated
Provisions for disputed claims and tax proceedings	13	-	13
Provisions for pension and other liabilities in respect of defined post-retirement benefits	44	13	57
Restructuring	-	27	27
Provisions for liabilities and guarantees granted	67	-	67
Other provisions, including for disputes with employees	66	(40)	26
Total	190	-	190

CONSOLIDATED INCOME STATEMENT	3 quarters cumulative period from 01.01.2017 to 30.09.2017 before restatement	Reclassification from net impairment allowances to other operating income/expenses and separation of net impairment of non-financial assets into a separate item	change in the treatment of net provisions for legal claims	3 quarters cumulative period from 01.01.2017 to 30.09.2017 restated
Net impairment allowances and write-downs	(1 172)	1 172	-	-
Net credit losses	-	(1 115)	(7)	(1 122)
Impairment of non-financial assets	-	(57)	-	(57)
Other operating income	535	-	20	555
Other operating expenses	(176)	-	(13)	(189)
Total	(813)	-	-	(813)

CONSOLIDATED INCOME STATEMENT	third quarter period from 01.01.2017 to 30.06.2017 before restatement	Reclassification from net impairment allowances to other operating income/expenses and separation of net impairment of non-financial assets into a separate item	change in the treatment of net provisions for legal claims	third quarter period from 01.07.2017 to 30.09.2017 restated
Net impairment allowances and write-downs	(389)	389	-	-
Net credit losses	-	(376)	(3)	(379)
Impairment of non-financial assets	-	(13)	-	(13)
Other operating income	147	-	16	163
Other operating expenses	(38)	-	(13)	(51)
Total	(280)	-	-	(280)



7. OTHER CHANGES IN ACCOUNTING POLICIES

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

MSSF 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 Group'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 Group.

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

The amendments to IAS 12 concern clarification of the method of recognizing deferred tax assets relating to debt instruments measured at fair value. The amendments to IFRS 10 and IAS 28 concern the sale or contribution of assets by an investor to a joint venture or an associate. The Group does not expect the impact of the amendments to IAS 12, IAS 28 and IFRS 10 to be significant.

Amendments to IAS 40 and improvements to IFRS 2014-2016 (IFRS 1, IAS 28) will have no impact on the consolidated financial statements of the Group.



8. INFORMATION ON BUSINESS SEGMENTS AND GEOGRAPHICAL AREAS

SEGMENT REPORTING

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

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

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

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

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

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

The following tables present data on revenues and results of individual operating segments of the PKO Bank Polski SA Group for the nine-month period ended 30 September 2018 and 30 September 2017 as well as assets and liabilities as at 30 September 2018 and 31 December 2017

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	5 484	1 108	281	6 873
Net fee and commission income	1 885	370	(13)	2 242
Other net income	271	423	72	766
Net result on financial instruments measured at fair value through profit or loss	6	49	(6)	49
Net foreign exchange gains/(losses)	117	151	77	345
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	9	120	-	129
Dividend income	-	12	-	12
Net other operating income and expense	119	111	1	231
Income/(expenses) relating to internal customers	20	(20)	-	-
Net credit losses	(765)	(258)	-	(1 023)
Impairment of non-financial assets	(18)	3	-	(15)
Administrative expenses, of which:	(3 669)	(721)	(68)	(4 458)
amortization and depreciation	(525)	(86)	-	(611)
Tax on certain financial institutions	(566)	(204)	71	(699)
Shares in profits (losses) of associates and joint ventures	-	-	-	22
Segment profit/(loss) before tax	2 622	721	343	3 708
Income tax expense	-	-	-	(974)
Profit (loss) attributable to non-controlling shareholders	-	-	-	2
Net profit attributable to equity holders of the parent company	2 622	721	343	2 732

AS AT 30 SEPTEMBER 2018	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	161 352	130 447	12 095	303 894
Unallocated assets	-	-	-	2 188
Total assets	161 352	130 447	12 095	306 082
Liabilities	176 551	58 392	33 048	267 991
Unallocated liabilities	-	-	-	378
Total liabilities	176 551	58 392	33 048	268 369

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income	5 199	995	163	6 357
Net fee and commission income	1 761	453	(5)	2 209
Other net income	325	376	29	730
Net result on financial instruments measured at fair value through profit or loss and net gain/(loss) on investment securities	(1)	35	(6)	28
Net foreign exchange gains/(losses)	155	135	34	324
Dividend income	-	12	-	12
Net other operating income and expenses	151	214	1	366
Income/(expenses) relating to internal customers	20	(20)	-	-
Net credit losses	(841)	(281)	-	(1 122)
Impairment of non-financial assets	(22)	(35)	-	(57)
Administrative expenses, of which:	(3 560)	(695)	(55)	(4 310)
amortization and depreciation	(552)	(79)	-	(631)
Tax on certain financial institutions	(528)	(187)	17	(698)
Shares in profits (losses) of associates and jointly controlled entities	-	-	-	20
Segment profit/(loss) before tax	2 334	626	149	3 129
Income tax expense	-	-	-	(841)
Profit (loss) attributable to non-controlling shareholders	-	-	-	4
Net profit attributable to equity holders of the parent company	2 334	626	149	2 284

AS AT 31 DECEMBER 2017	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	161 380	128 151	5 612	295 143
Unallocated assets	-	-	-	1 769
Total assets	161 380	128 151	5 612	296 912
Liabilities	172 240	59 181	28 611	260 032
Unallocated liabilities	-	-	-	624
Total liabilities	172 240	59 181	28 611	260 656

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

INFORMATION ON GEOGRAPHICAL AREAS

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

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Poland	Ukraine	Total
Net interest income	6 746	127	6 873
Net fee and commission income	2 201	41	2 242
Other net income	763	3	766
Administrative expenses	(4 358)	(100)	(4 458)
Net credit losses	(1 013)	(10)	(1 023)
Impairment of non-financial assets	(15)	-	(15)
Tax on certain financial institutions	(699)	-	(699)
Shares in profits (losses) of associates and joint ventures	-	-	22
Segment profit/(loss) before tax	3 625	61	3 708
Income tax expense	-	-	(974)
Profit (loss) attributable to non-controlling shareholders	-	-	2
Net profit attributable to equity holders of the parent company	3 625	61	2 732

AS AT 30 SEPTEMBER 2018	Poland	Ukraine	Total
Assets, of which:	303 964	2 118	306 082
non-financial non-current assets	5 975	109	6 084
deferred income tax assets and current income tax receivable	2 182	6	2 188
Liabilities	266 463	1 906	268 369

FOR 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Poland	Ukraine	Total
Net interest income	6 242	115	6 357
Net fee and commission income	2 169	40	2 209
Other net income	719	11	730
Administrative expenses	(4 221)	(89)	(4 310)
Net credit losses	(1 104)	(18)	(1 122)
Impairment of non-financial assets	(57)	-	(57)
Tax on certain financial institutions	(698)	-	(698)
Shares in profits (losses) of associates and joint ventures	-	-	20
Segment profit/(loss) before tax	3 050	59	3 129
Income tax expense	-	-	(841)
Profit (loss) attributable to non-controlling shareholders	-	-	4
Net profit attributable to equity holders of the parent company	3 050	59	2 284

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



NOTES TO THE CONSOLIDATED INCOME STATEMENT

9. INTEREST INCOME AND EXPENSES

INTEREST INCOME ON:	third quarter period from 01.07.2018 to 30.09.2018				third quarter of 2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments at fair value through profit or loss	Total	Total
loans to and other receivables from banks	22	-	-	22	36
hedging derivatives	-	-	86	86	87
debt securities ¹	49	278	21	348	310
loans and advances to customers ¹	2 471	-	6	2 477	2 348
Total	2 542	278	113	2 933	2 781
of which: interest income on impaired financial instruments	77	4	1	82	67

¹ the net result on insignificant modifications is recognized in the items "debt securities" and "loans and advances to customers"

INTEREST INCOME ON:	3 quarters cumulative period from 01.01.2018 to 30.09.2018				3 quarters of 2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments at fair value through profit or loss	Total	Total
loans to and other receivables from banks	66	-	-	66	99
hedging derivatives	-	-	263	263	230
debt securities ¹	142	821	59	1 022	971
loans and advances to customers ¹	7 150	-	17	7 167	6 794
Total	7 358	821	339	8 518	8 094
of which: interest income on impaired financial instruments	218	10	2	230	199

¹ the net result on insignificant modifications is recognized in the items "debt securities" and "loans and advances to customers"

INTEREST EXPENSE ON:	third quarter period from 01.07.2018 to 30.09.2018				third quarter of 2017
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(9)	-	-	(9)	(5)
loans and advances received	(4)	-	-	(4)	(34)
amounts due to customers (excluding loans and advances)	(377)	-	-	(377)	(403)
debt securities:	-	(20)	(5)	(25)	(25)
debt securities issued	(129)	-	-	(129)	(101)
subordinated liabilities	(23)	-	-	(23)	(16)
Total	(542)	(20)	(5)	(567)	(584)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

INTEREST EXPENSE ON:	3 quarters cumulative period from 01.01.2018 to 30.09.2018			3 quarters of 2017	
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(26)	-	-	(26)	(15)
loans and advances received	(20)	-	-	(20)	(115)
amounts due to customers (excluding loans and advances)	(1 125)	-	-	(1 125)	(1 201)
debt securities:	-	(43)	(15)	(58)	(74)
debt securities issued	(354)	-	-	(354)	(282)
subordinated liabilities	(62)	-	-	(62)	(50)
Total	(1 587)	(43)	(15)	(1 645)	(1 737)

10. FEE AND COMMISSION INCOME AND EXPENSES

NET COMMISSION INCOME/(EXPENSE)	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Loans and insurance	189	553	179	529
Investment funds, pension funds and brokerage activities	193	608	203	585
Cards	143	396	146	383
Bank accounts and other	235	685	238	712
Total	760	2 242	766	2 209

FEE AND COMMISSION INCOME	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Loans and insurance	189	553	179	529
lending	161	468	154	460
offering insurance products	28	85	25	69
Investment funds, pension funds and brokerage activities	203	639	210	611
servicing of investment funds and OFE (including management fees)	167	488	148	422
servicing and selling investment and insurance products	12	40	17	56
brokerage activities	24	111	45	133
Cards	326	915	312	833
Bank accounts and other	303	896	317	935
servicing bank accounts	210	625	211	645
cash transactions	22	69	24	74
servicing foreign mass transactions	28	78	25	75
sale and distribution of court fee stamps	-	1	1	4
customer orders	11	33	11	32
fiduciary services	2	5	2	5
other	30	85	43	100
Total	1 021	3 003	1 018	2 908

FEE AND COMMISSION EXPENSE	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Investment funds, pension funds and brokerage activities	(10)	(31)	(7)	(26)
Cards	(183)	(519)	(166)	(450)
Bank accounts and other	(68)	(211)	(79)	(223)
commission paid to external entities for product sales	(12)	(42)	(13)	(57)
cost of construction investment supervision and property valuation	(12)	(34)	(11)	(32)
settlement services	(8)	(23)	(6)	(23)
fee and commissions for operating services provided by banks	(4)	(10)	(3)	(13)
sending short text messages (SMS)	(6)	(19)	(5)	(15)
other	(26)	(83)	(41)	(83)
Total	(261)	(761)	(252)	(699)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

11. NET FOREIGN EXCHANGE GAINS/ (LOSSES)

NET FOREIGN EXCHANGE GAINS/(LOSSES)	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Net foreign exchange gains/(losses), of which:				
Ineffective portion of cash flow hedges recognized in the income statements	98	345	101	324
Total	(5)	2	5	10
	98	345	101	324

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

ACCOUNTING POLICIES APPLICABLE AS AT 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	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Measured at fair value through OCI	35	121		
Measured at amortized cost	-	8		
Total	35	129		

13. NET CREDIT LOSSES

NET CREDIT LOSSES	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Equity securities			5	40
Debt securities			(1)	(12)
available for sale			(1)	(12)
measured at fair value through OCI	4	8		
measured at amortized cost	(4)	(2)	-	-
Loans and advances to customers	(322)	(1 011)	(395)	(1 145)
measured at amortized cost	(322)	(1 011)	(396)	(1 146)
housing	(46)	(101)	(41)	(160)
corporate	(107)	(457)	(194)	(542)
consumer	(151)	(396)	(142)	(391)
finance lease receivables	(18)	(57)	(19)	(53)
debt securities (corporate)			(1)	(1)
debt securities (municipal)			2	2
Other financial assets	(1)	(1)	(1)	(5)
Provisions for financial liabilities and guarantees granted	(13)	(17)	13	-
Total	(336)	(1 023)	(379)	(1 122)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

ACCUMULATED CREDIT LOSSES AND IMPAIRMENT ALLOWANCES (BALANCE)	30.09.2018	01.01.2018	31.12.2017
Amounts due from banks	2	-	-
measured at amortized cost	2	-	-
Equity securities			77
available for sale			77
Debt securities	46	49	249
available for sale			249
measured at fair value through OCI	28	35	
measured at amortized cost	18	14	-
Loans and advances to customers	8 369	10 653	7 823
measured at amortized cost	8 369	10 653	7 823
Provisions for financial liabilities and guarantees granted	174	157	86
Other financial assets	103	100	100
Total	8 694	10 959	8 335

14. IMPAIRMENT OF NON-FINANCIAL ASSETS

IMPAIRMENT OF NON-FINANCIAL ASSETS	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Non-current assets held for sale	(2)	(4)	-	-
Intangible assets	(1)	(11)	-	-
Investments in associates and joint ventures	12	11	(12)	(25)
other non-financial assets, including inventories	(1)	(11)	(1)	(32)
Total	8	(15)	(13)	(57) (1 179)

ACCUMULATED ALLOWANCES FOR NON-FINANCIAL ASSETS	30.09.2018	01.01.2018	31.12.2017
Non-current assets held for sale	22		19
Property, plant and equipment	43		46
Intangible assets	209		199
Investments in associates and joint ventures	135		146
Other non-financial assets, including inventories	190		218
Total	599		628

15. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Net sales of finished goods and services	107	295	103	379
Gains associated with loss of control over a subsidiary	-	11	-	-
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	10	35	12	34
Damages, compensation and penalties received	5	14	4	20
Ancillary income	4	13	8	21
Recovery of receivables expired, forgiven or written off	-	4	1	3
Release of provision for future payments	4	4	-	-
Release of provision for legal claims	3	3	16	20
Other ¹	15	86	19	78
Total	148	465	163	555

¹ In the nine-month period of 2018, the reimbursement of the penalty imposed by the UOKiK amounting to PLN 21 million was recognized in the item "Other".

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

OTHER OPERATING EXPENSE	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Costs of products and services sold	(8)	(26)	(19)	(109)
Loss associated with loss of control over subsidiary	-	-	-	-
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(5)	(19)	(2)	(13)
Cost of donations made	(8)	(27)	(6)	(19)
Sundry expenses	(3)	(11)	(4)	(13)
Provision for a potential return of fees and commissions to customers ¹	-	(62)	-	-
Provision for future payments	-	(5)	(1)	(1)
Provision for legal claims ²	(2)	(27)	(13)	(13)
Other	(24)	(57)	(6)	(21)
Total	(50)	(234)	(51)	(189)

¹ For a detailed description of the provision recognized, see Note 46 "Legal claims"

² A provision of PLN 21 million relating to a penalty imposed by UOKiK was recognized in the nine-month period of 2018 and disclosed under "Provisions recognized for legal claims"

16. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Employee benefits ¹	(773)	(2 293)	(745)	(2 227)
Overheads, of which:	(363)	(1 067)	(347)	(1 028)
IT	(73)	(216)	(72)	(223)
Depreciation and amortization	(204)	(611)	(211)	(631)
property, plant and equipment, of which:	(91)	(269)	(90)	(273)
IT	(28)	(85)	(28)	(85)
intangible assets, of which:	(112)	(340)	(120)	(356)
IT	(103)	(314)	(109)	(330)
investment properties	(1)	(2)	(1)	(2)
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(65)	(363)	(48)	(353)
to the Resolution Fund	-	(167)	-	(209)
to the Banks' Guarantee Fund	(65)	(196)	(48)	(144)
Payments to the PFSA	(4)	(25)	(5)	(15)
Taxes and charges	(32)	(99)	(16)	(56)
Total	(1 441)	(4 458)	(1 372)	(4 310)

¹ In the nine-month period of 2018, the costs of restructuring amounting to PLN 36 million were recognized under "Employee benefits" (no such costs in the nine-month period of 2017)

In accordance with IFRIC 21 Levies, the contributions paid by the Bank to the Bank Guarantee Fund are recognized in the profit and loss account upon the obligating event. Starting from 2017, banks pay contributions to the bank guarantee fund (on a quarterly basis) and to the mandatory restructuring fund (on an annual basis). The obligation to pay contribution to the mandatory restructuring fund arises on 1 January of the given year, therefore its amount was recognized in costs of the first quarter.

EMPLOYEE BENEFITS ¹	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Wages and salaries, of which:	(651)	(1 914)	(628)	(1 858)
costs of contributions to the employee pension plan	(15)	(33)	(12)	(36)
Social insurance, of which:	(102)	(319)	(100)	(314)
contributions for disability and retirement benefits	(82)	(267)	(80)	(262)
Other employee benefits	(20)	(60)	(17)	(55)
Total	(773)	(2 293)	(745)	(2 227)

¹ Restructuring costs of PLN 36 million are included in "Employee benefits" for the nine-month period of 2018 (no such costs in the nine-month period of 2017).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

17. 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. The tax was paid for the first time for February 2016. The tax paid is not tax-deductible for CIT purposes.

TAX ON CERTAIN FINANCIAL INSTITUTIONS	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Tax on certain financial institutions, of which:				
PKO Bank Polski SA	(220)	(651)	(223)	(673)
PKO Życie Towarzystwo Ubezpieczeń SA	(1)	(3)	(2)	(4)
PKO Bank Hipoteczny SA	(17)	(44)	(9)	(20)
PKO Towarzystwo Ubezpieczeń SA	-	(1)	-	(1)
Total	(238)	(699)	(234)	(698)

18. INCOME TAX

	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Current income tax expense	(529)	(1 254)	(301)	(862)
Deferred income tax on temporary timing differences	181	280	1	21
Income tax expense recognized in the income statement	(348)	(974)	(300)	(841)
Income tax reported in other comprehensive income in respect of temporary differences	15	(16)	(20)	(112)
Total	(333)	(990)	(320)	(953)

RECONCILIATION OF THE EFFECTIVE TAX RATE

	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Profit / (loss) before income tax	1 393	3 708	1 202	3 129
Tax calculated using the enacted rate in force in Poland (19%)	(265)	(705)	(229)	(595)
Effect of different tax rates of foreign entities	-	-	1	1
Effect of permanent timing differences, of which:	(91)	(274)	(72)	(257)
recognizing a non-tax-deductible impairment allowance on investments in associates and joint ventures	-	-	(2)	(5)
non-deductible impairment allowances on credit exposures and securities	(26)	(64)	(2)	(19)
contribution and payments to Bank Guarantee Fund	(11)	(68)	(9)	(67)
tax on certain financial institutions	(43)	(131)	(46)	(133)
other permanent differences	(11)	(11)	(13)	(33)
Effect of other timing differences, including new technologies tax relief and donations	8	5	-	10
Income tax expense recognized in the income statement	(348)	(974)	(300)	(841)
Effective tax rate	24.98%	26.27%	24.96%	26.88%

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

DEFERRED TAX PROVISION	31.12.2017	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (retained earnings)	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (other comprehensive income)	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	30.09.2018
Interest accrued on receivables (loans) ¹	224	471	-	(427)	-	268
Capitalized interest on performing housing loans	106	-	-	(14)	-	92
Interest on securities	62	-	-	8	-	70
Valuation of securities	8	29	(19)	32	27	77
Valuation of derivative financial instruments	8	-	-	-	-	8
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	333	-	-	(11)	-	322
Taxable income on release of IBNR allowance which will be tax deductible in future due to the adoption of IFRS 9	-	-	-	78	-	78
Prepayments	120	-	-	34	-	154
Foreign exchange gains	18	-	-	(18)	-	-
Other taxable temporary differences	4	-	-	3	-	7
Deferred income tax provision, gross	883	500	(19)	(315)	27	1 076
DEFERRED TAX ASSET						
Interest accrued on liabilities	116	-	-	(31)	-	85
Valuation of derivatives	156	-	-	110	9	275
Valuation of securities	-	-	-	9	2	11
Provision for employee benefits	94	-	-	(1)	-	93
Allowances for credit losses ¹	735	639	-	(212)	-	1 162
Fair value remeasurement of loans	-	-	-	3	-	3
Valuation adjustment under straight line and ESP methods	705	-	-	83	-	788
Other deductible temporary differences	27	-	-	(22)	-	5
Provision for costs to be incurred	41	-	-	(5)	-	36
Tax loss	16	-	-	-	-	16
Foreign exchange differences	1	-	-	(1)	-	-
Difference between carrying amount and tax value of property, plant and equipment and intangible assets, including leased assets	723	-	-	32	-	755
Deferred tax assets, gross	2 614	639	-	(35)	11	3 229
Total effect of temporary differences	1 731	139	19	280	(16)	2 153
Deferred income tax provision (presented in the statement of financial position)	36	-	-	-	-	34
Deferred income tax asset (presented in the statement of financial position)	1 767	-	-	-	-	2 187

¹ A decrease during the period of the asset relating to allowances for credit losses and the provision relating to interest accrued on receivables (loans) is due to, among other things, a partial write-down of interest of PLN 2 356 million.

The tax systems of the countries in which the Bank and members of the PKO Bank Polski SA Group have registered offices or branches, are subject to frequent 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 nature, may, in practice, result in individual, inconsistent rulings by the tax authorities, diverging from the interpretations of taxpayers, and any respective disputes could only be resolved by judgements of national and European courts. Therefore, it cannot be ruled out that the tax authorities will construe the tax law otherwise than according to the practice used by the entities of the PKO Bank Polski SA Group, which could have a considerable unfavourable impact on the operations of the Bank Group entities and their financial standing, despite their systematic actions, permitted by the law, taken to mitigate the risk.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

19. EARNINGS PER SHARE

EARNINGS PER SHARE	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Net profit attributable to equity holders of the parent company	1 042	2 732	902	2 284
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)	0,83	2,19	0,72	1,83

Both in the nine-month period of 2018 and in the nine-month period of 2017 there were no dilutive instruments. Therefore, the amount of diluted earnings per share is the same as the amount of basic earnings per share.



NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

20. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	30.09.2018	31.12.2017
Current account with the Central Bank	6 539	11 172
Cash in hand	4 193	4 673
Deposits with the Central Bank	2 640	1 965
Total	13 372	17 810

21. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.09.2018	01.01.2018	31.12.2017
Measured at amortized cost	8 228	5 233	5 233
Deposits with banks, of which:	6 472	3 710	3 710
restricted cash and cash equivalents	6	9	9
Current accounts, of which:	1 206	1 470	1 470
restricted cash and cash equivalents	214	134	134
Loans and advances granted	44	51	51
Receivables in respect of repurchase agreements	504	-	-
Cash in transit	2	2	2
Total, gross	8 228	5 233	5 233
Allowances for expected credit losses/ Impairment allowances	(2)	-	-
Total, net	8 226	5 233	5 233
Total	8 226	5 233	5 233

For the nine-month period of 2018, the credit risk exposure is described in more detail in note 26 "Expected credit losses", and for 2017 it is described in note 27 "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 September 2018 was classified as Stage 1. During the period ended 30 September 2018, there were no transfers of amounts due from banks between stages.



22. DERIVATIVES HEDGING INSTRUMENTS

ACCOUNTING POLICIES

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

TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated term deposits, including their future renewals (high probability of occurrence). The Group designated the hedged item taking into account the solutions provided in IAS 39 WS 99C in the form adopted by the European Union.
	period in which cash flows are expected to occur and affect the financial results: October 2018 – October 2026

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in CHF and negotiated deposits in PLN	CIRS CHF/PLN	float CHF	1 770	86	403	-
		float PLN	6 356			
31.12.2017						
Loans in CHF and negotiated deposits in PLN	CIRS CHF/PLN	float CHF	1 770	186	168	3
		float PLN	6 356			

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

STRATEGY 2 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN PLN,
RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate PLN loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M WIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	period in which cash flows are expected to occur and affect the financial results: October 2018 – August 2028

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in PLN	IRS PLN	PLN	7 681	58	3	-
31.12.2017						
Loans in PLN	IRS PLN	PLN	8 411	89	4	2

STRATEGY 3 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN CHF,
RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate CHF loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	period in which cash flows are expected to occur and affect the financial results: October 2018 – November 2021

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in CHF	IRS CHF	CHF	400	-	5	-
31.12.2017						
Loans in CHF	IRS CHF	CHF	400	-	3	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

STRATEGY 4 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN EUR, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by the floating interest rate EUR loan portfolio resulting from the interest rate risk using IRS transactions in the period covered by the hedge
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Group pays coupons based on the floating EURIBOR 3M rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of loans in EUR indexed to the floating EURIBOR 3M rate
	period in which cash flows are expected to occur and affect the financial results: October 2018 – February 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in EUR	IRS EUR	EUR	524	-	23
31.12.2017					
Loans in EUR	IRS EUR	EUR	524	1	28

STRATEGY 5 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk, and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange risk, using CIRS transactions in the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on the floating 3M CHF LIBOR rate, and receives coupons based on a USD or EUR fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of floating interest rate mortgage loans denominated in CHF and fixed interest rate financial liability denominated in USD or EUR
	period in which cash flows are expected to occur and affect the financial results: October 2018 – August 2024

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in CHF and financial liabilities in USD	CIRS CHF/USD	float CHF	818	40	7	(2)
		fixed USD	875			
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	2 000	239	51	(1)
		fixed EUR	1 802			
31.12.2017						
Loans in CHF and financial liabilities in USD	CIRS CHF/USD	float CHF	818	116	-	(1)
		fixed USD	875			
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	2 000	397	-	12
		fixed EUR	1 802			

STRATEGY 6 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED TERM DEPOSITS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated term deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on the 3M EURIBOR rate, and receives coupons based on the WIBOR 3M rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of variable interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Group designated the hedged item taking into account the solutions provided in IAS 39 WS 99C in the form adopted by the European Union
	period in which cash flows are expected to occur and affect the financial results: October 2018 – March 2021

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in EUR and negotiated deposits in PLN	CIRS EUR/PLN	float EUR	125	10	-	-
		float PLN	545			
31.12.2017						
Loans in EUR and negotiated deposits in PLN	CIRS EUR/PLN	float EUR	125	23	-	-
		float PLN	545			

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

STRATEGY 7

HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN FOREIGN CURRENCIES AND REGULAR SAVINGS PRODUCTS IN PLN, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in CHF and floating interest rate regular savings products in PLN, resulting from fluctuations in reference interest rates in CHF and PLN, and changes in CHF/PLN foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Group pays coupons based on 3M CHF LIBOR, and receives coupons based on 3M WIBOR on the nominal value defined in CHF and PLN respectively
HEDGED ITEM	portfolio of floating interest rate mortgage loans in CHF and the portfolio of floating interest rate regular savings products in PLN
	period in which cash flows are expected to occur and affect the financial results: October 2018 - July 2023

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in CHF and regular savings products in PLN	CIRS CHF/PLN	float CHF	225	30	-
		float PLN	872		
31.12.2017					
Loans in CHF and regular savings products in PLN	CIRS CHF/PLN	float CHF	225	75	-
		float PLN	872		

STRATEGY 8

HEDGES AGAINST FLUCTUATIONS IN THE FAIR VALUE OF FIXED INTEREST LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS.

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in the fair value of fixed interest loans in foreign currencies, resulting from the risk of fluctuations in interest rates, during the hedged period
HEDGED RISK	interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Group 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	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		FAIR VALUE ADJUSTMENT OF THE HEDGED ITEM
			Assets	Liabilities	
30.09.2018					
Loans in EUR	IRS EUR	EUR	-	-	-
31.12.2017					
Loans in EUR	IRS EUR	EUR	46	-	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

STRATEGY 9 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN PLN WITH FLOATING INTEREST RATES, RESULTING FROM THE INTEREST RATE RISK, AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM A FIXED INTEREST RATE FINANCIAL LIABILITY IN A CONVERTIBLE CURRENCY, RESULTING FROM FOREIGN EXCHANGE RISK, USING CIRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate mortgage loans in PLN, resulting from interest rate risk, and elimination of the risk of fluctuations in cash flows from a fixed interest rate financial liability in a convertible 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 Group pays coupons based on WIBOR 3M, and receives coupons based on a fixed EUR rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of floating interest rate mortgage loans denominated in PLN and fixed interest rate financial liability denominated in EUR
	period in which cash flows are expected to occur and affect the financial results: October 2018 - January 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in PLN and financial liabilities in EUR	CIRS PLN/EUR	float PLN	2 101	33	-	5
		fixed EUR	499			
31.12.2017						
Loans in PLN and financial liabilities in EUR	CIRS PLN/EUR	float PLN	-	-	-	-
		fixed EUR	-			

During the nine months of 2018, the Group implemented Strategy 9 as a cash flow hedge. In the third quarter of 2018 the Group ceased applying Strategy 8 as a fair value hedge due to its ineffectiveness. In 2017, the Group implemented Strategy 7 for cash flow hedging and also Strategy 8 for fair value hedging. The implemented strategies are described above.

FINANCIAL INFORMATION

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.09.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	496	492	887	204
Hedges of interest rate risk	58	31	90	35
IRS	58	31	90	35
Hedges of currency and interest rate risks	438	461	797	169
CIRS	438	461	797	169
Fair value hedges	-	-	-	-
Hedges of interest rate risk	-	-	-	-
IRS	-	-	-	-
Total	496	492	887	204

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Other comprehensive income at the beginning of the period, gross	(131)	(142)	(114)	(134)
Gains/losses recognized in other comprehensive income during the period	(190)	(335)	529	1 252
Amounts transferred from other comprehensive income to the cash flow statement, of which:	135	291	(484)	(1 187)
- interest income	(86)	(263)	(87)	(230)
- net foreign exchange gains/(losses)	221	554	(397)	(957)
Accumulated other comprehensive income at the end of the period, gross	(186)	(186)	(69)	(69)
Tax effect	35	35	13	13
Accumulated other comprehensive income at the end of the period, net	(151)	(151)	(56)	(56)
Impact on other comprehensive income during the period, gross	(55)	(44)	45	65
Tax effect	10	9	(8)	(12)
Impact on other comprehensive income during the period, net	(45)	(35)	37	53
Ineffective portion of cash flow hedges recognized in the income statements, including in:	(5)	2	6	11
Net foreign exchange gains/(losses)	(5)	2	5	10
Net result on financial instruments measured at fair value	-	-	1	1

23. OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.09.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	788	1 770	875	1 385
CIRS	88	93	77	60
FX Swap	135	38	161	380
Options	212	159	254	250
Commodity swap	57	55	129	128
FRA	2	1	1	1
Forward	107	271	206	324
Futures	-	-	7	8
Other	-	-	1	-
Total	1 389	2 387	1 711	2 536

24. SECURITIES

ACCOUNTING POLICIES APPLICABLE AS OF 1 JANUARY 2018

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

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

The Group did not apply the fair value through other comprehensive income measurement option in respect of equity investments and measures them at fair value through profit or loss. In 2017, these investments were classified as available-for-sale financial instruments, or financial instruments as held-for-trading. As a rule instruments held for trading were, measured at fair value, and available-for-sale instruments whose fair value could not be estimated, were measured at cost less impairment.



ACCOUNTING POLICIES APPLICABLE UP TO 31 DECEMBER 2017

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

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

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

FINANCIAL INFORMATION

SECURITIES	30.09.2018	01.01.2018	31.12.2017
held for trading	1 999	431	431
financial instruments designated at fair value through profit or loss upon initial recognition			8 157
available-for-sale investment securities			43 675
investment securities held to maturity			1 812
not held for trading, measured at fair value through profit or loss	3 023	4 690	
measured at fair value through other comprehensive income	46 952	47 223	
measured at amortized cost	6 670	6 180	
Total	58 644	58 524	54 075

Corporate and municipal bonds of PLN 4 368 million which met the definition of loans and advances in accordance with IAS 39, as at 31 December 2017 were presented in "Loans and advances to customers". After implementation of IFRS 9 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 classified as financial assets measured at amortized cost and presented in the item dedicated to securities measured at amortized cost.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

SECURITIES 30.09.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through OCI	measured at amortized cost	Total
Debt securities	1 979	1 419	46 952	6 670	57 020
NBP money market bills	-	-	1 200	-	1 200
Treasury bonds (in PLN)	1 814	1 213	35 986	2 049	41 062
Treasury bonds (in foreign currencies)	4	-	295	125	424
municipal bonds (in PLN)	16	-	5 379	2 445	7 840
corporate bonds (in foreign currencies)	36	76	-	-	112
corporate bonds (in PLN)	107	130	3 670	1 706	5 613
corporate bonds (in foreign currencies)	2	-	422	345	769
Equity securities	20	1 604	-	-	1 624
shares in other entities - not listed	-	282	-	-	282
shares in other entities - listed	15	178	-	-	193
participation units in investment funds, investment certificates, rights to shares, pre-emptive rights	5	1 144	-	-	1 149
Total	1 999	3 023	46 952	6 670	58 644

The item "Treasury bonds in PLN and in foreign currencies" includes Polish Treasury bonds. As at 30 September 2018, foreign currency Treasury bonds also comprise bonds of the Ukrainian State Treasury totalling PLN 417 million.

In April 2018, PKO Bank Polski SA finalized negotiations with Bank Gospodarstwa Krajowego SA relating to the 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

SECURITIES 01.01.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
Debt securities	405	2 646	47 223	6 180	56 454
NBP money market bills	-	-	4 199	-	4 199
Treasury bonds (in PLN)	151	1 413	33 502	1 663	36 729
Treasury bonds (in foreign currencies)	138	893	238	149	1 418
municipal bonds (in PLN)	23	106	4 921	2 513	7 563
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	92	157	3 886	1 730	5 865
corporate bonds (in foreign currencies)	1	-	477	125	603
Equity securities	26	2 044	-	-	2 070
shares in other entities - not listed	-	239	-	-	239
shares in other entities - listed	19	225	-	-	244
participation units in a collective investment undertaking, participation units, investment certificates, rights to shares, pre-emptive rights	7	1 580	-	-	1 587
Total	431	4 690	47 223	6 180	58 524

The item "Treasury bonds in PLN and in foreign currencies" includes Polish Treasury bonds. As at 1 January 2018, foreign currency Treasury bonds also comprise bonds of the Ukrainian State Treasury amounting to PLN 384 million.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

The item "Treasury bonds in PLN and in foreign currencies" includes Polish Treasury bonds. As at 31 December 2017, foreign currency Treasury bonds also comprise bonds of the Ukrainian State Treasury amounting to PLN 384 million

Information on credit exposures in respect of securities measured at amortized cost or at fair value through other comprehensive income is provided for the nine-month period of 2018 in note 26 "Expected credit losses", and for 2017 in note 27 "Impairment of financial assets (comparative data in accordance with IAS 39)".

As at 30 September 2018, securities amounting to PLN 489 million were classified to Stage 3 (PLN 458 million as at 1 January 2018). In the period ended 30 September 2018, there was a transfer between Stage 1 and Stage 3 of PLN 29 million in respect of corporate bonds (in PLN).



25. LOANS AND ADVANCES TO CUSTOMERS

ACCOUNTING POLICIES

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

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

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

If there are no justified prospects for recovering a financial asset in its entirety or in part, the Group 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 Group's financial statements for 2017.

FINANCIAL INFORMATION

LOANS AND ADVANCES TO CUSTOMERS	30.09.2018	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)	211 633	200 464	205 629
Adjustment relating to fair value hedge accounting	-	(1)	(1)
Total loans and advances to customers	211 633	200 463	205 628

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	30.09.2018	01.01.2018	31.12.2017
measured at amortized cost, of which:	210 699	199 394	205 629
debt securities			4 368
not held for trading, measured at fair value through profit or loss	934	1 070	
Total	211 633	200 464	205 629

Corporate and municipal bonds totalling PLN 4 368 million, 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.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

LOANS AND ADVANCES TO CUSTOMERS 30.09.2018	not held for trading, measured at fair value through profit or loss	measured at amortized cost			total portfolios	
		Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans		934	204 444	(7 885)	196 559	197 493
housing		29	113 018	(2 021)	110 997	111 026
corporate		149	64 134	(4 118)	60 016	60 165
consumer		756	27 292	(1 746)	25 546	26 302
Receivables in respect of repurchase agreements		-	191	-	191	191
Finance lease receivables		-	14 433	(484)	13 949	13 949
Total		934	219 068	(8 369)	210 699	211 633

LOANS AND ADVANCES TO CUSTOMERS 01.01.2018	not held for trading, measured at fair value through profit or loss	measured at amortized cost			total portfolios	
		Net amount	Gross amount	Allowances for expected credit losses	Net amount	Net amount
Loans ¹		1 070	195 981	(10 235)	185 746	186 816
housing		37	108 837	(3 030)	105 807	105 844
corporate		182	61 484	(5 143)	56 341	56 523
consumer		851	25 660	(2 062)	23 598	24 449
Receivables in respect of repurchase agreements		-	902	-	902	902
Finance lease receivables		-	13 163	(418)	12 745	12 745
Total		1 070	210 046	(10 653)	199 393	200 463

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	194 936	(7 363)	187 573
housing	108 163	(1 972)	106 191
corporate	60 497	(3 705)	56 792
consumer	26 276	(1 686)	24 590
Debt securities	4 378	(10)	4 368
corporate bonds	1 859	(4)	1 855
municipal bonds	2 519	(6)	2 513
Receivables in respect of repurchase agreements	902	-	902
Finance lease receivables	13 236	(450)	12 786
Total	213 452	(7 823)	205 629

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

LOANS AND ADVANCES TO CUSTOMERS BY CUSTOMER SEGMENT	30.09.2018	01.01.2018 ¹	31.12.2017 ¹
Loans and advances to customers, gross, of which:	220 002	211 116	213 452
mortgage banking	106 727	102 092	101 544
corporate	54 015	51 678	55 154
retail and private banking	28 064	26 523	26 288
firms and undertakings	31 005	29 921	29 564
receivables in respect of repurchase agreements	191	902	902
Net allowances for expected credit losses /impairment allowances on loans and advances	(8 369)	(10 653)	(7 823)
Loans and advances to customers, net	211 633	200 463	205 629

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 26 "Expected credit losses", and for 2017 in note 27 "Impairment of financial assets (comparative data in accordance with IAS 39)".

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.09.2018	Carrying amount, gross						TOTAL	
	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		
		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		
Measured at amortized cost:		7 296	4 348	913	523	839	117	219 068
loans	193 322	5 460	3 615	769	470	715	93	204 444
housing	109 410	1 682	1 352	209	258	82	25	113 018
corporate	58 645	2 777	1 804	352	142	368	46	64 134
consumer	25 267	1 001	459	208	70	265	22	27 292
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191
finance lease receivables	11 519	1 836	733	144	53	124	24	14 433
Total	205 032	7 296	4 348	913	523	839	117	219 068
of which: purchased or originated credit-impaired assets	504	-	-	-	-	-	-	504

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.09.2018	Impairment allowances						TOTAL	
	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		
		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		
Measured at amortized cost:	(7 093)	(443)	(35)	(377)	(57)	(363)	(1)	(8 369)
loans	(6 755)	(390)	(33)	(327)	(55)	(324)	(1)	(7 885)
housing	(1 746)	(129)	(6)	(79)	(35)	(26)	-	(2 021)
corporate	(3 675)	(123)	(21)	(133)	(10)	(155)	(1)	(4 118)
consumer	(1 334)	(138)	(6)	(115)	(10)	(143)	-	(1 746)
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-
finance lease receivables	(338)	(53)	(2)	(50)	(2)	(39)	-	(484)
Total	(7 093)	(443)	(35)	(377)	(57)	(363)	(1)	(8 369)
of which: purchased or originated credit-impaired assets	(101)	-	-	-	-	-	-	(101)

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.09.2018	Carrying amount, net						TOTAL	
	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		
		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		
Measured at amortized cost:	197 939	6 853	4 313	536	466	476	116	210 699
loans	186 567	5 070	3 582	442	415	391	92	196 559
housing	107 664	1 553	1 346	130	223	56	25	110 997
corporate	54 970	2 654	1 783	219	132	213	45	60 016
consumer	23 933	863	453	93	60	122	22	25 546
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191
finance lease receivables	11 181	1 783	731	94	51	85	24	13 949
Total	197 939	6 853	4 313	536	466	476	116	210 699
of which: purchased or originated credit-impaired assets	403	-	-	-	-	-	-	403

Transfers between impairment stages were presented for the gross carrying amount and impairment allowance as at 30 September 2018. In the event of loans and advances to customers, which changed stages several times,



the transfer was presented as a transfer in the stage in its current stage as at 1 January 2018 or upon initial recognition to the impairment stage as at 30 September 2018.

26. 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

FINANCIAL ASSETS

BY MEASUREMENT MODEL 30.09.2018	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 OCI¹										
securities	46 480	(17)	-	-	500	500	(11)	46 980	(28)	46 952
Treasury bonds	36 281	-	-	-	-	-	-	36 281	-	36 281
other	10 199	(17)	-	-	500	500	(11)	10 699	(28)	10 671
Total	46 480	(17)	-	-	500	500	(11)	46 980	(28)	46 952
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	471	471	(11)	471	(11)	460
Measured at amortized cost										
amounts due from banks	8 228	(2)	-	-	-	-	-	8 228	(2)	8 226
securities	6 685	(15)	-	-	3	3	(3)	6 688	(18)	6 670
Treasury bonds	2 176	(2)	-	-	-	-	-	2 176	(2)	2 174
other	4 509	(13)	-	-	3	3	(3)	4 512	(16)	4 496
loans	191 964	(552)	15 342	(1 192)	11 762	11 011	(6 625)	219 068	(8 369)	210 699
housing	105 554	(61)	5 131	(499)	2 333	2 261	(1 461)	113 018	(2 021)	110 997
corporate	51 762	(299)	5 684	(344)	6 688	6 135	(3 475)	64 134	(4 118)	60 016
consumer	23 558	(160)	1 797	(271)	1 937	1 924	(1 315)	27 292	(1 746)	25 546
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191	-	191
finance lease receivables	10 899	(32)	2 730	(78)	804	691	(374)	14 433	(484)	13 949
other financial assets	3 031	(1)	1	(1)	102	102	(102)	3 134	(103)	3 031
Total	209 908	(570)	15 343	(1 193)	11 867	11 116	(6 730)	237 118	(8 492)	228 626
of which: purchased or originated credit-impaired assets	-	-	-	-	504	438	(101)	504	(101)	403
Total	256 388	(587)	15 343	(1 193)	12 367	11 616	(6 741)	284 098	(8 520)	275 578

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



BY TYPE OF FINANCIAL ASSET 30.09.2018	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	8 228	(2)	-	-	-	-	-	8 228	(2)	8 226
securities	53 165	(32)	-	-	503	503	(14)	53 668	(46)	53 622
Treasury bonds	38 457	(2)	-	-	-	-	-	38 457	(2)	38 455
other	14 708	(30)	-	-	503	503	(14)	15 211	(44)	15 167
loans	191 964	(552)	15 342	(1 192)	11 762	11 011	(6 625)	219 068	(8 369)	210 699
housing	105 554	(61)	5 131	(499)	2 333	2 261	(1 461)	113 018	(2 021)	110 997
corporate	51 762	(299)	5 684	(344)	6 688	6 135	(3 475)	64 134	(4 118)	60 016
consumer	23 558	(160)	1 797	(271)	1 937	1 924	(1 315)	27 292	(1 746)	25 546
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191	-	191
finance lease receivables	10 899	(32)	2 730	(78)	804	691	(374)	14 433	(484)	13 949
other financial assets	3 031	(1)	1	(1)	102	102	(102)	3 134	(103)	3 031
Total	256 388	(587)	15 343	(1 193)	12 367	11 616	(6 741)	284 098	(8 520)	275 578
of which: purchased or originated credit-impaired financial assets – POCI	-	-	-	-	975	909	(112)	975	(112)	863

LOAN QUALITY RATIO (excluding adjustments relating to fair value hedge accounting)	30.09.2018	01.01.2018
Share of impaired exposures ¹	4.9%	5.3%
Coverage ratio of impaired loans ²	76.1%	74.2%
Share of loans overdue for more than 90 days in gross loans and advances to customers	3.7%	3.9%

¹ The share of impaired loans was determined for loans and securities, excluding Treasury bonds, measured at amortized cost 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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)	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	Allowances for expected credit losses (stage 2)	Credit-impaired assets, gross (stage 3)	of which: contractual (non-performing) interest subject to 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 OCI											
securities	46 785	(20)	-	-	473	2	473	(15)	47 258	(35)	47 223
Treasury bonds	33 740	-	-	-	-	-	-	-	33 740	-	33 740
other	13 045	(20)	-	-	473	2	473	(15)	13 518	(35)	13 483
Total	46 785	(20)	-	-	473	2	473	(15)	47 258	(35)	47 223
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	473	2	473	(15)	473	(15)	458
Measured at amortized cost											
amounts due from banks	5 233	-	-	-	-	-	-	-	5 233	-	5 233
securities	6 194	(14)	-	-	-	-	-	-	6 194	(14)	6 180
Treasury bonds	1 812	-	-	-	-	-	-	-	1 812	-	1 812
other	4 382	(14)	-	-	-	-	-	-	4 382	(14)	4 368
loans	180 560	(490)	14 830	(1 078)	14 656	2 250	11 341	(9 085)	210 046	(10 653)	199 393
housing	100 205	(55)	5 016	(435)	3 616	733	2 812	(2 540)	108 837	(3 030)	105 807
corporate	47 757	(278)	5 870	(369)	7 857	1 153	5 959	(4 496)	61 484	(5 143)	56 341
consumer	21 661	(135)	1 608	(210)	2 391	364	2 014	(1 717)	25 660	(2 062)	23 598
receivables in respect of repurchase agreements	902	-	-	-	-	-	-	-	902	-	902
finance lease receivables	10 035	(22)	2 336	(64)	792	-	556	(332)	13 163	(418)	12 745
other financial assets	2 378	(1)	-	-	99	-	99	(99)	2 477	(100)	2 377
Total	194 365	(505)	14 830	(1 078)	14 755	2 250	11 440	(9 184)	223 950	(10 767)	213 183
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	363	-	363	(115)	363	(115)	248
Total	241 150	(525)	14 830	(1 078)	15 228	2 252	11 913	(9 199)	271 208	(10 802)	260 406

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



IMPAIRMENT OF FINANCIAL ASSETS

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY MEASUREMENT MODEL	As at 31.12.2017	Changes due to IFRS 9 implementation ¹	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Decrease of impairment allowance due to partial or complete write-off	Changes due to in foreign exchange differences on translation of foreign entities	Other changes	As at 30.09.2018
Available-for-sale investment securities		326	(326)	-	-	-	-	-	-	-	-
Measured at fair value through OCI											
amounts due from banks		-	-	-	-	-	-	-	-	-	-
securities		-	35	35	3	(1)	(10)	-	(2)	-	3
loans		-	-	-	-	-	-	-	-	-	-
other financial assets		-	-	-	-	-	-	-	-	-	-
Total		-	35	35	3	(1)	(10)	-	(2)	-	3
measured at amortized cost											
amounts due from banks		-	-	-	2	-	(2)	-	-	-	2
securities		-	14	14	5	(1)	(2)	-	-	-	2
loans		7 823	2 830	10 653	479	(776)	1 264	44	(3 285)	12	(22)
housing		1 972	1 058	3 030	30	(235)	301	5	(1 027)	3	(86)
corporate		3 705	1 438	5 143	246	(217)	391	37	(1 558)	7	69
consumer		1 686	376	2 062	81	(246)	559	2	(696)	2	(18)
receivables in respect of repurchase agreements		-	-	-	-	-	-	-	-	-	-
finance lease receivables		450	(32)	418	122	(78)	13	-	(4)	-	13
other financial assets		100	-	100	1	-	-	-	-	-	2
Total		7 923	2 844	10 767	487	(777)	1 260	44	(3 285)	12	(16)
Total allowances for expected credit losses on financial assets		8 249	2 553	10 802	490	(778)	1 250	44	(3 287)	12	(13)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS BY ASSET TYPES	As at 31.12.2017	Changes due to IFRS 9 implementation ¹	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Changes resulting from modification without derecognition (net)	Decrease of impairment allowance due to partial or complete write-off	Changes due to in foreign exchange differences on translation of foreign entities	Other changes	As at 30.09.2018
amounts due from banks		-	-	-	2	-	(2)	-	-	-	2
securities		326	(277)	49	8	(2)	(12)	-	(2)	-	5
loans		7 823	2 830	10 653	479	(776)	1 264	44	(3 285)	12	(22)
housing		1 972	1 058	3 030	30	(235)	301	5	(1 027)	3	(86)
corporate		3 705	1 438	5 143	246	(217)	391	37	(1 558)	7	69
consumer		1 686	376	2 062	81	(246)	559	2	(696)	2	(18)
securities		10	(10)	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements		-	-	-	-	-	-	-	-	-	-
finance lease receivables		450	(32)	418	122	(78)	13	-	(4)	-	13
other financial assets		100	-	100	1	-	-	-	-	-	2
Total allowances for expected credit losses on financial assets		8 249	2 553	10 802	490	(778)	1 250	44	(3 287)	12	(13)

¹ in respect of recognizing impairment on loans of PLN 797 million, in respect of accounting for non-performing interest recognized in the gross carrying amount of PLN 2 480 million, in respect of decreasing write-downs on initial loss on POCI loans of PLN 437 million, and in respect of releasing write-downs on securities of PLN 287 million.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

CREDIT-IMPAIRED FINANCIAL ASSETS UPON INITIAL RECOGNITION – POCI

The total amount of purchased or originated credit-impaired financial assets as at 30 September 2018 amounted to PLN 863 million (PLN 706 million as at 1 January 2018).

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 30.09.2018	Gross amount	impairment allowances	Net amount
Securities	471	(11)	460
measured at fair value through OCI	471	(11)	460
Loans and advances to customers	504	(101)	403
measured at amortized cost	504	(101)	403
Total	975	(112)	863

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

CHANGES IN IMPAIRMENT ALLOWANCES FOR PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – FIRST THREE QUARTERS OF 2018	As at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes resulting from credit risk changes (net)	Decrease in impairment allowances due to write-off	Other adjustments	As at 30.09.2018
Securities	15	-	-	(2)	(2)	-	11
measured at fair value through OCI	15	-	-	(2)	(2)	-	11
Loans and advances to customers	115	1	(26)	1 119	(1 241)	133	101
measured at amortized cost	115	1	(26)	1 119	(1 241)	133	101
Total	130	1	(26)	1 117	(1 243)	133	112

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

ESTIMATES AND JUDGEMENTS APPLICABLE TO 31 DECEMBER 2017

A detailed description of the accounting policies applied in this respect is provided in the consolidated financial statements of the Group for 2017 in Note 28 “Loans and advances to customers” and in Note 27 “Securities”.

FINANCIAL INFORMATION – APPLICABLE TO 31 DECEMBER 2017

AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS - THE GROUP'S EXPOSURE TO CREDIT RISK	Exposure
	31.12.2017
Amounts due from banks not impaired, not past due	5 233
Total, net	5 233

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

SECURITIES

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

LOANS AND ADVANCES TO CUSTOMERS

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

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

LOAN QUALITY RATIOS (IN %)	31.12.2017
Share of impaired loans	5.5%
Coverage ratio of impaired loans ¹	67.0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	4.2%

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

OTHER FINANCIAL ASSETS

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

IMPAIRMENT ALLOWANCES ON SECURITIES – RECONCILIATION OF MOVEMENTS IN THE THREE QUARTERS OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Other	As at the end of the period	Net increase - impact on the income statement
Debt securities	277	82	(70)	(41)	248	(12)
Equity securities	67	-	(40)	(1)	26	40
Total	344	82	(110)	(42)	274	28

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS - RECONCILIATION OF MOVEMENTS IN THE THREE QUARTERS OF 2017	As at the beginning of the period	Recognized during the period	Reversed during the period	Derecognition of assets and settlements	Other, of which arising from business combinations	As at the end of the period	Recoveries of exposures written off	Net - impact on the income statement
housing loans	2 200	558	(392)	(161)	(96)	2 109	6	(160)
corporate loans	3 807	1 560	(994)	(435)	(86)	3 852	24	(542)
corporate loans, non-financial sector	3 783	1 503	(940)	(435)	(81)	3 830	24	(539)
corporate loans (financial sector)	5	48	(44)	-	(5)	4	-	(4)
corporate loans, public sector	19	9	(10)	-	-	18	-	1
consumer loans	1 471	955	(561)	(101)	(17)	1 747	3	(391)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
finance lease receivables	448	129	(76)	(44)	(2)	455	-	(53)
Total	8 003	3 203	(2 025)	(741)	(201)	8 239	33	(1 145)

28. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	30.09.2018	31.12.2017
Land and buildings	157	148
Other	25	9
Total, gross	182	157
Impairment allowances	(22)	(19)
Total	160	138

29. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS

INTANGIBLE ASSETS	30.09.2018	31.12.2017
Software	1 449	1 542
Goodwill	1 263	1 263
Future profit on concluded insurance contracts	55	66
Customer relationships	77	88
Other, including capital expenditure	244	283
of which: on software	197	235
Total	3 088	3 242

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

GOODWILL

Net goodwill	30.09.2018	31.12.2017
Nordea Bank Polska SA	863	863
PKO Życie Towarzystwo Ubezpieczeń SA	91	91
PKO Leasing Pro SA	31	31
Raiffeisen - Leasing Polska SA and its subsidiaries	57	57
PKO Towarzystwo Funduszy Inwestycyjnych SA	150	150
PKO BP BANKOWY PTE SA	51	51
Assets taken over from CFP Sp. z o.o.	8	8
ZenCard Sp. z o.o.	12	12
Total	1 263	1 263

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	30.09.2018	31.12.2017
Land and buildings	1 569	1 629
Machinery and equipment	426	437
of which: IT hardware	266	254
Assets under construction	69	123
of which: IT hardware	27	68
Other	772	726
Total	2 836	2 915

OPERATING LEASES – LESSOR

TOTAL FUTURE LEASE PAYMENTS UNDER IRREVOCABLE OPERATING LEASES – LESSOR	30.09.2018	31.12.2017
For the period:		
up to 1 year	70	63
from 1 to 5 years	69	64
over 5 years	3	-
Total	142	127

The average term of operating lease agreements where the Group is the lessor is usually 36 months. The lessee bears the maintenance service and insurance costs.

ASSETS LEASED	30.09.2018	31.12.2017
Vehicles	497	313
Real properties	24	70
Machinery and equipment	5	6
Total	526	389

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

30. OTHER ASSETS

OTHER ASSETS ¹	30.09.2018	31.12.2017
Settlements in respect of card transactions	1 520	1 136
Settlements of financial instruments (including unpaid option premium)	337	284
Receivables in respect of cash settlements	142	158
Receivables and settlements in respect of trading in securities and selling participation units in a collective investment undertaking	132	94
Settlements relating to selling foreign currencies	43	2
Inventories	123	186
Assets for sale	85	107
Prepayments	249	286
Trade receivables	201	209
Receivables in respect of settlements with KIR (National Clearing Chamber)	52	-
VAT receivable	53	114
Ceded technical reserves	612	472
Other	124	63
Total	3 673	3 111
of which: other financial assets	3 031	2 377

¹ As at 30 September 2018, "Inventories" were included in the Note "Other assets", and the comparable data as at 31 December 2017 was restated.

OTHER ASSETS - INVENTORIES	30.09.2018	31.12.2017
Goods for resale	121	190
Finished goods	-	10
Available for sale investments – construction projects	1	-
Materials	12	7
Impairment allowances on inventories	(11)	(21)
Total	123	186

Detailed information about credit risk exposure on loans and advances granted, measured at amortized cost or at fair value through other comprehensive income for the nine-month period of 2018 is provided in Note 26 "Expected credit losses", and for 2017 in Note 27 "Impairment allowances on financial assets (comparative data in accordance with IAS 39)."

31. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.09.2018	31.12.2017
Held for trading		
liabilities in respect of the short position in securities	26	-
Measured at amortized cost	1 897	4 558
Loans and advances received ¹	150	2 785
Bank deposits	870	1 077
Current accounts	836	653
Other monetary market deposits	41	43
Total	1 923	4 558

¹ The item "Loans and advances received" is presented in detail in Note 33 "Loans and advances received".

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

32. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.09.2018	31.12.2017
Held for trading	34	-
liabilities in respect of the short position in securities	34	-
Measured at amortized cost	225 583	220 917
Amounts due to retail customers	154 765	151 161
Current accounts and overnight deposits	95 931	86 819
Term deposits	58 218	64 126
Other liabilities	616	216
Amounts due to corporate entities	52 209	52 667
Current accounts and overnight deposits	35 657	40 070
Term deposits	15 650	11 613
Amounts due from repurchase agreements	145	48
Other liabilities	757	936
Amounts due to public entities	13 353	11 409
Current accounts and overnight deposits	9 127	9 555
Term deposits	4 172	1 820
Other liabilities	54	34
Loans and advances received ¹	3 386	3 563
Liabilities in respect of insurance products ²	1 870	2 117
Total	225 617	220 917

¹ The item "Loans and advances received" is presented in detail in Note 3w "Loans and advances received"

² The Note "Amounts due to customers" covers liabilities in respect of insurance products (Unit-Linked and Polisolokaty)

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.09.2018	31.12.2017
retail and private banking	146 115	142 484
corporate	48 995	48 570
firms and undertakings	25 098	24 127
loans and advances received	3 386	3 563
amounts due from repurchase agreements	145	48
other liabilities (including liabilities in respect of insurance products)	1 878	2 125
Total	225 617	220 917

33. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	30.09.2018	31.12.2017
From banks	150	2 785
Nordea Bank AB	-	2 596
other	150	189
From international financial institutions	3 386	3 557
European Investment Bank	1 993	1 820
Council of Europe Development Bank	1 070	1 282
European Bank for Reconstruction and Development	111	169
International Financial Corporation	199	273
International financial institutions of Ukraine	13	13
From other financial institutions	-	6
Total	3 536	6 348

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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.

34. LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES

LIABILITIES IN RESPECT OF INSURANCE ACTIVITIES ¹	30.09.2018	31.12.2017
Technical reserves	1 185	882
Total	1 185	882

¹ Liabilities in respect of insurance products (Unit-Linked and Polisolokaty) were transferred from Note "Liabilities in respect of insurance activities" to Note 32 "Amounts due to customers".

35. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	30.09.2018	31.12.2017
Measured at amortized cost:	28 213	23 932
bonds issued by PKO Bank Hipoteczny SA	2 959	2 406
bonds issued by PKO Finance AB	6 066	5 882
bonds issued by PKO Bank Polski SA	5 359	5 204
bonds issued by the PKO Leasing SA Group	1 290	1 593
bonds issued by KREDOBANK SA	40	-
covered bonds issued by PKO Bank Hipoteczny SA	12 499	8 847
Total	28 213	23 932

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

INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF SECURITIES

ADDITIONAL INFORMATION	30.09.2018	31.12.2017
issuance of debt securities during the period (nominal value)		
in PLN	8 204	9 807
in original currency (EUR)	500	1 829
in original currency (CHF)	-	400
in original currency (UAH)	290	-
redemption of debt securities during the period (nominal value)		
in PLN	6 407	7 279
in original currency (EUR)	-	200

In the nine-month period of 2018 there were the following issues, redemptions and repayments of securities (taking into account the balances as at 30 September 2018).

BONDS ISSUED BY PKO BANK POLSKI SA

Issue date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 30.09.2018	Carrying amount at 31.12.2017
25.07.2017	fixed	0.75	750	EUR	25.07.2021	3 201	3 132
02.11.2017	fixed	0.30	400	CHF	02.11.2021	1 509	1 427
17.11.2017	zero-coupon bonds	-	650	PLN	17.05.2018	-	645
17.05.2018	zero-coupon bonds	-	650	PLN	16.11.2018	649	-
Total						5 359	5 204

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

BONDS ISSUED BY ENTITIES OF THE PKO BANK POLSKI SA GROUP

- PKO Bank Hipoteczny SA issued 55 297 bonds with a total nominal value of PLN 5 530 million, and redeemed 48 559 bonds with a total nominal value of PLN 4 856 million. Issues of the Company's bonds are governed by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. At the same time, according to the Guarantee Agreement, PKO Bank Polski SA is a guarantor of the issue of bonds up to a total amount of PLN 2,000 million.
- PKO Leasing SA issued 1 121 691 bonds with a total nominal value of PLN 1 122 million, and redeemed 860 130 bonds with a total nominal value of PLN 861 million. Issues of the Company's bonds are governed by the Bond Issue Agreement concluded with PKO Bank Polski SA.
- KREDOBANK SA issued 250 000 bonds with the total nominal value of UAH 250 million, and placed 39 592 bonds with the total value of UAH 40 million on the market (redeemed by the company in 2017). The bond issues were carried out based on a prospectus approved by the National Securities and Securities Markets Commission of Ukraine.

BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 30.09.2018	Carrying amount at 31.12.2017
07.08.2017	zero-coupon bonds	45	PLN	23.01.2018	-	41
15.09.2017	zero-coupon bonds	642	PLN	15.03.2018	-	639
29.09.2017	zero-coupon bonds	50	PLN	05.03.2018	-	50
29.09.2017	zero-coupon bonds	24	PLN	23.01.2018	-	23
02.10.2017	zero-coupon bonds	100	PLN	05.03.2018	-	100
12.10.2017	zero-coupon bonds	30	PLN	16.04.2018	-	30
16.10.2017	zero-coupon bonds	515	PLN	16.04.2018	-	512
16.10.2017	zero-coupon bonds	15	PLN	16.10.2018	15	15
20.10.2017	zero-coupon bonds	88	PLN	05.02.2018	-	88
20.10.2017	zero-coupon bonds	163	PLN	23.01.2018	-	160
25.10.2017	zero-coupon bonds	50	PLN	05.02.2018	-	50
26.10.2017	zero-coupon bonds	4	PLN	26.10.2018	4	4
02.11.2017	zero-coupon bonds	50	PLN	15.02.2018	-	50
02.11.2017	zero-coupon bonds	20	PLN	30.10.2018	20	20
15.11.2017	zero-coupon bonds	187	PLN	15.05.2018	-	185
01.12.2017	zero-coupon bonds	118	PLN	23.01.2018	-	117
15.12.2017	zero-coupon bonds	25	PLN	25.06.2018	-	25
20.12.2017	zero-coupon bonds	37	PLN	05.04.2018	-	37
20.12.2017	zero-coupon bonds	30	PLN	20.06.2018	-	30
20.12.2017	zero-coupon bonds	60	PLN	25.06.2017	-	59
27.12.2017	zero-coupon bonds	100	PLN	27.06.2018	-	99
29.12.2017	zero-coupon bonds	73	PLN	29.03.2018	-	72
09.02.2018	zero-coupon bonds	4	PLN	08.02.2019	4	-
19.02.2018	zero-coupon bonds	4	PLN	10.12.2018	4	-
29.03.2018	zero-coupon bonds	40	PLN	01.10.2018	40	-
16.04.2018	zero-coupon bonds	610	PLN	22.10.2018	609	-
15.05.2018	zero-coupon bonds	195	PLN	21.11.2018	194	-
25.05.2018	zero-coupon bonds	250	PLN	17.12.2018	249	-
29.05.2018	zero-coupon bonds	35	PLN	21.11.2018	35	-
20.06.2018	zero-coupon bonds	70	PLN	21.12.2018	70	-
25.06.2018	zero-coupon bonds	145	PLN	21.12.2018	144	-
27.06.2018	zero-coupon bonds	100	PLN	28.12.2018	99	-
06.07.2018	zero-coupon bonds	66	PLN	22.10.2018	66	-
16.07.2018	zero-coupon bonds	30	PLN	21.12.2018	30	-
18.07.2018	zero-coupon bonds	50	PLN	17.12.2018	50	-
23.07.2018	zero-coupon bonds	262	PLN	23.01.2019	260	-
08.08.2018	zero-coupon bonds	119	PLN	21.11.2018	119	-
08.08.2018	zero-coupon bonds	14	PLN	08.08.2019	14	-
22.08.2018	zero-coupon bonds	37	PLN	21.11.2018	37	-
31.08.2018	zero-coupon bonds	47	PLN	19.12.2018	47	-
14.09.2018	zero-coupon bonds	116	PLN	13.11.2018	115	-
21.09.2018	zero-coupon bonds	719	PLN	05.04.2019	711	-
21.09.2018	zero-coupon bonds	19	PLN	23.01.2019	19	-
21.09.2018	zero-coupon bonds	4	PLN	05.10.2018	4	-
Total					2 959	2 406

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

BONDS ISSUED BY PKO FINANCE AB

Issue date	Interest rate type	Interest rate	Nominal amount	Currency	Maturity	Carrying amount at 30.09.2018	Carrying amount at 31.12.2017
25.07.2012	fixed	4.00	50	EUR	25.07.2022	213	211
26.09.2012	fixed	4.63	862	USD	26.09.2022	3 683	3 530
23.01.2014	fixed	2.32	500	EUR	23.01.2019	2 170	2 141
Total						6 066	5 882

BONDS ISSUED BY THE PKO LEASING SA GROUP

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 30.09.2018	Carrying amount at 31.12.2017
01.12.2014 ¹	variable	801	PLN	02.10.2025	807	1 262
01.06.2016	variable	73	PLN	01.06.2019	73	73
09.11.2017	zero-coupon bonds	28	PLN	09.05.2018	-	28
10.11.2017	zero-coupon bonds	101	PLN	12.02.2018	-	101
05.12.2017	zero-coupon bonds	90	PLN	08.03.2018	-	90
20.12.2017	zero-coupon bonds	39	PLN	21.03.2018	-	39
10.07.2018	variable	38	PLN	10.10.2018	38	-
18.07.2018	variable	100	PLN	17.12.2018	99	-
25.07.2018	variable	30	PLN	29.10.2018	30	-
13.08.2018	variable	47	PLN	19.10.2018	46	-
09.08.2018	variable	30	PLN	14.02.2019	30	-
24.08.2018	variable	7	PLN	17.12.2018	7	-
05.09.2018	variable	53	PLN	05.03.2019	53	-
07.09.2018	variable	73	PLN	07.12.2018	73	-
13.09.2018	variable	34	PLN	08.01.2019	34	-
Total					1 290	1 593

¹ the bonds taken up by the PKO Leasing SA Group as part of the acquisition of Raiffeisen-Leasing Polska SA. Bonds are secured with securitized lease receivables (see note 63 "Information on securitization of the lease portfolio and portfolio sale of receivables").

BONDS ISSUED BY KREDOBANK SA

Issue date	Interest rate type	Nominal amount	Currency	Maturity	Carrying amount at 30.09.2018	Carrying amount at 31.12.2017
01.12.2017	fixed	5	UAH	26.11.2022	7	-
13.07.2018	fixed	33	UAH	28.12.2022	33	-
Total					40	-

MORTGAGE-COVERED BONDS ISSUED BY PKO BANK HIPOTECZNY SA

During the nine months of 2018, PKO Bank Hipoteczny SA carried out issues of mortgage-covered bonds, including:

- one foreign issue of mortgage-covered bonds in EUR addressed to institutional investors, with a total nominal value of EUR 500 million; the mortgage-covered bonds were purchased by investors below their nominal value, and are listed on the Securities Exchanges in Luxembourg and Warsaw.
- four domestic issues of mortgage-covered bonds in PLN addressed to institutional investors, with the total nominal value of PLN 1,360 million; the mortgage-covered bonds were purchased by investors at their nominal value, and are listed on the Warsaw Stock Exchange and on BondSpot.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

MORTGAGE-COVERED BONDS ISSUED BY PKO BANK HIPOTECZNY SA

Issue date	Interest rate type	Interest rate (index + margin)	Nominal amount	Currency	Maturity	Carrying amount at 30.09.2018	Carrying amount at 31.12.2017
11.12.2015	variable	WIBOR3M + 0.75	19	PLN	11.12.2020	19	18
27.04.2016	variable	WIBOR3M + 0.65	485	PLN	28.04.2021	485	487
17.06.2016	variable	WIBOR3M + 0.59	497	PLN	18.06.2021	500	498
24.10.2016	fixed	0.125	499	EUR	24.06.2022	2 129	2 079
02.02.2017	fixed	0.820	25	EUR	02.02.2024	107	105
30.03.2017	fixed	0.625	500	EUR	24.01.2023	2 141	2 093
28.04.2017	variable	WIBOR3M + 0.69	500	PLN	18.05.2022	501	497
22.06.2017	fixed	2.69	263	PLN	10.09.2021	263	263
27.09.2017	fixed	0.75	498	EUR	27.08.2024	2 131	2 084
27.10.2017	variable	WIBOR3M + 0.60	500	PLN	27.06.2023	499	498
02.11.2017	fixed	0.47	231	EUR	03.11.2022	232	225
22.03.2018	fixed	0.75	500	EUR	24.01.2024	2 138	-
27.04.2018	variable	WIBOR3M + 0.49	696	PLN	25.04.2024	697	-
18.05.2018	variable	WIBOR3M + 0.32	100	PLN	29.04.2022	100	-
27.07.2018	variable	WIBOR3M + 0.62	500	PLN	25.07.2025	501	-
24.08.2018	fixed	3.49	56	PLN	24.08.2028	56	-
Total						12 499	8 847

36. SUBORDINATED LIABILITIES

	Nominal amount	Interest rate	Currency	Period	Special terms	Balance in PLN	
						30.09.2018	31.12.2017
Subordinated bonds	1 700	3.34	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years of the issue date	1 705	1 720
Subordinated bonds	1 000	3.29	PLN	05.03.2018 - 06.03.2028	right to early redemption within 5 years of the issue date	1 002	-
Total						2 707	1 720

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

On 28 February 2018, the Bank placed an issue of subordinated bonds with a total nominal bond value of PLN 1 000 million. The 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

37. OTHER LIABILITIES

OTHER LIABILITIES	30.09.2018	31.12.2017
Expenses to be paid	651	631
Deferred income	430	368
Liability in respect of tax on certain financial institutions	79	76
Interbank settlements	915	1 313
Liabilities arising from investing activities and internal operations	130	295
Amounts due to suppliers	195	211
Liabilities and settlements in respect of trading in securities	758	534
Settlements of financial instruments (including unpaid option premium)	289	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	228	120
maintained in the form of payment commitments, of which:	228	120
to the Resolution Fund	111	63
to the Banks' Guarantee Fund	117	57
Liabilities under the public law	148	165
Liabilities in respect of foreign exchange activities	369	350
Liabilities in respect of payment cards	488	259
Liabilities to insurance institutions	131	59
Other	277	400
Total	5 088	5 062
of which: other financial liabilities	3 926	4 129

The “Liabilities in respect of the contribution to the Bank Guarantee Fund” item includes liabilities in respect of contributions to the BGF (see Note 51 “Assets pledged as collateral for liabilities and transferred financial assets”).

38. PROVISIONS

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Provisions for legal claims and tax proceedings	Provisions from pensions and other defined post- employment benefits ¹	Restructuring provision ¹	Provisions for financial liabilities and guarantees granted	Other provisions, including for disputes with employees	Total
As at 31 December 2017, of which:	21	46	-	86	62	215
Short-term provisions	21	7	-	61	62	151
Long-term provisions	-	39	-	25	-	64
Changes due to reclassification, of which:	-	15	21	-	(36)	-
Short-term provisions	-	15	21	-	(36)	-
Long-term provisions	-	-	-	-	-	-
Changes due to IFRS 9 implementation	-	-	-	71	-	71
Short-term provisions	-	-	-	47	-	47
Long-term provisions	-	-	-	24	-	24
As at 1 January 2018 (restated), of which:	21	61	21	157	26	286
Short-term provisions	21	22	21	108	26	198
Long-term provisions	-	39	-	49	-	88
Increase, of which increases in existing provisions	27	-	45	142	64	278
Amounts utilized	(8)	-	(15)	-	-	(23)
Released during the period	(3)	(15)	(9)	(125)	(16)	(168)
As at 30 September 2018, of which:	37	46	42	174	74	373
Short-term provisions	37	6	42	136	74	295
Long-term provisions	-	40	-	38	-	78

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 15 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 the 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 46 “Legal claims”).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Provisions for legal claims and tax proceedings	Provisions for pension and other liabilities in respect of defined post-retirement benefits	Restructuring provision	Provisions for financial liabilities and guarantees granted	Other provisions, of which provisions for disputes with employees	Total
As at 1 January 2017	24	60	59	67	19	229
Short-term provisions	24	21	59	51	19	174
Long-term provisions	-	39	-	16	-	55
Increase, of which increases in existing provisions	13	-	-	161	1	175
Amounts utilized	(4)	-	(32)	-	-	(36)
Unutilized amounts released during the period	(20)	(3)	-	(161)	(1)	(185)
Other changes and reclassifications	-	-	-	-	7	7
As at 30 September 2017, of which:	13	57	27	67	26	190
Short-term provisions	13	57	27	53	26	176
Long-term provisions	-	-	-	14	-	14

39. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.09.2018	01.01.2018	31.12.2017
Share capital	1 250	1 250	1 250
Supplementary capital	29 354	27 374	27 374
General banking risk fund	1 070	1 070	1 070
Other reserves	3 831	3 645	3 645
Accumulated other comprehensive income	(130)	(188)	(110)
Retained earnings	(385)	(633)	(66)
Net profit or loss for the period	2 732	3 104	3 104
Non-controlling interests	(9)	(11)	(11)
Total	37 713	35 611	36 256

According to the knowledge of PKO Bank Polski SA as at the date of submitting these condensed consolidated interim financial statements, the following three entities hold directly or indirectly qualifying holdings (at least 5% of the shares): The State Treasury, Nationale-Nederlanden Otworthy Fundusz Emerytalny, and Aviva Otworthy Fundusz Emerytalny.

NAME OF SHAREHOLDER	number of shares	voting rights %	Nominal value of 1 share	Interest held (%)
As at 30 September 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 the six-month period of 2018 and at 31 December 2017 published by PTE in the semi-annual information about the structure of the fund's assets and the exchange rate in *Cedula Gieldowa* (the official securities exchange list).
- 2) Including Bank Gospodarstwa Krajowego which, as at 30/09/2018 held 24 487 297 shares, representing 1.96% of the votes at the General Shareholders' Meeting.

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

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

In the nine-month period of 2018 and in 2017, there were no changes to the amount of the share capital of PKO Bank Polski SA/s shares. The Bank's shares 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:

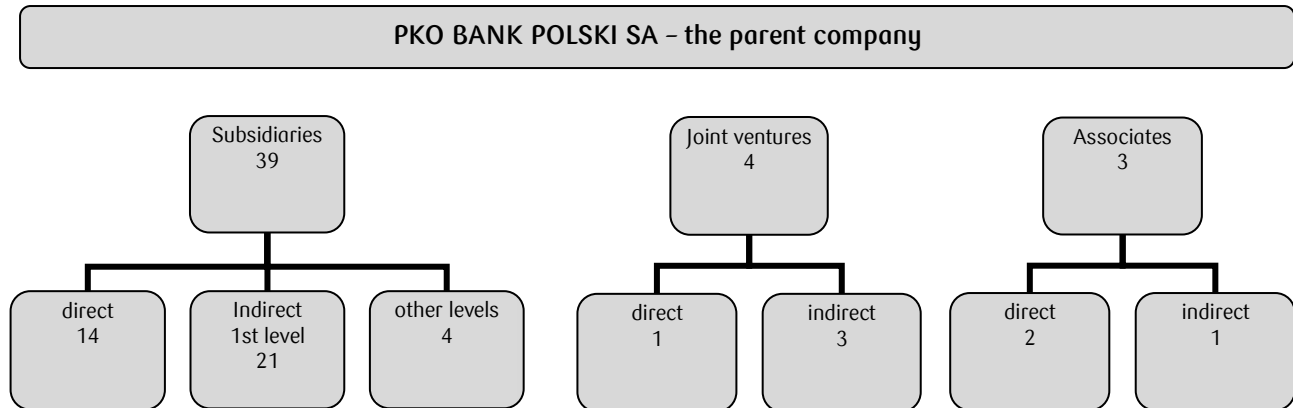
- 1) those shareholders who on the date of passing the resolution of the General Shareholders' Meeting introducing the limitation of voting rights had rights from the shares representing more than 10% of the total number of votes at the Bank (i.e. the State Treasury and BGK);
- 2) shareholders who have 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.



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



40. 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	
			30.09.2018	31.12.2017
DIRECT SUBSIDIARIES				
1	PKO Bank Hipoteczny SA	Gdynia	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP BANKOWY PTE SA	Warsaw	100	100
5	PKO BP Finat Sp. z o.o.	Warsaw	100	100
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	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 ¹	Warsaw	100	100
13	NEPTUN - fizan ¹	Warsaw	100	100
14	NEPTUN - fizan ¹	Warsaw	100	-

1) PKO Bank Polski SA has investment certificates of the fund; the share in the Fund's investment certificates is presented in the item "Share in equity".

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY*	
			30.09.2018	31.12.2017
INDIRECT SUBSIDIARIES				
The PKO Leasing SA Group				
1	PKO Leasing Nieruchomości Sp. z o.o.	Warsaw	100	100
2	PKO Agencja Ubezpieczeniowa Sp. z o.o.	Warsaw	100	100
	2.1 PKO Leasing Finanse Sp. z o.o.	Warsaw	100	100
3	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
4	ROOF Poland Leasing 2014 DAC ¹	Dublin, Ireland	-	-
5	PKO Faktoring SA	Warsaw	100	100
The PKO BP Finat Sp. z o.o.				
	GAMMA PKO Towarzystwo Funduszy Inwestycyjnych SA ²	Warsaw	-	100
	Net Fund Administration Sp. z o.o. ³	Warsaw	-	100
The PKO Życie Towarzystwo Ubezpieczeń SA Group				
6	Ubezpieczeniowe Usługi Finansowe Sp. z o.o.	Warsaw	100	100
The KREDOBANK SA Group				
7	Finansowa Kompania "Idea Kapital" Sp. z o.o.	Lviv, Ukraine	100	100
The Qualia Development Sp. z o.o. Group				
8	Residence Management Sp. z o.o. ⁴	Warsaw	100	100
9	Qualia - Residence Sp. z o.o.	Warsaw	100	100
10	Sarnia Dolina Sp. z o.o.	Warsaw	100	100
11	Qualia Sp. z o.o. ⁵	Warsaw	100	100
	Qualia 2 Sp. z o.o. ⁵	Warsaw	-	100
	Qualia 3 Sp. z o.o. ⁵	Warsaw	-	100
	Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k. ⁵	Warsaw	-	99,9975
	Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. ⁵	Warsaw	-	99,9750
	FORT MOKOTÓW Sp. z o.o. w likwidacji (in liquidation) ⁶	Warsaw	-	51
	Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k. ⁷	Warsaw	-	99,9123
Merkury - FIZ AN				
12	"Zarząd Majątkiem Górczewska" Sp. z o.o.	Warsaw	100	100
13	Molina Sp. z o.o.	Warsaw	100	100
14	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
15	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
16	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.	Warsaw	100	100
17	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
18	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
19	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
NEPTUN - FIZ AN				
20	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	20.1 "Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością ⁸	Kiev, Ukraine	99,90	99,90
	20.2 Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. ⁹	Kiev, Ukraine	95,4676	-
21	"CENTRUM HAFFNERA" Sp. z o.o.	Sopot	72,9766	72,9766
	21.1 "Sopot Zdrój" Sp. z o.o.	Sopot	100	100
	"Promenada Sopocka" Sp. z o.o. ¹⁰	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) Previous name: Qualia Hotel Management Sp. z o.o.
- 5) In 2018 Qualia Sp. z o.o. (as the acquiring company) and Qualia 2 Sp. z o.o., Qualia 3 Sp. z o.o., Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp.k. and Qualia spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k. (as the acquiree).
- 6) The liquidation of the company was completed, the company has been deleted from the register of businesses.
- 7) The company was sold.
- 8) The second shareholder of the company is Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o.
- 9) The second shareholder of the company is „Inter-Risk Ukraina” additional liability company, until 6 June 2018 was a direct subsidiary of PKO Bank Polski SA.
- 10) The company was sold.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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	<p>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.</p> <p>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.</p> <p>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.</p>
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 Fundusz Emerytalny (OFE) and PKO Dobrowolny Fundusz Emerytalny (DFE), within which the Individual Retirement Account (<i>Indywidualne Konto Emerytalne – IKE</i>) and Individual Retirement Security Account (<i>Indywidualne Konto Zabezpieczenia Emerytalnego – IKZE</i>) 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).

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

	<p>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.</p>
PKO FINANCE AB	<p>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.</p>
KREDOBANK SA	<p>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.</p> <p>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.</p> <p>The core business of Finansowa Kompania "Idea Kapital" Sp. z o.o. – a subsidiary of KREDOBANK SA – consists of legal services in respect of acquired monetary claims under loan agreements.</p>
QUALIA DEVELOPMENT SP. Z O.O.	<p>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.</p>
ZENCARD SP. Z O.O.	<p>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.</p> <p>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</p>
MERKURY - FIZAN	<p>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.</p>
NEPTUN - FIZAN	<p>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.</p>
PKO VC - FIZAN	<p>The fund's activities comprise investing funds raised in non-public offers to purchase investment certificates. The Fund is managed by PKO TFI SA. It operates through separate sub-funds: financial and strategic.</p> <p>The Fund has followed a policy appropriate for venture capital funds and will invest in entities that offer technological financial innovations in the banking and banking-related areas, as well as other innovative solutions for enterprises.</p>

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

41. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

No.	NAME OF ENTITY	REGISTERED OFFICE	% SHARE IN EQUITY*	
			30.09.2018	31.12.2017
Joint venture of PKO Bank Polski SA				
1	Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	Warsaw	34	34
	1 EVO Payments International Sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, Czech Republic	100	100
Joint ventures of NEPTUN - fizan				
	3 "Centrum Obsługi Biznesu" Sp. z o.o.	Poznań	41,4455	41,4455
Associates of PKO Bank Polski SA				
1	Bank Pocztowy SA	Bydgoszcz	25,0001	25,0001
	1 Spółka Dystrybucyjna Banku Poczтового Sp. z o.o. w likwidacji (in liquidation) ¹	Warsaw	100	100
	Centrum Operacyjne Sp. z o.o. w likwidacji(in liquidation) ²	Bydgoszcz	-	100
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	Poznań	33,33	33,33
	FERRUM SA ³	Katowice	-	22,14
	FERRUM MARKETING Sp. z o.o.	Katowice	-	100
	Zakład Konstrukcji Spawanych FERRUM SA	Katowice	-	100
	Walcownia Rur FERRUM Sp. z o.o.	Katowice	-	100

* share in equity of the direct parent entity/with significant influence

- 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.	The 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 February 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 Since April 2018 the company grants guarantees under the JEREMIE 2 initiative.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

FINANCIAL INFORMATION

JOINT VENTURES	30.09.2018	31.12.2017
"Centrum Obsługi Biznesu" Sp. z o.o.	-	-
Acquisition price	17	17
Change in the share in net assets	(15)	(14)
Impairment allowances	(2)	(3)
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. Group	247	244
Value of shares as at the date of obtaining joint control	197	197
Change in the share in net assets	50	47
Total	247	244

ASSOCIATES	30.09.2018	31.12.2017
Bank Poczty SA Group	130	130
Acquisition price	184	184
Change in the share in net assets	73	83
Impairment allowances	(127)	(137)
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-
Acquisition price	2	2
Change in the share in net assets	4	4
Impairment allowances	(6)	(6)
FERRUM SA Group	-	19
Acquisition price	-	25
Change in the share in net assets	-	(6)
Total	130	149

CHANGE IN INVESTMENTS IN JOINT VENTURES	01.01- 30.09.2018	01.01- 30.09.2017
Investments in joint ventures as at the beginning of the period	244	227
Share in profits/ (losses)	19	28
Net impairment allowance	1	(1)
Dividend	(17)	(7)
Investments in joint ventures as at the end of the period	247	247

CHANGE IN INVESTMENTS IN ASSOCIATES	01.01- 30.09.2018	01.01- 30.09.2017
Investments in associates as at the beginning of the period	149	159
Share in profits/ (losses)	3	(8)
Net impairment allowance	10	(24)
Share in the change of other equity components	(13)	1
Reclassification of shares from associates to financial assets	(19)	-
Investments in associates as at the end of the period	130	128

IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01- 30.09.2018	01.01- 30.09.2017
As at the beginning of the period	146	120
Recognized during the period	-	25
Reversed during the period	(11)	-
As at the end of the period	135	145
Net increase - impact on the income statement	11	(25)



42. CHANGES IN COMPANIES COMPRISING THE GROUP

CHANGES IN THE STRUCTURE OF THE PKO BANK POLSKI SA GROUP

In the nine-month period of 2018 the following selected events which had an impact on the structure of the PKO Bank Polski SA's Group took place¹.

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 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.

On 28 September 2018, PKO Bank Polski SA concluded an agreement for the purchase of all shares of PKO Towarzystwo Funduszy Inwestycyjnych SA held by PKO BP Finat Sp. z o.o., and became their holder on that date.

As at 30 September 2018, PKO Bank Polski SA held shares in PKO Towarzystwo Funduszy Inwestycyjnych SA constituting 100% of the company's share capital and entitling it to 100% of votes at the General Meeting.

KREDOBANK SA

In the first half of 2018, PKO Bank Polski SA carried out 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.

PKO VC – FIZAN

In August 2018, PKO Bank Polski SA purchased A Series and B Series investment certificates of Subfundusz Strategiczny, and A Series and B Series investment certificates of Subfundusz Finansowy, issued by PKO VC – fundusz inwestycyjny zamknięty aktywów niepublicznych (closed-end investment non-public assets fund) (the Fund). The investments totalled PLN 200 million.

On the day the Bank was entered in the register of the Fund's participants as the sole investor, namely as of 9 September 2018, the Fund became the Bank's subsidiary.

¹ Information on all the changes in the structure of the Group, joint ventures and associates have been presented, respectively, in the list showing the composition of the Group presented in Note 40 and in the list of associates and joint ventures presented in Note 41.



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.

"PROMENADA SOPOCKA" SP. Z O.O.

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

QUALIA DEVELOPMENT SP. Z O.O. GROUP

On 8 March 2018, Qualia Development Sp. z o.o. sold its all rights and liabilities as a limited partner in Qualia spółka z ograniczoną odpowiedzialnością – Zakopane Sp. k. (Zakopane Company), and Qualia Sp. z o.o. sold all its rights and liabilities as general partner in Zakopane Company. Zakopane Company 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 ul. Piłsudskiego 14.

On 31 July 2018, the National Court Register recorded a merger of 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. (as target companies).

EVENTS WHICH CAN HAVE AN IMPACT ON CHANGES IN THE GROUP'S STRUCTURE IN THE FOLLOWING PERIOD

On 5 September 2018, Qualia Development Sp. z o.o. signed a conditional agreement with Chopin Airport Development Sp. z o.o. for the sale of 100% shares in the share capital of Residence Management Sp. z o.o. which owns Golden Tulip Gdańsk Residence and Golden Tulip Międzyzdroje Residence. On 26 October 2018, after the conditions precedent of the said agreement had been fulfilled, another agreement was signed and, as a result, the ownership title to the company being sold was transferred.



OTHER NOTES

43. DIVIDENDS PER SHARE AND PROFIT APPROPRIATION

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 amounting to PLN 2 774 million 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. |

The General Meeting set the dividend date at 8 August 2018, and the dividend payment date at 22 August 2018. The Bank paid dividend out of the 2017 net profit in the gross amount of PLN 0.55 per share. The dividend was due on all 1 250 million shares issued by the Bank.

44. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES GRANTED

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

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 30 September 2018			
Company A	corporate bonds	1 950	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	50	31.12.2022
Total		3 055	

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 Group 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

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	30.09.2018	31.12.2017
intangible assets	39	21
property, plant and equipment	72	78
Total	111	99

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

FINANCIAL LIABILITIES GRANTED AND GUARANTEE COMMITMENTS GRANTED

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 30.09.2018	Off-balance sheet liabilities under IFRS 9	Provisions for off-balance sheet liabilities under IFRS 9	Total off-balance sheet liabilities granted
Financial liabilities granted:			
Credit lines and limits			
housing	4 740	(22)	4 718
corporate	34 262	(71)	34 191
consumer	8 763	(28)	8 735
Total	47 765	(121)	47 644
of which: irrevocable loan commitments	19 694	(40)	19 654
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 487	(51)	5 436
to financial entities	68	(4)	64
to non-financial entities	5 404	(45)	5 359
to public entities	15	(2)	13
Guarantees and pledges granted - domestic corporate bonds	2 509	-	2 509
to financial entities	1	-	1
to non-financial entities	2 508	-	2 508
Letters of credit issued	1 338	(2)	1 336
to non-financial entities	1 335	(2)	1 333
to public entities	3	-	3
Guarantees and warranties granted - payment guarantee for financial entities	268	-	268
Guarantees and pledges granted - domestic municipal bonds	1 330	-	1 330
Total	10 932	(53)	10 879
of which: performance guarantees granted	2 435	(15)	2 420

Information about the provisions recognized for off-balance sheet financial and guarantee commitments is presented in the Note 38 "Provisions".

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 01.01.2018	Off-balance sheet liabilities under IFRS 9	Provisions for off-balance sheet liabilities under IFRS 9	Total off-balance sheet liabilities granted
Financial liabilities granted:			
Credit lines and limits			
housing	5 195	(15)	5 180
corporate	30 928	(71)	30 857
consumer	8 348	(25)	8 323
Total	44 471	(111)	44 360
of which irrevocable loan commitments	33 607	(70)	33 537
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 813	(42)	5 771
to financial entities	320	(5)	315
to non-financial entities	5 462	(36)	5 426
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	2 350
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 409	(4)	1 405
to financial entities	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantee for financial entities	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	10 140	(46)	10 094
of which performance guarantees granted	2 630	(14)	2 616

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 31.12.2017	Off-balance sheet liabilities under IFRS 37	Provisions for off-balance sheet liabilities under IFRS 37	Total off-balance sheet liabilities granted
Financial liabilities granted:			
Credit lines and limits			
housing	5 195	(6)	5 189
corporate	30 928	(43)	30 885
consumer	8 348	(10)	8 338
Total	44 471	(59)	44 412
of which irrevocable loan commitments	33 607	(51)	33 556
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	5 813	(25)	5 788
to financial entities	320	(3)	317
to non-financial entities	5 462	(21)	5 441
to public entities	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	2 350
to non-financial entities	2 350	-	2 350
Letters of credit issued	1 409	(2)	1 407
to non-financial entities	1 409	(2)	1 407
Guarantees and warranties granted – payment guarantee for financial entities	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	316
Total	10 140	(27)	10 113
of which performance guarantees granted	2 630	(9)	2 621

OFF-BALANCE SHEET LIABILITIES GRANTED BY MATURITY AS AT 30.09.2018	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	11 994	4 513	11 129	11 799	8 330	47 765
liabilities granted - guarantees and pledges	317	2 154	2 837	4 771	853	10 932
Total	12 311	6 667	13 966	16 570	9 183	58 697

OFF-BALANCE SHEET LIABILITIES GRANTED BY MATURITY AS AT 31.12.2018	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 37						
liabilities granted - financial	9 014	524	12 135	15 000	7 798	44 471
liabilities granted - guarantees and pledges	752	554	3 213	4 726	895	10 140
Total	9 766	1 078	15 348	19 726	8 693	54 611

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 30.09.2018	Nominal amount of off-balance sheet liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowances 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)	Allowances for expected credit losses (stage 2)	Nominal amount of off-balance sheet liabilities at risk of credit impairment (stage 3)	Allowances for expected credit losses (stage 3)	Total nominal amount	Total provision	Total, net
Financial liabilities granted:									
Credit lines and limits	47 762	(119)	2	-	1	(2)	47 765	(121)	47 644
housing	4 739	(22)	1	-	-	-	4 740	(22)	4 718
corporate	34 260	(69)	1	-	1	(2)	34 262	(71)	34 191
consumer	8 763	(28)	-	-	-	-	8 763	(28)	8 735
Total	47 762	(119)	2	-	1	(2)	47 765	(121)	47 644
of which irrevocable loan commitments	19 694	(40)	-	-	-	-	19 694	(40)	19 654
of which: purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-	-
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	5 487	(51)	-	-	-	-	5 487	(51)	5 436
to financial entities	68	(4)	-	-	-	-	68	(4)	64
to non-financial entities	5 404	(45)	-	-	-	-	5 404	(45)	5 359
to public entities	15	(2)	-	-	-	-	15	(2)	13
Guarantees and pledges granted - domestic corporate bonds	2 509	-	-	-	-	-	2 509	-	2 509
to financial entities	1	-	-	-	-	-	1	-	1
to non-financial entities	2 508	-	-	-	-	-	2 508	-	2 508
Letters of credit issued	1 338	(2)	-	-	-	-	1 338	(2)	1 336
to non-financial entities	1 335	(2)	-	-	-	-	1 335	(2)	1 333
to public entities	3	-	-	-	-	-	3	-	3
Guarantees and warranties granted - payment guarantee for financial entities	268	-	-	-	-	-	268	-	268
Guarantees and pledges granted - domestic municipal bonds	1 330	-	-	-	-	-	1 330	-	1 330
Total	10 932	(53)	-	-	-	-	10 932	(53)	10 879
of which performance guarantees granted	2 435	(15)	-	-	-	-	2 435	(15)	2 420
of which: purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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)	Allowances 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)	Allowances for expected credit losses (stage 2)	Nominal amount of off-balance sheet liabilities at risk of credit impairment (stage 3)	Allowances for expected credit losses (stage 3)	Total nominal amount	Total provision	Total, net
Financial liabilities granted:									
Credit lines and limits	42 548	(70)	1 626	(17)	297	(24)	44 471	(111)	44 360
housing	5 163	(11)	27	(1)	5	(3)	5 195	(15)	5 180
corporate	30 150	(49)	494	(3)	284	(19)	30 928	(71)	30 857
consumer	7 235	(10)	1 105	(13)	8	(2)	8 348	(25)	8 323
							-	-	-
Total	42 548	(70)	1 626	(17)	297	(24)	44 471	(111)	44 360
of which irrevocable loan commitments	31 722	(40)	1 589	(14)	296	(16)	33 607	(70)	33 537
of which: purchased or originated credit-impaired assets	-	-	-	-	-	-	-	-	-
Guarantees and pledges granted:									
Guarantees granted in domestic and foreign trading	5 360	(31)	44	(1)	409	(10)	5 813	(42)	5 771
to financial entities	320	(5)	-	-	-	-	320	(5)	315
to non-financial entities	5 009	(25)	44	(1)	409	(10)	5 462	(36)	5 426
to public entities	31	(1)	-	-	-	-	31	(1)	30
Guarantees and pledges granted – domestic corporate bonds	2 350	-	-	-	-	-	2 350	-	2 350
to non-financial entities	2 350	-	-	-	-	-	2 350	-	2 350
Letters of credit issued	1 406	(3)	3	(1)	-	-	1 409	(4)	1 405
to non-financial entities	1 406	(3)	3	(1)	-	-	1 409	(4)	1 405
Guarantees and warranties granted – payment guarantees for financial entities	252	-	-	-	-	-	252	-	252
Guarantees and pledges granted - domestic municipal bonds	316	-	-	-	-	-	316	-	316
							-	-	-
Total	9 684	(34)	47	(2)	409	(10)	10 140	(46)	10 094
of which performance guarantees granted	2 283	(8)	31	-	316	(6)	2 630	(14)	2 616
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-	-

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

OFF-BALANCE SHEET LIABILITIES GRANTED - TRANSFERS BETWEEN IMPAIRMENT STAGES AS AT 30.09.2018	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	
		Financial liabilities granted:						
Credit lines and limits	45 777	1 372	562	7	3	42	2	47 765
housing	4 296	429	2	1	1	11	-	4 740
corporate	32 983	807	437	5	1	28	1	34 262
consumer	8 498	136	123	1	1	3	1	8 763
Total	45 777	1 372	562	7	3	42	2	47 765
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	4 940	333	178	7	-	29	-	5 487
to financial entities	68	-	-	-	-	-	-	68
to non-financial entities	4 860	333	175	7	-	29	-	5 404
to public entities	12	-	3	-	-	-	-	15
Guarantees and pledges granted - domestic corporate bonds	2 509	-	-	-	-	-	-	2 509
to financial entities	1	-	-	-	-	-	-	1
to non-financial entities	2 508	-	-	-	-	-	-	2 508
Letters of credit issued	1 318	1	2	1	-	16	-	1 338
to non-financial entities	1 315	1	2	1	-	16	-	1 335
to public entities	3	-	-	-	-	-	-	3
Guarantees and warranties granted - payment guarantee for financial entities	268	-	-	-	-	-	-	268
Guarantees and pledges granted - domestic municipal bonds	1 330	-	-	-	-	-	-	1 330
Total	10 365	334	180	8	-	45	-	10 932

OFF-BALANCE SHEET LIABILITIES GRANTED - TRANSFERS BETWEEN IMPAIRMENT STAGES AS AT 30.09.2018	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	
		Financial liabilities granted:						
Credit lines and limits	(95)	(16)	(4)	-	(1)	(5)	-	(121)
housing	(15)	(5)	-	-	(1)	(1)	-	(22)
corporate	(57)	(7)	(4)	-	-	(3)	-	(71)
consumer	(23)	(4)	-	-	-	(1)	-	(28)
Total	(95)	(16)	(4)	-	(1)	(5)	-	(121)
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	(44)	(1)	-	(1)	-	(5)	-	(51)
to financial entities	(4)	-	-	-	-	-	-	(4)
to non-financial entities	(38)	(1)	-	(1)	-	(5)	-	(45)
to public entities	(2)	-	-	-	-	-	-	(2)
Letters of credit issued	(1)	-	-	-	-	(1)	-	(2)
to non-financial entities	(1)	-	-	-	-	(1)	-	(2)
Total	(45)	(1)	-	(1)	-	(6)	-	(53)

OFF-BALANCE SHEET LIABILITIES GRANTED - TRANSFERS BETWEEN IMPAIRMENT STAGES AS AT 30.09.2018	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	
		Financial liabilities granted:						
Credit lines and limits	45 682	1 356	558	7	2	37	2	47 644
housing	4 281	424	2	1	-	10	-	4 718
corporate	32 926	800	433	5	1	25	1	34 191
consumer	8 475	132	123	1	1	2	1	8 735
Total	45 682	1 356	558	7	2	37	2	47 644
Guarantees and pledges granted:								
Guarantees granted in domestic and foreign trading	4 896	332	178	6	-	24	-	5 436
to financial entities	64	-	-	-	-	-	-	64
to non-financial entities	4 822	332	175	6	-	24	-	5 359
to public entities	10	-	3	-	-	-	-	13
Guarantees and pledges granted - domestic corporate bonds	2 509	-	-	-	-	-	-	2 509
to financial entities	1	-	-	-	-	-	-	1
to non-financial entities	2 508	-	-	-	-	-	-	2 508
Letters of credit issued	1 317	1	2	1	-	15	-	1 335
to non-financial entities	1 314	1	2	1	-	15	-	1 333
to public entities	3	-	-	-	-	-	-	3
Guarantees and warranties granted - payment guarantee for financial entities	268	-	-	-	-	-	-	268
Guarantees and pledges granted - domestic municipal bonds	1 330	-	-	-	-	-	-	1 330
Total	10 320	333	180	7	-	39	-	10 879

Transfers between impairment stages were presented in the nominal amount and provisions as at 30 September 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 September 2018.



45. OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.09.2018	31.12.2017
Financial	740	95
Guarantees	2 674	14 227
Total	3 414	14 322

As at 30 September 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 641 million.

The decrease in off-balance sheet liabilities received as guarantees compared with 31 December 2017 resulted from the termination of the guarantee agreement which ensured unfunded credit protection in respect of a portfolio of selected corporate loan receivables of the Bank, in the amount of PLN 4 505 million, expiry of the guarantee limit under the *de minimis* portfolio guarantee line of PLN 7 070.

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 ("Special Indemnity Agreement"), according to which Nordea Bank AB (publ) covered, up to 31 March 2018, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement, the estimated fair value of which was zero on 31 December 2017. During the term of the agreement, no losses resulting in a need for Nordea AB to pay funds to the Bank were recorded.

46. LEGAL CLAIMS

As at 30 September 2018, the total amount in litigation, where members of the PKO Bank Polski SA Group (including the Bank) were defendants, was PLN 1 703 million, including PLN 43 million in respect of litigation in Ukraine (as at 31 December 2017 the total amount in the said litigations was PLN 1 709 million), and the total amount in litigation as at 30 September 2018, where members of the PKO Bank Polski SA Group were claimants, was PLN 1 167 million, including PLN 34 million in respect of litigations in Ukraine (as at 31 December 2017 the total amount in the aforesaid litigation was PLN 1 363 million).

The most significant legal claims are described below

a) UNFAIR COMPETITION PROCEEDINGS

PROCEEDINGS 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 a 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 which on 24 October 2018 adjourned the case until further notice. As at 30 September 2018, the Bank recognized a provision for this claim of PLN 21 million.

As at 30 September 2018 the Group 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

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 a 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 waiving the penalty in the amount of PLN 17 million. In respect of the second alleged prohibited practice (one-day information form expiring after one day), the Court of Appeal accepted UOKiK's appeal as justified, because the application of a form with one-day "validity" did not allow consumers to become acquainted with the terms and conditions of 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 September 2018, the Bank did not have a provision for these proceedings.

• **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 September 2018, the Bank did not have a provision for these proceedings.

• **BEFORE THE PRESIDENT OF UOKiK**

Three litigation proceedings are currently being conducted before the President of the UOKiK instigated *ex officio* by the President of the UOKiK:

- 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 customers about 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. On 27 August 2018 the President of UOKiK issued a commitment decision. The decision came into force on 4 October 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. On 31 July 2018 the Bank submitted an application for a commitment decision. The deadline for closing the proceedings was set on 31 December 2018. As at 30 September 2018, the Bank did not have a provision for these proceedings;
- 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 those which arise 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 a letter dated 23 September 2017. The deadline for closing the proceedings was extended to 31 August 2018. As at 30 September 2018, the Bank did not have a provision for these proceedings.



Other Bank Group entities are not parties to any significant unfair competition proceedings. UOKiK proceedings relating to the fees for early surrender of policies linked to insurance equity funds conducted in respect of PKO Życie Towarzystwo Ubezpieczeń SA, described in the previous financial statements of the Bank's Group, were officially finalised, whereas actions taken by the company as a result of the implementation of an obligating decision issued in this respect by the President of the UOKiK in 2015, and the arrangement concluded with the President of the UOKiK in 2016, are continued.

Moreover, there are twenty-one explanatory proceedings pending before the President of UOKiK connected with the Bank's activities, and twelve reports by the President of UOKiK without initiating proceedings (under Art. 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 was to lead to a family farm being lost by the plaintiffs. The case is currently pending before the first instance court. As at 30 September 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. The date of the hearing was set on 19 November 2018. As at 30 September 2018, the Bank did not have a provision for these proceedings;
- 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 8C 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. As at 30 September 2018, the Bank did not have a provision for these proceedings;
- 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 1 October 2018 the Bank lodged a cassation appeal. As at 30 September 2018, the Bank did not have a provision for these proceedings;
- 5) 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 the 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 September 2018, the Bank did not have a provision for these proceedings;
- 6) as at 30 September 2018, 730 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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

c) RE-PRIVATIZATIONS CLAIMS RELATING TO PROPERTIES USED BY THE GROUP

As at the date of these financial statements there are:

- two proceedings, including one suspended, in respect of the Bank's 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.
- eleven proceedings, including one suspended, in respect of the property of other Bank's Group companies, concerning the determination of invalidity of administrative decisions or the return of property.

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

47. 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	30.09.2018	31.12.2017	30.09.2017
Cash and balances with the Central Bank	10 732	15 845	15 910
Deposits with the Central Bank	2 640	1 965	970
Current amounts due from banks	7 458	5 036	3 495
Restricted cash and cash equivalents, of which:	228	154	150
restricted cash and cash equivalents - amounts due from banks	220	143	142
restricted cash and cash equivalents - loans and advances to customers	8	11	8
Total	21 058	23 000	20 525

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 228 million (PLN 154 million as at 31 December 2017), including:

- PLN 8 million (PLN 11 million as at 31 December 2017) securing transactions in securities performed by Dom Maklerski PKO BP SA are deposited with KDPW_CCP as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant with the status of a settling participant is required to pay funds in to the Fund which guarantees settlement of the stock exchange transactions covered by the fund. The amount of the payments depends on the amount of trades concluded by the participant and is updated daily by KDPW_CCP;
- PLN 6 million (PLN 9 million as at 31 December 2017) constituting the funds paid by the participants of IKE, IKZE, PPE and PSO, which have not been translated into participation units by the Transfer Agent by 30 September 2018 and 31 December 2017 respectively;
- PLN 214 million (PLN 134 million as at 31 December 2017) which secures the securitization transaction.



48. 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 39, "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 consolidated 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	01.01-30.09.2018	01.01-30.09.2017
Income recognized on the accruals basis	107	57
Income recognized on the cash basis	84	21
Difference – "Loans and advances to customers"	23	36

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) settled in full. The Bank conducts settlements in respect of the repurchase of interest on housing loans by the State budget and the respective commission received in the nine-month period of 2018 amounted to PLN 1 million and in nine month period of 2017 it amounted to PLN 2 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 nine-month period of 2018 and PLN 3 million in the nine-month period of 2017.

Dom Maklerski 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 PKO Bank Polski SA receives a fee for providing the services of an agent for the issue of bonds – PLN 45 million in the nine-month period of 2018 and PLN 24 million in the nine-month period of 2017.

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 SEPTEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	83	17	66	28
"Centrum Obsługi Biznesu" Sp. z o.o.	17	17	8	
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	9	-
Total joint ventures and associates	100	34	83	29

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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.	200	168	54	54
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	201	169	54	54

AS AT 31 DECEMBER 2017 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	49	6	37	25
"Centrum Obsługi Biznesu" Sp. z o.o.	13	13	9	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	16	-
Total joint ventures and associates	62	19	62	26

FOR 9 MONTHS PERIOD ENDED 30 SEPTEMBER 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.	219	211	92	91
Total joint ventures and associates	219	211	92	91

49. 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 Group classifies financial and equity instruments for which there is an active market and for which the fair value is determined with reference to the market value, which is a bid price:

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

LEVEL 2: VALUATION TECHNIQUES BASED ON OBSERVABLE MARKET DATA

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

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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
FINANCIAL INSTRUMENTS NOT HELD FOR TRADING, MANDATORILY MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
LOANS AND ADVANCES TO CUSTOMERS	Discounted cash flow method	Effective credit margin
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.
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)
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 OF POLSKI STANDARD PŁATNOŚCI SP. Z O.O.	Assessment of fair value based on the present value of forecast results of the company	Forecast results of the company
SHARES IN SOCIETY FOR WORLDWIDE INTERBANK FINANCIAL TELECOMMUNICATION CO-OPERATIVE SOCIETY	Market value of shares estimated by the company	Market value estimated by the company
SHARES OF KRAJOWA IZBA ROZLICZENIOWA SA	Assessment of fair value based on the present value of forecast results of the company	Forecast results of the company
SHARES OF WAŁBRZYSKA SPECJALNA STREFA EKONOMICZNA "INVEST-PARK" SP. Z O.O.	Assessment of fair value by a property expert using the adjusted net assets method	Value of the company's net assets
SHARES OF WIELKOPOLSKA GILDIA ROLNO-OGRODNICZA S.A.	Fair value determined by an appraiser using the net adjusted assets method	Value of the company's net assets

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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
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FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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)
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FINANCIAL INFORMATION

ASSETS MEASURED AT FAIR VALUE 30.09.2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	496	-	-	496
Other derivative instruments	1 389	-	3	1 386
Securities	51 974	41 000	-	9 197
held for trading	1 999	1 999	-	-
debt securities	1 979	1 979	-	-
shares in other entities - listed	15	15	-	-
investment certificates, rights to shares, pre-emptive rights	5	5	-	-
not held for trading, measured at fair value through profit or loss	3 023	2 531	-	97
debt securities	1 419	1 213	-	92
shares in other entities - listed	178	178	-	-
shares in other entities - not listed	282	-	-	1
investment certificates, rights to shares, pre-emptive rights	1 144	1 140	-	4
measured at fair value through OCI	46 952	36 470	-	9 100
debt securities	46 952	36 470	-	9 100
Loans and advances to customers	934	-	-	-
not held for trading, measured at fair value through profit or loss	934	-	-	-
housing loans	29	-	-	-
corporate loans	149	-	-	-
consumer loans	756	-	-	-
Total financial assets measured at fair value	54 793	41 003	11 079	2 711

LIABILITIES MEASURED AT FAIR VALUE 30.09.2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	492	-	-	492
Other derivative instruments	2 387	-	1	2 386
Liabilities in respect of the short position in securities	60	60	-	-
Total financial liabilities measured at fair value	2 939	61	2 878	-

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

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

In the nine-month periods of 2018 and 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
- Shares in Wielkopolska Gildia Rolno-Ogrodnicza SA
- Shares in Wałbrzyska Specjalna Strefa Ekonomiczna "Invest - Park" Sp. z o.o.

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.09.2018		31.12.2017	
	Fair value according to positive scenario	Fair value according to negative scenario	Fair value according to positive scenario	Fair value according to negative scenario
Not held for trading, measured at fair value through profit or loss				
Loans and advances to customers ¹	961	908		
Shares in Visa Inc. ²	172	145		
Equity holdings ³	120	109		
Corporate bonds ⁴	114	114		
Measured at fair value through OCI				
Corporate bonds ⁴	1 366	1 359		
Available-for-sale investment securities				
Participation units in a collective investment undertaking ⁵			264	239
Shares in Visa Inc. ²			129	103
Corporate bonds ⁴			1 799	1 783

¹ Scenario assuming a change in the discount rate of +/- 0.5 p.p.

² Scenario assuming discount ratio in respect of future conditions of conversion of C Series shares into ordinary shares at the level of 0%/100%, respectively

³ Scenario assuming a change in the projected company's net assets of +/- 5%

⁴ Scenario assuming a change in the credit spread of +/- 10%

⁵ Scenario assuming an increase/decrease in the Fund's net asset value of +/- 5%, respectively

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

RECONCILIATION OF CHANGES DURING THE PERIOD AT LEVEL 3 OF FAIR VALUE HIERARCHY	01.01-30.09.2018	01.01-30.09.2017
Opening balance at the beginning of the period	2 166	3 374
First time adoption of IFRS 9	1 186	
Loans and advances to customers not held for trading, measured at fair value through profit or loss	1 070	
Equity instruments measured at fair value through profit or loss	116	
Opening balance at the beginning of the period – restated	3 352	
Foreign exchange differences	14	(20)
Participation units in a collective investment undertaking	7	(8)
Other equity instruments	7	(12)
Increase in exposure to equity instruments	1	-
Taking up a new share issue a collective investment institution	-	11
Issuance and redemption of corporate bonds	(285)	(1 310)
Reduction of equity exposure to a collective investment institution	(47)	(21)
Sale of participation units in a collective investment institution	(217)	-
Sale/repayment of loans during the period	(159)	
Not held for trading, measured at fair value through profit or loss	(159)	
Net result on financial instruments measured at fair value through profit or loss	61	-
Loans and advances to customers	24	
Participation units in a collective investment undertaking	6	-
Other equity instruments	31	-
Remeasurement recognized in other comprehensive income	(9)	63
Corporate bonds	(9)	20
Participation units in a collective investment undertaking		6
Shares in Visa Inc.		37
As at the end of the period	2 711	2 097

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

	poziom hierarchii wartości godziwej	metoda wyceny	30.09.2018	
			wartość bilansowa	wartość godziwa
Kasa, środki w Banku Centralnym	nd	wartość wymaganej zapłaty	13 372	13 372
Należności od banków			8 226	8 226
wyceniane według zamortyzowanego kosztu	2	zdyskontowane przepływy pieniężne	8 226	8 226
Papiery wartościowe			6 670	6 672
wyceniane według zamortyzowanego kosztu	3	zdyskontowane przepływy pieniężne	6 670	6 672
dłużne papiery wartościowe (obligacje skarbowe)	1	kwotowania rynkowe	2 174	2 176
dłużne papiery wartościowe (obligacje korporacyjne)	3	zdyskontowane przepływy pieniężne	2 051	2 051
dłużne papiery wartościowe (obligacje komunalne)	3	zdyskontowane przepływy pieniężne	2 445	2 445
Kredyty i pożyczki udzielone klientom			210 699	208 021
wyceniane według zamortyzowanego kosztu	3	zdyskontowane przepływy pieniężne	210 699	208 021
Inne aktywa finansowe	3	wartość wymaganej zapłaty z uwzględnieniem	3 031	3 031
Zobowiązania wobec Banku Centralnego	2	wartość wymaganej zapłaty	6	6
Zobowiązania wobec banków			1 897	1 897
wyceniane według zamortyzowanego kosztu	2	zdyskontowane przepływy pieniężne	1 897	1 897
Zobowiązania wobec klientów			225 583	225 521
wyceniane według zamortyzowanego kosztu	3	zdyskontowane przepływy pieniężne	225 583	225 521
zobowiązania wobec ludności	3	zdyskontowane przepływy pieniężne	154 765	154 704
zobowiązania wobec podmiotów gospodarczych	3	zdyskontowane przepływy pieniężne	52 209	52 208
zobowiązania wobec jednostek budżetowych	3	zdyskontowane przepływy pieniężne	13 353	13 353
otrzymane kredyty i pożyczki	3	zdyskontowane przepływy pieniężne	3 386	3 386
Zobowiązania z tytułu produktów ubezpieczeniowych	2	zdyskontowane przepływy pieniężne	1 870	1 870
Zobowiązania z tytułu emisji papierów wartościowych			28 213	28 322
wyceniane według zamortyzowanego kosztu	1, 2	kwotowania rynkowe/ zdyskontowane przepływy pieniężne	28 213	28 322
Zobowiązania podporządkowane			2 707	2 707
wyceniane według zamortyzowanego kosztu	2	zdyskontowane przepływy pieniężne	2 707	2 707
Inne zobowiązania finansowe	3	wartość wymaganej zapłaty	3 926	3 926

	level of fair value hierarchy	valuation method	31.12.2017	
			carrying amount	fair value
Cash and balances with Central Bank	n/a	at amounts due	17 810	17 810
Amounts due from banks	2	discounted cash flows	5 233	5 233
Loans and advances to customers			205 629	203 256
housing loans	3	discounted cash flows	106 191	101 998
corporate loans	3	discounted cash flows	56 792	56 761
consumer loans	3	discounted cash flows	24 590	26 407
debt securities		discounted cash flows	4 368	4 368
debt securities (corporate)	3	discounted cash flows	1 855	1 855
debt securities (municipal)	3	discounted cash flows	2 513	2 513
receivables in respect of repurchase agreements	2	discounted cash flows	902	902
finance lease receivables	3	discounted cash flows	12 786	12 820
Investment securities held to maturity	1	discounted cash flows	1 812	1 816
Other financial assets	3	at amount due less impairment allowance	2 377	2 377
Amounts due to the Central Bank	2	at amounts due	6	6
Amounts due to other banks	2	discounted cash flows	4 558	4 558
Amounts due to customers			218 800	218 735
to corporate entities	3	discounted cash flows	52 667	52 666
to public entities	3	discounted cash flows	11 409	11 409
to retail customers	3	discounted cash flows	151 161	151 097
loans and advances received	3	discounted cash flows	3 563	3 563
Debt securities in issue	1, 2	market quotations/discounted cash flows	23 932	24 226
Subordinated liabilities	2	discounted cash flows	1 720	1 720
Other financial liabilities	3	at amounts due	4 129	4 129

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

RECEIVABLES COVERED BY SECURITIZATION OF LEASE RECEIVABLES

As at 30 September 2018, receivables covered by the securitization of lease receivables amounted to PLN 835 million. They are pledged as collateral for liabilities in respect of debt securities issued by the special vehicle ROOF Poland Leasing 2014 DAC. Securitised lease receivables are presented as the Group's assets because they do not meet the derecognition criteria. In particular, the Group is not obliged to pay any amounts to final recipients until it has received the corresponding amounts from lessees. In addition, the criterion of an immediate transfer of cash flows from the securitized assets is not met. In the period from launching securitization in December

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

2014 to 31 December 2017, the Group was able to sell lease receivables not yet due as at the date of their sale, up to PLN 1,475 million when lease receivables had been repaid. In addition, the Group settles its liabilities to buyers of securities on a quarterly basis, while the typical settlement period for securitized lease agreements is one month. From January 2018 the securitization programme entered the amortization stage.

LIABILITIES IN RESPECT OF REPURCHASE TRANSACTIONS

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

CARRYING AMOUNT	30.09.2018	31.12.2017
Debt securities	145	48
Amounts due from repurchase agreements	145	48
Net balance	-	-

LIABILITIES FROM THE NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS

Cash deposits with banks include assets held as collateral for own liabilities, including settlements relating to the negative valuation of derivative instruments. As at 30 September 2018, such assets amounted to PLN 516 million (PLN 558 million as at 31 December 2017).

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

Dom Maklerski 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	30.09.2018	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

	30.09.2018	31.12.2017
Value of the fund	1 088	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	1 098	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.



FUNDS SECURING LIABILITIES IN RESPECT OF CONTRIBUTIONS TO THE BANK GUARANTEE FUND (BGF)

	30.09.2018	31.12.2017
Value of the contribution made in the form of payables	228	120
Nominal value of the assets in which funds corresponding to payables were invested	302	175
Type of pledge	Treasury bonds	Treasury bonds
Maturity of the pledge	25.01.2024	25.01.2024
Carrying amount of the pledge	301	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 GROUP'S TITLE

In the nine-month period 30 September 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 September 2018 and 31 December 2017, the Bank had no transferred financial assets fully derecognized in respect of which the Bank maintains an exposure which are fully eliminated from the financial statements.

52. OTHER INFORMATION

SEASONAL OR CYCLICAL NATURE OF OPERATIONS DURING THE REPORTING PERIOD

The activities of the Bank and other members of the PKO Bank Polski SA Group do not show any significant features of being of a seasonal or cyclical nature.

RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE GROUP

As at 30 September 2018, and as at 31 December 2017 there was no collateral established for the benefit of the Bank's Group, which the Group was entitled to sell or pledge, if all obligations of the collateral holder were performed.

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

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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

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

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

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

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

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



RISK MANAGEMENT OBJECTIVES AND POLICIES

53. RISK MANAGEMENT WITHIN THE GROUP

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

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

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

RISK MANAGEMENT OBJECTIVE

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

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

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

MAIN PRINCIPLES OF RISK MANAGEMENT

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

- 1) the Group manages all the risks identified,
- 2) the risk management process supports the pursuit of the Group'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 Group. Material types of risk to which the Group 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 Group 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 Group allocates the resources necessary to effectively manage risk,



- 8) The Group develops contingency plans in the event of crisis situations occurring, which could have a particularly material impact on the Group's operations, in particular the contingency plans required by the universally binding legal regulations and the Group'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 internal regulations relating to the principles of managing that type of risk and the principles for managing capital adequacy and own funds.

ORGANIZATION OF RISK MANAGEMENT WITHIN THE GROUP

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

The risk management system is supervised by the Supervisory Board of the Bank which controls and evaluates the adequacy and effectiveness of the system. The Supervisory Board evaluates whether or not individual elements of the risk management system support proper execution of the process for setting and achieving specific objectives of the Bank and the Group. In particular, the Supervisory Board verifies whether the system applies formal rules to establish the size of the risk taken and risk management principles, as well as formal procedures to identify, measure or estimate and monitor the risks associated with the Group's operations, taking into account the anticipated level of risk in the future.

The Supervisory Board verifies if formal limits restricting the risk and the rules of conduct in the case when limits are exceeded are applied, and if the adopted management reporting system enables monitoring the risk levels. The Supervisory Board evaluates whether the risk management system is updated on an on-going basis to take into account new risk factors and sources.

The Supervisory Board is supported by the following committees: the Supervisory Board Remuneration Committee, the Supervisory Board Risk Committee and the Supervisory Board Audit Committee.

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

- 1) the Risk Committee,
- 2) the Asset and Liability Committee (ALCO),
- 3) The Bank's Credit Committee,
- 4) the Operating Risk Committee.

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

THE FIRST LINE OF DEFENCE is formed of organizational structures responsible for product management, executing sales of products and customer servicing, and of other structures which perform risk-generating operating tasks based on internal regulations. The function is realized in all of the Bank's organizational units and in all organizational units of the Head Office, as well as in the Group entities. Organizational units of the Head Office implement the relevant risk control mechanisms (especially limits) developed by the organizational units of the Head Office in the second line of defence, and ensure that the limits are adhered to by applying the relevant controls. At the same time, the Group and the Bank are obliged to have comparable and consistent systems for risk assessment and control, taking into account the specific characteristics of each entity and its market,

THE SECOND LINE OF DEFENCE – covers compliance units and involves the identification, measurement, evaluation or control, monitoring and reporting of significant types of risks, and of the threats and irregularities identified; the tasks are executed by dedicated organizational structures acting on the basis of the applicable internal 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 the Bank and that they effectively limit the risk, support risk measurement, assessment and analysis and contribute to operational efficiency. The second line of defence supports actions undertaken in order to eliminate unfavourable deviations from the financial plan to the



extent applicable to figures which affect the quantitative strategic risk tolerance limits adopted in the financial plan. The function is performed, in particular, by the organizational units in the Head Office responsible for control.

THE THIRD LINE OF DEFENCE consists of the internal audit function which performs independent audits of individual components of the Bank's management system, including the risk management system, and of the internal control system. The internal audit operates independently of the first and second lines of defence and may support their actions by way of consultations, but without participating in their decision-making.

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

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

The organizational structure of the Bank is adapted to the size and profile of the risks incurred by the Bank, and in order to ensure the effectiveness of risk management and to avoid conflicts of interest. The scope of responsibility and level of independence of organizational structures, except the internal audit and compliance units, depend on the materiality and level of risks connected with the Bank's operations.

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

The policies concerning the management of specific risk types in the Group entities are set out in their internal regulations. Entities in the Bank's Group create and update internal regulations concerning the management of specific risks, upon consultation with the Bank and taking into account recommendations issued by the Bank and the Risk Management Strategy in PKO Bank Polski SA and the Bank's Group. The internal risk management regulations of entities in the Bank's Group take account of:

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

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

SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN THE NINE-MONTH PERIOD OF 2018

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

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

To this end, in the nine-month period of 2018, the following actions were carried out:

- 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. Originally, 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 (KNF) 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) PKO Bank Hipoteczny S.A. carried out five issues of mortgage-covered bonds, including one denominated in EUR with the nominal amount of EUR 500 million, maturing on 24 January 2024, and four issues of PLN mortgage-covered bonds with the total nominal value of PLN 1 360 million, maturing in 2022-2028;
- 5) The Bank participated in a consecutive round of European stress tests carried out by the European Banking Authority (EBA). EBA plans to publish the results of the stress tests by 2 November 2018.

54. 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	30.09.2018	01.01.2018
Derivative hedging instruments	496	887
Other derivative instruments	1 389	1 699
Securities:	5 022	5 121
held for trading	1 999	431
not held for trading, measured at fair value through profit or loss	3 023	4 690
Loans and advances to customers not held for trading, measured at fair value through profit or loss	934	1 070
housing	29	37
corporate	149	182
consumer	756	851
Total	7 841	8 777

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2017
Derivative hedging instruments	887
Other derivative instruments	1 711
Securities:	8 588
held for trading	431
financial instruments designated at fair value through profit or loss upon initial recognition	8 157
Total	11 186

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)

FINANCIAL ASSETS PAST DUE, AT RISK OF IMPAIRMENT OR IMPAIRED

EXPOSURES PAST DUE 30.09.2018	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:														
loans	2 766	-	-	2 766	1 803	986	96	2 885	258	254	2 382	2 894	8 545	
housing	1 872	-	-	1 872	916	616	96	1 628	182	166	2 225	2 573	6 073	
corporate	581	-	-	581	612	200	-	812	77	74	439	590	1 983	
consumer	981	-	-	981	150	316	96	562	69	56	1 413	1 538	3 081	
finance lease receivables	310	-	-	310	154	100	-	254	36	36	373	445	1 009	
Other financial assets	894	-	-	894	887	370	-	1 257	76	88	157	321	2 472	
	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total, net	2 766	-	-	2 766	1 803	986	96	2 885	258	254	2 382	2 894	8 545	

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)**



Bank Polski

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

INTERNAL RATINGS

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

Exposures to 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-size 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.

55. CONCENTRATION OF CREDIT RISK AT THE GROUP

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

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

56. FORBEARANCE PRACTICES

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

LOANS AND ADVANCES TO CUSTOMERS

30.09.2018	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	1	-	1	-	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1
consumer	-	-	-	-	-	1	-	1	-	1	1
Measured at amortized cost:	1 127	2	1 129	(85)	1 044	2 105	203	2 308	(1 020)	1 288	2 332
Loans	1 112	2	1 114	(85)	1 029	2 000	203	2 203	(1 008)	1 195	2 224
housing	531	-	531	(41)	490	708	1	709	(369)	340	830
corporate	504	2	506	(36)	470	1 090	199	1 289	(549)	740	1 210
consumer	77	-	77	(8)	69	202	3	205	(90)	115	184
Receivables from finance lease agreements	15	-	15	-	15	105	-	105	(12)	93	108
Total	1 127	2	1 129	(85)	1 044	2 106	203	2 309	(1 020)	1 289	2 333

01.01.2018	Performing exposures subject to forbearance					Non-performing exposures subject to forbearance					Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Refinancing	Total, gross	Impairment allowance	Total, net	
Not held for trading, measured at fair value through profit or loss:	-	-	-	-	-	1	-	1	-	1	1
Loans	-	-	-	-	-	1	-	1	-	1	1
consumer	-	-	-	-	-	1	-	1	-	1	1
Measured at amortized cost:	1 532	3	1 535	(95)	1 440	2 560	201	2 761	(1 215)	1 546	2 986
Loans	1 504	3	1 507	(95)	1 412	2 398	201	2 599	(1 160)	1 439	2 851
housing	562	-	562	(32)	530	894	-	894	(431)	463	993
corporate	867	3	870	(57)	813	1 263	196	1 459	(619)	840	1 653
consumer	75	-	75	(6)	69	241	5	246	(110)	136	205
Receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-	-
Finance lease receivables	28	-	28	-	28	162	-	162	(55)	107	135
Total	1 532	3	1 535	(95)	1 440	2 561	201	2 762	(1 215)	1 547	2 987

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)

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

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT, GROSS	30.09.2018	31.12.2017
Dividing the debt due into instalments	2 049	2 365
Change in the repayment scheme (fixed payments, degressive)	1 494	1 671
Extension of the loan period	1 472	1 700
Change in interest rate	735	772
Change in margin	733	896
Debt reduction	129	150
Other terms	228	72

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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

SECURITIES SUBJECT TO FORBEARANCE

30.09.2018	Performing exposures subject to forbearance			Non-performing exposures subject to forbearance				Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Total, gross	Total, net	Instruments with modified terms and conditions	Total, gross	Impairment allowances	Total, net	
Not held for trading, measured at fair value through profit or loss	-	-	-	114	114	-	114	114
corporate bonds (in PLN)	-	-	-	114	114	-	114	114
Measured at fair value through OCI	107	107	107	471	471	(11)	460	567
corporate bonds (in PLN)	37	37	37	471	471	(11)	460	497
corporate bonds (in foreign currencies)	70	70	70	-	-	-	-	70
Total	107	107	107	585	585	(11)	574	681

01.01.2018	Performing exposures subject to forbearance			Non-performing exposures subject to forbearance				Exposures subject to forbearance, net	
	Instruments with modified terms and conditions	Total, gross	Impairment allowance	Total, net	Instruments with modified terms and conditions	Total, gross	Impairment allowance		Total, net
Not held for trading, measured at fair value through profit or loss	137	137	-	137	-	-	-	-	137
corporate bonds (in PLN)	137	137	-	137	-	-	-	-	137
Measured at fair value through OCI	231	231	(3)	228	473	473	(15)	458	686
corporate bonds (in PLN)	81	81	(1)	80	-	-	-	-	80
corporate bonds (in foreign currencies)	150	150	(2)	148	473	473	(15)	458	606
Total	368	368	(3)	365	473	473	(15)	458	823

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

31.12.2017	Performing exposures subject to forbearance			Non-performing exposures subject to forbearance				Exposures subject to forbearance, net
	Instruments with modified terms and conditions	Total, gross	Total, net	Instruments with modified terms and conditions	Total, gross	Impairment allowances	Total, net	
Available-for-sale investment securities								
corporate bonds (in PLN)	81	81	81	819	819	(246)	573	654
corporate bonds (in foreign currencies)	150	150	150	-	-	-	-	150
Total	231	231	231	819	819	(246)	573	804

DEBT SECURITIES SUBJECT TO FORBEARANCE BY TYPE OF CHANGES IN TERMS OF REPAYMENT (GROSS)	30.09.2018	31.12.2017
Dividing the debt due into instalments	692	1 050
Change in the repayment scheme (fixed payments, degressive)	692	1 050
Extension of the loan period	692	1 050
Change in interest rate	585	819
Change in margin	585	819
Debt reduction	-	133



57. MANAGING THE RISK OF FOREIGN CURRENCY LOANS AND ADVANCES GRANTED TO CUSTOMERS, BROKEN DOWN BY CURRENCY

LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY 30.09.2018	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss:						
Loans and advances to customers	934	-	-	-	-	934
housing	29	-	-	-	-	29
corporate	149	-	-	-	-	149
consumer	756	-	-	-	-	756
Not held for trading, measured at fair value through profit or loss	934	-	-	-	-	934
Measured at amortized cost						
Gross loans	165 531	24 243	11 394	2 069	1 207	204 444
housing	86 140	23 463	3 203	78	134	113 018
corporate	52 799	525	8 167	1 988	655	64 134
consumer	26 592	255	24	3	418	27 292
Receivables in respect of repurchase agreements	191	-	-	-	-	191
Finance lease receivables	10 626	23	3 462	259	63	14 433
Allowances for expected credit losses	(6 841)	(814)	(374)	(198)	(142)	(8 369)
Measured at amortized cost, net	169 507	23 452	14 482	2 130	1 128	210 699
Total	170 441	23 452	14 482	2 130	1 128	211 633
LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY 01.01.2018	PLN	CHF	EUR	USD	OTHER	Total
Not held for trading, measured at fair value through profit or loss:						
Loans and advances to customers	1 070	-	-	-	-	1 070
housing	37	-	-	-	-	37
corporate	182	-	-	-	-	182
consumer	851	-	-	-	-	851
Not held for trading, measured at fair value through profit or loss	1 070	-	-	-	-	1 070
Measured at amortized cost						
Gross loans	158 739	25 047	9 697	1 472	1 026	195 981
housing	81 167	24 115	3 366	87	102	108 837
corporate	52 600	621	6 303	1 380	580	61 484
consumer	24 972	311	28	5	344	25 660
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Finance lease receivables	9 509	31	3 339	257	27	13 163
Allowances for expected credit losses	(8 671)	(1 205)	(399)	(232)	(146)	(10 653)
Measured at amortized cost, net	160 479	23 873	12 637	1 497	907	199 393
Total	161 549	23 873	12 637	1 497	907	200 463
LOANS AND ADVANCES TO CUSTOMERS BY CURRENCY 31.12.2017	PLN	CHF	EUR	USD	OTHER	Total
Measured at amortized cost						
Gross loans	158 171	24 786	9 505	1 441	1 033	194 936
housing	80 711	23 909	3 354	83	106	108 163
corporate	51 847	589	6 125	1 353	583	60 497
consumer	25 613	288	26	5	344	26 276
Debt securities (corporate)	1 734	-	125	-	-	1 859
Debt securities (municipal)	2 519	-	-	-	-	2 519
Receivables in respect of repurchase agreements	902	-	-	-	-	902
Finance lease receivables	9 377	24	3 485	323	27	13 236
Impairment allowances	(6 290)	(896)	(289)	(198)	(150)	(7 823)
Total	166 413	23 914	12 826	1 566	910	205 629

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

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

LOANS AND ADVANCES TO CUSTOMERS IN CHF BY METHOD OF CALCULATING IMPAIRMENT ALLOWANCES (TRANSLATED INTO PLN at the exchange rate of 1 CHF = 3.7638)	30.09.2018			Total
	Financial institutions	Corporates	Households	
Measured at amortized cost				
Gross amount	2	340	23 924	24 266
assets with no significant increase in credit risk since initial recognition (stage 1)	-	110	21 495	21 605
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	2	127	1 503	1 632
credit-impaired assets (stage 3)	-	103	926	1 029
Allowances for expected credit losses	-	(69)	(745)	(814)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	-	-	(14)	(14)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	-	(14)	(118)	(132)
allowances for credit-impaired assets (stage 3)	-	(55)	(613)	(668)
Measured at amortized cost, net	2	271	23 179	23 452
of which: purchased or originated credit-impaired assets	-	-	57	57
Total	2	271	23 179	23 452

LOANS AND ADVANCES TO CUSTOMERS	30.09.2018					Total
	PLN	CHF	EUR	USD	Other currencies	
Not held for trading, measured at fair value through profit or loss		934	-	-	-	934
Measured at amortized cost:						
Gross amount	176 348	24 266	14 856	2 328	1 270	219 068
assets with no significant increase in credit risk since initial recognition (stage 1)	155 014	21 605	12 349	1 874	1 122	191 964
assets with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	11 777	1 632	1 633	292	8	15 342
credit-impaired assets (stage 3)	9 557	1 029	874	162	140	11 762
Allowances for expected credit losses	(6 841)	(814)	(374)	(198)	(142)	(8 369)
allowances for assets with no significant increase in credit risk since initial recognition (stage 1), gross	(441)	(14)	(64)	(6)	(27)	(552)
allowances for assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (stage 2)	(940)	(132)	(68)	(49)	(3)	(1 192)
allowances for credit-impaired assets (stage 3)	(5 460)	(668)	(242)	(143)	(112)	(6 625)
Measured at amortized cost, net	169 507	23 452	14 482	2 130	1 128	210 699
of which: purchased or originated credit-impaired assets	266	57	76	-	4	403
Total	170 441	23 452	14 482	2 130	1 128	211 633

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	30.09.2018			31.12.2017		
	gross	allowances	net	gross	allowances	net
PLN	83 761	(1 080)	82 681	74 369	(916)	73 453
CHF	23 454	(655)	22 799	23 895	(754)	23 141
EUR	3 202	(51)	3 151	3 359	(54)	3 305
USD	78	(26)	52	268	(171)	97
OTHER	135	(21)	114	111	(22)	89
TOTAL	110 630	(1 833)	108 797	102 002	(1 917)	100 085

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO FORBEARANCE BY CURRENCY	30.09.2018					Total
	PLN	CHF	EUR	USD	Other currencies	
Performing exposures subject to forbearance	644	303	96	96	1	1 044
Measured at amortized cost:	644	303	96	96	1	1 044
gross amount	704	323	101	101	1	1 129
allowances for expected credit losses	(60)	(20)	(5)	(5)	-	(85)
Non-performing exposures subject to forbearance	868	214	194	194	4	1 289
Not held for trading, measured at fair value through profit or loss	1	-	-	-	-	1
Measured at amortized cost:	867	214	194	194	4	1 288
gross amount	1 607	432	221	221	28	2 308
allowances for expected credit losses	(740)	(218)	(27)	(27)	(24)	(1 020)
Loans and advances to customers subject to forbearance, net	1 512	517	290	290	5	2 333

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

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

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

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

As at 30 September 2018, the average LTV for the portfolio of CHF-denominated loans amounted to 65.1% (67.0% as at 31 December 2017) compared with the average LTV for the entire loan portfolio of 59.9% (62.4% as at 31 December 2017).

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

SENSITIVITY MEASURES

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

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

SENSITIVITY MEASURE	30.09.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million) ¹	225	301
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test) ²	1 650	2 150

¹ Taking into account the nature of the operation of the other Group companies which generate material interest rate risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR for interest rates in the main currencies; as at 30 September 2018 and as at 31 December 2017, it amounted to PLN 10 million.

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

As at 30 September 2018, the Bank's interest rate VaR for a 10-day time horizon (10-day VaR) amounted to PLN 225 million. As at 31 December 2017, the Bank's VaR amounted to PLN 301 million.

59. CURRENCY RISK MANAGEMENT

SENSITIVITY MEASURES

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

SENSITIVITY MEASURE	30.09.2018	31.12.2017
VaR for a 10-day time horizon at the confidence level of 99% (in PLN million) ¹	3	3
Change in CUR/PLN by 20% (in PLN million) (stress-test) ²	96	48

¹ Taking into account the nature of the operation of the other Group companies which generate material currency risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. Such companies use their own risk measures to manage their interest rate risk. KREDOBANK SA applies the 10-day VaR which amounted to PLN 0.2 million as at 30 September 2018 and to PLN 0.1 million as at 31 December 2017.

² The table presents the value of the most adverse stress-test scenario: PLN appreciation by 20% and PLN depreciation by 20%.

FOREIGN CURRENCY POSITION

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

FOREIGN CURRENCY POSITION	30.09.2018	31.12.2017
EUR	(168)	(157)
USD	(23)	(28)
CHF	(4)	8
GBP	6	11
Other (Global, Net)	25	61

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

60. LIQUIDITY RISK MANAGEMENT

LIQUIDITY GAP

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

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.09.2018								
The Group - adjusted periodic gap	11 237	34 097	290	882	10 509	10 991	17 598	(85 604)
The Group - adjusted cumulative periodic gap	11 237	45 334	45 624	46 506	57 015	68 006	85 604	-
31.12.2017								
The Group - adjusted periodic gap	16 011	27 220	(871)	(177)	6 091	10 150	30 400	(88 824)
The Group - adjusted cumulative periodic gap in real terms	16 011	43 231	42 360	42 183	48 274	58 424	88 824	-

In all time horizons, the adjusted cumulative liquidity gap of the Group, determined as the sum of the adjusted liquidity gaps of the Bank, PKO Bank Hipoteczny, PKO Leasing SA and KREDOBANK and the contractual liquidity gaps of the other Group companies, was positive as at 30 September 2018 and 31 December 2017. This means that the Group has a surplus of assets receivable over liabilities payable.

LIQUIDITY SURPLUS

The table below present the Bank's liquidity surplus as at 30 September 2018 and 31 December 2017:

SENSITIVITY MEASURE	30.09.2018	31.12.2017
Liquidity surplus in the horizon of up to 30 days (in PLN billion) ¹	13	14



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

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	30.09.2018	31.12.2017
M3 - coverage ratio of non-liquid assets to own funds	16.12	13.92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.19	1.19
NSFR - net stable funding ratio	112.2%	113.9%
LCR - liquidity coverage ratio	140.2%	156.0%

In the periods ended 30 September 2018 and 31 December 2017, liquidity measures remained above their respective supervisory limits. The LCR and NSFR ratios in the table present values for the Group, and M3-M4 ratios are related to the Bank.

CORE DEPOSIT BASE

As at 30 September 2018, the core deposit base constituted approx. 93.8% of all deposits placed with the Bank (excluding the interbank market), which means an increase of 0.2 p.p. compared with the end of 2017.

61. CAPITAL ADEQUACY

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

On 29 June 2018, the Bank received a decision of the Financial Stability Committee of 21 June 2018, issued on request of the Polish Financial Supervision Authority under the administrative proceedings conducted by the PFSA, concerning the review of the adequacy of the buffer ratio for other systemically important institutions imposed on the Bank. In its decision, the PFSA expressed a positive opinion on the buffer for other systemically important institutions imposed on the Bank, in the amount equivalent to 1.0% of the total risk exposure amount.

On 17 July 2018, the Bank received a reply from the Office of the Polish Financial Supervision Authority in respect of the possibility to apply a 35% risk weight for loans granted in PLN, which are fully and entirely secured with mortgage on housing properties. The PFSA Office indicated that the provisions of Regulation No. 575/2013 of the European Parliament and of the Council (CRR) were binding in this respect. The Bank treats this position as an option to apply the preferential risk weight more extensively, also when using an extended catalogue of the sources of data on properties for the purpose of estimating the value of respective security. The Bank anticipates that such an approach will have a positive impact on the consolidated capital ratios in the third and fourth quarter of 2018, in the total amount of 0.5-1.0 p.p.

On 31 July 2018, the Polish Financial Supervision Authority decided to impose a buffer of 1.0% of the total risk exposure amount on the bank – as a systemically important institution. The prior buffer level for the Bank was 0.75% of the total risk exposure amount. Additionally, the Bank met the requirements of the PFSA in respect of minimum capital ratios, both under the separate and consolidated approach.

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

OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

The increase in own funds in the period from 31 December 2017 to 30 September 2018 resulted mainly from recognizing part of the profit for the first half of 2018 net of anticipated charges (upon the respective consent of the PFSA) in the amount of PLN 1 135 million, in Tier I Capital, accounting for the Resolution of the Annual General Meeting of the Bank on the distribution of profit for 2017 (PLN 264 million was added to the profit recognized in the Group's own funds as at 31 December 2017), and increasing Tier II Capital as a result of a new issue of subordinated bonds (PLN 1 billion, upon the respective consent of the PFSA).



	30.09.2018	31.12.2017
Total own funds	37 222	34 026
Tier 1 capital	34 522	32 326
Tier 1 capital before regulatory adjustments and reductions, of which:	37 246	35 270
Share capital	1 250	1 250
Other reserves	33 034	30 891
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings, of which:	1 892	2 060
unappropriated profit	(88)	238
current profit of the Bank, included by PFSA's permission	1 135	1 822
adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	845	-
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 524)	(1 654)
Accumulated other comprehensive income	(129)	(113)
Adjustments in Tier 1 basic capital due to prudential filters	89	55
Other transitional period adjustments to common equity Tier 1 capital	-	(72)
Tier 2 capital	2 700	1 700
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	1 700
Requirements for own funds	16 177	15 670
Credit risk	14 889	14 499
Operational risk	724	656
Market risk	521	474
Credit valuation adjustment risk	43	41
Total capital adequacy ratio	18.41%	17.37%
Tier 1 capital ratio	17.07%	16.50%

RISK WEIGHTED ASSETS

CRR reference	Risk weighted assets		Minimum capital requirements
	30.09.2018	31.12.2017	30.09.2018
Credit risk (excluding counterparty credit risk)	184 613	179 664	14 769
Article 438 c) and d) including standardized method	184 613	179 664	14 769
Art. 107 Art. 438 c) and d) Counterparty credit risk	2 040	2 092	163
Art. 438 c) and d) including measurement at market value	1 448	1 541	116
Art. 438 c) and d) including exposure in respect of own contributions to the central counterparty's fund in the case of default and other exposures to the central counterparty	50	36	4
Art. 438 c) and d) including verification of credit measurement	542	515	43
Art. 438 e) Settlement/delivery risk	-	-	-
Art. 438 e) Market risk	6 512	5 924	521
including standardized approach	6 512	5 924	521
Art. 438 f) Operational risk	9 047	8 204	724
including basic indicator approach	2 606	2 520	208
including standardized approach	-	-	-
including advanced credit risk measurement method	6 441	5 684	515
Art. 437.2, Art. 48 and Art. 60 Amounts below thresholds for deduction (risk weight 250%) - included in the requirement for credit risk	8 103	7 402	648
Total	202 212	195 884	16 177



COMPARISON OF OWN FUNDS AND CAPITAL RATIO, THE GROUP'S FINANCIAL LEVERAGE RATIO, WITH AND WITHOUT TAKING INTO ACCOUNT THE TRANSITIONAL SOLUTIONS RELATING TO IFRS 9 AND CORRESPONDING EXPECTED CREDIT LOSSES AS AT 30 SEPTEMBER 2018.

		30.09.2018
Available capital (amounts)		
1	Common equity Tier 1 (CET1)	34 522
2	Common equity Tier 1 (CET1) if IFRS 9 transitional arrangements or similar expected credit losses did not apply	33 677
3	Tier 1 capital	34 522
4	Tier 1 capital if IFRS 9 transitional arrangements and similar expected credit losses did not apply	33 677
5	Total capital	37 222
6	Total capital if IFRS 9 transitional arrangements and similar expected credit losses did not apply	36 377
Risk weighted assets (amounts)		
7	Total risk weighted assets	202 212
8	Total risk-weighted assets, if IFRS 9 transitional arrangements and similar expected credit losses did not apply	201 363
Capital ratios		
9	Common equity Tier 1 capital (as a percentage of the risk exposure amount)	17.07%
10	Common equity Tier 1 capital (as a percentage of the risk exposure amount), if IFRS 9 transitional arrangements or similar expected credit losses did not apply	16.72%
11	Tier 1 capital (as a percentage of the risk exposure amount)	17.07%
12	Tier 1 capital (as a percentage of the risk exposure amount), if IFRS 9 transitional arrangements or similar expected credit losses did not apply	16.72%
13	Total capital (as a percentage of the risk exposure amount)	18.41%
14	Total capital (as a percentage of the risk exposure amount), if IFRS 9 transitional arrangements or similar expected credit losses did not apply	18.07%
Leverage ratio		
15	Total exposure measure comprising the leverage ratio	315 668
16	Leverage ratio	10.94%
17	Leverage ratio, if IFRS 9 transitional arrangements and similar expected credit losses did not apply	10.70%

62. LEVERAGE RATIO

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

The purpose of managing the risk of excessive leverage is to ensure an appropriate relationship between the basic capital (Tier I) amount and the total balance-sheet assets and off-balance sheet liabilities of the Group. 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 September 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 Group determined the strategic tolerance limit and the threshold value at levels of which are monitored and verified at least once a year.

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



	Leverage ratio exposures specified in CRR	
	30.09.2018	31.12.2017
Total capital and exposure measure		
Tier 1 capital	34 522	32 326
Total exposure measure comprising the leverage ratio	315 668	306 830
Leverage ratio		
Leverage ratio	10.94%	10.54%

INTERNAL CAPITAL (PILLAR II)

In the nine-month period of 2018, the Group 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 and the Group's internal regulations.

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

The estimation of internal capital is aimed at determining the minimum level of own funds which 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 Group's total internal capital comprises the sum of the internal capital necessary to cover all material risks to which the Bank and the Group are exposed. The effect of diversification between particular risks is not taken into account.

The ratio of own funds to the internal capital of the Group was maintained at a level exceeding both the statutory limit and the Group'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).

63. INFORMATION ON SECURITIZATION OF LEASE PORTFOLIO AND PORTFOLIO SALE OF RECEIVABLES

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

Redemption of debt securities at their nominal value in the period from 1 January to 30 September 2018 amounted to: PLN 70 million redeemed on 2 January 2018, PLN 204 million redeemed on 3 April 2018, and PLN 178 million redeemed on 2 July 2018.

In the nine-month period of 2018, the Group sold impaired loan portfolios (balance sheet and off-balance sheet receivables) consisting of more than 11.6 thousand individual receivables from retail and business customers, amounting to over PLN 750 billion (PLN 555 million in the nine months of 2017). The total carrying amount of the provision for potential claims following from the sale of receivables amounted to PLN 2 million as at 30 September



2018 (PLN 2 million as at 31 December 2017). As a result of the sale of receivables, all risks and benefits were transferred, and therefore, the Group ceased to recognize these assets. The Group did not receive any securities as a result of these transactions.

SEPARATE INCOME STATEMENT

INCOME STATEMENT	Nota	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Interest and similar income	2	2 650	7 734	2 562	7 486
Interest income recognized under the effective interest rate method		2 498	7 286		
interest income on financial instruments measured at amortized cost		2 170	6 306		
interest income on instruments measured at fair value through other comprehensive income		328	980		
Income similar to interest income on instruments measured at fair value through profit or loss		152	448		
Interest expenses and similar charges	2	(504)	(1 484)	(530)	(1 587)
Net interest income		2 146	6 250	2 032	5 899
Fee and commission income	3	891	2 610	933	2 686
Fee and commission expense	3	(256)	(745)	(241)	(678)
Net fee and commission income		635	1 865	692	2 008
Dividend income		129	280	5	129
Net result on financial instruments measured at fair value through profit or loss		35	59	(5)	(3)
Gain/(loss) on investment securities				18	17
Net foreign exchange gains/(losses)	4	94	332	103	307
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	5	34	127		
measured at fair value through other comprehensive income		34	119		
measured at amortized cost		-	8		
Net credit losses	6	(307)	(940)	(353)	(1 074)
Impairment of non-financial assets	7	(1)	(30)	(12)	(39)
Other operating income	8	32	123	28	89
Other operating expenses	8	(24)	(166)	(26)	(72)
Net other operating income and expense		8	(43)	2	17
Administrative expenses	9	(1 252)	(3 903)	(1 202)	(3 806)
Tax on certain financial institutions		(220)	(651)	(223)	(673)
Operating profit/(loss)		1 301	3 346	1 057	2 782
Profit before tax		1 301	3 346	1 057	2 782
Income tax expense	10	(301)	(836)	(269)	(743)
Net profit		1 000	2 510	788	2 039
Earnings per share	11				
- basic earnings per share for the period (PLN)		0,80	2,01	0,63	1,63
- diluted earnings per share for the period (PLN)		0,80	2,01	0,63	1,63
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



SEPARATE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Nota	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Net profit		1 000	2 510	788	2 039
Other comprehensive income		(8)	137	128	511
Items which may be reclassified to profit or loss		(8)	137	128	511
Cash flow hedges (gross)	14	(29)	(56)	78	104
Deferred income tax	10	5	11	(15)	(20)
Cash flow hedges (net)	14	(24)	(45)	63	84
Unrealized net gains on available-for-sale financial assets (gross)				81	527
Deferred income tax	10			(16)	(100)
Unrealized net gains on available-for-sale financial assets (net)	20			65	427
Fair value of financial assets measured at fair value through other comprehensive income (gross)		54	344		
Gains /losses transferred to the profit or loss (on disposal)		(34)	(119)		
Deferred income tax	10	(4)	(43)		
Fair value of financial assets measured at fair value through other comprehensive income (net)		16	182		
Total net comprehensive income		992	2 647	916	2 550



SEPARATE STATEMENT OF FINANCIAL POSITION

	Note	30.09.2018	31.12.2017
ASSETS			
Cash and balances with the Central Bank	12	13 286	17 765
Amounts due from banks	13	11 505	8 769
- measured at amortized cost		11 505	8 769
Derivative hedging instruments	14	511	1 104
Other derivative instruments	15	1 390	1 701
Securities	16	55 096	50 512
- held for trading		2 052	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, measured at fair value through profit or loss		1 485	
- measured at fair value through OCI		45 048	
- measured at amortized cost		6 511	
Loans and advances to customers	17	188 922	186 892
- not held for trading, measured at fair value through profit or loss		934	
- measured at fair value through OCI		7 916	
- measured at amortized cost		180 072	186 892
Investments in subsidiaries, associates and joint ventures	31	3 548	3 011
Non-current assets held for sale	20	20	359
Intangible assets	21	2 477	2 622
Property, plant and equipment	21	2 026	2 170
Deferred income tax asset	10	1 317	957
Other assets	22	2 731	1 922
TOTAL ASSETS		282 829	277 784



	Note	30.09.2018	31.12.2017
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank		6	6
Amounts due to banks	23	1 610	4 299
- held for trading		26	-
- measured at amortized cost		1 584	4 299
Derivative hedging instruments	14	497	204
Other derivative instruments	15	2 389	2 537
Amounts due to customers	24	227 609	222 524
- held for trading		34	-
- measured at amortized cost		227 575	222 524
Debt securities in issue	26	5 359	5 204
- measured at amortized cost		5 359	5 204
Subordinated liabilities	27	2 707	1 720
- measured at amortized cost		2 707	1 720
Other liabilities	28	4 739	4 592
Current income tax liabilities		299	501
Provisions	29	367	210
TOTAL LIABILITIES		245 582	241 797
Equity	30		
Share capital		1 250	1 250
Other capital		34 022	31 963
Undistributed profits		(535)	-
Net profit or loss for the period		2 510	2 774
TOTAL EQUITY		37 247	35 987
TOTAL LIABILITIES AND EQUITY		282 829	277 784
Total capital adequacy ratio	41	20.68%	19.59%
Book value (in PLN million)		37 247	35 987
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		29.80	28.79
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		29.80	28.79

SEPARATE STATEMENT OF CHANGES IN EQUITY

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Share capital	Other capital			Accumulated other comprehensive income	Total other capital	Undistributed profits	Net profit or loss for the period	Total equity
		Reserve capital							
		Supplementary capital	General banking risk fund	Other reserves					
As at 31 December 2017	1 250	27 118	1 070	3 593	182	31 963	-	2 774	35 987
Changes due to IFRS 9 implementation	-	-	-	-	(164)	(164)	(535)	-	(699)
As at 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 paid	-	-	-	-	-	-	(688)	-	(688)
Total comprehensive income, of which:	-	-	-	-	137	137	-	2 510	2 647
Net profit	-	-	-	-	-	-	-	2 510	2 510
Other comprehensive income	-	-	-	-	137	137	-	-	137
Transfer from retained earnings to equity	-	2 050	-	36	-	2 086	(2 086)	-	-
30 September 2018	1 250	29 168	1 070	3 629	155	34 022	(535)	2 510	37 247

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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)
As at 1 January 2018 (restated)	102	(75)	(9)	18
Total comprehensive income, of which:	182	(45)	-	137
Other comprehensive income	182	(45)	-	137
As at 30 September 2018	284	(120)	(9)	155



FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Share capital	Other capital				Accumulated other comprehensive income	Total other capital	Undistributed profits	Net profit or loss for the period	Total equity
		Reserve capital			Other reserves					
		Supplementary capital	General banking risk fund							
As at 1 January 2017	1 250	24 268	1 070	3 555	(442)	28 451	-	2 888	32 589	
Appropriation of retained earnings	-	-	-	-	-	-	2 888	(2 888)	-	
Total comprehensive income, of which:	-	-	-	-	511	511	-	2 039	2 550	
Net profit	-	-	-	-	-	-	-	2 039	2 039	
Other comprehensive income	-	-	-	-	511	511	-	-	511	
Transfer from retained earnings to equity	-	2 850	-	38	-	2 888	(2 888)	-	-	
As at 30 September 2017	1 250	27 118	1 070	3 593	69	31 850	-	2 039	35 139	

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 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:	427	84	-	511
Other comprehensive income	427	84	-	511
As at 30 September 2017	85	(5)	(11)	69



SEPARATE STATEMENT OF CASH FLOWS

	Note	01.01- 30.09.2018	01.01- 30.09.2017
Cash flows from operating activities			
Profit before tax		3 346	2 782
Total adjustments:		(4 577)	8 033
Amortization and depreciation		509	545
(Gains)/losses on investing activities		(14)	(11)
Interest and dividends		(613)	(477)
Change in:			
amounts due from banks		(454)	2 125
hedging derivatives		886	(973)
other derivatives		163	(384)
securities		(1 114)	5 275
loans and advances to customers		(4 898)	(1 310)
non-current assets held for sale		21	(9)
other assets		(809)	73
amounts due to the Central Bank		-	-
amounts due to banks		(87)	(1 421)
amounts due to customers		5 139	4 829
provisions and impairment allowances for credit losses		(2 350)	203
debt securities in issue		160	-
subordinated liabilities		(13)	2
other liabilities		147	164
Income tax paid		(1 266)	(672)
Other adjustments		16	74
Net cash from/used in operating activities		(1 231)	10 815

	Note	01.01- 30.09.2018	01.01- 30.09.2017
Cash flows from investing activities			
Inflows from investing activities		196 652	43 820
Proceeds from sale of a subsidiary classified as held for sale		10	4
Proceeds from sale and interest on investment securities			43 656
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income		196 104	
Proceeds from sale of and interest on securities measured at amortized cost		306	
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale		61	35
Other inflows from investing activities (dividends)		171	125
Outflows from investing activities		(194 933)	(46 236)
Purchase of subsidiaries, net of cash acquired		(240)	(14)
Increase in equity of subsidiaries, associates and joint ventures		(4)	(365)
Purchase of investment securities			(45 668)
Purchase of securities measured at fair value through other comprehensive income		(193 745)	
Purchase of securities measured at amortized cost		(690)	
Purchase of intangible assets and property, plant and equipment		(254)	(189)
Net cash used in investing activities		1 719	(2 416)

	Nota	01.01- 30.09.2018	01.01- 30.09.2017
Cash flows from financing activities			
Proceeds from debt securities in issue		645	3 810
Redemption of debt securities		(650)	(1 669)
Proceeds from issue of subordinated bonds		1 000	1 700
Dividend paid to shareholders		(688)	-
Repayment of a subordinated loan		-	(880)
Repayment of liabilities arising from subordinated bonds		-	(1 656)
Repayment of loans and advances		(2 656)	(6 820)
Repayment of interest on long-term borrowings		(335)	(402)
Net cash used in financing activities		(2 684)	(5 917)
Total net cash flows		(2 196)	2 482
of which foreign exchange differences on cash and cash equivalents		146	(170)
Cash equivalents at the beginning of the period		22 541	17 568
Cash equivalents at the end of the period	34	20 345	20 050

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

1. EXPLANATIONS OF DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

Apart from changes resulting from the adoption of IFRS 9 described in the condensed interim financial statements of PKO Bank Polski SA for the six-month period ended 30 June 2018, the Bank made the following changes in the accounting treatment 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	Separation of provisions for pensions and restructuring from other provisions	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	3 quarters cumulative period from 01.01.2017 to 30.09.2017 before restatement	Separation of net credit losses and impairment of non-financial assets into a separate item	Reclassification of provisions for legal claims and other provisions	3 quarters cumulative period from 01.01.2017 to 30.06.2017 restated
Net impairment allowances and write-downs	(1 108)	1 113	(5)	-
Net credit losses	-	(1 074)	-	(1 074)
Impairment of non-financial assets	-	(39)	-	(39)
Other operating income	80	-	9	89
Other operating expenses	(68)	-	(4)	(72)
Total	(1 096)	-	-	(1 096)

INCOME STATEMENT	third quarter period from 01.07.2017 to 30.09.2017 before restatement	Separation of net credit losses and impairment of non-financial assets into a separate item	Reclassification of provisions for legal claims and other provisions	third quarter period from 01.07.2017 to 30.09.2017 restated
Net impairment allowances and write-downs	(363)	363	-	-
Net credit losses	-	(351)	(2)	(353)
Impairment of non-financial assets	-	(12)	-	(12)
Other operating income	22	-	6	28
Other operating expenses	(22)	-	(4)	(26)
Total	(363)	-	-	(363)

NOTES TO THE SEPARATE INCOME STATEMENT

2. INTEREST INCOME AND EXPENSE

INTEREST INCOME ON:	third quarter period from 01.07.2018 to 30.09.2018				third quarter of 2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total	Total
loans to and other receivables from banks	41	-	-	41	54
hedging derivatives	-	-	125	125	109
debt securities ¹	47	265	21	333	296
loans and advances to customers ¹	2 082	63	6	2 151	2 103
Total	2 170	328	152	2 650	2 562
of which: interest income on impaired financial instruments	69	4	1	74	61

¹ the net result on insignificant modifications is recognized in the items "debt securities" and "loans and advances to customers"

INTEREST INCOME ON:	3 quarters cumulative period from 01.01.2018 to 30.09.2018				3 quarters of 2017
	Interest income on financial instruments measured at amortized cost	Interest income on instruments measured at fair value through OCI	Income similar to interest income on instruments measured at fair value through profit or loss	Total	Total
loans to and other receivables from banks	118	-	-	118	150
hedging derivatives	-	-	372	372	285
debt securities ¹	137	783	59	979	926
loans and advances to customers ¹	6 051	197	17	6 265	6 125
Total	6 306	980	448	7 734	7 486
of which: interest income on impaired financial instruments	197	10	2	209	178

¹ the net result on insignificant modifications is recognized in the items "debt securities" and "loans and advances to customers"

INTEREST EXPENSE ON:	third quarter period from 01.07.2018 to 30.09.2018				third quarter of 2017
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(8)	-	-	(8)	(4)
loans and advances received	(71)	-	-	(71)	(84)
amounts due to customers (excluding loans and advances)	(366)	-	-	(366)	(392)
debt securities:	-	(20)	(5)	(25)	(25)
debt securities issued	(11)	-	-	(11)	(8)
subordinated liabilities	(23)	-	-	(23)	(17)
Total	(479)	(20)	(5)	(504)	(530)

INTEREST EXPENSE ON:	3 quarters cumulative period from 01.01.2018 to 30.09.2018			3 quarters of 2017	
	Interest expense on financial instruments measured at amortized cost	Interest expense on instruments measured at fair value through OCI	Costs similar to interest expense on instruments at fair value through profit or loss	Total	Total
amounts due to banks (excluding loans and advances)	(24)	-	-	(24)	(14)
loans and advances received	(217)	-	-	(217)	(265)
amounts due to customers (excluding loans and advances)	(1 094)	-	-	(1 094)	(1 167)
debt securities:	-	(43)	(15)	(58)	(74)
debt securities issued	(29)	-	-	(29)	(16)
subordinated liabilities	(62)	-	-	(62)	(51)
Total	(1 426)	(43)	(15)	(1 484)	(1 587)

3. COMMISSION AND FEE INCOME AND EXPENSES

NET COMMISSION INCOME/(EXPENSE)	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Loans and insurance	201	583	186	554
Investment funds and brokerage activities	83	269	143	410
Cards	141	391	143	377
Bank accounts and other	210	622	220	667
Total	635	1 865	692	2 008

FEE AND COMMISSION INCOME	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Loans and insurance	201	583	186	554
lending	161	470	156	478
offering insurance products	40	113	30	76
Investment funds and brokerage activities	87	283	147	425
servicing of investment funds and OFE (including management fees)	57	159	99	279
servicing and selling investment and insurance products	3	10	3	11
brokerage activities	27	114	45	135
Cards	321	900	307	821
Bank accounts and other	282	844	293	886
servicing bank accounts	203	607	206	630
cash transactions	19	61	22	66
servicing foreign mass transactions	28	78	25	75
sale and distribution of court fee stamps	-	1	1	4
customer orders	11	33	11	32
fiduciary services	2	5	2	5
other	19	59	26	74
Total	891	2 610	933	2 686

FEE AND COMMISSION EXPENSE	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Investment funds and brokerage activities	(4)	(14)	(4)	(15)
Cards	(180)	(509)	(164)	(444)
Bank accounts and other	(72)	(222)	(73)	(219)
commission paid to external entities for product sales	(19)	(59)	(23)	(67)
cost of construction investment supervision and property valuation	(12)	(34)	(11)	(32)
settlement services	(8)	(23)	(6)	(23)
fee and commissions for operating services provided by banks	(4)	(10)	(3)	(12)
sending short text messages (SMS)	(6)	(19)	(5)	(15)
other	(23)	(77)	(25)	(70)
Total	(256)	(745)	(241)	(678)

4. NET FOREIGN EXCHANGE GAINS/(LOSSES)

NET FOREIGN EXCHANGE GAINS/(LOSSES)	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Net foreign exchange gains/(losses), of which:	94	332	103	307
ineffective portion of cash flow hedges recognized in net foreign exchange gains/(losses)	(2)	(8)	1	4
Total	94	332	103	307

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

GAINS/(LOSSES) ON DERECOGNITION OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Measured at fair value through OCI	34	119		
Measured at amortized cost	-	8		
Total	34	127		

6. NET EXPECTED CREDIT LOSSES, IMPAIRMENT ALLOWANCES AND PROVISIONS

NET CREDIT LOSSES	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Debt securities available for sale	-	7	(1)	(12)
measured at fair value through other comprehensive income	4	8	(1)	(12)
measured at amortized cost	(4)	(1)		
Amounts due from banks	1	-		
Loans and advances to customers	(294)	(929)	(364)	(1 057)
measured at fair value through other comprehensive income	(4)	(9)		
housing	(4)	(9)		
corporate	-	-		
consumer	-	-		
measured at amortized cost	(290)	(920)	(364)	(1 057)
housing	(40)	(85)	(41)	(156)
corporate	(103)	(446)	(187)	(519)
consumer	(147)	(389)	(136)	(382)
Other financial assets	(1)	(1)	(1)	(5)
Provisions for financial liabilities and guarantees granted	(13)	(17)	13	-
Total	(307)	(940)	(353)	(1 074)

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES AND IMPAIRMENT ALLOWANCES (BALANCE)	30.09.2018	01.01.2018	31.12.2017
Amounts due from banks	4	2	-
Equity securities			52
Debt securities	38	43	246
Loans and advances to customers	7 687	10 051	7 170
Provisions for financial liabilities and guarantees granted	172	155	86
Other financial assets	99	99	99
Total	8 000	10 350	7 653

7. NET IMPAIRMENT OF NON-FINANCIAL ASSETS

NET IMPAIRMENT OF NON-FINANCIAL ASSETS	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Non-current assets held for sale	-	(11)	(2)	(5)
Property, plant and equipment	-	-	-	(1)
Intangible assets	-	(10)	-	-
Investments in subsidiaries, associates and joint ventures	-	-	(10)	(25)
Other non-current assets	(1)	(9)	-	(8)
Total	(1)	(30)	(12)	(39)

ACCUMULATED ALLOWANCES FOR NON-FINANCIAL ASSETS	30.09.2018	01.01.2018	31.12.2017
Non-current assets held for sale	-	-	262
Property, plant and equipment	27	-	29
Intangible assets	25	-	15
Investments in subsidiaries, associates and joint ventures	849	-	849
Other non-current assets	106	-	108
Total	1 007	-	1 263

8. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	9	21	7	23
Ancillary income	6	19	7	20
Recovery of receivables expired, forgiven or written off	-	4	-	2
Release of provision for future payments	4	4	1	1
Release of provision for legal claims	3	3	5	8
Other ¹	10	72	8	35
Total	32	123	28	89

¹ the amount relating to the refund of the penalty imposed by UKOik of PLN 21 million is shown in the item "Other" for the nine-month period of 2018

OTHER OPERATING EXPENSE	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(1)	(7)	(1)	(12)
Cost of donations made	(8)	(27)	(6)	(19)
Sundry expenses	(3)	(11)	(3)	(12)
Provision for a potential return of fees and commissions to customers ¹	-	(62)	-	-
Provision for future payments	-	(5)	(1)	(1)
Provision for legal claims ²	(2)	(27)	(3)	(3)
Other	(10)	(27)	(12)	(25)
Total	(24)	(166)	(26)	(72)

¹ A detailed description of the provision set up was provided in Note 47 "Legal claims" to the condensed interim consolidated financial statements of PKO Bank Polski SA for the six months ended 30 June 2018

² The amount relating to the penalty imposed by UKOik of PLN 21 million is shown in the item "Provisions for legal claims" for the nine-month period of 2018.

9. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Employee benefits ¹	(688)	(2 033)	(664)	(1 980)
Overheads, of which:	(316)	(939)	(291)	(875)
IT	(64)	(190)	(64)	(196)
Depreciation and amortization	(167)	(509)	(182)	(545)
property, plant and equipment, of which:	(66)	(198)	(68)	(210)
IT	(25)	(76)	(25)	(77)
intangible assets, of which:	(101)	(311)	(114)	(335)
IT	(98)	(303)	(110)	(325)
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(65)	(358)	(48)	(353)
to the Resolution Fund	-	(162)	-	(209)
to the Banks' Guarantee Fund	(65)	(196)	(48)	(144)
Payments to PFSA	(4)	(25)	(5)	(15)
Taxes and fees	(12)	(39)	(12)	(38)
Total	(1 252)	(3 903)	(1 202)	(3 806)

¹ Restructuring costs of PLN 36 million were disclosed in the item "Employee benefits" for the nine-month period of 2018 (there are no corresponding costs for the nine-month period of 2017).

EMPLOYEE BENEFITS ¹	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Wages and salaries, of which:	(577)	(1 692)	(558)	(1 650)
costs of contributions to the employee pension plan	(13)	(30)	(12)	(36)
Social insurance, of which:	(94)	(287)	(90)	(282)
contributions for disability and retirement benefits	(74)	(239)	(71)	(234)
Other employee benefits	(17)	(54)	(16)	(48)
Total	(688)	(2 033)	(664)	(1 980)

¹ Restructuring costs of PLN 36 million were disclosed in the item "Employee benefits" for the nine-month period of 2018 (there are no corresponding costs for the nine-month period of 2017).

10. INCOME TAX EXPENSE

	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Current income tax expense	(472)	(1 065)	(248)	(724)
Deferred income tax on temporary timing differences	171	229	(21)	(19)
Income tax expense recognized in the income statement	(301)	(836)	(269)	(743)
Income tax reported in other comprehensive income in respect of temporary differences	1	(32)	(31)	(120)
	-			
Total	(300)	(868)	(300)	(863)

RECONCILIATION OF THE EFFECTIVE INTEREST RATE

	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Profit / (loss) before income tax	1 301	3 346	1 057	2 782
Tax calculated using the enacted rate in force in Poland (19%)	(247)	(636)	(201)	(529)
Effect of permanent timing differences between profit before income tax and taxable income, of which:	(62)	(205)	(70)	(219)
recognizing a non-tax-deductible impairment allowance on investments in subsidiaries, associates and joint ventures	-	-	(2)	(5)
non-deductible impairment allowances on credit exposures and securities	(26)	(64)	(2)	(19)
contribution and payments to Bank Guarantee Fund	(13)	(68)	(9)	(67)
tax on certain financial institutions	(42)	(124)	(43)	(128)
other permanent differences	(5)	(2)	(15)	(25)
dividend income	24	53	1	25
Tax loss offset	-	-	-	-
Effect of other timing differences, including new technologies tax relief and donations	8	5	2	5
Income tax expense recognized in the income statement	(301)	(836)	(269)	(743)
Effective tax rate	23.1%	25.0%	25.4%	26.7%

DEFERRED TAX PROVISION	31.12.2017	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (retained earnings)	IMPACT ON OPENING BALANCE OF ADJUSTMENT ON ADOPTION OF IFRS 9 (other comprehensive income)	INCOME STATEMENT	OTHER COMPREHENSIVE INCOME	30.09.2018
Interest accrued on receivables (loans) ¹	217	471	-	(429)	-	259
Capitalized interest on performing housing loans	106	-	-	(14)	-	92
Interest on securities	61	-	-	9	-	70
Valuation of securities	7	33	(19)	29	24	74
Difference between carrying amount and tax value of property, plant and equipment and intangible assets	326	-	-	(20)	-	306
Taxable income on release of IBNR allowance which will be tax deductible in future due to adoption of IFRS 9	-	-	-	78	-	78
Deferred income tax provision, gross	717	504	(19)	(347)	24	879
DEFERRED TAX ASSET						
Interest accrued on liabilities	109	-	-	(34)	-	75
Valuation of derivatives	138	-	-	114	11	263
Provision for employee benefits	87	-	-	-	-	87
Allowances for credit losses ¹	655	629	-	(225)	-	1 059
Fair value remeasurement of loans	-	-	19	3	(19)	3
Deferred commission to be settled under straight-line method and effective interest rate	621	-	-	58	-	679
Provision for costs to be incurred	29	-	-	-	-	29
Other deductible temporary differences	35	-	-	(34)	-	1
Deferred tax asset, gross	1 674	629	19	(118)	(8)	2 196
Deferred income tax asset (presented in the statement of financial position)	957	125	38	229	(32)	1 317

¹ A decrease during the period of the asset relating to allowances for credit losses and the provision relating to interest accrued on receivables (loans) is due to, among other things, a partial write-down of interest of PLN 2 356 million



11. EARNINGS PER SHARE

EARNINGS PER SHARE	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Profit attributable to ordinary shareholders	1 000	2 510	788	2 039
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)	0.80	2.01	0.63	1.63

NOTES TO THE SEPARATE STATEMENT OF FINANCIAL POSITION

12. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	30.09.2018	31.12.2017
Current account with the Central Bank	6 539	11 171
Cash in hand	4 107	4 629
Deposits with the Central Bank	2 640	1 965
Total	13 286	17 765

13. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.09.2018	01.01.2018	31.12.2017
Measured at amortized cost	11 509	8 769	8 769
Deposits with banks	6 256	3 724	3 724
Amount due from PKO Bank Hipoteczny SA in respect of the sale of mortgage-secured housing loans by the Bank	2 417	2 498	2 498
Current accounts	795	1 041	1 041
Loans and advances granted	1 537	1 506	1 506
Receivables in respect of repurchase agreements	504	-	-
Total, gross	11 509	8 769	8 769
Allowances for expected credit losses/ Impairment allowances	(4)	(2)	-
Total, net	11 505	8 767	8 769
Total	11 505	8 767	8 769

The whole balance of amounts due from banks as at 1 January 2018 and as at 30 September 2018 was classified to Stage 1. In the period ended 30 September 2018 there were no transfers between stages with reference to amounts due from banks.

14. HEDGING DERIVATIVES

TYPES OF HEDGING STRATEGIES APPLIED BY THE BANK

STRATEGY 1	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN CHF AND NEGOTIATED DEPOSITS 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 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	portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence)
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – October 2026

HEGGED ITEMS	HEGGING DERIVATIVES	NOMINAL VALUE OF HEGGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEGGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in CHF and negotiated deposits in PLN	CIRS CHF/PLN	float CHF	1 770	86	403	-
		float PLN	6 355			
31.12.2017						
Loans in CHF and negotiated deposits in PLN	CIRS CHF/PLN	float CHF	1 770	186	169	3
		float PLN	6 355			

STRATEGY 2 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE PLN LOANS RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate PLN loans resulting from the risk of fluctuations in interest rates, using IRS transactions during the hedged period
HEDGED RISK	Interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on a floating 3M LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of loans in PLN indexed to the floating 3M WIBOR rate
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – December 2021

HEGGED ITEMS	HEGGING DERIVATIVES	NOMINAL VALUE OF HEGGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEGGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in PLN	IRS PLN	PLN	7 355	56	2	-
31.12.2017						
Loans in PLN	IRS PLN	PLN	8 145	89	3	2

STRATEGY 3 HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE CHF LOANS RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate CHF loans resulting from the risk of fluctuations in interest rates, using IRS transactions during the hedged period
HEDGED RISK	Interest rate risk
HEDGING INSTRUMENT	IRS transactions where the Bank pays coupons based on a floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of loans in CHF indexed to the floating 3M CHF LIBOR rate
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – November 2021

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in CHF	IRS CHF	CHF	400	-	5
31.12.2017					
Loans in CHF	IRS CHF	CHF	400	-	3

STRATEGY 4

HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FLOATING INTEREST RATE LOANS IN FOREIGN CURRENCIES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK AND HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM FIXED INTEREST RATE FINANCIAL LIABILITY IN A FOREIGN CURRENCY, RESULTING FROM FOREIGN EXCHANGE RATE RISK, USING CIRS TRANSACTIONS

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of fluctuations in cash flows from floating interest rate loans in foreign currencies, resulting from the risk of fluctuations in interest rates and from foreign exchange rate risk and elimination of the risk of fluctuations in cash flows from fixed interest rate financial liability in a foreign currency, resulting from foreign exchange rate risk, using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on a floating 3M CHF LIBOR rate, and receives coupons based on a fixed rate in USD or EUR on the nominal value for which they were concluded
HEDGED ITEM	portfolio of variable interest mortgage loans in CHF and a fixed interest financial liability in USD or EUR
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – September 2022

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in CHF and financial liabilities in USD	CIRS CHF/USD	float CHF	818	40	7
		fixed USD	875		
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	826	101	-
		fixed EUR	748		
31.12.2017					
Loans in CHF and financial liabilities in USD	CIRS CHF/USD	float CHF	818	116	-
		fixed USD	875		
Loans in CHF and financial liabilities in EUR	CIRS CHF/EUR	float CHF	826	181	-
		fixed EUR	748		



STRATEGY 5	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN FOREIGN CURRENCIES OTHER THAN CHF AND NEGOTIATED DEPOSITS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND IN FOREIGN EXCHANGE RATES, USING CIRS TRANSACTIONS
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by floating interest rate loans denominated in foreign currencies other than CHF and negotiated deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using CIRS transactions during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS transactions where the Bank pays coupons based on a 3M EURIBOR rate, and receives coupons based on a 3M WIBOR rate on the nominal value for which they were concluded
HEDGED ITEM	portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged item taking into account the solutions provided in IAS 39 WS 99C in the form adopted by the European Union
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – March 2021

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in EUR and negotiated deposits in PLN	CIRS EUR/PLN	float EUR	125	10	-
		float PLN	545		
31.12.2017					
Loans in EUR and negotiated deposits in PLN	CIRS EUR/PLN	float EUR	125	23	-
		float PLN	545		

STRATEGY 6	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN FOREIGN CURRENCIES AND NEGOTIATED DEPOSITS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FOREIGN EXCHANGE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP CONTRACTS.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in foreign currencies and negotiated deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using two hedging instruments: IRS and CIRS-EP, during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions, in which the Bank pays coupons based on a fixed interest rate in EUR, and receives coupons based on a variable 3M WIBOR reference rate on the nominal value for which they were concluded, and IRS transactions in which the Bank pays coupons based on a variable EURIBOR 3M rate, and receives coupons based on a fixed EUR rate, on the nominal value for which they were concluded. If the underlying entity (i.e. the entity whose bankruptcy is monitored as part of the transaction) declares bankruptcy, the CIRS-EP transaction is automatically extended on terms and conditions determined on the transaction date
HEDGED ITEM	portfolio of floating interest mortgage loans in EUR and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged item taking into account the solutions provided in IAS 39 WS 99C in the form adopted by the European Union
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – February 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in EUR and negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	524	48	-
		float PLN	2 262	-	-
	IRS EUR	EUR	524	-	23
31.12.2017					
Loans in EUR and negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	524	109	-
		float PLN	2 262	-	1
	IRS EUR	EUR	524	1	29

STRATEGY 7	HEDGES AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS DENOMINATED IN FOREIGN CURRENCIES AND NEGOTIATED DEPOSITS IN PLN RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES AND FOREIGN EXCHANGE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP CONTRACTS.
DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in foreign currencies and negotiated deposits in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using two hedging instruments: IRS and CIRS-EP, during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions, in which the Bank pays coupons based on a fixed interest rate in EUR, and receives coupons based on a variable 3M WIBOR reference rate on the nominal value for which they were concluded, and CIRS transactions in which the Bank pays coupons based on a variable LIBOR CHF 3M rate, and receives coupons based on a fixed EUR rate, on the nominal value for which they were concluded. If the underlying entity (i.e. the entity whose bankruptcy is monitored as part of the transaction) declares bankruptcy, the CIRS-EP transaction is automatically extended on the terms and conditions determined on the transaction date
HEDGED ITEM	portfolio of floating interest mortgage loans in CHF and the portfolio of short-term negotiated deposits, including their future renewals (high probability of occurrence). The Bank designated the hedged item taking into account the solutions provided in IAS 39 WS 99C in the form adopted by the European Union
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – January 2023

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in CHF and negotiated deposits in PLN	CIRS-EP EUR/PLN	fixed EUR	500	-	4	-
		float PLN	2 131			
	CIRS CHF/EUR	float CHF	535	139	-	-
		fixed EUR	500			
31.12.2017						
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	194	-	-
		fixed EUR	500			

STRATEGY 8 HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVING PRODUCTS IN PLN RESULTING FROM THE RISK OF CHANGES IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING CIRS

DESCRIPTION OF THE HEDGING RELATIONSHIP	eliminating the volatility of cash flows generated by variable interest loans in CHF and by variable rate regular saving products resulting from changes in reference CHF interest rates and PLN and from changes in the CHF/PLN exchange rate, using CIRS transactions, in the period covered by the hedge
HEDGED RISK	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	portfolio of variable interest mortgage loans in CHF and the portfolio of variable interest rate regular saving products in PLN
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – July 2023

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT
			Assets	Liabilities	
30.09.2018					
Loans in CHF and regular savings products in PLN	CIRS CHF/PLN	float CHF	225	30	-
		float PLN	872		
31.12.2017					
Loans in CHF and regular savings products in PLN	CIRS CHF/PLN	float CHF	225	75	-
		float PLN	872		

STRATEGY 9 HEDGING AGAINST FLUCTUATIONS IN CASH FLOWS FROM MORTGAGE LOANS IN CONVERTIBLE CURRENCIES AND REGULAR SAVING PRODUCTS IN PLN RESULTING FROM THE RISK OF CHANGES IN INTEREST RATES AND FROM FOREIGN EXCHANGE RATE RISK, USING TWO HEDGING INSTRUMENTS: IRS AND CIRS-EP CONTRACTS.

DESCRIPTION OF THE HEDGING RELATIONSHIP	elimination of the risk of cash flow fluctuations generated by mortgage loans denominated in foreign currencies and variable interest regular savings products in PLN, resulting from fluctuations in reference interest rates and changes in foreign exchange rates using two hedging instruments: IRS and CIRS-EP, during the hedged period
HEDGED RISK	foreign exchange risk and interest rate risk
HEDGING INSTRUMENT	CIRS-EP (Cross-Currency Interest Rate Swap – Extension Period) transactions, in which the Bank pays coupons based on a fixed interest rate in EUR, and receives coupons based on a variable 3M WIBOR reference rate on the nominal value for which they were concluded, and CIRS transactions in which the Bank pays coupons based on a variable LIBOR CHF 3M rate, and receives coupons based on a fixed EUR rate, on the nominal for which they were concluded. If the underlying entity (i.e. the entity whose bankruptcy is monitored as part of the transaction) declares bankruptcy, the CIRS-EP transaction is automatically extended on the terms and conditions determined on the transaction date
HEDGED ITEM	portfolio of variable interest mortgage loans in CHF and the portfolio of variable interest rate regular saving products in PLN
	period when the cash flows are expected to occur and affect the profit or loss: October 2018 – August 2024

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNIZED IN THE INCOME STATEMENT	
			Assets	Liabilities		
30.09.2018						
Loans in CHF and regular savings products in PLN	CIRS-EP EUR/PLN	fixed EUR	554	-	2	(1)
		float PLN	2 363			
	CIRS CHF/EUR	float CHF	640	-	51	(5)
		fixed EUR	554			
31.12.2017						
Loans in CHF and regular savings products in PLN	CIRS-EP EUR/PLN	fixed EUR	554	56	-	-
		float PLN	2 363			
	CIRS CHF/EUR	float CHF	640	22	-	-
		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 fluctuations in the fair value of fixed interest loans in foreign currencies resulting from the risk of fluctuations in interest rates, using IRS transactions, during the hedged period.
HEDGED RISK	Interest rate risk
HEDGING INSTRUMENT	IRS (Interest Rate Swap) transactions in foreign currencies, where the Bank pays coupons based on a fixed rate (the market IRS rate) and receives coupons based on a floating reference rate without an additional margin
HEDGED ITEM	a component of the interest rate risk relating to a fixed interest rate loan in a foreign currency, which corresponds to the market IRS rate

HEDGED ITEMS	HEDGING DERIVATIVES	NOMINAL VALUE OF HEDGING DERIVATIVES	CARRYING AMOUNT (FAIR VALUE) OF HEDGING INSTRUMENTS		FAIR VALUE ADJUSTMENT OF THE HEDGED ITEM
			Assets	Liabilities	
30.09.2018					
Loans in EUR	IRS EUR	EUR	-	-	-
31.12.2017					
Loans in EUR	IRS EUR	EUR	46	-	-

In the nine-month period of 2018 the Bank did not introduce any new hedging strategies. In the third quarter of 2018, the Bank ceased applying Strategy 10 in respect of fair value hedges due to its ineffectiveness. In 2017, the Bank implemented Strategies, 7, 8 and 9 to hedge its cash flows and also Strategy 10 to hedge fair value. The implemented strategies are described above.

CARRYING AMOUNT OF HEDGING INSTRUMENTS	30.09.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges				
Hedges of interest rate risk	511	497	1 104	204
IRS	57	30	90	35
Hedges of currency and interest rate risks	454	467	1 014	169
CIRS	454	467	1 014	169
Fair value hedges				
Hedges of interest rate risk	-	-	-	-
IRS	-	-	-	-
Total	511	497	1 104	204

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018	third quarter period from 01.07.2017 to 30.09.2017	3 quarters cumulative period from 01.01.2017 to 30.09.2017
Other comprehensive income at the beginning of the period, gross	(118)	(91)	(83)	(109)
Gains/losses recognized in other comprehensive income during the period	63	(446)	465	1 360
Amounts transferred from other comprehensive income to the cash flow statement, of which:	(92)	390	(387)	(1 256)
- interest income	(125)	(372)	(109)	(285)
- net foreign exchange gains/(losses)	33	762	(278)	(971)
Accumulated other comprehensive income at the end of the period, gross	(147)	(147)	(5)	(5)
Tax effect	28	28	-	-
Accumulated other comprehensive income at the end of the period, net	(119)	(119)	(5)	(5)
Impact on other comprehensive income during the period, gross	(29)	(56)	78	104
Tax effect	5	11	(15)	(20)
Impact on other comprehensive income during the period, net	(24)	(45)	63	84
Ineffective portion of cash flow hedges recognized in the income statements, including in:	1	(8)	1	5
Net foreign exchange gains/(losses)	(2)	(8)	1	4
Net result on financial instruments measured at fair value	3	-	-	1

15. OTHER DERIVATIVE INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.09.2018		31.12.2017	
	Assets	Liabilities	Assets	Liabilities
IRS	789	1 770	876	1 385
CIRS	88	95	77	61
FX Swap	135	38	161	380
Options	212	159	243	250
Commodity swap	57	55	129	128
FRA	2	1	1	1
Forward	107	271	206	324
Futures	-	-	7	8
Other	-	-	1	-
Total	1 390	2 389	1 701	2 537

16. SECURITIES

SECURITIES	30.09.2018	01.01.2018	31.12.2017
held for trading	2 052	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, measured at fair value through profit or loss	1 485	2 886	
measured at fair value through other comprehensive income	45 048	45 602	
measured at amortized cost	6 511	5 990	
Total	55 096	54 950	50 512

SECURITIES 30.09.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income	measured at amortized cost	Total
Debt securities	2 032	1 160	45 048	6 511	54 751
NBP money market bills	-	-	1 200	-	1 200
Treasury bonds (in PLN)	1 814	970	34 358	2 015	39 157
Treasury bonds (in foreign currencies)	4	-	-	-	4
municipal bonds (in PLN)	16	-	5 379	2 445	7 840
corporate bonds (in foreign currencies)	36	76	-	-	112
corporate bonds (in PLN)	118	114	3 689	1 706	5 627
corporate bonds (in foreign currencies)	2	-	422	345	769
covered bonds	42	-	-	-	42
Equity securities	20	325	-	-	345
shares in other entities - not listed	-	279	-	-	279
shares in other entities - listed	15	46	-	-	61
investment certificates, rights to shares, pre-emptive rights	5	-	-	-	5
Total	2 052	1 485	45 048	6 511	55 096

The item "Treasury bonds in PLN and in foreign currencies" comprises Polish Treasury bonds.

In April 2018, PKO Bank Polski SA finalized negotiations with Bank Gospodarstwa Krajowego SA relating to the 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.

SECURITIES 01.01.2018	held for trading	not held for trading, 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
corporate 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

Treasury bonds in PLN and in foreign currencies include Polish Treasury bonds.

SECURITIES 31.12.2017	held for trading	financial instruments designated at fair value through profit or loss upon initial recognition	available-for-sale investment securities	investment securities held to maturity	Total
Debt securities	446	6 409	41 560	1 622	50 037
NBP money market bills	-	4 199	-	-	4 199
Treasury bonds (in PLN)	151	1 134	32 095	1 622	35 002
Treasury bonds (in foreign currencies)	138	893	-	-	1 031
municipal bonds (in PLN)	23	106	4 928	-	5 057
corporate bonds (in foreign currencies)	-	77	-	-	77
corporate bonds (in PLN)	94	-	4 058	-	4 152
corporate bonds (in foreign currencies)	1	-	479	-	480
covered bonds	39	-	-	-	39
Equity securities	26	-	449	-	475
shares in other entities - not listed	-	-	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" comprises Polish Treasury bonds.

Information relating to credit risk exposure in respect of securities measured at amortized cost or at fair value through other comprehensive income for the nine months of 2018 has been described in Note 18 "Expected loan losses" and for 2017 in Note 19 "Impairment allowances in respect of financial assets (comparative data in accordance with IAS 39)".

As at 30 September 2018, securities amounting to PLN 489 million were classified to Stage 3 (PLN 458 million as at 1 January 2018). In the period ended 30 September 2018, there was a transfer between Stage 1 and Stage 3 of PLN 29 million in respect of corporate bonds in PLN.

17. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.09.2018	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)	188 922	181 664	186 893
Adjustment relating to fair value hedge accounting	-	(1)	(1)
Total loans and advances to customers	188 922	181 663	186 892

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting)	30.09.2018	01.01.2018	31.12.2017
measured at amortized cost, of which:	180 072	172 359	186 893
debt securities			4 368
measured at fair value through other comprehensive income	7 916	8 235	
not held for trading, measured at fair value through profit or loss	934	1 070	
Total	188 922	181 664	186 893

Corporate and municipal bonds totalling PLN 4 368 million, which met the definition of loans and advances under IAS 39 were presented in “Loans and advances to customers”. After IFRS 9 entered into force, these instruments are classified as financial assets measured at amortized cost and presented in the item comprising securities measured at amortized cost, because they meet the SPPI test and the business model of “held for cash flows”.

LOANS AND ADVANCES TO CUSTOMERS 30.09.2018	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income		measured at amortized cost		total portfolios		
		Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Loans	934	7 933	(17)	7 916	187 551	(7 670)	179 881	188 731
housing	29	7 933	(17)	7 916	84 793	(1 933)	82 860	90 805
corporate	149	-	-	-	75 885	(4 028)	71 857	72 006
consumer	756	-	-	-	26 873	(1 709)	25 164	25 920
Receivables in respect of repurchase agreements	-	-	-	-	191	-	191	191
Total	934	7 933	(17)	7 916	187 742	(7 670)	180 072	188 922

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 01.01.2018	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income		measured at amortized cost		total portfolios		
		Net amount	Gross amount	Allowances for expected credit losses	Net amount	Gross amount	Allowances for expected credit losses	Net amount
Loans ¹	1 070	8 243	(8)	8 235	181 500	(10 043)	171 457	180 762
housing	37	8 243	(8)	8 235	84 463	(2 960)	81 503	89 775
corporate	182	-	-	-	71 723	(5 053)	66 670	66 852
consumer	851	-	-	-	25 314	(2 030)	23 284	24 135
Receivables in respect of repurchase agreements	-	-	-	-	902	-	902	902
Total	1 070	8 243	(8)	8 235	182 402	(10 043)	172 359	181 664

¹ In the item “Loans and advances” the value of restricted interest in the amount of PLN 2 480 million was presented, 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	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	30.09.2018	01.01.2018 ¹	31.12.2017 ¹
mortgage banking	86 251	85 960	85 515
corporate	62 449	58 164	61 597
retail and private banking	27 629	26 165	25 930
firms and undertakings	20 089	20 524	20 119
receivables in respect of repurchase agreements	191	902	902
Net allowances for expected credit losses /impairment allowances on loans and advances	(7 687)	(10 051)	(7 170)
Total	188 922	181 664	186 893

¹ without adjustments relating to fair value hedge accounting

Information relating to credit risk exposure in respect of loans and advances granted, measured at amortized cost or at fair value through other comprehensive income for the nine months of 2018 has been described in Note 18 "Expected loan losses" and for 2017 in Note 19 "Impairment allowances in respect of financial assets (comparative data in accordance with IAS 39)".

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.09.2018	Carrying amount, gross							TOTAL
	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		
		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 OCI	7 801	105	25	-	-	2	-	7 933
loans	7 801	105	25	-	-	2	-	7 933
housing	7 801	105	25	-	-	2	-	7 933
Total	7 801	105	25	-	-	2	-	7 933
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-
Measured at amortized cost:	177 522	4 767	3 467	753	466	677	90	187 742
loans	177 331	4 767	3 467	753	466	677	90	187 551
housing	81 561	1 427	1 238	207	258	78	24	84 793
corporate	70 908	2 344	1 770	340	138	341	44	75 885
consumer	24 862	996	459	206	70	258	22	26 873
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191
Total	177 522	4 767	3 467	753	466	677	90	187 742
of which: purchased or originated credit-impaired assets (POCI)	386	-	-	-	-	-	-	386

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.09.2018	Impairment allowances							TOTAL
	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		
		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 OCI	(6)	(10)	-	-	-	(1)	-	(17)
loans	(6)	(10)	-	-	-	(1)	-	(17)
housing	(6)	(10)	-	-	-	(1)	-	(17)
Total	(6)	(10)	-	-	-	(1)	-	(17)
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-
Measured at amortized cost:	(6 564)	(386)	(32)	(320)	(55)	(312)	(1)	(7 670)
loans	(6 564)	(386)	(32)	(320)	(55)	(312)	(1)	(7 670)
housing	(1 658)	(131)	(5)	(78)	(35)	(26)	-	(1 933)
corporate	(3 599)	(120)	(21)	(128)	(10)	(149)	(1)	(4 028)
consumer	(1 307)	(135)	(6)	(114)	(10)	(137)	-	(1 709)
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-
Total	(6 564)	(386)	(32)	(320)	(55)	(312)	(1)	(7 670)
of which: purchased or originated credit-impaired assets (POCI)	(96)	-	-	-	-	-	-	(96)

LOANS AND ADVANCES TO CUSTOMERS - TRANSFERS BETWEEN STAGES 30.09.2018	Carrying amount, net							TOTAL
	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		
		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 OCI	7 795	95	25	-	-	1	-	7 916
loans	7 795	95	25	-	-	1	-	7 916
housing	7 795	95	25	-	-	1	-	7 916
Total	7 795	95	25	-	-	1	-	7 916
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	-	-	-	-
Measured at amortized cost:	170 958	4 381	3 435	433	411	365	89	180 072
loans	170 767	4 381	3 435	433	411	365	89	179 881
housing	79 903	1 296	1 233	129	223	52	24	82 860
corporate	67 309	2 224	1 749	212	128	192	43	71 857
consumer	23 555	861	453	92	60	121	22	25 164
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191
Total	170 958	4 381	3 435	433	411	365	89	180 072
of which: purchased or originated credit-impaired assets (POCI)	290	-	-	-	-	-	-	290

Transfers between impairment stages were presented for the gross carrying amount and impairment allowance as at 30 September 2018. In the event of loans and advances to customers, which changed stages several times, the transfer was presented as a transfer in its current stage as at 1 January 2018 or upon initial recognition to the impairment stage as at 30 September 2018.

18. EXPECTED CREDIT LOSSES

FINANCIAL ASSETS

BY MEASUREMENT MODEL 30.09.2018	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 OCI¹										
securities	44 573	(14)	-	-	500	500	(11)	45 073	(25)	45 048
Treasury bonds	34 358	-	-	-	-	-	-	34 358	-	34 358
other	10 215	(14)	-	-	500	500	(11)	10 715	(25)	10 690
loans	7 779	(2)	151	(14)	3	3	(1)	7 933	(17)	7 916
housing	7 779	(2)	151	(14)	3	3	(1)	7 933	(17)	7 916
Total	52 352	(16)	151	(14)	503	503	(12)	53 006	(42)	52 964
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	471	471	(11)	471	(11)	460
Measured at amortized cost										
amounts due from banks	11 509	(4)	-	-	-	-	-	11 509	(4)	11 505
securities	6 524	(13)	-	-	-	-	-	6 524	(13)	6 511
Treasury bonds	2 015	-	-	-	-	-	-	2 015	-	2 015
other	4 509	(13)	-	-	-	-	-	4 509	(13)	4 496
loans	165 066	(497)	11 806	(1 079)	10 870	10 248	(6 094)	187 742	(7 670)	180 072
housing	77 712	(45)	4 804	(471)	2 277	2 205	(1 417)	84 793	(1 933)	82 860
corporate	63 993	(308)	5 210	(340)	6 682	6 144	(3 380)	75 885	(4 028)	71 857
consumer	23 170	(144)	1 792	(268)	1 911	1 899	(1 297)	26 873	(1 709)	25 164
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191	-	191
other financial assets	2 503	-	-	-	99	99	(99)	2 602	(99)	2 503
Total	185 602	(514)	11 806	(1 079)	10 969	10 347	(6 193)	208 377	(7 786)	200 591
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	386	352	(96)	386	(96)	290
Total	237 954	(530)	11 957	(1 093)	11 472	10 850	(6 205)	261 383	(7 828)	253 555

¹ For financial instruments measured at fair value through other comprehensive income the gross amount was presented as fair value plus the write-down for expected credit losses.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

BY TYPE OF FINANCIAL ASSET 30.09.2018	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	11 509	(4)	-	-	-	-	-	11 509	(4)	11 505
securities	51 097	(27)	-	-	500	500	(11)	51 597	(38)	51 559
Treasury bonds	36 373	-	-	-	-	-	-	36 373	-	36 373
other	14 724	(27)	-	-	500	500	(11)	15 224	(38)	15 186
loans	172 845	(499)	11 957	(1 093)	10 873	10 251	(6 095)	195 675	(7 687)	187 988
housing	85 491	(47)	4 955	(485)	2 280	2 208	(1 418)	92 726	(1 950)	90 776
corporate	63 993	(308)	5 210	(340)	6 682	6 144	(3 380)	75 885	(4 028)	71 857
consumer	23 170	(144)	1 792	(268)	1 911	1 899	(1 297)	26 873	(1 709)	25 164
receivables in respect of repurchase agreements	191	-	-	-	-	-	-	191	-	191
other financial assets	2 503	-	-	-	99	99	(99)	2 602	(99)	2 503
Total	237 954	(530)	11 957	(1 093)	11 472	10 850	(6 205)	261 383	(7 828)	253 555
of which: purchased or originated credit-impaired assets (POCI)	-	-	-	-	857	823	(107)	857	(107)	750

LOAN QUALITY RATIO (excluding adjustments relating to fair value hedge accounting)	30.09.2018	01.01.2018
Share of impaired exposures ¹	5.1%	5.6%
Coverage ratio of impaired loans ²	75.1%	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.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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 subject to 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 OCI											
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	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 (POCI)	-	-	-	-	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	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

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF THE PKO BANK POLSKI SA GROUP
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2018
(IN PLN MILLION)



Bank Polski

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 subject to 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	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

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	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk (net)	Changes resulting from modification without derecognition (net)	Decrease of impairment allowances due to write-off	Other changes	As at 30.09.2018
Available-for-sale investment securities	298	(298)	-	-	-	-	-	-	-	-
Measured at fair value through OCI securities	-	32	32	1	-	(9)	-	(2)	3	25
loans	-	8	8	-	-	9	-	-	-	17
housing	-	8	8	-	-	9	-	-	-	17
Total	-	40	40	1	-	-	-	(2)	3	42
Measured at amortized cost amounts due from banks	-	2	2	2	-	(2)	-	-	2	4
securities	-	11	11	3	-	(2)	-	-	1	13
loans	7 170	2 873	10 043	321	(671)	1 226	44	(3 264)	(29)	7 670
housing	1 925	1 035	2 960	27	(235)	288	5	(1 025)	(87)	1 933
corporate	3 580	1 473	5 053	226	(197)	380	37	(1 548)	77	4 028
consumer	1 655	375	2 030	68	(239)	558	2	(691)	(19)	1 709
securities	10	(10)	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-
other financial assets	99	-	99	-	-	-	-	-	-	99
Total	7 269	2 886	10 155	326	(671)	1 222	44	(3 264)	(26)	7 786
Total allowances for expected credit losses on financial assets	7 567	2 628	10 195	327	(671)	1 222	44	(3 266)	(23)	7 828

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	Fair value as at 01.01.2018 (changed)	Increase due to recognition and purchase	Decrease due to derecognition	Changes due to changes in credit risk (net)	Changes resulting from modification without derecognition (net)	Decrease of impairment allowances due to write-off	Other changes	As at 30.09.2018
amounts due from banks	-	2	2	2	-	(2)	-	-	2	4
securities	298	(255)	43	4	-	(11)	-	(2)	4	38
loans	7 170	2 881	10 051	321	(671)	1 235	44	(3 264)	(29)	7 687
housing	1 925	1 043	2 968	27	(235)	297	5	(1 025)	(87)	1 950
corporate	3 580	1 473	5 053	226	(197)	380	37	(1 548)	77	4 028
consumer	1 655	375	2 030	68	(239)	558	2	(691)	(19)	1 709
securities	10	(10)	-	-	-	-	-	-	-	-
receivables in respect of repurchase agreements	-	-	-	-	-	-	-	-	-	-
other financial assets	99	-	99	-	-	-	-	-	-	99
Total allowances for expected credit losses on financial assets	7 567	2 628	10 195	327	(671)	1 222	44	(3 266)	(23)	7 828

¹ in respect of recognizing impairment on loans of PLN 759 million, in respect of accounting for non-performing interest recognized in the gross carrying amount of PLN 2 480 million, in respect of decreasing write-downs on initial loss on POCI loans of PLN 346 million, and in respect of releasing write-downs on securities of PLN 265 million.

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS – POCI

The total amount of purchased or originated credit-impaired financial assets as at 30 September 2018 amounted to PLN 750 million (PLN 572 million as at 1 January 2018).

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 30.09.2018	Gross amount	impairment allowances	Net amount
Securities	471	(11)	460
measured at fair value through other comprehensive income	471	(11)	460
Loans and advances to customers	386	(96)	290
measured at amortized cost	386	(96)	290
Total	857	(107)	750

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS (POCI) – 01.01.2018	Gross amount	impairment allowances	Net amount
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) – FIRST THREE QUARTERS 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)	(2)	-	11
measured at fair value through other comprehensive income	15	-	(2)	(2)	-	11
Loans and advances to customers	107	(25)	20	(10)	4	96
measured at amortized cost	107	(25)	20	(10)	4	96
Total	122	(25)	18	(12)	4	107

19. IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS (DATA IN ACCORDANCE WITH IAS 39)

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

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

LOAN QUALITY RATIOS (IN %)	31.12.2017
Share of impaired loans	5.6%
Coverage ratio of impaired loans ¹	65.9%
Share of loans overdue for more than 90 days in gross loans and advances to customers	4.3%

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

OTHER FINANCIAL ASSETS

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

IMPAIRMENT ALLOWANCES ON FINANCIAL ASSETS

IMPAIRMENT ALLOWANCES ON SECURITIES – RECONCILIATION OF MOVEMENTS IN THE THREE QUARTERS 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	82	(70)	(41)	245	(12)
Equity securities		1	-	-	-	1	-
Total		275	82	(70)	(41)	246	(12)

IMPAIRMENT ALLOWANCES ON LOANS AND ADVANCES TO CUSTOMERS – RECONCILIATION OF MOVEMENTS IN THE THREE QUARTERS 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	547	(385)	(158)	(90)	2 058	6	(156)
corporate loans	3 667	1 526	(982)	(428)	(67)	3 716	24	(520)
consumer loans	1 432	937	(552)	(94)	(13)	1 710	3	(382)
debt securities (corporate)	69	1	-	-	-	70	-	(1)
debt securities (municipal)	8	-	(2)	-	-	6	-	2
Total	7 320	3 011	(1 921)	(680)	(170)	7 560	33	(1 057)

20. NON-CURRENT ASSETS HELD FOR SALE

NON-CURRENT ASSETS HELD FOR SALE	30.09.2018	31.12.2017
Investments in subsidiaries	-	601
Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.	-	283
Qualia Development Sp. z o.o.	-	318
Land and buildings	20	20
Total, gross	20	621
Impairment allowances	-	(262)
Total, net	20	359

The decrease in the balance of held-for-sale non-current assets in 2018 resulted from the sale of shares in Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. to Bankowe Towarzystwo Kapitałowe SA and a change in the classification of shares in Qualia Development Sp. z o.o. into exposures to subsidiaries.

21. INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

INTANGIBLE ASSETS

INTANGIBLE ASSETS	30.09.2018	31.12.2017
Software	1 387	1 485
Goodwill	871	871
Customer relationships	19	24
Other, including capital expenditure	200	242
of which: on software	191	231
Total	2 477	2 622

GOODWILL

Net goodwill	30.09.2018	31.12.2017
Nordea Polska companies	863	863
Centrum Haffnera Sp. z o.o.	8	8
Total	871	871

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	30.09.2018	31.12.2017
Land and buildings	1 408	1 481
Machinery and equipment	358	375
of which: IT hardware	216	215
Assets under construction	72	128
of which: IT hardware	27	68
Other, including capital expenditure	188	186
Total	2 026	2 170

22. OTHER ASSETS

OTHER ASSETS	30.09.2018	31.12.2017
Settlements in respect of card transactions	1 519	1 136
Settlements of financial instruments (including unpaid option premium)	337	284
Receivables in respect of cash settlements	142	158
Receivables and settlements in respect of trading in securities and selling participation units in a collective investment undertaking	132	63
Dividend receivables and contributions to subsidiaries ¹	212	-
Settlements relating to selling foreign currencies	43	2
Assets for sale	49	57
Prepayments	64	62
Receivables in respect of settlements with KIR (National Clearing Chamber)	52	-
Trade receivables	108	94
Other	73	66
Total	2 731	1 922
of which: other financial assets	2 503	1 748

¹ the item presents unregistered purchase of shares in PKO Bank Hipoteczny SA with a value of PLN 100 million and an additional contribution to capital of ZenCard Sp. z o.o of PLN 3 million.

23. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.09.2018	31.12.2017
Held for trading	26	-
liabilities in respect of the short position in securities	26	-
Measured at amortized cost	1 584	4 299
Loans and advances received ¹	-	2 596
Bank deposits	869	1 077
Current accounts	674	583
Other monetary market deposits	41	43
Total	1 610	4 299

¹ The item "Loans and advances received" is presented in detail in Note 25 "Loans and advances received".

24. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.09.2018	31.12.2017
Held for trading	34	-
liabilities in respect of the short position in securities	34	-
Measured at amortized cost	227 575	222 524
Amounts due to retail customers	153 994	150 537
Current accounts and overnight deposits	95 653	86 612
Term deposits	57 737	63 719
Other liabilities	604	206
Amounts due to corporate entities	52 127	52 696
Current accounts and overnight deposits	35 300	39 719
Term deposits	15 880	11 992
Other liabilities	758	937
Amounts due from repurchase agreements	189	48
Amounts due to public entities	13 353	11 409
Current accounts and overnight deposits	9 127	9 555
Term deposits	4 172	1 820
Other liabilities	54	34
Loans and advances received ¹	8 101	7 882
Total	227 609	222 524

¹ Loans and advances received are presented in detail in Note 25 "Loans and advances received".

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.09.2018	31.12.2017
retail and private banking	145 339	141 870
corporate	49 448	49 140
firms and undertakings	24 532	23 584
amounts due from repurchase agreements	189	48
Loans and advances received ¹	8 101	7 882
Total	227 609	222 524

25. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED	30.09.2018	31.12.2017
From banks	-	2 596
Nordea Bank AB	-	2 596
From international financial institutions	2 035	2 000
European Investment Bank	1 380	1 308
Council of Europe Development Bank	655	692
On other liabilities	6 066	5 882
PKO Finance AB	6 066	5 882
Total	8 101	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.

26. DEBT SECURITIES IN ISSUE

DEBT SECURITIES IN ISSUE	30.09.2018	31.12.2017
bonds issued by banks, of which:	5 359	5 204
in PLN	649	645
in EUR, translated into PLN	3 201	3 132
in CHF, translated into PLN	1 509	1 427
Total	5 359	5 204

INFORMATION ON THE ISSUE, REDEMPTION AND REPAYMENT OF SECURITIES

ADDITIONAL INFORMATION	30.09.2018	31.12.2017
issuance of debt securities during the period (nominal value)		
in PLN	650	1 320
in original currency (EUR)	-	750
in original currency (CHF)	-	400
redemption of debt securities during the period (nominal value)		
in PLN	650	1 485
in original currency (EUR)	-	200

In the nine-month period of 2018, the Bank issued and redeemed securities totalling PLN 650 million. In 2017, the Bank issued banking bonds with a nominal value of PLN 1,320 million, Eurobonds with a nominal value of EUR 750 million, and Eurobonds with a nominal value of CHF 400 million, and at the same time, it repurchased EUR banking bonds of EUR 200 million and PLN banking bonds of PLN 1,485 million.

The Bank held two issues of Eurobonds in 2017:

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

27. SUBORDINATED LIABILITIES

	Nominal amount	Interest rate	Currency	Period	Special terms	Balance in PLN	
						30.09.2018	31.12.2017
Subordinated bonds	1 700	3.34	PLN	28.08.2017 - 28.08.2027	right to early redemption within 5 years from the issue date	1 705	1 720
Subordinated bonds	1 000	3.29	PLN	05.03.2018 - 06.03.2028	right to early redemption within 5 years from the issue date	1 002	-
Total						2 707	1 720

Upon approval of the Polish Financial Supervision Authority, the proceeds from subordinated bonds were designated for increasing the Bank's supplementary funds.

On 28 February 2018, the Bank placed an issue of subordinated bonds totalling PLN 1,000 million. The issue was conducted in the 10NC5 formula. The nominal value of one bond is PLN 500,000 and its issue price is equal to the nominal value. The bonds bear interest in semi-annual interest periods, calculated based on the nominal value at a 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 agreed to designate proceeds from the issue of subordinated bonds for an increase in the Bank's Tier 2 capital.

28. OTHER LIABILITIES

OTHER LIABILITIES	30.09.2018	31.12.2017
Expenses to be paid	525	514
Deferred income	554	495
Liability in respect of tax on certain financial institutions	73	75
Interbank settlements	915	1 313
Liabilities arising from investing activities and internal operations	130	295
Amounts due to suppliers	124	74
Liabilities and settlements in respect of trading in securities	757	502
Settlements of financial instruments (including unpaid option premium)	289	281
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	228	120
maintained in the form of payment commitments, of which:	228	120
to the Resolution Fund	111	63
to the Bank Guarantee Fund	117	57
Liabilities under public law	131	148
Liabilities in respect of foreign exchange activities	369	350
Liabilities in respect of payment cards	488	259
Settlements relating to buying foreign currencies	-	-
Liabilities to insurance institutions	40	29
Other	116	137
Total	4 739	4 592
of which: other financial liabilities	3 637	3 812

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

The item "Liabilities in respect of contribution to the Bank Guarantee Fund" includes liabilities in respect of the Bank's contribution to the Bank Resolution Fund calculated by the BGF for the Bank.

29. PROVISIONS

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2018	Provisions for unsettled 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
As at 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
As at 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	27	-	45	137	64	273
Amounts utilized	(7)	-	(15)	-	-	(22)
Unutilized amounts released during the period	(3)	(15)	(9)	(120)	(16)	(163)
As at 30 September 2018, of which:	35	44	42	172	74	367
Short-term provisions	35	6	42	134	74	291
Long-term provisions	-	38	-	38	-	76

¹ As at 31 December 2017, provisions amounting to PLN 14 million 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", and provisions amounting to PLN 21 million to "Restructuring".

A provision for potential returns of fees and commission to customers and a provision for the cost of discharging an obligation arising from the provision of free-of-charge services to customers amounting to PLN 62 million were included in "Other provisions, including provisions for employee disputes", in the line "Increase, including increase in existing provisions".

FOR THE 9-MONTH PERIOD ENDED 30 SEPTEMBER 2017	Provisions for unsettled legal claims	Provisions from pensions and other defines post- employment benefits	Restructuring provision	Provisions for financial liabilities and guarantees granted	Other provisions, of which provisions for disputes with employees	Total
As at 1 January 2017, of which:	20	59	59	67	18	223
Short-term provisions	20	21	59	51	18	169
Long-term provisions	-	38	-	16	-	54
Increase, of which increases of existing provisions	3	-	-	161	1	165
Amounts utilized	(4)	-	(32)	-	-	(36)
Released during the period	(8)	(3)	-	(161)	(1)	(173)
Other changes and reclassifications	-	-	-	-	7	7
As at 30 September 2017, of which:	11	56	27	67	25	186
Short-term provisions	11	56	27	53	25	172
Long-term provisions	-	-	-	14	-	14

30. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.09.2018	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	155	18	182
Items which may be reclassified to profit or loss	164	27	191
cash flow hedges	(120)	(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	284	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	2 510	2 774	2 774
Total	37 247	35 288	35 987

31. INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

AS AT 30 SEPTEMBER 2018	Gross amount	Impairment allowance	Carrying amount
SUBSIDIARIES			
PKO Bank Hipoteczny SA ¹	1 200	-	1 200
KREDOBANK SA	1 072	(793)	279
Qualia Development Sp. z o.o.	318	-	318
PKO Życie Towarzystwo Ubezpieczeń SA	241	-	241
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
NEPTUN - fizan (investment certificates) ²	200	-	200
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan (investment certificates) ²	132	-	132
Merkury - fiz an (investment certificates) ²	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard Sp. z o.o. ³	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	4 397	(849)	3 548

¹ As at 30 September 2018 the purchase of shares with a value of PLN 100 million was not registered and is presented in "Other assets".

² PKO Bank Polski SA has investment certificates of the Fund, which - according to IFRS - allow it to control the Fund.

³ As at 30 September 2018 the contributions to capital of PLN 3 million were not registered and are presented in the Note "Other assets".

The increase in exposure to subsidiaries in 2018 is the result of changing the classification of shares in Qualia Development Sp. z o.o. from held-for-sale non-current assets in 2018.

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 has investment certificates of the Fund, which - according to IFRS - allow it to control the Fund.



IMPAIRMENT ALLOWANCES – RECONCILIATION OF MOVEMENTS	01.01- 30.09.2018	01.01- 30.09.2017
As at the beginning of the period	849	824
Recognized during the period	-	-
As at the end of the period	849	824
Net increase - impact on the income statement	-	-

OTHER NOTES

32. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES GRANTED

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 30 September 2018			
Company A	corporate bonds	1 950	31.12.2020
Company B	corporate bonds	1 055	31.07.2020
Company C	corporate bonds	50	31.12.2022
Total		3 055	

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
As at 31 December 2017			
Company A	corporate bonds	1 453	31.12.2020
Company B	corporate bonds	769	31.07.2020
Company C	corporate bonds	58	31.12.2022
Total		2 280	

All contracts relate to the Agreement for Organizing, Conducting and Servicing the Bond Issuance Programme.

All securities of the Bank under the underwriting programme have unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

FINANCIAL AND GUARANTEE LIABILITIES GRANTED

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 30.09.2018	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	47 653	(118)	47 535
housing	5 122	(22)	5 100
corporate	33 820	(68)	33 752
consumer	8 711	(28)	8 683
Total	47 653	(118)	47 535
of which: irrevocable loan commitments	19 694	(40)	19 654
Guarantees and pledges granted:			
Guarantees granted in domestic and foreign trading	8 155	(51)	8 104
to financial entities	2 755	(4)	2 751
to non-financial entities	5 385	(45)	5 340
to public entities	15	(2)	13
Guarantees and pledges granted – domestic corporate bonds	4 489	-	4 489
to financial entities	1 981	-	1 981
to non-financial entities	2 508	-	2 508
Letters of credit issued	1 348	(2)	1 346
to financial entities	10	-	10
to non-financial entities	1 335	(2)	1 333
to public entities	3	-	3
Guarantees and warranties granted – payment guarantee for financial entities	268	-	268
Guarantees and pledges granted - domestic municipal bonds	1 330	-	1 330
Total	15 590	(53)	15 537
of which: performance guarantees granted	2 435	(15)	2 420

Information about the provisions recognized for off-balance sheet financial and guarantee liabilities is presented in Note 29 "Provisions".

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

OFF-BALANCE SHEET LIABILITIES GRANTED AS AT 31.12.2017	Off-balance sheet liabilities under IFRS 37	Provisions for off-balance sheet liabilities under IFRS 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

RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK

As at 30 September 2018, and as at 31 December 2017 no collateral was established for the benefit of the Bank, which the Bank was entitled to sell or pledge, if all obligations of the collateral holder were performed.

33. OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.09.2018	31.12.2017
Financial	740	95
Guarantees	2 521	14 066
Total	3 261	14 161

As at 30 September 2018 there was an increase of PLN 641 million in off-balance sheet financial liabilities received in respect of a foreign currency credit facility based on a contract with a financial sector institution.

The decrease in off-balance sheet liabilities received as guarantees compared with 31 December 2017 resulted from the termination of the guarantee agreement which ensured unfunded credit protection in respect of a portfolio of selected corporate loan receivables of the Bank, amounting to PLN 4 505 million, expiry of the guarantee limit under the *de minimis* portfolio guarantee line of PLN 7 070 million.

Due to the provisions of the Agreement which require Nordea Bank AB (publ) Group to participate in the default risk of the Mortgage Portfolio, on 1 April 2014, PKO Bank Polski SA and Nordea Bank AB (publ) concluded a special indemnity agreement (the "Special Indemnity Agreement"), according to which Nordea Bank AB (publ) covered, until 31 March 2018, 50% of the excess of the Mortgage Portfolio cost of risk over the annual cost of risk set at 40 basis points for each year of the above-mentioned four-year contract period of the Special Indemnity Agreement, the fair value of which as at 31 December 2017 amounted to PLN 0 million. During the term of the agreement, no losses resulting in a need for Nordea AB to pay funds to the Bank were recorded.

34. NOTES TO THE CASH FLOW STATEMENT

CASH AND CASH EQUIVALENTS	30.09.2018	31.12.2017	30.09.2017
Cash and balances with the Central Bank	10 646	15 800	15 853
Deposits with the Central Bank	2 640	1 965	970
Amounts due from banks (current)	7 051	4 765	3 219
Restricted cash and cash equivalents	8	11	8
Total	20 345	22 541	20 050

RESTRICTED CASH AND CASH EQUIVALENTS

Cash and cash equivalents of PLN 8 million (as at 31 December 2017: PLN 11 million) pledged as collateral for securities' transactions conducted by the Dom Maklerski PKO BP SA brokerage house are deposited in the National Depository for Securities (KDPW_CCP), as part of the Guarantee Fund for the Settlement of Stock Exchange Transactions. Each direct participant who holds the status of settlement-making participant is obliged to make payments to the settlement fund which guarantees the proper settlement of the stock exchange transactions covered by that fund. The amount of the payments depends on the value of transactions made by each participant and is updated by KDPW_CCP on a day-to-day basis.

35. RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

Transactions of the parent company with associates and joint ventures accounted for under the equity method. All transactions with subsidiaries, joint ventures and associates presented below were arm's length transactions. Repayment terms are within a range of from one month to fifteen years.

AS AT 30 SEPTEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
KREDOBANK SA and its subsidiary	95	-	-	1	110
Merkury - fiz an and its subsidiaries	-	-	-	18	-
NEPTUN - fizan and its subsidiaries	167	167	-	59	-
PKO Bank Hipoteczny SA	4 160	1 492	-	53	3 138
PKO BP BANKOWY PTE SA	-	-	-	12	-
PKO BP Finat Sp. z o.o.	-	-	-	40	1
PKO Finance AB	-	-	-	6 066	-
PKO Leasing SA and its subsidiaries	14 242	14 192	-	34	3 804
PKO Towarzystwo Funduszy Inwestycyjnych SA	71	-	-	212	-
PKO Towarzystwo Ubezpieczeń SA	-	-	-	21	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	-	456	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	-	54	-
ZenCard Sp. z o.o.	-	-	-	2	-
Total subsidiaries	18 735	15 851	7 028		7 054

AS AT 30 SEPTEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	83	17	-	66	28
"Centrum Obsługi Biznesu" Sp. z o.o.	17	17	-	8	-
Bank Pocztowy SA	-	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	-	9	-
Total joint ventures and associates	100	34	83		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.	13	13	-	9	-
Bank Pocztowy SA	-	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	-	-	-	16	-
Total joint ventures and associates	62	19	62		26

FOR THE PERIOD ENDED 30 SEPTEMBER 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	2	2	-	-
NEPTUN - fizan and its subsidiaries	2	2	-	-
PKO Bank Hipoteczny SA	187	177	1	1
PKO BP BANKOWY PTE SA	9	-	-	-
PKO BP Finat Sp. z o.o.	60	-	4	-
PKO Finance AB	-	-	211	211
PKO Leasing SA and its subsidiaries	229	213	13	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	163	96	1	1
PKO Towarzystwo Ubezpieczeń SA	56	56	5	5
PKO Życie Towarzystwo Ubezpieczeń SA	42	42	8	8
Qualia Development Sp. z o.o. and its subsidiaries	-	-	2	2
Total subsidiaries	750	588	245	228

FOR THE PERIOD ENDED 30 SEPTEMBER 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission expense
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	200	168	54	54
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
Total joint ventures and associates	201	169	54	54

FOR THE PERIOD ENDED 30 SEPTEMBER 2017 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	4	3	-	-
NEPTUN - fizan and its subsidiaries	3	2	-	-
PKO Bank Hipoteczny SA	63	54	1	-
PKO BP BANKOWY PTE SA	6	-	-	-
PKO BP Finat Sp. z o.o.	47	-	15	-
PKO Finance AB	-	-	171	171
PKO Leasing SA and its subsidiaries	205	198	12	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	259	198	1	1
PKO Towarzystwo Ubezpieczeń SA	47	47	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	43	43	9	7
Qualia Development Sp. z o.o. and its subsidiaries	1	-	3	3
Total subsidiaries	678	545	212	182

FOR THE PERIOD ENDED 30 SEPTEMBER 2017 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission expense
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	219	211	92	91
Total joint ventures and associates	219	211	92	91

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

36. RISK MANAGEMENT AT PKO BANK POLSKI SA

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

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

37. CREDIT RISK MANAGEMENT

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	30.09.2018	01.01.2018
Derivative hedging instruments	511	1 104
Other derivative instruments	1 390	1 701
Securities	3 537	3 358
held for trading	2 052	472
not held for trading, measured at fair value through profit or loss	1 485	2 886
Loans and advances to customers not held for trading, measured at fair value through profit or loss	934	1 070
housing	29	37
corporate	149	182
consumer	756	851
Total	6 372	7 233

MAXIMUM EXPOSURE TO CREDIT RISK – BALANCE SHEET FINANCIAL INSTRUMENTS NOT SUBJECT TO IMPAIRMENT REQUIREMENTS	31.12.2017
Derivative hedging instruments	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



PAST DUE ANALYSIS – FINANCIAL ASSETS PAST DUE OR IMPAIRED

EXPOSURES PAST DUE 30.09.2018	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:	1 207	-	-	1 207	868	340	-	1 208	160	157	2 187	2 504	4 919
loans	1 207	-	-	1 207	868	340	-	1 208	160	157	2 187	2 504	4 919
housing	504	-	-	504	599	195	-	794	76	74	434	584	1 882
corporate	403	-	-	403	115	47	-	162	48	47	1 386	1 481	2 046
consumer	300	-	-	300	154	98	-	252	36	36	367	439	991
Total, net	1 207	-	-	1 207	868	340	-	1 208	160	157	2 187	2 504	4 919

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

38. INTEREST RATE RISK MANAGEMENT

SENSITIVITY MEASURES

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

SENSITIVITY MEASURE	30.09.2018	31.12.2017
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million)	225	301
Parallel movement of interest rate curves by 200 b.p. (in PLN million) (stress-test) ¹	1 590	2 097

¹ The table presents the value of the most adverse stress-test scenario: the movement of interest rate curves in particular currencies by 200 b.p. upwards and by 200 b.p. downwards.

39. CURRENCY RISK MANAGEMENT

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

SENSITIVITY MEASURE	30.09.2018	31.12.2017
VaR for a 10-day time horizon at a confidence level of 99% (in PLN million) ¹	3	3
Change in CUR/PLN by 20% (in PLN million) (stress-test)	63	184

¹ The table presents the value of the most adverse stress-test scenario: appreciation of the PLN by 20% b.p. and depreciation of the PLN by 20% b.p.

40. 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
30.09.2018								
adjusted periodic gap	10 952	29 441	518	2 415	9 401	15 789	23 446	(91 962)
adjusted cumulative periodic gap	10 952	40 393	40 911	43 326	52 727	68 516	91 962	-
31.12.2017								
adjusted periodic gap	15 256	22 934	(1 927)	1 912	12 096	10 242	34 258	(94 771)
adjusted cumulative periodic gap	15 256	38 190	36 263	38 175	50 271	60 513	94 771	-

LIQUIDITY SURPLUS

The table below presents the Bank's liquidity surplus as at 30 September 2018 and 31 December 2017:

SENSITIVITY MEASURE	30.09.2018	31.12.2017
Liquidity surplus in a horizon of up to 30 days (in PLN billion) ¹	13	14

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

SUPERVISORY LIQUIDITY MEASURES

SUPERVISORY LIQUIDITY MEASURES	30.09.2018	31.12.2017
M3 - coverage ratio of non-liquid assets to own funds	16.12	13.92
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1.19	1.19
NSFR - net stable funding ratio	112.9%	114.6%
LCR - liquidity coverage ratio	135.9%	160.7%

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

41. CAPITAL ADEQUACY

	30.09.2018	31.12.2017
Total own funds	37 207	34 297
Tier 1 capital	34 507	32 597
Tier 1 capital before regulatory adjustments and reductions, of which:	36 553	34 854
Share capital	1 250	1 250
Other reserves	32 797	30 712
General banking risk fund for unidentified risk of banking activities	1 070	1 070
Retained earnings, of which:	1 436	1 822
unappropriated profit	(535)	
current profit, included by permission from PFSA	1 135	1 822
adjustment resulting from transitional solutions to mitigate impact of IFRS 9 on equity	836	-
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 380)	(1 509)
Accumulated other comprehensive income	155	182
Adjustments in Tier 1 basic capital due to prudential filters	50	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	14 390	14 008
Credit risk	13 290	13 017
Operational risk	516	455
Market risk	541	495
Credit valuation adjustment risk	43	41
Total capital adequacy ratio	20.68%	19.59%
Tier 1 capital ratio	19.18%	18.62%



SUBSEQUENT EVENTS

42. SUBSEQUENT EVENTS

On 26 October 2018 PKO Bank Hipoteczny SA mortgage-covered bonds with a total nominal value of PLN 230 million and a redemption period of 6 years and 6 month from the date of issue.

SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

29.10.2018	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	RAFAŁ ANTCAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	MIECZYSLAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD (SIGNATURE)
29.10.2018	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)